PPA POOL/ MARIANNE BERMUDEZ

Maharlika will have 'no wealth to manage,' BSP ex-chief says

By Keisha B. Ta-asan
Reporter

THE former governor of the Bangko Sentral ng Pilipinas (BSP) said the Maharlika Investment Fund (MIF) will likely cause the Philippines to take on additional debt as there is "no wealth to manage."

Ex-governor Felipe M. Medalla made the remarks at a forum organized by the University of the Philippines School of Economics (UPSE) on Friday.

"I really thought that there's no wealth to manage. (According to the) rules of accounting, any money that goes (into the fund) is taken from somewhere else. Since somewhere else is financed by borrowing, then that's clearly borrowing. Either that or someone else will suffer," he told reporters on the sidelines of the forum.

The MIF is expected to be operational by early 2024, Finance Secretary Benjamin E. Diokno earlier said. The MIF law was signed by President Ferdinand R. Marcos, Jr. in July.

The MIF draws capital from the National Government as well as from the two big government banks — the Land Bank of the Philippines (LANDBANK) and Development Bank of the Philippines (DBP).

"Anything that goes to the fund is additional borrowing because the entire country has a deficit. Even the BSP dividends. That dividend goes to the National Government, and it reduces the borrowings of the National Government," Mr. Medalla said.

"So, if those dividends go to Maharlika, then the government has to borrow more," he said.

He also noted that if LANDBANK and DBP are required to invest in the fund, it will lower demand for government securities as both banks are major buyers of government securities.

Mr. Medalla said he wanted no part in the discussions leading to the creation of the MIF last year, especially when the initial proposal involved the use of the BSP's dollar reserves as seed money for the fund.

He eventually signed off on the measure after legislators made changes to the Maharlika bill. These included giving the fund a stronger mandate to invest in strategic projects, rather than serving as a wealth management fund.

Mr. Medalla said another risk is that the fund's moves will have an outsized impact — positive or negative.

"If they do good things, they'll be very impactful. If they do bad things, it will also be impactful. So, at any rate, the law is there now and let's see how it can be less a danger to the economy in the future," he said.

Mr. Medalla also said the UPSE was not remiss in speaking out against the fund, describing the process of setting up the fund "too fast."

"In fact, my impression was the President himself was not sold on the idea (at the time he knew he was going to be President) but not yet in office. At that point, he was not really sold on the idea yet," he said.

"So, to me the curious thing is what happened between that and (the time he expressed his support)," he added.

Separately, Mr. Medalla expressed concerns about rising wages, which he said could put pressure on small businesses.

"First, many firms are really incapable of paying (their workers), so what do you do, exempt them? But then it won't be a minimum wage anymore," he said.

"This is the problem if the minimum wage is too high. It's like saying everyone should wear size 6 shoes," he added.

A P40 wage hike in the National Capital Region took effect on July 16. Pending wage hike petitions elsewhere in the country will likely be decided by September.

Mr. Medalla said if other businesses can pay their workers more, increases should be subject to negotiation.

"One-size-fits-all will be tough for the bottom part of the economy. You will be forcing them to either act illegally (to) survive, or seek exemption. But if you're going to give exemptions, is that (still a) minimum wage?," he said.

Debt outpacing budget growth

THE national debt is settling into a growth trajectory that is outstripping that of the budget, according to a policy think tank attached to the House of Representatives.

In its analysis of the proposed P5.768-trillion 2024 national budget, the Congressional Policy and Budget Research Department (CPBRD) noted that next year's budget is set to grow 9.5% to P5.77 billion, against the 14.4% growth rate for National Government (NG) debt.

"(While) the total NG expenditure program has been steadily increasing, the rate at which it has grown is much lower compared to the growth of the debt burden since 2021," according to the report, published earlier this month.

The NG's outstanding debt hit a record P14.1 trillion as of May, the Bureau of the Treasury (BTr) said in July. The Budget department noted that it could grow further to P15.84 trillion in 2024.

"As the debt burden takes up a huge chunk of the national budget, the productive part of the budget that supports government operations and the implementation of programs/projects also gradually reduces in share," the CPBRD added.

The NG is set to borrow over P2.46 trillion until next year, up 11.5% from this year's P2.207-trillion program.

The planned borrowing will consist of P1.85 trillion in domestic debt and P606.85 billion in external borrowing.

