



the 2009 Proposed Budget At A Glance



September 2008

AG-08-01(Revised)

The President has recently submitted to Congress her proposed 1.415-trillion budget for 2009. With the theme "Standing Firm in the Midst of Economic Challenges", it is touted as the government's strategy to shield the economy and the people from the worldwide economic slump and the soaring food and fuel prices.

Macroeconomic Assumptions

The domestic economy is projected to grow by at least 5.5% this year and by 6.1% to 7.1% in 2009. Inflation and the 91-day T- bill rates are assumed to taper off in 2009 while the foreign exchange rate and Dubai crude prices are expected to remain at P42-45:\$1 and \$115-125/barrel, respectively. Export growth is anticipated to slow down by 5% in 2008, recovering gradually to 7% in 2009 while imports are expected to grow by 10% both this year and in 2009. (Source of data: 2009 Budget for Expenditure and Sources of Financing(BESF))

Table 1. Macroeconomic Assumptions, Selected Indicators

Particulars	2007	2008 ^f	2009 ^p
Real GNP Growth (%)	8.0	5.9-6.7	6.9-7.8
Real GDP Growth (%)	7.2	5.5-6.4	6.1-7.1
Inflation Rate,(2000=100)	2.8	9.0-11.0	6.0-8.0
91-Day T-Bill Rate (%)	3.4	6.0-8.0	5.0-6.0
Exchange Rate(P/US\$)	46.15	42-45	42-45
LIBOR, 6-Months	5.3	3.0-4.0	3.0-4.0
Dubai Crude (US\$/barrel)	68.37	115-125	115-125
Exports of Goods (%)	6.0	5.0	7.0
Imports of Goods (%)	8.1	10.0	10.0

f-forecast; p-proposed

Table 2. GDP Growth Forecast for 2009 (in percent)

Asian Development Bank	5.6
International Monetary Fund (IMF)	5.8
World Bank	6.1
Action Economics	5.5
BDO Unibank	6.0
Citi	5.6
Economist Intelligence Unit (EIU)	5.7
HSBC	4.4
Moody's	6.1
Nomura Investments	4.8
Reuters IFR	5.5
UBS	4.6

Sources: World Economic Outlook, Asian Development Outlook, Bloomberg

As the GDP grew by only 4.6% in the first semester of 2008, the prospect of hitting the 2008 year-end target is fairly dim, unless the economy registers a 6.4% growth in the second semester. Anticipating the recovery of domestic demand and the increase in consumption, growth will likely accelerate in 2009. However, the government's low-end projection of 6.1% GDP growth is higher than the forecast of most multilateral institutions and private firms.

- Year-to-date average inflation rate is at 7.6% but as it is expected to continue its upward trend for the rest of the year, it will likely fall within the forecasted range of 9% to 11% for 2008. The expected decline in 2009 not only of inflation but also of interest rates is consistent with the outlook of most economic analysts. As of the first eight months of 2008, the average peso-dollar exchange rate is still within the target although as of September, it has already breached the P46:\$1 level.
- Government projections for the average price of Dubai Crude for 2009 are reasonable, although the average price next year might even be lower. The US Department of Energy is already expecting slower oil consumption growth for the US while anticipating increased production capacity for both OPEC and non-OPEC countries over the next six months. The latest forecast of the Korean National Oil Company projects Dubai Crude to stay as low as USD 110 per barrel next year while the US Energy Information Administration projects WTI Crude to be in the vicinity of USD 124 per barrel in 2009. On the average, Dubai Crude is usually USD 4-10 cheaper than the WTI prices.
- With a year-to-date export growth of 4.1 %, but with a likely higher growth in the 2nd half, the export target for 2008 of 5% may be well within reach. If the global economy recovers gradually in 2009 as projected, then a 7.0% growth is definitely achievable. Maintaining the 2009 import growth at 10% is perhaps hinged on the assumption that oil prices will also stay at the same level.

