Budget Notes

SENATE ECONOMIC PLANNING OFFICE

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Macroeconomic and Fiscal Assumptions of the Proposed 2022 Budget

The Philippines continues to struggle with the Covid-19 pandemic and the economic and social disruption it has caused. While the domestic economy expanded in the first semester of 2021, growth remains fragile, and where recovery is weak, fiscal policy can strengthen it. The 2022 national budget will thus play a crucial role in ensuring that resources are sufficiently and strategically allocated to support the nascent recovery amidst the rising threats of new COVID-19 variants and other downside risks to growth.

For 2022, the national budget proposed by the Executive mounts to PhP5.023 trillion, 11.5 percent higher than this year's budget of PhP4.506 trillion, with total disbursements projected to account for 22.4 percent of the GDP next year. Along with the proposed budget is a set of macroeconomic variables that the government has assumed as the bases of its revenue and spending programs. These macroeconomic assumptions are the following:

Table 1. Macroeconomic Assumptions

Particulars	Actual 2020	Assumption 2021*	Projected 2022
Real GDP growth (%)	-9.6	6.0 – 7.0	7.0 - 9.0
Inflation rate (%)	2.6	2.0 – 4.0	2.0 – 4.0
Dubai Oil Price (USD/barrel)	42.21	50 – 70	50 – 70
Foreign exchange rate (PhP/USD)	49.62	48 - 53	48 - 53
364-day T-bills Rate (%)	2.4	2.0 - 3.0	2.0 - 3.5
Growth of Goods Exports (%)	-11.3	10.0	6.0
Growth of Goods Imports (%)	-22.9	12.0	10.0

Source: Development Budget Coordinating Council, Department of Budget and Management

** Adopted by DBCC on May 18,2021*

Any considerable deviation from the above macroeconomic assumptions may adversely affect the cost-effectiveness, and therefore, the viability of the national budget. For instance, if average inflation deviates from the assumed 2.0-4.0 percent, this could have huge repercussions on the projected disbursement of the government and therefore, on the (in)sufficiency of the national budget. The relationship between the other macroeconomic parameters and the government's fiscal program is summarized by the table below.

Table 2. 2022 Budget Sensitivity to Macroeconomic Parameters

	Change	Revenue	Disbursement	Budget Balance
Real GDP Growth Rate (%)	1 percentage point increase	28.2	-	7.6
Inflation Rate (%)	1 percentage point increase	24.7	-	24.7
Peso-to-USD Exchange Rate	1 percentage point increase	9.7	2.1	7.6
Treasury Bill Rate (all maturities)	1 percentage point increase	1.1	5.7	-4.6
Treasury Bond Rate (all maturities)	1 percentage point increase	1.8	9.0	-7.2
LIBOR (180-day)	1 percentage point increase	-	10.5	-10.5
Imports Growth Rate (%)	1 percentage point increase	7.6	-	7.6

A negative figure translates to an increase in the deficit
Table A.6, 2022 BESF

Real GDP Growth. The COVID-19 pandemic brought the Philippine economy to its worst economic performance in the post-war period with a 9.6 percent contraction in its gross domestic product (GDP) in 2020. In the second quarter of this year, the economy posted a growth rate of 11.8 percent, bringing the first semester growth to 3.7 percent. However, data indicate that the latest growth figure is largely due to base effect. Seasonally adjusted data show that the second quarter GDP actually contracted by 1.3 percent on a quarter-on-quarter basis and with the reimposition of stricter quarantine measures in August in the National Capital Region and neighboring areas, there is a concern that the recovery will be further stalled. The National Economic Development Authority (NEDA) estimates that the economy loses at least PhP150 billion per week that the country reverts to stricter lockdowns. On 18 August 2021, the Development Budget Coordinating Committee (DBCC) revised its 2021 growth outlook from 6.0 to 7.0 percent to 4.0 to 5.0 percent but retained its projected growth outlook for 2022 at 7.0 to 9.0 percent.

Table 3. **GDP Growth (% change, in constant 2018 prices)**

	2016	2017	2018	2019	2020	First Sem	
						2020	2021
GDP	7.1	6.9	6.3	6.1	-9.6	-9.3	3.7
Production							
Agriculture	-1.0	4.2	1.1	1.2	-0.2	0.6	-0.7
Industry	8.2	7.0	7.3	5.5	-13.2	-12.6	7.4
Services	8.2	7.4	6.7	7.2	-9.2	-9.1	2.6
Expenditure							
Household Exp.	7.1	6.0	5.8	5.9	-7.9	-7.7	0.9
Government Exp.	9.4	6.5	13.4	9.1	10.5	15.5	3.5
Gross Capital Formation	20.8	10.9	11.3	3.5	-34.4	-33.1	20.2
Export	9.2	17.4	11.8	2.6	-16.3	-19.5	6.6
Less: Import	18.8	15.1	14.6	2.3	-21.6	-22.7	11.6

Source: Philippine Statistics Authority

Any country's growth prospects at this time is largely hinged on its ability to manage the COVID-19 pandemic. Thus, until the country's capacity to deal with the new COVID-19 variants greatly improve, downside risks will likely persist -- including resurgence of infection that could extend mobility restrictions, further eroding income. Slower-than-expected global recovery and disruptions in global value chains as well as natural calamities likewise present as risks in the coming quarters. On the upside, the usual consumer spending boost during the Christmas holiday will likely support growth in the fourth quarter, though not as robust as in previous years as consumer confidence remains low. Public infrastructure spending is also expected to increase a few months before the election ban. Electoral spending has had a growth-inducing effect on the Philippine economy and this is still expected to happen in the run up to the 2022 national polls. However, its impact would likely be smaller if face-to face campaigning would still be constrained by mobility restrictions. For 2022, the government projects the GDP to grow by 7.0 to 9.0 percent. This is more optimistic than the forecasts of multilateral agencies such as the Asian Development Bank and the World Bank which see the economy growing by 5.5 percent and 5.9 percent, respectively next year.

Inflation rate. Headline inflation for the first eight months of 2021 averaged at 4.4 percent which is above the 2.0 to 4.0 percent target inflation band. Food inflation in particular remains high, averaging at 5.8 percent in the first eight months and even increasing from 5.1 percent in July to 6.9 percent in August. Upside risks to inflation include higher global commodity prices (i.e., oil) as global demand recovers, supply-side factors (e.g., persistence of African Swine Flu,[1] typhoons during the second semester, supply chain disruptions), and a weaker peso. In light of these risks, inflation is likely to breach the upper limit of the target band in 2021.

Nonetheless, food inflation is expected to be tempered by the following measures: (1) Executive Order (EO) No. 128, 133, and 134 which directs increased minimum access volume (MAV) allocation and lowering of tariffs on imported pork; (2) EO 135 which temporarily reduced the most favored nation (MFN) tariff rates on imported rice to 35 percent from 40 to 50 percent; and (c) Certificate of Necessity to Import fish to cover the domestic demand gap during closed fishing season beginning October this year. By 2022, inflation is seen to decelerate and stay within the 2.0-4.0 percent target as food inflation is expected to ease.

Table 4. Inflation rates (%)

	2017	2018	2019	2020	2021 August
Headline inflation	2.9	5.2	2.5	2.6	4.9
Food and Non-Alcoholic	3.0	6.8	2.1	2.7	6.5
Food	3.2	6.7	1.8	2.8	6.9
Alcoholic Bev. and Tobacco	6.9	20.0	12.8	16.1	10.3
Non-food	2.6	3.4	2.4	1.8	3.4

Source: Philippine Statistical Authority

Dubai crude oil price. The price of the Dubai crude oil is assumed to stay within the USD50.0 to 70.0 price range in 2021 and 2022. For the week ending August 27, 2021, year-to-date average price was at USD65.16/barrel, significantly higher than the average weekly price of USD42.24/barrel in 2020. The price even peaked at USD 73.49/barrel at the end of July this year before tapering off slightly in August. The recovery in prices over the past months were driven mainly by positive developments in global vaccination programs and by supply cuts instituted by the Organization of Petroleum Exporting Countries (OPEC) and its allies led by Russia (collectively known as OPEC+).

