CPBRD

BUDGET BRIEF

— NO. 5 | 2022 —

Dimensions of the Proposed National Budget for FY 2023

HIGHLIGHTS

❑ **While NG expenditures continue to increase yearly, budget growth rates remain relatively low.** The proposed National Expenditure Program (NEP) for 2023 amounts to P5,268.0 billion which is only about 4.9% (or P244.4 billion) higher than the current year's spending level of P5,023.6 billion. This is relatively low compared with the budget growth of 9.2% in 2022.

❑ **Primary expenditures continue to decline with growing debt burden.** Growth of debt burden (i.e., interest payments and net lending) in 2023 is relatively high at 12.9% compared to the overall budget growth of only 4.9%. The same pattern is true for 2021 and 2022. As a result, the portion of the total national budget that goes to the servicing of debts has steadily increased from 9.7% in 2021 to 11.6% in 2023. Primary expenditures (total expenditures less debt burden) for 2023 amounts to P4,657.0 billion which is only 3.9% higher than its 2022 level.

❑ **Although the National Tax Allotment (formerly the Internal Revenue Allotment) has increased yearly, the 2023 NTA/IRA decreases by 14.5%.** The NTA is expected to drop from P959.0 billion in 2022 to P820.3 billion next year given the slump in the economy at the onset of the pandemic in 2020 (the base year for the computation of the 2023 IRA).

❑ **Budget growth in FY 2023 is accounted for primarily by Social Services and Debt Services.** Among all sectors, Social Services gets the highest share (39.3%)—with about P138.3 billion or more than half (56.6%) of the total increment (amounting to P244.4 billion) accruing to the sector, and accounting for 2.8 percentage points of the overall budget growth of 4.9%. Interest payments for 2023 amounts to P582.3 billion or 11.1% of the total expenditure program. With an increment of P69.7 billion, it is the second biggest contributor to budget growth in 2023 at 1.4 percentage points.

❑ **Substantial growth in budget allocation for agriculture and agrarian reform sub-sector.** Allocation for AAR grew by 38.4% (or P55.6 billion) to P200.4 billion. A closer look at the AAR sub-sector shows that increases will largely accrue to the following: Department of Agriculture (with budget growing by 43.9%), Department of Agrarian Reform (+52.4%), the National Irrigation Authority (+29.8%), and the National Food Authority (+71.4%).

❑ **Sustained infrastructure development spending of 5%-to-GDP ratio.** Although Capital Outlay amounts to only P982.7 billion, the NG reports a total of P1,196.0 billion for Infrastructure in 2023. It is only 1.5% or P18 billion higher compared to the current year's level. With the *"Build Better More"* program serving as the flagship infrastructure program of the new administration, the main focus shall be on the development and modernization of the rail transport system.

❑ **DPWH and DepEd remain the top recipients of the national budget.** DPWH and DepEd have a combined budget share of 27.1% under the 2023 proposed NEP. Although the DPWH

gets the highest allocation of P718.4 billion, this is actually lower by P68.2 billion (8.7%) compared to the current year's level. Meanwhile, the DepEd budget for 2023 amounts to P710.7 billion which is P77.3 billion (12.2%) higher than in 2022—with the increase attributable to increments for Support to School and Learners Program (SSLP), particularly for the Operation of Schools as public schools resume face-to-face classes.

- ❑ **DOTr posted the highest budget growth increasing by 120.4% in 2023.** Among all the departments, the DOTr posts the highest growth—substantially increasing by 120.4% from P75.8 billion in 2022 to P167.1 billion next year. This increase shall finance the Rail Transport Program with a total of P114 billion, which is about five times as much as its allocation of P23.2 billion in 2022.

DIMENSIONS OF THE PROPOSED NATIONAL BUDGET FOR FY 2023*

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INTRODUCTION

❑ The 2023 National Budget is critical as the Philippine economy reopens in the middle of a pandemic, following a change in government administration and recent uptick in COVID-19 cases. With the national budget as a key policy tool in achieving development goals and economic growth, the strategic allocation of limited public funds and scarce government resources is needed in a time when there are many competing demands brought about by the pandemic. The 2023 National Expenditure Program (NEP) is the first full-year national budget proposal crafted by the Marcos Jr. Administration—aimed at transforming the economy towards inclusivity and sustainability.

❑ Guided by the following medium-term macroeconomic goals and fiscal objectives under the Medium-Term Fiscal Framework (MTFF), the FY 2023 National Budget is anchored on the agenda for prosperity with the overarching objective of economic transformation, namely: (1) 6.5%-7.5% real Gross Domestic Product (GDP) growth in 2022; and 6.5-8% real GDP growth annually between 2023 to 2028; (2) 9% or single-digit poverty rate by 2028; (3) 3% National Government (NG) deficit to GDP ratio by 2028; (4) less than 60% NG debt-to-GDP ratio by 2025; and, (5) at least USD 4,256 gross national income (GNI) per capita or the attainment of upper middle-income status.

❑ The proposed NEP for 2023 amounts to P5,268.0 billion which is only about 4.9% (or P244.4 billion) higher than the current year's spending level of P5,023.6 billion. This is relatively low compared with the budget growth of 9.2% in 2022. As percent of GDP, the 2023 spending level is one percentage point lower at 22.4%[1] compared with the ratio in 2022. With a target of lowering deficit and borrowing levels in the medium term, the 2023 NEP reflects a more tempered expenditure program, considering the already high debt levels (at more than 60% of GDP).

❑ While this year's (2022) National Budget was formulated as a tool for "reset, rebound and recovery" focused on *steering towards a strong and genuine recovery*, the 2023 NEP is crafted guided by the following themes: (1) *economic transformation,* that will ensure the meeting of "productivity goals regardless of the disasters and crises"—making the country less import-

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[1] *Computed using low-end GDP projections: P21,471.2 billion (2022) and P23,478.8 billion (2023) per the 2023 BESF*

reliant and proactive investment destination, (2) *inclusivity,* that recognizes the strength of the people in propelling growth—hence, the need to human capital development, and (3) *sustainability,* that supports green governance, the establishment of livable and sustainable communities, and initiatives toward sustainable energy and environmental stability.

TABLE I
NG PRIMARY EXPENDITURES, FY 2018-2023

Year	Levels, In Billion Pesos			Growth Rate (%)			Percent Share to Total NG Expend	
	NG Expend	Debt Burden	Primary Expend	NG Expend	Debt Burden	Primary Expend	Debt Burden	Primary Expend
2018	3,531.8	354.1	3,177.7	6.5	14.0	5.8	10.0	90.0
2019	3,610.5	377.9	3,232.6	2.2	6.7	1.7	10.5	89.5
2020	4,309.0	402.5	3,906.5	19.3	6.5	20.8	9.3	90.7
2021	4,600.8	447.3	4,153.5	6.8	11.1	6.3	9.7	90.3
2022	5,023.6	541.3	4,482.3	9.2	21.0	7.9	10.8	89.2
2023	5,268.0	611.0	4,657.0	4.9	12.9	3.9	11.6	88.4

Source of basic data: BESF 2020-2023

❑ Table 1 shows that while the overall NG expenditure program has been increasing, its growth is much lower compared to the rate that the debt burden (i.e., interest payments and net lending[2]) has grown since 2021. The current year's (2022) budget amounting to P5,023.6 billion grew by 9.2%, but growth rate of debt burden was much higher at 21%. For 2023, the proposed expenditure program of P5,268.0 billion is only 4.9% higher than the current year's level while debt burden is expected to grow was relatively high at 12.9%. As a result, the portion of the total national budget that goes to the servicing of debts has steadily increased from 9.7% in 2021 to 11.6% in 2023.

❑ With more of the debt burden eating up the national budget, the productive part of the budget which can be used to support NG operations and the implementation of programs and projects is also gradually reduced in share. Net of debt burden, primary expenditures for 2023 amounts to P4,657.0 billion which is only 3.9% higher than its 2022 level. In terms of budget share, it has consistently declined from 90.7% in 2020 to 88.4% in 2023.

❑ Unless NG generates more revenues and relies less on borrowings to support higher spending levels, the debt burden particularly for interest payments will continue to limit productive expenditures. NG needs to grow its budget primarily to finance programs that continue to address the adverse socio-economic effects of the pandemic and to sustain economic recovery amidst the continuing COVID-19 threat and global uncertainties affecting food and fuel prices.

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[2] *Net lending are advances made by NG for the servicing of guaranteed debts of government-owned and -controlled corporations (net of repayments).*

TABLE 2
MANDATORY EXPENDITURES, FY 2019-2023

Particulars	Levels, In Billion Pesos					Percent Share to Total				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Total NG Expenditures	**3,610.5**	4,309.0	4,600.8	5,023.6	5,268.0	100.0	100.0	100.0	100.0	100.0
Allocable	**1,470.7**	**1,922.5**	**1,995.7**	**2,006.1**	**2,104.5**	**40.7**	**44.6**	**43.4**	**39.9**	**39.9**
Non-allocable:	**2,139.8**	**2,386.5**	**2,605.1**	**3,017.5**	**3,163.5**	**59.3**	**55.4**	**56.6**	**60.1**	**60.1**
Personal Services (Net of Automatic Appro for PS)	1,090.9	1,161.7	1,250.9	1,344.6	1,566.6	30.2	27.0	27.2	26.8	29.7
Automatic Appropriations	1,048.9	1,224.8	1,354.1	1,672.9	1,596.9	29.1	28.4	29.4	33.3	30.3
of which:										
Retirement and Life Insurance Premiums	50.6	55.5	58.1	60.1	64.2	1.4	1.3	1.3	1.2	1.2
Internal Revenue Allotment/ National Tax Allotment	575.5	648.9	695.5	959.0	820.3	15.9	15.1	15.1	19.1	15.6
Interest Payment on NG Debts	360.9	380.4	429.4	512.6	582.3	10.0	8.8	9.3	10.2	11.1
BARRM	-	77.5	-	74.8	74.4	-	1.8	-	1.5	1.4

Source of basic data: BESF 2021-2023

❑ Table 2 shows that the allocable portion (or the part of the national budget that Congress can make reallocations) has been declining as mandatory expenditures increase in shares. At the first year of the pandemic (2020), the allocable part of the NG budget was at 44.6% but it steadily declined to 39.9% in 2022. For 2023, the allocable share stays at 39.9% as automatic appropriations declined to P1,596.9 billion from P1,672.9 billion this year.

❑ The National Tax Allotment (formerly the Internal Revenue Allotment) normally enjoys annual increments—especially in 2022 during the first-year implementation of the Supreme Court ruling on the Mandanas-Garcia case that increased the base for the computation of the NTA/IRA. However, the NTA is expected to drop from P959.0 billion in 2022 to P820.3 billion next year given the slump in the economy at the onset of the pandemic in 2020 (the base year for the computation of the 2023 IRA). As result, the share of automatic appropriations which has increased from 28.4% in 2020 to 33.3% in 2022 is lower at 30.3% next year.

❑ Meanwhile, even as automatic appropriations posted an overall decline primarily due to lower NTA, interest payments on NG debts continue to grow in budget share from 8.8% in 2020 to 11.1% in 2023. Interest payments in 2023 amounts to P582.3 billion which is 13.6% more than the current year's program of P512.6 billion.

❑ Although generally Personal Services (PS) are considered New Appropriations (except for Retirement and Life Insurance Premiums and other premium contributions that are automatically appropriated), the extent to which Congress can reallocate funds from PS may be limited as these are intended for payment of salaries, pensions, and retirement benefits, among others.

SECTORAL ALLOCATION

❑ Table 3 presents the sectoral distribution of the National Budget for the period 2021-2023. The budget for the upcoming year (2023) shows that the combined allocation for Economic (P1,528.5 billion) and Social Services (P2,070.7 billion) accounts for 68.3% of the proposed total expenditure program. The yearly increments and contribution to budget growth of these two sectors indicate where the NG priority lies. For 2023, it is the Social Services sector that gets the highest share (39.3%)—with about P138.3 billion or more than half (56.6%) of the total increment (amounting to P244.4 billion) accruing to the sector, and accounting for 2.8 percentage points of the overall budget growth of 4.9%.

TABLE 3
NG EXPENDITURE PROGRAM BY SECTOR, 2021-2023

Sector	Levels, in Billion Pesos			Percent Share to Total (%)			Contribution to Growth		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Economic Services	1,274.6	1,494.1	1,528.5	27.7	29.7	29.0	3.4	4.8	0.7
Social Services	1,816.6	1,932.4	2,070.7	39.5	38.5	39.3	1.4	2.5	2.8
Defense	212.4	221.1	250.7	4.6	4.4	4.8	0.8	0.2	0.6
General Public Services	849.9	834.7	807.2	18.5	16.6	15.3	0.1	(0.3)	(0.5)
Net Lending	17.9	28.7	28.7	0.4	0.6	0.5	(0.1)	0.2	-
Interest Payments	429.4	512.6	582.3	9.3	10.2	11.1	1.1	1.8	1.4
TOTAL	**4,600.8**	**5,023.6**	**5,268.0**	**100.0**	**100.0**	**100.0**	**6.8**	**9.2**	**4.9**

Source of basic: BESF 2023

❑ Unlike in 2022 when the allocation for Economic Services heftily increased—thus, growing its budget share by 2 percentage points as it accounted for over half of the 9.2% budget growth—it will grow rather minimally next year. Economic Services captures P34.4 billion or only 0.7 percentage point of the overall budget growth in 2023. Its budget share is expected to be lower at 29.0% compared to 2022.

❑ As the NG debt rose to P12.8 trillion or 62% of GDP (as of June 2022), interest payments also continue to grow in budget share. Interest payments for 2023 amounts to P582.3 billion or 11.1% of the total expenditure program. With an increment of P69.7 billion, it is the second biggest contributor to budget growth in 2023 at 1.4 percentage points. Meanwhile, allocation for Defense amounts to P250.7 billion which is 13.3% higher than the current year's level of P221.1 billion. On the other hand, General Public Services obtained a budget cut for two consecutive years—bringing down its allocation from P849.9 billion in 2021 to P807.2 billion in 2023. Subsequently, its budget share declined from 18.5% to 15.3% in the same period. Allocation for Net Lending in 2023 is retained at the same level (P28.7 billion) as in 2022.

❑ Table 4 shows the breakdown of Economic and Social Services by sub-sector for the period 2021-2023. Overall, the budget allocation of P1,528.5 billion for Economic Services in 2023 is 2.3% or P34.4 billion higher than its previous year's level—with Agriculture and Agrarian Reform (AAR), and Communications, Roads, and Other Transportation (CROT) getting sizeable increments while other sectors (i.e., Natural Resources and Environment, Trade and

Industry, and Water Resources and Flood Control) suffered some budget cuts. Allocation for AAR grew by 38.4% (or P55.6 billion) to P200.4 billion, while CROT increased by 4.3% (or P33.8 billion) to P819.8 billion. This is in line with the NG's initiative to prioritize key sectors such as agriculture and infrastructure. A closer look at the AAR sub-sector shows that increases will largely accrue to the following: Department of Agriculture (with budget growing by 43.9%), Department of Agrarian Reform (+52.4%), the National Irrigation Authority (+29.8%), and the National Food Authority (+71.4%).

❑ Although the overall increment for CROT amounts to only P33.8 billion, the Department of Transportation (DOTr) received a hefty increase of P91.3 billion—thus increasing its budget by 120.4%. On the other hand, the Departments of Public Works and Highways (DPWH) and Information and Communications Technology (DICT) received budget cuts in 2023— i.e., their respective budgets will contract by 8.7% and 3.7%. Another item that explains the increase in CROT is the 55% growth in the allocation for National Disaster Risk Reduction and Management Fund (NDRRMF).

TABLE 4
NG EXPENDITURE PROGRAM BY SECTOR, 2021-2023
(AMOUNTS IN BILLION PESOS)

PARTICULAR	2021 Actual	2022 Program	2023 Proposed	Difference				% Share to Total NG		
				Amount		In Percent		2021	2022	2023
				21-22	22-23	21-22	22-23			
ECONOMIC SERVICES	**1,274.6**	**1,494.1**	**1,528.5**	**219.5**	**34.4**	**17.2**	**2.3**	**27.7**	**29.7**	**29.0**
Agriculture, Agra. Reform	138.9	144.8	200.4	5.9	55.6	4.3	38.4	3.0	2.9	3.8
Natural Resources & Env't	27.0	27.1	25.8	0.1	(1.3)	0.2	(4.8)	0.6	0.5	0.5
Trade and Industry	10.6	12.4	10.6	1.9	(1.8)	17.7	(14.7)	0.2	0.2	0.2
Tourism	5.1	5.8	5.9	0.7	0.1	13.6	1.3	0.1	0.1	0.1
Power and Energy	14.9	14.5	14.5	(0.4)	0.0	(2.6)	0.2	0.3	0.3	0.3
Water Resources Dev't. and Flood Control	87.2	103.4	93.7	16.2	(9.7)	18.6	(9.4)	1.9	2.1	1.8
Communications, Roads and Other Transportation	682.6	786.0	819.8	103.4	33.8	15.2	4.3	14.8	15.6	15.6
Other Economic Services	39.9	40.0	46.4	0.1	6.4	0.2	16.1	0.9	0.8	0.9
Subsidy to LGUs	268.5	360.1	311.4	91.6	(48.7)	34.1	(13.5)	5.8	7.2	5.9
SOCIAL SERVICES	**1,816.6**	**1,932.4**	**2,070.7**	**115.8**	**138.3**	**6.4**	**7.2**	**39.5**	**38.5**	**39.3**
Education, Culture, and Manpower Development	777.5	814.5	904.9	37.0	90.5	4.8	11.1	16.9	16.2	17.2
Health	316.6	279.5	308.3	(37.0)	28.7	(11.7)	10.3	6.9	5.6	5.9
Social Security, Welfare and Employment	425.9	446.5	520.7	20.6	74.2	4.8	16.6	9.3	8.9	9.9
Land Distribution (ARF)	-	0.1	0.1	0.1	-	-	-	-	0.0	0.0
Housing and Community Development	9.8	7.7	4.1	(2.1)	(3.6)	(21.2)	(46.5)	0.2	0.2	0.1
Other Social Services	3.0	3.4	3.4	0.5	0.0	15.6	0.1	0.1	0.1	0.1
Subsidy to LGUs	283.9	380.7	329.2	96.8	(51.5)	34.1	(13.5)	6.2	7.6	6.2

Source of basic: BESF 2023

❑ Subsidy to LGUs (as a sub-sector) suffered the largest decline in terms of nominal value of its budget allocation in 2023—i.e., it is lower by P48.7 billion (under Economic Services) and by P51.5 billion (under Social Services). This is due to lower NTA (contrary to the natural increasing trend following the GDP growth) as the 2023 NTA will be computed based on the 2020 revenue collections—at a year when the economy suffered a huge drop due to the pandemic that resulted in lockdowns and reduced business operations.

❑ The overall budget growth of 7.2% (equivalent to P138.3 billion) for Social Services is largely due to the increases in allocations for the following sub-sectors: (1) Social Security, Welfare and Employment (SSWE) at 16.6% (P74.2 billion), (2) Education, Culture, and Manpower Development (ECMD) at 11.1% (P90.5 billion), and (3) Health at 10.3% (P28.7 billion). Note that with the creation of the Department of Migrant Workers (DMW) (with fresh allocation of P15.2 billion), the budget for the Department of Labor and Employment (DOLE) will substantially decrease by about half.

❑ Note that while SSWE has the highest growth rate in 2023 under Social Services, this is primarily attributed to the increase of P89 billion or 48.3% in Pension and Gratuity Fund (PGF) under Special Purpose Funds (SPFs). The PGF which amounts to P272.9 billion shall cover the payments for pension of MUP personnel; retirement benefits of government personnel; separation benefits or incentives as a result of (1) reorganization, streamlining, rightsizing, merger/consolidation, abolition, privatization and other forms of organizational restructuring; (2) devolution under EO 138 (s. 2021); and, (3) abolition of Regional Government in ARMM under RA No. 11054; monetization of leave credits of NG personnel; and, other budget deficiencies in retirement and terminal leave benefits.

❑ The ECMD still has the biggest share to total expenditures (given the importance afforded to education under the Constitution), amounting to P904.9 billion in 2023. Higher expenditures for ECMD in 2023 is due to increases in the budget for Department of Education (DepEd, 12.2%) and the Miscellaneous Personnel Benefits Fund (MPBF, 221.2%) under SPFs. Total MPBF under ECMD (amounting to P37.8 billion) can be used to cover the deficiencies in salaries and benefits of teachers and school workers and/or the filling and creation of positions with the return to face-to-face classes this school year.

❑ Proposed allocation for Health in 2023 amounts to P308.3 billion. This is P28.7 billion higher than in 2022 but still lower than the P316.6 billion actual spending of the sub-sector in 2021. With the ongoing pandemic (and threats of new variants), the importance of strengthening the health care system such that it can readily face up to future surges and pandemics must be given due attention. The Department of Health (DOH) shall receive an allocation of P196.1 billion, which is 4.1% (P7.7 billion) higher than its 2022 programmed spending level. A sizeable increase for Health goes to Philippine Health Insurance Corporation (PhilHealth)— i.e., an allocation of P100.2 billion which is P20.2 billion or 25.3% higher than the current year's level. The MPBF under Health will also substantially increase by 221.2% to P2 billion— to cover the deficiencies in salaries and benefits of healthcare workers, as well as the filling and creation of authorized positions.

❑ The Housing and Community Development sub-sector under Social Services received the biggest budget contraction of 46.5%, with its budget reduced to P4.1 billion in 2023 due to lower appropriations for the National Housing Authority (NHA) (from P5.2 billion to P2 billion) and the no budgetary support for the National Home Mortgage and Finance Corporations (NHMFC), which in 2022 was given a budgetary support of P1 billion.

Climate Change and R&D Expenditures

❑ Occurrence of natural disasters can further tighten fiscal space and can disrupt the country's pace to economic recovery and long-term growth. The Philippines is among the most disaster-prone countries in the world with at least 60% of its total land area and almost 74% of its population exposed to multiple natural hazards. It is estimated that the country incurs capital (asset) losses of USD3.5 billion or over 1% of GDP yearly (on average) due to disaster-related damages.[3] Aside from human and capital losses, disasters reduce economic activity and growth potential. To secure sustained recovery and growth, it is important for government to support programs that build the country's resilience to disaster, reduce vulnerabilities of communities, mitigate the adverse effects of climate change, and promote renewables and environmental protection.

TABLE 5
CLIMATE CHANGE EXPENDITURES
BY DEPARTMENT AND SPECIAL PURPOSE FUND, FY 2021-2023
(AMOUNTS IN MILLION PESOS)

Department / SPF	2021			2022			2023		
	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total
Departments	**163,773**	**5,456**	**169,230**	**252,324**	**22,586**	**274,911**	**333,607**	**112,537**	**446,144**
Special Purpose Funds	**6,515**	**2,446**	**8,962**	**11,100**	**3,722**	**14,822**	**11,039**	**2,363**	**13,402**
ALGU [1]	2,243	2,446	4,689	2,738	2,875	5,613	1,962	2,356	4,318
BSGC [2]	4,273	-	4,273	8,362	846	9,209	9,077	7	9,084
TOTAL	**170,289**	**7,903**	**178,191**	**263,424**	**26,308**	**289,732**	**344,646**	**114,900**	**459,546**

[1] Representing the CC expenditures of the MMDA.
[2] Referring to the CC expenditures of various GOCCs
Source: BESF 2023

❑ Table 5 shows that climate change-tagged expenditures has been increasing from P178.2 billion in 2021 to P459.5 billion in 2022. This is a welcome development that indicates greater support towards environment preservation, sustainable economy, and resilience of communities to impact of climate change through adaptation and mitigation activities[4]. Funding for adaptation activities has always captured the bulk of the climate change spending—but there is growing importance placed on mitigation activities as its budget share steadily grew in 2021-2023.

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[3] *World Bank. Philippine Economic Update (December 2020): Building a Resilient Recovery*
[4] *Adaptation activities to adjust to current and future impacts of climate change may include establishment of evacuation centers, and plantation of mangroves for storm surge, among others. Meanwhile, mitigating activities to minimize the impacts of climate change would include measures towards reducing ghg emissions/air pollution and promotion of renewable energies.*

Budget share of climate change expenditures for adaptation activities was high at 95.6% in 2021, but steadily declined to 75% in 2023 in favor of mitigation activities.

❑ Despite the growing recognition of the potential of research and development (R&D) to improve technological innovation and foster economic prosperity, R&D spending of the national government has actually been declining. In 2021, total NG expenditures for R&D was at P23.8 billion (or 0.5% of total NG budget), and it declined by 17.4% to P19.7 billion in 2022. Next year, R&D-tagged expenditures is even lower at P17.9 billion or only 0.3% of the total national budget. The focus of the current Administration towards improving agricultural productivity, green economy and improved health care should see an increase in allocation for R&D. Moreover, NG should be able to incentivize the private sector to invest in their own R&D (e.g., for product development) or to collaborate with public research and higher education institutions.

ALLOCATION BY EXPENSE CLASS

❑ Table 6 presents the national expenditure program by expense class for the period 2021-2023. A total of P1,631.4 billion is allocated to Personal Services (PS) for the payment of salaries, pensions and insurance premiums, and other compensation in 2023. With a budget share of 31% of total expenditures, the PS budget is 16.1% or P226.1 billion higher than the current year's (2022) level. Upon closer look, the budget increase in PS can be attributed to the substantial growth in allocations for Retirement Gratuity and Terminal Leave of Civilian Personnel (under PGF), which would possibly cover affected personnel pursuant to any reorganization due to government rightsizing and transition to full devolution.

TABLE 6
NG EXPENDITURES BY GENERAL EXPENSE CLASS, 2021-2023

Year	Levels, in Billion Pesos			Percent Share to Total (%)			Growth Rate (%)	
	2021	2022	2023	2021	2022	2023	21-22	22-23
PS	1,309.8	1,405.3	1,631.4	28.5	28.0	31.0	7.3	16.1
MOOE	1,954.4	2,085.3	2,042.0	42.5	41.5	38.8	6.7	(2.1)
CO	888.5	990.5	982.7	19.3	19.7	18.7	11.5	(0.8)
Net Lending	17.9	28.7	28.7	0.4	0.6	0.5	60.5	-
FinEx	430.2	513.8	583.2	9.4	10.2	11.1	19.4	13.5
Total	**4,600.8**	**5,023.6**	**5,268.0**	**100.0**	**100.0**	**100.0**	**9.2**	**4.9**

Source of basic data: BESF 2023

❑ Allocation for Maintenance and Other Operating Expenditures (MOOE) to support the implementation of agency PAPs accounts for 38.8% (P2,042.0 billion) of total expenditures, while Capital Outlay gets 18.7% (P982.7 billion). Compared to its current year levels, both MOOE and CO have lower allocations in 2023, shrinking by 2.1% (or P43.3 billion) and 0.8% (or P7.7 billion) respectively in favor of a hefty increase in PS. Meanwhile, Financial Expense (FinEx), which are primarily interest payments, is expected to be higher by 13.5% at P583.2 billion—thus, a higher budget share of 11.1% in 2023.

TABLE 7
INFRASTRUCTURE OUTLAYS BY TYPE, 2022-2023
(AMOUNTS IN MILLION PESOS)

Particulars	Levels, in Million Pesos		% Share to Total Infra		Increase/(Decrease)	
	2022	2023	2022	2023	Amount	%
Infrastructure Outlay	759,293.0	759,776.4	64.5	63.5	483.5	0.1
of which:						
Road Networks	483,982.7	412,312.9	41.1	34.5	(71,669.8)	(14.8)
Flood Control Systems	209,981.8	174,309.4	17.8	14.6	(35,672.4)	(17.0)
Railway System	11,497.9	105,193.3	1.0	8.8	93,695.4	814.9
National Tax Allotment	191,808.3	164,053.8	16.3	13.7	(27,754.5)	(14.5)
Buildings and Other Structures	98,264.8	115,383.6	8.3	9.6	17,118.8	17.4
Budgetary Support to GOCCs	38,516.9	44,290.7	3.3	3.7	5,773.8	15.0
Machinery and Equipment Outlay	30,918.7	41,015.9	2.6	3.4	10,097.3	32.7
Repairs and Maintenance - Infrastructure Assets	-	19,606.2	-	1.6	19,606.2	-
Bangsamoro Autonomous Region in Muslim Mindanao (BARMM)	18,392.7	17,951.1	1.6	1.5	(441.6)	(2.4)
NDRRMF-Infrastructure Outlay	13,101.2	17,101.2	1.1	1.4	4,000.0	30.5
Rent/Lease Expenses	7,231.4	7,111.5	0.6	0.6	(119.8)	(1.7)
Subscription Expenses	2,303.8	3,581.0	0.2	0.3	1,277.2	55.4
Land Improvements Outlay	1,737.8	1,643.7	0.1	0.1	(94.1)	(5.4)
Repairs and Maintenance - Buildings and Other Structures	95.4	1,288.9	0.0	0.1	1,193.5	1,250.7
Repairs and Maintenance - Transportation Equipment	-	1,000.0	-	0.1	1,000.0	-
Transportation Equipment Outlay	3,783.6	822.3	0.3	0.1	(2,961.3)	(78.3)
Investment in GOCCs	673.5	674.9	0.1	0.1	1.4	0.2
Repairs and Maintenance - Leased Assets	3,141.4	548.6	0.3	0.0	(2,592.7)	(82.5)
Internet Subscription Expenses	1,200.2	115.1	0.1	0.0	(1,085.0)	(90.4)
Other Supplies and Materials Expenses	-	19.2	-	0.0	19.2	-
Land and Buildings Outlay	-	8.7	-	0.0	8.7	-
Heritage Assets	27.4	7.8	0.0	0.0	(19.6)	(71.5)
Computer Software	1.7	1.7	0.0	0.0	-	-
Semi-Expandable Machinery and Equipment Expenses	6.0	0.5	0.0	0.0	(5.4)	(90.9)
Semi-Expandable Furniture, Fixtures and Books Expenses	1,115.7	-	0.1	-	(1,115.7)	(100.0)
Financial Assistance to LGUs	182.4	-	0.0	-	(182.4)	(100.0)
LGSF-Financial Assistance to LGUs	6,124.0	-	0.5	-	(6,124.0)	(100.0)
TOTAL	**1,177,919.7**	**1,196,002.9**	**100.0**	**100.0**	**18,083.2**	**1.5**

Note: 0 = less than 0.1%
Source of basic data: BESF 2023

❑ Although Capital Outlay amounts to only P982.7 billion, the NG reports a total of P1,196.0 billion for Infrastructure in 2023. It is only 1.5% or P18 billion higher compared to the current year's level. With the *"Build Better More"* program serving as the flagship infrastructure program of the new administration, the main focus shall be on the development and modernization of the rail transport system. Table 7 shows that although allocations for

Road Network (P412.3 billion) and Flood Control Systems (P174.3 billion) are still the highest among the Infrastructure Outlay, both are expected to significantly decline by 14.8% and 17%, respectively, in favor of the Railway System which will hugely increase from only P11.5 billion in 2022 to P105.2 billion next year.

❑ While NG has kept its infrastructure budget at 5% of the projected GDP[5] in 2023, it is important that NG allocates more strategically to productive infrastructure that can spur economic activity and generate employment. NG should be able to spend on infrastructure that can increase mobility of people and goods, reduce transportation and production cost for businesses, and provide reliable supply of water and power supply. Investments in renewable energy (i.e., wind, geothermal, hydro and solar) should be prioritized to lower dependence on imported oil products—the prices of which can be unpredictable with ongoing tensions in Europe. Note that part of P1,196 billion infrastructure budget are items that may be classified as MOOE (e.g., rent/lease and subscription expenses, internet subscription) or capital outlays (e.g., transportation equipment, furniture and fixtures) that do not necessarily add to the productive capacity of the economy.

ALLOCATION BY RECIPIENT UNIT

❑ Table 8 shows that NGAs get the largest share of 66.4% of the national budget amounting to P3,499 billion. This is to support the operations and finance the implementation of priority PAPs of the different departments/agencies in 2023. The budget allotted for NGAs in 2023 is 8.8% (P281.6 billion) higher than its programmed level in 2022. Despite the steady increase in the amounts allocated to NGAs in 2021-2023, its budget share increased back to around 66% in 2023 after a slight drop in 2022.

TABLE 8
NG EXPENDITURES BY RECIPIENT UNIT, 2021-2023

Recipient	Levels, In Billion Pesos			Percent Share to Total (%)			Percent Share to GDP (%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
NGAs	3,041.8	3,217.4	3,499.0	66.1	64.0	66.4	15.7	15.0	14.9
LGUs	885.9	1,084.4	962.2	19.3	21.6	18.3	4.6	5.1	4.1
GOCCs	243.7	209.2	224.5	5.3	4.2	4.3	1.3	1.0	1.0
Creditors	429.4	512.6	582.3	9.3	10.2	11.1	2.2	2.4	2.5
TOTAL	**4,600.8**	**5,023.6**	**5,268.0**	**100.0**	**100.0**	**100.0**	**23.7**	**23.4**	**22.4**

Source of basic data: BESF 2023

❑ Meanwhile, the budget allotted for LGUs accounts for 18.3% of the total 2023 NG budget amounting to P962.2 billion to cover NTA/IRA and the BARMM block grant, among others. After a substantial increase last year for the first year of the NTA, the budget allocation for LGUs is 11.3% (P122.2 billion) lower in 2023. This can be attributed to the lower revenue collections in 2020 upon which the computation of the 2023 NTA is based.

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[5] *Low-end projected GDP for 2023 is P23,478.8 billion.*

❑ Allocation for GOCCs has remained at 4.3% of the total national budget in 2023, which amounts to P224.5 billion in budgetary support through equities, subsidies, and net lending. Despite coming from a drop in 2022, the budget allocation for GOCCs is 7.3% (P15.3 billion) higher in 2023. Meanwhile, around 11.1% of the national budget in 2023 equivalent to P582.6 billion goes to Creditors for the servicing of NG debts. Among the recipient units, only the expenditures to Creditors consistently grew in budget share in 2020-2022.

TABLE 9
NG EXPENDITURE BY DEPARTMENT, 2021-2023

| Department | Levels, in Billion Pesos | | | Difference | | | | % Share to Total | | |
| | | | | Amount | | In Percent (%) | | | | |
	2021	2022	2023	21-22	22-23	21-22	22-23	2021	2022	2023
Public Works and Highways	662.2	786.6	718.4	124.4	(68.2)	18.8	(8.7)	14.4	15.7	13.6
Education	613.5	633.3	710.7	19.8	77.3	3.2	12.2	13.3	12.6	13.5
Interior & Local Government	313.0	251.3	253.0	(61.8)	1.8	(19.7)	0.7	6.8	5.0	4.8
National Defense	314.4	220.9	240.7	(93.5)	19.8	(29.8)	9.0	6.8	4.4	4.6
Social Welfare & Development	195.4	205.0	197.0	9.6	(8.0)	4.9	(3.9)	4.2	4.1	3.7
Health	236.3	188.4	196.1	(47.9)	7.7	(20.3)	4.1	5.1	3.7	3.7
Transportation	99.0	75.8	167.1	(23.2)	91.3	(23.4)	120.4	2.2	1.5	3.2
Agriculture	64.8	71.0	102.2	6.2	31.1	9.5	43.9	1.4	1.4	1.9
State Universities & Colleges	81.4	108.4	97.7	27.0	(10.7)	33.2	(9.9)	1.8	2.2	1.9
The Judiciary	45.7	47.0	52.7	1.3	5.8	2.8	12.2	1.0	0.9	1.0
Other Executive Offices	71.1	47.4	44.2	(23.6)	(3.2)	(33.2)	(6.7)	1.5	0.9	0.8
Justice	27.6	26.7	28.2	(0.9)	1.5	(3.4)	5.7	0.6	0.5	0.5
Other Departments	317.3	302.4	270.4	(14.9)	(32.0)	(4.7)	(10.6)	6.9	6.0	5.1
Sub-Total Department	**3,041.8**	**2,964.2**	**3,078.5**	**(77.5)**	**114.3**	**(2.5)**	**3.9**	**66.1**	**59.0**	**58.4**
Add: Special Purpose Funds	**1,559.0**	**2,059.4**	**2,189.5**	**500.3**	**130.1**	**32.1**	**6.3**	**33.9**	**41.0**	**41.6**
Total NG Expenditures	**4,600.8**	**5,023.6**	**5,268.0**	**422.8**	**244.4**	**9.2**	**4.9**	**100.0**	**100.0**	**100.0**

Source of basic data: BESF 2023

❑ Table 9 presents the top ten departments/agencies (excluding SUCs and Other Executive Offices) based on the proposed allocations for 2023. The combined allocations for departments in 2023 amount to P3,078.5 billion which is 58.4% of the total expenditure program. The remaining 41.6% (equivalent to P2,189.5 billion) are considered Special Purpose Funds (SPFs) which are usually lump sum in nature—the recipients of which are identified during budget execution. For the period 2021-2023, the budget share of the Departments (combined) has steadily declined from 66.1% in 2021.

❑ The DPWH and DepEd remain the top two recipients of the national budget—accounting for a combined share of 27.1% in 2023. While the DPWH gets the highest allocation of P718.4 billion, this is actually lower by P68.2 billion (8.7%) compared to the current year's level. Funding for DPWH declined with the biggest cut coming from Convergence and Special Support Program (CSSP). The CSSP still has the biggest allocation (P214.0 billion) despite a huge cut of P138.8 billion (39.4%) in 2023. The Asset Preservation Program will also be significantly reduced by 24.6% to P88.5 billion next year. In nominal terms, the Network

Development Program gets the biggest increment (P13.5 billion) with a total allocation of P140.4 billion. Meanwhile, highest budget growth is posted by the Local Program (80.1%) and the Bridge Program (49.7%) with allocations amounting to P27.8 billion and P38.0 billion, respectively.

❑ On the other hand, the DepEd budget for 2023 amounts to P710.7 billion which is P77.3 billion (12.2%) higher than the current year's level. With the resumption of face-to-face classes in public schools, the Support to School and Learners Program (SSLP) increased considerably by 11.7% from P501.5 billion in 2022 to P560.2 billion in 2023. Under the SSLP is the Operation of Schools (for elementary, junior and senior high school) with a combined budget of P490.8 billion or over three-fourth (76.4%) of the Operations budget of DepEd. Also, under the SSLP are allocations for Government Assistance and Subsidies [i.e., the Education Service Contracting (ESC) and Voucher Programs] with a total budget of P53.2 billion that is 87.6% higher than the current year's level of P28.4 billion.

❑ The recent World Bank study (2022) ranks the Philippines as one of the countries with the highest rates of learning poverty[6] in the East Asia and Pacific region and among lower-middle income economies. Based on World Bank estimates, the learning poverty rate in the Philippines is at 90.9%, which can be interpreted as *"91% of children in the Philippines at late primary age are not proficient in reading."* The World Bank also measured the learning deprivation among countries, wherein schoolchildren who are unable to reach minimum proficiency levels in reading tests are considered to be "learning deprived". For this indicator, the learning deprivation in the Philippines is at 90.4%, which is considerably high as well.

❑ Considering the World Bank findings on the state of Philippines education, it is important to ensure adequate education inputs *(e.g., additional teachers, learning tools/equipment, textbooks, and education facilities)* that can improve the quality of instruction and address learning losses as a result of the disruptions during the pandemic. Under the Basic Education Inputs Program (BEIP), allocations for New School Personnel Positions (P23.9 billion) and for Basic Education Facilities (P9.8 billion) are higher than in 2022. However, the Computerization Program of DepEd is expected to have a smaller allocation (P8.9 billion) in 2023 after its budget significantly grew to P11.8 billion in 2022 (from P6 billion in 2021). Meanwhile, contrary to the DepEd budget increasing in 2023, the aggregated allocation for state universities and colleges (SUCs) declined from P108.4 billion in 2022 to P97.7 billion in 2023.

❑ Among all the departments, the DOTr posts the highest growth—substantially increasing by 120.4% from P75.8 billion in 2022 to P167.1 billion next year. The hefty increase in DOTr budget will finance the Rail Transport Program with a total of P114 billion, which is about five times as much as its allocation of P23.2 billion in 2022. Big ticket projects under the Rail Transport Program include: (1) North-South Commuter Railway System (P75.1 billion), Metro

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[6] *Learning poverty means being unable to read and understand a simple text by age 10. This indicator brings together schooling and learning indicators: it begins with the share of children who haven't achieved minimum reading proficiency (as measured in schools) and is adjusted by the proportion of children who are out of school (and are assumed not able to read proficiently). (The World Bank, 2022)*

Manila Subway Project Phase 1 (P26.3 billion), (3) Subsidy for Mass Transport (MRT 3) (P7.1 billion), (4) LRT Line 1 Cavite Extension Project (P2.7 billion), and (5) PNR South Long Haul Project (P1.1 billion). Except for the Subsidy for MRT 3, all these projects are foreign-assisted.

❑ Addressing the challenges of food security and reducing poverty in the agriculture sector has become more urgent amidst global food shortages and rising prices of commodities. There is a need to raise agriculture productivity as the sector (agriculture, forestry and fisheries - AFF) continues to contribute the least to the country's GDP[7]. The NG is providing a big boost to the budget of the Department of Agriculture (DA) in 2023—i.e., it will increase significantly by 43.9% from P71.0 billion in 2022 to P102.2 billion next year. Among the DA programs that will enjoy relatively higher allocations are: (1) Rice Program (+151% at P27.3 billion), (2) National Corn Program (+538% at P4 billion), and (3) Fisheries Development Program (+169% at P2.1 billion). The objective is to ensure sufficient supply of food staples, particularly rice—the prices of which should be kept at affordable levels.

❑ While the country is geared towards full economic recovery—assuring the health safety of citizens and that no more lockdowns will substantially disrupt businesses, it is important that the health care system (down to the LGU level) are equipped to handle future pandemics. Only when the health crisis is sustainably addressed can the recovery of the economy be assured. For 2023, the DOH budget will increase albeit minimal (P7.7 billion) considering a relatively huge cut in 2022.

❑ Allocation for DOH amounts to P196.1 billion—which will support major programs such as: (1) Health Facilities Operation (P63.7 billion), (2) Public Health (P43.8 billion), (3) Health Systems Strengthening (P43.2 billion), and (4) Social Health Protection (P22.4 billion). Despite the overall reduction of P4 billion in the Public Health budget, the 2023 NEP provides a fresh allocation of P20 billion for Public Health Emergency Benefits/Allowances for Health Care and Non-Health Care Workers. Meanwhile, the allocation (P44.8 billion) for the Operation of DOH Regional Hospitals and Other Health Facilities is higher by P5.7 billion—substantially accounting for the increase in Hospital Facilities Operations (P7.3 billion). Separate funding for Health Facilities Enhancement Program (HFEP) in 2023 amounts to P23 billion.

❑ The DSWD budget for 2023 amounts to P197 billion which is 3.9% less than its current year's spending level of P205 billion. Two programs, namely: (1) Promotive Social Welfare (P134 billion) and (2) Protective Social Welfare (P52.6 billion) practically accounts for 95% of the DSWD budget in 2023. The net decline of P8 billion in the DSWD budget can be attributed to the increase of P11.8 billion for Promotive Social Welfare, and the cut of P19.1 billion in Protective Social Welfare.

❑ The *Pantawid Pamilyang Pilipino* Program (4Ps) will receive P115.6 billion to finance the educational and health grants (including rice subsidies) to 4.4 million households. This is

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[7] *Contribution to 7.4% GDP growth in the second quarter of 2022 is as follows: Services (5.5 percentage points), Industry (1.9), and Agriculture, Fisheries and Forestry (0.02).*

P7.9 billion more than the current year's level. Meanwhile, an amount of P25.3 billion was allocated for the Social Pension for Indigent Senior Citizens to provide 4.1 million indigent senior citizens (non-members of any pension system) a monthly allowance of P500. According to the DBM, the proposed 2023 NEP has not provided funds for the implementation of RA 11916 which doubled the monthly pension of senior citizens. Implementing the P1,000 monthly allowance for indigent senior citizens by 2023 will entail adjustments in allocation for some expenditure items to secure a sum of P25.3 billion.[8]

Budget Utilization Performance

❑ As NG invests more on infrastructure projects that can increase mobility of people and goods—and therefore create greater economic activities, it is important to improve the absorptive capacity of key implementing agencies such as the DPWH, DOTr and the DICT. These three departments post the lowest disbursement rates (computed as a ratio to total available appropriations) as shown in Table 10.

❑ Even with relatively high obligation rates, a low disbursement rate indicates delays and non-completion of projects. Disbursement rate of DPWH was highest only at 53.8% in 2021. The DOTr whose budget is expected to more than double in 2023 posted its highest disbursement rate at 41.5% in 2021. With planned spending for digitalization and ICT projects throughout the bureaucracy, it is imperative to improve on the disbursement performance of the DICT which was only between 22.2% and 26.9% in 2019-2021.

TABLE 10
UTILIZATION RATE OF MAJOR DEPARTMENT, 2017-2021

Department	Obligation-to-Total Available Appro (%)					Disbursement-to-Total Available Appro (%)				
	2017	**2018**	**2019**	**2020**	**2021**	**2017**	**2018**	**2019**	**2020**	**2021**
DPWH	90.3	91.7	85.3	91.8	88.3	32.8	39.3	48.1	28.6	53.8
DepEd	91.5	92.0	94.0	95.0	96.7	76.7	85.6	88.2	87.7	90.2
DILG	95.9	97.0	97.2	96.7	96.6	87.7	93.1	89.8	93.3	93.4
DND	95.0	93.7	92.9	96.1	97.6	63.7	81.2	79.2	84.9	82.4
DOH	93.4	91.7	85.6	86.1	93.5	59.1	59.6	63.2	69.2	71.4
DSWD	95.1	96.0	92.6	91.8	91.3	80.3	81.8	77.7	83.4	82.3
DOTr	83.0	90.0	80.9	95.8	88.2	32.5	36.6	34.3	35.3	41.5
DA	94.5	85.1	85.6	88.0	90.1	62.5	62.4	64.4	57.1	70.3
DOLE	84.9	95.7	91.0	87.8	95.8	67.6	88.6	80.3	80.5	92.8
DICT	94.2	83.4	44.8	73.6	50.5	36.7	56.4	22.2	23.3	26.9
DENR	96.4	95.0	94.8	83.5	94.4	71.0	74.7	82.2	71.1	84.3
DOST	93.9	95.3	94.2	93.4	94.1	64.9	73.2	82.2	77.5	84.1
DTI	95.1	84.9	86.9	86.0	91.4	81.9	69.5	72.1	71.4	77.4
DAR	76.3	88.4	87.4	81.7	75.6	59.7	74.3	80.2	73.4	71.5

Source of basic data: SAAODB 2017-2021

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[8] *Details of the 4Ps and the Social Pension for Indigent Senior Citizens were sourced from the President's Budget Message for FY 2023. Statement on the additional P500 allowance for senior citizens under RA 11916 was made by Undersecretary Tina Canda during the Press Briefing upon submission of the 2023 NEP to Congress last 22 August 2022.*

❑ The DA which will get a sizeable budget in 2023, likewise, needs to improve on its disbursement rate. In 2021, it was able to disburse only 70.3% of its total available appropriations for the year. Similarly, the DOH which posted the highest disbursement rate of 71.4% in 2021 has to further improve on its utilization performance. Unutilized appropriations not only deprive the people of enjoying the benefits from completed projects, but it also parks funds which could have otherwise been used for other productive spending.

SPECIAL PURPOSE FUNDS (SPFs)

❑ The budget allocation for SPFs in 2023 amounts to a total of P2,189.5 billion which is 6.3% higher than the current year's level of P2,059.4 billion. Almost half (43.9%) of total SPFs are allocations to LGUs (ALGU) amounting to P962.2 billion. Even though there is a 14.5% (or P138.8 million) drop in the NTA/IRA due to lower collections in 2020, it is still the biggest contributor to ALGU with a budget of P820.3 billion in 2023. Note that the existing distribution formula of the NTA carries with it inherent inequities that will put some LGUs financially disadvantaged (especially in the light of new functions/services they have to assume).

TABLE 11
SPECIAL PURPOSE FUNDS, 2021-2023

PARTICULARS	Levels, in Billion Pesos			Difference				% Share to Total		
				Amount		In Percent (%)				
	2021	2022	2023	21-22	22-23	21-22	22-23	2021	2022	2023
Budgetary Support to Government Corporations	243.7	209.2	224.5	(34.5)	15.2	(14.1)	7.3	15.6	10.2	10.3
of which:										
DOH-PhilHealth Corp.	71.7	80.0	100.2	8.3	20.2	11.5	25.3	4.6	3.9	4.6
OEO-NIA	31.9	31.5	40.8	(0.4)	9.4	(1.2)	29.8	2.0	1.5	1.9
OEO-BSP	-	10.0	-	10.0	(10.0)	-	(100.0)	-	0.5	-
Net Lending	17.9	28.7	28.7	10.8	-	60.5	-	1.1	1.4	1.3
Allocations to LGUs	885.9	1,084.4	962.2	198.5	(122.1)	22.4	(11.3)	56.8	52.7	43.9
of which:										
IRA / NTA	695.5	959.0	820.3	263.5	(138.8)	37.9	(14.5)	44.6	46.6	37.5
LGSF	81.1	18.0	28.9	(63.2)	10.9	(77.9)	60.7	5.2	0.9	1.3
Bangsamoro ARMM	81.2	74.8	74.4	(6.5)	(0.4)	(8.0)	(0.5)	5.2	3.6	3.4
National Disaster Risk Reduction and Management Fund	-	20.0	31.0	20.0	11.0	-	55.0	-	1.0	1.4
Contingent Fund	-	7.0	13.0	7.0	6.0	-	85.7	-	0.3	0.6
Miscellaneous Personnel Benefits Fund	-	27.7	89.0	27.7	61.3	-	221.2	-	1.3	4.1
Pension and Gratuity Fund	-	183.9	272.9	183.9	89.0	-	48.4	-	8.9	12.5
Customs duties and taxes, including Tax Expenditures	-	14.5	14.5	14.5	-	-	-	-	0.7	0.7
Interest Payments	429.4	512.6	582.3	83.2	69.7	19.4	13.6	27.5	24.9	26.6
TOTAL SPF	**1,559.0**	**2,059.4**	**2,189.5**	**500.3**	**130.1**	**32.1**	**6.3**	**100.0**	**100.0**	**100.0**

Source of basic data: BESF 2023

❑ The LGSF has a total allocation of P28.9 billion in 2023. This includes allocations for the following: (1) Support to the Barangay Development Program[9] of the National Task Force to End Local Communist Armed Conflict (NTF-ELCAC), P10 billion; (2) Financial Assistance to LGUs (FALGU)[10] and Support for Capital Outlays and Social Programs (SCOSP), P5 billion; and (3) Growth Equity Fund (GEF), P13.9 billion. Under the LGSF Special Provisions, the GEF shall be used as financial assistance to the identified poor, disadvantaged, and lagging LGUs pursuant to the implementation of the EO No. 138 (s. 2021) and its implementing rules and regulations (IRR) under DBM National Budget Circular No. 587 (s. 2022).

❑ Other big expenditure items under SPFs are as follows: (1) Interest Payment, P582.3 billion; (2) Pension and Gratuity Fund (PGF), P272.9 billion, and (3) Budgetary Support to Government Corporations (BSGC), P224.5 billion. Among SPFs, Interest Payment has the second biggest allocation which increased by P69.7 billion or 13.6% in 2023. Meanwhile, the PGF posted the highest budgetary increment (nominal) amounting to P89 billion. Around 51.7% of total PGF will be used to pay for pensions of the military and uniformed personnel or MUPs (P128.7 billion), veterans (P10.9 billion) and civilian personnel (P1.6 billion). Note that MUP pensions are fully subsidized by NG (absent a contribution-based system), and that it is expected to grow alongside any adjustments in salary rates of those in active service given the existing indexation policy. Also, note that the Retirement Gratuity for Civilian Personnel substantially increased from only less than billion in 2022 to P51.1 billion next year.

❑ Total BSGC amounting to P224.5 billion in 2023 is about 7.3% higher than in 2022 but still lower than the 2021 level of P243.7 billon. Relatively bigger allocations can be traced to the following: (1) PhilHealth (P100.2 billion), for the insurance premium contributions of indigents, senior citizens, unemployed PWDs, and beneficiaries of the PAMANA Program; and, (2) National Irrigation Authority, P40.8 billion. Note that while NG allocates P28.7 billion for Net Lending in 2023, it also provides under Unprogrammed Appropriations an amount of P20.7 billion for the conversion of NG advances (for the servicing of GOCC loans) into subsidies. This writing off of GOCC payables to NG (through conversion of advances into subsidies) should be carefully monitored considering its implications on NG's own cash position.

❑ Meanwhile, the Miscellaneous Personnel Benefits Fund (MPBF) amounting to P89 billion in 2023 is about 221.2% higher than in 2022. This substantial increase is largely due to the increase in the Funding Requirements for Staffing Modifications and Upgrading of Salaries which has a budget allocation of P65.3 billion in 2023.

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[9] *Each barangay cleared by the NTF-ELCAC shall be allocated a maximum of P20 million for projects such farm-to-market roads, school buildings, water and sanitation systems, health stations, electrification, agricultural and livelihood trainings/projects, and assistance to indigent families or individuals.*

[10] *Financial Assistance to LGUs (FALGU) will support the implementation of agriculture-related programs and projects, ICT systems and infrastructure development, construction, maintenance and/ or rehabilitation of green open spaces, infrastructure for active mobility, and footpaths and walkways, and DRRM-related programs and projects.*
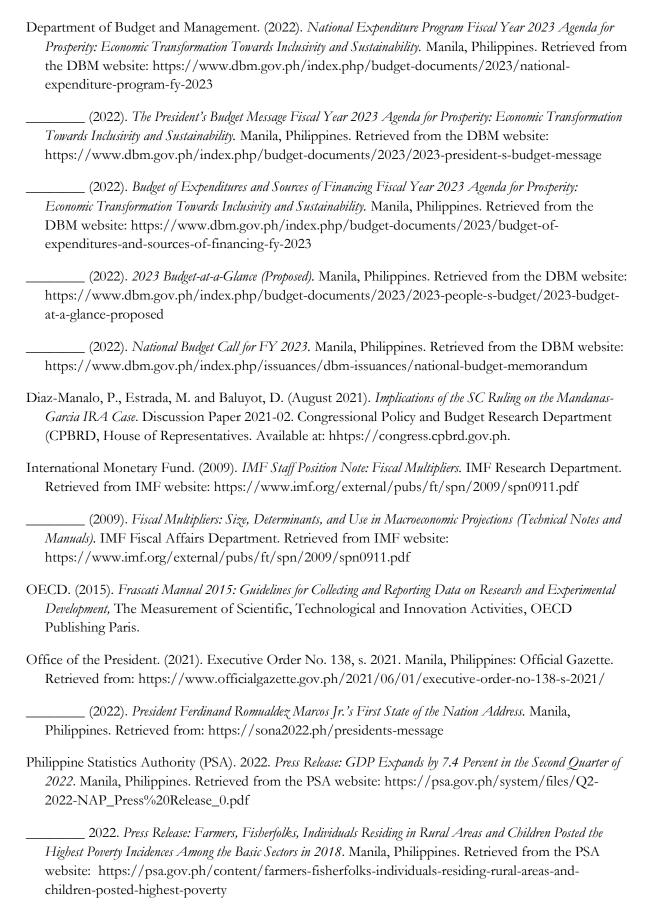
MOVING FORWARD

❑ ***On operational efficiency of government agencies.*** With the *Build Better More* Program that corners 5% of GDP for infrastructure development, it is important to ensure that funds are efficiently utilized for the timely delivery and completion of projects.   Operational efficiency of infrastructure-related implementing agencies (particularly the DPWH, DOTr and DICT) should be improved. Under a cash-based budgeting system where only shovel-ready projects should be included in the annual budget, agencies need to improve on their programming and procurement processes (including addressing right-of-way issues).

❑ National government agencies (NGAs) need to improve on operational efficiency to ensure that appropriated funds are disbursed within the year (or period of validity). Government should be able to allocate limited funds taking into account the absorptive capacity. Meanwhile, NG needs to invest on digital infrastructure that will facilitate the institutionalization of e-government systems to make public service delivery fast and more efficient. Difficulties in targeting (as experienced in NG's social amelioration measures) led to slow utilization of funds—a setback that dampens the stimulative impact of spending on the economy.

❑ ***On devolution and assistance to LGUs.*** There is a need to properly target financial assistance to LGUs considering the expected drop in NTA (as a result of low revenues in 2020) and the need to properly transition to full devolution by 2024 as provided in Executive Order No. 138 (s. 2021). With inherent inequities in the existing NTA distribution, NGAs need to target the use of their program funds (as well as the financial assistance under the Local Government Support Fund – LGSF) considering fiscal gaps between the revenue capacities and expenditure needs of LGUs.

❑ NG will likely continue to fund "devolved programs" even though greater resources will have been transferred to LGUs. With limited fiscal space, there is greater pressure on NG finances to continue allocating for "devolved PAPs" during Transition Period while increasing support for "steering"-related activities (like capacity building, standards setting, technical assistance, and M&E). NGAs must be able to differentiate the kind of assistance provided to LGUs— such that financial assistance should be limited to poor localities, and more capacity building programs (to improve systems and processes) can be directed initially towards higher-income LGUs.

❑ ***On cost-saving expenditures.*** Alongside the need to prioritize productive investments— such as education and health (for long term quality of human capital), and infrastructure to support economic recovery, government should embark on cost-saving expenditures (including initiatives for rightsizing, e-governance) that can also promote efficiency in the bureaucracy. Rightsizing should be able to consider new expertise needed with digital transformation and information and communications technology (ICT)-based processes. Cost-saving expenditures, likewise, entail re-assessing the automatic indexation policy that applies to MUP pensions. The financial performance of GOCCs also needs to be carefully monitored to ensure their capacity to repay NG advances for the servicing of guaranteed debts.

Moreover, NG should be able to differentiate the reporting of program subsidies from operation subsidies—as the latter would indicate the extent that NG augments GOCC income to prevent or reduce corporate deficits.

❑ ***On proper targeting of social protection programs.*** With the ongoing effects of the pandemic still felt, the need for proper targeting system that will identify the poorer and vulnerable groups for social protection programs is crucial. Some of the learnings from the COVID-19 pandemic on social protection include the importance of built-up systems in rapid response (e.g., 4Ps information, payment systems) *(Melad et. al, 2021)*, the need for granular data for effective data-driven responses *(Reyes et. al, 2022)*, and the need to establish clean database and better targeting for better fiscal efficiency, coverage and adequacy *(Cho and Johnson, 2022)*. In this regard, the Philippine Identification System (PhilSys) is essential in—(1) providing an inclusive and clean database, and (2) ensuring interoperable information systems and streamlined processes, dynamic registry and targeting mechanism, and financial inclusion and digitalization of payments *(The World Bank, 2022)*.

❑ The pandemic has heightened income inequality in the country. Poverty incidence increased (among families) increased from 16.2% during the 1ˢᵗ semester of 2018 to 18.9% in 2021 (1ˢᵗ semester). Similarly, poverty among population went up from 21.1% to 23.7% in the same period. With NG aiming to cut the poverty incidence to 9% by 2028, it should be able to prioritize the creation of jobs to eventually reduce dependence on regular *ayudas*. An inclusive economy will seek to redistribute gains from growth through poverty alleviating and social protection programs. As such, government interventions should be properly targeted to population groups and to geographic areas that are marginalized and vulnerable to shocks.

❑ ***On the exercise of Congressional oversight.*** Congress needs to ensure that committed program targets for which funds shall be appropriated will be achieved. The 2023 National Expenditure Program (NEP) includes performance measures/indicators that should be monitored to assess the effectiveness of agency programs in delivering the desired outcomes. Budget and financial accountability reports (BFARs) which are prescribed to be posted for transparency in agency websites should be used to assess the physical accomplishments and budget utilization performance of each agency.

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