Table 3. National Government Fiscal Program

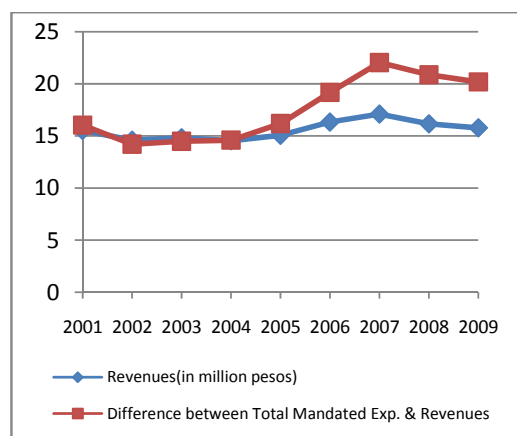
	2003	2004	2005	2006	2007	2008 ^f	2009 ^{p*}
Revenues (in bn PhP)	639.7	706.7	816.2	979.6	1,136.60	1,250.90	1,393.30
% Growth	10.6%	10.5%	15.5%	20.0%	16.0%	10.1%	11.4%
% of GDP	14.8%	14.5%	15.1%	16.3%	17.1%	16.3%	16.0%
<i>Revenues by Collection Agency</i>							
BIR (in bn PhP)	427.4	470.4	542.7	652.7	713.6	845.2	968.3
% Growth	6.1%	10.1%	15.4%	20.3%	9.3%	18.4%	14.6%
% of GDP	9.9%	9.7%	10.0%	10.9%	10.7%	10.9%	11.0%
BOC (in bn PhP)	117.2	127.3	154.6	198.2	209.4	269.0	300.1
% Growth	18.0%	8.6%	21.4%	28.2%	5.6%	28.5%	11.6%
% of GDP	2.7%	2.6%	2.9%	3.3%	3.1%	3.5%	3.4%
Expenditures (in bn PhP)	839.6	893.8	962.9	1,044.4	1,149.0	1,325.9	1,433.3
% Growth	6.4%	6.5%	7.7%	8.5%	10.0%	15.4%	8.1%
% of GDP	19.5%	18.4%	17.8%	17.4%	17.4%	17.3%	16.5%
Overall Surplus/(Deficit) (in bn PhP)	-199.9	-187.1	-146.8	-64.8	-12.4	-75.0	-40.0
As % of GDP	-4.6%	-3.8%	-2.7%	-1.1%	-0.2%	-1.0%	-0.5%

f = forecast p* = proposed

Source of Basic Data: BESF, DBM

- For 2009, the government expects to raise a total of P1.393 trillion in revenues-- - P1.279 trillion in tax revenues and P114 billion in non-tax income. The projected revenue represents an increase of 11.4 % from the 2008 level. However, as a percentage of GDP, it will decline to 16.0%, from 16.3%.
- Growth of tax revenue is expected to decline from 20.4% in 2008¹ to 13.8% in 2009. Both the Bureau of Internal Revenue and Bureau of Customs are anticipated to post a sharp decrease in their revenue growth targets by about 4 percentage points (ppt) and 17 ppts respectively. This projected decline, in terms of growth rate and as a percentage of GDP, appears incoherent with the GDP scenario the government is looking forward to in 2009. The GDP, which is assumed to grow between 6.1% to 7.1% in 2009 serves as the tax revenue base. Non-tax revenues from fee-collecting agencies, grants and privatization receipts are also expected to fall in 2009.

Figure 1. Budgetary (In)Flexibility Due to Mandated Expenditure:2001-2008 (as % of GDP)



- NG expenditures as a percentage of GDP, which has been continuously declining from 19.5% in 2003 to 17.3% in 2008, will continue to fall to 16.5% in 2009.
- Mandated expenditures such as the wage bill, interest payments and LGU transfers have been accounting for a large part of NG's total expenditures, leaving very little for discretionary spending. However, mandated expenditures started to fall from 14.5% of GDP since 2004 to 11.4% percent in 2009. Prominent among the mandated items which posted a decline was the wage bill which decreased from 6.8% of GDP in 2002 to 5.0% in 2008 due to the government's non-hiring policy for vacated positions. For 2009, despite the budgetary increase allotted for the Salary Standardization Law III, the wage bill, as a percent of GDP will continue to decline to 4.5%, mainly because of the government's thrust to rationalize and streamline the bureaucracy. LGU transfers will continue dropping from 3.5% of GDP in 2002 to 2.3% in 2009. Interest payments will also decline to 3.5% in 2009 from 5.6% in 2004.
- The government will be foregoing its earlier plan to balance the budget by 2008. For this year, it expects a deficit of P75 billion, while in 2009, it projects a deficit of P40 billion or 0.5% of the GDP.

Table 4. EXPENDITURE BY SECTOR

PARTICULARS	Level (in bn PhP)			Sectoral Distribution (in %)		Variance	
	2007	2008 ^f	2009 ^p	2008 ^f	2009 ^p	Level '08-'09	in % '08-'09
ECONOMIC SERVICES	293.2	299.0	361.4	24.4	25.5	62.4	20.9
Agriculture & Agrarian Reform	60.0	43.0	67.3	3.5	4.8	24.3	56.4
Natural Resources & Environment	9.1	10.2	13.3	0.8	0.9	3.1	30.4
Trade & Industry	6.0	4.8	4.6	0.4	0.3	-0.2	-4.9
Tourism	2.2	2.0	2.1	0.2	0.2	0.1	6.5
Power and Energy	5.8	4.9	5.6	0.4	0.4	0.6	12.9
Water Resources, Dev't & Flood Control	14.1	13.7	16.7	1.1	1.2	2.9	21.5
Communications, Roads & Other Transport	126.3	120.6	138.8	9.8	9.8	18.1	15.0
Other Economic Services	5.3	25.9	25.6	2.1	1.8	-0.3	-1.0
Subsidy to LGUs	64.4	73.8	87.5	6.0	6.2	13.7	18.6
SOCIAL SERVICES	320.2	377.5	434.0	30.8	30.7	56.5	15.0
Education, Culture & Manpower Dev't	167.4	186.6	204.9	15.2	14.5	18.3	9.8
Health	18.2	28.7	35.8	2.3	2.5	7.1	24.9
Social, Security, Welfare & Employment	52.2	69.6	86.3	5.7	6.1	16.8	24.1
Housing and Community Dev't	7.9	5.0	5.3	0.4	0.4	0.3	6.4
Land Distribution	5.3	4.1	4.1	0.3	0.3	0.0	0.0
Other Social Services	1.1	5.5	5.0	0.5	0.4	-0.5	-9.6
Subsidy to LGUs	68.1	78.0	92.5	6.4	6.5	14.5	18.6
DEFENSE	62.2	61.0	65.2	5.0	4.6	4.2	6.8
GENERAL PUBLIC SERVICES	202.4	207.4	239.6	16.9	16.9	32.2	15.5
NET LENDING	9.8	12.0	12.2	1.0	0.9	0.2	1.3
DEBT-SERVICE (INTEREST PAYMENTS)	267.8	269.8	302.7	22.0	21.4	32.8	12.2
GRAND TOTAL	1,155.5	1,226.7	1,415.0	100.0	100.0	188.3	15.4

- The 2009 budget reflects increased spending mainly on economic and social services. The social services sector will receive P434 billion or 30.7%, the biggest share of the proposed P1.4 trillion budget. Agriculture and agrarian reform corners the biggest increment of P24.3 billion although the education sector remains the top recipient of public funding with a budget of P204.9 billion. Percentagewise, however, education's share to the total budget will dip to 14.4% from 15.2% in 2007. Meanwhile, a substantial increase of P18.1 billion is being proposed for infrastructure improvement, particularly, to the subsector of Communications, Roads & Other Transport. Appropriations for general public services will also see a hefty 15.5% growth.
- To cushion the impact of food and fuel price spirals on poor families, the Executive infused funds for food production, hunger mitigation and subsidies. A P17 billion increase in funding, or P86.3 billion is earmarked for social security, welfare and employment programs. Total subsidies to LGUs will go up by P25.6 billion. Funds for the conditional cash transfers will raise the Department of Social Welfare and Development's (DSWD) budget by 117% from P4.8 billion to P10.5 billion. Of the P10.5 billion, an amount of P5 billion is allocated for the Pantawid Pamilyang Pilipino Program (P4), a poverty reduction strategy that subsidizes the educational and health needs of the 320,000 extremely poor households across the country. However, priority should also be given in providing the poor with livelihood programs and access to micro finance. Failure to do such perpetuates a "welfare budget" that is inefficient and unsustainable.
- Funding for health services, likewise, will climb to P35.8 billion in 2009 from P28.7 billion this year. However, the health budget remains a dismal 2.5% of the GDP, well below the World Health Organization (WHO) prescription of 5% for developing countries. Meanwhile, the budget for housing and community development will see a minimal increase whereas funding for land distribution programs will remain unchanged.
- The decline in the share of debt servicing to the total budget from 22% to 21.4% augurs well for the economy. However, in nominal terms, interest payments will still increase by a considerable 12.2%. These funds could have been spent on more essential spending such as on additional investments on human and capital resources.

