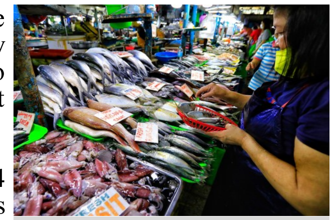
필리핀한인상공회의소뉴스
KOREAN CHAMBER OF COMMERCE PHILIPPINES NEWSLETTER

February 2024 Issue | Vol. 14

SPECIAL POINTS OF INTEREST

Economists see inflation within target until 2026— BSP survey

February 19, 2024 | Keisha B. Ta-asan | BusinessWorld



A wide variety of fish at the Marikina Public Market. — PHILIPPINE STAR/ WALTER BOLLOZOS

ECONOMISTS expect inflation to stay within the Philippine central bank's 2-4% target until 2026, but supply shocks and second-round effects continue to pose risks to the outlook, the Bangko Sentral ng Pilipinas (BSP) said last week.

Analysts' average inflation estimates this month for 2024 and 2026 were 3.9% and 3.4%, unchanged from BSP's January survey, it said. Their mean inflation estimate for next year rose to 3.5% from 3.4%.

"Analysts expect inflation to remain manageable this year and settle within the target range," the central bank said in its latest monetary policy report. "However, risks to the inflation outlook continue to be dominated by upside pressures owing to supply-side shocks and second-round effects."

Inflation slowed to a three-year low of 2.8% in January from 3.9% in December and 8.7% a year ago, the second straight month it fell within the BSP's target.

The BSP's baseline inflation forecast for this year is 3.6% and 3.2% for 2025. Full-year inflation may hit 3.9% and 3.5% this year and in 2025 if risks materialize, it said.

Analysts said supply-side pressures would likely come from El Niño and geopolitical tensions, which could spur price increases in basic commodities and services in the Philippines, the central bank said. "A few analysts also cited second-round effects from wage adjustments and higher electricity rates, as well as positive base effects as upside risks."

Lawmakers are seeking to increase the minimum wage this year. The Senate wants a P100 minimum wage hike, while the House of Representatives said it is studying a proposal to increase wages by as much as P400.

BSP Senior Assistant Governor Iluminada T. Sicat earlier said the central bank's baseline projections did not take these proposals into account.

In the report, the BSP said the baseline forecast includes the P40 minimum wage hike in the National Capital Region in July last year and 8.7% average wage increase for nonagricultural workers in areas outside Metro Manila.

The central bank also factored in a possible wage increase of P28 in August and P29 in September 2025. These could lead to an annual increase of 4.6% for both years, in line with historical wage increases.

"(If) the assumed increase in minimum wage is beyond what we have incorporated in the baseline… this could pose a threat to the inflation outlook," Ms. Sicat told reporters last week.

Meanwhile, analysts expect a 68.2% probability from 63.4% last month that inflation will stay within the target this year, while there is a 31% chance that it will breach 2-4%.

The likelihood of inflation falling within the target next year increased to 78% from 65.9%, while the probability of inflation settling within 2-4% in 2026 rose to 82.9% from 64.2%.

"The results of the survey showed that majority of the analysts anticipate the BSP to keep the current policy setting until the second quarter before reducing the policy rate in the second half of this year by a range of 50 to 125 basis points (bps)," the central bank said. "For 2025, the BSP is seen to further loosen its policy stance by a range of 25 to 300 bps." *[Cont. page 2]*

Economists see inflation within target until 2026— BSP survey

[Cont. from page 1]

The BSP kept the key rate at 6.5% for a third straight meeting at its first policy review of the year, the highest in nearly 17 years. The Monetary Board tightened borrowing costs by 450 bps from May 2022 to October 2023.

There were 24 respondents in the BSP's survey of private sector economists, which was held from Feb. 6 to 12.

The BSP said it had lowered its risk-adjusted inflation forecast for this year by 0.5 point to 3.9% due to the lower baseline forecast and decreasing risks.

