



Philequity Corner (January 16, 2017)
By Wilson Sy

Finance Chiefs Unite

In our book, *Opportunity of a Lifetime*, which was released on August 19, 2015, we had a chapter entitled “Fiscal Reform in the Philippines.” We devoted an entire chapter to explain how previous economic reforms were crucial to the progress of our country and the secular bull market in Philippine stocks.

Secular bull market and fiscal reforms

Over the years, several important structural changes have transformed the Philippines. Foremost of these are the economic reforms that have served as the foundation of the Philippines’ bull market. On page 122 of our book, we listed and elaborated on the following reforms:

1. **Expanded value-added tax (E-VAT) and sin taxes** – moves to increase VAT and impose E-VAT were historic milestones because they increased the government’s revenue base at a time when the country was entering a fiscal crisis
2. **Deregulation** – Deregulation of the oil and telecom sectors led to the emergence of new players and allowed prices to be freely dictated by market forces
3. **Privatization** –This allowed formerly government-owned companies the opportunity to raise capital in order to make significant investments and modernize their operations. More importantly, it spared the government from spending a lot of time and money running inefficient and graft-ridden companies
4. **Fiscal consolidation** – Taken together, the fiscal reforms implemented by past administrations all contributed to the country’s strong fiscal position. This led to credit rating upgrades and more foreign investment flows

Comprehensive tax reform package

At this point in the economic cycle of the country where much infrastructure spending is needed to enable inclusive growth, a comprehensive tax reform package is essential. Some salient points of this package are corporate and personal income tax cuts, excise taxes on fuel and automobiles, as well as the removal of some VAT exemptions.

Time to act, time to unite

Due to the myriad of issues surrounding the tax reform package and the unpopularity of additional taxes, it is taking time for our legislators to act on it. But lo and behold, in a historic and unprecedented move, our country’s former finance chiefs came out with a manifesto “fully endorsing” the tax reform package. In their joint statement, they urged the public to unite behind the government’s economic program, saying that “the DOF’s proposed comprehensive tax reform is progressive, timely, and well-crafted to achieve the vision of a prosperous Philippines free of poverty. For these reasons we strongly

support the reform and urge the public to do the same.” This was also a message to our legislators that the time to act on tax reform is now.

Collective wisdom from our finance heads

19 former heads and deputy chiefs of the Department of Finance (DOF) and the National Economic and Development Authority (NEDA) have given their full support to the DOF’s comprehensive tax reform program, which they said would “correct the structural weaknesses” of the country’s system and serve as a tool to decisively attack poverty and achieve inclusive growth. Among these 19 are 7 former DOF secretaries, namely, Jose Pardo, Cesar Virata, Jose Isidro Camacho, Jesus Estanislao, Roberto de Ocampo, Cesar Purisima, and Juanita Amatong. 5 NEDA Director Generals also signed the manifesto - Arsenio Balisacan, Emmanuel Esguerra, Cielito Habito, Felipe Medalla and Romulo Neri. 7 former DOF undersecretaries affixed their signatures as well, namely, Romeo Bernardo, Joel Bañares, Cornelio Gison, Lily Gruba, Milwida Guevarra, Jose Emmanuel Reverente and Florencia Tarriela.

After being in charge of our country’s economy in the past, these former finance chiefs are now lending their collective wisdom to help our country move forward. In order for the Philippines to sustain GDP growth of 7% as suggested by NEDA Director-General Ernesto Pernia, it is crucial for this comprehensive tax reform package to be passed. Budget Secretary Ben Diokno’s ambitious plan of ushering in a Golden Age of Infrastructure through record-breaking infra spending also depends on additional revenues to be generated by Finance Secretary Sonny Dominguez’s tax plan.

Harnessing the groundswell

In a previous article, we wrote about how the groundswell propelled Rodrigo Duterte to the highest position in the land (see *Groundswell*, 18 April 2016). We explained the rising popularity of Duterte, the clamor for change among the citizenry and the need for inclusive growth. With President Duterte’s high trust ratings, the same groundswell can be used to push forward economic reforms. This tax reform package can make inclusive growth a reality as it will lower taxes for the poor. A reduction in corporate income taxes will also make Philippine companies more competitive. This will create more jobs, directly increasing the spending power of the Filipino people. This may well reignite the groundswell in the stock market (see *Groundswell in the stock market*, 30 May 2016).

Philippines 2040

In the same manifesto, the finance chiefs said that tax administration and budget reforms alone cannot bankroll the inclusive growth this administration seeks. Through this tax reform package they said that we may be able to achieve NEDA’s 2040 goal of tripling per capita incomes. Moreover, they said that if this package is passed, then by 2040, “the Philippines will be a prosperous, predominantly middle-class society where no one is poor, and our people will live long, healthy lives, be smart and innovative, and live in a high-trust society.”

Short term pain for long term gain

Similar to fiscal reforms in the past, new taxes have always been unpopular. There may be a lot of objections in the beginning, making this a bitter pill to swallow. However, as we have written in previous articles, history shows that after we take the short term pain, we will be able to reap the rewards of long

term gain (see *Getting Our Act Together After Taking the Bitter Pill of Fiscal Reforms*, 23 May 2005 and *Short-Term Pain for Long-Term Gain*, 5 September 2005).

Uniting behind our finance chiefs

In the past, we have written many articles about economic and fiscal reform because these are crucial for the country to move forward. Now, we are once again at the crossroads in our country's march towards progress. Like E-VAT, the comprehensive tax reform package, though unpopular, is crucial to the progress of our country. Our former finance chiefs are also clearly aware of this, hence their historic joint manifesto. We should not let this heroic effort go for naught. Not only do they mean well, but they also know our history and what our country needs. Armed with their collective wisdom, let us unite behind our finance chiefs.

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