

Analysis of the 2022 President's Budget

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DECEMBER 9, 2021

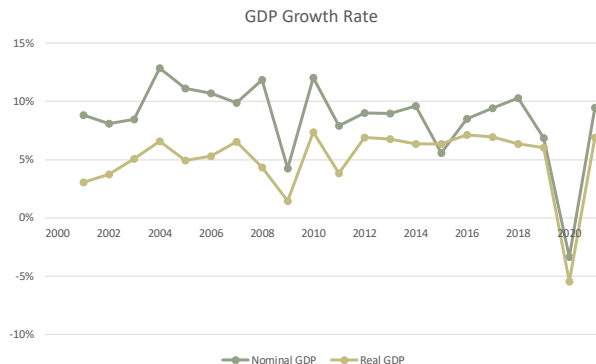
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Major shifts in Philippine governance in 2022

- ❖ New President and administration
- ❖ Increased devolution with Mandanas SC ruling implementation
- ❖ Still managing the now endemic COVID-19 and recovering from the economic contraction of 9.5% in 2020.



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Policy question and objectives

- ❖ How will the President's proposed 2022 budget (or the National Expenditure Program) address priority needs in managing COVID-19 and pump-prime the economy?
- ❖ Objectives:
 - ❖ Examine the NEP distribution versus identified priority areas
 - ❖ With the implementation of the Mandanas SC ruling, will also look at budgetary adjustments and allocations of national government programs that offer support to local governments.

Priorities of the President's 2022 Budget

- ❖ 2022 National Budget Call (NBC) identified spending priorities or priority administrative policies in designing the budget to include:
 - ❖ The 0-10 Point Socioeconomic Agenda and Philippine Development Plan
 - ❖ The updated 2017-2022 Public Investment Program (PIP) and the Approved 2022-2024 Three-Year Rolling Infrastructure Program (TRIP).
 - ❖ Strengthened vertical and horizontal linkages through aligned national and regional development plans, prioritizing the needs of the poorest, disadvantaged but well-performing LGUs in their sectors.

Priorities of the President's 2022 Budget

- ❖ In line with the Mandanas ruling, NGAs should
 - ❖ refrain from including proposals funding devolved local projects for 1st to 4th income class LGUs;
 - ❖ limit subsidies for local projects to LGUs from the 5th and 6th income classes, the Geographically Isolated and Depressed Areas (GIDA) and those with the highest poverty incidences, ranked in top third highest;
 - ❖ include funding requirement for capacity building for these LGUs to enable them to assume functions;
- ❖ The overarching theme of the NEP is "Sustaining the Legacy of Real Change for the Future Generations:"
 - ❖ Prioritizes funding for COVID-19 response measures including healthcare development and social services
 - ❖ Sustains public sector investments to restore to pre-pandemic growth trajectory

Framework and Methodology

- ❖ **The national budget is a common resource.** Being a limited resource, there is a negative externality imposed by those getting a larger share since this may reduce the share of other agencies and sectors (Stiglitz and Rosengard 2015).
- ❖ This study will examine the 2022 NEP according to:
 - ❖ Declared budgetary priorities and its distribution and
 - ❖ Relative to historical budgetary priorities
- ❖ Mixed methods approach with descriptive research design. Secondary data, mostly from government sources such as the DBM, BSP and the PSA will be used.

Framework and Methodology: Economic Growth Theory and Aggregate Demand (Mankiw 2019)

$$Y = C(t) + I(r) + G + NX(e) \quad (\text{NIA Identity})$$

Consumption (C): goods & services bought by the household, such as:

- Nondurable goods: food & clothing;
- Durable goods: cars, television, computers;
- Services: medical & dental check-ups, spa treatments.

Investment (I): goods & services bought for future use, such as:

- Business fixed investment: plant & equipment;
- Residential investment: new house;
- inventory.

Government purchases (G): goods & services bought by national & local governments including:

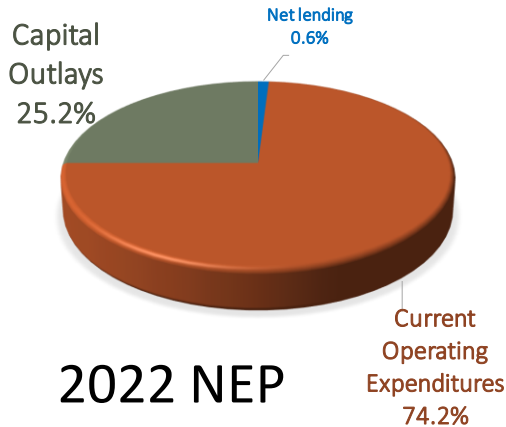
- Transfer payments to individuals (i.e. social security and welfare benefits) are not part of GDP since these simply redistribute existing income;
- Military equipment, highways, basic health & education services.

