필리핀한인상공회의소뉴스
KOREAN CHAMBER OF COMMERCE PHILIPPINES NEWSLETTER

February 2024 Issue | Vol. 11

SPECIAL POINTS OF INTEREST

Inflation sharply drops to 3-year low

February 07, 2024 | Keisha B. Ta-asan | BusinessWorld

Inflation slowed to 2.8% in January, the statistics agency reported. -- PHILIPPINE STAR/ MIGUEL DE GUZMAN

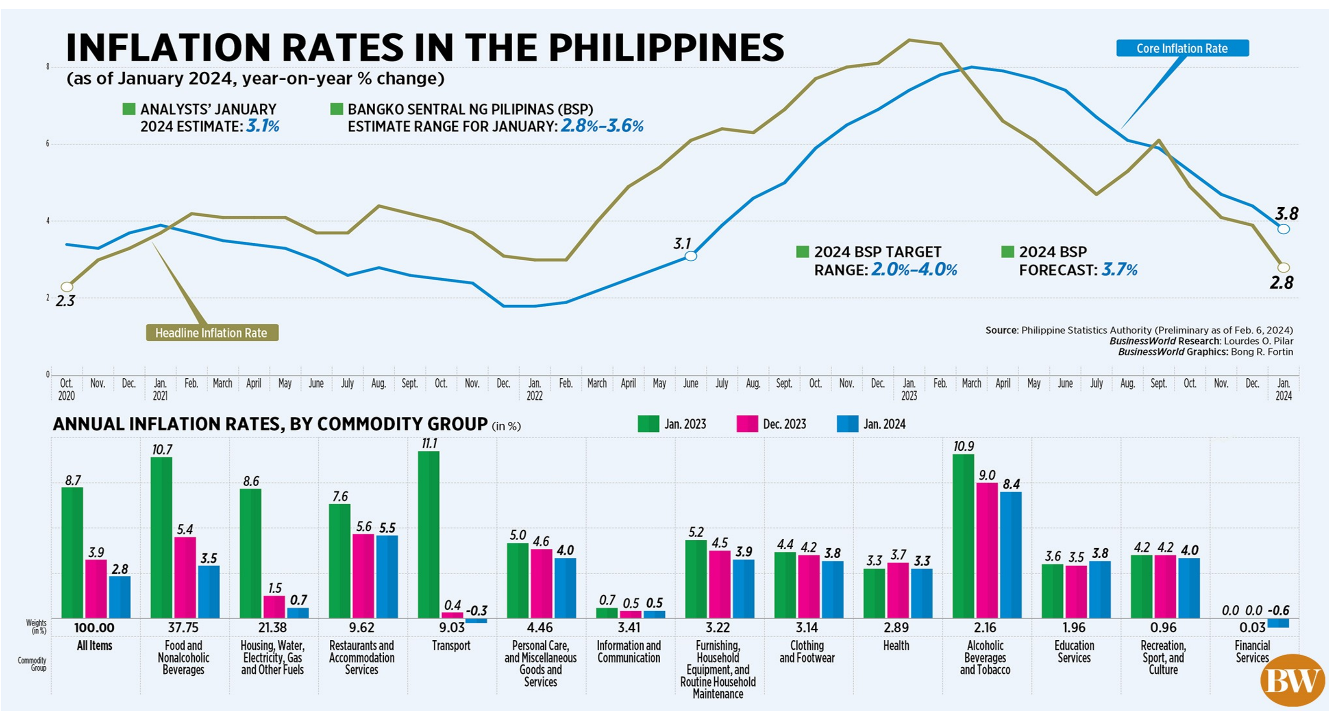
HEADLINE INFLATION sharply decelerated to an over three-year low of 2.8% in January, marking the second straight month it fell within the Bangko Sentral ng Pilipinas' (BSP) 2-4% target range.

Preliminary data from the Philippine Statistics Authority (PSA) showed the overall year-on-year increase in prices of widely used goods and services cooled to 2.8% in January from 3.9% in December and 8.7% in the same month in 2023.

