필리핀한인상공회의소뉴스
KOREAN CHAMBER OF COMMERCE PHILIPPINES NEWSLETTER
March 2024 Issue | Vol. 20

SPECIAL POINTS OF INTEREST

UPCOMING EVENT

Lessen import dependence, unnecessary spending to curb inflation — analysts

March 11, 2024 | Beatriz Marie D. Cruz | BusinessWorld


Inflation accelerated to 3.4% in February due to rising food, oil and transport prices. — PHILIPPINE STAR/EDD GUMBAN

THE GOVERNMENT of President Ferdinand R. Marcos, Jr. should cut unnecessary spending and boost law enforcement against anomalous activities in the agriculture sector to cool inflation, analysts said at the weekend.

"The uptrend in inflation indicates that the problem originates domestically," Leonardo A. Lanzona, who teaches economics at the Ateneo de Manila University, said in a Facebook Messenger chat. "Poor agricultural production especially because of El Niño is expected to further elevate overall prices."

"The only thing the government can do now is to put its house in order by reducing unnecessary expenditures and formulate a strong industrial policy that can induce a structural transformation and raise productivity," he added.

Inflation accelerated to 3.4% in February from 2.8% in January due to rising food, oil and transport prices. However, it is cooler than the 8.6% print a year ago.

Rice inflation quickened to 23.7% in February from 22.6% in January and 2.2% year on year. It also marked the fastest print for rice inflation since the 24.6% recorded in February 2009.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said law enforcement agencies must bolster its regulatory powers to manage prices.

"Effective monitoring and enforcement on price management/regulatory mandat… would be their major contribution that inflation is duly managed, especially in the enforcement of laws and regulations on prices to prevent undue overpricing/ profiteering," he said in a separate Messenger chat.

Last month, the Department of Agriculture began its investigation on claims that officials from the National Food Authority sold thousands of tons of rice to certain traders at low costs.

Union Bank of the Philippines, Inc. Chief Economist Ruben Carlo O. Asuncion said he now expects headline inflation to average 4.2% this year, before easing to 3.8% in 2025.

"We now expect headline inflation to surge past 4% year on year starting in March with hefty contribution from rice consumer price index and latent drought effects on the prices of the other crops. We penciled in a high of 5% year on year for inflation in May (2024) before the deceleration begins in June," he said in a Viber message.

Mr. Asuncion said core inflation would remain at the upper half of the BSP's 2-4% inflation target and would be less vulnerable to food price shocks.

Core inflation, which excludes volatile prices of food and fuel, quickened by 3.6% in February year on year. The print was slower than 3.8% in the previous month and 7.8% a year ago.

PAUSE TO CONTINUE
Meanwhile, analysts predict that the Monetary Board will keep key interest rates unchanged in the coming months.

"Since the government has strongly insisted that its decision on the matter will be data-driven, it is obvious that the latest inflation data won't sway monetary policy makers to veer away from the current path of elevated interest rates," University of Asia and the Pacific Senior Economist Cid L. Terosa said in an e-mail. *[Cont. page 2]*

Lessen import dependence, unnecessary spending to curb inflation — analysts
[Cont. from page 1]

Last week, Bangko Sentral ng Pilipinas (BSP) Governor Eli M. Remolona, Jr. said the central bank has yet to determine the timing of rate cuts as it is still “too soon to declare victory” over inflation.

At its February meeting, the central bank kept its target reverse repurchase rate steady at a near 17-year high of 6.5% for a third straight meeting. The BSP has raised borrowing costs by 450 basis points from May 2022 to October 2023 to tame inflation.

Security Bank Corp. Chief Economist Robert Dan J. Roces said the BSP will likely keep a “cautious monetary policy stance” despite the uptick in inflation.

“The BSP remains unlikely to resort to significant policy adjustments unless upside risks, particularly persistent food price increases, materialize and threaten the inflation target,” Mr. Roces said via Viber.

