Column for Business Mirror
MANNY VILLAR
July 18, 2011

The Entrepreneur

Let's start running --- fast!

The Philippine economy grew at a historical high of 8.4 percent during the first quarter of 2010. As revised by the National Statistical Coordination Board (NSCB), using constant 2000 prices, that high growth in terms of Gross Domestic Product (GDP) allowed the economy to post a three-decade high of 7.6 percent growth for the whole of 2010.

Unfortunately, GDP growth slowed to 4.9 percent during the first quarter of 2011, a huge 3.5-percentage point fall year-on-year. It was also down from the 6.1-percent growth during the fourth quarter of 2010. The sluggish performance suddenly made the government's target of a 7 to 8 percent GDP growth for this year over-ambitious.

The growing consensus is that the economy will grow at a much slower pace than the official target.

Moody's Investor Service, which upgraded the country's credit rating outlook to positive last June from stable as of January, expects the Philippines's GDP to grow by 5 to 6 percent this year and in 2012. Singapore-based DBS Bank Ltd. lowered its projected GDP growth for the country in 2011 to 4.8 percent from the earlier estimate of 5.5 percent on expectations of slower private consumption and weaker export earnings as a result of weaker global growth. And, the World Bank, through its Philippine Quarterly Update, has maintained its forecast of 5.0 percent GDP growth rate in 2011 and 5.4 percent in 2012.

As a businessman and lawmaker, I constantly monitor the movement of the economy. I view the drop in GDP growth as a big loss for the economy and a major setback to our efforts to achieve consistent high growth rate, which is vital in delivering the benefits of economic growth to the poorest Filipino families.

With a 7.6-percent growth in 2010, we need less than half a percentage point to reach 8.0 percent. And then, we must sustain that high-level growth. However, at 4.9 percent, which has been our average growth rate for so many years, it will take a lot more work to go back up to the 7-percent rate. It's not different from moving aircraft – it takes a lot more power to take off than to fly a plane after it reaches its cruising altitude.

The NSCB cited the under-spending by the government and the slowdown in global trade (Philippine exports declined by 3.2 percent in May 2011, the first monthly drop since October 2009), as the major factors that slowed down economic growth in the first quarter.

This reminds me of former President Fidel Ramos's favorite advice to our country's leaders: "Hit the ground running!" That, indeed, was what the government should have done after the strong finish in 2010. Unfortunately, the it placed higher priority on cutting spending to narrow the deficit.

I believe the economy would have grown faster than 7.6 percent if a little more spending, especially for capital expenditures, was done in the second half of 2010, which was the Aquino Administration's first semester in office.

I'm not against controlling expenditures, given the deficit and huge debt inherited by the new administration. The results, such as the upgrade in the country's credit rating, are proof that the move was right, from the perspective of creditors. However, I think the improvement in the country's standing before international lenders was achieved at the expense of growth.

From a businessman's point of view, I maintain that sustaining a high growth rate for the economy is worth the risk of keeping the deficit and the lower credit rating.

It's worth noting that while the latest rating brought the Philippines just two notches closer to the coveted investment grade, Moody's gave the country a low rating in economic strength, moderate for institutional strength and low for government financial strength.

Now, the second quarter is over, and we're just waiting for the official results. I hope the report will show an improvement over the first quarter performance, but I'm not so optimistic, given the absence of significant public spending.

The much-publicized Public-Private Partnership (PPP) program has not yet taken off the ground, so the projected massive impact on employment and on the economy remains an unrealized potential.

The situation in the Middle East and North Africa (MENA) remains tense. So there are uncertainties about the deployment of overseas Filipino workers. The Bangko Sentral ng Pilipinas has lowered its 2011 growth target for OFW remittances to 7 percent from the earlier forecast of 8 percent, taking into account the disasters in Japan and the conflicts in MENA. For 2012, the BSP expects an even slower growth of 5 percent.

Despite these developments, I believe that the Philippine economy, which posted positive growth even amid the global financial crisis and recession in

2007 and 2008, is still capable of springing a surprise, such as a GDP growth higher than expectations.

But we have to "hit the ground running" by spending more on public services and capital projects. For instance, while waiting for the actual implementation of PPP projects, the government can finish ongoing projects that are not saddled with irregularities.

This will have multiple benefits. It will create jobs, stimulate business and show the people that the government is doing something, like building roads, hospitals, schools, or irrigation facilities.

Let's start running – fast!

###

Link:
http://www.businessmirror.com.ph/home/opinion/13956-lets-start-runningfast-