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MANNY VILLAR
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The Entrepreneur

Weighing the cost of an upgrade

First, the good news: International credit rating agencies upgraded the Philippine government's credit rating four times in the past 12 months.

This is, Finance Secretary Cesar Purisima says, "unprecedented in Philippine history."

And here's more good news: The Philippines posted a budget deficit of P26.48 billion in July, bringing the shortfall for the first seven months of the year to P43.71 billion, just 15% of the full-year target ceiling of P290 billion. The deficit target for 2011 is a sharp reduction from the P314-billion deficit incurred in 2010.

Now, the bad news: The economy posted a 4.6-percent growth in terms of Gross Domestic Product (GDP) in the first quarter of 2011 – down from 7.3 percent in the same period in 2010 – and 3.4 percent in the second quarter of 2011 – down again, to less than half the 8.9-percent GDP growth posted in the same quarter last year.

The economy's performance also fell below the National Economic and Development Authority's second quarter growth target of 4.5 percent to 5.5 percent.

Agriculture, helped by good weather, saved the economy. The sector grew by 7.1 percent in the second quarter, in contrast to the 0.6-percent contraction of the industries sector and higher than the 5-percent growth of the services sector.

For the first semester of 2011, GDP growth stood at 4.0 percent, nearly half the 7.9-percent growth for the same period in 2010. The National Statistical Coordination Board says the 7.9-percent GDP growth was the highest semestral performance since the 9.3-percent posted in the second half of 1988.

When one takes into account the economy's performance in the first six months, the GDP should grow by at least 10 percent in the second semester to achieve the 7-8 percent growth target for 2011, which I think is a really tall order.

The performance of the economy vis-à-vis the government's accomplishments in the fiscal side compels an obvious comparison and raises some questions.

On the one hand, we incurred a huge deficit last year, although the P314.4 billion spending gap was significantly lower than the programmed P325 billion. In essence, the government is on track in its deficit reduction program.

On the other hand, the economy grew by 7.6 percent in 2010, which is reportedly the highest in more than three decades.

So, while we were incurring deficits before, our economy was growing well. Now, while we are reducing our fiscal deficit and our international credit rating is being upgraded, our economy is slowing down.

Of course, an improvement in credit rating is good, whether it is for individuals, corporations or governments. For the latter, an upgrade will, hopefully, bring in foreign investors.

In light of developments in the fiscal and economic sectors, I think we have to examine the cost of achieving a higher credit rating. I look at the upgrade as a benefit that must be weighed against the cost.

The question is: Did we sacrifice growth in exchange for an upgrade? Or, to put it another way: Are we adopting a policy that growth could be sacrificed at the expense of an upgrade?

I sincerely hope not. Especially now that the unemployment rate is very high, and deployment of overseas Filipino workers is being threatened by upheavals in the Middle East and North Africa, among other areas, plus the continuing uncertainties in the major economies, including the United States.

The only uptick in local employment was in agriculture, which we all know is very dependent on the weather.

We need to attract investors, but while an upgrade is good for the image to project in the financial community, investors will look at a country's infrastructure first.

Sadly, we have been under-investing in infrastructure for the past ten years. This is why we have not been getting as much investments as our neighbors do, and not because of our credit rating.

According to the Department of Budget and Management (DBM), infrastructure and other capital outlays for the period January-July 2011 amounted to P64.5 billion, which is P91.5 billion or 58.7 percent lower year-on-year.

In fairness, the government has recognized the need to increase spending to boost the economy. DBM has noted that national government spending in July 2011, amounting to P133.45 billion, was the highest monthly spending level attained so far this year.

I also appreciate the pronouncements from the government that it would fast-track the implementation of “critical programs,” which, hopefully, means infrastructure projects, in the remaining five months of this year.

I note the change in the DBM’s tack. It will push spending as close as possible to the ceiling instead of previous efforts to as low as possible from the ceiling.

Given our performance in the first half, maintaining the GDP growth target of 7 to 8 percent for the whole year, and going for a 10-percent growth in the second semester, as I said, is a tall order.

Still, I like the attitude. Let’s aim high. It’s good for self confidence, but work really hard for it.

Let’s spend for infrastructure, get the investors, and create jobs for our people!

(For feedback: mbv_secretariat@yahoo.com)

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