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The Entrepreneur

Regaining Momentum

THE first step in problem solving is to accept that there is a problem. Thus, in addressing the decline in the national economy, the government must accept that we have lost the momentum.

Acceptance must be accompanied by commitment and preparation that the government must do a lot more than the ordinary measures or programs. The need is not just to sustain growth but also to raise the growth rate to recover the lost momentum.

Let's go back a little and trace the downtrend in the Philippine economy in terms of gross domestic product (GDP). The year 2010 was one of the best years for our economy: GDP grew by 7.3 percent in the first quarter and 7.9 percent in the second quarter before declining to 6.5 percent in the third quarter, then recovering to 7.1 percent in the fourth, for a full-year growth of 7.3 percent.

The economic decline actually began in the first quarter of 2011, when GDP growth dropped, rather drastically, to 4.6 percent, and worsened to 3.4 percent in the second quarter, for a first-semester growth of 4.0 percent.

The trend would have been encouraging had the first quarter posted a 3.4-percent growth and the second at 4.6 percent.

So we lost the momentum. It will be very difficult to get back up. As I said before, when the full-year GDP figure came out, the right move was to go full blast in sustaining growth: at 7.3 percent, the economy needed just a little push to reach 8 percent, and it was much easier to sustain the 7-percent to 8-percent growth level.

The low GDP figure in the first quarter was disappointing, but it should have been treated as a loud wake-up call. Unfortunately, we saw no extraordinary pump-priming, as reflected in the second-quarter GDP figure.

The government has lowered its growth forecast for this year to between 4.5 percent and 5.5 percent, from the previous estimate of 5 percent to 6 percent, which was already reduced from the initial 7-percent to 8-percent target.

Even the latest target will not be easy to achieve. GDP must grow by 5 percent in the second half to end 2010 with an average growth of 4.5 percent, and by 7 percent to reach the high end of the revised target.

Now, where will it get the 7-percent growth in the second half? The higher projections give me a feeling that our economic planners are being apologetic.

That's not their job. Their job is to present objective and realistic forecasts, which would serve as a reliable basis for crafting appropriate responses.

What if the trend in the first two quarters continues to the third and fourth? I believe the government should prepare for both scenarios: an uptrend and a continuing slide.

It's good if the growth trend turns upward but instead of painting a rosy picture we should brace for a continuing downtrend.

Actually, I don't see the basis for projecting higher growth in the second half, given the back-to-back typhoons that recently hit us, and prospects for similar disasters through the end of the year.

The latest estimates by the National Disaster Risk Reduction and Management Council place the damage caused by Typhoon Pedring at P12.34 billion, higher than the P10.9-

billion damage from Typhoon Ondoy in 2009, which, incidentally, was one of the worst for our economy, which grew by 1.1 percent.

Some business leaders say the damage from Pedring and other typhoons may cut GDP growth for 2011 by 0.5 to 1.0 percent.

Maybe our economic forecasters expect a dramatic increase in remittances? Data from the Bangko Sentral ng Pilipinas show that overseas Filipinos sent home $13.02 billion during the first eight months of 2011, up 6.9 percent from the same period last year.

That’s fine, indeed, but let’s remember that remittances for the whole of 2010, which totaled $18.76 billion, grew at a higher rate of 8.2 percent.

The Bangko Sentral is now reviewing its forecast of a 7-percent remittance growth for 2011, given the disasters in Japan, the conflicts in the Middle East and North Africa, the recession fears in the US and the debt crisis in Europe.

How about investments? Are foreign investors lining up to bring in capital and put up businesses in the Philippines?

Quite the contrary, the Bangko Sentral says foreign direct investments (FDI) declined by 9.7 percent to $805 million for the period January to July 2011, compared with $891 million for the same period in 2010.

The BSP also notes that FDI in July amounted to just $26 million, an 88.3-percent plunge from $222 million for the same month last year, and less than half the $64 million posted in June 2011.

What about exports? A report from the National Statistics Office shows that exports dropped by 15.1 percent to $4.05 billion for the month of July. The decline in August was a huge drop from the 1.7-percent decrease in July 2011.

For the period January to August 2011, exports totaled $33.24 billion, a very small improvement of 0.7 percent compared with $33.02 billion for the same period last year.

(To be continued)

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