This marked the slowest inflation print since the 2.3% seen in October 2020 amid the coronavirus pandemic.

The latest consumer price index (CPI) is below the 3.1% median estimate in a *BusinessWorld* poll last week and matched the low end of the BSP's 2.8-3.6% forecast.

Month on month, inflation quickened by 0.6%. Stripping out seasonality factors, month-on-month inflation declined by 0.1% in January.



"This inflation outturn is consistent with the BSP expectations that inflation will likely moderate in the first quarter of 2024 due largely to negative base effects and some easing of supply constraints affecting key commodities," the central bank said.

Core inflation, which excludes volatile prices of food and fuel, continued to ease to 3.8% in January from 4.4% in December. This is the first time that core inflation settled within the 2-4% target after 17 months and was the slowest print since 3.1% in June 2022. *[Cont. page 2]*

Inflation sharply drops to 3-year low

[Cont. from page 1]

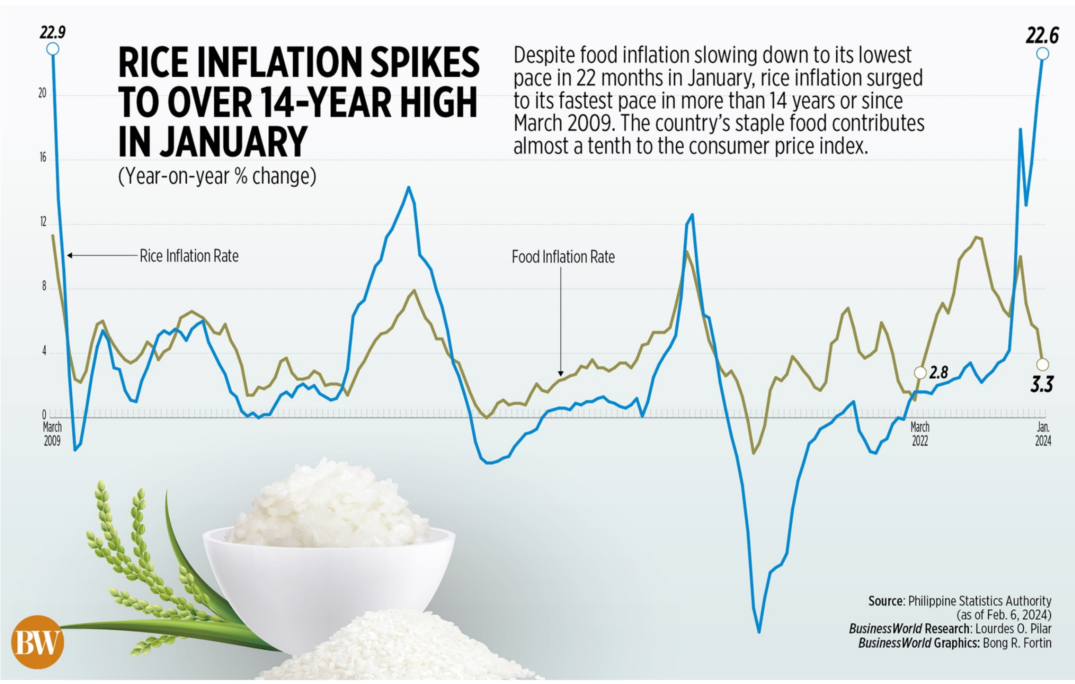
At a press briefing, National Statistician Claire Dennis S. Mapa attributed the slowdown in January inflation to the 3.5% annual increase in food and nonalcoholic beverages, slower than 5.4% in December.

Food inflation alone eased to 3.3% in January from 5.5% in the previous month and 11.2% a year ago. It marked the slowest food inflation figure since the 2.8% in March 2022.

The deceleration of food inflation last month was due to the faster decline of vegetables, tubers, plantains, cooking bananas and pulses, which was at -20.8% from -9.2% in December.

