Budget Notes

SENATE ECONOMIC PLANNING OFFICE

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Macroeconomic and Fiscal Assumptions of the Proposed 2024 National Budget

Anchored on the theme *Agenda for Prosperity: Securing a Future-Proof and Sustainable Economy,* the proposed 2024 National Expenditure Program (NEP) will authorize the national government to spend PhP5.768 trillion. It is 9.5 percent more than the 2023 General Appropriations Act (GAA) of PhP5.268 trillion and accounts for 21.7 percent of the country's gross domestic product (GDP). The national budget is expected to facilitate the realization of the administration's 8-point Socioeconomic Agenda and the objectives articulated in the Philippine Development Plan (PDP) 2023-2028.

Macroeconomic Assumptions

Underlying the proposed budget is a set of macroeconomic assumptions formulated by the Development Budget Coordination Committee (DBCC). These assumptions play a vital role as they influence the government's expected income from various sources and its planned expenditures. Hence, they are also crucial in determining the projected budget deficit and consequently, the government's borrowing plan as well as the level of debt to be incurred. Any deviation from the set assumptions could alter the government's revenue and expenditure programs, and potentially cause considerable shifts in the government's fiscal planning. As these assumptions are not mere figures, they merit closer scrutiny to ensure the viability of the proposed national budget and to maintain prudent public financial management.

The macroeconomic assumptions of the proposed 2024 national budget are as follows:

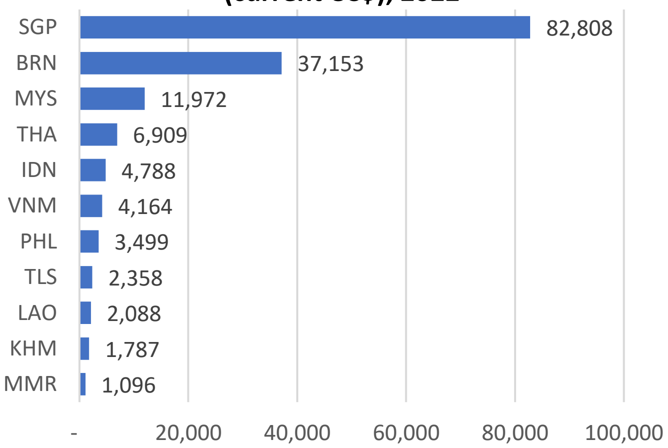
Table 1. 2024 National Budget Macroeconomic Assumptions

Indicators	2022 Actual	2023 Adjusted	2024 Projected
GDP Growth (%)	7.6	6.0-7.0	6.5-8.0
Inflation (%)	5.8	5.0-6.0	2.0-4.0
Dubai Crude (US$/barrel)	97.05	70-90	70-90
Exchange Rate (PhP/1US$)	54.48	54-57	53-57
Export Growth (%)	5.9	1.0	6.0
Import Growth (%)	18.5	2.0	8.0

Source: 2024 Budget of Expenditures and Sources of Financing (BESF), DBCC

GDP Growth. After posting a record growth of 7.6 percent in 2022, boosted by electoral spending and the lifting of all pandemic restrictions, the Philippine economy is expected to grow by 6.0-7.0 percent in 2023. In 2024, the pace of expansion is seen to accelerate to 6.5 percent to 8.0 percent. So far, economic performance has failed to meet expectations. GDP growth decelerated from a robust 6.4 percent in the first quarter to 4.3 percent in the second quarter of 2023, the slowest since the fourth quarter of 2011. This brings the average growth in the first semester to 5.4 percent, which means that the economy would have to grow by at least 6.6 percent in the second half to reach the low-end of the full-year GDP growth target. Gross national income (GNI) per capita now stands at US$3,456, which is 3.7 percent lower than what it was over the last year (US$3,587 in 2022).

Figure 1. ASEAN GDP per Capita (current US$), 2022



Source: World Bank

While GDP growth in 2022 has been stellar, the Philippines still lags its ASEAN peers in terms of GDP per capita. It outperformed only the least developed countries namely Timor-Leste, Lao PDR, Cambodia and Myanmar.

The Philippines needs to have a GDP per capita income range of US$4,256 to US$13,205 to enable its transition from lower middle-income to upper middle-income status. The Philippines is currently classified as a lower middle-income country where GNI per capita for 2024 ranges from US$1,086 to US$4,255.

The disappointing second-quarter growth is brought about by slower growth of household spending due to high commodity prices. Moreover, government spending, which helped buttress the economy since the pandemic, posted a 1.4 percent contraction in the second quarter, a huge reversal from the 7.6 percent growth it posted in the same period in 2022. The slower government spending is likewise reflected in lower gross fixed capital formation (i.e., public construction) which further dragged economic growth. Data from the Department of Budget and Management (DBM) shows that as of May 2023, 88.9 percent of the 2023 budget has already been released.[1] For the whole of 2023, government spending is projected to grow by a mere 1.3 percent from 7.2 percent in 2022, a manifestation of the relatively tighter fiscal space the government finds itself in after a period of expansionary fiscal policy. Similarly, a marked slowdown was seen in the country's trade sector as both exports and imports took a hit from the slower global economic growth.

[1] https://www.dbm.gov.ph/wp-content/uploads/DBCC/2023/NG%20Disbursements_May%202023_for%20posting.pdf.

Table 2. Gross National Income and Gross Domestic Product, 2021-2023

Growth Rates, at Constant 2018 Prices	Annual Growth		First Semester	
	2021	2022	2022	2023
Gross Domestic Product	**5.7**	**7.6**	**7.8**	**5.3**
Net primary income from the rest of the world	-51.6	77.3	81.8	86.8
Gross National Income	**1.7**	**9.9**	**9.9**	**9.3**
Expenditures				
Household final consumption expenditure	4.2	8.3	9.3	6.0
Government final consumption expenditure	7.2	4.9	7.6	-1.4
Gross capital formation	20.0	13.8	17.4	5.4
Gross fixed capital formation	9.8	9.7	11.8	6.9
1. Construction	11.1	12.1	14.6	6.8
2. Durable equipment	11.9	8.3	9.6	9.3
3. Breeding stocks and orchard dev.	-3.5	0.5	1.4	1.0
4. Intellectual property products	13.0	3.5	6.9	3.0
Exports of goods and services	8.0	10.9	7.6	2.5
Exports of goods	11.7	5.0	1.9	-8.0
Exports of services	2.5	20.6	15.3	14.8
Less: Imports of goods and services	12.8	13.9	15.3	2.5
Imports of goods	17.7	8.6	12.1	-2.4
Imports of services	-9.3	44.9	35.0	27.9
Production				
Agriculture, forestry, and fishing	**-0.3**	**0.5**	**0.2**	**1.2**
Industry	**8.5**	**6.5**	**8.0**	**3.0**
01. Mining and quarrying	5.1	5.3	5.2	-2.9
02. Manufacturing	8.9	4.9	5.9	1.6
03. Electricity, stream, water and waste management	4.5	5.1	5.5	5.9
04. Construction	10.1	12.1	16.5	6.4
Services	**5.4**	**9.2**	**8.8**	**7.2**
01. Wholesale and retail trade; repair of motor vehicles and motorcycles	4.2	8.7	8.4	6.0
02. Transportation and storage	6.3	23.9	26.8	15.8
03. Accommodation and food service	7.2	32.1	24.9	28.0
04. Information and communication	9.2	8.0	9.1	4.4
05. Financial and insurance activities	4.8	7.1	5.7	6.9
06. Real estate and ownership of dwellings	2.2	5.3	5.1	3.0
07. Professional and business services	6.3	9.1	8.5	7.2
08. Public administration and defense; compulsory social activities	5.3	4.0	5.8	-0.8
09. Education	8.2	7.4	6.9	6.5
10. Human health and social work activities	14.5	3.7	1.6	8.0
11. Other services	2.0	28.4	31.1	29.5

Source: Philippine Statistics Authority (PSA)

On the production side, the agriculture sector posted a higher gross value added (GVA) at 1.2 percent with increased rice produce and the recovery of the livestock sector from the African Swine Fever (ASF). However, the faster agricultural growth failed to compensate for the slowdown in the growth of the industry and services sector. Noteworthy is the deceleration in manufacturing and construction. Under services, accommodation and food services, as well as financial and insurance activities continued to rally, while the biggest sub-sector, which is wholesale and retail trade, grew at a slower pace.