Table 5. EXPENDITURE BY EXPENSE CLASS

	2008	2009	2008	2009	Variance	
	in bn PhP		in %		Amount	in %
Total Budget	1,226.7	1,415.0	100.0	100.0	188.3	15.4
Current Operating Expenditures	1,055.0	1,210.9	86.0	85.6	155.9	14.8
Personal Services	384.8	429.7	31.4	30.4	44.9	11.7
Maintenance and Other Operating Expenses (MOOE)	670.2	781.2	54.6	55.2	111.0	16.6
Capital Outlay (CO)	147.7	191.9	12.0	13.6	44.2	29.9
Net Lending	12.0	12.2	1.0	0.9	0.2	1.7

- Personal Services, which consistently has been the biggest component of the budget will be beefed up by P45 billion in preparation for the enactment of the Salary Standardization Law III which seeks to increase the salaries of civil servants and make it at par with the private sector. Pursuant to the goal of improving infrastructure, capital outlay is also set to rise by 29.9%. To support the programs and projects of local government units, the IRA will be increased from P170.6 billion to P203.4 billion.

Table 6. TOP TEN DEPARTMENTS

Particulars Departments	Levels (In bn PhP)		Variance		Rank	
	2008	2009	in bn PhP	in %	2008	2009
Department of Education (DepEd)	148.1	167.9	19.8	13.4	1	1
Department of Public Works and Highways	102.4	120	17.6	17.2	2	2
Department of Interior and Local Government	52.6	61.9	9.3	17.7	4	3
Department of National Defense	51	61.5	10.5	20.6	3	4
Department of Agriculture	24	39.7	15.7	65.4	5	5
Department of Health	16.2	27.8	11.6	71.6	7	6
Department of Transportation & Communications	22.3	23.6	1.3	5.8	6	7
Department of Agrarian Reform	13	16.1	3.1	23.8	8	8
Department of Finance	7.9	13.8	5.9	74.7	9	9
The Judiciary	10.2	12.8	2.6	25.5	10	10

- For FY 2009, the departments and special purpose funds will be allocated with P624.4 billion and P790.6 billion respectively. In general, all government agencies posted significant increases in their budgetary allocations. The most substantial increase of 114.3% is given to the DSWD. The DOH will also have a 36.9% increase from P20.3 billion to P27.8 billion.
- The top recipient of the 2009 budget is the Department of Education (DepEd) with the highest allocation of P167.9 billion, an almost P20 billion increase from the previous year. The increase is intended for the hiring of 10,000 teachers and 2,000 non-teaching personnel, building of 8,100 classrooms and 750 science laboratories, purchase of 35.8 million textbooks and 1.79 million chairs as well the provisions of scholarships and computer packages. To finance the government's infrastructure program, the DPWH will receive the second highest allocation of P120 billion. Next is the DILG with P61.9 billion, followed by the DND with P61.5 billion and the DA with P39.7 billion.
- Completing the list of the top 10 departments in terms of appropriation are: DOH with P27.8 billion; DOTC with P23.6 billion; DAR with P16.1 billion; DOF with P13.8 billion; and the Judiciary with P12.8 billion.