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Economic Focus

Containing the 2009 deficit

Narrower deficit as spending is cut. . .

The national government's budget deficit narrowed to ₱6.4b in November after posting a ₱28.6b gap in October. The smaller amount is due primarily to slower spending as this contracted 9.4% Y/Y for the month following a 12.3% increase in October. This year because of the fiscal stimulus program there has been only one previous month when spending declined. However the contraction was minimal at 0.2% in August. The much larger decline in November may be an attempt to contain this year's deficit to less than ₱300b, a level cited as maximum by the government. Revenues declined at a faster rate of 11.7% in November against 7.6% in October, largely because of a deep 24.8% plunge in collections from the Bureau of Customs. More details are seen in Figure 1.

. . . as in past years

The decline in total spending is aggravated by the decrease in interest payments, which fell 12.3% in November. However, when these are excluded from total expenditures, the restraint in spending becomes even more evident. Net of interest payments, spending declined 9.1%, the only decrease thus far this year, and the first one since March 2008. Containing the deficit in this manner has been the strategy in previous years.

Privatizations unlikely to come to the rescue

Lack of privatization revenues compounded the decline in tax collections. The Department of Finance has stated there are unlikely to be any privatizations for the remaining part of the year. This is in contrast to previous years when sizeable privatizations occurred in December. This may be why the government has started to curb spending.

Deficit larger but not unmanageable

As a result of fiscal stimulus that boosted spending and provided tax breaks, and combined with the impact of slower economic growth, the budget deficit has increased by close to 50% Y/Y as of November. It has also exceeded the government's target of ₱250b. We estimate the full-year deficit will reach ₱281b. While this is a record amount, the more important metric to look at is the ratio to GDP. On our forecast, this ratio would be 3.6%. As shown in Figure 2, unlike the peso amount, this is far from being a record level. That distinction is for 2002 when the ratio reached 5.3% and there were concerns about servicing the external debt. This time there are no such concerns as international reserves are the highest they have ever been at US\$44.2b. Based on June data, these are more than adequate (about 5x) to cover all short-term debt and principal payments on medium and short-term loans for the next 12 months.

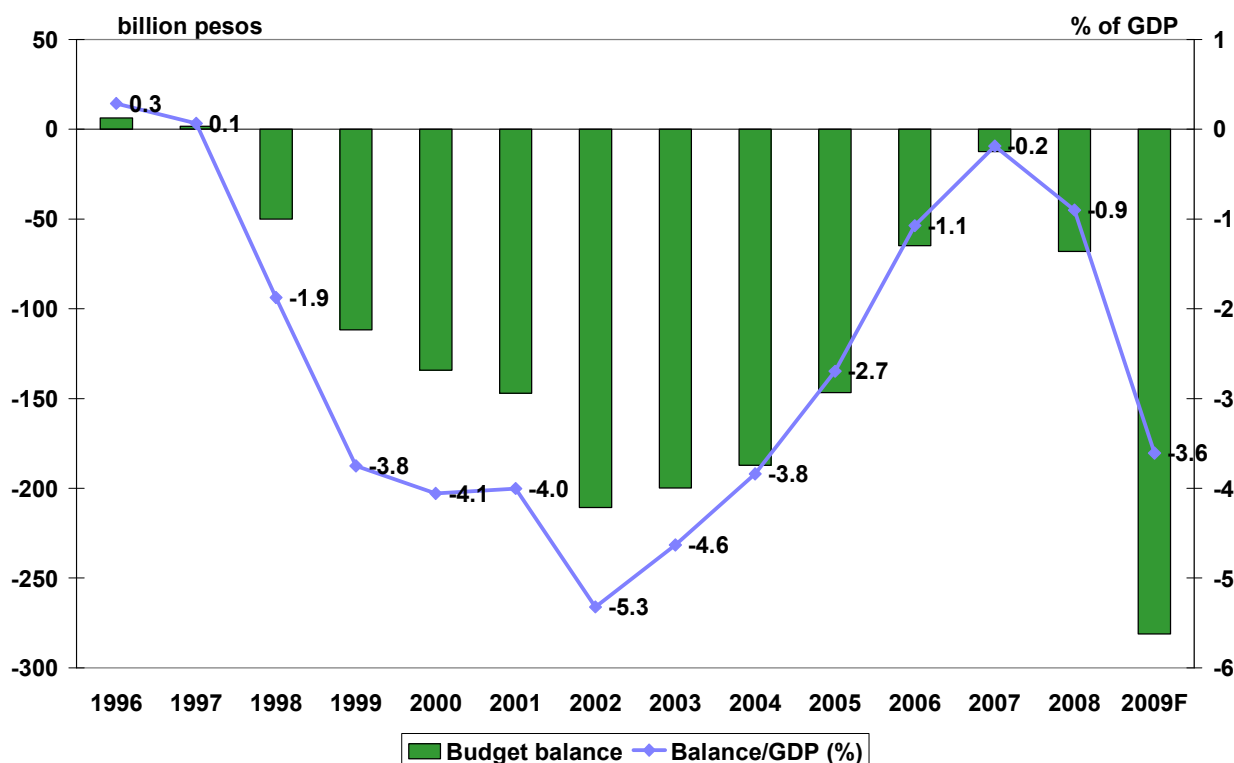
SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1. Smaller deficit in November as spending is curbed

	Billions of pesos				Change (%Y/Y)	
	Nov-09	11M09	Nov-08	11M08	Nov-09	11M09
Revenues	96.3	1,021.7	109.0	1,081.6	-11.7	-5.5
Bureau of Internal Revenue	70.0	681.9	76.7	721.6	-8.8	-5.5
Bureau of Customs	17.5	201.4	23.3	241.5	-24.8	-16.6
Others	8.8	138.3	9.0	118.6	-2.2	16.7
Expenditures	102.7	1,294.2	113.4	1,148.3	-9.4	12.7
of which interest payments	10.7	260.1	12.2	264.5	-12.3	-1.7
Expenditures net of interest payments	92.0	1,034.0	101.1	883.7	-9.1	17.0
Surplus (deficit)	(6.4)	(272.5)	(4.3)	(66.7)	48.4	308.7
Primary surplus (deficit)	4.3	(12.4)	7.9	197.9	-45.6	-106.3

Sources: Bureau of Treasury, Department of Finance and Kim Eng Securities

Figure 2. 2009 deficit at record level in pesos but ratio to GDP remains manageable



Sources: Bureau of Treasury, Department of Finance and Kim Eng Securities

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