The CPBRD also projected that NG debt as a share of gross domestic product (GDP) could peak at 61.4% in 2024 and sink below the 60% threshold to 57.9% by 2026.

"This debt-to-GDP trajectory can be described as conservative given the trajectories defined by the projections of the DBCC (Development Budget Coordination Committee)," the CPBRD said.

During the House appropriations panel's hearing on the proposed budget for next year, the DBCC projected that debt-to-GDP is expected to peak at 60.2% by next year before settling at 58.5% in 2025 and 51.5% in 2028.

At the end of March, the debt-to-GDP ratio was 61%, still above the 60% threshold considered manageable for developing economies by multilateral lenders.

"The government appears poised to rely more on increasing taxes and adjusting expenditures rather than borrowing and/or expanding the money supply. Nevertheless, borrowing remains a major component of financing the budget gap," it said. — **Beatriz Marie D. Cruz**

Agri-tech investment seen critical in shedding dependence on imports

THE GOVERNMENT needs to promote investment in new agriculture and manufacturing technology to raise domestic production and reduce import dependency, analysts said.

"Government with the help of private sector must find ways to increase production by investing in technology that will transform the country's production," John Paolo R. Rivera, chief economist at Oikonomia & Research, Inc., said in a Viber message.

"Prioritizing these would spur new ways of doing things."

Last week, National Economic and Development Authority (NEDA) Secretary Arsenio M. Balisacan told the Senate finance committee that the government was working towards raising domestic production, calling imports a temporary measure to stabilize prices.

He said the government should invest in logistics and provide technological support to farmers.

"Our trade policy is used to enhance the workings of the economy in such a way that we can stabilize prices, create employment, and make our local products more competitive," Mr. Balisacan said.

Mr. Rivera said importing agricultural products is not sustainable, adding that new technology needs to be introduced to boost domestic production.

"(Reliance on foreign firms is) among the reasons why there is a weak domestic multiplier effect and why manufacturing employment chronically lags behind reported manufacturing gross domestic product growth," Jose Enrique A. Africa, executive director of the think tank IBON Foundation, said in a Viber message.

He said the government should provide more subsidies for domestic agriculture and manufacturing.

China Banking Corp. Chief Economist Domini S. Velasquez added that importing cannot be avoided to stabilize prices during to shortages, but cited the need for a plan to boost production.

"The government should also give clear-cut steps and a comprehensive plan to boost production," she said in a Viber message.

"Import dependence can only be sustainably reduced if Filipino industries are built," Mr. Africa said. — **John Victor D. Ordoñez**

Chicken demand expected to remain weak in coming quarters

CHICKEN DEMAND is expected to remain weak for the next few quarters as households grapple with increased expenses, including the cost of other food items, a poultry industry official said.

"Demand is very poor," according to Elias Jose M. Inciong, president of the United Broiler Raisers Association (UBRA).

Speaking to *BusinessWorld* by phone, Mr. Inciong added: "I do not think demand will recover given (other expenses like) electricity, transportation, staples like rice, etc. It will certainly have an impact on the demand for meat, chicken, and pork," he added.

The consumer price index slowed for a sixth straight month to 4.7% in July from 5.4% in June, for a year-to-date average of 6.8%. This exceeds the Bangko Sentral ng Pilipinas estimate of a 2023 average of 5.4%.

Rice prices rose 4.2% year on year in July, the highest growth rate since 2019.

"Definitely, there's an improvement (in demand) but I don't think we are back to pre-pandemic levels in terms of being able to absorb... supply. Farmgate prices remain unstable. One moment it can go very high, another moment it can go very low," he said.

UBRA estimates that as of Aug. 18 the average farmgate price of regular-sized and prime broiler chicken fell 9.6% month on month to P113 and 13% to P118, respectively.

However, even though demand has a chance of strengthening in the following quarters, he said import volumes will likely remain high.

"Generally, everyone will be conservative because demand is expected to increase during the last quarter of every year and the first quarter of the following year. Importers will also be aggressive (in shipping in products) during this period," he said.

Mr. Inciong said that the Bureau of Animal Industry (BAI) and the industry held final consultations before guidelines on the vaccine against avian influenza are issued.

"We just want to be able to use the vaccine... because based on world experience, this (new strain) is different, very persistent," he said.

The BAI data lists eight barangays across two regions as having active infections as of Aug. 11.