The central bank removed the impact of higher transport fares from a planned jeepney modernization and lowered the probability of jeepney fare hikes. It also sees less impact from high global oil prices.

It also removed the nonextension of lower tariff rates for pork, rice and corn as risk to inflation.

"While the risks to the inflation outlook continue to tilt toward the upside over the policy horizon, inflation risks in 2024 have eased compared with the previous round," BSP said.

Still, the estimated impact of risks to the inflation outlook outweighs the possible impact of downside risks, it added.

Source: https://www.bworldonline.com/top-stories/2024/02/19/576408/economists-see-inflation-within-target-until-2026-bsp-survey/

PPP Code to expedite implementation process of infra projects

February 16, 2024 | Anna Leah Gonzales | Philippine News Agency

RCBC chief economist Michael Ricafort *(PNA file photo)*

MANILA – The implementing rules and regulations (IRR) of the Public-Private Partnership (PPP) Code will help fast-track the approval and implementation of various infrastructure projects in the country, an economist said.

"This would help expedite the evaluation, approval, and rollout process for various infrastructure projects at the national and also at the local levels, as well as with the private sector," Rizal Commercial Banking Corporation chief economist Michael Ricafort said in a Viber message on Friday.

Ricafort said the PPP Code will provide greater flexibility and will allow the private sector to be better involved in infrastructure projects.

According to Ricafort, the PPP Code will also "harmonize the various laws that may govern infrastructure projects, such as in tackling right of way issues among others."

Signed into law last Dec. 5, the PPP Code of the Philippines seeks to provide a more competitive and enabling environment for PPPs.
The law was among the government's priority legislative measures for approval last year.

The law which took effect last Dec. 23, is also expected to address bottlenecks and challenges that affect the implementation of PPPs.

Under the law, the IRR Committee is tasked to issue the PPP Code's IRR within 90 calendar days from its effectivity.

The IRR of the PPP Code is expected to be issued by March 23 this year and will take effect by the early second quarter.

Source: https://www.pna.gov.ph/articles/1218984

Economist: Infrastructure, education issues, alongside Constitution, deter investors

February 16, 2024 | Xander Dave Ceballos | Manila Bulletin

An economist stated that aside from the economic restrictions imposed by the Constitution, issues in education and infrastructure also deter foreign investors from entering the country.

MANILA BULLETIN

Bank of the Philippine Islands Lead Economist Emilio Neri, during a webinar at the Philippine Institute for Development Studies, said that there should be an evidence-based analysis of the performance of investment climate in the Philippines.

"This narrative that the Constitution is the only thing that is keeping us from progressing and catching up with the rest of the region is a little bit exaggerated," Neri said. *[Cont. page 3]*

Economist: Infrastructure, education issues, alongside Constitution, deter investors

[Cont. from page 2]

“There are many elements like the coup détats of the 80s, the many political transitions that happened during that time, and of course the lack of infrastructure, resources for education,” he added.

The country was seen to have the lowest investment rate among its neighbors, standing at 22.4 percent, based on the presentation by economist Raul Fabella.

This is in comparison with countries such as Thailand, Indonesia, Vietnam, and China with higher investment rates, with the latter reaching between 34 percent and 50 percent in recent years.

Debates on the charter change, or the amending of the Constitution, have been echoing in both the legislative chamber as the Marcos administration wanted to limit its terms to only economic provisions to boost investments in the country.

Economic outlook

The gross domestic product (GDP) is seen to grow by 6.3 percent this year as inflation is expected to decline to four percent, Neri said.

While the economy could have grown by 5.9 percent last year if not for the lack of public spending, it may improve this year by the second half due to 2025 mid-term election-related spending.

In the same webinar, Finance Undersecretary Zeno Abenoja revealed that the Development Budget Coordination Committee is set to meet to review the growth projections by March.