Source: https://www.bworldonline.com/top-stories/2024/03/11/580787/lessen-import-dependence-unnecessary-spending-to-curb-inflation-analysts/

Congress starts debate on Charter’s economic provisions
March 11, 2024 | Jovee Marie N. de la Cruz | BusinessMirror

THE House of Representatives will begin plenary debates on Monday on proposed economic constitutional amendments contained in Resolution of Both Houses (RBH) 7, expecting the deliberations to be shorter.

Senior Deputy Speaker Aurelio D. Gonzales Jr. said that the plenary session will delve into the report of the Committee of the Whole House.

The committee endorsed the resolution’s approval “without amendment.”

Gonzales anticipates shorter deliberations compared to the extensive hearings held by the Committee of the Whole House, spanning six days with the participation of numerous resource persons and experts.

He said he expects the deliberations to be shorter than the proceedings of the Committee of the Whole House, which conducted six days of marathon and extensive hearings on the proposed amendments to which scores of resource persons and experts were invited.

“In plenary, the proponents of the economic charter changes will defend their proposals. The plan is to have three days of debates, with the second-reading vote set shortly after the termination of discussions and the period for amendments on the third day,” Gonzales said.

Emphasizing the directive from Speaker Ferdinand Martin G. Romualdez, Gonzales affirmed the House’s commitment to its timeline, aiming to approve the proposed amendments on the third and final reading before Holy Week. Subsequently, RBH 7 will be transmitted to the Senate.

The Speaker has expressed confidence that the Senate would be able to obtain the needed 18 votes, or three-fourths of all its members, to adopt the economic charter change proposals.

Romualdez expressed confidence last Friday that the Senate would secure the necessary 18 votes, constituting three-fourths of its members, for the adoption of the economic charter change proposals.

“I believe in the Senate leadership, especially in SP (Senate President) Migz (Juan Miguel) Zubiri, that he can handle everything and persuade all his colleagues in the Senate,” remarked the leader of the House of Representatives. “We understand the challenges, but the Senate has always lived up to the challenge. I know that they know what is good for our people.”

Romualdez was reacting to Zubiri’s statement that getting the required 18 votes in the Senate for the economic amendment proposals “is a big challenge” but that “it’s not impossible.”

Zubiri earlier said he and his colleagues would approve the proposed charter changes later this month, before the Holy Week.

The Senate is tackling RBH 6, its own version of the proposed constitutional changes. It is authored by Zubiri and Senators Loren Legarda and Juan Edgardo Angara.

Moreover, Gonzales reiterated that the proposed amendments would give Congress the flexibility to change foreign capital and foreign ownership restrictions in the Constitution in three areas: public utilities, education, and advertising. *[Cont. page 3]*

Congress starts debate on Charter's economic provisions
[Cont. from page 2]

"The ratification of the amendments will immediately send a powerful signal to investors that we want to attract more foreign investments in these sectors of the economy by changing those limitations down the road," he said. "It will also greatly help President Ferdinand R. Marcos Jr., in convincing foreign investors to invest in our country."

RBH 6 and RBH 7 are both titled, "A Resolution of Both Houses of Congress Proposing Amendments to Certain Economic Provisions of the 1987 Constitution of the Republic of the Philippines, particularly on Articles XlI, XIV, and XVl."

As the House of Representatives maintains its course towards approving RBH 7 before Holy Week, Camarines Sur Rep. LRay F. Villafuerte expressed optimism about the Senate's potential success in passing its version of the Charter makeover.

The lawmaker said the consensus among these experts is that for the Philippines to achieve global competitiveness and outpace more prosperous neighbors in a borderless world, it is imperative to open up the economy to foreign investors.

Despite Zubiri acknowledging the formidable challenge of securing a three-fourth majority vote for RBH 6, the Senate version of the constitutional reform resolution, Villafuerte sees it as a "good chance" and within the realm of possibilities.

Villafuerte, National Unity Party (NUP) president, noted the potential for senators opposing the measure to reconsider their stance after hearing the perspectives of economic experts and legal luminaries during ongoing hearings conducted by the Senate subcommittee on constitutional amendments and revision of codes, chaired by Senator Juan Edgardo Angara, one of the authors of RBH 6.

