

Column for Business Mirror
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The Entrepreneur

Regaining Momentum – 2

SERGIO ORTIZ-LUIS, chairman of the Philippine Chamber of Commerce and Industry and head of the Philippine Exporters Federation, recently told reporters that he originally forecast a 9-percent to 10-percent export growth for 2011, but that now, even a 5-percent growth is doubtful, given the adverse developments in the global and regional economies.

In its latest Asia and Pacific Regional Economic Outlook, the International Monetary Fund (IMF) has lowered its growth forecast for Asia to 6.3 percent in 2011 and 6.7 percent in 2012, from its April estimate of 6.8 percent and 6.9 percent, respectively.

Asia, according to the IMF report, faces risks from the fallout from the euro-zone debt crisis and a slowdown in the United States. And it warns that an escalation of the euro-zone crisis will trigger spillover effects in Asia, which has not decoupled from the advanced economies and has yet to develop stronger engines of domestic growth.

Let me quote some excerpts from the IMF report: “The panic sell-offs across Asian financial markets and safe-haven flows into Japan that occurred when European troubles intensified in August-September 2011 demonstrate that there is ‘no place to hide’ when advanced markets come under pressure.

“Since 2009 investors from advanced economies have built up substantial positions in Asian markets, including Indonesia and other Asian sovereign debt markets. ‘A sudden liquidation of these positions could trigger a loss of confidence, and contagion could spread from bond and equity markets to currency and other markets.’”

Even China, now the second-largest economy, is expected to post a decline in gross domestic product growth to 9.5 percent for 2011 (down from 9.6 percent in the April forecast) and to 9.0 percent in 2012 (down from 9.5 percent).

Car sales, an indicator of what the IMF calls “engines of domestic growth,” offer no comfort. According to the Chamber of Automotive Manufacturers of the Philippines, motor-vehicle sales for the first eight months of 2011 declined by 4.1 percent to 93,108 units compared with 97,122 units for the same period last year.

On the other hand, car importers represented by the Association of Vehicle Importers and Distributors report that sales declined by 2 percent in the first 11 months of 2011 to 18,090 units from 18,400 units for the same period last year. Sales in September 2011 dropped 6 percent, from 2,205 units to 2,070 units.

I don’t want to sound like a prophet of doom, but, as a businessman, I think it is wise to know what we are up against, what our prospects are, so we can respond accordingly. And I won’t even be surprised if the second half turns negative because the whole world is talking about recession.

At the same time, we still have some aces up our sleeves.

One, notwithstanding the slow growth, the amount of remittances from overseas Filipinos will still be substantial and will keep driving consumption.

Two, the business-process outsourcing industry remains robust, and will continue to generate employment, foreign exchange and revenues.

Basically, the private sector, except for exporters, will continue to lead economic growth.

On the other hand, the government must do more in terms of promoting economic growth. The P72-billion so-called stimulus package came rather late in the game. Even government economists acknowledged as early as in the first quarter that underspending was one of the factors behind the slowing growth.

I understand that the amount may be raised to P90 billion by the end of the year, which would translate to a deficit spending of P260 billion, still P30 billion less than the P290-billion ceiling under the national expenditure program for 2011.

For the period January to August 2011, the deficit stood at P34.5 billion, way below the P234.35 billion programmed for the first three quarters and narrower than the P228.104-billion budget gap incurred in the same period last year.

I'm a bit puzzled by the term "stimulus package." Does it mean over and above what you are supposed to spend? If you cannot spend what you are supposed to spend, what stimulus are you talking about?

The P1.645-trillion General Appropriations Act for 2011 authorized the government to spend up to P290 billion in excess of tax and other revenues. That's deficit spending, which is important to achieve the economic-growth targets, which are also considered in crafting the GAA.

It's bad if the government exceeds the deficit ceiling. On the other hand, it can claim to be fiscally responsible if it uses up 100 percent of the deficit allowance. If the spending falls below the ceiling, then questions arise. For example, was the P1.645 trillion too much for the requirements of governance, public services and economic growth?

In my view, prudent spending does not necessarily mean keeping the money in the bank, but spending it in a transparent way in accordance with the appropriations law.

With less than three months left, I doubt that increasing government spending will affect our full-year GDP. But I hope that 2011 will leave some good lessons for the government, especially in using revenues to spur economic growth.

Amid the uncertainties in the global economy, coupled with the unknown disasters that may come to us, government spending will be a crucial factor in sustaining our economy, at least beginning next year.

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