Marcos to hear data-based arguments on rice price cap

By Luisa Maria Jacinta C. Jocson *Reporter*

PRESIDENT Ferdinand R. Marcos, Jr. will meet next week with the National Economic and Development Authority (NEDA) to discuss the possible lifting of the price ceiling on rice, NEDA Secretary Arsenio M. Balisacan said.

"We'll more likely meet again next week because (Mr. Marcos) did say he wants us to meet again and see the numbers, see the indicators, see the outcomes versus the objectives of the price cap and then we'll make a decision," Mr. Balisacan said in chance remarks to reporters in Manila on Wednesday.

"But we all recognize there are so many moving parts, and this price cap could not be expected to last very long because that creates a lot of problems," he added.

Price caps on rice have been in force since Sept. 5 to address rising prices. The ceiling has been set at P41 per kilo for regular-milled rice and P45 per kilo for well-milled rice.

"What we want to see now is the lifting soon of the price cap. The President will announce that once we have all the information that he is asking us to show (and) to study the indicators that would be useful to inform that decision, hopefully in the next, in a week or so, maybe we can come up with those indicators and the President can make a decision," he added.

Separately, Mr. Balisacan said that the proposed tariff cut on rice imports is no longer needed amid improving market conditions.

"The risk of further price increases on the world market seems to be diminished compared to the situation we were looking at a month or two ago. So that is the context" behind the President's decision not to consider a reduction in the tariff, he said.

"Again, what you would want to do is reduce the tariff when world rice prices are increasing; increase the tariff when the world prices are decreasing to stabilize local prices and... protect our local producers, rice farmers in this particular case, and also protect our consumers, particularly the poor, and also address inflation," he added.

Mr. Marcos late Tuesday announced that he rejected proposals to temporarily reduce rice tariffs.

"We decided with the agriculture and economic managers that... it was not the right time to lower the tariff rates because the projection of world rice prices is that it will go down. So, this is not the right time to lower tariffs," Mr. Marcos was quoted as saying in a statement.

NEDA and the Department of Finance (DoF) earlier proposed the temporary reduction of rice import tariffs to lower domestic prices. The DoF in particular proposed to slash the 35% rice import tariff to zero percent or maximum of 10%.

High prices to continue as Palace rejects tariff cuts on rice imports

THE administration's rejection of a proposal to lower tariffs on imported rice will keep the commodity expensive, with the government dependent on foreign rice to stabilize the domestic supply of the staple, a government researcher said.

Roehlano M. Briones, a senior research fellow at the Philippine Institute for Development Studies (PIDS), said the rejection of lower tariffs "will make imported rice more expensive."

"The tariff keeps the already elevated price of foreign rice high," he said via phone, noting that the Philippines now has "narrower options" in terms of mitigating the shortage in domestic rice.

He said the government needs to focus on "more innovative and productivity-improving agriculture and value chain intervention" to ultimately lower costs.

Instead of incentivizing farmers to make themselves more competitive in world markets, "we are conditioning them to expect increasing protection and increasing subsidies," he added.

Leonardo A. Lanzona, who teaches economics at the Ateneo de Manila, said the existence of price controls at both the retail and farmgate level makes the proposed reduction of tariffs irrelevant.

"In fact, the huge harvests now mean that none of these government regulations was needed in the first place," he said in a Facebook Messenger chat. "They should just have left the market alone, and there would not have been any dilemma about the tariff rates."

Mr. Lanzona noted that "in the guise of populism," the government has just "gone back to the inefficient system of reinstating the National Food Authority," whose power had been reduced by the Rice Tariffication Law of 2019, and "promoting extensive government interference, institutions that were dismantled after Martial Law."

Dante B. Canlas, a former chief economic planner for the Arroyo administration, said lowering the duties on rice imports throws Philippine rice farmers under the bus twice: "cheap imports put local farmers at a disadvantage (while) duties on rice imports under the law finance Rice Competitiveness Enhancement Fund (RCEF)," referring to the tariff-funded program to modernize farming practices.

"If RCEF declines, that's putting rice farmers at a disadvantage again," he said in a Viber message.

Farmers said they recognize the rejection of the tariff cuts as a win for the industry.

Raul Q. Montemayor, national director of the Federation of Free Farmers, rejected the need to cut tariffs or to import large volumes of rice at the moment because "the harvest is about to peak."

"We are happy about the decision," he said in a Viber message, after the Palace ruled out the tariff reduction proposal put forward by economic managers.