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[1] As a long term solution to the African Swine Flu (ASF), the government has implemented the Integrated National Swine Production Initiatives for Recovery and Expansion (INSPIRE) to repopulate affected areas that are no longer under quarantine. Beneficiaries receive three to five sentinel piglets, including feeds, veterinary drugs, biologics and anti-viral agents during a six-month fattening period. This effort is supplemented by (1) financial support program of the Land Bank of the Philippines, Development Bank of the Philippines, and Agriculture Credit Policy Council; (2) free insurance and subsidized premium to respective backyard and commercial hog raisers; (3) gilt dispersal program and animal disease monitoring and prevention by some Local Government Units; (4) implementation of *Bantay ASF sa Barangay* program of concerned private sectors; and (5) formulation of the OneDA laboratory masterplan that incorporates international bio-risk management standards and best practices on biosafety and biosecurity measures, regulations, and certifications.

For the rest of 2021 however, demand will likely be tempered by the emergence of the more dangerous coronavirus variants (i.e., Delta and Lambda variants). Renewed lockdowns and mobility restrictions in various countries are expected to pull down demand for the rest of 2021, although the OPEC still expects demand to recover and grow slightly up until 2022 as countries' stimulus packages continue to take effect. On the supply side, OPEC+ has agreed to finally put an end to months-long supply cuts and will gradually increase production for the rest of 2021. Outside of OPEC+, increased supply is also to be anticipated mainly from US shale producers. Given these conditions on the demand and supply side, the forecasted price range of USD50.0 to 70.0/barrel for the rest of 2021 and for 2022 is likely to hold, assuming of course that no new shocks (geopolitical, environmental, economic, public health, etc.) emerge during the period. The forecasted range is also consistent with the World Bank's forecast of an average of USD 56/barrel for 2021 and USD 60/barrel in 2022 for crude prices worldwide.

Foreign exchange. The peso-dollar exchange rate averaged PhP48.69/US dollar in the first eight months of 2021. This represents a 3.24 percent appreciation vis-a-vis the first eight-month average last year. However, latest monthly data shows that the peso has started to weaken beginning in June 2021 on the back of the weak performance of the local stock market as well as the rise in import demand. The continued rise in import demand as well as a sooner-than-expected rate hike by the US Federal Reserve will likely increase downward pressure on the peso, which is therefore likely to settle within the assumed range of PhP48 - 53 per US dollar in 2021 and 2022.

364-day T-bill Rates. For the first eight months of 2021, the 364-day T-bill rate averaged at 1.71 percent, even lower than the assumed 2.0 to 4.0 percent range. Yields are expected to remain low and demand more muted amidst record-low policy rates set by the Bangko Sentral ng Pilipinas (BSP) and in light of its pronouncements of remaining dovish for the rest of the year. For 2022, the 364-day T-bill rate will likely settle within the 2.0 to 4.0 percent range as economic recovery strengthens and the monetary authority is expected to unwound its accommodative stance. T-bill rates affect the budget in two ways: it may increase/decrease the cost of debt servicing and may increase/decrease revenue from tax withheld on interest income. Most often, the former more than offsets the latter.

Growth of Goods Exports and Imports. Latest trade data show year-on-year gains for both exports and imports. Cumulative export value in the first semester totaled USD35.9 billion, 20.9 percent higher than what it was over the same period last year. The expansion is attributed to the recovery of foreign demand and the reopening of major economies amidst the pandemic. Meanwhile, cumulative import value increased by 29.8 percent to USD53.3 billion. Both export and import are expected to accelerate even further as the

Table 5. Philippine Exports and Imports, 2019-2021, in FOB USD million

Commodity Groups	2019	2020	Jan – Jun		
	Jan-Dec	Jan-Dec	2020	2021	Growth (%)
Total Exports	70,927	65,215	29,706	35,905	20.9
Top 10 Exports Total	57,944	53,273	24,725	29,955	21.2
Total Imports	11,593	89,812	41,080	53,342	29.8
Top 10 Imports Total	81,103	61,03	29,320	37,826	29.0

Source: Philippine Statistics Authority holiday season nears and therefore, likely to grow as expected by 10.0 percent and 12.0 percent, respectively.

For 2022, export and import of goods are expected to continue to grow, albeit at a slower rate as the base effect wears off. Export is likely to grow by 6.0 percent with the rise in global trade as foreign demand continues to recover. Likewise, imports are expected to increase by 10.0 percent next year as domestic demand is expected to bounce back with improved business and consumer confidence, as well as rebound in imports of capital goods to support public infrastructure development.

Fiscal Assumptions

For 2022, the national government has set its revenue and disbursement program to PhP3,289.5 billion and PhP4,954.6 billion, respectively. This will result in a fiscal deficit of PhP1,665 billion, equivalent to 7.5 percent of the projected GDP. This is lower than the 9.3 percent deficit to GDP ratio that was recorded in 2020 but much higher than the pre-pandemic ratio of just over 3 percent. Among the ASEAN-6 countries, the Philippines had the highest deficit to GDP ratio in 2020.

Table 6. Fiscal Program, 2020-2022 (in PhP billion)

Particulars	2020 Actual	2021 Program	2022 Projection	Difference 2021-2022	Growth (%) 2021-2022
Revenue	2,856.0	2,881.5	3,289.5	408.0	14.2
% of GDP	15.9	14.5	14.9		
Disbursement	4,227.4	4,737.1	4,954	216.9	4.6
% of GDP	23.6	23.9	22.4		
Surplus/(Deficit)	-1,371.4	-1,855.6	-1,665.1	190.5	-10.3
% of GDP	*-7.6*	*-9.3*	*-7.5*		

Source: Bureau of Treasury

Table 7. Fiscal Balance to GDP ratio of ASEAN Countries (in %)

Country	Fiscal Balance to GDP ratio
Indonesia	-6.2
Malaysia	-3.5
Philippines	-7.6
Singapore	-6.3
Thailand	-6.1
Vietnam	-5.8

Source: Asian Development Bank, 2021

Revenue. The intermittent lockdowns initiated by the IATF have caused subsequent revisions in the 2021 revenue program of the government. Last 27 May 2020, the government initially targeted to collect PhP2,929.0 billion for 2021. This was revised downwards on 28 July 2020 to PhP2,717.4 billion due to the bleak outlook caused by the pandemic. With the relaxation of quarantine protocols in the latter part of last year, expectations for economic recovery were set, prompting the economic managers to revise the revenue targets upwards to PhP2,881.5 billion.

So far, the government was able to collect PhP1,490.4 billion in the first semester this year, accounting for 51.7 percent of the full year (FY) programmed amount. Tax revenue accounted for 90.1 percent of total government revenue with collections of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) increasing by 7.9 percent and 19.2 percent, respectively.

Table 8. NG Revenue Performance, First Semester Actual 2020-2021 and 2021 Full Year Program ***(in PhP billion)***

Particulars	*Actual Jan-Jun*		Full-year Program*	Growth y-o-y (%)	Ratio of Actual to Full-year Program (%)
	2020	*2021*	2021		
Revenues	1,453.3	1,490.4	2,881.5	2.5	51.7
ratio to GDP	*17.0*	*16.4*	*14.5*		
Tax Revenues	1,217.7	1,343.5	2,714.8	10.3	49.5
ratio to GDP	*14.2*	*14.7*	*13.7*		
BIR	956.4	1,031.8	2,081.2	7.9	49.6
BOC	253.1	301.7	616.7	19.2	48.9
Other Offices	8.2	9.9	16.9	21.5	58.8
Non-Tax Revenue	235.6	146.7	166.2	-37.8	88.1
BTr Income	183.2	81.6	74.7	-55.5	109.3
Fees and charges	14.0	21.9	31.2	56.6	70.1
Privatization	0.3	0.2	0.5	-30.6	40.0

Source: Bureau of the Treasury

**Based on the program set in 18 May 2021 by the DBCC*

Meanwhile, non-tax revenues declined by 37.8 percent year-on-year due to the fall in the income of the Bureau of the Treasury (BTr). The fall in BTr income is due to base effect as dividend remittances of GOCCs accelerated last year as mandated by Republic Act No. 11469 or the Bayanihan to Heal as One Act. Nonetheless, BTr income has already exceeded the full year programmed amount by PhP6.9 billion.

While it is likely that the revenue target set for this year will be met, the surging COVID-19 positive cases that may result to recurring lockdowns and curtail economic activity remains a top risk. According to the NEDA, the economy loses PhP150 billion each week that the National Capital Region is under ECQ. This translates to an estimated nominal revenue loss of about PhP21.9 billion each week.[2]

For 2022, the proposed revenue program amounts to PhP3,289.5 billion, 14.2 percent higher than this year's revenue target. This already includes the estimated PhP2 billion revenue loss from RA 11523 or the Financial Institutions Strategic Transfer (FIST) law. As economic recovery gains more traction in 2022, government revenue is expected to follow. However, if the assumed economic growth target of 7.0 to 9.0 percent is not achieved, it will also impact on the government's revenue goal.

[2] SEPO estimate based on the program revenue effort

Table 9. Revenue Program: 2021 Revised Program vis-à-vis 2022 Proposed
(in PhP billion)

Particulars	*Actual*	*Program*	Proposed	Growth y-o-y (%)	
	2020	2021	2022	2020 - 2021	2021 – 2022
Revenues	2.856.0	2,881.5	3,289.5	0.9	14.2
ratio to GDP	15.9	14.5	15.1		
Tax Revenues	2,504.4	2,714.8	3,125.0	8.4	15.1`
ratio to GDP	14.0	13.7	14.4		
BIR	1,951.0	2,081.2	2,434.8	6.7	17.0
BOC	537.7	616.7	671.7	14.7	8.9
Non-Tax Revenue	351.3	166.2	164	-52.7	-1.3
BTr Income	219.7	74.7	61.2	-66.0	-18.1
Fees and charges	23.1	31.2	41.7	35.1	33.5
Privatization	0.48	0.5	0.5	5.3	0.0

Source: Bureau of the Treasury and Budget of Expenditures and Sources of Financing 2022

Disbursements. For 2021, government spending was set at PhP4,737.1 billion. Nearly half (46.6 percent) of this has already been spent in the first semester. Actual disbursement for the said period is PhP233.4 billion short of the programmed amount, owing largely to lower expenditures on subsidies and the slow disbursement of various national government agencies of their Personnel Services and Maintenance and Other Operating Expense (MOOE) budgets. The underspending of national government agencies amounted to PhP81.1 billion. In addition, a considerable amount of the authorized appropriation was not obligated or released to the agencies. Based on the Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) of the DBM, unobligated allotments and unreleased appropriations as of 30 June 2021 amounted to PhP1,388.9 billion and PhP282.1 billion, respectively.

Table 10. NG Expenditure First Semester Performance, 2020 and 2021
(in PhP billion)

Particulars	Actual		Program*	Growth y-o-y (%)	Actual vs. Program
	2020	2021	2021		
Interest Payments	187.7	208.5	257.9	11.1	-49.4
Allotments to LGUs	409.2	448.5	452.9	9.6	-4.4
Tax Expenditures	6.5	15.6	8.8	140.0	6.8
Net Lending	-29.9	6.8	12.3	-122.7	-5.5
Equity	0.6	46.0	56.0	7566.7	-10.0
Subsidy	169.5	88.3	178.2	-47.9	-89.9
Other Exp. Accts.	1,270.2	1,392.7	1,473.8	9.6	-81.1
Total	2,013.7	2,206.4	2,439.8	9.6	-233.4

*Source: Bureau of the Treasury and Department of Budget and Management *Based on the 2021 Quarterly Fiscal Program set by the DBCC on May 18, 2021.*

Equity allotment amounting to PhP10 billion for the Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) bill also remained unspent since the measure was not passed in Congress. Likewise, a lower net lending by PhP5.5 billion was recorded due to the repayments made by the Philippine Guarantee Corporation (PGC) and the slow availment of national government advances of other GOCCs. Spending for the Allotment for LGUs was also lower than target by PhP4.4 billion. On the upside, spending for interest payments was lower by PhP49.4 billion on account of lower rates of Fixed Rate Treasury Bonds, rejection of bids, lower interest rates and exchange rate adjustments.

For the full year 2021 disbursements target to be met, government agencies need to improve on their absorptive capacities and wrap up spending in the second semester. Catch-up plans required from agencies experiencing implementation delays should be closely monitored, otherwise underspending will likely persist.

For 2022, disbursement is projected to grow from PhP4,737 billion to PhP4,955 billion (or by 4.6 percent). This accounts for 22.4 percent of the projected GDP for 2022. Bulk of the budget will be allocated to current operating expenses (CoE) amounting to PhP3,626 billion though lower by 1.5 percent year-on-year. Capital Outlay (CO) will continue to see a notable increase from PhP1.03 trillion to PhP1.3 trillion or by 26.4 percent, indicating the importance given by the current administration to infrastructure spending. Meanwhile, net lending is given PhP28.7 billion, the same level in 2021.

Table 11. Disbursement Program: Revised 2021 Program vs. Proposed 2022
(in PhP billion)

Particulars	2020			2021	2022	Growth y-o-y (%)	
	Program	Actual	Difference	Program	Proposed	2020-2021	2021 – 2022
Current Operating Expenditures	3,475.6	3,326.4	-149.2	3,679.7	3,625.8	10.6	-1.5
Capital Outlay	832.7	878.9	46.2	1,028.7	1,300.1	17.0	26.4
Net Lending	26.9	22.1	-4.8	28.7	28.7	29.9	0.0
Total	4,335.2	4,227.4	-107.8	4,737.1	4,954.6	12.1	4.6
% of GDP	*23.0*	*23.6*		*23.9*	*22.4*		

Sources: 2020 Fiscal Program and 2022 National Expenditure Program, DBM.

National Government Debt. As of end-June 2021, the country's total outstanding debt amounted to PhP11,166 billion, or 60.4 percent of the estimated full year nominal GDP. It is 23.3 percent higher than the debt recorded in June 2020. Bulk of it (71.1 percent of the total) is domestic debt amounting to PhP7,938.6 billion while the rest is from foreign creditors. Domestic debt increased by 18.6 percent during the first semester driven by the issuances of government securities. Meanwhile, external debt grew by 4.1 percent year-on-year, most of it in the form of loans from commercial creditors. US dollar bonds contributed 41.6 percent of the total debt securities.

For 2022, the total outstanding debt is projected to grow by 20.2 percent to PhP13,418.1 billion. This will further push up the debt-to-GDP ratio to 61.6 percent which is above the oft-cited prudent limit of 60 percent debt-to-GDP ratio.[3] . According to sovereign credit rating agency Fitch's Ratings, the recent downgrading of their outlook on the country from stable to negative reflects the weakening of the country's fiscal finances as a result of the pandemic. Macro prudential measures should hence be strengthened to prevent the associated risks brought about by unsustainable levels of debt.

Table 12. NG Outstanding Debt Stock, 2016-2022

In PhP billion	2016	2017	2018	2019	2020	2021 June	2022 Projected
Actual Debt	6,090.3	6,652.4	7,292.5	8,731.3	9,795.0	11,166.0	13,418.1
share to GDP (%)	40.2	40.2	39.9	39.6	54.6	60.4	61.6[b]
Domestic	3,934.1	4,441.3	4,776.9	5,127.6	6,694.7	7,938.6	9,402.4
Foreign	2,156.2	2,211.2	2,515.6	2,603.7	3,100.3	3,227.5	4,015.7
Guarantees	513.7	478.1	487.6	488.7	458.3	438.6	na
Total Debt[a]	6,603.9	7,130.5	7,780.1	8,220.0	10,253.3	11,604.6	na
share to GDP (%)	43.6	43.1	42.6	42.1	57.2	62.8	na

Source of basic data: Bureau of Treasury and Philippine Statistics Authority

[a] Total Debt = Actual Debt + Guarantees

[b] Projected Nominal GDP for 2022 = PhP21,773.6 billion

Consolidated Public Sector Deficit. In 2020, the consolidated public sector deficit was about 5.5 percent of the GDP. This is estimated to increase significantly this year to 8.3 percent of the GDP or to PhP1,638.8 billion due to higher deficit of the national government(NG). For 2022, the public sector deficit is set to go down to PhP1,389.3 billion, equivalent to 6.4 percent of GDP as the NG deficit declines and with the expected improvement in the financial position of the Monitored Non-Financial Government (MNFGCs) and the LGUs.

Table 13. Consolidated Public Sector Financial Position, 2019-2022 *(in PhP Bn)*

Particulars	2019 Actual	2020 Actual	2021 Program	2022 BESF
TOTAL SURPLUS/(DEFICIT)	(184.6)	(981.6)	(1,638.8)	(1,389.3)
Ratio to GDP (%)	*(1.0)*	*(5.5)*	*(8.3)*	*(6.4)*
TOTAL Public Sector Borrowing Requirement	(626.2)	(1,349.5)	(1,813.2)	(1,608.1)
Ratio to GDP (%)	*(3.2)*	*(7.5)*	*(9.2)*	*(7.4)*
National Government	(660.2)	(1,371.4)	(1,855.6)	(1,665.1)
Monitored Non-Financial Government Corporations (MNFGCs)	13.5	(0.2)	13.8	28.3
Adjustments in net lending and equity to GOCCs	20.5	22.1	28.7	28.7
SSS/GSIS/PHIC	103.6	85.7	91.0	103.1
BSP	43.2	(5.1)	1.0	1.0
GFIs	25.4	21.4	23.6	26.4
LGUs	269.6	265.9	58.8	88.3

Source: Budget of Expenditures and Sources of Financing, 2022

Financing Program. To finance the public sector deficit in 2022, the government plans to borrow PhP2,472.8 billion, 23.0 percent of which will be sourced from external sources and 77.0 percent from domestic sources.

[3] Admission to the European Union require countries to have a public debt-to-GDP ratio of no more than 60.0 percent. A paper by the International Monetary Fund (2010) even suggests that for emerging economies like the Philippines, 40 percent is the debt-to-GDP ratio that should not be breached on a long-term basis.

With the projected decrease in NG deficit next year, the total net financing requirement will likewise decline by 10.3 percent.

Table 14. Government Financing Program 2020-2022 *(in PhP Bn)*

Particulars	2020 Actual	2021 Program	2022 Proposed
Net Financing	2,495,1	2,273.1	2,331.6
External (Net)	600.8	332.5	421.4
External (Gross)	742.4	581.4	560.6
Less: Amortization	141.7	248.8	139.2
Domestic (Net)	1,894.3	1,940.6	1,910.2
Domestic (Gross)	1,910.1	2,491.0	1,912.2
Less: Amortization	440.4	1,049.5	646.0
Change in Cash	1,123.6	417.4	666.5
Gross Financing Mix	100.0	100.0	100.0
Foreign	27.1	18.9	22.7
Domestic	72.9	81.1	77.3
Total Gross Financing	2,652.5	3,072.4	2,472.8
Total Net Financing Requirement	1,371.4	1,855.6	1,665.1
Growth Rate (%)	*107.1*	*35.3*	*-10.3*

Source: Budget of Expenditures and Sources of Financing, 2022

Dimensions of the 2022 Budget

For 2022, the national budget proposed by the Executive is projected to grow by 11.5 percent. Spending on social services will continue to receive the biggest slice of the pie at 38.3 percent. Education will continue to have the largest share but much of the increase in the proposed allocation for the social services sector is on account of the PhP101.6 billion increment in the appropriation for social security, welfare and employment. Of the said amount, some PhP80.050 billion will be utilized to augment the pension and gratuity funds of the national government, while the balance is allotted to the DSWD and DOLE. Economic services will account for the next biggest slice of the budget, with its appropriations set to increase by 11.4 percent. Expenditures for General Public Services and Defense are likewise projected to increase by 15.4 and 8.5 percent, respectively. The budget for interest payments on the other hand is expected to contract by 3.6 percent.

Table 15. Sectoral Allocation of the Budget

Sector	Program 2021	Proposed 2022	Growth (%) 2021-2022	Distribution (%) 2022
Economic Services	1,323.1	1,473.5	11.4	29.3
Social Services	1,668.0	1,921.8	15.2	38.3
Defense	206.8	224.4	8.5	4.5
General Public Services	747.8	862.7	15.4	17.2
Net Lending	28.7	28.7	0.0	0.6
Debt Service Interest Payments	531.5	512.6	-3.6	10.2
TOTAL	4,506.0	5,023.6	11.5	100.0

Source: Budget of Expenditures and Sources of Financing, DBM

Top Departments. The proposed budget of the top 10 departments amounts to PhP2,71.5 billion, comprising more than half (54.0 percent) of the total proposed budget for 2022. The 2022 ranking of the priority departments in terms of budget allocation remains unchanged vis-a-vis their ranking for 2021.

As expected, the education sector – the Department of Education (DepEd) including State Universities and Colleges (SUCs), the Commission on Higher Education (CHED), and the Technical Education and Skills Development Authority (TESDA) will get the highest allocation as mandated by the Constitution, with PhP773.6 billion. The Department of Public Works and Highways (DPWH) remains in the 2nd spot with a proposed budget of PhP686.1 billion, slightly smaller compared to its 2021 appropriation. It is followed by the Department of Interior and Local Government (DILG) which budget will slightly increase to PhP248.53 billion. The DILG budget includes the funding for the National Task Force to End Local Communist Armed Conflict (NTF-ELCAC) whose Barangay Development Program (BDP) will get an additional PhP9 billion (from PhP19 billion to PhP28.1 billion) in 2022. In 4th place is the Department of Health (including Philhealth) which budget will increase by 15.1 percent.

Table 16. Top 10 Departments, 2021 GAA vs 2022 Proposed Budget
(In billion PhP)

Agencies	2021 GAA		2022 Proposed		Growth (%)
	Amount	Rank	Amount	Rank	
Department of Education (DepEd) including SUCs, CHED and TESDA	751.7	1	773.6	1	2.9
Department of Public Works and Highways (DPWH)	695.7	2	686.1	2	-1.4
Department of Interior and Local Government (DILG)	249.3	3	250.4	3	0.4
Department of Health (DOH) including Philhealth	210.2	4	242.0	4	15.1
Department of National Defense (DND)	205.8	5	222.0	5	7.9
Department of Social Welfare and Development (DSWD)	176.9	6	191.4	6	8.2
Department of Transportation (DOTr)	87.9	7	151.3	7	72.1
Department of Agriculture (DA) and NIA	71.0	8	103.5	8	45.8
Supreme Court of the Philippines (SC)	45.0	9	45.3	9	0.7
Department of Labor and Employment	37.1	10	44.9	10	21.0
Top 10 Total	2,530.6		2,710.5		7.1
Share to Total 2022 Budget (%)	56.2		54.0		

Source: 2022 Budget At a Glance, Department of Budget and Management.

It must be noted though that the Department of Health initially proposed a PhP73.9 billion budget for pandemic response in 2022. This was slashed to just PhP19.68 billion by the DBM in the Executive's proposed budget. This could leave important aspects of the agency's pandemic response unfunded, including the hazard pay, meals, accommodation and transportation allowances, and life insurance of healthcare workers.

Moreover, DOH's proposed budget for National Health Insurance Program (NHIP) of PhP110 billion was also reduced to PhP80 billion, a move that could adversely affect its indirect beneficiaries such as indigents, senior citizens, persons with disabilities, poor Filipinos, SK officials, national athletes and coaches, and PAMANA program beneficiaries whose health insurance premiums are subsidized by the government. In 2020, the PhilHealth projected that its actuarial life would only last until 2022, if it is not given enough funds to face the pandemic. Faced with this significant reduction in its 2022 budget, it may be time to ask how this will affect its actuarial life and the implementation of the Universal Health Care Law.