Fish and other seafood also contributed to slower food inflation, as its inflation rate eased to 1.2% in January from 4.8% seen in December.

Inflation for meat and others dropped to -0.7% from 0.2% in December.



RICE PRICES GO UP

However, rice inflation continued to accelerate. In January, rice inflation quickened to 22.6% in January from 19.6% in December. This is the highest rice inflation in nearly 15 years or since 22.9% in March 2009.

Rice was also the most significant contributor to December inflation, adding 1.3 percentage points to the 2.8% headline print. The commodity has the biggest weight in the overall CPI basket at 8.87%.

Mr. Mapa said the average price of regular milled rice jumped by 2.4% to P49.65 per kilo in January from P48.48 per kilo in December.

It also rose by 25.4% from the P39.60 a kilo in January 2023.

The average price of well-milled rice also increased by 2% to P54.91 per kilo in January from an average of P53.82 per kilo a month earlier. Year on year, prices went up by 25% from P43.92 a kilo.

“If we look at rice imports, the prices of rice in the world market are very high,” Mr. Mapa said in mixed English and Filipino.

He also noted that the Philippines had low inflation rates for rice in the first half of 2023 before it started to spike in August and September.

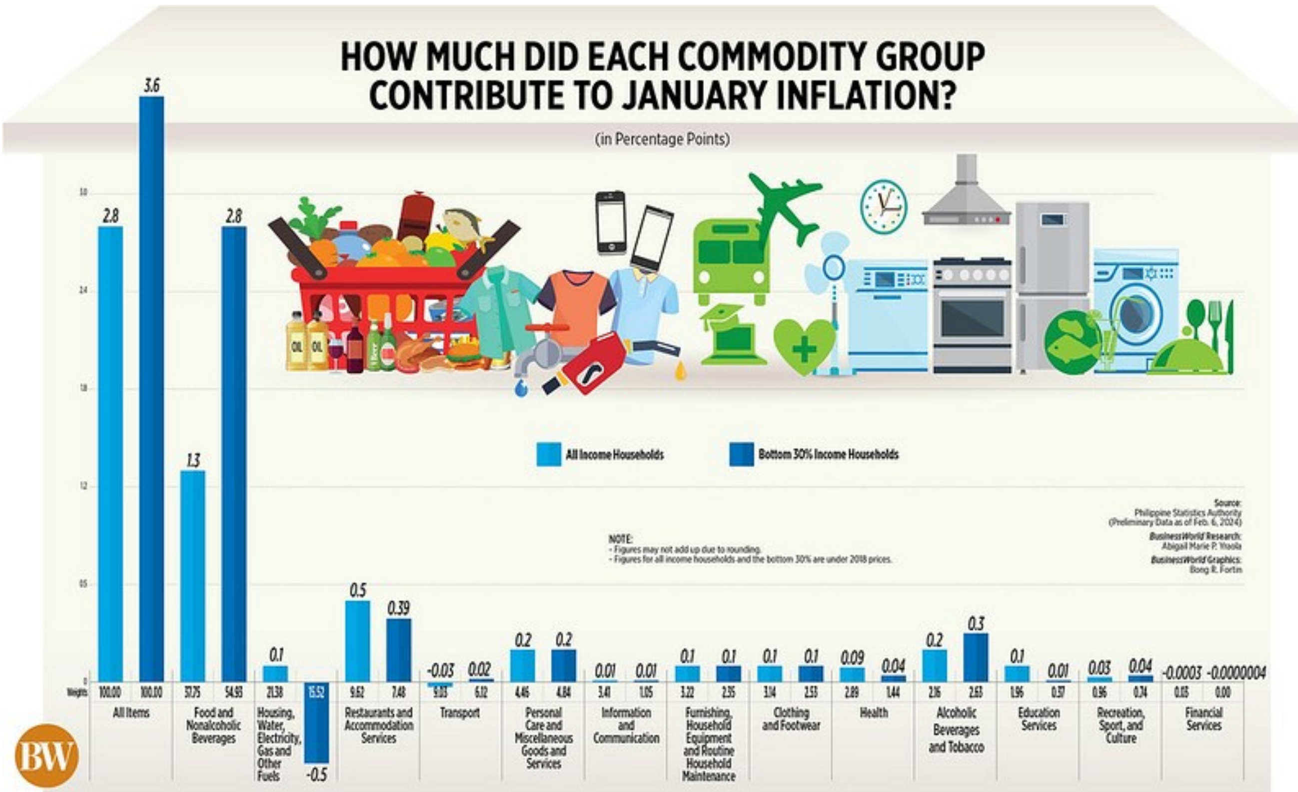
“Rice prices came from a low base last year. Our calculation shows that rice inflation may continue to rise in terms of inflation rates simply because the base is relatively low in 2023,” he said.