“They are looking seriously at some of the challenges and if we recognize those challenges it would have to be reflected in the macroeconomic framework,” he said.

Economic projections remain standing at 6.5 to 8.0 percent for 2025 to 2028, but this was crafted years ago. “Since then we’ve seen a lot of developments particularly and externally in terms of geopolitics, geo fragmentation, changes in prospects of our trading partners,” Zeno further said.

Source: https://mb.com.ph/2024/2/16/economist-infrastructure-education-issues-alongside-constitution-deter-investors

Chambers urge BIR to revoke cross-border service tax rule

February 15, 2024 | Justine Irish D. Tabile | BusinessWorld

Philippine Chamber of Commerce and Industry
The Voice of Business

TEN business associations declared their opposition to a Bureau of Internal Revenue (BIR) cross-border taxation policy on services, citing its potential to increase the cost of doing business in the Philippines.

The Philippine Chamber of Commerce and Industry (PCCI) and Management Association of the Philippines (MAP) said on behalf of their co-signatories that foreign entities enter deals with Philippine clients on the understanding that the tax costs are manageable and that investments will be profitable.

“Once the tax costs do not justify doing business with Philippine clients … then foreign entities will more than likely look for other jurisdictions where the tax costs are lower,” they said in a joint statement on Thursday.

“In this light, it is respectfully submitted that subjecting the income of NRFCs (non-resident foreign corporation) on services rendered abroad will lead to an increase in the tax cost of doing business, which may drive away foreign entities from conducting business in the Philippines,” they added.

On Jan. 10, the BIR issued Revenue Memorandum Circular (RMC) 5-2024, which the business groups said will render taxable services to a Philippine entity that are performed by a foreign entity.

“RMC 05-2024 maintains that for cross-border services, the jurisdiction providing the essential service for income generation is entitled to tax the income,” the business group said.

The services covered under the RMC are consulting, information technology outsourcing, financial, telecommunications, engineering and construction, education and training, tourism and hospitality, and other similar services. *[Cont. page 4]*

Chambers urge BIR to revoke cross-border service tax rule

[Cont. from page 3]

In the RMC, the BIR said that the circular clarifies the proper tax treatment of cross-border services in light of the Supreme Court's (SC) decision on Aces Philippines Cellular Satellite Corp. vs. Commissioner of Bureau of Internal Revenue, dated Aug. 30, 2022.

The SC had ruled that the satellite airtime fee payments by Aces Philippines to Aces Bermuda, an NRFC, is subject to final withholding tax.

The business groups identified the application of the SC ruling in the case of Aces Philippines as an "undue expansion" of the Aces case as it did not account for several crucial factual elements which qualified the income-generating activity as a complete and integral process.

"In the case of Aces, the satellite transmission services are considered Philippine-sourced income because the income-generating activity is directly associated with gateways located within the Philippine territory, and the provision of satellite communication services in the Philippines is a government-regulated industry," the business groups said.

The groups argued that the two factors are not present in other cross-border services, citing consulting services, which can be rendered or performed remotely.

The business groups also said that the RMC counters the situs provisions of the Tax Code which state that an NRFC can only be taxed on income sources within the country.

"However, applying RMC 5-2024, where a service-based company operates in various countries, providing services to clients, and their income earned is allocated to the countries where the services are performed, the source of income may still be considered to be derived within the Philippines for so long as the services performed in the Philippines are deemed essential," the groups said.

The groups also said that the circular may violate income tax treaties of the Philippines with other various countries "which generally provide that business profits of a treaty resident shall not be taxed in the Philippines if the foreign treaty resident does not have a permanent establishment in the Philippines."

The 10 business groups also said that the RMC 5-2024 "misapplied and misconstrued" the benefits theory of taxation as it provides that service fees paid to foreign companies are identified as an inflow of economic benefits in favor of the foreign company.

"If the RMC is applied to all cross-border services based on the criteria and standards stated therein, then all NRFCs or foreign individuals will be taxed in the Philippines for services rendered even if such services are performed abroad," they said.