Citing Zubiri's leadership and commitment to Senate action on the resolution, Villafuerte remains hopeful about garnering the necessary votes. While some opponents claim they can muster enough votes to quash RBH 6, Angara emphasizes that the voting time has not yet arrived, leaving room for potential approval.

Highlighting insights from economic managers, experts, and legal luminaries, Villafuerte stressed the urgency of Charter change.

He emphasized that the restrictive economic provisions of the 1987 Constitution hinder foreign direct investment (FDI) inflows, citing the swift progress of Vietnam as a compelling example.

Villafuerte said that economic experts who had appeared before lawmakers have cited the rapid progress of Vietnam, once an economic laggard in the region, as the reason for legislators to sharpen the Philippines' global competitiveness in the borderless world—and make it on par with our more booming neighbors—by lifting the Constitution's economic provisions that hamper greater inflows of foreign direct investments.

Following the Committee of the Whole's timely endorsement of RBH 7 on March 6, the House initiated plenary deliberations this week, targeting passage before the 19th Congress goes on Lenten break starting March 23.

To expedite the approval of the final congressional version, Speaker Martin Romualdez leads House members in introducing RBH 7, aligned with the Senate's version (RBH 6).

Source: https://businessmirror.com.ph/2024/03/11/congress-starts-debate-on-charters-economic-provisions/

McKinsey: PH growth to stay healthy this year
March 11, 2024 | Jovee Marie N. de la Cruz | BusinessMirror

The Manila Times

THE Philippine economy ended last year on a high note, and growth will likely remain positive this year, global management consulting company McKinsey said.

"Should projections hold, the Philippines is expected to, once again, show significant growth in 2024, demonstrating its resilience despite various global economic pressures," McKinsey and Co. said in a report last Thursday.

Gross domestic product (GDP) growth was 5.6 percent last year, below the government's 6.0- to 7.0-percent target. It was, however, the fastest in Southeast Asia and was driven by factors such as commercial activities, public infrastructure spending and digital financial services. *[Cont. page 4]*

McKinsey: PH growth to stay healthy this year

[Cont. from page 3]

"Most sectors grew, with transportation and storage (13 percent), construction (9 percent), and financial services (9 percent) performing the best," McKinsey noted.

"While the country's trade deficit narrowed in 2023, it remains elevated at $52 billion due to slowing global demand and geopolitical uncertainties," it added.

Below-target growth

This year's GDP expansion will likely fall between 5.0 and 6.0 percent, McKinsey said, although one of three scenarios presented projected a slowdown to 4.8 percent under "challenging conditions."

Inflation, meanwhile, which averaged above the 2.0- to 4.0-percent target at 6.0 percent in 2023, is expected to fall between 3.2 percent to 3.6 percent in 2024.

All growth scenarios — two involving slowdowns and one an acceleration from 2023 — set out forecasts below the government's 6.5- to 7.5-percent GDP goal for this year.

Under McKinsey's "slower growth" scenario, challenges such as declining trade and higher inflation would lead to GDP expanding by just 4.8 percent.

This supposes a rise in inflation to 5.2 percent in the first half that prompts the Bangko Sentral ng Pilipinas (BSP) to hike its key rate — currently at 6.5 percent, the highest since 2007 — to 6.75 percent and then cutting to 6.5 percent by yearend.

The "soft landing" scenario, meanwhile, has growth moderating to 5.2 percent and inflation ranging from 3.0-4.2 percent throughout 2024.

Amid favorable global conditions that include regional trade demand and a stable investment environment, the BSP keeps its benchmark rate above 6.4 percent to achieve the 2.0-4.0 inflation percent goal.

The "accelerated growth" picture, lastly, has growth accelerating to 6.1 percent with inflation slowing to 3.0-3.5 percent in the first half.

This could prompt the BSP to change its inflation target to below 4.0 percent, McKinsey said, and also pause from hiking its key rate, which could still be adjusted to 6.6 percent.

Higher employment and improved private spending due to relaxed public policies will boost productivity, it added.