“If rice prices continue to remain elevated because of base effects, our expectation is that we will have a rice inflation within the vicinity of 20% or higher until July this year,” he added.

National Economic and Development Authority Secretary Arsenio M. Balisacan said the Inter-Agency Committee on Inflation and Market Outlook is closely monitoring prices of rice and other commodities to provide appropriate policy recommendations.

“We introduce stop-gap measures, as necessary, such as allowing further imports on key commodities until our supply stabilizes at prices affordable to consumers while ensuring remunerative prices for local producers,” he said. *[Cont. page 3]*

Inflation sharply drops to 3-year low
[Cont. from page 2]



Mr. Balisacan also noted that the Department of Agriculture will continue to monitor on-the-ground developments in addressing food production concerns.

"Rice inflation has a substantial effect (to the headline), but the headline would still depend on the movement of other components of the inflation basket," PSA's Mr. Mapa said.

Mr. Mapa said inflation was also driven by slower increases in housing, water, electricity, gas and other fuels, which stood at 0.7% in January, down from 1.5% in December.

He said housing rentals went down in January, in contrast to what happened last year when landlords adjusted rates higher as the economy reopened.

Meanwhile, transport inflation contracted by 0.3% in January, a turnaround from the 0.4% growth in December. Inflation for financial services also declined by 0.6% from zero percent a month prior.

Inflation in the National Capital Region (NCR) decelerated to 2.8% in January from the 3.5% print in December and 8.6% a year ago.
Outside of NCR, consumer prices slowed to 2.8% from 4% a month ago and 8.7% in January 2023.

Inflation for the bottom 30% income households eased to 3.6% in January from 5% in December and 9.7% in the same month in 2023.

"While the general trend we're seeing is that inflation is going down, we still have threats such as rice prices. And if there are movements in the other commodity items, it could be a source of threat as well to our low inflation rate," Mr. Mapa said.

"But right now, what we're seeing is that the overall direction is going down," he said.

EL NIÑO
According to the BSP, inflation could still accelerate to above the 2-4% target range in the second quarter due to the impact of the El Niño weather condition and positive base effects. *[Cont. page 4]*

PH groomed as Asian aviation hub
[Cont. from page 3]

"Key upside risks are associated with potential pressures emanating from higher transport charges, increased electricity rates, higher oil prices, and higher food prices due to strong El Niño conditions," the BSP said.

A weaker global growth and government measures to mitigate the effects of El Niño could ease some price pressures, the central bank said.

"Looking ahead, the Monetary Board deems it necessary to keep monetary policy settings sufficiently tight until a sustained downtrend in inflation becomes evident," the BSP said.

It added that the Monetary Board will consider the latest inflation and gross domestic product (GDP) outturn at its first policy review meeting on Feb. 15.

The BSP has kept its benchmark interest rate unchanged at a 16-year high of 6.5% for two straight meetings. This was after it hiked by 450 basis points (bps) from May 2022 to October 2023 to tame inflation.

ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa in a note said the BSP will likely keep its hawkish tone despite the continued slowdown in headline inflation.

