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## SPECIAL POINTS OF INTEREST



## Peso's prolonged weakness could stoke inflation — analysts

May 15, 2024 | Luisa Maria Jacinta C. Jocson | BusinessWorld

THE PROLONGED weakness of the Philippine peso could potentially fan inflation, but the central bank does not need to intervene unless the currency significantly drops, analysts said.

PHILIPPINE STAR/WALTER BOLLOZOS

"Peso weakness becomes worrisome if, for instance, over a period of one year, the peso depreciates by P5, or to P63," GlobalSource Partners country analyst Diwa C. Guinigundo said in a Viber message.

"This could potentially give rise to an additional 0.4 ppt (percentage point) or if the risk-adjusted inflation forecast of the peso is now at 4%, we might be looking at 4.4%."

The peso closed at P57.84 against the dollar on Tuesday, strengthening by two centavos from its P57.86 finish on Monday. Its finish on Monday was its lowest in 18 months or since the P58.19-per-dollar close on Nov. 10, 2022.

The Bangko Sentral ng Pilipinas (BSP) does not need to intervene immediately unless the local currency drops sharply, Mr. Guinigundo said.

"Unless the peso shows sharp, disorderly fluctuations or some speculation persists, I don't think the BSP will immediately go into active play in the foreign exchange market. Not worth losing its ammunition," he said.

Ruben Carlo O. Asuncion, chief economist at Union Bank of the Philippines, Inc. said that the BSP may need to act if the peso further depreciates.

"I think that the BSP has established that their line-in-the-sand is the P58 level. I think they will intervene further with the US dollar-peso rate further weakening," he said in a Viber message.

"However, I think that the market is being cautious but positioning with the release of US inflation data this week that may give further clues on how the Fed will proceed with its rate cuts," he added.

BSP Governor Eli M. Remolona, Jr. earlier said that the central bank has only intervened in the foreign exchange market in "small amounts" to "maintain orderly markets."

The BSP previously intervened in the foreign exchange market when the peso reached a record low of P59 against the dollar in October 2022.

Meanwhile, Mr. Guinigundo noted that the recent depreciation so far "may not necessarily translate into higher inflation" for the rest of the year.

"Short-term exchange rate pass-through for every P1 depreciation now stands at .08 percentage point additional inflation," he added.

Inflation accelerated for a third straight month to 3.8% in April but marked the fifth straight month that inflation fell within the 2-4% target range.

However, Mr. Guinigundo said the peso would only sink drastically amid conditions such as a "significant reduction in economic growth, sharp increase in fiscal deficit and public debt, and huge increase in the balance of payments deficit." *[Cont. page 2]*

## Peso’s prolonged weakness could stoke inflation — analysts

*[Cont. from page 1]*

The Philippines’ gross domestic product (GDP) grew by a weaker-than-expected 5.7% in the first quarter, faster than 5.5% in the previous quarter but slower than 6.4% a year ago.

The National Government’s (NG) debt as a share of GDP stood at 60.2% as of the first quarter, below the 61.1% a year earlier and the 60.3% target set this year.

Meanwhile, the deficit-to-GDP ratio stood at 4.46% at end-March, easing from 4.82% a year ago and below the 5.6% deficit ceiling this year.

“If the market perceives the government not to be doing anything to address the huge imports of rice and other commodities, or stop smuggling and corruption, or improve governance in general, then that could cumulatively trigger a substantial weakening of the peso,” Mr. Guinigundo said.

Mr. Guinigundo said that a global economic slowdown and a spike in oil prices “could also contribute to upside risks for the peso to lose ground against the US dollar.”

Latest Development Budget Coordination Committee assumptions show that the peso may range from P55 to P57 for 2024.

Meanwhile, Fitch Ratings in a report said that investment-grade sovereigns in the Asia and the Pacific (APAC) face “limited risks” from exchange rate pressures.

“Fitch Ratings believes that policies designed to support exchange rates are unlikely to pose significant near-term risks to the credit profiles of APAC investment-grade sovereigns, but any deterioration of official reserve buffers could pose greater risks to vulnerable ‘frontier markets’ in the region,” it said.

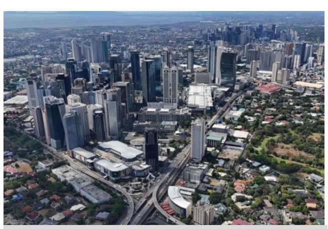
The credit rater said that using reserves to mitigate foreign exchange volatilities has not had a “significant impact” on APAC credit profiles.

It also said that even though US interest rates remain higher-for-longer, APAC sovereigns would be able to “generally allow their exchange rates to depreciate gradually against the dollar rather than deploying reserves aggressively to resist depreciation.”

*Source: https://www.bworldonline.com/top-stories/2024/05/15/595107/pesos-prolonged-weakness-could-stoke-inflation-analysts/*

## Balance in synergies: Ensuring effective public-private partnership

May 16, 2024 | Z-FACTOR - Joe Zaldarriaga | The Philippine Star



A drone shot captures the picturesque view of Laguna Lake in the background of the Ortigas Business District on March 28, 2024.

Partnerships between the government and the private sector have long been a cornerstone of economic growth, both in the Philippines and globally. Remarkably, the Philippines is the first country in Asia to institutionalize private sector participation in infrastructure and development projects. Reports from the Asian Development Bank showed that over the past three decades, public-private partnerships (PPPs) have been integral to the Philippines’ strategy for achieving inclusive growth and advancing its development agenda.

Earlier this year, the government finalized the implementing rules and regulations (IRR) of the Public-Private Partnership (PPP) Code. This significant development is expected to bolster PPP initiatives by ensuring a stable and predictable policy environment, and consequently, fueling high-quality social and development infrastructure projects.

National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan said that this is a key component of President Marcos’ transformation agenda under the Philippine Development Plan (PDP) 2023-2028, particularly in light of the “tight fiscal space.”

These collaborations leverage the strengths of each sector: the government crafts policies and regulations, while the private sector largely drives innovation and economic enterprise. The success of these PPPs relies on fostering a balanced and mutually respectful synergy between both parties.

Disruptions to this synergy can lead to significant negative consequences. This inevitably creates an imbalance that becomes a roadblock, ultimately burdening the Filipino people. *[Cont. page 3]*

## Balance in synergies: Ensuring effective public-private partnership
*[Cont. from page 2]*

A recent example is the controversy involving the state-owned Public Estates Authority Tollways Corp. (PEATC) and its attempt to take over the management and operation of the Manila-Cavite Expressway (CAVITEX) from Cavitex Infrastructure Corp. (CIC).

PEATC's officer-in-charge, Dioscoro Esteban Jr., initiated legal action to remove CIC's management rights. This move has sparked legal battles and raised concerns about the stability of such partnerships.

Earlier, Esteban formalized efforts to remove CIC from the operations of CAVITEX by filing a petition for a writ of mandamus before the Court of Appeals, seeking a full transfer of CAVITEX operations, as well as toll collection to PEATC. He also asked the court to require the CIC to transfer CAVITEX operation contract services to the PEATC. This move has been met with strong resistance from CIC.

CIC responded by filing before the Ombudsman a criminal complaint against Esteban for violations including anti-graft and corruption laws, perjury, usurpation of authority, and slander. Furthermore, CIC questioned Esteban's use of private lawyers instead of the Office of the Government Corporate Counsel (OGCC), highlighting procedural irregularities. OGCC is the entity is in charge of safeguarding the legal interests of government-owned and/or -controlled corporations, such as the PEATC.

The judiciary will ultimately decide the legal merits of this case, but this issue made me realize that there exists a fundamental issue: the poor appreciation of the critical role of the private sector in public service.

The private sector brings invaluable expertise, resources, and technology, enhancing government initiatives for the public good and boosting the national economy.

When conflicts arise within public-private partnerships, takeovers should not be the default response. Such actions undermine the spirit of collaboration and can erode investor confidence, deterring future private sector engagement.

Instead, the government should focus on robust regulations and measures that allow the private sector to deliver public services effectively while ensuring compliance with regulations and remitting the correct fees to the state.

Encouraging private sector investment is integral to President Marcos' 10-point economic agenda, which should guide all government offices. Deviating from this policy would not only harm the administration but also disadvantage the Filipino people.

Moving forward, it is crucial to recognize and preserve the effectiveness of public-private partnerships (PPPs). These collaborations are essential for delivering vital programs and projects that benefit the citizens. The private sector plays a pivotal role in the Philippines' economy, serving as the driving force behind the nation's long-term growth and development. Its indispensable contributions lay the foundations for a thriving economic future.

By maintaining a balanced and synergistic approach, the government and the private sector can continue to drive economic growth and enhance public welfare.

*Source: https://www.philstar.com/business/2024/05/16/2355362/balance-synergies-ensuring-effective-public-private-partnership*

## 'Passport for goods' to be in place in PHL in July — PCCI
May 16, 2024 | Andrea E. San Juan | BusinessMirror

EFFECTIVE July 2024, the Philippines will implement a "passport for goods" system that simplifies customs procedures for importers and exporters without requiring these traders to pay taxes under certain conditions, according to the Philippine Chamber of Commerce and Industry (PCCI).

PHILIPPINE CHAMBER OF COMMERCE AND INDUSTRY

Philippine Chamber of Commerce and Industry

In a statement on Wednesday, PCCI President Enunina Mangio said, "We are pleased to partner with the Bureau of Customs in launching the ATA Carnet system in the Philippines."

Mangio said the "strategic" move aims to streamline and facilitate temporary exports and imports of goods, making cross-border trade more efficient and cost-effective for businesses.

According to PCCI, ATA Carnet, also known as the "passport for goods," is an international customs document that simplifies customs procedures for admission of goods up to one year.

"It allows businesses to temporarily export and import into participating countries without the need to pay duties and taxes, provided that the goods are re-exported within a specified timeframe," PCCI said. *[Cont. page 4]*

## ‘Passport for goods’ to be in place in PHL in July — PCCI
*[Cont. from page 3]*

The business group called this an “indispensable marketing tool,” as it will help businesses, especially small and medium enterprises (SMEs), to “successfully” develop their exports.

Ahead of the implementation of the ATA Carnet system, PCCI said it is now accepting accreditation applications from businesses that intend to utilize the passport for goods.

PCCI also emphasized that the implementation of the ATA Carnet system “underscores the Philippines’ commitment in efficiently facilitating trade and enhancing its competitiveness in the global market.”

“Businesses interested in obtaining accreditation and attending local workshop for the ATA Carnet system are encouraged to contact the Philippine Chamber of Commerce and Industry for further information and assistance,” said PCCI.

The business group will also be scheduling the local workshops for Exporters, Industry Associations, Chamber of Commerce, Sports Associations, Film and Entertainment organizers and Business Professionals.

*Source: https://businessmirror.com.ph/2024/05/16/passport-for-goods-to-be-in-place-in-phl-in-july-pcci/*

## Meralco, JCCIPI team up to advance Philippine energy sector
May 15, 2024 | Manila Bulletin

MANILA BULLETIN

The Manila Electric Co. (Meralco) has partnered with the Japanese Chamber of Commerce & Industry of the Philippines, Inc. (JCCIPI) to advance sustainable and energy-efficient solutions in the energy sector.

During a recent joint webinar on sustainability and environmental, social, and governance (ESG) trends in the Philippines, Meralco presented its commitments and initiatives to JCCIPI members, aiming to foster potential collaborations that would enhance ESG leadership and drive meaningful outcomes.

As the largest electricity distributor in the country, Meralco actively collaborates with government entities and private sector stakeholders to achieve sustainability objectives, positioning the company as an ideal partner for like-minded organizations within JCCIPI.

JCCIPI, a non-profit organization comprised of Japanese or Japanese-related companies and organizations in the Philippines, seeks to promote mutual interests and business relationships.

“Meralco can provide expertise in the energy sector while JCCPI can contribute technological advancement and investment. This collaboration can result in sustainable energy solutions,” Bernice Gretchel P. Garcia–Rama, Meralco enterprise-commercial and conglomerates head said.

For his part, Danilo B. Aquillo, Meralco head of energy Services, said the power distributor’s sustainability programs are aimed at creating a positive and lasting impact in the communities within its franchise area.

These include the company’s commitment to a just, orderly, and affordable transition to clean energy through sourcing 1,500 megawatts (MW) of the company’s supply requirements from renewable energy and the development of 1,500 MW of renewable energy projects.

Meralco is also accelerating its efforts to transition 25 percent of its vehicles to electric by 2030.

On the power distribution side, Victor L. Risma IV, Meralco Enterprise-Industrial head stated that the company is scaling up its smart grid program to achieve higher efficiency, better demand response, and accommodate more renewable energy in its expansive distribution network.

Part of this program is the adoption of IEC 61850, the latest international standard for communication protocols covering intelligent electronic devices at its substations.

Meralco is also rolling out smart meters, the deployment of its advanced metering infrastructure, the implementation of supervisory control and data acquisition system, and, in the future, the installation of a distributed energy resources management system.

*Source: https://mb.com.ph/2024/5/15/meralco-jccipi-team-up-to-advance-philippine-energy-sector*

## DOF sticking to 2024 growth target range

May 15, 2024 | Darwin G. Amojelar | Manila Standard

The Department of Finance (DOF) is confident on achieving the lower range of the 2024 economic growth target despite the modest first-quarter expansion.

Finance Secretary Ralph Recto said the 5.7-percent domestic product (GDP) increase in the first quarter was “still a good growth”, and “it’s still one of the highest.”

“But are we sticking to the target? I still think we can hit 6 percent before the end of the year because inflation is slowing down also. And we expect rising prices to start slowing down, too,” he said.

The government targets a GDP growth of 6 percent to 7 percent this year.

Recto earlier said the Philippine economy remained a frontrunner in the ASEAN region with its first-quarter performance, with the industry sector being the brightest spot driven by strong domestic manufacturing.

The Philippines grew the fastest alongside Vietnam (5.7 percent), followed by Indonesia (5.1 percent), Malaysia (3.9 percent) and Singapore (2.7 percent), he said.

“What is to be celebrated here is the encouraging growth seen in the manufacturing sector as it is the most crucial sector for long-term employment, productivity, value-added generation and innovation. This sets the course for the Philippines to become a premier manufacturing hub in Asia,” Recto said.

Meanwhile, Recto said the Monetary Board would likely keep its policy rates in its meeting on May 16.

“So far, the way I see it, unless something changes between now and then, I think more or less…maybe not this Monetary Board meeting,” Recto said.

“But it’s possible that within the end of the year, there could be a possible reduction in rates,” he said.

The Monetary Board kept the overnight borrowing rate steady at 6.5 percent for the fourth consecutive policy meeting since October 2023.

It also maintained the interest rates on overnight deposit and lending facilities at 6.0 percent and 7.0 percent, respectively.

*Source: https://manilastandard.net/business/314447317/dof-sticking-to-2024-growth-target-range.html*

## DOLE denies rejecting legislated wage hike

May 15, 2024 | Gerard Naval | Malaya Business Insight

FACING criticisms from Senate President Juan Miguel Zubiri and labor groups, the Department of Labor and Employment (DOLE) yesterday denied that it is against the passage of the proposed legislated wage hike.

In a statement, the DOLE stressed that it has not expressed opposition to proposals for a legislated wage increase for workers nationwide, saying it respects the mandate of Congress.

“It is Congress which has the sole power to make law(s). The DOLE is not in a position to restrict the exercise of this power, much less reject it,” said DOLE.

“The DOLE defers to the primary authority and wisdom of Congress to enact, amend, or repeal any law,” it added.

The department said its participation is limited to providing inputs as a resource entity of the lawmakers.

“As part of the Executive Branch of government, it is the DOLE’s Constitutional duty to provide, appear before and be heard by Congress on a matter pertaining to its mandate, and for this purpose submit its technical inputs in aid of legislation,” explained DOLE.

It assured lawmakers the agency is ready to implement the measure in case it is signed into law. *[Cont. page 6]*

## DOLE denies rejecting legislated wage hike

*[Cont. from page 5]*

"The DOLE's duty will be to implement the law, no matter how hard that will be," said DOLE.

A proposed P150 legislated wage hike remains pending in the House of Representatives while the P100 Daily Minimum Wage Increase Act of 2023 has been passed by the Senate.

Labor Secretary Bienvenido Laguesma had repeatedly said that granting an across-the-board legislated wage hike for workers nationwide could displace workers, increase the prices of essential goods, and result in a decline in domestic product growth.

This resulted in Zubiri assailing Laguesma for objecting to higher wages for the labor sector, failing to protect workers' interests, and speaking for the interests of the business sector.

Labor groups Trade Union Congress of the Philippines (TUCP) and Sentro ng mga Nagkakaisa at Progresibong Manggagawa (SENTRO) called on Laguesma to resign for supposedly being the "employers' poster boy" against a legislated wage hike.

*Source: https://malaya.com.ph/news_news/dole-denies-rejecting-legislated-wage-hike/*

## Cerberus sees Hyundai unit starting at Subic yard within 18 months

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

HHCI PHILIPPINES

US INVESTMENT firm Cerberus Capital Management said it expects a South Korean shipbuilder which leased a portion of its shipyard in Subic to begin operations in 12-18 months.

Cerberus unit Agila Subic shipyard signed a multi-year lease agreement with Hyundai Group unit HD Korea Shipbuilding and Offshore Engineering, which plans to manufacture maritime products at the 350-hectare facility targeted at the offshore wind industry.

The return of shipbuilding to the Subic area will involve tens to hundreds of millions of dollars in investment and generate thousands of jobs, Cerberus Senior Managing Director Alexander Benard said in an online briefing.

"HD Hyundai KSOE will be leasing a large section of the shipyard from us and will be bringing maritime manufacturing back to Subic at a very large scale with an initial focus on offshore wind platforms," Mr. Benard said.

"This will create very substantial employment and will really bring that economic activity and vitality back to the Subic Bay region … but of course it will take some time to ramp up (operations)," he added.

The agreement with HD Hyundai KSOE, which was formally announced at Malacañang Palace on Tuesday, was signed through Cerberus affiliate Agila South, Inc.

"When we acquired the Hanjin facility two years ago, we set out to revitalize the shipyard, repurpose the site into a multi-use facility, and bring thousands of jobs to the Subic Bay region," Mr. Benard said, referring to the previous occupant, which went into administration after defaulting on $1.3 billion in debt.

"We're pleased to take the next step in delivering on that vision by partnering with a premier global shipbuilding and offshore engineering company to make a substantial commitment to the future of Subic Bay and its surrounding communities," he added.

HD Hyundai KSOE will be building a facility capable of handling offshore wind structures, ship block fabrication, ship repair, and other services. It will operate in the yard's largest dry dock.

Kim Sungjoon, chief executive officer of HD Hyundai KSOE, said that the "initiative represents a major opportunity to create jobs and reinvigorate the local economy, which will help to further establish the Philippines as a global maritime powerhouse."

Cerberus now has four major tenants in the Subic Bay facility. The other tenants are global subsea cable company Subcom, logistics company V2X, and the Philippine Navy.

## Cerberus sees Hyundai unit starting at Subic yard within 18 months

*[Cont. from page 6]*

The entire facility can host 20,000 workers, according to Mr. Benard, which was also the same staffing level under Hanjin Heavy Industries and Construction Philippines, Inc.

Cerberus acquired the yard in April 2022 and rebranded it Agila Subic.

"What that means is that for three years, the facility was effectively mothballed; it was not operating, and when you have a facility that is not working for three years, things start to fall into a bit of a state of disrepair," Mr. Benard said.

"So when we stepped in and took over the asset in April of 2022, we had to begin a process of revitalizing this asset and putting it back into operational condition," he added.

However, instead of implementing the same business plan as Hanjin, which used the facility as one a shipbuilding factory, Cerberus took a multi-use approach, leasing to various industrial and manufacturing tenants.

Mr. Benard said Cerberus is in talks with other ship repair and maintenance business to fill the remaining space in the yard.

"That is part of the plan, and that is really, I guess, the final piece that we anticipate finalizing later this year as well," Mr. Benard said.

"We are in active discussions with a few parties, and we believe that before the end of this year we will have signed a lease agreement with a commercial company… to establish a ship repair and maintenance business," he added.

Meanwhile, Mr. Benard said that Cerberus is also looking at other assets and opportunities in the Philippines.

"The broad categories that are of interest to us are in areas like semiconductor manufacturing and assembly and other types of logistics assets, as we believe logistics and transportation are important areas for the country," he said.

"Those are really the types of things that we are looking at, and we are hoping to find some specific opportunities in the next year or two," he added.

*Source: https://www.bworldonline.com/economy/2024/05/15/595420/cerberus-sees-hyundai-unit-starting-at-subic-yard-within-18-months/*

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