Inflation pressures highlight need for productive spending

By Beatriz Marie D. Cruz
Reporter

THE GOVERNMENT must ensure that its spending is weighted towards productive investments like education, health, and infrastructure if it is to avoid the buildup of inflationary pressure, analysts said.

"Government spending must be direct — infrastructure, health, education, social services. Spending is necessary but prudence must be exercised especially in a time where poverty is persistent," John Paolo R. Rivera, president and chief economist at Oikonomia Advisory & Research, Inc., said in a Viber message.

He said that the impact of government spending on inflation "is conditional on supply of resources being demanded by government."

"Government spending is okay as long as these spending items have productive consequences on the economy," he said, citing the need to avoid 'white elephants', unnecessary travel, waste, unliquidated spending, and other leakages.

The Congressional Policy and Budget Research Department (CPBRD) said government spending has steadily increased since 2010, indicating that inflation has been given little weight in formulating spending plans.

"The government constantly runs the risk of exacerbating inflationary pressures and, by extension, heightening the severity of economic contractions," the CPBRD said in a report made available this month.

According to the Bureau of the Treasury, the government spent P1.52 trillion in 2010, P1.56 trillion in 2011, P1.78 trillion in 2012, P1.88 trillion in 2013, and P1.98 trillion in 2014.

It spent P2.23 trillion in 2015, P2.55 trillion in 2016, P2.82 trillion in 2017, P3.41 trillion in 2018, P3.80 trillion in 2019, P4.23 trillion in 2020, and P4.68 trillion in 2021.

In 2022, government expenditure increased by 10.35% to P5.16 trillion.

ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa called government spending this year "so far... disappointing, highlighted by the contraction recorded in Q2."

Gross domestic product (GDP) expanded 4.3% in April to June, the weakest reading in over two years, the Philippine Statistics Authority (PSA) said in August.

"As such the underspending is one of the main reasons for the below-consensus GDP growth so there may still be very little risk of overspending resulting in a build-up of inflationary pressures," he added.

Government spending contracted by 7.1% in April to June, according to the PSA. National Economic and Development Authority Secretary Arsenio M. Balisacan attributed this to the absence of election-related spending.

Mr. Mapa said that government expenditure can be a key source of growth when spent on projects that improve or increase productivity.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said that "higher prices/inflation could fundamentally increase the government's expenditures, widen the budget deficit, which, in turn, could lead to more government borrowings and overall debt."

Maharlika could be active in market by Q1, Diokno says

THE Maharlika Investment Corp. (MIC) will likely start becoming active in the market by the first quarter, once it works out an investment strategy and as the industry becomes familiar with the people running it, Finance Secretary Benjamin E. Diokno said.

Mr. Diokno told reporters that while the Maharlika Investment Fund is expected to be operational by the end of the year, market activity will take somewhat longer.

"What investors are looking for now are the faces behind the MIC, as well as the strategy of where the funds will be allocated," he said.

The sovereign wealth fund will be managed by the MIC, which will have authorized capital stock of P500 billion. Its initial funding of P125 billion will come from the National Government, the Land Bank of the Philippines (LANDBANK), and the Development Bank of the Philippines (DBP).

The MIC's board is composed of the president and chief executive officer (CEO), the president and CEO of LANDBANK and DBP, two regular directors and three independent directors. The Finance Secretary will also serve as chairman in ex-officio capacity.

The application period to fill MIC's president and CEO and independent and regular director positions closed on Sept. 27.

"The Advisory Body will then transmit the final list of nominees to the Office of the President on or before Thursday, Oct. 12, after which the President of the Philippines will appoint the best candidates for the respective positions," Mr. Diokno said.

The Advisory Body is composed of the secretaries of the Budget and the National Economic and Development Authority, as well as the national treasurer.

In July, President Ferdinand R. Marcos, Jr. signed into law Republic Act No. 11954, which created the sovereign wealth fund.

The implementing rules and regulations for the fund were released in August. They took effect on Sept. 12. — **Luisa Maria Jacinta C. Jocson**

Trade deficit revised to $27.98 billion in first half

THE DEFICIT in the balance of trade in the first half widened compared to the preliminary estimate, with the final import bill higher than initially reported, the Philippine Statistics Authority (PSA) said.

The revised trade deficit was $27.979 billion, up from the $27.955 billion initially posted in August. The deficit is narrower than the $28.403-billion deficit from a year earlier.

The value of merchandise exports in the first half was revised to $34.944 billion from $34.941 billion previously reported. The revised tally represents a 9.3% decline from the $38.536 billion posted in the first half of 2022.

Imports were also revised higher to $62.924 billion from $62.896 billion previously reported in August. The revised total represents an 8% decline compared with the year-earlier $68.377 billion.

The Development Budget Coordination Committee's export and import growth assumptions are set at 1% and 2%, respectively, for this year.

Accordingly, total trade was revised to $97.868 billion against the earlier estimate of $97.837 billion.

"Imports and exports both eased to three-month lows recently amid higher inflation that weighed on spending worldwide, higher interest rates that increased financing costs that slowed down investments and global trade," Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in an e-mail.

The PSA reported, citing preliminary data, that the consumer price index accelerated to 5.3% in August from 4.7% in July. It slowed from the 6.3% posted a year earlier.

"Membership in the Regional Comprehensive Economic Partnership (RCEP), which is the world's biggest free trade agreement, would help attract more foreign direct investment to locate in the Philippines as a production or marketing base, as well as an access point to bigger export markets," Mr. Ricafort said.

"The RCEP will also expand the sources of cheaper imports for foreign investors that manage their respective global supply chains with reduced import tariffs in the coming years," added Mr. Ricafort. — **Lourdes O. Pilar**

DTI seeks more funding for creatives to maintain PHL lead within ASEAN

THE Department of Trade and Industry (DTI) said more funding for the creative sector is needed to maintain the Philippines' regional lead in exporting creative services.

"We hope to get a bigger share of the budget because considering all these huge programs that we're planning to implement," Trade Undersecretary Rafaelita M. Aldaba told reporters on Thursday.

"We are already number one in ASEAN in terms of creative services exports, but we really need to be able to sustain this position. And we can only do that if we can if we continue to provide all the necessary support to allow our creatives to compete abroad," she added.

According to Ms. Aldaba, the department received over P400 million from the 2023 budget for the industry, and is requesting up to P600 million for 2024.

The budget will be going to programs that will promote creative industries at the city and municipality level, capacity-building, market intelligence reports, and a creative venture fund.

"The focus is really on promoting and growing more creative cities... There are a lot of opportunities for the creative sector. But at the same time, we need government support," she said. — **Justine Irish D. Tabile**

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