Sectoral outlooks

In the report, McKinsey also focused on seven sectors — financial services, energy and power, health care, consumer and retail, manufacturing, information technology and business process outsourcing (IT-BPO), and sustainability — and cited challenges and opportunities for growth.

It said that a recovery in financial services appeared on track, although growth in value-added output could slow to about 5.0 percent this year from 7.0 percent in the last two years.

Factors that are expected to affect the sector are the BSP's push for financial inclusion, growth in digital adoption, a slowdown in unsecured lending, and lower interest rates.

Increasing demand from the underserved could unlock growth, McKinsey said, with particular opportunities in digital/data transformation and financing small and medium enterprises.

The energy sector, meanwhile, could grow by 7.0 percent this year, from 4.0 percent in 2023, given the current focus on renewable energy.

The identified challenges were the need to import liquefied natural gas to address declining output from the Malampaya field and above-target global inflation affecting supply chains, while the removal of foreign ownership limits could accelerate the shift to green energy.

A shift to gas could drive investments in energy infrastructure and capacity, McKinsey said, with opportunities also seen in the government's large-scale renewable auctions.

Upgrades to the transmission grid will also provide flexibility, it added.

As for health care, growth was forecast to slow to 2.8 percent this year from 6.6 percent in 2023, while pharmaceuticals could grow by a faster 5.2 percent from 1.9 percent last year.

Increased prevalence of chronic diseases, health consciousness, and a rise in the numbers of the elderly could strain the sector given a lack of health workers, while higher use of health care benefits could lead to lower profitability. *[Cont. page 5]*

McKinsey: PH growth to stay healthy this year

[Cont. from page 4]

McKinsey proposed the consolidation of health care systems and programs to attract workers and pharmaceutical investments and pointed to opportunities in digital/data transformation and unified and seamless patient care.

Prices a concern

Retail and wholesale growth, meanwhile, was forecast to slow to 4.0 percent from 6.0 percent, while that for consumer goods was a higher 5.0 percent from 4.0 percent last year.

The report noted that prices remained high and were a primary concern for Filipinos, most of whom have changed their shopping habits and switched brands.

Omnichannel strategies, agile supply chains and products that meet changed consumer preferences were tagged as growth opportunities, and McKinsey also noted the need for infrastructure investments and government initiatives to lower inflation and support retailers.

Manufacturing growth is expected to stay steady at 6.0 percent, meanwhile, and a rising focus on resilient supply chains and self-sufficiency was said to be one of the emerging themes for the sector.

Digital, innovation and upskilling initiatives could drive growth, and McKinsey also urged a shift to the production of more complex electronics components, generic over-the-counter drugs and nature-based medicines, and green products such as solar panels and batteries for electronic vehicles.

For IT-BPO, revenues could rise to $38 billion this year from $35 billion in 2023, given increasing demand, although automation and generative artificial intelligence (Gen AI) present both risks and opportunities.

The Philippines would do well to develop a talent hub, BPO centers outside metropolitan areas, capabilities in areas such as Gen AI, and new service areas, McKinsey said.

Lastly, given the country's vulnerability to climate change, the consulting firm proposed a focus on the development of renewable energy, the manufacture of solar cells, electric mobility, battery development, and nature-based solutions to greenhouse gas emissions.

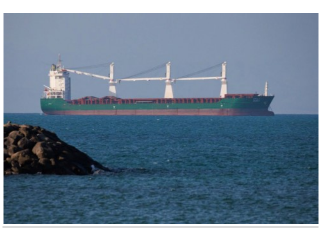
These could help limit economic losses from climate change, which are expected to average $3.2 billion annually — up to 7-8 percent of nominal GDP — over the next 50 years.

"Focusing on factors that could unlock growth in its seven critical sectors and themes, while adapting to the macro-economic scenario that plays out, would allow the Philippines to materialize its growth potential in 2024 and take steps towards achieving longer-term, sustainable economic growth," McKinsey said.

