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Phl gets high marks from new IMF representative

10 September 2012, The Philippine Star

by Prinz Magtulis

The economy has been doing well on the first two years of the Aquino administration, climbing up to achieve inclusive growth by introducing reforms recognized by the International Monetary Fund (IMF) as vital to alleviating poverty, the organization?s new resident representative in the country said.

?Philippines is focused on providing good governance and improving competitiveness and infrastructure? That could lead to inclusive growth and help bring the poorer segment of the population to the mainstream sector of the economy,? Shanaka Jayanath Peiris told The STAR on his first interview since taking over last Sept. 3.

An Oxford-educated Sri Lankan, Peiris replaced Dutch Dennis Botman as IMF?s main man in the Philippines and will be serving for three years as adviser to the government and the central bank in their efforts to promote financial stability.

He is, however, not new to the country. Prior to his new assignment, Peiris, who has been with the IMF for 11 years, had been studying the Philippines on his desk at the IMF headquarters in Washington D.C. as senior economist at the Asia-Pacific Department for two years.

Incidentally, it was on the year that he started examining the Philippines in 2010 that the administration of President Aquino took over, and admittedly, Peiris said there had been great improvements since then.

?I would have to say that they should continue the good work because the country has been doing well for the past two years,? he said at his small office at Bangko Sentral ng Pilipinas (BSP) Complex in Manila.

?The government strategy of improving infrastructure, keeping the macroeconomy stable, keeping inflation under control (and) keeping the fiscal situation under control so that the debt remains low, those things all help create stability,? he explained.

And official data is supporting Peiris observations. For one, inflation remained manageable at 3.2 percent as of August, settling at the lower-end of BSP?s three- to five-percent target.

Government has also kept its finances in check: budget deficit was at P73.731 billion as of July, far behind the P183.3-billion nine-month ceiling with revenues rising by double-digit levels and despite acceleration in state spending.

Finally, economic growth has been robust at 6.1 percent in the first semester, stronger than previous year?s 3.6 percent and slightly better than the government?s five- to six-percent target for the year.

The six-month actual growth was also better than IMF?s own forecast of 4.8 percent for 2012, which was already even an upward revision of an earlier 4.2-percent estimate. Updated growth forecasts will be released by October, but Peiris declined to say if Philippines? estimates will get another boost.

?Things have not changed that much. I cannot tell you if there could be a change exactly, but the development has not been that different from what we expected,? Peiris said.

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?Even though second quarter (growth) was quite strong when you look at it from a year-on-year basis, it is still a significant slowdown from the first quarter,? he explained.

Slow growth

If there is any consolation, Philippines is not alone on this ?phenomenon? of slowing growth, Peiris said. From China to the Middle East, Asian nations, most of which are export-dependent, have been experiencing ?anemic? growth as the prevailing eurozone crisis and sluggish US growth dent demand for their products.

In fact, in its World Economic Update last July, IMF said it expects exports growth in emerging and developing nations to slow more than initially expected in April. Growth forecasts for 2012 and 2013 for the same group of nations, which include the Philippines, were also slashed.

?We have a fairly anemic recovery. So the growth is not that strong compared to previous years. Things are still recovering very slowly from the global recession in 2008. In that sense, we do not see exports in Asia going that fast either,? the IMF official explained.

The multilateral agency expects this to continue ?over the medium term,? he said, and as such Asian economies need to recalibrate their strategies by boosting domestic demand and promoting trade within themselves.

This is where the Association of Southeast Asian Nations (ASEAN) comes into picture, Peiris said. Over the past three years of recovery, ASEAN has been a ?bright spot? in the world economy. The IMF even predicts that for the five countries in ASEAN alone, Philippines included, growth could be faster at 5.4 percent this year compared with the global economy?s 3.5 percent.

?ASEAN has come a long way since the Asian financial crisis. Most of the economies are very strong financially. They built up a lot of international reserves, which are external cushion. This means they can cushion themselves should external shocks hit them,? he said.

They have also ?more room to maneuver? as far as fiscal policy is concerned, he explained, as most ASEAN economies have succeeded reducing their deficit and debt levels after the 1997 Asian financial crisis.

Rising consumption

For the Philippines, Peiris said continuously expanding consumption which in turn, is benefitting from the roughly $20 billion in remittances sent every year by overseas Filipinos, have contributed to ballooning reserves worth $80.77 billion as of August.

The resilient business process outsourcing sector and government?s promise to boost tourism are also ?positive? for the Philippines? growth prospects, he added. And of course, who can forget about the much-dangled public-private partnership (PPP) initiative?

Tapping private sector expertise while allowing government to work on the regulatory environment, that is the essence of PPP. But since its launch in November 2010, delays have hit infrastructure projects on the pipeline with only one project ? the P1.96 billion Daang-hari-South Luzon Expressway link ? awarded so far.

The Aquino administration has promised to bid out eight projects this year. But that remains to be seen with only one ? that of the P10-billion School for Infrastructure Project - being successfully offered to investors so far, with only three months left in 2012.

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But Peiris is unfazed, and interestingly, overflowing with confidence.

?Think of it like getting it right is more important than doing it overnight. That is the way I look at it,? he said.

?Infrastructure has been a bottleneck of the country in the past. So trying to address that bottleneck could bring down the cost of doing business. It is a good one, I mean it is a good focus,? he explained.

?The question however for PPP is that you need to structure it well, monitor the PPP very well so that they do not only lead to investment, but also make sure they do not result into government taking in too many liabilities.?

While working on the PPPs, Peiris said the government could fast track other reforms such as the passage of bills reforming excise taxes, fiscal incentives and mining policies which could complement ongoing drives against tax evasion and smuggling if only to raise more revenues to finance state projects.

The IMF, he said, had provided technical assistance to the government on these reforms and findings have been forwarded for the state?s consideration.

?Increasing your taxes, which are quite low, is an important aspect. The government recognizes that and has a reform program both in the tax policy side and also at the administration side,? Peiris said.

He noted that low revenues as a percentage of gross domestic product (GDP) has been one of the hurdles tagged by credit rating agencies in their assessment of the country, preventing the Philippines to notch its first investment grade ever.

The idea is that government should be able to increase the revenues it takes as the economy expands on a faster pace. As of the first semester, Philippines? revenue-to-GDP ratio was at 15.1 percent, up markedly from last year?s 14.6 percent and already exceeding this year?s target of 14.4 percent.

That however, according to credit rating agencies, is still the slowest in Southeast Asia.

?I think the focus of the government to stick on its medium term fiscal plan, which is the two-percent deficit target, and bring down that while raising the revenues, should bring indicators closer to countries which are investment grade,? Peiris said.

?In that sense, the government?s current policy focus could lead to further upgrade and I think most rating agencies have recognized that,? he added.

Slowly but surely, the Philippines is moving on the right direction, he said. But evidently, reforms could take a while before its effects are felt in the local economy. The IMF official however stressed everything would pay off once the country achieves a more sustainable and inclusive growth.

?You want the growth to be broad based which means the growth is coming from all sectors. You do that so that you have better employment. And then you provide better education and better healthcare which in turn gives you better people,? he explained.

?Better infrastructure, on the other hand, means more companies going here and creating more jobs. So we look at it that way. It is about making growth more inclusive. Growth alone is not enough.?