Budget Notes

SENATE ECONOMIC PLANNING OFFICE

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Overview of the Proposed 2025 National Budget: Key Macroeconomic and Fiscal Assumptions

Anchored on the theme "Agenda for Prosperity: Fulfilling the Needs and Aspirations of the Filipino People", the proposed 2025 budget amounting to PhP6.352 trillion is 10.1 percent higher than this year's budget of PhP5.768 trillion. It includes PhP4.406 trillion in new appropriations, which Congress will authorize to finance the country's development initiatives, and PhP2.105 trillion in automatic appropriations. The Executive has highlighted that the proposed budget aims to drive economic and social transformation, positioning the Philippines as a prosperous, inclusive, and resilient nation.

Macroeconomic Assumptions

The proposed 2025 budget is built on a set of macroeconomic assumptions formulated by the Development Budget Coordination Committee (DBCC). These assumptions are crucial in determining the government's expected income from various sources and its planned expenditures. They are essential in estimating the budget deficit, which in turn influences the government's borrowing strategy as well as the level of debt to be incurred. Any deviation from these assumptions can impact the government's revenue and spending plans and lead to adjustments in fiscal policy. Thus, these assumptions merit scrutiny to ensure the viability of the proposed national budget and to maintain prudent public financial management. The macroeconomic assumptions of the proposed 2025 national budget are as follows:

Table 1. 2024 National Budget Macroeconomic Assumptions

Indicators	2023 Actual	2024 Adjusted	2025 Projected
Real GDP Growth (%)	5.5	6.0-7.0	6.5-7.5
Inflation rate	6.0	2.0-4.0	2.0-4.0
Dubai Crude (US$/barrel)	81.98	70-85	65-85
Exchange rate (Php/US$)	55.63	56-58	55-58
Export Growth (%)	-4.1	5.0	6.0
Import Growth (%)	-5.0	2.0	5.0

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

GDP Growth. The government has set an ambitious target for 2025, projecting GDP growth to be between 6.5 to 7.5 percent. This optimism stems from the favorable economic performance recorded in the previous year and expectations of more robust growth drivers next year. In 2023, the domestic economy grew by 5.5 percent, lower than the official target of 6.0 to 7.0 percent. Expansion was tempered by persistent inflation and a mid-year policy rate hike by the Bangko Sentral ng Pilipinas (BSP) which pulled down demand. Fiscal consolidation efforts likewise led to a 1.8 percent reduction in government spending in the last quarter of 2023. Nonetheless, the Philippines recorded one of the fastest economic growth among Asian economies, outpacing China (5.2 percent) and Vietnam (5.0 percent).

Table 2. Gross National Income and Gross Domestic Product, 2021-2023
Growth Rates, at Constant 2018 Prices

Particulars	2022	2023	1st Semester	
			2023	2024
Gross Domestic Product	**7.6**	**5.5**	**5.4**	**6.0**
Net primary income from the rest of the world	76.8	97.0	86.4	41.2
Gross National Income	**9.9**	**10.5**	**9.3**	**8.8**
Expenditures				
Household final consumption expenditure	**8.3**	**5.6**	**5.9**	**4.6**
Government final consumption expenditure	**5.1**	**0.6**	**-0.5**	**6.2**
Gross capital formation	**13.7**	**5.9**	**6.7**	**6.0**
Gross fixed capital formation	9.8	8.2	7.6	5.8
Construction	12.1	9.1	8.6	11.5
Durable equipment	8.4	8.9	9.5	-5.1
Breeding stocks and orchard development	0.5	0.9	1.1	-1.5
Intellectual property products	3.7	3.3	4.0	3.6
Exports of goods and services	**11.0**	**1.4**	**2.9**	**6.3**
Exports of goods	5.1	-7.3	-7.9	4.1
Exports of services	20.6	13.8	15.7	8.6
Less : Imports of goods and services	**14.0**	**1.0**	**1.8**	**3.7**
Imports of goods	8.8	-4.6	-2.9	-0.4
Imports of services	44.6	25.2	26.8	19.6
Production				
Agriculture, forestry, and fishing	**0.5**	**1.2**	**1.3**	**-0.9**
Industry	**6.5**	**3.6**	**3.1**	**6.4**
Mining and quarrying	5.3	2.0	-2.5	2.6
Manufacturing	4.9	1.3	1.6	4.0
Electricity, steam, water and waste management	5.1	5.8	5.8	8.0
Construction	12.2	8.8	7.3	11.5
Services	**9.2**	**7.1**	**6.0**	**6.2**
Wholesale and retail trade; repair of motor vehicles and motorcycles	8.7	5.5	15.8	10.1
Transportation and storage	24.0	13.0	27.6	11.8
Accommodation and food service activities	32.5	23.2	4.0	5.5
Information and communication	8.0	4.3	6.7	9.3
Financial and insurance activities	7.2	8.8	3.1	5.8
Real estate and ownership of dwellings	5.1	4.0	7.3	7.3
Professional and business services	9.1	6.7	-0.4	2.8
Public administration, defense; compulsory social Activities	4.6	2.1	6.8	2.9
Education	7.0	7.0	8.1	8.9
Human health and social work activities	3.6	7.4	29.5	9.8
Other services	28.6	20.8	5.0	9.8

Source: Philippine Statistics Authority

For 2024, the pace of economic expansion is set to accelerate by 6.0 percent to 7.0 percent. As of the first semester, the low end of this target has so far been met. After a below-market expectation of 5.8 percent GDP growth in the first quarter, the domestic economy grew by 6.3 percent in the second quarter, boosted by the 10.7 percent and 11.5 percent growth of government spending and gross capital formation, respectively. The growth of construction, which was rather subdued in the first quarter of the year accelerated to 16.1 percent in the second quarter, bolstered mainly by public construction. Public construction grew by 21.8 percent in the second quarter as the government ramps up its infrastructure program ahead of the 2025 elections. Data from the Department of Budget and Management (DBM) show that as of May, infrastructure disbursements have amounted to PhP562.6 billion, 20.8 percent more than the disbursements in the same period in 2023. Meanwhile, household spending held steady in the first semester, albeit at a sluggish pace of 4.6 percent.[1] This signals a potential rally if inflation were to be addressed and borrowing costs were cut. On the other hand, while exports posted robust year-on-year first semester growth, quarterly data reveals a deceleration.