"BSP Governor Eli M. Remolona, Jr. indicated that he was expecting inflation to slide in the first quarter before accelerating sharply in the second quarter, justifying his outlook for rates to stay higher for longer," he said.

Mr. Remolona had also said the Monetary Board may consider a rate cut in the second half this year, but inflation should be firmly within the 2-4% target.

"If we continue to see inflation moderate well into the second quarter, we do expect BSP to begin to change their tune to signal a pivot, possibly by June," ING's Mr. Mapa said.

HSBC economist for ASEAN (Association of Southeast Asian Nations) Aris D. Dacanay in a note said the BSP's tight monetary stance is working its way through the economy, as reflected with easing core inflation.

"But a bit of caution is warranted. Favorable base effects must fade or turn unfavorable at some point," he said. "Upside risks to inflation also linger. There are still pending petitions to hike minimum wages and transport fares, not to mention global rice prices that have yet to peak."

The BSP is expected to keep borrowing costs steady at its meeting next week, Mr. Dacanay said.

"With growth pleasantly surprising to the upside in the fourth quarter of 2023, the BSP has the convenience of time to wait for inflation to really settle within its target band before beginning its easing cycle," he said.

In the fourth quarter, GDP expanded by 5.6%, slower than the revised 6% GDP growth in the third quarter and the 7.1% expansion in the fourth quarter of 2022. This brought full-year GDP to 5.6% in 2023.

"We also do not think the BSP can cut ahead of the Fed. Maintaining its current rate differential with the Fed will help mitigate any volatility in the USD-PHP and prevent FX (foreign exchange) changes in re-stoking inflation," Mr. Dacanay added.

The US Federal Reserve kept borrowing costs unchanged at 5.25-5.5% since September last year, following the 525-bp rate hikes it did from March 2022 to July 2023.

Source: https://www.bworldonline.com/top-stories/2024/02/07/574037/inflation-sharply-drops-to-3-year-low/

Weak exports still biggest hurdle to Philippines expansion
February 07, 2024 | Louise Maureen Simeon | The Philippine Star


This photo shows crates carried by a forklift in the port of Manila. Philstar.com / File

MANILA, Philippines — The Philippine export sector remains the biggest drag to economic expansion as it takes a hit from the slowdown in major trading partners, according to a unit of Fitch Solutions.

In a report, BMI Country Risk & Industry Research said economic momentum this year would be driven mostly by the domestic sector, particularly on consumption and investment activities.

The research arm of the Fitch Group said hitting the gross domestic product (GDP) growth target of 6.5 to 7.5 percent might not necessarily be a walk in the park given a challenging external environment. *[Cont. page 5]*

Weak exports still biggest hurdle to Philippines expansion
[Cont. from page 4]

"The external sector will remain the economy's biggest area of weakness. A further slowdown in global growth makes a turnaround in export performance increasingly unlikely," BMI said.

"Like many of its regional peers, a deteriorating external demand picture will exert the biggest drag on the Philippines' economy," it said.

The country's total merchandise exports contracted by 7.6 percent to $73.52 billion in 2023 from $79.57 billion in 2022.

BMI maintained that a rebound is unlikely given that global growth is also seen slowing down to 2.2 percent from last year's 2.6 percent.

The country's export performance remains heavily reliant on global economic scenarios.

For instance, a third of the country's total exports goes to the US and China.

"The Philippines' major trading partners are also facing significant headwinds of their own. A shallow recession in the US and a poorer economic outlook in mainland China bodes poorly for the external sector," BMI said.

China, for one, is seen suffering a slowdown over the next few years amid its low productivity due to an aging population.

The world's second largest economy also continues to bear the brunt of a debt crisis in its property sector, coupled with ongoing geopolitical tensions.

The US, on the other hand, is still seeing fragility in its labor market.

Nonetheless, BMI noted that slowing inflation would help boost household spending and contribute to overall economic growth.

BMI said inflation would likely fall within the target band of two to four percent for most of 2024, offering some respite for real household incomes after a challenging 2023.

