



2008 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

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DIMENSIONS OF THE 2008 NG BUDGET*

“...we shall work towards a sustainable budget by putting funds at the right place at the right time, by managing resource allocation effectively, and by ensuring the desired results through increased capability and accountability.”

“Past budgets had stretched resources too thinly to impact significantly on the lives of our countrymen. Not this time. The 2008 budget is focused on priority areas that will make a difference in the life of our people.”

- The President's Budget Message, FY 2008

The President in her Budget Message declared that next year's budget focuses on a “*social payback agenda*”. The National Government intends to compensate for some under-investment in areas that should make a difference in the lives of Filipinos. Realizing the promise of a social payback, however, depends largely on whether this government will be able to sustain the growth momentum to create sufficient fiscal space for new programs and projects. Unless government intensifies its revenue-raising efforts, NG may have to make important choices between the President's social payback agenda and NG's commitment to a balanced budget by next year.

For 2008, the President submitted to Congress an expenditure program (*obligation basis*) amounting to P1,227 billion. This amount is P100.9 billion or 9% higher than the 2007 level of P1,126.1 billion. In real terms, the programmed increase for 2008 is 5.3% which is a slight improvement from the real growth of 4.8% in 2007. While the expenditure ceiling was set at P1,227 billion, the cost of existing projects by 2008 (*forward estimates*) was determined at only P1,169.3 billion. This gives NG some fiscal space equivalent to P57.7 billion which it intends to use for financing new projects and expand the existing ones.

Net of debt service (*interest payments and net lending*), the 2008 budget amounts to P919.3 billion or 12.6% of the projected gross domestic product (GDP). This is an improvement from previous years when the budget-to-GDP ratio consistently dropped (except with slight

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recovery in 2006) from 16.1% in 2000 to 12.1% in 2007. However, this still pales in comparison with the recommended efficient and growth-maximizing budget-to-GDP ratio of 25%.¹ A P919.3 billion budget (net of debt service) means that “productive spending” on per capita basis will improve from P9,006 in 2007 to about P10,162 next year.²

SOURCES OF APPROPRIATIONS

Programmed New Appropriations account for P656.2 billion or 53.5% of the total obligation program—of which P367.3 billion goes to personal services. On the other hand, P570.8 billion or 46.5% are automatic appropriations which include two large items: interest payments (P295.8 billion) and Internal Revenue Allotment (P210.7 billion). Automatic appropriations also include an allocation of P17.5 billion for personal services primarily for retirement and life insurance premiums (RLIP).

TABLE I
BUDGET LEVEL BY SOURCE OF APPROPRIATIONS
(IN BILLION PESOS)

PARTICULARS	Amount		% Share to Total Budget	
	2007	2008	2007	2008
Programmed New Appropriations	573.91	656.24	50.96	53.48
Of which:				
Personal Services ^{a/}	341.61	367.34	30.33	29.94
Automatic Appropriations	552.23	570.76	49.04	46.52
Of which:				
Interest Payments	318.19	295.75	28.25	24.10
Internal Revenue Allotment	183.94	210.73	16.33	17.17
Sub-Total, OBLIGATION PROGRAM	1,126.14	1,227.00	100.00	100.00
ADD:				
Unprogrammed New Appropriations	61.13	114.49	-	-
TOTAL APPROPRIATIONS	1,187.27	1,341.49	-	-

a/ Net of P17.5 billion automatic appropriations for personal services

Sources of basic data: 2007 GAA, 2007 & 2008 BESF (DBM)

¹ Prof. Renato E. Reside, Jr. of the UP School of Economics was commissioned by NEDA to develop an inter-sectoral budget allocation model and to determine the efficiency and growth-maximizing NG budget level.

² Per capita spending is computed using the population projections of 88.7 million (2007) and 90,457,200 (2008) by the National Statistics Office.

Total mandatory expenses for 2008 amounts to P938.1 billion or 76.5% of the total obligation program. These include all items under automatic appropriations (e.g. IRA and interest payments) and personal services which can be considered also as non-discretionary. As a result, only P288.9 billion or 23.5% of the budget will go under congressional scrutiny or may be subject to some reallocation during budget legislation. On a positive note, discretionary spending for 2008 is expected to be slightly higher than in 2007 (20.6%) due to a significant decline in interest payments.

Aside from the P1,227 billion obligation program, NG also proposes a P114.5 billion Unprogrammed Appropriations which can be released only when revenue collections exceed the original revenue targets. In the case of foreign-assisted projects (FAPs), the existence of a perfected loan agreement shall be sufficient compliance for the issuance of a Special Allotment Release Order (SARO) covering the loan proceeds.