"An administrative issuance must not override, supplant, or modify the law, but must remain consistent with the law they intend to carry out… We also request that the immediate effectivity of the RMC be revoked or suspended in the meantime that it is being reconsidered in light of the foregoing discussion," they added.

Aside from the PCCI and MAP, the statement was also signed by the Philippine Exporters Confederation, Inc., Tax Management Association of the Philippines, Philippine Institute of Certified Public Accountants, Financial Executives of the Philippines, Association of Certified Public Accountants in Commerce and Industry, Association of Certified Public Accountants in Public Practice, Joint Foreign Chambers of the Philippines, and IT and Business Process Association of the Philippines.
The 10 groups submitted a joint position paper to the BIR Commissioner Romeo D. Lumagui, Jr. on Feb. 13.

Source: https://www.bworldonline.com/economy/2024/02/15/576094/chambers-urge-bir-to-revoke-cross-border-service-tax-rule/

Economists see faster GDP gains

February 15, 2024 | Justine Irish D. Tabile | BusinessWorld

The Manila Times

THE economy is poised for "faster gains" this year, economists from First Metro Investment Corp. (FMIC) and the University of Asia and the Pacific (UA&P) said, but growth could still fall below the government's target.

"Looking more closely at the seasonally adjusted gross domestic product (GDP) and its main components, we don't see a slowdown in the fourth quarter; rather we see an acceleration from the average in the second quarter (low base) and third quarter expansion," they said in the latest edition of The Market Call report. *[Cont. page 5]*

Economists see faster GDP gains

[Cont. from page 4]

"That should provide the momentum for faster gains in 2024."

GDP growth came in at 5.6 percent last year, slowing from 2022's 7.6 percent and missing the government's 6.0- to 7.0-percent target.

"Increased investment and household spending fueled the growth ... amid elevated interest rates and easing inflation," the economists noted.

Record-high employment and inflation having returned to the central bank's target should give consumers the confidence to increase spending in 2024, they added, particularly in the first quarter and potentially stimulating growth.

GDP growth could accelerate at least 6.0 percent this year, the FMIC and UA&P economists said, slower than the 6.5-7.5 percent targeted by the government and in line with other analysts' expectations of below-target 2024 growth.

While inflation averaged higher than the 2.0- to 4.0-percent target last year at 6.0 percent, it has now stayed below 4.0 percent in the last two months. Despite continued upside risks, the Bangko Sentral ng Pilipinas last week said that it could settle at 3.9 percent this year.

One of the factors that could drive inflation higher this year is crude oil prices but the FMIC and UA&P economists pointed to forecasts of a decline.

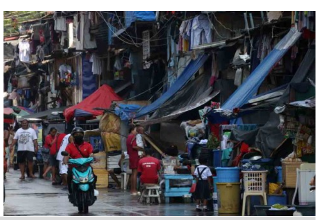
Regarding rice prices, which surged by 22.6 percent last month, the economists said the threat could soon dissipate with an end to the El Niño weather phenomenon by May 2024 and with guaranteed imports from Vietnam in the first half.

The peso, meanwhile, is expected to face challenges in the first half as still high US interest rates attract foreign funds and as the Philippines continues to experience a significant trade deficit.

Source: https://www.manilatimes.net/2024/02/19/business/top-business/economists-see-faster-gdp-gains/1933134

Senate OK's P100 wage hike on third reading

February 20, 2024 | John Victor D. Ordoñez | BusinessWorld



PHILIPPINE STAR/ MIGUEL DE GUZMAN

THE PHILIPPINE SENATE on Monday approved on third and final reading a bill calling for a P100 ($1.78) across-the-board minimum wage increase for workers in the private sector, amid warnings that a hike that is too high could fan inflation.

Twenty senators unanimously approved the measure, the first legislated and national increase since the enactment of a measure in 1989 that created wage boards that set pay rates per region.