Even if the Philippines does not import rice until the end of December, "we will still end up with about 65 days' equivalent of stocks for carryover to next year," he said.

Mr. Montemayor said the more immediate concern now is the possible move of President Ferdinand R. Marcos, Jr.'s economic advisers to extend or make permanent the tariff cuts on non-ASEAN rice, corn and pork under Executive No. 10, which will lapse at the end of the year.

"And we will still have to prepare for the effects of El Niño and possible supply tightening again come July-September next year, through a combination of expanded local production and managed imports," he noted.

The President's economic team had proposed to cut the tariff on imported rice to as low as 0% from 35%.

But Mr. Marcos, according to a Palace statement issued on Tuesday night following a meeting with Cabinet officials said, "it was not the right time to lower the tariff rates because the projection of world rice prices is that it will go down."

The Palace said National Economic and Development Authority Secretary Arsenio A. Balisacan and Agriculture undersecretaries Leocadio Sebastian and Mercedita Sombilla support the President's decision. — **Kyle Aristophere T. Atienza**

PHL, neighbors studying Palawan-Borneo power link

THE PHILIPPINES and its neighbors are conducting a feasibility study on a power transmission project that will connect Palawan with northern Borneo, the Department of Energy (DoE) said on Wednesday.

"It has already been shown to be feasible in the continental ASEAN. That's why they want to do it also," Energy Secretary Raphael P.M. Lotilla told reporters, referring to the possibility of connecting archipelagic Southeast Asia.

Mr. Lotilla added that the power transmission link between Palawan and Borneo — an island shared by Malaysia, Brunei, and Indonesia — could eventually connect to Singapore.

"This is one of the things that actually Singapore is interested in, which is to diversify its own sources of power," he said.

"But that means that they are looking forward to the Philippines' developing its renewable sources, particularly onshore wind. By the time we are able to produce excess renewable energy from offshore wind, they will be interested in sourcing power even from the Philippines," he added.

He said the feasibility study falls under a pilot program known as the Brunei Darussalam, Indonesia, Malaysia, and the Philippines Power Integration Project (BIMP PIP).

"If the Australians can dream of laying out submarine cables to deliver their electricity to Singapore, what more for the Philippines," Mr. Lotilla added.

Mr. Lotilla said the BIMP PIP working group will assess the potential project, and examine the technical, policy, regulatory, legal, commercial, and capacity-building issues relating to cross border power links.

Separately, Energy Undersecretary Rowena Cristina L. Guevarra said that the DoE hopes to connect Mindoro Island to the Luzon Grid by 2025.

Ms. Guevarra said that the National Grid Corp. of the Philippines (NGCP) has committed to complete the project in two years.

"The DoE requested them (to expedite the power link)... They can do it. NGCP is cooperative," she said.

She said the power link will land on the Luaon side in Batangas province.

The universal charge for missionary electrification could fall 20% once Mindoro is connected to the Luzon grid, Ms. Guevarra said. — **Sheldeen Joy Talavera**

PHL seeking to expand World Bank loan for digital transformation

THE PHILIPPINES is seeking to increase the size of a digital transformation development loan to $600 million from $400 million, the World Bank said.

The loan aims to support government reforms to "foster an enabling environment for greater digital technology adoption by improving digital transformation of government and digital infrastructure policies, expanding financial inclusion through digital finance and boosting business growth in digital services," the bank said on its website.

In March, the World Bank indicated that the Philippines was initially seeking $400 million for the digitalization program.

"Digitalization has the potential to drive productivity-led growth by reducing operating costs for firms and enhancing their resilience and preparedness for future crises," the World Bank said.

The loan will finance measures that will improve digital government service delivery and pro-competition infrastructure policy; expand financial inclusion through digital finance; and boost business growth in digital services.

As of March 2022, the World Bank was the country's third-largest source of official development assistance (ODA), accounting for around 23.38% of the total ODA portfolio. **— Luisa Maria Jacinta C. Jocson**

Two scientific bodies set to conduct reclamation study

THE Department of Environment and Natural Resources (DENR) said it is in talks to engage two scientific organizations to carry out a study on reclamation policy.

Environment Secretary Maria Antonia Yulo-Loyzaga said in a Senate briefing that it is firming up an agreement with scientists from the University of the Philippines Marine Science Institute and the Manila Observatory.

"We are in the process of finalizing the memorandum of agreement between the different scientists who will be conducting the study for us," she said. — **Adrian H. Halili**

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OPINION

Up, up and away?