This means that even though the revenue targets are not met, FAPs under unprogrammed appropriations can proceed given a different funding source—i.e., foreign loans. Thus, funds may be available for unprogrammed FAPs but their implementation can result in bigger deficits and more borrowing than originally programmed. Also, NG may have the tendency to bloat the budget by transferring FAPs from programmed to unprogrammed appropriations. However, as NG remains committed to a zero deficit position by 2008, additional expenditures resulting from the implementation of unprogrammed FAPs could mean sacrificing some projects originally programmed for the year.

SECTORAL APPROPRIATIONS

According to the President's Budget Message, the 2008 budget will give priority to infrastructure, education, health, housing, and science & technology. Expectedly, next year's budget should be able to reflect significant increases in the social and economic services sectors.

Table 2 shows that all sectors (except interest payments) would increase both in amounts and shares to total budget. Higher sectoral allocations can be partly attributed to a much lower programmed interest payments of P295.8 billion compared with P318.2 billion in 2007. In terms of share to total budget, interest payments have been consistently declining from a high of 31.6% in 2005 to 24.1% in 2008. Lower interest payments may be due to the strengthening of the peso viz-a-viz the dollar and to a favorable credit market that allows government to capitalize on lower interest-bearing loans.

TABLE 2
NG EXPENDITURE PROGRAM BY SECTOR, 2006-2008

PARTICULARS	Levels (Billion Pesos)			Growth Rates		% Share to Total Budget		
	2006	2007	2008	06-07	07-08	2006	2007	2008
Economic Services	221.85	242.23	287.45	9.18	18.67	21.23	21.51	23.43
Social Services	282.51	320.46	368.88	13.43	15.11	27.04	28.46	30.06
Defense	51.53	53.81	61.42	4.42	14.16	4.93	4.78	5.01
General Public Services	178.70	182.37	201.50	2.05	10.49	17.10	16.19	16.42
Net Lending	0.13	9.10	12.00	6847.33	31.85	0.01	0.81	0.98
Interest Payments	310.10	318.19	295.75	2.61	-7.05	29.68	28.25	24.10
Total	1044.83	1126.14	1227.00	7.78	8.96	100.00	100.00	100.00

Source of basic data: 2008 BESF (DBM)

The sectoral distribution of the budget shows that social services will receive the biggest allocation of P368.9 billion or 30.1% of the P1,227 billion budget. This is the second consecutive year that social services will get a higher allotment than interest payments. In 2007, social services was slightly higher than interest payments by P2.3 billion but the difference in 2008 is more pronounced at P73.1 billion. In nominal terms, social services will also enjoy the highest increase of P48.4 billion over the P320.5 billion that was appropriated for the sector in 2007.

Meanwhile, NG allocates P287.4 billion for economic services which is P45.2 billion higher than the 2007 expenditure level of P242.2 billion. After a continuous decline in the sector's share to total budget (from 24.5% in 2000 to its lowest at 18.4% in 2005), a sizeable increase in spending for economic services in 2008 could prompt significant improvements in the sector as its share goes up to 23.4%. Note that in 2006, the share of economic services also increased considerably to 21.2% but it barely improved in 2007.

The National Government has also set aside for General Public Services a total of P201.5 billion or about 16.4% of the 2008 budget. Defense gets P61.4 billion (5%) or a P7.6 billion increase on its appropriation for 2007. Meanwhile, NG allocates P12 billion for net lending to take care of NG advances to service the guaranteed debts of government-owned and controlled corporations (GOCCs). Table 3 shows that actual net lending in 2005 and 2006 has been considerably lower than originally programmed. This may indicate improvements in cash flows of GOCCs or their ability to repay/settle NG advances. However, a relatively high net lending of P12 billion for 2008 poses a question as to the basis of NG's projection given a rather high repayment rate.

Net lending is treated as automatic appropriations similar to interest payments. In effect, Congress has no control over its utilization and much more over the approval of GOCC loan agreements that will have to be guaranteed by the National Government. In the event that guarantees are converted into actual liabilities, debt servicing becomes part of automatic appropriations which do not require Congressional authorization.