Source: https://www.manilatimes.net/2024/03/11/business/top-business/mckinsey-ph-growth-to-stay-healthy-this-year/1936294

Red Sea crisis could fan Asia's inflation anew, delay rate cuts

March 11, 2024 | Bloomberg | BusinessMirror



A cargo ship is seen off the coast of Djibouti. — LUKE DRAY/ GETTY IMAGES VIA BLOOMBERG

ASIA could see slower economic growth and a resurgence of inflation as escalating violence in the Red Sea snarls shipping between the region and their trade partners in the US and Europe, according to the Economist Intelligence Unit (EIU).

The supply chain disruptions could cut as much as 0.5 percentage point (ppt) off Asia's economic growth this year and add up to 0.4 ppt to the inflation rate, the EIU said in a report.

"Given that Asian exports were already hit last year by weak Western demand, the recent attacks will weigh further on various export-dependent economies, particularly in Southeast Asia, where container trade has nearly collapsed," the report read, citing Indonesia, Thailand and Malaysia as among those most vulnerable. *[Cont page 6]*

Red Sea crisis could fan Asia's inflation anew, delay rate cuts

[Cont. from page 5]

Most of the region will likewise be hit indirectly through the spike in shipping costs, especially those that rely on food imports such as the Pacific Island countries, New Zealand, India and Pakistan.

"Higher inflation could leave central banks in countries such as the Philippines, Australia and India in a more difficult situation in terms of finding an opportunity to begin monetary easing," the EIU said.

Protracted shipping disruptions could also push manufacturers to seek options closer to their end-user markets, rather than tapping the "stretched" supply chains in Asia, it said.

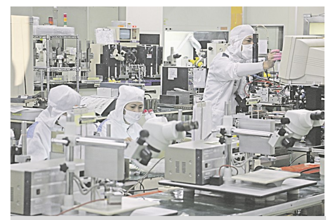
Based on EIU estimates, shipments from northwest Europe now take 56 days to reach Malaysia and Singapore from 32 days before the Houthi attacks began in November. For China, Hong Kong and Taiwan, it lengthened to 55 days from 42 days.

Source: https://www.bworldonline.com/bloomberg/2024/03/11/580789/red-sea-crisis-could-fan-asias-inflation-anew-delay-rate-cuts/

Manufacturing to improve in H2—Moody's Analytics

March 12, 2024 | Cai U. Ordinario | BusinessMirror

THE performance of the manufacturing sector is expected to improve in the second half of the year, according to Moody's Analytics.



File photo shows workers in a manufacturing plant a semiconductor in Laguna.

In its weekly economic brief, Moody's Analytics said the 1.9 percent growth in the country's manufacturing output in January was disappointing.

Nonetheless, Philippine Statistics Authority (PSA) data showed the Volume of Production Index (VoPI) in January was actually a four-month high but paled in comparison to the 7.3-percent growth in January 2023.

"The outlook for industrial production should brighten in the second half of the year as global demand picks up and the tech downturn becomes history," Moody's Analytics said.

The January 2024 VoPI was the highest growth since the 9.3 percent posted in September 2023. The VoPI posted a growth of 1.6 percent in December 2023.

"Philippine industrial production rose 1.9 percent year over year in January in volume terms and 0.9 percent in value terms. This compares with December gains of 1.6 percent and 2.2 percent, respectively," Moody's Analytics said. "Coke and refined petroleum products led growth in both respects."

Meanwhile, Moody's Analytics found it interesting that while the headline inflation rate reached 3.4 percent, core inflation cooled in February 2024.

Data from the PSA showed headline inflation in February was higher compared to the 2.8 percent posted in January.

However, official government data showed core inflation was only at 3.6 percent in February compared to 3.8 percent in January 2024.

Moody's Analytics also noted other Asian countries which reported inflation numbers last week: South Korea's core inflation was steady while there was a big jump in core inflation in Taiwan.

Earlier, the Bangko Sentral ng Pilipinas (BSP) said it was too early for the country to "declare victory" against inflation.

BSP Governor Eli M. Remolona Jr. told reporters that the monetary authorities do not expect any rate cuts soon.

However, he said it is also unlikely that the Monetary Board, the highest policy-making body of the BSP, will increase rates further. ***(See: https://businessmirror.com.ph/2024/03/07/too-soon-to-declare-victory-vs-inflation/).***

PSA data showed poor Filipinos disproportionately bore the burden of high rice prices in February.