TAXWISE OR OTHERWISE
JAFFY AZARRAGA

Years ago, I wrote about the dangers of the extreme measures employed by governments worldwide to stave off the impact of the global financial crisis and a global recession. In so doing, governments and central banks had to tread a dangerous path between quantitative easing and monetary tightening, and it seemed only a matter of time before a recession, inflation, or even deflation resulted from such policies.

Now it appears that these dangers are being realized left and right. The global economy is now experiencing a slowdown, exacerbated by geopolitical tensions, a looming trade war between the US and China, and by oil and grain supply shocks brought about by the Russian invasion of Ukraine. While the West is experiencing slower growth and a heavier fiscal debt burden, Russia is experiencing serious inflation and its currency's value is plunging. Even China has recently fallen into deflation, in a manner eerily similar to Japan's own encounter with falling prices, ending its post-war economic boom when its asset price bubble burst in the 1990s.

The Philippines, once a bright spot in the region, has not been spared — with inflation and sporadic supply shocks and shortages, particularly in essential consumer goods and food. In fact, the Philippines is now experiencing the highest inflation since the global financial crisis of 2008, and if this remains elevated, further erosion of household purchasing power is inevitable.

What has the government done about this? The Bangko Sentral ng Pilipinas (BSP) has repeatedly announced its readiness to act as necessary to address any inflation risk. However, much in the same manner as central banks in advanced economies, the BSP also decided to increase interest rates, based on the same inflation-targeting model that guides the economic policy model of many central banks.

This response would be proper in case inflation were actually caused by excessive demand, as increased interest rates would suppress consumption and investment through monetary tightening. One may even argue that the current inflation is the tail end of various stimulus programs and cash aid given by the government during the pandemic, which would have added to existing demand stimulus.

On the other hand, with interest rates at near 16-year highs, households may also be facing higher debt servicing costs, since many households took out loans as a result of the COVID-19 pandemic, prodded in no small measure by relatively low interest at that time. Now, the cost of servicing such debt will be higher, resulting in further reduction of disposable household income, thereby lowering demand, especially for non-essentials.

Worse, increases in interest rates will sooner or later end up affecting investment and slowing down the economy. This is because higher interest rates increase the costs of borrowing, and when this is passed on to the consumers, prices correspondingly increase, compounding the problem. In fact, the possibility of higher prices (inflation) existing simultaneously with recession or stagnation, a phenomenon called stagflation, is looming larger as well.

In view of these, monetary tightening can only be considered as a stop-gap measure to address excessive inflationary pressures, that may have been brought about by abnormally high demand or even an excess of money circulating in the economy due to large loans taken and then spent by the government in recent years. If employed too long, the risk of harming the economy through forceful suppression of demand and investment is increased.

Nonetheless, there is some hope in sight. Unlike China, which was prone to deflationary pressures due to an aging and stagnating population, as well as an export-dependent economy that naturally weakens in the event of a trade war or global recession, the Philippines has a young and booming population, as well as an increasingly younger workforce. This, among others, blessed the Philippines with a domestic consumption and demand-driven economy, which actually makes it resilient in the face of a worldwide recession as long as purchasing power is maintained and the workforce is adequately employed.

Thus, the Philippines could greatly benefit from increasing productivity while maintaining high employment. Stimulating the economy and reining in unemployment may seem counter-intuitive, if not difficult, in the face of existing inflationary pressures and a looming global recession — but often the long-term solution is obscured by present or existing crises. However, such a solution may only be achieved by a government that is responsible and focused, a productive and cooperative private sector, and a compliant taxpayer base.

Needless to say, the government must be able to collect the proper amount of taxes to fund the necessary programs and expenditures. Even if taking out loans is necessary, it must make sure that any or all funds obtained are fully put to productive use, and not wasted on non-essentials or useless programs or worse, lost to graft and corruption. Reckless spending through debt financing must also be avoided at all costs since the country's debt burden — which now stands at P14.2 trillion — is colossal. Adding any more will only result in higher debt service payments, which will further decrease available funds in the future.

Given the enormity of these challenges, everyone must work hand in hand. Better transparency on the part of the government in its spending will also improve prudence and accountability on its part, and this in turn should encourage support and compliance from the private sector and taxpayers alike. Otherwise — like Odysseus trying to navigate the treacherous waters between Scylla and Charybdis of old — the ship we may call the BRP Philippines may risk falling into inflation, stagnation, or worse, both, with disastrous consequences for us all.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

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