"Some may argue that implementing such measure could impose hardships on businesses and impede economic growth," Senator Jose "Jinggoy" P. Estrada, who sponsored the bill, said in plenary. "However, we should bear in mind that a flourishing economy relies on the vitality of its workforce, who are considered the lifeblood of enterprises."

Last week, House Deputy Majority Leader and Iloilo Rep. Janette L. Garin said congressmen are studying a proposed P350 to P400 wage hike for workers in the private sector. There have been separate House bills proposing P750 and P150 across-the-board wage increases.

The Employers Confederation of the Philippines (ECoP) earlier said a P100 legislated wage hike would be "catastrophic [and] inflationary."

ECoP President Sergio R. Ortiz-Luis, Jr. said the government should rely on regional wage boards since some microenterprises might find it difficult to pay their workers more money and be forced to lay off workers.

He said the wage hike would not benefit 84% of the working force or those in the informal sector, adding that only about 10% of private sector workers would temporarily benefit from the move.

"Ultimately, while the wage hike carries some inflationary risk, its true impact hinges on various factors," Robert Dan J. Roces, chief economist at Security Bank Corp., said in a Viber message. "The Bangko Sentral ng Pilipinas (BSP) will surely monitor the situation closely and base its policy decisions on comprehensive data analysis." *[Cont. page 6]*

Senate OK's P100 wage hike on third reading

[Cont. from page 5]

The Philippine central bank kept its benchmark rate unchanged at 6.5% at its third straight meeting last week. It last raised borrowing costs by 25 basis points (bps) in October. The central bank hiked rates by 450 bps from May 2022 to October 2023.

BSP Senior Assistant Governor Iluminada T. Sicat earlier said BSP's baseline inflation projections did not take the most recent wage hike proposals into account.

Inflation eased to 2.8% in January from 3.9% in December, the second straight month it fell within the Philippine central bank's 2-4% target.

"This could force the hand of BSP to keep rates at elevated levels or preemptively raise interest rates should the perceived inflation risk threaten the 2-4% target," Mr. Roces said.

Inflation could breach the target because of the legislated wage increase, Michael L. Ricafort, chief economist at Rizal Commercial Banking Corp., said in a Viber message. "There could be a possible rate hike to lower or to better anchor inflation back to the inflation target and better manage it."

Nagkaisa, the country's biggest labor coalition, said the legislated wage hike could lead to reforms in the regional wage-setting mechanisms.

"For too long, these systems have failed to deliver justice and equity to the Filipino working class," it said in a statement. "For over three decades, the plight of the workers has been met with inadequate responses, highlighting the urgent need for a comprehensive overhaul of wage policies."

A Filipino family of five needs at least P13,797 a month or P460 a day to meet their basic needs, according to the local statistics agency.

Renato B. Magtubo, who heads Partido Manggagawa, said raising workers' pay would help mom-and-pop stores and smaller businesses earn more.

"Absent regular support from the government, it is more evident that the transfer of income from wages of formal labor is what sustains sari-sari stores, and consequently, Aling Nena's self-employment in the informal economy," he said in a statement.

Metro Manila's daily minimum wage rose by P40 to P610 in June, much lower than the P570 increase sought by some labor groups. The International Labour Organization has said the erosion of real wages and living standards by high inflation rates and housing costs globally is unlikely to be addressed or offset this year.

In a report last month, it said it expects the global jobless rate to rise to 5.2% this year from 5.1% a year earlier. The global labor market is set to "deteriorate moderately" because of increased joblessness in advanced econo-mies, it added.

"A higher minimum wage does not only impact the lives of those directly affected but reverberates throughout our communities, stimulating local economies and ensuring that people would have more money in their pockets to meet their basic needs," Mr. Estrada said.

Source: https://www.bworldonline.com/top-stories/2024/02/20/576710/senate-oks-p100-wage-hike-on-third-reading/

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