Net exports (NX): exports less imports

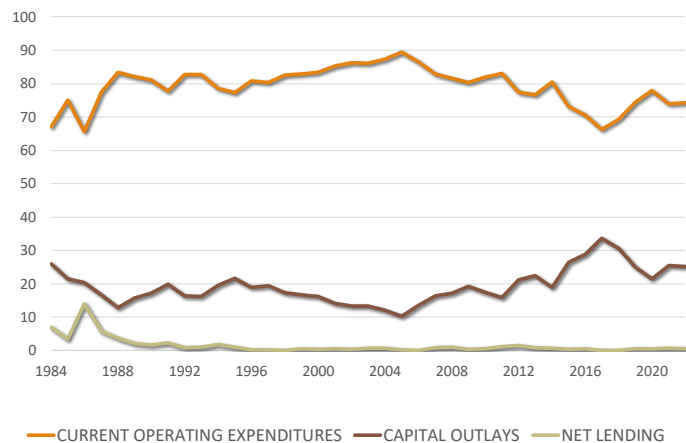


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PH Expenditure distribution, by Expense Class



• For the past 40 years, COE received largest share averaging 79%

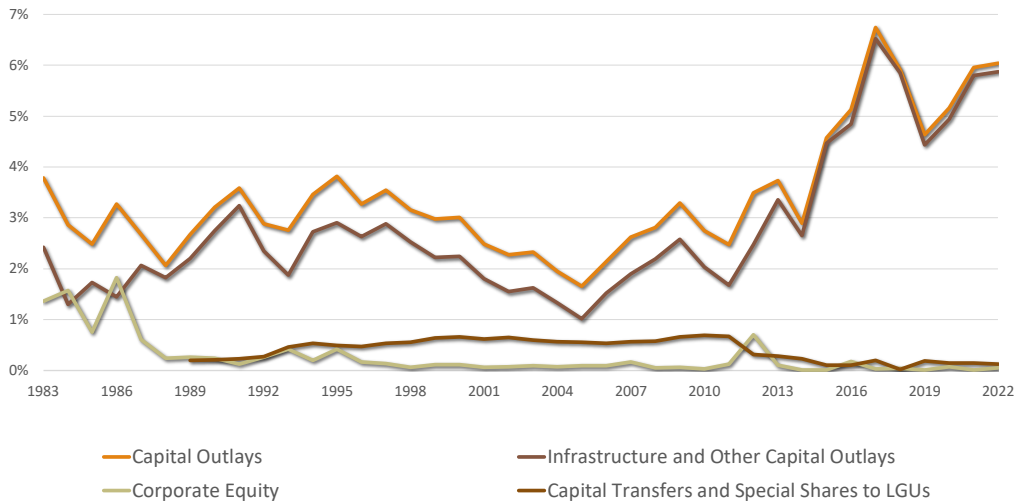


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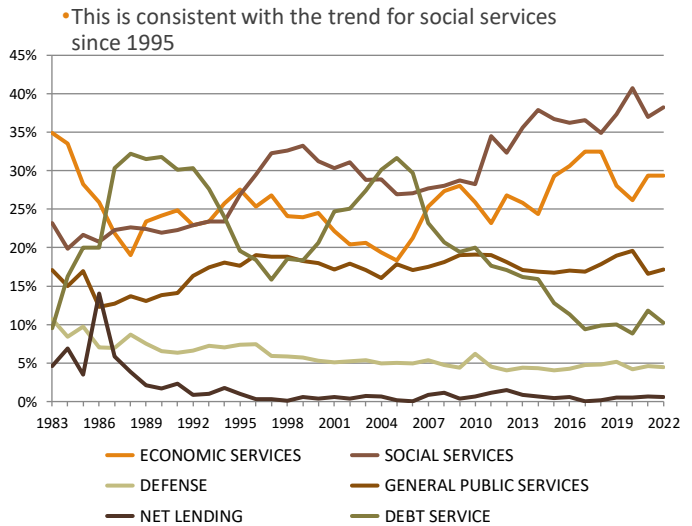
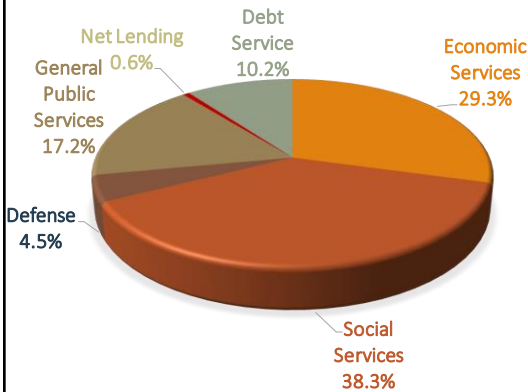
Infrastructure and Other Capital Outlay Expenditures (as % of GDP), 1983-2022