TABLE 3
NET LENDING, 2005-2008
(AMOUNTS IN BILLION PESOS)

PARTICULARS	2005	2006	2007 Jan-Aug	2008
NET LENDING				
Program	7.60	8.25	9.10	12.00
Actual [a-b]	1.95	0.13	3.22	-
Advances [a]	23.54	27.19	10.50	-
LESS: Repayments [b]	21.59	27.06	7.28	-
Repayment Rate [b/a]	91.72	99.52	69.33	-

Sources of basic data: COR, BTr and BESF (2005-2008)

ECONOMIC SERVICES

Total allocation for economic services amounts to P287.4 billion—the bulk of which amounting to P112.8 billion (39.2%) will go to Communications, Roads and Other Transportation. Of the P112.8 billion, about 92.4% accounts for the combined allocation of the Department of Public Works and Highways (P81.9 billion) and the Department of Transportation and Communications (P22.3 billion). The increase of P13 billion for DPWH under this sub-sector apparently makes up for the budgetary cut in 2007 when its budget dropped from P73.9 billion (2006) to P68.9 billion (2007). Meanwhile, another P12.3 billion will go to DPWH for water resources development and flood control projects.

Meanwhile, subsidy to local government units (*which is part of the IRA*) accounts for P73.8 billion or roughly 25.7% of the total budget for economic services. About P51.2 billion will go to the Agriculture, Agrarian and Natural Resources sub-sector—of which P23.6 billion will be used for the Agriculture and Fisheries Modernization Program. Although the 2008 allocation for agriculture, agrarian and natural resources is higher by P6.9 billion than in 2007 (P44.4 billion), the increment may not be that much if reckoned with the 2006 spending level of P47.7 billion.

TABLE 4
ECONOMIC SERVICES EXPENDITURE PROGRAM, 2006-2008

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2006	2007	2008	2006	2007	2008
Agriculture, Agrarian Reform and Natural Resources	47.66	44.38	51.24	4.56	3.94	4.18
Trade and Industry	4.05	3.32	4.25	0.39	0.29	0.35
Tourism	1.72	1.88	1.91	0.16	0.17	0.16
Power and Energy	2.64	2.75	4.34	0.25	0.24	0.35
Water Resources Development and Flood Control	11.11	10.48	12.44	1.06	0.93	1.01
Communications, Roads and Other Transportation	93.88	100.72	112.82	8.98	8.94	9.19
Other Economic Services	2.54	14.32	26.70	0.24	1.27	2.18
Subsidy to Local Government Units	58.26	64.38	73.76	5.58	5.72	6.01
Total	221.85	242.23	287.45	21.23	21.51	23.43

Source of basic data: 2008 BESF (DBM)

Also, NG allocates P4.3 billion for the Power and Energy Sector. The Department of Energy which accounts for 83.9% of this sub-sector's budget will almost double its 2007 spending program to P3.6 billion the next year. Sadly, however, the Tourism sector has always been sidelined with a miniscule budget of P1.9 billion. The budget for the Department of Tourism stays at P1.6 billion. The increase of P29 million for the tourism sector can be attributed basically to a higher allocation for Miscellaneous Personnel Benefits Fund.

SOCIAL SERVICES

On top of the President's list of deliverables are education, health and housing programs which fall under the social services sector. Total allocation for social services amount to P368.9 billion or 30.1% of the proposed expenditure program for 2008. Almost half of the social services budget (P181.9 billion) will go to education—of which P144 billion has been allocated to the Department of Education and another P19.4 billion to the state universities and colleges (SUCs). Although the budget for education grows every year (in absolute amounts), data shows that its share to total budget has declined consistently from 16.9% (2002) to 13.8% (2006). In 2007, however, the education sector's share started to step up to 14.6% and further growing to 14.8% next year.

Although the education budget gets the highest budgetary allocation, the following sub-sectors actually grew at a much higher rate: Housing (203.2%), Social Security, Welfare and

Employment (24.9%) and Health (24.7%). The budget for the housing sub-sector was raised from P2.5 billion (2007) to P7.6 billion (2008)—apparently making up for the huge budgetary cut (P3.6 billion) in 2007. The National Housing Authority posts the biggest increment with a budget growing from P257 million (2007) to P5 billion (2008) primarily to finance the resettlement of informal settlers that will be affected by the rehabilitation of the PNR South-North Light Rail Project.

TABLE 5
SOCIAL SERVICES EXPENDITURE PROGRAM, 2006-2008

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2006	2007	2008	2006	2007	2008
Education, Culture, and Manpower Development	144.23	164.10	181.86	13.80	14.57	14.82
Health	16.07	18.36	22.90	1.54	1.63	1.87
Social Security, Welfare and Employment	50.82	55.38	69.18	4.86	4.92	5.64
Land Distribution (ARF)	2.66	4.27	4.13	0.25	0.38	0.34
Housing and Community Development	6.08	2.51	7.62	0.58	0.22	0.62
Other Social Services	1.06	7.79	5.23	0.10	0.69	0.43
Subsidy to Local Government Units	61.59	68.06	77.97	5.90	6.04	6.35
Total	282.51	320.46	368.88	27.04	28.46	30.06

Source of basic data: 2008 BESF (DBM)

Meanwhile, NG allocates for health services a total of P22.9 billion or 1.9% of the total programmed expenditure. This is the third consecutive year (2006-2008) that the health budget is going to increase unlike in previous years when the budget for health fluctuated between P14.7 billion and P12.4 billion (2000-2005). Out of the P22.9 billion health budget, P16.3 billion was allocated to the Department of Health (*including attached agencies*) and P3.5 billion to LGUs as premium subsidy for indigents under the National Health Insurance Program. In particular, the budget for the Health Facilities Enhancement Program which increased from P44 million (2007) to P1.3 billion (2008) should be able to produce physical improvements in DOH-maintained hospitals. Considering the devolution of health services/functions to LGUs, it is important that future programming for health should take into account the aggregate spending for health at the local level.

GENERAL PUBLIC SERVICES

Allocation for General Public Services accounts for P201.5 billion or 16.4% of the total budget for 2008. Unlike in 2007 when the sector got a meager increase of P3.7 billion, next year's allocation is higher by P19.1 billion with most of the increases going to Public Order and Safety (P8.4 billion) and as Subsidy to LGUs (P7.5 billion).

By sub-sector, the biggest allocation goes to Public Order and Safety (P73.3 billion) which includes among others the Department of Interior and Local Government (P49.8 billion) and the Judiciary (P10.2 billion). Although the budget for Public Order and Safety is expected to increase by P8.4 billion in 2008, no significant increases in the agency budgets have been observed since the bulk of the increase (P6.6 billion) has been set aside for Miscellaneous Personnel Benefits Fund.

TABLE 6
PUBLIC SERVICES EXPENDITURE PROGRAM, 2006-2008

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget		
	2006	2007	2008	2006	2007	2008
General Administration	62.70	59.14	61.34	6.00	5.25	5.00
Public Order and Safety	63.85	64.91	73.31	6.11	5.76	5.98
Other General Public Services	5.55	6.82	7.84	0.53	0.61	0.64
Subsidy to Local Government Units	46.61	51.50	59.00	4.46	4.57	4.81
TOTAL	178.70	182.37	201.50	17.10	16.19	16.42

Source of basic data: 2008 BESF (DBM)

OBJECT OF EXPENDITURES

Table 7 shows the breakdown of expenditures by expense class—personal services (P384.8 billion), maintenance and other operating expenses (P682.5 billion) and capital outlay (P159.7 billion). Personal services accounts for 31.4% of the budget in 2008 and is expected to grow at 14.7% or by P49.4 billion. A huge increase for PS includes an allocation for the proposed second round of increase in salaries of government personnel by next year.

Maintenance and Other Operating Expenses (MOOE) accounts for P682.5 billion or more than half (55.6%) of the P1,227 billion budget. Two biggest items under MOOE—i.e., interest payments (P295.8 billion) and Internal Revenue Allotment (P210.7 billion) have a combined allocation of P506.5 billion which takes away almost two-thirds (74.2%) of total

MOOE. With LGUs getting another P8 billion as special shares from national taxes and GOCCs receiving P9.8 billion as subsidies, NG is practically left with only P158.2 billion for other operating expenses like office supplies, training/scholarships, transportation, and communication, among others. Although Other MOOE for 2008 will increase by P12.3 billion (8.4%), the growth is considerably low compared with that of 2007 when the allocation for Other MOOE grew by P33.4 billion (29.7%) from the 2006 level.

TABLE 7
EXPENDITURE PROGRAM BY EXPENSE CLASS, 2006-2008

PARTICULARS	Levels (Billion Pesos)			% Share to Total NG Budget			Growth Rates	
	2006	2007	2008	2006	2007	2008	06-07	07-08
Personal Services	323.63	335.38	384.83	30.97	29.78	31.36	3.63	14.74
Maintenance and Other Operating Expenses	615.63	659.27	682.51	58.92	58.54	55.62	7.09	3.52
Internal Revenue Allotment	166.47	183.94	210.73	15.93	16.33	17.17	10.50	14.57
Special Shares to LGUs	1.61	6.60	7.97	0.15	0.59	0.65	309.06	20.87
Interest Payments	310.10	318.19	295.75	29.68	28.25	24.10	2.61	(7.05)
Subsidy	24.93	4.65	9.84	2.39	0.41	0.80	(81.34)	111.51
Other MOOE	112.51	145.90	158.22	10.77	12.96	12.89	29.68	8.44
Capital Outlay	105.57	131.49	159.66	10.10	11.68	13.01	24.55	21.43
Infrastructure	84.78	90.97	107.77	8.11	8.08	8.78	7.30	18.48
Corporate Equity	6.25	1.94	2.51	0.60	0.17	0.20	(68.89)	29.30
Net Lending	0.13	9.10	12.00	0.01	0.81	0.98	6,847.33	31.85
Other Capital Outlays	14.40	29.48	37.37	1.38	2.62	3.05	104.65	26.80
TOTAL	1,044.83	1,126.14	1,227.00	100.00	100.00	100.00	7.78	8.96

Source of basic data: 2008 BESF (DBM)

Total capital outlay (including net lending) for 2008 amounts to P159.7 billion—of which P107.8 will go to infrastructure. Table 7 shows that capital spending has been growing with the bulk of the increase coming from infrastructure. From only P84.8 billion in 2006, infrastructure spending grew by 7.3% to P91 billion in 2007 and at a much higher rate of 18.5% or P16.8 billion higher by next year. This is a positive development insofar as improving the country's competitiveness status and in ensuring more efficient transportation and communication services which are requisites for investments, tourism, and overall service delivery.

REGIONAL ALLOCATION

Table 8 shows that the total amount of P769.1 billion (62.7%) will be retained at the national level—P499.8 billion of which will go to the Central Office and P269.30 billion for programs/activities of nationwide application. The amount of P769.1 billion includes the allocation for interest payments (P295.8 billion), which in effect leaves NG with only P473.3 billion for its operations and nationally-initiated programs.

TABLE 8
NG REGIONAL EXPENDITURE PROGRAM, 2008

PARTICULARS	Amount (In PB)	% Share	Per Capita
Central Office	499.79	40.73	-
Nationwide	269.30	21.95	-
Regional	457.91	37.32	-
Region IV	60.63	4.94	4,248.91
NCR	46.93	3.82	4,170.77
Region III	42.34	3.45	4,334.12
Region VI	38.07	3.10	5,221.96
Region VII	30.15	2.46	4,463.30
Region V	29.12	2.37	5,296.73
Region VIII	26.67	2.17	6,241.43
Region I	25.61	2.09	5,149.09
Region X	24.31	1.98	5,824.71
Region XI	22.42	1.83	5,309.66
Region II	21.24	1.73	6,535.89
Region XII	20.15	1.64	5,160.81
Region IX	19.39	1.58	5,785.16
ARMM	18.95	1.54	5,579.16
CARAGA	16.91	1.38	6,892.07
CAR	15.03	1.22	9,244.48
TOTAL	1,227.00	100.00	13,564.43

Sources of basic data: 2008 BESF (DBM), National Statistics Office

On the other hand, roughly one-third (37.3%) of the budget for 2008 will be used to support operations/programs at the regional level. Total regional allocation of P457.9 billion can be broken down by major geographic division, as follows: Luzon, P240.9 billion (52.6%); Mindanao, P122.1 billion (26.7%); and Visayas, P94.9 billion (20.7%).

Top three regions with high budgetary allocations are Regions IV (P60.6 billion), National Capital Region (P46.9 billion), and Region III (P42.3 billion). In per capita terms, however,

these same regions appear to have the lowest allocation. Migration to Metro Manila continues to be high due to the concentration of employment opportunities in NCR and neighboring regions. Also, industrial estates and real property development have conveniently located in areas (*Laguna, Cavite and Bulacan*) close to the capital. Meanwhile, the Cordillera Administrative Region (CAR) and CARAGA which will receive meager allocations in 2008 appear to be more favored given a higher per capita allocation of P9,244 (CAR) and P6,892 (CARAGA).

The regional distribution for public works and highways (DPWH) shows that higher allocations will go to the following: Region III (P6.4 billion), NCR (P6.3 billion), Region IVa (P5 billion) and Region XI (P4.1 billion). On the other hand, the distribution of the P144 billion budget (*net of School Building*) for DepEd shows that Region IVa will get the highest allocation (P12.2 billion) followed by NCR (P11.8 billion), Region III (P11.4 billion) and Region VI (P11.6 billion).

ALLOCATION BY DEPARTMENT

A total amount of P535.2 billion (net of Special Purpose Funds) or about 43.6% of the proposed 2008 budget will be shared by the various departments and executive offices. A comparison of the 2007 and 2008 budgets shows that practically the same agencies belong to the top ten departments with higher allocations except for the Commission on Elections which was replaced by the Department of Foreign Affairs (DFA). The COMELEC budget for 2007 was considerably high during an election year—thus a drastic decline from P9.3 billion (2007) to P4.4 billion (2008) can be expected. On the other hand, DFA's budget of P7.5 billion in 2007 grew by P2.6 billion (34.7%) in 2008. A significant increase of P2.19 billion (based on 2007 GAA) for foreign affairs will support the diplomatic and consular services including the implementation of the Migrant Workers and Overseas Filipinos Act of 1995.

Table 9 shows that the top ten departments with higher allocations are as follows: Education/School Building Program (P146 billion), Public Works and Highways (P94.5 billion), Interior and Local Government (P52.6 billion), National Defense (P51.1 billion), Agriculture/AFMA (P23.8 billion), Transportation and Communications (P22.3 billion), State Universities and Colleges (P19.4 billion), Department of Health (P16.3 billion), the Judiciary (P10.2 billion), and Foreign Affairs (P10.1 billion).

Even though the highest allocation of P146 billion³ goes to the Department of Education (DepEd), it is the Department of Public Works and Highways (DPWH) that will get the biggest increment. From P79.5 billion in 2007, the DPWH budget will increase by P15 billion to P94.5 billion next year. Out of P94.5 billion budget for DPWH, P75.3 billion will be used for infrastructure projects of which P52.6 billion are locally-funded and P22.7 billion are foreign-assisted. Unlike in 2007 when 40% of the infrastructure projects are funded through foreign loans, NG would rely less on FAPs (30%) in 2008.

On top of the P94.5 billion that was set aside for DPWH, the department will receive an additional P7.4 billion representing the DPWH's share from the Motor Vehicle User Charge (MVUC). Of the earmarked revenues for DPWH from MVUC collections, P6.4 billion will accrue to the Special Road Support Fund for maintenance of roads/bridges and improvement of road drainage. Another P602.4 million accruing to the Special Road Safety Fund shall be used for the installation of adequate and efficient traffic lights and road safety devices. Also, P401.6 million from the road users' tax collection will go to the Special Local Road Fund for the maintenance of local roads, traffic management and road safety devices.

Meanwhile, the DepEd budget is expected to increase by P8.6 billion from P137.3 billion in 2007 to P146 billion in 2008. About P5.8 billion of the increase for DepEd will go to Operations (under OSEC) and P2.3 billion to projects (both locally-funded and foreign-assisted). In particular, some of the increases in the DepEd budget can be traced to the following programs: (a) Pre-School Education Program from P500 million to P2 billion; (b) mass production of science equipment from P50 million to P698 million; (c) "Malusog Na Simula, Yaman Ng Bansa" Nutrition Program which accounts for the P500 million increase in the budget for School Health and Nutrition Program from P2.1 billion to P2.6 billion; (d) Basic Education Madrasah from P100 million to P200 million; and (e) Alternative Learning Program from P145.1 million to P240.4 million.

The total programmed spending for school building in 2008 amounts to P5.8 billion. This includes the P2 billion for DepEd School Building Program under Special Purpose Funds and P3.8 billion as locally-funded project under the regular DepEd budget (OSEC). Compared with 2007, the allocation of P5.8 billion for school building next year is higher only by about P390 million. The School Building Program in 2007 (under SPF) was appropriated P1.8 billion, and although allocation for construction of school buildings in areas with acute classroom shortage (under OSEC) seems to have increased in 2008 by P2.1 billion, the 2007 GAA actually provided a separate funding of P2 billion for school buildings for typhoon stricken areas.

³ The amount of P146 billion for DepEd includes the P2 billion allocation for the School Building Program.

TABLE 9
NG EXPENDITURE PROGRAM BY DEPARTMENT
(IN BILLION PESOS)