The Fitch Solutions unit emphasized that monetary policy easing would support investment activities this year.

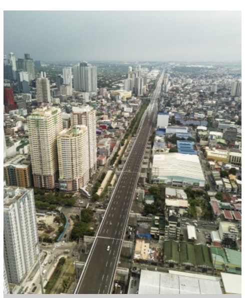
"Significant strides in the Philippines' disinflation process reduce the need for the central bank to lean toward additional tightening to anchor inflation expectations," BMI said.

"Our view is for cuts to begin in earnest in the second half which is one reason why we have penciled in an acceleration in investment growth in 2024," it said.

Since May 2022, the Bangko Sentral ng Pilipinas has raised interest rates by 450 basis points to tame inflation and stabilize the peso.

Source: https://www.philstar.com/business/2024/02/07/2331413/weak-exports-still-biggest-hurdle-philippines-expansion

World Bank whips out to-do list for faster PHL growth
February 06, 2024 | Cai U. Ordinario | BusinessMirror



The Metro Manila Skyway, an essential elevated expressway network in Metro Manila, traverses through Makati City. Serving as the primary route for vehicular traffic, it links the North and South Luzon Expressways (NLEX and SLEX).

THE Philippines could accelerate its economic growth by sustaining improvements in investment growth, educational outcomes, life expectancy and female labor force participation in the next 10 years, according to the World Bank (WB).

In its latest report titled "Falling Long-Term Growth Prospects: Trends, Expectations, and Policies," WB said potential growth could be raised by 0.8 percentage point a year by the end of this decade if the Philippines and other countries in East Asia and the Pacific (EAP) will implement "growth-enhancing reforms."

"More than half of this increase [approximately 0.5 percentage point a year] would come from the boost to investment growth," it added.

The World Bank said putting in place growth-enhancing reforms is crucial to avoiding its baseline projection for 2022-2030, which shows a further slowdown in the expansion in EAP's potential output.

Potential GDP growth in EAP is projected to slow further to an average rate of 4.6 percent a year in 2022-30, down from 6.2 percent a year in 2011-2021. *[Cont. page 6]*

World Bank whips out to-do list for faster PHL growth

[Cont. from page 5]

The report noted that China accounts for much of the projected slowdown, but slowing potential growth is expected to spread to the rest of the region as well.

Part of the projected slowdown is due to the pandemic and the war in Ukraine, the effects of which are expected to be most severe and longest lasting in the countries that have suffered most from the collapse of global tourism and trade.

"Growth prospects have also deteriorated for countries that have recently suffered natural disasters, domestic policy uncertainty, and terms-of-trade shocks. In terms of the production function framework, each of the three main drivers of growth in potential output are expected to contribute to the worsening outlook, with weaker capital accumulation accounting for most of the slowdown, followed by falling growth in TFP [total factor productivity] and the supply of labor," the report read.

Philippine trend

In contrast, in the Philippines, the World Bank said investment is expected to pick up from depressed levels and boost growth in potential output.

The Philippines can do this by implementing a number of measures, including the broadening of its tax base to finance infrastructure projects. The World Bank said better infrastructure could foster connectivity and spur innovation in the country.

"Financing such investment will depend on country circumstances: It may need to be accomplished by broadening the tax base [Cambodia, Indonesia, Lao PDR, Malaysia, Mongolia, Papua New Guinea, and the Philippines]," it added.

Reforms to improve education quality would also raise labor force skills and promote productivity growth. "Now that schools have reopened, measures to adjust school curricula and develop rapid catch-up periods can also mitigate learning losses."

In the longer term, countries, it said, should seek to develop more resilient and inclusive education systems that can deliver learning in the event of future crises, including through remote learning.