For 2025, the government's economic team is projecting a 6.5 to 7.5 percent GDP growth on account of easing inflation and interest rates which would lend more support to consumption and investment. It should be noted that the government's economic outlook[2] is more optimistic compared to those of multilateral agencies and other private institutions. For 2025, the International Monetary Fund (IMF) as well as the Asian Development Bank (ADB) project growth to settle at 6.2 percent, while the World Bank expects it at 5.9 percent. Downside risks that were identified in their outlook reports include the weak external demand due to slowing global growth[3] and the high interest rates. Even though there is a possibility of policy rate normalization this year, monetary authorities will not be able to do so simultaneously, and monetary policy has some lag time of at least six months. Fragmented trade policies will make an exports turnaround challenging. Upside pressures to inflation remain including global trade upheavals and extreme weather disturbances that result in higher commodity prices. On the domestic front, fiscal constraints and the oft-cited weak absorptive capacity of government agencies may lead to underinvestment and thus, pose downside risk to growth prospects.

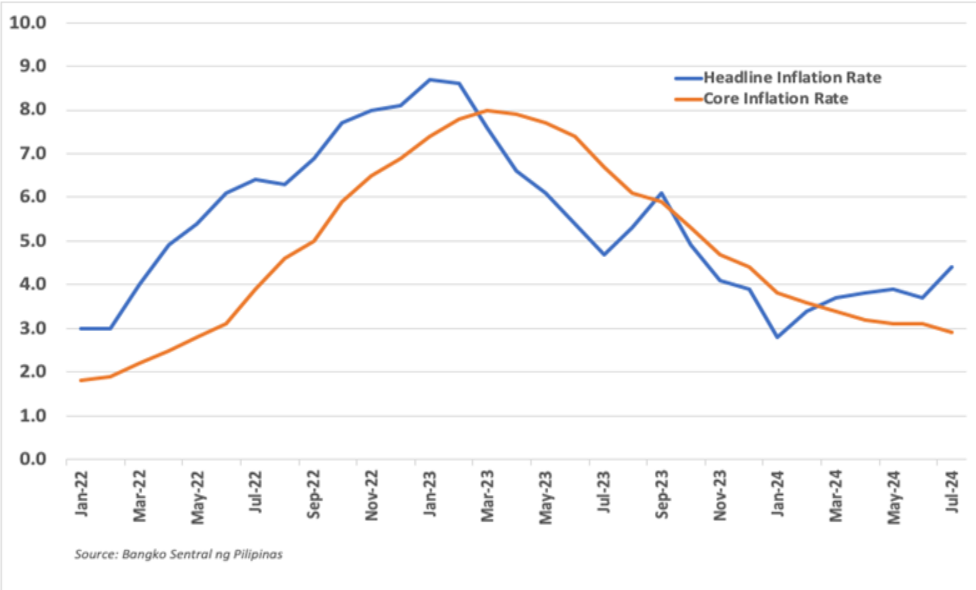
Table 3. Philippine Growth Forecast, 2024 and 2025 (%)

Institution	2024	2025
DBCC	6.0-7.0	6.5-7.5
Asian Development Bank	6.0	6.2
International Monetary Fund	6.0	6.2
World Bank	5.8	5.9
Standard and Poor's	5.8	6.1
ASEAN+3 Macroeconomic Research Office	6.1	6.3

[1] From a 5.3 percent expansion in the fourth quarter of 2023.

Inflation. In July 2024, the Philippines saw its headline inflation rate soar to 4.4 percent from 3.7 percent in June. This is the highest inflation recorded in the last nine months[2] and was largely driven by higher energy prices and the continued rise in food costs, particularly rice. Apart from the higher power costs in the Wholesale Electricity Spot Market, distribution utilities like MERALCO also began to collect the portion of the higher generation charge arising from tight power supply.[3] Nevertheless, average inflation rate from January to July 2024 settled at 3.7 percent, still within BSP's target range of 2.0 to 4.0 percent for 2024.

Figure 1. Headline and Core Inflation Rates in the Philippines, All Items, (2018=100)



More than half (54.0 percent or 2.0 percentage points) of the year-to-date headline inflation rate was accounted for by Food and Non-alcoholic Beverages, followed by Restaurants and Accommodation Services at 13.5 percent or 0.5 percentage points. Meanwhile, Housing, Water, Electricity, Gas and Other Fuels; Transport; and Personal Care, and Miscellaneous Goods and Services each contributed 5.4 percent (0.2 percentage points) to the overall inflation rate of 3.7 percent.

Rice remains to be the number one contributor to overall food inflation, accounting for 2.0 percentage points.[4] The elevated rice prices are primarily driven by reduced palay supply due to El Niño. According to the Philippine Statistics Authority (PSA), palay production dropped by an estimated 5.81 percent in the first semester of 2024 compared to the same period in 2023. This tight supply

[2] Core inflation, which excludes volatile energy and food items, has been declining since peaking at 8.0 percent in March 2023. It fell to 2.9 percent in July 2024 from 3.1 percent in May and June, showing a significant improvement from 6.7 percent in July 2023. This ongoing decrease in core inflation signals reduced underlying price pressures, giving monetary authorities flexibility for potential interest rate cuts to stimulate economic growth.

[3] For households consuming 200 kilowatt per hour (kWh) covered by MERALCO, the power rate increased to PhP11.60 kWh beginning July 2024 from PhP9.45 kWh in June 2024.

[4] Food inflation in the Philippines stood at 6.7 percent in July, an increase from June's 6.5 percent. It is also higher than June 2023's food inflation of 6.3 percent.

caused the average retail price of regular milled rice to rise by 23 percent, from PhP41.32 per kilo in July 2023 to PhP50.90 in July 2024.

Table 4. Inflation and Contribution to Inflation of Selected Items

Items	Weight	July 2024		January to July 2024	
		Inflation, year-on-year	Percentage Point Contribution	Inflation, year-to-date	Percentage Point Contribution
All Items	**100.00**	**4.4**	**4.4**	**3.7**	**3.7**
Food and Non-Alcoholic Beverages	**37.75**	**6.7**	**2.3**	**5.6**	**2.0**
Rice	8.87	20.9	1.9	23.0	2.0
Meat	6.43	4.8	0.3	1.8	0.1
Fish/Seafood	5.66	-0.8	0.0	-0.1	0.0
Vegetables, Tubers, Plantains	2.80	6.1	0.2	-3.1	-0.1
Sugar, Confectionery and Desserts	1.05	-3.4	0.0	-2.6	0.0
Non-alcoholic Beverages	2.96	1.8	0.1	2.5	0.1
Alcoholic Beverages and Tobacco	**2.16**	**3.4**	**0.1**	**5.7**	**0.1**
Tobacco	1.28	3.4	0.0	6.3	0.1
Non Food	**60.09**	**3.1**	**1.9**	**2.4**	**1.5**
Actual Rentals for Housing	12.82	2.6	0.3	2.8	0.4
Electricity, Gas and Other Fuels	6.74	0.7	0.1	-3.9	-0.3
Personal Transport Equipment Operation	2.81	5.9	0.2	1.4	0.0
Passenger Transport Services	4.54	3.1	0.1	3.0	0.1
Food and Beverage Serving Services	9.47	5.0	0.5	5.3	0.5

Notes: Year-to-date covers the period from January until the reference month. Year-on-year compares the same period in two successive years.
Source: BSP

With food comprising 51.38 percent of the market basket for the bottom 30 percent of households, high rice prices have resulted in a persistently higher inflation rate for this group. Compared to the national year-to-date inflation rate of 3.7 percent, inflation for the poorest households averaged 4.9 percent for the same period.

With the issuance of Executive Order No. 62 which reduces the recent tariff on imported rice from 35 percent to 15 percent effective July 5, 2024 up to 2028, the BSP projects local retail price of imported rice to decrease by 14.8 percent, or by PhP6.67 per kilogram by the end of 2024.[5] In an earlier press release, the Department of Finance (DOF) stated that rice prices may drop by as much as PhP5 per kilogram starting August due to the lower tariff rates. It must be highlighted though that while such measure provides immediate relief, it does not address the underlying issues affecting rice production in the country, such as productivity challenges and the insufficient infrastructure faced by local producers. Despite massive funds devoted to the rice program, PSA data show that the country's rice self-sufficiency ratio (SSR) has fallen to 77 percent in 2022, its lowest level in 24 years. The low ratio indicates growing reliance on rice imports to meet domestic demand and underscores the need for systemic improvements.

[5] Initial uncertainties regarding the implementation of EO No. 62 were resolved when the Supreme Court declined to issue a temporary restraining order on June 11, 2024.

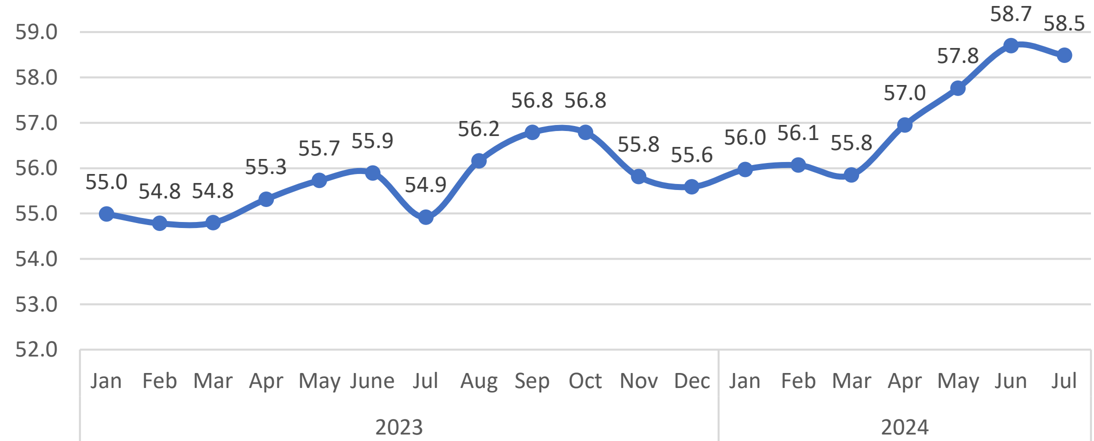
For both 2024 and 2025, the BSP assumes inflation to remain within the 2.0-4.0 percent range though its latest projections show that inflation will likely settle at 3.3 percent in 2024 and 3.2 percent in 2025. These projections are mostly aligned with the inflation forecasts from the ADB (3.8 percent in 2024, 3.4 percent in 2025), IMF (3.6 percent in 2024, 3.0 percent in 2025), and World Bank (3.6 percent in 2024, 3.2 percent in 2025).

Dubai Crude. The DBCC price assumptions, which are set at US$70-90/bbl this year and US$65-85/bbl in 2025 are in line with the World Bank forecast for the Brent crude index which is US$84/bbl for 2024 and US$79/bbl in 2025. However, it is lower though than the US Department of Energy EIA forecast which is at US$86.37/bbl for 2024 and US$88.38/bbl for 2025.

Year-to-date average of Dubai crude is currently at US$84.36, merely 3.01 percent higher than the average price for the entire 2023. As of this writing, the index has been declining for the past three weeks, mainly attributed to demand side factors, specifically the weaker than expected demand from China and also the relatively weak economic data coming out of the United States. Ample supply has also put downward pressure on the price, despite pronouncements from the Organization of the Petroleum Exporting Countries (OPEC+)6 of maintaining a production cap, with some members, particularly Iraq, continuing to overproduce beyond the quota. The OPEC+ coalition has recently stated that it plans to start gradually unwinding the existing production caps, with the first phase happening as early as October this year which could lead to further price declines. Note though that the cartel could always pause or even reverse this plan if they fear that market conditions are not optimal. Risks of geopolitical tensions escalating further, especially in the Middle East, could also pull up prices in the near future.

Exchange Rate. By the end of July 2024, the local currency recorded a monthly average of PhP58.5/US$, equivalent to a 6.1 percent depreciation from the same period in 2023. This figure is slightly above the DBCC's forecasted exchange rate of PhP56-58 in 2024. On a year-to-date basis, however, data shows that the rates have now returned within the target range at PhP57.12/US$.

Figure 2. Monthly Average Peso-Dollar Exchange Rate (PhP/US$)



Source of basic data: BSP, Exchange rate

[6] In 2016, OPEC signed an agreement with ten other oil-producing countries which include Russia to create what is now known as OPEC+.

The BSP previously reassured that the recent depreciation against the US dollar is only temporary, citing a regional trend. Relative to other Asian currencies, the Philippine Peso has fared better against the Japanese yen (-10.8%), South Korean won (-7.2%), and Indonesian rupiah (-7.6%). The BSP attributes the depreciation to the monetary policy stance of the US Federal Reserve which has maintained its interest rates elevated to manage inflation. The high interest rates have continued to attract capital flows into dollar-denominated assets, weakening other currencies such as the peso. Nevertheless, the BSP noted that it remains ready to act should a further depreciation be caused by market stress.

The Philippine peso is supported by the steady influx of overseas Filipino remittances, an important source of foreign exchange. For 2024 and 2025, inflow of remittances is seen to continue its solid growth on the back of record-high deployment (i.e., 2.3 million in 2023) and the lifting of visa ban on domestic workers to Kuwait. By the end of May 2024, aggregate cash remittances reached US$13.4 billion, equivalent to a 3.0 percent expansion. The current performance falls squarely within the BSP's balance of payments (BOP) outlook which projects a 3.0 percent growth for remittances in 2024 and 2025.[7]

Meanwhile, the outlook for foreign direct investments (FDI) will largely depend on the improvement in financial markets. High borrowing costs have continued to hamper investment activities, contributing to lower investment pledges in the first quarter. In terms of actual investment performance, however, the Philippines was able to start the year positively, driven by equity placements from Netherlands (i.e., 75% of equity inflows) into financial and insurance activities. This surge of capital pushed cumulative FDI to US$3.5 billion, equivalent to an 18.7 percent expansion. As such, the strong investment figures have raised the BSP's projected net FDI figures to US$9.5 billion in 2024 and US$10.5 billion in 2025.

Export and Import Growth. Preliminary trade data[8] from the PSA shows a slight increase (3.0%) in export revenues in the first semester of the year. Exports expanded to US$36.4 billion on the back of a recovery in shipments of semiconductors and bananas. The World Trade Organization (WTO) projects a 2.6 percent expansion in global merchandise trade volume in 2024, anchored on an improving inflation outlook which would support demand for tradable goods and increased household consumption.

The domestic situation, however, is marred by stubborn inflation and slowing manufacturing output growth.[9] Apart from these, the slowdown in China's economy has also weighed down its demand for Philippine exports. As of June 2024, outward shipments to the manufacturing powerhouse have already contracted by 20.2 percent. With export growth trending downwards, annual

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[7] Bangko Sentral ng Pilipinas (2024). Better External Sector Prospects for 2024 and 2025 Amidst Improvement in the Current Account. https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7131

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

[9] Business World (2024). June manufacturing output growth slows to 2.5% from previous month. https://www.bworldonline.com/economy/2024/08/07/612774/june-manufacturing-output-growth-slows-to-2-5-from-previous-month/

performance may fall short of the DBCC's forecast of 5.0 percent should these external headwinds persist or worsen.

Table 5. Exports and Imports of Goods, 2022-2024, in US$ billion

Commodity Groups	2022	2023	First Semester (January-June) 2023	2024	Growth (%)
Total Exports	**79.6**	**73.6**	**35.3**	**36.4**	**3.0**
Total agri-based products	5.9	4.8	2.4	2.7	15.8
Mineral products	7.3	7.1	3.6	3.4	(5.6)
Manufactured goods	64.6	59.9	28.5	29.4	3.2
Total Imports	**137.2**	**126.2**	**63.0**	**61.4**	**(2.5)**
Capital goods	37.9	35.7	18.2	17.0	(6.2)
Raw materials and intermediate goods	52.3	45.5	22.9	22.2	(3.1)
Mineral fuels, lubricant, and related materials	23.8	20.1	10.0	10.1	0.6
Consumer goods	22.4	24.4	11.6	11.8	1.6
Trade Balance	**(57.6)**	**(52.6)**	**(27.6)**	**(25.0)**	**(9.5)**

Source of basic data: PSA, International Merchandise Trade Statistics

On the other hand, cumulative import payments totaled US$61.4 billion after two quarters, equivalent to a 2.5 percent decline. Investors appear to be putting off the procurement of capital goods whose imports declined by 6.2 percent, year-to-date. Among the commodity groups, corn and rice posted the highest growth rates, driven by the lower tariff rates extended by Executive Order 62 s. 2024. Majority of import products, however, remained in the red, dragging import performance below the government's projection of 2.0 percent for the year.

Table 6. Exports and Imports of Services, 1st Quarter of 2023-2024, in US$ Million

	Exports			**Imports**			**Trade Balance**	
	2023	2024	Growth	2023	2024	Growth	2024	Growth
Total Exports/Imports	**11,307**	**12,727**	**12.6**	**6,609**	**8,790**	**33.9**	**3,938**	**(16.2)**
Transport	724	1,097	51.5	1,809	1,734	(4.1)	(636)	41.3
Travel	2,186	2,912	33.2	1,440	3,076	113.6	(164)	(122.0)
Telecommunications, computer, and information	1,706	1,778	4.2	458	543	18.5	1,234	(1.1)
Other business services	5,430	5,549	2.2	1,864	2,073	11.2	3,476	(2.5)

Source of basic data: BSP, Balance of Payments Sector

As for trade in services, export revenues grew by 12.6 percent in the first quarter, driven by travel and other business services. Both sectors have already exceeded their cumulative pre-pandemic figures, signaling a recovery in the country's key growth drivers. Similarly, the business process outsourcing (BPO) industry is expected to grow by 7.0 percent in 2024, supported by the sterling performance of its healthcare segment.[10] With this, the industry's high growth months in November and December are expected to push service exports higher by the year-end. It must be noted, however, that imports of other business services have continued to outperform those of exports. This highlights

[10] Manila Standard (2023). BPO industry expected to grow 7% in 2024. https://manilastandard.net/?p=314393904

the need for government intervention, particularly on upskilling, to improve the sector's value addition.

For 2025, the WTO estimates the volume of world merchandise trade to accelerate to 3.3 percent as consumption patterns recover and interest rates normalize. Meanwhile, the government's projections are significantly more optimistic at 6.0 percent and 5.0 percent for exports and imports, respectively. While both forecasts are currently positive, it remains to be seen whether the downside risks on prices, borrowing costs, and geopolitical tensions would subside or escalate.

Nevertheless, opportunities remain which the government could leverage for better trade outcomes. For instance, the World Semiconductor Trade Statistics is anticipating robust growth in 2025 at 12.5 percent. As the country's top exported commodity, Philippine export performance will likely benefit from this anticipated expansion, underscoring a need to ensure that domestic manufacturers are prepared to increase capacity and meet additional demand. For imports, it may be recalled that EO 62 s. 2024 also extended duty-free importation of electric vehicles that could raise import payments.

Labor and Employment. The Philippine labor market continues to improve in the first semester (January to June 2024) with the employment rate reaching 96.1 percent from 95.4 percent in the same period in 2023. This corresponded to a decline in the unemployment rate to 3.9 percent which is even below the Philippine Development Plan (PDP) target range of 4.4 to 4.7 percent. The labor force participation rate likewise eased to 64.4 percent as more youth are opting to pursue education instead of entering the labor market. Meanwhile, of the jobless individuals, 33.9 percent were from the 15-24 age group, a marked increase from 30.8 percent in the previous year. This age group includes senior high and college graduates which can signal possible mismatches in skills and opportunities.

The downtrend in agriculture employment also continued as its share dropped further to 20.9 percent while the services sector remained the largest employer with 60.4 percent. The quality of employment appears to be improving with the lower share of unpaid family workers and lower underemployment rate. However, at 12.3 percent, the underemployment rate is still high, and more interventions aimed at improving job quality are needed. With this, a particular focus on agriculture workers should be provided noting an increase in its share of underemployed individuals (33.2%) for the period. Agriculture workers will certainly benefit from projects geared at improving its productivity, especially now as the embattled sector recovers from lower production due to the effects of El Niño.

Poverty and Hunger. PSA's official poverty data for 2023 show a remarkable decline in poverty and subsistence incidence among the population. The figures dropped from 18.1 percent and 5.9 percent in 2021 to 15.5 percent and 4.3 percent, respectively. The poverty incidence during the period exceeded the government's 16 percent to 16.4 percent target set in the Philippine Development Plan 2023-2028. This encouraging development highlights the positive effects of income growth on poverty reduction.[11] The mean per capita income particularly of nearly poor families increased by 22.9 percent, outpacing the 15.3 percent increase in the annual per capita poverty threshold.

Table 7. Selected Labor and Employment Indicators, First Semester (January to June), in thousands, except rates

Indicators	2022	2023	2024
Total Population 15 Years Old and Over	**76,292**	**77,206**	**78,528**
Labor Force	**48,564**	**50,651**	**50,543**
Employed	45,630	48,315	48,591
Underemployed	6,526	6,020	5,966
Unemployed	2,934	2,336	1,952
Labor Force Participation Rate (%)	**63.7**	**65.6**	**64.4**
Employment Rate (%)	94.0	95.4	96.1
Underemployment Rate (%)	14.3	12.5	12.3
Unemployment Rate (%)	6.0	4.6	3.9
Employed by Sector (% Share)			
Agriculture	23.5	23.3	20.9
Industry	18.5	17.1	18.7
Services	58.0	59.6	60.4
Employed by Occupation (% Share)			
Managers	7.0	4.6	3.4
Professionals	5.5	5.5	5.6
Technicians and associate professionals	3.8	4.0	4.1
Clerical support workers	6.8	7.2	7.6
Service and sales workers	21.2	22.5	24.2
Elementary occupations	28.5	29.7	28.1
Employed by Class of Worker (% Share)			
Wage and salary workers	62.4	61.4	64.1
Self-employed	27.9	27.4	27.1
Unpaid family worker	7.4	9.0	6.7
Unemployment (% Share)			
Aged 15-24	30.4	30.8	33.9
Aged 25-34	35.9	36.8	36.4
Senior high school	7.9	9.2	10.1
College	36.9	38.5	41.0
Worked Less than 40 hours (% Share)	33.8	36.3	30.8

Source: PSA, Labor Force Survey

[11] National Economic and Development Authority (2024). PH Makes Significant Progress in Poverty Reduction, Single-Digit Poverty Rate Achievable by 2028 – NEDA. https://neda.gov.ph/ph-makes-significant-progress-in-poverty-reduction-single-digit-poverty-rate-achievable-by-2028-neda/#:~:text=This%20translates%20to%20a%20decrease,Philippine%20Development%20Plan%202023%2D2028.

Table 8. Full-Year Food and Poverty Threshold and Incidences

Statistics	Estimates		
	2018	2021	2023
Annual Average Per Capita Poverty Threshold (PhP)	**25,814**	**28,871**	**33,296**
Poverty Incidence or Proportion of Poor (%)			
Among Families	12.1	13.2	10.9
Among Population	16.7	18.1	15.5
Annual Average Per Capita Food Threshold (PhP)	**18,126**	**20,111**	**22,995**
Subsistence Incidence or Proportion of Food Poor (%)			
Among Families	3.4	3.9	2.7
Among Population	5.2	5.9	4.3

Source: PSA, Family Income and Expenditure Survey

However, while the official figures are promising, it appears that they are not reflective of the sentiment on the ground. Based on the June 2024 Social Weather Station (SWS) surveys, self-rated hunger and poverty rates both worsened compared to year-ago levels. In particular, self-rated poverty rose to 58 percent while hunger incidence surged to 17.6 percent. Self-rated poverty was more evident outside the capital with Balance Luzon (+13), Visayas (+10), and Mindanao (+17) all reporting double-digit percentage point increases. From these numbers, 7.2 percent were classified as *newly poor* or families who were non-poor 1-4 years ago. Since low-income consumers spend a greater proportion of their budgets on food items, the inflationary effects on poverty and hunger incidence have expectedly been more pronounced for these families. Lowering the rice tariffs is a welcome development since the staple's affordability could help address this problem. The recent outbreaks of African Swine Fever which could raise pork prices, however, could exacerbate the current situation.

Table 9. Self-rated hunger and poverty (%)

Indicator	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024
Hunger incidence	**10.4**	**9.7**	**12.6**	**14.2**	**17.6**
Moderate	8.3	8.4	11.2	12.2	12.8
Severe	2.1	1.3	1.4	2.0	4.9
Poverty					
Poor	45	48	47	46	58
Borderline	33	27	33	30	12
Not Poor	22	25	20	23	30

Source: Social Weather Stations

Fiscal Assumptions

Consistent with the objectives of the administration's Medium-Term Fiscal Framework (MTFF), the fiscal assumptions underpinning the proposed 2025 national budget point to the need for more consolidation and mobilization of resources and stronger fiscal discipline. With revenue and expenditure projections set at PhP4.6 trillion and PhP6.2 trillion respectively, the fiscal deficit to nominal GDP ratio is expected to hit 5.3 percent in 2025, a marked reduction from 6.2 percent in 2023 and 5.6 percent in 2024.

Table 10. NG Revenue Performance, Actual First Semester 2023-2024 and Programmed First Semester 2024 (in PhP billion)

Particulars	2023 Actual	2024 Program	2025 Projection	Difference (2024-2025)	
				Levels	Growth (%)
Revenue	3,824.1	4,269.9	4,644.4	374.5	8.8
% of GDP	*15.7%*	*16.1*	*16.2*		
Disbursement	5,336.2	5,754.3	6,182.1	427.8	7.4
% of GDP	*21.9%*	*21.7%*	*21.5%*		
Surplus/(Deficit)	(1,512.1)	(1,484.3)	(1,537.7)	53.4	3.6
% of GDP	*-6.2%*	*-5.6*	*-5.3*		
Memo items:					
Obligation Budget	*5,472.6*	*5,767.6*	*6,352.4*	584.8	10.1
Nominal GDP	*24,318.6*	*26,495.6*	*28,749.8*		

Source: Development Budget and Coordinating Committee

Revenues. In the first semester of 2024, revenue collection reached PhP2.1 trillion, surpassing the programmed amount for the period by PhP72.5 billion and marking a 15.6 percent year-on-year increase. To reach the full-year revenue goal of PhP4.3 trillion for 2024, the government must be able generate at least PhP2.1 trillion in the second half of the year. It must be noted though that 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 is attributed to increased returns from national government income collected by the BTr (PhP30.2 billion), including dividends on shares of stocks and shares in government-owned and controlled corporations' income/profits (i.e., PAGCOR, MIAA, Airport Terminal Fees).

Particularly noteworthy is the 90.4 percent increase of "other non-tax revenues". This item includes remittances of unused cash balances, and other service and business income. The first semester figure includes the fund balances remitted by the PhilHealth Corporation (PHIC) amounting to PhP20 billion and PhP30 billion from the Philippine Development Insurance Corporation (PDIC) in May 2024, in accordance with the special provision in the 2024 General Appropriations Act.[14] Reportedly, the two GOCCs hold an estimated PhP200 billion in unutilized funds with PhilHealth's share amounting to almost P90.0 billion[15]. However, critics have questioned the said fund transfer from PhilHealth[16] citing RA 11223 or the Universal Health Care Law which provides that no portion of the reserve fund of PhilHealth shall accrue to the general fund of the national government or any of its agencies.

Table 11. NG Revenue Performance, Actual First Semester 2023-2024 and Programmed First Semester 2024 (in PhP billion)

Particulars	First Sem Actual		Growth (%)	First Sem Program 2024*	Variance 2024 Actual vs Program
	2023	2024			
Revenues	1,860.1	2,149.5	15.6	2,077.0	72.5
ratio to GDP (in %)	16.2	17.1		16.5	
Tax Revenues	1,667.7	1,835.3	10.0	1,861.9	-26.6
ratio to GDP (in %)	14.1	14.4		14.8	
BIR	1,219.2	1,362.0	11.7	1,403.0	-41.0
BoC	433.4	455.5	5.1	442.6	12.9
Other Offices	15.1	17.8	17.9	16.3	1.5
Non-tax Revenues	192.2	313.9	63.3	215.1	98.8
Btr Income	93.0	163.9	76.3	129.2	34.8
Fees and charges	26.4	23.4	-11.4	33.3	-9.9
Privatization	0.1	0.4	693.3		
Malampaya	9.1	5.0	-44.7		
Other non-tax	63.6	121.2	90.4		

** Approved by the DBCC (ad referendum) dated May 23, 2024*
Figures may not add up due to rounding
Source: Bureau of Treasury

In contrast to non-tax revenues, tax revenues failed to meet the target as the Bureau of Internal Revenue (BIR) collection fell short by PhP41.0 billion. Preliminary data reveal a 16.7 percent dip in the excise tax collection on tobacco products of the BIR which could be attributed to the illicit tobacco trade. In 2023, the BIR reported that the government may have lost some PhP25.5 billion from tobacco smuggling. The BIR targets to collect PhP324.5 billion in excise tax collection, with tobacco products pegged to contribute PhP152.4 billion. The Bureau of Customs (BOC), in contrast, was able to exceed its revenue target by PhP12.9 billion. The agency credits this to improved collection efficiency, enhanced trade facilitation, and intensified border control. The effect of higher prices of imported goods due to inflation could have also contributed to the increase in BOC tariff revenues.

Historically, NG revenues have grown by an annual average of 10.5 percent during the pre-pandemic years 2015-2019. For 2024, total government revenue is programmed to increase by 11.7 percent. Note though that in June 2024, the DBCC downgraded its projected GDP growth rate from 6.5-7.5 percent to 6.0-7.0 percent. As per the sensitivity analysis in the 2024 Budget of Expenditure and Sources of Financing (BESF), a half percentage point reduction in the GDP could result in PhP16.3 billion reduction in revenues. In addition, several measures were recently put in place that could impact the revenue collection. EO 62, for instance, lowers the tariffs on imported rice from 35 to 15 percent. Also, the President in his latest State of the Nation Address (SONA) made a pronouncement on the banning of Philippine Offshore Gaming Operators (POGOs), which would likely reduce revenues. On the other hand, in June 2024, Republic Act No. 12001 or the Real Property Valuation and Assessment Reform Act (RPVARA) was enacted to standardize property valuations across the country and this is expected to affect property tax collection. More recently, both Houses of Congress have also approved the bill on the imposition of value added tax (VAT) on digital services. Clarification must be sought from the DBCC on the net revenue effect of these measures.

For 2025, total revenue is projected to reach PhP4.6 trillion, an 8.8 percent or PhP374.5 billion increase over this year's programmed amount. This growth is expected to push the tax effort or the tax-to-GDP ratio up to 15.1 percent from 14.4 percent in 2024. Part of the revenue collection target is hinged on the passage and implementation of the several measures, which are estimated to earn an additional PhP17.8billion for the government: These include the (1) Excise tax on single-use plastics (PhP5.3 billion); (2) Rationalization of Mining Fiscal Regime (PhP5.8 billion); (3) CREATE MORE (PhP298 million); and (4) Excise tax on pick-up trucks (PhP6.4 billion).

Expenditure. As of June 2024, total expenditure of the national government amounted to PhP2.8 trillion, higher by 14.6 percent (PhP351.6 billion) compared to its spending in the same period last year. Unlike in the previous periods, the disbursements of national government agencies posted a year-on-year increase of 13.6 percent, breaching the programmed amount by PhP53.7 billion in the first semester of 2024. In 2023, underspending was largely blamed for dragging economic performance particularly in the second quarter. To address this perennial problem, the government has been ramping up its efforts through digitalization and a provision for early procurement in the GAA of 2024.

Table 12. Expenditures for the Period January to June 2023 and 2024 (in billion PhP)

Particulars	First Semester		Growth (%)	First Sem Program 2024	Variance 2024 Actual vs Program
	2023	2024			
Expenditures	**2,411.9**	**2,763.5**	**14.6**	**2,738.8**	**24.6**
Allotment to LGUs	461.4	504.2	9.3	514.7	(10.6)
Interest Payments	282.5	377.2	33.6	368.5	8.7
Tax Expenditures	13.1	20.4	55.6	5.7	14.7
Subsidy	63.7	67.2	5.5	107.6	(40.4)
Equity	0.2	0.3	41.3	0.7	(0.4)
Net Lending	12.2	1.2	-89.9	2.3	(1.1)
NG Disbursements	1,578.8	1,792.9	13.6	1,739.2	53.7

Source: Bureau of the Treasury Cash Operations Report

Notable also is the marked increase in interest payments (by 33.6 percent) and tax expenditures (by 55.6 percent), which also breached their programmed amounts by PhP8.7 billion and PhP14.7 billion, respectively. The national government had to shell out more for interest payments due to higher interest rates, foreign exchange rate movements (i.e., depreciation of the domestic currency), and the increased issuance of debt instruments. The increase in tax expenditure on the other hand, is usually on account of higher-than-expected documentary stamp taxes (DST) on government securities issued by the BTr.

Allotments to LGUs (ALGU), similarly posted a year-on-year expansion of 9.3 percent, but it undershot its programmed amount by PhP10.6 billion.[12] Actual disbursement for subsidies was likewise lower than programmed (by PhP40.4 billion), due to fewer requests from government corporations for subsidies pending documentary requirements. On the other hand, the decrease in net lending by 89.9 percent (PhP11.0 billion) was likely due to the lower advances by the National Government for the debt servicing of government guaranteed debt.

[12] ALGU based on the Cash Operations Report of the Bureau of the Treasury is the sum of ALGU and capital transfers to LGUs in the Disbursement by Expense class data of the DBM

For 2025, total expenditures are projected to increase to PhP6.2 trillion or by 7.4 percent. Much of the increase is on account of current operating expenditure (COE), particularly for personnel services, which is set to grow by 17.0 percent (or PhP246.8 billion) to PhP1.7 trillion.[13]

Likewise, allotment to LGUs will increase by 17.6 percent (or by PhP135.1 billion). This is likely attributed to the National Tax Allotment of the local government units determined based on the collections of the National Government three years prior. Based on the data, NG revenue collections in 2022 increased by 18.0 percent compared to the single digit growths in other years. This is on top of the 13.0 percent expansion of capital.

Table 13. Disbursement Program: Revised 2024 Program vs Proposed 2025 Program (in billion PhP)

Particulars	2023 Actual	2024 Program a/	2025 Projection a/	Annual Growth (in %)	
				2023-2024	2024-2025
Current Operating Expenditures	3,890.5	4,205.9	4,596.4	8.1	9.3
Ratio to Total Spending	*73.0*	*73.1*	*74.4*		
Personnel Services	1,438.0	1,455.6	1,702.4	1.2	17.0
MOOE	916.6	1,004.0	953.3	9.5	-5.1
Subsidy	163.5	199.1	174.0	21.7	-12.6
Allotment to LGUs	712.3	769.2	904.3	8.0	17.6
Interest Payments	628.3	763.4	848.0	21.5	11.1
Tax Expenditure Fund	31.7	14.5	14.5	-54.3	0.0
Capital Outlays	1,418.9	1,519.6	1,557.0	7.1	2. 5
Ratio to Total Spending	*26.6*	*26.4*	*25.2*		
Infra and other Capital Outlay	1,204.6	1,243.1	1,280.9	3.2	3.0
Equity	0.5	33.7	1.8	6,520.0	-94.7
Capital Transfers to LGUs	213.8	242.9	274.4	13.6	13.0
Net Lending	26.8	28.7	28.7	7.1	0.0
Grand Total	5,336.2	5,754.3	6,182.1	7.8	7.4
Ratio to GDP	*21.9*	*21.7*	*21.5*		

a/ Approved by the DBCC via Ad Referendum
Source: Department of Budget and Management, BESF

Interest payments will continue to post double digit growth (11.1 percent) in 2025. An additional P84.6 billion will be added to the PhP 763.4 billion appropriation this year, mainly to refinance loans obtained during the pandemic.

It is worth noting that the share of COE to total expenditures is expected to increase further to 74.4 percent in 2025. Ideally, as government gets better at running things efficiently, the share of COE, which is mostly mandatory and non-discretionary in nature, should be going down. In contrast, the share of Capital Outlay to total spending is projected to further decline from 26.6 percent in 2023 to 25.2 percent in 2025. The share of infrastructure spending to GDP is likewise set to drop to 5.4 percent in 2025 from 5.8 percent in 2023. Prior to the pandemic, the benchmark ratio was set at 6.0 percent of GDP, in recognition of the transformative power of infrastructure.

[13] https://www.dbm.gov.ph/wp-content/uploads/Our%20Budget/2025/FY-2025-Budget-at-a-Glance.pdf

Table 14. Infrastructure Program (Disbursements), in billion PhP

Particulars	Actual 2023	Program 2024a/	Projection 2025a/	2026a/	2027a/
Infrastructure Program	1,419.0	1,472.8	1,538.4	1,690.8	1,898.1
growth Rate	*11.0*	*3.8*	*4.5*	*9.9*	*12.3*
percent of GDP	*5.8*	*5.6*	*5.4*	*5.4*	*5.6*
NG Infrastructure	1,149.7	1,164.7	1,231.9	1,376.6	1,556.0
Infrastructure Subsidy	74.1	98.5	64.2	55.5	54.8
Infrastructure Equity	0.5	0.8	1.7	0.5	0.5
Infrastructure Transfers to LGUsb/	194.7	208.7	240.6	258.2	286.7

a/ Program approved by the DBCC via an Ad Referendum
b/ Represents the 20 % of NTA, and other financial assistance to LGUs intended for development and infrastructure projects. Include the BARMM Special Development Fund and 20 % of the BARMM Annual Block Grant.
Source: BESF 2025

National Government Debt. As of end-June 2024, NG actual outstanding debt amounted to PhP15.5 trillion, 9.4 percent higher than the same period in 2023 and is equivalent to 60.9 percent of the nominal GDP. Domestic debt shared 68.0 percent of the total, slightly lower than the 69.0 percent attained as of end-June 2023 while external debt shared 32.0 percent of the total, higher than the 31.0 percent share for last year's same period ratio. Meanwhile, total guaranteed debt amounted to PhP343.7 billion, lower by 7.0 percent than last year's same period level. Total NG outstanding debt, including guaranteed debts increased by 9.0 percent to PhP15.8 trillion, an increase equivalent to PhP1.3 billion.

Table 15. NG Outstanding Debt, end-June 2024 vis-à-vis end-June 2023 (in billion PhP)

Particulars	end-June 2024	end-June 2023	Growth (%)
Total NG Outstanding Debt	**15,827.2**	**14,517.6**	**9.0**
Actual Debt	15,483.5	14,147.9	9.4
ratio to GDP (in %)	*60.9*	*61.0*	
Domestic Debt	10,573.1	9,702.8	9.0
share to total	*68.0*	69.0	
Loans	0.2	0.2	0.0
Debt Securities	10,573.0	9,702.7	9.0
External Debt	4,910.4	4,445.0	10.5
share to total	*32.0*	*31.0*	
Loans	2,292.44	2,009.7	14.1
Debt Securities	2,617.9	2,435.3	7.5
Guaranteed Debt	343.7	369.7	-7.0
Domestic	182.6	196.4	-7.0
External	161.1	173.4	-7.1

Source: Bureau of Treasury

For 2025, the national government's outstanding debt is projected to increase by 8.1 percent, reaching PhP17.3 trillion, which would represent 60.4 percent of the nominal GDP. Of this total, 69 percent is expected to be sourced domestically, while 31.0 percent will come from foreign-denominated debts.

This projected mix and declining debt trajectory reflect the government's commitment to maintaining sustainable debt levels. It is worth mentioning though that the debt-to-GDP ratio for 2024 was initially projected at 59.7 percent as outlined in the 2024 BESF. The upward adjustment in the latest debt ratio program to 60.9 percent warrants clarification from the DOF and the BTr.

Table 16. Medium-Term Debt Program

Particulars	2024	2025	Growth
Domestic	10,923.5	11,976.1	9.6
share to Total	*68.0*	*69.0*	
Ratio to GDP	*41.4*	*41.7*	
External	5,133.0	5,377.6	4.8
share to Total	*32.0*	*31.0*	
ratio to GDP	*19.5*	*18.7*	
Grand Total	16,056.5	17,353.7	8.1
growth rate	9.9	8.1	
ratio to GDP	60.9	60.4	

Source: BESF 2025

Consolidated Public Sector Financial Position. For the year 2024, the consolidated public sector deficit (CPSD), a key indicator of the combined financial standing of the NG, LGUs and the other public sector, is projected to decrease to PhP730.3 billion or by 6.1 percent. Due to the expected lower deficit level, the corresponding share of the deficit to the nominal GDP is also expected to go down this year. The reduction will be sustained in 2025 as the CSPD is expected to further go down to PhP603.8 billion despite the expected increase in NG deficit. This is due to the projected huge surpluses of the other public sector, notably the social security institutions (SSI's) and the LGUs. Meanwhile, the surpluses of the monitored non-financial government corporations will continue to decline, amounting to only PhP23.1 billion in 2025 from PhP64.1 billion in 2023.

Table 17. Consolidated Public Sector Financial Position 2022-2023 (in billion PhP)

Particulars	Actual		Program	Projection
	2022	2023	2024	2025
Consolidated Public Sector Financial Position	(804.9	(777.5)	(730.3)	(603.8)
growth rate	*(26.3)*	*(3.4)*	*(6.1)*	*(17.3)*
ratio to GDP	*(3.7)*	*(3.5)*	*(2.8)*	*(2.1)*
Public sector borrowing requirement	(1,556.6)	(1,420.2)	(1,418.0)	(1,485.9)
National Government	(1,614.1)	(1,512.1)	(1,484.3)	(1,537.7)
Monitored Non-Financial Government Corp	31.9	64.1	37.7	23.1
Adjustment in Net Lending and Equity to GOCCs	25.6	27.8	28.7	28.7
Other Public Sector	751.7	642.7	687.6	882.0
SSS/GSIS/PHIC	226.0	273.1	319.5	360.7
Bangko Sentral ng Pilipinas (BSP)	47.2	(5.4)	1.0	1.0
Government Financial Institutions (GFIs)	45.1	49.9	56.5	64.4
Local Government Units (LGUs)	433.3	325.0	310.6	456.0

Source: BESF 2025

NG Financing Program. In 2025, the NG plans to borrow a total of PhP2.5 trillion, lower than this year's borrowing program on account of projected decline in gross external borrowings and lower principal amortization. More than half (80.1 percent) of the total domestic borrowing program is expected to come from domestic sources. This policy stance has been adopted by the government to minimize foreign exchange risks. Domestic debts are also believed to be beneficial to the economy's growth because the funds used to service them continue to circulate within the country. As of June 2024, the total gross financing program amounted to PhP1,570.6 billion, 17.0 percent of which came from external sources and the rest (83.0 percent) came from domestic sources.

Table 18. Government Financing Program 2023-2025(in billion PhP)

Particulars	2023 Actual	2024 Program	2025 Proposed
Total Gross Financing	**2,193.3**	**2,570.0**	**2,545.0**
Growth rate (in %)	*1.4*	*17.2*	*-1.0*
External (Gross)	559.0	646.1	507.4
Less: Amortization	121.1	242.7	217.8
Domestic (Gross)	1,634.2	1,923.9	2,037.6
Less: Amortization	789.5	1,020.5	985.0
Net Financing	1,282.6	1,306.8	1,342.2
External (Net)	437.9	403.4	289.6
Domestic (Net)	844.7	903.4	1,052.6
Less: Total Net Financing Requirement/Deficit	1,512.1	1,484.3	1,537.7
Budgetary Change in Cash	(229.5)	(177.5)	(195.5)
Financing Mix			
Foreign	25.5	25.1	19.9
Domestic	74.5	74.9	80.1

Source: BESF 2025

Over-all, the projected decline in the debt-to-GDP ratio and the planned financing program reflects a cautious optimism that the government can manage its debt levels effectively, even as it continues to borrow to finance development and infrastructure projects. The focus will need to remain on sustainable practices to ensure that debt does not become a burden on future economic growth.

This Budget Notes was prepared by the Macroeconomics Group with inputs from other Sectors' staff, under the supervision of SEPO's Directors and the overall guidance of its Director General. The views and opinions expressed herein are those of the SEPO and do not necessarily reflect those of the Senate, of its leadership, or of its individual members. For comments and suggestions, please e-mail us at sepo@senate.gov.ph.