PARTICULARS	2007	2008	Increase/Decrease	
			Amount	%
<i>Department of Education, Culture and Sports a/</i>	137.3	146.0	8.6	6.3
<i>Department of Public Works and Highways</i>	79.5	94.5	15.0	18.8
<i>Department of Interior and Local Government</i>	51.6	52.6	1.0	1.9
<i>Department of National Defense</i>	49.5	51.1	1.6	3.2
<i>Department of Agriculture b/</i>	18.8	23.8	5.0	26.4
<i>Department of Transportation and Communications</i>	17.9	22.3	4.4	24.8
<i>State Universities and Colleges</i>	18.5	19.4	0.9	4.7
<i>Department of Health</i>	12.1	16.3	4.2	34.8
<i>The Judiciary</i>	9.9	10.2	0.3	3.4
<i>Department of Foreign Affairs</i>	7.5	10.1	2.6	34.7
Autonomous Regions	9.1	8.6	(0.5)	(5.0)
Department of Environment & Natural Resources	7.5	8.3	0.8	10.6
Department of Finance	7.6	7.9	0.3	4.3
Department of Justice	6.0	6.2	0.3	4.5
Department of Labor and Employment	5.1	5.9	0.8	16.4
Congress of the Philippines	5.6	5.6	(0.1)	(0.9)
Other Executive Offices	5.4	5.5	0.2	3.1
Department of Science and Technology	3.6	5.3	1.7	46.9
Office of the President	3.9	5.3	1.4	35.8
Department of Social Welfare and Development	3.6	4.7	1.1	31.1
Commission on Elections	9.3	4.4	(4.9)	(52.8)
Commission on Audit	4.1	4.1	0.0	1.1
Department of Agrarian Reform b/	5.8	4.1	(1.7)	(29.1)
Department of Energy	1.9	3.6	1.8	95.4
Department of Trade and Industry	2.2	2.5	0.3	11.6
National Economic and Development Authority	1.8	1.8	(0.0)	(1.9)
Department of Tourism	1.6	1.6	(0.0)	(0.0)
Office of the Ombudsman	1.0	1.0	0.0	0.6
Office of the Press Secretary	0.9	0.9	(0.0)	(0.8)
Department of Budget and Management	0.7	0.8	0.1	17.7
Civil Service Commission	0.5	0.5	0.0	0.2
Commission on Human Rights	0.2	0.2	0.0	4.7
Office of the Vice-President	0.1	0.2	0.0	37.3
Joint-Legislative-Executive Offices	0.0	0.0	0.0	0.6
Total Department	489.9	535.2	45.3	9.2
Total Special Purpose Funds	636.3	691.8	55.6	8.7
Grand Total	1,126.1	1,227.0	100.9	9.0

a/ includes DepEd School-Building Program

b/ includes AFMA

Source of basic data: 2008 BESF (DBM)

The President in her Budget Message claims that more grantees under the Government Assistance to Students and Teachers in Private Education (GASTPE) will benefit from the program in 2008 (from 458,872 to 711,750 grantees). However, the allocation of P2.9 billion for GASTPE in 2008 is actually lower by P240 million than the 2007 appropriations of P3.1 billion.

Notably, the budget for Department of Science and Technology (DOST) posts the highest growth rate of 46.9% although in absolute amount this translates only to a P1.7 billion increase from P3.6 billion (2007) to P5.3 billion (2008). Increases in the DOST budget can be traced to the following items: (a) scholarships to increase by P533 million to P1.4 billion; (b) R&D and research capability building to increase by P200 to P537.9 million; and (c) promotion of S&T including procurement/production of multimedia instructional materials for mathematics (from P52.9 million to P388.9 million).

SPECIAL PURPOSE FUNDS

The proposed 2008 budget allocates a total of P691.8 billion as Special Purpose Funds (SPFs). Although interest payments (P295.8 billion) and allocations to local government units or ALGU (P229.5 billion) are the two biggest items under SPF, the highest growth would go to the Miscellaneous Personnel Benefits Funds (MPBF).

From only P6.9 billion, the MPBF will grow more than five times to P43.7 billion in 2008. Aside from the 10% increase in salaries of government personnel in July 2007, NG provides a stand-by fund in case another round of increase is approved under the proposed Salary Standardization Law III. The Miscellaneous Personnel Benefits Funds will also be used to pay for deficiencies in authorized salaries, bonuses, and allowances including arrears in government premium contributions. The 2008 National Expenditure Program (NEP), however, does not provide the details of the arrears by agency unlike in 2006 and 2007 when payment for arrears were specified—*e.g.*, for Government Service Insurance System (GSIS), Home Development and Mortgage Fund (HDMF), and Philippine Health Insurance Corporation (PHIC).

Note that the NEP specifically provides that any disbursement from the MPBF shall be considered as payment on the principal and not on any interest, penalty or surcharges imposed for late remittances. Interestingly, a special provision under MPBF declares that any interest and other similar charges on NG are hereby “condoned and extinguished”. Furthermore, it states that employee benefits shall not be reduced due to any deficiency

caused by any increase (and subsequently a possible delay in remittance) in government counterpart contribution for which the DBM was not consulted.

Out of the P229.5 billion total ALGU, about 91.8% is accounted for by the Internal Revenue Allotment (P210.7 billion). The increase of P30.8 billion in ALGU can be attributed mainly to the natural growth in LGUs' share in the national internal revenues (IRA) which grew by P26.8 billion from P183.9 billion in 2007. In addition to the IRA, the LGUs will also receive an additional amount of P5.5 billion as special shares from national taxes—e.g., P4 billion from VAT collections (RA 7643), P738.6 million as shares in the Utilization and Development of National Wealth, and P607.5 million from Tobacco Excise Tax (RA 7171).

TABLE 10
NG EXPENDITURE PROGRAM BY SPECIAL PURPOSE FUNDS
(IN BILLION PESOS)

PARTICULARS	2007	2008	Increase/Decrease	
			Amount	%
Budgetary Support to Government Corporations <i>b/</i>	15.9	24.7	8.7	54.8
AFP Modernization Fund	5.0	5.0	-	-
Agrarian Reform Fund	8.8	8.9	0.1	1.5
Allocations to Local Government Units <i>b/</i>	198.7	229.5	30.8	15.5
Calamity Fund	9.0	2.0	(7.0)	(77.8)
Contingent Fund	0.8	0.8	-	-
E-Government Fund	1.0	1.0	-	-
International Commitments Fund	1.9	1.9	-	-
Miscellaneous Personnel Benefits Fund	6.9	43.7	36.8	534.5
National Unification Fund	0.1	0.1	-	-
Pension and Gratuity Fund	48.0	60.0	12.0	24.9
Priority Development Assistance Fund	11.4	6.2	(5.2)	(45.5)
Tax Expenditures	10.5	12.3	1.7	16.3
Debt Service -Interest Payment	318.2	295.8	(22.4)	(7.1)
Total Special Purpose Funds	636.3	691.8	55.6	8.7

b/ includes AFMA

Source of basic data: 2008 BESF (DBM)

ALGU also includes an allocation of P3.5 billion as premium subsidy for indigents under the National Health Insurance Program. The Kilos Asenso Support Fund which was dropped from the budget after some heated debates last year was reintroduced in the 2008 budget. The amount of P3 billion for “Kilos Asenso” will be used as NG counterpart for projects

undertaken in partnership with LGUs which will have to shoulder half of the project cost. Projects that can be funded under the Kilos Asenso Support Fund include growth-enhancing projects such as the construction of farm-to-market roads, small bridges, daycare centers, improvement of potable water supply, and for agro-forestry projects.

An amount of P2.5 billion has also been included in the 2008 ALGU as second installment of the P17.5 billion NG obligation due to a Supreme Court decision over a case involving the 2001 IRA which was set aside under Unprogrammed Fund. Remittance to local governments will be spread over a period of seven years (2007-2013) but LGUs have the option to avail of the IRA Monetization Program (Executive Order No. 494, s. 2006) where LGUs can claim in advance through a trustee bank (DBP and LBP) their respective shares in the IRA Balance but at a discounted value.

Pension and Gratuity Fund (PGF) is also expected to increase from P48 billion in 2007 to P60 billion next year. An amount of P38.2 billion has been allotted for the payment of pensions, P20.8 billion for the payment of retirement and terminal leave benefits, and P1 billion to take care of the incentive package for employees availing of the Rationalization Program per Executive Order 366 (series 2004). As of September 2008, a total of 23 rationalization plans have been approved—based on which NG expects to save about P397 million due to a reduction in authorized plantilla positions.

Under the Pension and Gratuity Fund, NG sets aside P6.2 billion for the pension adjustments of military (P4.2 billion) and uniformed personnel (P2 billion). By law, pensions of retired military/uniformed personnel should be adjusted corresponding to the increase in salary of those in the active service. The 2008 allocation under PGF is supposed to cover both the second and third tranches of the pension adjustment.

The Special Purpose Funds also includes P24.7 billion as budgetary support to corporations. This amount is P8.7 billion higher than P15.9 billion subsidy in 2007. Government corporations with high budgetary support include the National Housing Authority (P5 billion) to cover the cost of relocating families/informal settlers along the rights-of-way of the North-South Rail Linkage Project, the National Food Authority (P2 billion) for its price stabilization and food security program, and the National Home Mortgage Finance Corporation (P1.4 billion) for its Community Mortgage Program.

CASH DISBURSEMENT

Total projected cash disbursement for 2008 amounts to P1,236.2 billion which is P9.2 billion higher than the programmed obligation of P1,227 billion. Disbursements in 2008 will take care of accounts payable (APs) from prior years which NG needs to settle in addition to current year's expenditures.

A breakdown of the programmed cash disbursements shows 82.7% as current operating expenditures (P1,022 billion), 16.4% as capital outlays (P202.2 billion), and P12 billion as net lending.

To achieve a balanced budget by 2008, it is imperative that NG's revenue collecting agencies meet the full-year revenue target of P1,236.2 billion in order to fund the same amount of programmed disbursements.