National Statistician Claire Dennis S. Mapa said rice prices accounted for 49 percent or 1.6 percentage points of the inflation of all income households, and 79 percent or 3.3 percentage points of the 4.2 percent inflation experienced by the poorest Filipinos.

Rice has a weight of 8.87 percent in the Consumer Price Index (CPI) of All Income Households and 17.87 percent in the index for the Bottom 30 percent of Filipino households.

In February, Mapa said rice inflation increased 23.7 percent and 26.3 percent for All Income and Bottom 30 percent households, respectively.

Image credits: Nonie Reyes

Source: https://businessmirror.com.ph/2024/03/12/manufacturing-to-improve-in-h2-moodys-analytics/

FDI inflows slump by 7% in 2023

March 12, 2024 | B.M.D.Cruz | BusinessWorld

US dollar and euro banknotes are seen in this illustration taken on July 17, 2022. — REUTERS/ DADO RUVIC/ILLUSTRATION

NET INFLOWS of foreign direct investments (FDIs) into the Philippines slumped for a second straight year in 2023 amid sluggish global economic growth and geopolitical tensions, the central bank said.

Data from the Bangko Sentral ng Pilipinas (BSP) said FDI net inflows dropped by 6.6% to $8.9 billion last year from $9.5 billion in 2022.

Despite the annual decline, FDI net inflows exceeded the BSP's projection of $8 billion for the full year.

"Notwithstanding the country's sound macroeconomic fundamentals, concerns over subdued global economic growth and geopolitical risks continued to weigh on investors' investment plans," the BSP said in a statement on Monday.

Net inflows of FDI into the Philippines have been on a decline since 2022.

"Notwithstanding the country's sound macroeconomic fundamentals, concerns over subdued global economic growth and geopolitical risks continued to weigh on investors' investment plans," the BSP said in a statement on Monday.

Net inflows of FDI into the Philippines have been on a decline since 2022.

Data from the BSP showed foreign investments in debt instruments inched up by 1.3% to $6.34 billion in the January-to-December period from $6.25 billion in the prior year.

Investments in equity and investment fund shares dropped by 22% to $2.53 billion in 2023 from $3.24 billion a year ago.

Net foreign investments in equity capital declined by 34% to $1.29 billion in 2023 from $1.96 billion in 2022. Placements dropped by 16.7% to $1.84 billion, while withdrawals surged by 120% to $547 million.

Reinvestment of earnings contracted by 3.6% to $1.24 billion in 2023 from $1.29 billion a year earlier.

The main country source of investments was Japan, which accounted for 51% of the full-year total, followed by the United States (13%), Singapore (12%) and Germany (8%) in 2023.

The funds were mostly invested in manufacturing (53%), real estate (13%), and financial and insurance (10%) sectors.