- ❖ Infrastructure and Other Capital outlay peaked in 2017 at 6.5% of GDP
- ❖ Proposed to recover at 5.9% in 2022
- ❖ Average of 4.4% since 2011 versus 1.8% in the previous decade.



PH Expenditure distribution, by Sector

- Social services is poised to get a 3% increase from 2021 and the largest share of the budget at 38.3%
- Economic services dipping slightly from 2021 to get a 29.3% share

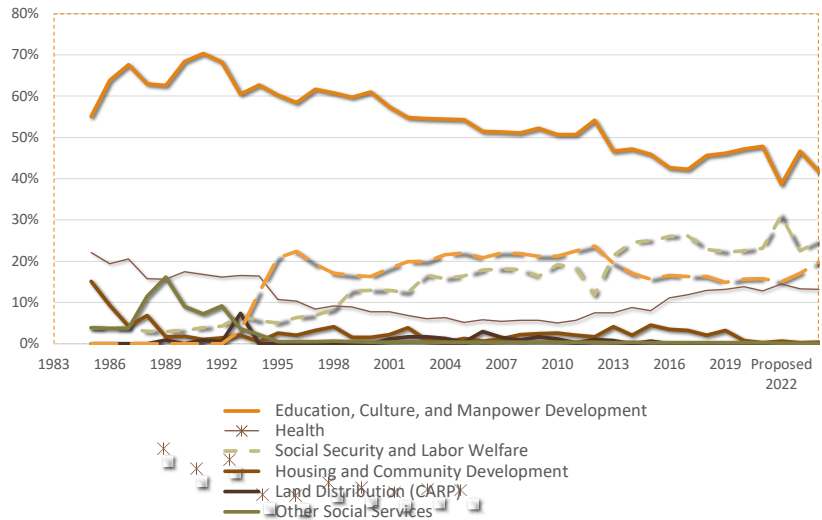


Social services distribution, 1983-2022

❖ Education, culture and manpower development has consistently received the largest share though this has been decreasing.

❖ In 2022, the dip in its share (from 46.7 to 41.8%) is to accommodate increased allocations to Social Security and Labor Welfare (24.8%) & Subsidy to LGUs (19.8%).

❖ Health will receive a 14.1% increase in its budget.

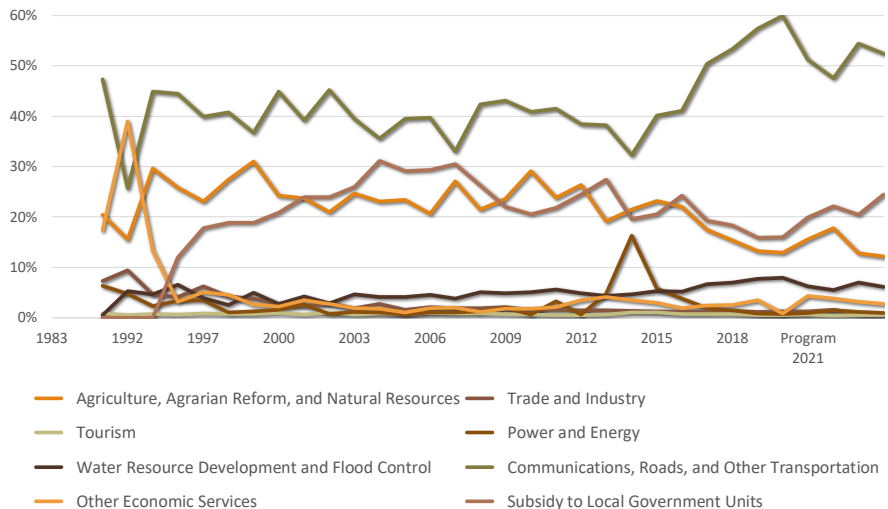


Economic services distribution, 1983-2022

❖ Communications, roads and transportation have consistently received the largest share of economic services.

❖ There are proposed budgetary increases for the Agri /AR/NR (6.3%), Trade and Industry (13.1%), Tourism (15.5%) and Comm, Roads & Transpo (7.2%) though their shares will contract for LGUs.

❖ These dips in 2022 to give way to the 19.6% increase in the share of Subsidy to LGUs.



Top ten NG Departments/Agencies in terms of proposed budget

❖ DPWH, DepEd and DILG get the largest shares in terms of individual department budgets.

❖ But if look to the proposed consolidated budget for education (DepEd, SUCs, TESDA, CHED) this receives Php773 B, ranking number 1.

Department/ Agency	2022 proposed budget (in billion pesos)	Top 10 2022 NEP shares	Percentage change, 2021 GAA to 2022 NEP
1. DPWH	685.2	19.6%	-1.4%
2. DepEd	590.1	16.9%	5.9%
3. DILG	248.5	7.1%	0.4%
4. DND	221.6	6.3%	7.9%
5. DSWD	191.2	5.5%	8.2%
6. DOH	157.5	4.5%	16.8%
7. DOTr	150.8	4.3%	72.4%
8. SUCs	71.2	2.03%	-17.2%
9. DA	69.6	2.00%	1.4%
10. DOLE	44.4	1.27%	21.2%



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COVID-19 health and social protection expenditures: DOH

❖ One of the three main pillars of the 2022 National Budget is "Building Resilience amidst the Pandemic"

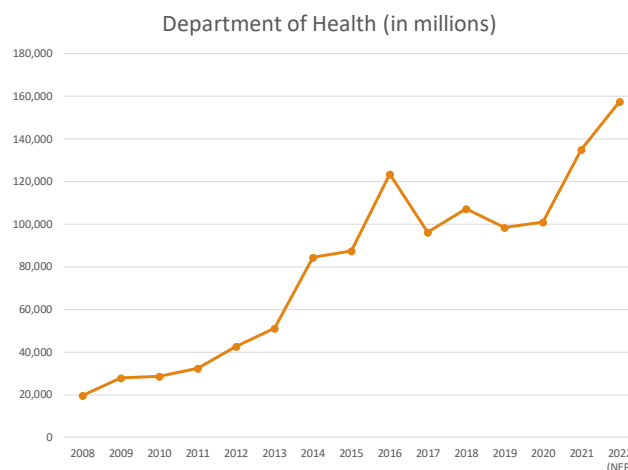
❖ The DOH has a total proposed budget of P157.5 billion (16.75% increase)

❖ Major programs related to COVID response:

- ❖ P29.97 billion for Allocation of Drugs, Medicines, and Vaccines
- ❖ P19.5 billion for Health Facilities Enhancement Program
- ❖ P8.2 billion for Prevention and Control of Communicable Diseases (which includes budget for PPEs)

❖ COVID-specific programs:

- ❖ P5.1 billion for COVID-19 Laboratory Network Commodities
- ❖ P3.8 billion for COVID-19 Human Resources for Emergency Hiring



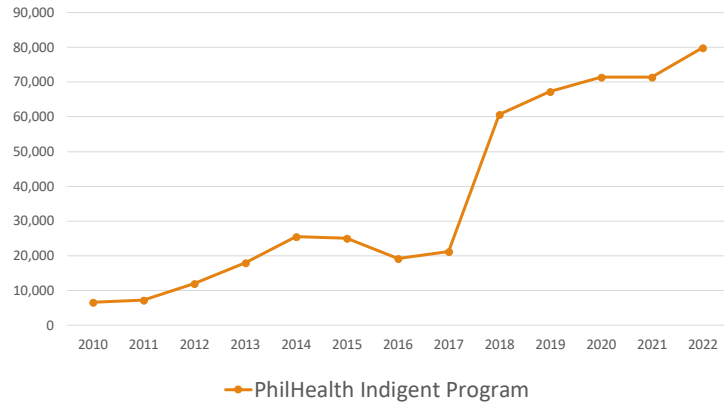
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COVID-19 health and social protection expenditures: PhilHealth

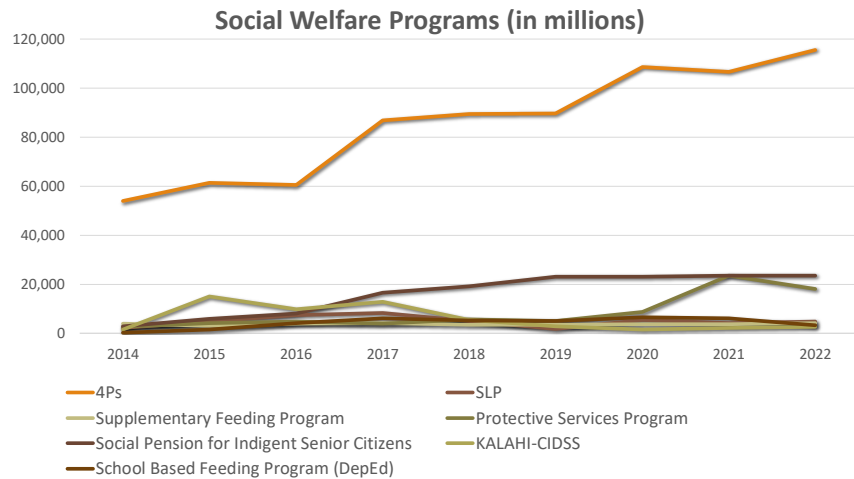
❖ NG Budgetary support for PhilHealth spikes in 2022 for:

- ❖ Contributions of indigents, senior citizens, PWDs, financially incapable PoS (79B)
- ❖ PAMANA beneficiaries (61M)



COVID-19 expenditures, health and social protection

- ❖ Social protection is another aspect of the NEP's COVID-19 management
- ❖ Shown earlier the share of the social protection sub-sector increased in 2022
- ❖ In the P191.2 billion allotted for DSWD, the largest share is allocated to 4Ps

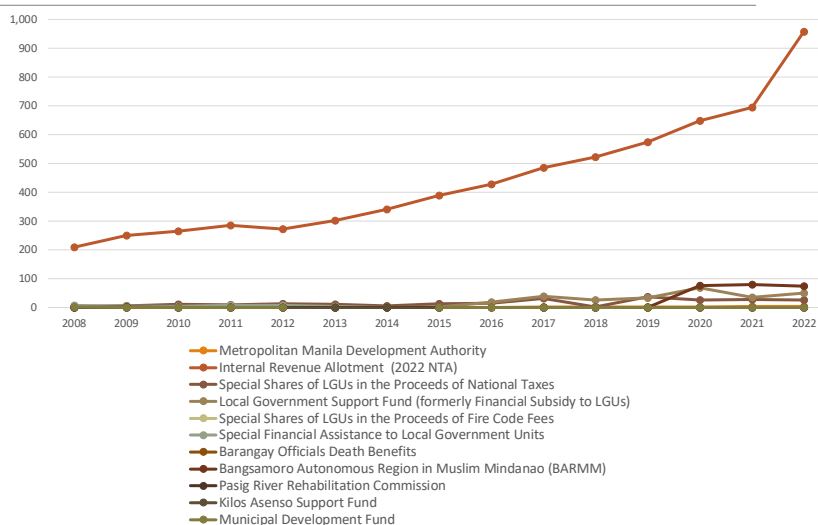


Implementation of the Mandanas ruling

❖ Historically, ALGU has received an average 0.018% of the budget per year since 2008. The 2022 budget for ALGU has an additional P271.77 billion which is equal to 0.022% of the total budget.

❖ This is a 16.7% increase from the previous year's ALGU budget, and the largest share of ALGU is the National Tax Allotment (86%).

❖ For the NTA (which totals P959B), there was a 38% increase of 263.5 B from the 2021 IRA.



Implementation of the Mandanas ruling

Despite the NBC directive to refrain from proposing programs for richer LGUs, there are still general LGU assistance programs present (P57B of the total P119.86B)

LGU PROGRAMS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
TOTAL (in billion pesos)	27.1	35.7	48.1	77.3	99.5	111.2	128.5	139.8	182.7	119.9
DPWH										
Tourism Road Infrastructure Project	12.0	14.3	8.9	22.6	12.364	30.96	16.96	21.9	16.76	16.80
Local Infrastructure Program/Basic Infrastructure Program	1.1	7.3	27.4	26.0	37.1	35.3	65.6	76.8	117.0	39.6
DILG										
Performance Challenge Fund/SGLG	1.0	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
LGSF	0.2	0.4	3.1	19.1	39.8	31.4	32.7	28.9	35.2	51.2
DA										
Farm-to-Market Road Program	8.7	12.0	6.3	7.4	6.0	9.96	10.3	9.96	11.7	9.96
Small Scale Irrigation Projects	4.2	1.3	1.5	1.3	3.3	2.7	1.98	1.3	1.0	1.3



Implementation of the Mandanas ruling: Growth Equity Fund

- ❖ The GEF shall serve as the main NG support to the extremely poor and disadvantaged LGUs
- ❖ to address issues on marginalization, unequal development, high poverty incidence and disparities in the net fiscal capacities of LGUs
- ❖ PhP 10B to cover the funding requirements of programs, projects and activities of poor, disadvantaged and lagging LGUs to gradually enable the full and efficient implementation of the functions and services devolved to them
- ❖ is time-bound and performance based, and shall be provided to LGUs for a fixed time frame



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Institutional innovations: Streamlining and digitalization in government

- ✓ Medium-Term Information and Communications Technology Harmonization Initiative (MITHI)
- ✓ Majority goes to the DICT-OSEC
- ✓ PSA P4.8B for PhilSys
- ✓ PhP 574 M for community based-statistics especially those in the 5th and 6th class munis
- ✓ Need for digital technology in the pursuit of the swift administration of justice.

Particulars	2022 NEP (in Billion Pesos)
DICT-OSEC	8.4
NEDA-PSA	3.8
DOF (BIR-BOC)	2.7
DILG (OSEC-PNP)	0.7
DSWD-OSEC	1.4
DOST (ASTI-PAGASA)	0.6
DA-OSEC	0.6
DOLE	0.5
DBM	0.4
DOH	0.4
DOST (Implementation of the K-12 program)	0.013
SUCs	0.032



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General Findings

- ❖ President's Budget Overall:
 - ❖ Social services gets the largest share of the proposed budget with the Education receiving the largest portion. However, the decline in its 2021 share is to accommodate Social Security and Labor Welfare & Subsidy to LGUs consistent with NBC.
 - ❖ Economic services share dips slightly from 2021 with only the share of subsidy to LGUs increasing by 15.9%.
- ❖ COVID-19 pandemic management:
 - ❖ Health: DOH and PhilHealth both receive increased budgetary allocations
 - ❖ Social Protection: Spikes in proposed budget of social assistance programs primarily for 4Ps.
 - ❖ Consistent with NBC



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General Findings

- ❖ Mandanas ruling:
 - ❖ National Tax Allotment increased by 38% (263.5B) from 2021.
 - ❖ What budgetary adjustments allocation:
 - ❖ Major LGU assistance programs are still present (unlike what was initially perceived to be) but decreased by only 18% owing largely to reduction in DPWH's 2022 Basic Infrastructure Program
 - ❖ The Growth Equity Fund replaced the LGSF-AM for provinces, cities and municipalities
 - ❖ These programs must be closely monitored along with capacity building
- ❖ Institutional shifts:
 - ❖ MITHI is a convergence program to take advantage of digitalization in the delivery of public goods and services.
 - ❖ There was also priority spending on the National ID and the implementation of CBMS for the poorer LGUs. These are needed for more efficient delivery of social assistance and to improve targeting.



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Recommendations

- Closely monitor and calibrate the extent and need for social protection and other investments in human capital. As the economy opens up with increased vaccination rates the hope is unemployment and underemployment rates should decline so these should be closely monitored.
- For local governments,
 - the GEF implementation along with the other national government-local government assistance programs should be closely monitored to ensure that only the targeted LGUs benefit from these.
 - technical capacity development programs in or to effectively use the additional resources and allow them to contribute to national development as well
- Continue investments in information and ICT infrastructure to facilitate its utilization across different sectors. Especially since these would make the delivery of public services quicker and also, in the case of education and health, help reduce the scarring effect.
- The challenge of the next administration would be fiscal consolidation (tapering of the debt-to-GDP ratio) without sacrificing much needed human capital and infrastructure investments. These should be combined with job creation for economic recovery. Therefore, there is need for prudent fiscal stimulus in the medium-term to be able to accelerate economic growth



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