The bureau drafted vaccination guidelines in collaboration with the Philippine College of Poultry Practitioners. — **Sheldeen Joy Talavera**

OPINION

The BIR and the Ease of Doing Business Act

LET'S TALK TAX
NEYMHEL MARIE I. OBEDENCIO

"Kaizen," the Japanese management concept of "continuous improvement," is a philosophy many live by, myself included. It is based on the belief that any process can be improved, and nothing should remain status quo. Embracing kaizen is a commitment to a mindset of making small, incremental progress, culminating in significant positive change over time.

Our tax authorities also seem to be adopting continuous improvement, as seen in their efforts to implement the Ease of Doing Business Act, which requires agencies to streamline the delivery of government services and forces them to complete transactions within a prescribed timetable. Now that we are in its fifth year of implementation, taxpayers and government officials may wonder how much progress this reform has made.

The good news is, the BIR has indeed released issuances that rang in substantial changes to comply with the Ease of Doing Business Act this year.

QUARTERLY FILING OF VAT RETURNS

The year started off with Revenue Memorandum Circular (RMC) No. 5-2023 on Jan. 13. The RMC covers transitory provisions on the quarterly filing of VAT returns. Starting Jan. 1, 2023, VAT-registered taxpayers are no longer required to file monthly VAT returns (BIR Form 2550M) pursuant to Section 114(A) of the Tax Code of 1997, as amended by RA No. 10963 (the TRAIN Law).

After the first quarter, most taxpayers found solace in the simplified filing and payment of VAT returns, but then again, not everyone was on the same page. Some taxpayers found themselves in distress regarding the burden of the preparations, especially companies that deal with numerous monthly transactions. Hence, some taxpayers are pleading to be allowed to file and pay their VAT returns monthly. In response, the BIR issued RMC No. 52-2023, which cited Republic Act (RA) No. 11032, or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018, and approved the request to continue with monthly filing.

Considering that the Tax Code follows the pay-as-you-file system of taxation under which taxpayers compute their own tax liability, prepare the return, and pay the tax as they file the return, VAT-registered persons may thus still choose to file and pay their VAT returns monthly if it is convenient on their end, with no penalty.

VAT REFUND MADE EASY

One of the highlights of the BIR's issuances this year is simplified requirements and procedures for VAT refund applications. In June, the BIR issued Revenue Memorandum Circular (RMC) No. 71-2023 and Revenue Memorandum Order (RMO) No. 23-2023, which streamlined the process and requirements for making VAT refund. The new rules apply to all claims filed starting July 1, 2023.

The issuances cover the change in venue for filing VAT refund claims of indirect exporters or those engaged in other VAT zero-rated activities other than direct exports. The most talked-about revision significantly reduces the number of documentary requirements needed to be submitted by taxpayers applying for a VAT refund. The revised checklist contains a maximum of 22 required documents, in contrast with 30 in the previous checklist. The BIR also now only requires original copies of the sales invoices or official receipts issued for sale and purchase transactions.

However, this raises a concern on the taxpayer's end since there is a probability the BIR may lose track of these original documents considering that they are also handling large volumes of documents from other taxpayers. The taxpayers will also need their original documents in case they are audited by the BIR or in case of denial of the VAT refund claim by the BIR. Accordingly, they will also have to present the same documents to the courts if the claim is elevated to the judiciary.

Other highlights involve the acceptance of VAT refund applications, including VAT refund applications filed beyond the two-year prescriptive period. In such cases, applications will be accepted, but the processing office will recommend outright denial to make the claimant avail of judicial remedy.

Further, the BIR will now accept VAT refund applications from taxpayer-claimants with existing tax delinquencies reflected in the Delinquency Verification Certificate (DVC). However, tax liabilities will be offset against any approved amount of VAT refund for collection, either fully or partially.

ENHANCED REGISTRATION FORMS

In light of the Ease of Doing Business Act, the BIR issued RMC No. 60-2023 to launch the enhanced BIR registration forms (July 2021 version).

In conclusion, we can say that the BIR is striving to align its recent issuances with the Ease of Doing Business Act. Such incremental actions are indeed noteworthy, and taxpayers have felt a substantial improvement. The tax authorities' efforts to make our tax system easier to navigate promise more improvements to come, if they are indeed on the path of kaizen.

Let's Talk Tax is a weekly newspaper column of P&A Grant Thornton that aims to keep the public informed of various developments in taxation. This article is not intended to be a substitute for competent professional advice.

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