With subdued household and government consumption, receding investor appetite, and muted external demand, meeting the growth target for 2023 will be challenging. However, the government's economic managers maintain that with an aggressive catch-up plan for infrastructure projects, deliberate spending, and proactive interventions to combat inflation, this year's growth target remains achievable.

Inflation is still the biggest threat to growth. The Bangko Sentral ng Pilipinas (BSP) has earlier announced that inflation is already on a downward trajectory and barring any supply shock, would likely fall back within the target range of 2-4 percent by the last quarter of 2023. However, upside risks to inflation persist. Fiscal constraints and the oft-cited weak absorptive capacity of government agencies may also lead to underinvestment and thus present downside risk to growth. The first-semester contraction of imports of both capital goods and raw materials portends slow investments in the second semester. On the external front, the slump in global trade, particularly the looming slowdown in the Philippines' major trading partners such as US and China might continue to tug on export growth and constrain tourism. The persistent geopolitical and trade tensions and other disruptions in the supply chain could likewise put a strain on economic expansion.

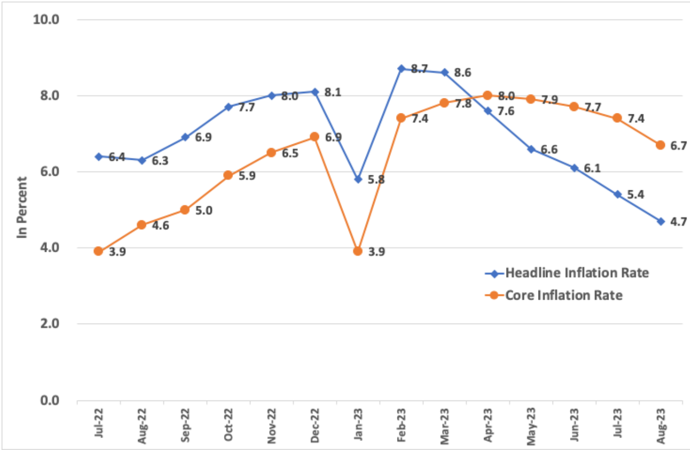
For 2024, the government's economic managers expect growth to be driven mainly by the continued strong rebound of household consumption following the full re-opening of the economy that will continue to be supported by robust inflow of remittances and strong performance of the business process outsourcing (BPO) industry. It should be noted that the government's economic outlook is more optimistic compared to those of multilateral banks and other private institutions. For 2024, the International Monetary Fund (IMF) projects growth to settle at 5.5 percent (previously 5.8%) while the World Bank expects it at 5.9 percent. The Asian Development Bank's (ADB) growth forecast is just slightly higher at 6.2 percent. All three projections miss the lower end of the government's target range of 6.5-8.0 percent. Downside risks that were identified in their reports include the weak external demand due to the slowdown in advanced economies, and the high interest rates.

Table 3. Philippine Growth Forecasts, 2023 and 2024 (in %)

Institution	2023	2024
DBCC	6.0-7.0	6.5-8.0
Asian Development Bank	6.0	6.2
International Monetary Fund	6.0	5.5
World Bank	6.0	5.9
Standard & Poor's	5.8	5.8
Moody's	6.1	5.4
Nomura	5.5	--
Fitch Solutions	5.3	--

Inflation. Headline inflation rate continued to decline, hitting 4.7 percent in July 2023 from 5.4 percent in June 2023. With the year-to-date average headline inflation rate now at 6.8 percent, it is highly unlikely that the full-year inflation rate will fall within the DBCC's earlier assumption of 2.5-4.5 percent. Moreover, while July is the sixth consecutive month that the overall inflation has dropped, the core inflation rate, which excludes select food and energy items, remains elevated[2] at 6.7 percent in July. This indicates that the initial price jolts arising from high food and energy costs in the second half of 2022 continue to influence the wage and pricing dynamics for other goods.

Figure 2. Headline and Core Inflation Rates in the Philippines, All Items (2018=100)



Source: PSA

The downward trend in the headline inflation rate can be ascribed mainly to the relatively cheaper oil imports and decreased volatility in exchange rate. Following an 11-year high of US$115.73 per barrel in June 2022, the monthly price of Dubai crude traded below US$84 per barrel this year. Meanwhile, the movement in the country's exchange rate was relatively stable with the monthly average hovering around the PhP54 to PhP56/US$ range, unlike in 2022 where large swings in the exchange rate were observed.[3] This benign external environment for energy imports coupled with the base effects due to sharp drop in local oil prices this year explain the double-digit drop in inflation rate for the Operation of Personal Transport Equipment (-23.2%) and the low inflation rate for Electricity, Gas and Other Fuels (2.5%). Unfortunately, this drop was offset by the persistently high inflation rate of some food items (Table 4).

While the BSP expects inflation rate to reach the 2.0-4.0 percent target in the fourth quarter of 2023, significant upside risks persist. Local food prices, particularly sugar and vegetables, remain persistently high. Further compounding this is the impact of the El Niño phenomenon and monsoon rains on both local and foreign rice supplies. The ongoing El Niño phenomenon has already disrupted rice supply and prices in Thailand and Vietnam, as reported by the United Nations Food and Agriculture Organization (UNFAO). The two countries are usually the top suppliers of the country's rice imports. Based on the latest available *Bantay Presyo* data from the Department of Agriculture's (DA) website, imported

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[2] Headline inflation captures the changes in the cost of living based on the movements of the prices of items in the basket of commodities and services consumed by a typical Filipino household. Meanwhile, core inflation excludes the volatile food and energy items, e.g., rice, corn, meat, natural gas (liquified or in a gaseous state, and gas oils for motor vehicles, from the computation to indicate the underlying movement in consumer prices as it removes the impact of temporary disturbances and shocks that cause prices to surge or decline, independent of economic or monetary policy (BSP).

[3] The exchange rate started at a monthly average of PhP51.23/US$ in January 2022 then reached a high of PhP58.82/US$ in October 2022 before finally retreating to PhP55.68/US$ by year-end.

regular milled rice is no longer available in Metro Manila as of August 11, 2023 (Table 5). During the same date, the prevailing price of locally produced regular milled rice ranges from PhP38 to PhP49 per kilo, or an increase of PhP11 for the higher bound price of rice posted in the same period in 2022. Adding to the said inflationary pressures are the proposals for wage and transport fare increases.

These concerns are counterbalanced by fears of a global economic slowdown and the likely pause in the US Federal Reserve's current monetary policy tightening cycle which will reduce the upward pressure on global oil prices and on emerging markets' currencies. The Philippine government's Inter-Agency Committee on Inflation and Market Outlook (IAC-IMO) is studying the possible extension of Executive Order (EO) No. 10, series of 2022, which will expire by the end of this year.[4] Under the said EO, tariff rates for select commodities such as fresh/chilled/frozen swine meat, corn, rice, and coal were reduced to allow the entry of cheaper imports to bring down local prices.

Table 4. Inflation and Contribution to Inflation of Selected Items

All items	Weight	July 2023		January to July 2023	
		Inflation, year-on-year	Percentage Point Contribution	Inflation, year-to-date	Percentage Point Contribution
All items	100.00	4.7	4.7	6.8	6.8
Food	34.78	6.3	2.2	8.6	3.0
Rice	8.87	4.2	0.4	3.1	0.3
Meat	6.43	-1.7	-0.1	3.3	0.2
Fish/Seafood	5.66	4.5	0.3	7.0	0.4
Flour, Bread and Other Bakery Products, Pasta Products, and Other Cereals	2.97	10.1	0.3	11.3	0.3
Vegetables, Tubers, Plantains, Cooking Bananas and Pulses	2.80	21.8	0.6	21.5	0.6
Sugar, Confectionery, and Desserts	1.05	21.4	0.2	32.1	0.3
Non-food	60.09	3.3	2.0	5.5	3.3
Housing, Water, Electricity, Gas, and Other Fuels	21.38	4.5	1.0	6.8	1.5
Electricity, Gas, Other Fuel	6.74	2.5	0.2	9.2	0.6
Transport	9.03	-4.7	-0.4	2.6	0.2
Operation of Personal Transport Equipment	2.81	-23.2	-0.7	-10.3	-0.3

Source: BSP

[4] Created by virtue of EO No. 28, series of 2023, the IAC-IMO is co-chaired by the Department of Finance (DOF) and National Economic and Development Authority (NEDA) with Department of Budget and Management (DBM) serving as Vice-Chair. Its members are the Department of Agriculture (DA), Department of Trade and Industry (DTI), Department of Energy (DOE), Department of Science and Technology (DOST), and Department of the Interior and Local Government (DILG) while the Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP) and the Philippine Competition Commission (PCC) serve as its resource institutions. Its primary functions are to: (1) closely monitor the main drivers of inflation, particularly food and energy, and their proximate sources and causes, and (2) provide timely recommendations to the Economic Development Group and relevant agencies on measures to curb price spikes and promote food security based on ex-ante supply and demand analysis.

Table 5. Prevailing Retail Price of Rice, in PhP/kg

Particular	11 Aug 2023	11 Aug 2022	Difference
Imported rice			
special	50-55	52	-2 – 3
premium	46-50	45	1-5
well-milled	45-46	39	6-7
regular-milled	n.a.	38	n.a.
Local rice			
special	48-60	50	-2 – 10
premium	45-56	45	0-11
well-milled	42-52	44	-2 – 8
regular-milled	38-49	38	0-11

Source: DA-Bantay Presyo; n.a. - not available

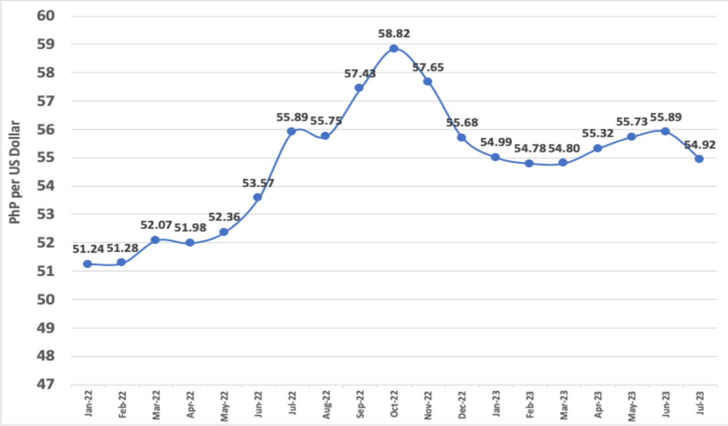
The BSP expects the average headline inflation rate to reach 5.4 percent in 2023 and 2.9 percent in 2024. This is more optimistic compared to the projections of the ADB (6.2 percent for 2023 and 4.0 percent in 2024), World Bank (5.7 percent in 2023 and 3.6 percent in 2024), and IMF (5.6 percent in 2023 and 3.2 percent in 2024).

Dubai Crude. In the opening week of August 2023, the average weekly price of the benchmark Dubai Crude index stood at US$78.75 per barrel. It was the second consecutive week of increase, following a yearly low of US$71.89 per barrel in mid-July. These increments stem from the announced extension of voluntary production cuts by Saudi Arabia, the world's largest oil producer, coupled with reduced output from Russia. However, the current price still lingers below this year's peak of US$86.31/barrel, achieved in mid-April. The year-to-date average for the Dubai index rests at US$78.17/barrel, marking a 19 percent decrease from the full-year average of 2022. In comparison to the highs of 2022, oil prices in 2023 exhibit a relatively milder trajectory, possibly influenced by the conclusion of the post-pandemic economic recovery alongside growing momentum for the energy transition.

Nonetheless, the threat of even deeper production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and its allied nations (OPEC+) remains. This can bolster prices in the immediate future, hence, the BSP forecasts Dubai Crude to trade within the US$70-90 per barrel range in 2024. For comparison, the US Energy Information Administration (EIA) and the World Bank have forecasted the Brent price index, the other global oil price benchmark, to trade at an average of US$86/barrel in 2024 while the ADB's forecast is slightly lower at US$84/barrel.

Exchange Rate. From January to July 2023, the peso reached a monthly average of PhP55.2041/US$, depreciating by 1.31 percent compared to the same period monthly average of PhP54.4778/US$ in 2022. This is slightly above the upper end of the DBCC's exchange rate forecast of PhP51 to PhP55/US$ for 2023.

Figure 3. Monthly Average Peso-Dollar Exchange Rate (PhP/US$)



Source: BSP

The peso has so far avoided large swings against the US dollar this year as the BSP kept pace with the US Federal Reserve which hiked interest rates by a total of 500 basis points since 2022. In the same period, the BSP increased its interest rates by 425 basis points while also intervening in the foreign exchange (forex) market. The BSP tapped into its foreign reserves, spending almost US$15 billion to temper the peso's rapid depreciation which was nearing the PhP60/US$ mark in September and October 2022.

Major Asian currencies have weakened against the US dollar since the start of 2023, albeit at a slower pace compared to last year. The percentage of depreciation as of 11 August 2023, are as follows: Japanese yen (-9.42%), Chinese yuan (-4.52%), Thai baht (-1.48%), Philippine peso (-0.9%), and Vietnamese dong (-0.5%). Only the Indonesian rupiah has appreciated by 2.29 percent against the US dollar.

For 2023, growth in cash remittances from overseas Filipinos is expected to remain marginal and is likely to inch up by 3 percent (i.e., from US$32.5 billion in 2022 to US$33.5 billion in 2023). From January to May 2023, total personal remittances grew by only 3.1 percent to US$14.46 billion from US$14.02 billion for the same period in 2022. Note that since 2014, the annual growth in remittances has fallen below 6.0 percent, indicating that the country may have already reached the peak unless new markets for overseas Filipinos are opened. On the other hand, revenues of the business process outsourcing (BPO) industry is expected to grow by 9.1 percent to US$29.9 billion this year from US$27.4 billion in 2022.

Meanwhile, the outlook for the country's foreign direct investments (FDIs) remains bleak as net FDI is even projected to decline to US$9.0 billion in 2023. From January to May 2023, net FDIs plunged by 20.8 percent to US$3.4 billion from US$4.3 billion in the same period last year, affecting mainly construction (US$99.6 million to US$6.0 million) and real estate activities (US$76.4 million to US$45.4 million). It is likely that increased economic uncertainty in China and the US, together with the high interest rate environment, discouraged investments in these sectors. So far, the passage of the amendments to the Public Service Act, the Retail Trade Liberalization Act, and the Foreign Investments Act have yet to translate to higher FDIs inflows for the country.

Meanwhile, the BSP expects the peso to settle between PhP53 to PhP57/US$ in both 2023 and 2024 as foreign exchange inflows from cash remittances and BPO revenues are projected to remain steady for the period. Also, the country's balance of payments (BOP) deficit is anticipated to narrow to US$500 million from this year's forecast of US$1.2 billion. An expected end to the US Federal Reserve's monetary policy tightening, economic slowdown in the US and China, and perennial government underspending (which affects imports of capital goods and equipment) will dampen any pressure on the peso to further weaken.

Export and Import Growth. Preliminary trade data[5] from the PSA shows that outward shipments contracted by 9.3 percent in the first semester of the year. Export revenues slipped to US$34.9 billion driven by lower shipments of electronics, the country's main export, due to the slowdown in the global semiconductor industry. The outlook from the World Trade Organization (WTO) for 2023 remains tempered with Asian merchandise exports projected to grow by 2.5 percent. The WTO cited resurgent inflation, geopolitical tensions, and unforeseen fallouts from monetary tightening as downside risks to its projections. For the Philippines, however, expansion prospects hinge on the performance of the electronics industry which is currently being saddled by low FDI and high operating costs.

Table 6. Exports and Imports of Goods, 2021-2023, in USD billion

Commodity Groups	2021	2022	January-June		
			2022	2023	Growth (%)
Total Exports	**74.7**	**78.8**	**38.5**	**34.9**	**(9.3)**
Total agri-based products	5.2	5.9	3.3	2.4	(27.7)
Mineral products	6.7	7.3	4.1	3.6	(12.2)
Manufactured goods	61.0	63.9	30.4	28.1	(7.5)
Total Imports	**116.9**	**137.2**	**68.4**	**62.9**	**(8.0)**
Raw materials and intermediate goods	47.9	52.4	26.5	22.9	(13.9)
Mineral fuels, lubricant, and related materials	13.6	23.8	12.0	10.0	(16.2)
Consumer good	18.9	22.4	10.3	11.6	12.6
Trade Balance	**(42.2)**	**(58.3)**	**(29.8)**	**(28.0)**	**(6.3)**

Source of basic data: PSA, International Merchandise Trade Statistics

Current export figures appear much closer to the downgraded DBCC forecast of 1.0 percent growth for the year, from 3.0 percent back in April 2023. Despite still being in the red, outward shipments are showing signs of improvement since the gap in cumulative exports has consistently narrowed. Should this uptrend continue, it is likely that the DBCC export target would be achieved on the back of a recovery in demand from easing inflation.

Import payments have also fallen, posting US$62.9 billion which is equivalent to an 8.0 percent decline. Among major commodity groups, only consumer goods (i.e., passenger vehicles, food products) expanded suggesting that inflation had limited impact on demand in manufactured goods. The contraction can be attributed to the drag in manufacturing as evidenced by lower imports of capital goods and raw materials and the fluctuating production and sales indices.

WTO estimates Asian imports to grow by 2.6 percent in 2023 while the revised DBCC forecast projects growth at 2.0 percent. Unlike exports, however, imports may fall short of its target growth since demand appears to be slowing following five consecutive months of decline. In a bid to lower the price of electricity and thereby promote manufacturing, EO 10, series of 2022, eliminated tariffs on coal

[5] Analysis for the section on trade in goods makes use of data from PSA's International Merchandise Trade Statistics (in US$). Discrepancies are attributed to the difference in methodologies employed since the National Accounts data (in PhP) is based on the Balance of Payments and International Investments Position Manual, 6th Edition (BPM6).

indefinitely. The same EO extends the applicability of lower tariff rates on other agricultural commodities until the end of 2023 to augment domestic supply.

Table 7. Exports and Imports of Services, 1st Half of 2022-2023, in PhP billion

Sector	**Exports**			**Imports**			**Trade Balance**	
	2022	2023	Growth	2022	2023	Growth	2023	Growth
Total Exports/Imports	**1,420.3**	**1,705.6**	**20.1**	**644.8**	**895.9**	**39.0**	**809.7**	**4.4**
Transport	83.3	127.4	53.0	142.6	192.9	35.3	(65.4)	10.4
Travel	83.7	260.4	210.9	154.2	292.0	89.3	(31.6)	(55.1)
Telecommunications, computer and information services	237.3	264.5	11.5	55.7	59.9	7.5	204.6	12.7
Business services	825.0	879.9	6.7	177.7	223.7	25.9	656.2	1.4

Source of basic data: PSA, National Accounts at Current and Constant 2018 Prices

On the other hand, trade in services grew in the first half of 2023. The expansion was mainly driven by travel services as the COVID-19 public health emergency was lifted. Inbound tourism receipts tripled, however, it was still outweighed by the spending of outbound *revenge travelers.* Compared to pre-pandemic levels, current figures underscore the need for strategies to expedite recovery and increase foreign tourist arrivals since their receipts are still behind by 15.1 percent. In contrast, imports of travel services are now only behind by 4.8 percent.

As a key growth driver, the performance of the BPO industry must be closely monitored. While receipts from business services managed a 6.7 percent expansion, it was outperformed by its corresponding imports for eight consecutive quarters. This increase is attributed to the shift towards higher value/complex services, underscoring the need for a national upskilling program to address unmet demand. If left unmitigated, this figure may reverse the trade balance for services where the Philippines has consistently been a net exporter.

Projections point to a more optimistic outlook in 2024 with the revised DBCC forecast for exports and imports at 6.0 and 8.0 percent, respectively. These figures are in line with WTO estimates for Asian merchandise trade at 4.7 and 5.2 percent, respectively. Expansion in the country's export revenues will likely be driven by global chip sales which the World Semiconductor Trade Statistics Organization projects to rebound robustly. For imports, its performance would be anchored on improving manufacturing and construction activity. As such, measures to promote investments will be critical in order to achieve higher output. While the zero tariffs on coal could help address short-run problems on electricity costs, the intervention must also be evaluated against its potential adverse effects on revenue collection and on the government's initiatives on sustainable energy.

Other economic indicators:

Labor and Employment. In the first half of 2023, labor force participation rate improved to 65.6 percent from the preceding year's 63.7 percent. This signifies the active engagement of 50.6 million individuals within the labor market. Among these, about 95.4 percent are gainfully employed, while the remaining 4.6 percent grapple with joblessness. The employment landscape continues to be predominantly shaped by the Services sector, which comprises 59.6 percent of the total employment, followed by Agriculture at 23.3 percent and Industry at 17.1 percent.

Since the onset of the COVID-19 pandemic, there have been encouraging developments in reducing both unemployment and underemployment rates. Currently, the unemployment rate is at 4.6 percent, while underemployment is at 12.5 percent. These figures show improvement even from the 2019 pre-pandemic rates of 5.2 percent and 14.4 percent, respectively. Of the unemployed, 36.8 percent belong to the 25-34 age group and 30.8 percent belong to the 15-24 age group. In terms of educational background, junior high school graduates constitute 36.3 percent of the unemployed, followed by college graduates at 38.5 percent.

Notwithstanding the improved employment statistics, concerns surrounding job quality persist. These concerns manifest in several key aspects of the labor market. For instance, the proportion of individuals in elementary occupations witnessed a slight increase, from 28.7 percent in 2022 to 29.7 percent in 2023. Conversely, the proportion of individuals holding managerial position has dipped to 4.6 percent from the previous 5.3 percent. Contractual arrangements may have likewise gone up. Additionally, the proportion of informal workers have expanded from 37.5 percent to 38.6 percent. This translates to around 18 million workers who are not likely or less likely to have formal social protection. The proportion of wage and salary workers dropped from 62.5 percent to 61.4 percent while the share of unpaid family workers has expanded from 7.3 percent to 9 percent. Furthermore, there has been an uptick in the number of individuals engaged in part-time employment, clocking in less than the standard 40 hours. These shifts in employment may indicate a misalignment between the skills possessed by the workforce and the nature of jobs available. As businesses adapted to the evolving world of work, the shift in labor market demand makes it more challenging for workers to transition between sectors given varying industry requirements.

Table 8. Selected Labor and Employment Indicators, First Semester, (in thousands, except rates)

Indicator	2019	2020	2021	2022	2023
Total Population 15 Years Old and Over	**71,831**	**73,281**	**74,911**	**76,367**	**77,206**
Labor Force	**43,667**	**42,996**	**47,672**	**48,611**	**50,651**
Employed	41,339	38,187	43,799	45,672	48,315
Underemployed	5,966	6,348	6,855	6,532	6,020
Unemployed	2,277	4,810	3,873	2,939	2,336
Labor Force Participation Rate (%)	**60.8**	**58.7**	**63.6**	**63.7**	**65.6**
Employment Rate (%)	94.8	88.5	91.9	93.9	95.4
Underemployment Rate (%)	14.4	16.9	15.7	14.3	12.5
Unemployment Rate (%)	5.2	11.5	8.1	6.1	4.6
Employed by Occupation (% Share)					
Managers	11.7	9.3	8	5.3	4.6
Professionals	5.5	5.8	5.7	5.5	5.5
Technicians and associate professionals	4.3	3.8	3.7	3.8	4
Clerical support workers	6.2	6.5	6.1	6.9	7.2
Service and sales workers	18.1	19.2	20.7	22.4	22.5
Elementary occupations	26.4	27.4	28.8	28.7	29.7
Employed by Class of Worker (% Share)					
Wage and salary workers	65	64.2	61.7	62.5	61.4
Self-employed	26.7	27.5	28.5	28	27.4
Unpaid family worker	5.4	6.3	7.6	7.3	9
Worked Less than 40 hours (% Share)	**29.0**	**32.0**	**38.3**	**33.8**	**36.3**

Source: PSA, Labor Force Survey

Poverty and Hunger. Based on the June 2023 Social Weather Stations (SWS) survey, about 45 percent of families identify themselves as poor, with 33 percent as borderline poor, and 22 percent not poor. Self-rated poverty (SRP) rate has shown improvement, dropping from 51 percent (14 million families) in March 2023 to 45 percent (12.5 million families) in June 2023. Despite improvements in poverty perception, underlying factors persistently contribute to poverty and hunger in the Philippines. These include limited access to education and healthcare, high unemployment and underemployment, limited income opportunities, social inequality, insufficient infrastructure, and governance and policy implementation challenges.

There was a marked reduction of the self-rated poverty rate in Metro Manila (35%), Balanced Luzon (39%), Visayas (57%) and Mindanao (54%) during the said period. However, regional disparities in poverty and hunger remain pronounced across the country due to differing levels of economic development, resource availability, infrastructure, and opportunities across various regions. Of the estimated 12.5 million families, 2.0 million families are newly poor, 1.6 million are usually poor, and 8.8 million are always poor.

While the SRP threshold[6] remains constant at PhP15,000, the national median SRP gap[7] has widened to PhP7,000 in June 2023. This suggests families are finding it increasingly challenging to cover essential expenses, leading them to tighten their budgets to cope with economic challenges. This may have contributed to the worsening hunger. The hunger rate has slightly risen to 10.4 percent in June from 9.8 percent in March 2023. However, it is important to note that this figure still remains significantly lower than the average hunger rate of 11.7 percent recorded in 2022. Among these figures, 8.3 percent represents moderate hunger, while severe hunger accounts for 2.1 percent.

Government policies play a pivotal role in shaping poverty and hunger rates. To address the fundamental causes of poverty and hunger, potential long-term solutions and strategies may include comprehensive investments in education and healthcare to enhance human capital and productivity. Encouraging sustainable and climate-resilient livelihood opportunities, supporting small-scale agriculture, and promoting rural development can help alleviate poverty. Additionally, social safety nets and targeted assistance programs can aid vulnerable populations. Tackling systemic issues like income inequality, improving infrastructure, fostering inclusive economic growth, and ensuring effective governance are vital steps towards eradicating poverty and hunger.

Table 9. Self-rated Hunger and Poverty (%)

Indicator	2022					2023	
	Ave.	Apr	Jun	Oct	Dec	Mar	Jun
Hunger	48	43	48	49	51	51	45
Self-rated Poverty	11.7	12.2	11.6	11.3	11.5	9.8	10.4

Source: Social Weather Station

[6] The SRP Threshold is the minimum monthly budget self-rated poor families say they need for home expenses in order not to consider themselves as poor.
[7] The SRP Gap is how much self-rated poor families lack in their minimum monthly budgets relative to their SRP Threshold.

Fiscal Assumptions

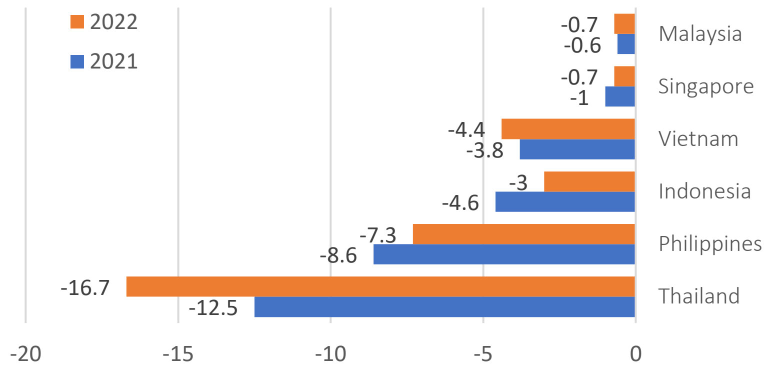
Consistent with the objectives of the administration's Medium-Term Fiscal Framework (MTFF), the fiscal assumptions underpinning the proposed 2024 National Budget point to the need for more consolidation of resources and stronger fiscal discipline. With revenue and expenditure projections set at PhP4.3 trillion and PhP5.6 trillion respectively, the fiscal deficit to nominal GDP ratio is expected to hit 5.1 in 2024, a marked reduction from the previous years' figures of 7.3 percent in 2022 and 6.1 percent in 2023.

Table 10. Fiscal Program, 2022-2024 (in PhP billion)

Particulars	2022	2023	2024	Difference (2023-2024)	
	Actual	Program	Projection	Levels	Growth (in %)
Revenue	**3,545.5**	**3,729.0**	**4,272.6**	**543.6**	**14.6**
% of GDP	*16.1*	*15.2*	*16.1*		
Disbursement	**5,159.6**	**5,228.4**	**5,629.4**	**401.0**	**7.7**
% of GDP	*23.4*	*21.3*	*21.2*		
Surplus/(Deficit)	**-1,614.1**	**-1,499.4**	**-1,356.8**	**142.6**	**-9.5**
% of GDP	*-7.3*	*-6.1*	*-5.1*		

Source: BESF 2024

Figure 4. Fiscal Balance to GDP of ASEAN-6 Countries, 2021-2022, in percent (%)



Source: ADB, 2022-2023

Among the ASEAN-6 countries, the Philippines had the second highest deficit-to-GDP ratio in 2021 and 2022.

Revenue. In the first semester of 2023, revenue collection reached PhP1.8 trillion, surpassing the programmed amount for the period by PhP49.2 billion and marking a robust 7.7 percent year-on-year increase. The upturn in revenues is driven mainly by the excess collection of non-tax revenues, particularly the higher income from the Bureau of the Treasury (BTr). The surge in BTr income can be attributed to increased returns from bond sinking fund investment, dividend remittances from GOCCs and GFIs, and the government's share from PAGCOR profit, along with interest income from national government (NG) deposits.[8] There were also government asset sales amounting to PhP21.7 billion, up from the PhP2.4 billion generated during the same period in 2022.[9]

Conversely, tax revenues failed to meet the target as tax collections from both the Bureau of Internal Revenue (BIR) and other offices fell short by PhP32.2 billion and PhP4.4 billion, respectively. Preliminary data on BIR collections reveal a 9.4 percent dip in the excise tax collection on tobacco products which the collection agency largely attributes to the illicit tobacco trade. A notable 14.8 percent decrease in value-added tax (VAT) collections was also observed and this may be partly caused by a new regulation. Under the Tax Reform for Acceleration and Inclusion (TRAIN) Law and Revenue Memorandum Circular (RMC) No. 5-2023, VAT-registered taxpayers registered are no longer required to file a monthly VAT declaration and may instead opt for a quarterly filing of their VAT return (BIR Form No. 2550Q) within 25 days following the close of each taxable quarter when the transaction transpired. This shift might have contributed to the drop in VAT collections, as second-quarter VAT returns could have been filed only in July. Further insights from the BIR are needed to gauge the actual effects of the mentioned RMC as well as the other factors that pulled down VAT revenues.

Table 11. NG Revenue Performance, First Semester 2022-2023 and First Semester 2023 Program, in billion PhP

Particulars	January to June		Y-O-Y Growth (in %)	2023 First Sem Program *	Variance Actual vs Program
	2022	2023			
Revenues	**1,727.5**	**1,860.1**	**7.7**	**1,810.9**	**49.2**
ratio to GDP (in %)	*16.7*	*14.8*			
Tax Revenues	**1,541.3**	**1,657.0**	**7.5**	**1,680.8**	**-23.8**
ratio to GDP (in %)	*14.9*	*13.2*			
BIR	1,132.5	1,219.2	7.7	1,251.4	-32.2
BOC	396.7	433.4	9.3	420.7	12.7
Other Offices	12.1	4.4	-63.9	8.8	-4.4
Non-Tax Revenue	**185.6**	**202.9**	**9.4**	**130.1**	**72.8**
BTr Income	104.1	93.0	-10.7	48.4	44.6
Fees and charges	44.3	7.0	-84.2		
Others	37.2	103.0	177.0	81.7	28.5
Grants	0.6	0.2	-66.1		

**Based on the quarterly fiscal program approved by the DBCC during their 184th meeting on April 24, 2023*
Source: BTr Cash Operations Report (COR), DBCC Quarterly Fiscal Program

The Bureau of Customs (BOC), in contrast, was able to meet its revenue target and attributed its performance to the rigorous implementation[10] of its anti-smuggling efforts. As of July, the BOC conducted 661 operations related to the seizure of smuggled goods with an estimated value of PhP30.5 billion, the highest recorded for the last five years. In addition, there were 152 cases filed

[8] https://www.treasury.gov.ph/?p=56696.
[9] For the first semester of 2023, the government generated revenues from asset sales of Northern Cement Corporation, RPN-9, GCFI, and Development Bank of Rizal. During the same period in 2022, asset sales came from Northern Cement Corporation and RPN-9.
[10] https://customs.gov.ph/boc-exceeds-june-revenue-collection-surpasses-mid-year-target-by-over-php-13-billion/.

related to cigarette and tobacco products with an estimated value of PhP1.9 billion.[11] The effect of higher prices of imported goods due to inflation could have also contributed to the increase in BOC tariff revenues.

To reach the full-year revenue goal of PhP3.3 trillion for 2023, the government must be able generate at least PhP1.9 trillion in the second half of the year. Historically, NG revenues have grown by an average of 10.5 percent during the pre-pandemic years 2015-2019 but for 2023, total government revenue is programmed to increase by only 5.2 percent. This is much lower compared to the usual average and relative to the 14.6 percent revenue growth projected for 2024.

The revenue program for 2023 was not hinged on any new revenue measure. However, it must be noted that there have been some issuances and laws passed recently such as Republic Act No. 11954 or Maharlika Investment Fund (MIF) Act of 2023 signed in July,[12] and EO 10, signed in December 2022 extending the reduced MFN tariff rates under EO 171 on meat of swine (fresh, chilled, or frozen), maize (and rice) until 31 December 2023. Clarification must be sought from the DBCC how these two measures could impact the attainment of the revenue goals for this year.

For 2024, government revenue is pegged at PhP4.3 trillion, and as earlier mentioned, higher by 14.6 percent than the programmed amount for 2023. Tax effort (tax-to-GDP ratio) is targeted to reach 15.3 percent, up from 14.4 percent in 2023. As per the 2024 BESF, the achievement of the revenue target is assumed on the passage and implementation of the following measures, which are estimated to earn an additional PhP113.3 billion for the government:

(1) Passive Income and Financial Intermediary Taxation Bill (Package 4 of the CTRP) (PhP2.7 billion);
(2) Value Added Tax on digital service providers (PhP17.0 billion);
(3) Excise tax on single-use plastics (PhP6.5 billion) and pre-mixed alcohol (PhP0.4 billion)
(4) Excise tax on sweetened beverages and junk food (PhP68.5 billion);
(5) Excise tax on pick-up trucks (PhP5.8 billion); and
(6) Reforming the mining fiscal regime (PhP12.4 billion).

Considering that most of these measures are still in the early stages in the legislative process, it should be clarified with the economic managers what specific programs and projects of the government would be the first to be affected or put aside if these measures are not enacted into law.

[11]https://customs.gov.ph/commissioner-rubio-highlights-strengthened-anti-illicit-tobacco-measures-at-the-nta-summit/.

[12] Based on the law (RA 11954), the contribution of the NG to the capitalization and initial funding of the Maharlika Investment Corporation shall be sourced from Bangko Sentral ng Pilipinas dividends, Government share in Philippine Gaming Corporation, Privatization and Management Office, and other sources such as royalties.

Table 12. Revenue Program: 2023 Revised Program vis-à-vis 2024 Proposed Program, in billion PhP

Particulars	Actual 2022	Revised Program a/ 2023	Proposed Program b/ 2024	Difference: Levels 2022-2023	Levels 2023-2024	Growth (in %) 2022-2023	Growth (in %) 2023-2024
Revenues	**3,544.4**	**3,729.0**	**4,272.6**	**184.6**	**543.6**	**5.2**	**14.6**
ratio to GDP (%)	*16.1*	*15.2*	*16.1*				
Tax Revenues	**3,220.3**	**3,538.0**	**4,073.6**	**317.7**	**535.6**	**9.9**	**15.1**
ratio to GDP (%)	*14.6*	*14.4*	*15.3*				
BIR	2,335.7	2,639.2	3,046.8	303.5	407.6	13.0	15.4
BOC	862.4	874.2	1,000.0	11.8	125.8	1.4	14.4
Other Offices	22.2	24.6	na	2.4	na	10.9	na
Non-Tax Revenue	**324.1**	**191.1**	**199.0**	**-133.0**	**7.9**	**-41.0**	**4.1**
BTr Income	154.8	58.3	71.1	-96.5	12.8	-62.3	22.0
Fees and charges	101.0	28.0	29.9	-73.0	1.9	-72.3	6.6
Others	68.3	104.7	98.0	36.4	-6.7	53.3	-6.4

a/ Based on program approved by the DBCC on 24 April 2023
b/ Program approved by the DBCC via Ad Referendum
Source: BESF 2024

Disbursements. Government spending for the first half of 2023 stood at PhP2.4 trillion, a slight (0.4 percent) uptick from that of the same period last year. However, compared to the programmed disbursement for the period, it is PhP170.5 billion short. Except for tax expenditures, which overshot its target by PhP6.6 billion, all other expenditure items failed to meet the expected spending level. Most notable is the underspending for subsidy and the disbursements of national government agencies, which fell short by PhP82.0 billion and PhP65.9 billion of their programmed amounts, respectively. The reasons cited by the DBM for the underspending include: 1) savings in interest payments due to reissued premiums; 2) lower infrastructure spending on account of outstanding checks of the Department of Public Works and Highways (DPWH); and 3) lower subsidy releases pending requests from the GOCCs implementing infrastructure programs/projects.

For the full year 2023, disbursements are projected to grow by only 1.3 percent because of lower allotment to LGUs, equity, and tax expenditure fund. According to the DBM, the lower allotment to LGUs for this year is due to the narrower tax base in 2020, during the height of the pandemic, which serves as the basis for the collection of the national tax allotment. Tax expenditures are expected to be lower, resulting from the lower documentary stamp taxes on government securities.

Table 13. NG Expenditures for the Period January to June 2022 and 2023 and First Semester Program (in billion PhP)

Particulars	Full Year	First Semester			2023 Sem I Program	Variance (Sem I Actual vs Sem I Program)
	2022	2022	2023	Growth		
Expenditures	**5,159.6**	**2,401.7**	**2,411.9**	**0.4**	**2,582.4**	**-170.5**
Allotment to LGUs	1,103.3	531.3	461.4	-13.2	467.0	-5.6
Interest Payments	502.9	257.2	282.5	9.8	302.8	-20.3
Tax Expenditures	257.2	18.7	13.1	-30.0	6.5	6.6
Subsidy	200.4	52.7	63.7	20.8	145.7	-82.0
Equity	11.2	0.7	0.2	-74.2	1.1	-0.9
Net Lending	27.2	11.6	12.2	5.4	14.6	-2.4
NG Disbursements	3,274.9	1,529.4	1,578.8	3.2	1,644.7	-65.9

Source: BTr COR and DBCC Quarterly Fiscal Program

For 2024, the proposed disbursement program amounts to PhP5.6 trillion, a growth of 7.7 percent from the 2023 program. Spending on infra and other capital outlays is projected to increase by 13.5 percent while capital transfers to LGUs is projected to increase by 6.1 percent. The growth in these spending classes is crucial to meet the infrastructure requirements of the country. According to the ADB, developing Asian economies like the Philippines need to invest more than 5 percent of their gross domestic product (GDP) over the next decade to sustain growth.[13] In relation to this, the government aims to maintain the infrastructure spending -to-GDP ratio of 5.1 percent in 2024 until 2026.

Notwithstanding the rightsizing initiatives of the government, expenditure for personnel services is expected to grow by 14.8 percent in 2024. As for maintenance and operating expenses (MOOE), the government projects it to decline by 5.4 percent. The DBM may be asked what this reduction will entail. Moreover, the agency may be asked to discuss how exactly it plans to address the perennial issue of weak absorptive capacities of the implementing agencies and the strategies it will implement to address the underspending.

Table 14. Disbursement Program: Revised 2023 Program vs Proposed 2024 Program, in billion PhP

Particulars	Actual 2022	Program a/ 2023	Proposed b/ 2024	Annual Growth (in %) 2022-2023	2023-2024
Current Operating Expenditures	**3,831.8**	**3,932.1**	**4,180.5**	**2.6**	**6.3**
Personnel Services	1,380.6	1,450.0	1,665.3	5.0	14.8
MOOE	`879.1	926.0	876.2	5.3	-5.4
Subsidy	200.4	214.5	192.3	7.0	-10.3
Allotment to LGUs	829.0	716.4	761.7	-13.6	6.3
Interest Payments	502.9	610.7	670.5	21.4	9.8
Tax Expenditure Fund	39.8	14.5	14.5	-63.6	0.0
Capital Outlays	**1,300.6**	**1,267.6**	**1,420.2**	**-2.5**	**12.0**
Infra and other Capital Outlay	1,015.2	1,036.9	1,176.4	2.1	13.5
Equity	11.2	2.4	1.5	-78.6	-37.5
Capital Transfers to LGUs	274.2	228.3	242.3	-16.7	6.1
Net Lending	**27.2**	**28.7**	**28.7**	**5.5**	**0.0**
Grand Total	**5,159.6**	**5,228.4**	**5,629.4**	**1.3**	**7.7**

Source: BESF 2024
a/ Program approved by the DBCC during the 184th DBCC meeting on 24 April 2023
b/ Projection approved by the DBCC via Ad Referendum

[13] ADB. 2017. Meeting Asia's Infrastructure Needs. Manila. © ADB. [https://www.adb.org/publications/asia-infrastructure-needs] [CC BY 3.0 IGO].

Table 15. Infrastructure Program (Disbursements), in billion Php

Particulars	2022 Actual	2023 Program	2024 Projection	2025 Projection	2026 Projection
Infrastructure Program	**1,278.5**	**1,292.7**	**1,365.2**	**1,470.0**	**1,617.7**
Percent of GDP (in %)	5.8	5.3	5.1	5.1	5.1
NG Infrastructure	960.0	989.9	1,114.1	1,181.6	1,307.8
Infrastructure Subsidy	83.5	101.9	42.1	40.1	39.1
Infrastructure Equity	1.1	2.0	1.3	0.5	0.4
Infrastructure Transfers to LGUs	233.8	199.0	207.7	247.8	270.4

Source: BESF 2024

National Government Debt. As of the end of June 2023, the cumulative national government debt stood at PhP14.5 trillion, with an inclusion of PhP369.7 billion in guaranteed debt. The actual debt, exclusive of the guaranteed segment, constitutes 61.0 percent of the GDP.[14] For 2024, total outstanding debt is projected to increase to PhP15.8 trillion or by 8.3 percent.

Table 16. NG Outstanding Debt, end-June 2023 vis-à-vis end-June 2022, (in billion PhP)

Particulars	End-June 2022	End-June 2023	Growth (in %)
Total Outstanding NG Debt	**13,205.8**	**14,517.6**	**9.9**
ratio to GDP (in %)	*63.6*	*62.6*	
Actual Debt	**12,887.9**	**14,147.9**	**9.8**
ratio to GDP (in %)	*62.1*	*61.0*	
Domestic Debt	**8,832.2**	**9,702.8**	**9.9**
Loans	0.2	0.2	0.0
Debt Securities	8,832.0	9,702.7	9.9
External Debt	**4,055.7**	**4,445.0**	**9.6**
Loans	1,916.7	2,009.7	4.9
Debt Securities	2,239.0	2,435.3	8.8
Guaranteed Debt	407.9	369.7	-9.4
Domestic	186.7	196.4	5.2
External	221.3	173.4	-21.7

Source: BTr

In accordance with the Medium-term Fiscal Framework (MTFF), the debt-to-GDP ratio is set at 61.4 percent for 2023 and 60.2 percent for 2024. As part of its debt management strategy, the government has programmed a 75-25 percent borrowing mix in favor of domestic sources to insulate debt from exchange rate fluctuations and policy rate differentials. The country's debt level has increased in recent years in large part due to the need to increase infrastructure spending and to respond to the adverse impact of the pandemic. With economic recovery well under way, the government has repeatedly reiterated its commitment to its fiscal consolidation plan which would narrow the fiscal deficit and

[14] If we were to add guaranteed debt, debt-to-GDP ratio would be 62.6 percent.

decrease the deficit-to-GDP ratio to the pre-pandemic level of 3.0 percent. This in turn, alleviates the government's need to borrow and thus prompts the reduction of the debt-to-GDP ratio as set out in the MTFF.

For 2024, a total of PhP670.5 billion is allotted for debt service. The share of debt service to the proposed spending program is set to increase in contrast to the decreasing share of productive expenditures. Not only does debt service gets an increase in share, but this increase is likewise set to grow faster (15.1%) vis-à-vis the amount for productive expenditure (8.8%).

Table 17. Projected Debt-to-GDP ratio, 2023-2028

Particular	2023	2024	2025	2026	2027	2028
MTFF (July 2022) (DBCC)	61.2	60.0	58.3	56.6	53.4	51.1
BESF 2024	59.9	59.7				
Philippine Development Plan 2023-2028	60.0-62.0	57.0-61.0	56.0-59.0	54.0-58.0	50.0-55.0	48.0-53.0

Even though discussions in the policy arena still point to manageable and sustainable debt levels, the government needs to be wary of emerging threats (i.e. external and domestic such as economic/geopolitical crisis, etc.) that could affect the ability of the government to sustain its debt levels. Such risks may affect the credit standing of the government, adversely affecting the ability of the government to access loans at cheaper rates. Other forms of crisis may also necessitate an increase in borrowing to finance the deficit. Just recently, President Marcos was quoted as saying that the country's debt is "worrying" as it currently stands at about 63.0 percent.[15] Based on the BESF 2024, debt to GDP is projected to decline to 59.7 percent from the program ratio of 59.9 percent this year. These targets need to be reevaluated given the latest economic developments. Setting an optimistic target though, would be beneficial as the authorities would need to extend greater effort to lower the debt levels.

Consolidated Public Sector Deficit. The Consolidated Public Sector Position (CPSP) encompasses the overall financial stance of the entire public sector, comprising the national government, monitored GOCCs, GFIs, BSP, and LGUs. In 2022, the CPSP registered a deficit of PhP830.0 billion, equivalent to 3.8 percent of GDP and is PhP218 billion lower than the programmed amount of PhP1.048 trillion.

The programmed public sector deficit for 2023 is projected to be narrower at PhP1.013 trillion in 2023 and PhP890 billion in 2024. The continuous decline is consistent with the projected decline in the NG deficit. On the other hand, bigger surpluses are expected from social security institutions (SSIs), BSP and GFIs while monitored non-financial government corporations and local government units are expected to post smaller surpluses. For the latter, this may stem from additional spending requisites, including devolved functions as mandated by RA Number 7160, or the Local Government (LG) Code, reinforced by Executive Order (EO) Number 138.11 It was earlier announced that the charters of more than 100 government owned and controlled corporations are up for review in line with the government's effort to right size the bureaucracy and ensure economic viability.[16]

[15] https://news.abs-cbn.com/business/08/09/23/marcos-says-philippines-debt-to-gdp-ratio-worrying
[16] https://www.philstar.com/business/2023/07/08/2279419/gocc-charters-review

Table 18. Consolidated Public Sector Position, 2021-2024 (in PhP billion)

Particulars	Actual 2021	Actual 2022	Program 2022	Program 2023	Projection 2024
Consolidated Public Sector Position	**-1,092.0**	**-830.0**	**-1,048.1**	**-1,012.7**	**-890.4**
Growth Rate	*11.8*	*-24.0*	*26.3*	*22.0*	*-12.1*
Ratio to GDP	*-5.6*	*-3.8*	*-4.8*	*-4.1*	*-3.3*
Public sector borrowing requirement	**-1,616.4**	**-1,556.6**	**-1,631.6**	**-1,467.2**	**-1,349.7**
National Government	-1,670.1	-1,614.1	-1,650.5	-1,499.4	-1,356.8
Monitored Non-Financial Government Corporations	37.2	31.9	-9.8	20.3	7.5
Adjustments in Net Lending and Equity to GOCCs	16.4	25.6	28.7	11.9	-0.3
Other Public Sector	**524.4**	**726.7**	**583.5**	**454.5**	**459.3**
SSS/GSIS/PHIC	190.6	209.4	115.2	177.5	236.8
Bangko Sentral ng Pilipinas	19.8	46.4	1.0	1.0	1.0
Government Financial Institutions	29.5	42.2	36.1	43.6	47.4
Local Government Units (LGUs)	284.6	428.6	431.1	232.5	174.0

Source: BESF 2024

Financing Program. In 2024, the government plans to borrow a total of PhP2.5 trillion, which is 11.5 percent more than the programmed 2023 borrowings. The lion's share, approximately 75.3 percent, will come from domestic sources. This strategic tilt towards domestic borrowing aligns with the government's prudent approach to debt management and simultaneously reinforces the growth of the domestic capital market. Furthermore, the US Federal Reserve is anticipated to start cutting its policy rate in 2024. This potential development conceivably underlies the government's decision to increase external borrowings by 9.6 percent to reach PhP606.9 billion.

As of June 2023, total NG net financing amounted to PhP1.3 trillion, of which, 22.8 percent are from external sources while 77.2 percent are from domestic sources.

Table 19. Government Financing Program 2022-2024 (in billion PhP)

Particulars	2022 Actual	2023 Program	2024 Proposed
Total Gross Financing	**2,163.5**	**2,207.0**	**2,460.0**
Growth rate (in %)		*2.0*	*11.5*
External (Gross)	520.1	553.5	606.9
Less: Amortization	130.5	118.6	237.8
Domestic (Gross)	1,643.4	1,653.5	1,853.2
Less: Net Amortization	66.6	3.4	1.5
Net Financing	**1,966.4**	**2,085.1**	**2,220.7**
External (Net)	389.6	434.9	369.0
Domestic (Net)	1,576.8	1,650.1	1,851.6
Less: Total Net Financing Requirement/Deficit	**1,614.1**	**1,499.4**	**1,356.8**
Budgetary Change in Cash	**352.3**	**585.6**	**863.8**
Financing Mix			
Foreign	24.0	25.1	24.7
Domestic	76.0	74.9	75.3

Source: BESF 2024