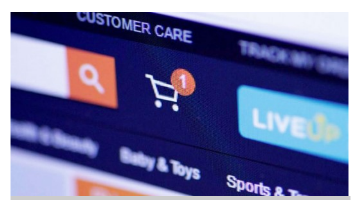
Image credits: Michael Edwards | Dreamstime.com

Source: https://businessmirror.com.ph/2024/02/06/wb-whips-out-to-do-list-for-faster-phl-growth/

Digital transactions VAT bill elevated to Senate plenary

February 06, 2024 | John Victor D. Ordoñez | BusinessWorld

THE COMMITTEE report of a Senate bill seeking to impose a 12% value-added tax (VAT) on digital transactions, which now includes nonresident foreign online marketplaces with customers in the Philippines, has been sponsored out to the plenary.



BW FILE PHOTO

During Tuesday's plenary session, Ways and Means Committee chairman Senator Sherwin T. Gatchalian, who sponsored Senate Bill No. 2528, said the measure will require nonresident electronic marketplaces to withhold and remit VAT on transactions that are coursed through their platforms, provided the buyer is in the Philippines.

"This is not a new tax imposition," he said. "We are just collecting the tax that we ought to be collecting from non-resident digital service providers."

Under the measure, a nonresident digital service is defined as not having a "physical presence" in the Philippines.

He noted that foreign online streaming platforms with subscribers in the Philippines do not pay 12% VAT under the current Tax Code.

The Department of Finance is expecting the tax measure to bring in P83.8 billion in revenue from 2024 to 2028.

Under the bill, online courses, seminars and training programs by private educational institutions accredited by the Department of Education and the Commission on Higher Education are exempt from remitting 12% VAT.

It will also impose a "reverse charge mechanism" which will make a recipient of the goods or services liable to pay the VAT instead of the provider. *[Cont. page 7]*

Digital transactions VAT bill elevated to Senate plenary

[Cont. from page 6]

“For instance, if a VAT-registered resident corporation buys materials through Amazon.com, It will then be the VAT-registered taxpayer who shall be liable to withhold and remit the VAT,” Mr. Gatchalian said.

The Commissioner of Internal Revenue will also be authorized to order the blocking or suspension of the services of digital providers if they do not pay the 12% VAT. The actual blocking will be carried out by the National Telecommunications Commission.

The House of Representatives approved a similar measure in November 2022.

“We believe in the importance of creating an environment where our digital service providers, whether they are nonresident or local, operate under fair and square tax policies,” Mr. Gatchalian said.

“We are committed to (creating) a level playing field.”

Source: https://www.bworldonline.com/economy/2024/02/06/574048/digital-transactions-vat-bill-elevated-to-senate-plenary/

Teves: PH stands alone in Asia with Constitutional restrictions on foreign ownership

February 05, 2024 | Chino S. Leyco | Manila Bulletin

MANILA BULLETIN

A former finance chief said that the Philippines stands alone in the Asian region with Constitutional restrictions on foreign ownership, emphasizing the need to ease these restrictive economic provisions.

Former Finance Secretary Margarito B. Teves said the Philippines trails behind its Southeast Asian neighbors in foreign direct investments, and has been overtaken by Indonesia, Vietnam, Malaysia, and Thailand.

“The Philippines is the only country in the Asian region, where restriction in foreign ownership are embodied in the constitution,” Teves said at the Senate hearing on Resolution of Both Houses No. 6 pushing for Charter change.

For this reason, Teves urged for revisions to the 1987 Constitution to enable foreign companies to have full ownership in key sectors, asserting that this would convey a "warm welcome" to foreign investors.

“We believe that the removal of these restrictive economic provisions would send a clear and compelling message to foreign investors, signaling a warm welcome to their investments and business operations in the Philippines,” Teves said.

Speaking on behalf of the think-tank Foundation for Economic Freedom, Teves listed items his group wants changed.

They include Sections 2, 7, and 11 of Article 12; Section 4 of Article 14 related to education, science and technology, arts and sports; Section 11, and Article 16 on general provisions related to ownership of mass media and advertising.

The think-tank also proposes amendments in Section 19 Article 2 Declaration of Principles and State Policies and Section 10 Article 12 on National Economy and Patrimony to reflect a less Filipino-centric state policy on the economy.

Teves noted that while the liberalization laws, such as amendments to the Public Service Act, the Foreign Investment Act, and the Retail Trade Liberalization Act, allow for increased foreign ownership, they are insufficient for the country to keep pace with the economic progress of fellow ASEAN members.

“We need to have a legal framework and market conditions that match our competitors,” Teves said.

“Increase foreign investment in the currently restricted areas will generate a higher quality, higher paying jobs whose incomes provide greater opportunity for more inclusive growth and development for our people and the country,” he added.

Teves said that removing the foreign ownership restriction in the constitution while necessary is not enough to attract more foreign investors.

“Other conditions such as the rule of law, good infrastructure, and ease of doing business among others must be present to compete with other countries in attracting foreign investments. However, removing these restrictions is a necessary first step,” he said.

Source: https://mb.com.ph/2024/2/5/teves-ph-stands-alone-in-asia-with-constitutional-restrictions-on-foreign-ownership

ADB to support Recto’s tax collection strategy

February 08, 2024 | Niña Myka Pauline Arceo | The Manila Times

THE Asian Development Bank (ADB) pledged to back Finance Secretary Ralph Recto's central strategy for enhanced tax collection, focusing on leveraging digital technologies to achieve more efficient and proactive tax administration.

Recto, in a statement on Wednesday, highlighted the importance of improved coordination among national and local agencies in a meeting with ADB senior officials.

He stressed the need for a unified approach to harmonize the records of registered taxpayers and enhance the efficiency of tax collection.

The ADB, in response, backs the Philippines' ongoing endeavors to establish an equitable and effective tax system that promotes inclusive and resilient economic growth.

This is through the $400-million policy-based loan for Domestic Resource Mobilization, which works to improve policies, legal frameworks, modernize tax administration through digital transformation, and strengthen international tax cooperation and information exchange.

Recto said that a second subprogram is pipelined for 2025.

The ADB also commits to enhancing collaboration with the Philippine government in modernizing infrastructure, specifically in public-private partnerships (PPPs).

Through the Infrastructure Preparation and Innovation Facility (IPIF), the ADB will assist the government in executing more efficient and innovative infrastructure projects, supporting initiatives from the Department of Transportation and the Department of Public Works and Highways.

Both sides also agreed to collaborate on developing projects, particularly in green infrastructure and clean energy, within the ADB's $10-billion climate financing commitment for 2024 to 2029.

Recto, for his part, shared the Philippines' efforts to attract investments, emphasizing the role of job creation and economic growth.

He stated the Department of Finance's (DoF) initiative to amend the Corporate Recovery and Tax Incentives for Enterprises (Create) Act to suit investors' interests, and advocated for refined tax reform measures.

The Finance chief mentioned that the DoF is actively advocating for the approval of its improved tax reform measures aimed at enhancing revenue generation.

These measures encompass the introduction of excise tax on single-use plastics, streamlining the mining fiscal regime, implementing value-added tax on digital service providers, enacting the Passive Income and Financial Intermediary Taxation Act, and introducing the Motor Vehicle Road User's Tax.

The ADB expressed support for these reforms and remains the Philippines' second-largest official development assistance (ODA) partner with a total commitment of $9.67 billion, contributing to 28 percent of the total ODA share.

The ADB has also provided an annual average of $1.64 billion in loan financing to the Philippines from 2010 to 2023.

Source: https://www.manilatimes.net/2024/02/08/business/top-business/adb-to-support-rectos-tax-collection-strategy/1931602

Contact Us

Korean Chamber of Commerce Philippines, Inc. (KCCP)
Unit 1104 Antel Corporate Center, 121 Valero St., Salcedo Village, Makati City
(02) 8885 7342 | (02) 8404 3099
info@kccp.ph | www.kccp.ph

This KCCP E-Newsletter is supported by: