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SPECIAL POINTS OF INTEREST

FDIs fall to 16-month low as high rates, geopolitical tension bite

August 14, 2024| Ian Nicolas P. Cigaral - @inquirerdotnet | Philippine Daily Inquirer

INQUIRER.NET

Foreign direct investments (FDI) in the Philippines fell to their lowest level in 16 months in May, as persistently high inflation created a headache for investors who are already worried about geopolitical tensions.

Data released by the Bangko Sentral ng Pilipinas (BSP) showed FDIs posted a net inflow of $499 million in May, down by 1 percent year-on-year.

Unlike the so-called "hot money" that leaves markets at the first sign of trouble, FDIs are firmer capital inflows that generate jobs for people. That said, the government wants existing FDIs to stay, while attracting new ones.

A net inflow means more of this job-generating foreign capital entered the country against those that left during the period. While this was the case in May, figures showed the FDI net inflow during the month was the lowest since January 2023.

Potential slowdown

Despite the decline, the five-month FDI net inflows still grew by 15.8 percent year-on-year to $4 billion. The BSP projected a $9.5-billion FDI net inflow for the entire 2024.

"The May data suggests a potential slowdown. Factors such as global economic uncertainties, domestic challenges and regional competition may have contributed to this," said Robert Dan Roces, chief economist at Security Bank.

"The sensitivity of FDI to interest rates, which remain elevated, adds further complexity," Roces continued, adding that achieving the $9.5-billion FDI forecast for 2024 of the BSP will "require sustained investor confidence and a favorable economic climate."

Separately, John Paolo Rivera, senior research fellow at state-run think tank Philippine Institute for Development Studies, said tensions in the West Philippine Sea might have spooked investors.

Strong fundamentals

"However, this may have been tempered by economic growth potentials and managed macroeconomic fundamentals," Rivera added.

Dissecting the BSP's report, equity capital placements, a gauge of new FDIs, contracted by 32.1 percent to $174 million in May.

Most of the fresh foreign capital during the month came from Japan, with the manufacturing sector cornering 55 percent of the new FDIs.

But $14 million worth of FDIs headed for the exit in May, albeit 36.9-percent smaller than a year ago. This yielded a net equity capital of $161 million, down by 31.7 percent.

Reinvestment of earnings likewise declined by 3.7 percent to $97 million. But there was a bright spot in intercompany borrowings between multinational firms and their Philippine units, which soared by 43.4 percent to $242 million.

Source: https://business.inquirer.net/474673/fdis-fall-to-16-month-low-as-high-rates-geopolitical-tensions-bite

Philippines needs 6-7% growth to achieve ’A’ credit rating — Recto

August 14, 2024| Beatriz Marie D. Cruz | BusinessWorld


PHILIPPINE STARMIGUEL DE GUZMAN

THE PHILIPPINE ECONOMY must grow by an average of 6-7% in the next four years and meet its fiscal targets to achieve an “A” credit rating, Finance Secretary Ralph G. Recto said.

“For as long as we grow 6-7% annually for the next four years, for as long as the deficit is reduced consistently for the next four years, for as long as our debt-to-GDP (gross domestic product) [ratio] continues to go down, we will get a credit upgrade,” he told a Senate hearing with the Development Budget Coordination Committee.

Economic managers are targeting 6-7% GDP growth this year, 6.5-7.5% in 2025 and 6.5-8% from 2026 to 2028.

The government aims to achieve an “A” level rating before the end of the Marcos administration in 2028.

In June, Fitch Ratings kept the Philippines’ “BBB” investment grade rating, with a “stable” outlook. A “BBB” rating indicates low default risk and reflects the economy’s adequate capacity to pay debt.

The Philippines also holds investment grade ratings of “Baa2” from Moody’s Ratings and “BBB+” from S&P Global Ratings. Both assigned a “stable” outlook to their ratings.

“We want to go even higher, which is ‘AA’ or even ‘A,’” Bangko Sentral ng Pilipinas (BSP) Governor Eli M. Remolona, Jr. told senators.

With a higher credit rating, the Philippines could lower borrowing costs and attract more foreign investments, he added.

He said the government must focus on macroeconomic stability, fiscal sustainability, and good governance to achieve an “A” credit rating.

“In recent engagements with credit rating agencies, it’s the governance aspect that needs to be addressed,” Zeno Ronald R. Abenoja, Managing Director at the BSP’s Department of Economic Research Monetary and Economics Sector.

Mr. Abenoja said the government has made progress in ensuring transparency and accountability in the budget process and implementation.

Mr. Recto said achieving the government’s targets under the revised medium-term fiscal framework would also help the Philippines secure a better credit rating.

The passage of pending revenue measures in Congress, namely the excise tax on single-use plastics, rationalization of the mining fiscal regime, package 4 of the Comprehensive Tax Reform Program and amendments to the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act would help ensure macroeconomic stability, Mr. Recto said.

Source: https://www.bworldonline.com/top-stories/2024/08/14/613852/philippines-needs-6-7-growth-to-achieve-a-credit-rating-recto/

Business groups back balanced energy policy

August 14, 2024| Janine Alexis Miguel | The Manila Times

The Manila Times®

A NUMBER of business groups have backed the Department of Energy's (DoE) balanced energy policy, noting the need to balance energy security and affordability with climate change concerns to foster economic growth.

In a joint statement on Tuesday, the business groups led by the Management Association of the Philippines said the DoE's approach to fostering a balanced energy mix was vital given increasing energy demand.

"We, the undersigned business groups, applaud how the Department of Energy, under the leadership of Secretary Raphael P.M. Lotilla, has pursued an energy policy appropriate to the country's particular context, recognizing the importance of pursuing a balanced energy mix," they said. *[Cont. page 3]*

Business groups back balanced energy policy
[Cont. from page 2]

"As an emerging market, the country must balance energy security and affordability with climate change concerns to support its economic progress."

The Philippines was said to have the third-lowest energy supply per capita in Southeast Asia, which highlights the urgent need to enhance power capacity.

Despite a government target to achieve a 50-percent renewable energy share by 2040, the group said a significant portion of the energy generation would still come from fossil-based sources.

"Energy insecurity is expensive. The power outage in Panay Island in January this year was estimated to have led to about P3.8 billion in economic losses for the province of Iloilo alone," it added.

The statement also cited a DoE advisory on coal-fired power plants that specifically targets new greenfield projects.

To recall, cause-oriented groups, including Sanlakas and Power for People Coalition, among others, filed a complaint against Lotilla for alleged violations of a coal moratorium policy.

The DoE, however, said the policy issued in December 2020 was not a total ban.

"The policy does not cover existing and operational coal-fired power generation facilities as well as any coal-fired power projects considered committed power projects," it said.

The department added that existing power plant complexes that already had firm expansion plans and existing land site provisions with signed and notarized land acquisition or lease agreement for the projects were also exempted.

The Philippine Chamber of Commerce and Industry earlier said that allegations from cause-oriented groups on violating a coal power project moratorium were unfounded.

Source: https://www.manilatimes.net/2024/08/14/business/top-business/business-groups-back-balanced-energy-policy/1964068

Officials explain how inflation impacts national budget
August 13, 2024| Jean Mangaluz | Philstar.com

Vendors wait for customers at a market in Manila on May 9, 2024.

AFP / Jam Sta Rosa

MANILA, Philippines — Senate Minority Leader Aquilino Pimentel III on Tuesday has questioned the impact of inflation on the national government's budgeting.

He noted that Congress approved a budget for 2023 with the hope of meeting the government's target inflation rate.

Despite this, inflation for 2023 exceeded the target range of 2% to 4%. The actual headline inflation ended at around 6%.

"Do we use our budget to obsess with that budget? Kasi looks like it really does not affect much the process," Pimentel said during the briefing.

According to Budget Secretary Amenah Pangandaman, higher inflation rates have an unexpected upside of higher government revenues.

"We have a budget sensitivity for the macroeconomic parameters, and based on our data, for inflation rate at least, a 1% increase of inflation will grow our revenues by P33.9 billion, and there's no deficit implication is expected since government expenditures are limited by the available appropriations however," Pangandaman said.

An International Monetary Fund (IMF) paper supports this, indicating that inflation can temporarily improve fiscal balances as revenue adjusts quickly, while primary expenditures take longer to catch up.

However, National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan noted the negative effects of inflation on economic growth. *[Cont. page 4]*

Officials explain how inflation impacts national budget

[Cont. from page 3]

He explained that inflation drives up the cost of goods and services, leading to reduced consumer spending.

"Because of the unexpectedly high inflation resulted in the lower growth performance, as you could see the domestic demand growth was lower than expected, particularly household consumption was negatively affected by the high inflation, and because that high inflation was also associated with high interest rate with the lag, that also affected the investment side of the equation," Balisacan explained.

A 2023 Pulse Asia survey supports these findings, showing that 95% of Filipinos are spending more on food, but more than half are actually eating less.

As a result, large chunks of the budget are devoted to assisting the population in coping with the impacts of inflation.

During the briefing, Pangandaman explained that the National Expenditure Program (NEP) includes provisions for social assistance to address the impacts of inflation. As inflation increases, additional aid is allocated through agencies such as the Department of Social Welfare and Development.

The proposed budget for the Pantawid Pamilyang Pilipino Program (4Ps), the government's flagship poverty alleviation program, went up by P7.9 billion, going from P106.3 billion in the 2024 budget to P114.2 billion in the 2025 NEP.

Executive Order 64 has introduced a wage hike for civilian government workers, with P70 billion allocated in the 2025 NEP for this purpose.

Balisacan also said that the effects of inflation have a lag effect, meaning the full impact will not be felt immediately

"We are budgeting for expenses of the government based on our expectation of growth, our target for growth. If our growth for this year is going to be lower because of the past inflation, and passing interest rates, then we are not going to achieve the target and then that will lead to deficits and even debt," Balisacan said.

Source: https://www.philstar.com/business/2024/08/13/2377609/officials-explain-how-inflation-impacts-national-budget

R&I upgrades PHL credit rating to 'A-'

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

JAPAN-BASED Rating and Investment Information, Inc. (R&I) upgraded the Philippines' investment grade rating to "A-" amid the country's strong economic performance.

The Philippine flag is being raised at the Rizal Monument in Manila, June 11, 2024. — PHILIPPINE STAR/EDD GUMBAN

"Based on macroeconomic stability and high economic growth path as well as expected continuous improvement in fiscal balance, R&I has upgraded the Foreign Currency Issuer Rating to 'A-,'" it said in a document posted on its website.

This was one notch up from the country's previous rating of "BBB+" assigned in August a year ago.

The credit rater also assigned a "stable" outlook for the Philippines from "positive" previously. According to R&I, a positive or negative outlook is not a statement indicating a future change of a rating. If neither a positive nor negative outlook is appropriate, it assigns a stable outlook.

"The Philippine economy will likely see stable growth and continuous improvement in the level of national income against the backdrop of active public and private sector investments, development of domestic business sectors such as business process outsourcing, and favorable demographics, among other elements," R&I said.

The Philippine economy expanded by 6.3% in the second quarter, the fastest in five quarters or since 6.4% in the first quarter of 2023.

"The Philippine economy has been showing fast growth among the major economies in Southeast Asia," it added.

At 6.3%, the Philippines' second-quarter gross domestic product (GDP) growth was the second fastest in Southeast Asia, only behind Vietnam (6.9%) and ahead of Malaysia (5.8%) and Indonesia (5%). *[Cont. page 5]*

R&I upgrades PHL credit rating to 'A-'

[Cont. from page 4]

The government is targeting 6-7% growth this year and 6.5-7.5% for 2025.

R&I also noted the country's improved fiscal management as debt remains "affordable, given the manageable burden of interest payment."

"The fiscal balance as a share of GDP, which had deteriorated during the COVID-19 (coronavirus disease 2019) pandemic, has improved and the government debt ratio will likely start falling in a year or two," it added.

As of the second quarter, the government's deficit-to-GDP ratio stood at 5.3%, still below the 5.6% deficit ceiling set for this year.

Meanwhile, the debt-to-GDP ratio eased to 60.9% in the second quarter from 61% a year earlier. It is expected to ease further to 60.6% by end-2024.

R&I also said that the Philippines' current account deficit is also "not necessarily a negative element" in its assessment.

"The foreign exchange reserves stand at a sufficient level in comparison with that of imports. Despite the liabilities in excess of financial assets of international investment position, the gap between liabilities and assets remains at a low level relative to GDP. R&I, thus, believes that the external risk is limited."

The central bank projects a $4.7-billion current account deficit for 2024, equivalent to 1% of GDP. The current account deficit stood at $1.7 billion in the first quarter, equivalent to 1.6% of GDP.

Meanwhile, Finance Secretary Ralph G. Recto said in a statement that this was the Marcos administration's first credit rating upgrade.

"Our refined Medium-Term Fiscal Program is our blueprint for our 'road to A rating,'" he said.

"This ensures that we can reduce our deficit and debt gradually in a realistic manner, while creating more jobs, increasing our people's incomes, growing the economy further, and decreasing poverty in the process. Sticking to this program can help us get there faster."

The Department of Finance said that improved credit rating from R&I will help attract foreign investors and access more affordable borrowing terms.

"This allows the government to channel funds that would have otherwise been allotted for interest payments towards more development programs such as more infrastructure projects, improved social services, better healthcare system, and quality education."

The Bangko Sentral ng Pilipinas (BSP) said that the credit upgrade means lower credit risk which "allows a country to access funding from development partners and international debt capital markets at lower cost."

"The BSP is committed to delivering on its mandate of promoting price stability, financial stability, and a safe and efficient payments and settlements system as this broadly supports sustained and inclusive economic growth,'' BSP Governor Eli M. Remolona, Jr. said.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said that the latest credit upgrade puts the Philippines three notches above the minimum investment grade rating.

"This is already similar and somewhat moved in line with the 'A-' credit rating given by another Japanese credit rating agency, JCR," he added.

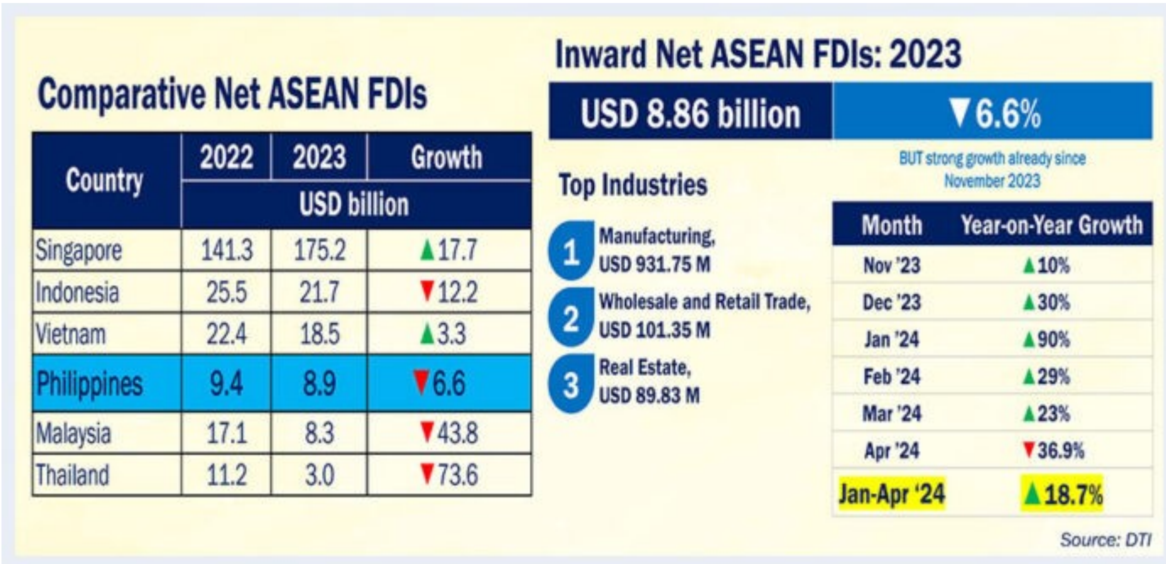
The Philippines currently holds a "A-" rating from the Japan Credit Rating Agency (JCR), "BBB" from Fitch Ratings, "Baa2" from Moody's Ratings, and "BBB+" from S&P Global Ratings.

The government is targeting to achieve an "A" level rating before the end of the administration.

Source: https://www.bworldonline.com/top-stories/2024/08/15/614100/ri-upgrades-phl-credit-rating-to-a/

P1T investments eyed in 2025

August 15, 2024| Irma Isip | Malaya Business Insight



Comparative Net ASEAN FDIs

Country	2022	2023	Growth
	USD billion		
Singapore	141.3	175.2	▲17.7
Indonesia	25.5	21.7	▼12.2
Vietnam	22.4	18.5	▲3.3
Philippines	9.4	8.9	▼6.6
Malaysia	17.1	8.3	▼43.8
Thailand	11.2	3.0	▼73.6

Inward Net ASEAN FDIs: 2023

USD 8.86 billion ▼6.6%

BUT strong growth already since November 2023

Top Industries

1 Manufacturing, USD 931.75 M

2 Wholesale and Retail Trade, USD 101.35 M

3 Real Estate, USD 89.83 M

Month	Year-on-Year Growth
Nov '23	▲10%
Dec '23	▲30%
Jan '24	▲90%
Feb '24	▲29%
Mar '24	▲23%
Apr '24	▼36.9%
Jan-Apr '24	▲18.7%

Source: DTI

The government has assumed a lower investment target of P1 trillion in 2025 based on the National Expenditure Program (NEP) for the Department of Trade and Industry (DTI).

The value is lower than the P1.15 trillion projected this year and the P1.26 trillion actual investments in 2023.

The NEP target for exports meanwhile is an increase to a range of $113 billion to $163.6 billion in 2025 from the $102.7 billion target for 2024.

In 2023, actual exports amounted to $103 billion.

A presentation at the House appropriations committee yesterday showed the DTI budget is seen at P10.6 billion for 2025 slightly higher than the P10.32-billion General Appropriations Act (GAA) in 2024.

Of that amount, P8.3 billion is for the Office of the Secretary (OSEC) and its attached agencies and the rest for its attached corporations.

GAA for OSEC and its attached agencies in 2024 is slightly higher at P8.64 billion.

At the hearing, DTI undersecretary Ceferino Rodolfo said incentives, power and ease of doing business remain a constraint to growth and competitiveness.

"Investors bring up ease of doing business as a concern. Our response to that is the Green Lane for strategic investments first," Rodolfo said, as he expressed hope this would be available to all projects. Projects in Green Lane enjoy fasttrack processing of requirements.

He said the shift to renewable energy would be a game changer, especially if the country wants to increase capacity and bring down the cost of power, another constraint mentioned by investors.

Rodolfo tagged as both a constraint and an opportunity talent development which is being addressed through upskilling and reskilling by government and private sector.

The last constraint is incentives.

Rodolfo, who is managing head of incentive-granting body, the Board of Investments, cited the attractiveness of Vietnam which in March issued a directive giving free lease of land and reimbursement for the cost of clearing operations of their strategic projects.

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P1T investments eyed in 2025

[Cont. from page 6]

Rodolfo identified the following as opportunities for export growth:mineral processing, semiconductor and electronics, information technology-business process management (IT-BPM) and health and sustainably-produced food as opportunities for export growth.

Rodolfo said mining/mineral processing has a potential to grow its share in the country's GDP to 2 to 3 percent from the current 1 percent as the government pursues investments in green metals for the processing of copper, nickel, iron, chromite, cobalt and other minerals which the country has a lot of.

For semiconductors and electronics which account for bulk of Philippine exports, Rodolfo said the Philippines is getting a lot of interest from investors who are trying to secure their supply chains.

He said IT-BPM remains a good sector, seen hitting revenues of $40 billion in terms of exports.

Source: https://malaya.com.ph/news_business/p1t-investments-eyed-in-2025/

Recto: DOF considers joining BRICS bloc

August 14, 2024| Chino S. Leyco | Manila Bulletin

The Department of Finance (DOF) is exploring the possibility of the Philippines joining the BRICS bloc, a coalition of emerging economies, including China and Russia, that seeks to counterbalance the influence of the United States and the West.

During the Senate Finance Committee hearing on the proposed 2025 national budget on Wednesday, Aug. 14, Finance Secretary Ralph G. Recto indicated that the DOF is considering this option.

However, Recto clarified that there have been no formal discussions within President Marcos' Cabinet or the economic cluster regarding BRICS, which comprises Brazil, Russia, India, China, and South Africa.

“There have been no formal discussions in the cabinet or with the economic managers, but this is something that we are looking into in the DOF,” Recto said when Senator Imee R. Marcos asked about his stand on BRICS.

In January, the BRICS bloc expanded its membership to include Saudi Arabia, Egypt, the United Arab Emirates, Iran, and Ethiopia. Additionally, over 30 countries, including Indonesia, Vietnam, Venezuela, and Kazakhstan, have submitted applications to join.

Recently, two more ASEAN economies expressed interest in joining the bloc. Thailand submitted a membership request last June, and Malaysia announced plans to initiate formal procedures soon.

The expanded BRICS group now has a combined population of approximately 3.5 billion people, representing 45 percent of the world's population. Collectively, their economies are valued at over $28.5 trillion, accounting for about 28 percent of the global economy.

The BRICS nations are also exploring the establishment of a new reserve currency, backed by a basket of their respective currencies, to challenge the US dollar's dominance in the international financial system.

If the BRICS nations successfully create a new reserve currency, it could significantly impact the US dollar, potentially leading to a decline in demand, a phenomenon known as de-dollarization.

Currently, the US dollar accounts for 90 percent of all international currency trading. However, after nearly 100 percent of oil trading was conducted in US dollars, this figure has decreased in 2023, with reports indicating that one-fifth of oil trades are now being settled in non-US dollar currencies.

Source: https://mb.com.ph/2024/8/14/recto-dof-considers-joining-brics-bloc

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