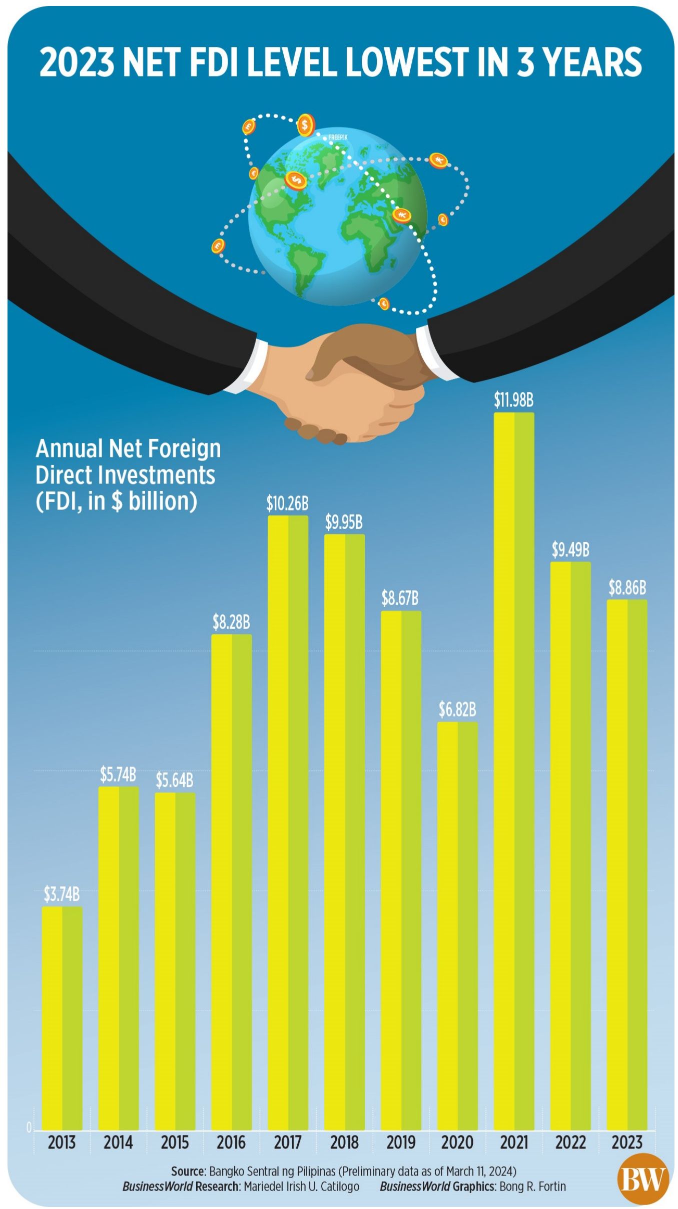
"A sluggish worldwide economy, rising interest rates in developed countries, and geopolitical tensions all contributed to a cautious investment climate," Security Bank Corp. Chief Economist Robert Dan J. Roces said in a Viber message.

Mr. Roces also noted the domestic issues such as inflation and high interest rates "further dampened investor enthusiasm."

The Monetary Board kept benchmark interest rates at an almost 17-year high of 6.5% at its December meeting to tame inflation.

Inflation averaged 6% in 2023, the second straight year it surpassed the BSPs 2-4% target band.

In December alone, FDI net inflows jumped by 30% to $826 million from $636 million in the same month in 2022. *[Cont. page 8]*



FDI inflows slump bu 7% in 2023

[Cont. from page 7]

Month on month, it was 29.9% lower than the $1.056 billion in November.

"FDI increased mainly on the back of the 86.2% growth in nonresidents' net investments in debt instruments to $527 million from $283 million in the comparable month in 2022," the BSP said.

Investments in equity and investment fund shares declined by 15.3% year on year to $299 million.

FDI in equity capital slid by an annual 21.7% to $208 million in December. Gross placements declined by 20.9% to $224 million, while withdrawals fell by 8.1% to $16 million.

Reinvestment of earnings rose by 4.1% to $91 million in December.

"The latest year-on-year improvement in the FDI data (in December), still among pre-pandemic highs, may have to do with improved economic and financial markets performance in recent months," Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in a note.

The higher FDI inflows may also reflect the realization of the investment commitments from President Ferdinand R. Marcos, Jr.'s foreign trips, he added.

Mr. Roces said that the government must continue to improve the business environment to attract more investments.

"Looking ahead, 2024's FDI picture remains uncertain. Continued global headwinds suggest subdued investment overall. However, government efforts to improve the business environment and a focus on promising sectors as well as a broader FDI push may mitigate some of these challenges," he said.

Mr. Ricafort said possible cuts in US and Philippine policy rates later this year could lift FDI inflows "eventually."

The BSP expects FDI net inflows to reach $10 billion by end-2024.

Source: https://www.bworldonline.com/top-stories/2024/03/12/581046/fdi-inflows-slump-by-7-in-2023/

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

UPCOMING EVENTS

Both events are open for sponsorships, for more information please feel free to **contact KCCP Secretariat at 8885-7342 | 8404-3099 or email info@kccp.ph.**

For confirmation of attendance and /or reservation please contact KCCP on the aforementioned contact details.

This KCCP E-Newsletter is supported by: