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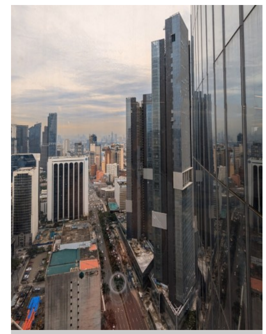
## Growth seen slowing despite BSP rate cuts

December 16, 2024 | Cai U. Ordinario | BusinessMirror

The additional rate cuts that will be implemented by the Bangko Sentral ng Pilipinas (BSP) will not be enough to boost the Philippine economy next year as a London-based think tank expects a slower pace of growth for household consumption and remittances.



Towering skyscrapers dominate the Makati Business District skyline, a symbol of the Philippines' economic aspirations. However, the Philippine economy faces a slower growth trajectory in 2025, with a projected GDP growth of 5.8%, according to Capital Economics. This comes amid challenges like slower household consumption, reduced remittances, and tighter fiscal policies.

Capital Economics sees Philippine GDP growing by 5.8 percent in 2025, a projection that is "below consensus." For 2026, GDP expansion will be faster at 6.5 percent.

The projected growth for 2025 is also below the government's target of 6 to 8 percent, as per the latest assumptions made by the inter-agency Development Budget Coordination Committee (DBCC).

"Admittedly, consumption is likely to be boosted by the drop in inflation and further cuts to interest rates, but we doubt the pace of consumption growth seen in the third quarter is sustainable," Capital Economics said in its latest Asia Economic Outlook.

"What's more, growth in remittances—which accounts for nearly 10 percent of GDP in 2023—and exports will slow, amid weaker global growth," it added.

Capital Economics said the government's own fiscal policy will serve as a drag on economic growth. The think tank noted that paring down the country's deficit-to-GDP ratio will limit the budget's impact on the economy.

The DBCC aims to reduce the country's budget deficit-to-GDP ratio to 5.3 percent next year, 4.7 percent in 2026, 4.1 percent in 2027, and 3.7 percent in 2028.

"Another drag will come from tighter fiscal policy. The government is aiming to reduce the budget deficit, which rose sharply during the pandemic. Overall, our forecast is for below-consensus GDP growth of 5.8 percent in 2025," Capital Economics said.

Growth, meanwhile, will be driven by lower inflation which is expected to average 2.8 percent next year and 3.3 percent in 2026. Both these projections are within BSP's 2 to 4 percent target.

Given this, Capital Economics expects the central bank to continue the easing cycle it began in August 2024 with a reduction of 25 basis points (bps) and another 25-bps cut in October 2024.

For 2025, the London-based think tank said the BSP may cut interest rates by 100 bps, which will place key policy rates at 4.75 percent by the end of next year.

"We expect it [inflation] to remain low over the coming quarters due to a combination of weaker economic growth and a decline in food inflation. Core inflation—which is a better measure of underlying price pressures—will also remain stable," it said.

Meanwhile, Bank of the Philippine Islands (BPI) Senior Vice President and Lead Economist Emilio S. Neri Jr. said he expects the BSP to deliver a 25-bps reduction in key policy rates this week.

Neri said the inflation outlook for next year now supports the case for lower policy rates. Inflation is expected to remain within the BSP's targets despite the recent uptick in vegetable prices. *[Cont. page 2]*

## Growth seen slowing despite BSP rate cuts
*[Cont. from page 1]*

He added that the third-quarter growth has fallen short of expectations so a reduction in key policy rates may give the country's economic performance a boost.

"While a pause [or skip] remains possible, recent economic data and external developments have aligned in favor of monetary easing," he said.

Neri also expects the BSP to cut rates in 2025 as the latest economic data will support this move. However, he noted the risks facing the economy next year.

He said should the Trump administration impose "massive tariffs and deportation," this could worsen inflation in the US and delay policy rate cuts or reverse recent monetary policy easing by the Federal Reserve.

Neri said one adverse scenario could prompt central banks across the globe to pivot to monetary tightening to fight rising inflation.

Earlier, the Asian Development Bank (ADB) said policies of the incoming Trump administration, particularly those on trade, will likely impact China and developing countries in Asia like the Philippines beginning in 2027. *(See: https://businessmirror.com.ph/2024/12/12/adb-trump-policies-likely-to-impact-china-phl-in-2027/).*

Based on the December Asian Development Outlook (ADO), ADB said Trump's policies could affect China's economy the most, causing it to slow by 1.2 percentage points over 2025–2028 or 0.3 percentage points per year.

This will likely lead to a 0.6 percentage point decline in the growth of developing countries in Asia like the Philippines. Growth in the Euro area and Japan are also expected to decline but at a slower pace of 0.4 and 0.5 percentage points, respectively.

Image credits: Nonie Reyes

*Source: https://businessmirror.com.ph/2024/12/16/growth-seen-slowing-despite-bsp-rate-cuts/*

## Senate approves bill extending foreigner land leases to 99 years
December 16, 2024 | Kyle Aristophere T. Atienza | BusinessWorld


*PHILSTAR FILE PHOTO*

THE SENATE approved a bill on Monday extending the maximum term for land leases entered into by foreign investors, and another measure reorganizing the socio-economic planning agency.

Senate Bill No. 2898, which seeks to amend the 31-year-old Investors' Lease Act, extends the term for foreign leases to 99 from 75 years.

Under the current setup, foreign investors may lease private land for an initial period of 50 years, renewable for a further 25 years.

The latest bill, which is among the measures that Congress seeks to pass before the midterm elections, also allows foreign investors to sublet properties unless barred by contract.

The proposal will also allow foreign investors to lease land for agriculture, agroforestry and ecological conservation.

Senate President Francis Joseph G. Escudero said the bill is in line with government efforts to attract foreign investment, which he called "critical in realizing socio-economic objectives such as increasing employment levels, creating decent work, infusing technology into domestic businesses, and improving the integration of local enterprises with the global market."

"This bill seeks to address this economic roadblock by strengthening the legal framework for long-term leases provided under Republic Act No. 7652," he said in a statement.

The Senate also passed on third and final reading a bill seeking to reorganize the National Economic and Development Authority into the Department of Economy, Planning and Development (DEPDev).

The bill positions DEPDev "as the government's primary policy, planning, coordinating and monitoring body for economic development."

*Source: https://www.bworldonline.com/economy/2024/12/16/641956/senate-approves-bill-extending-foreigner-land-leases-to-99-years/*

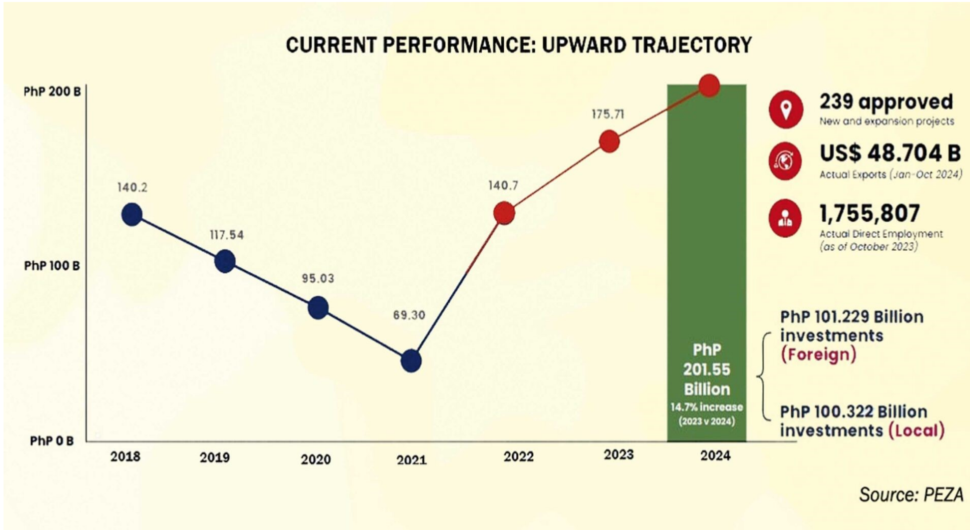
## DIVERSIFICATION KEY TO HIGHER FDIs: PEZA eyes 10% rise in investments

December 17, 2024 | Irma Isip | Malaya Business Insight

The Philippine Economic Zone Authority (PEZA) aims to increase investment registrations in the country by at least 10 percent in 2025 from the current year by diversifying into new technologies and tapping new markets.

The country has also set a gameplan of topping its record level of total investment registrations reached in 2012.

PEZA estimates that by the end of 2024, investment registrations would have reached P235 billion, with P13 billion expected to be approved in its board meeting on Tuesday. Next year, the agency expects the level to hit at least P250 billion.




"We are going to diversify to non-traditional markets and emerging technologies in manufacturing," PEZA director-general Tereso Panga told reporters in a briefing on Monday.

The eventual goal is for the country to become a serious contender in foreign direct investments (FDIs) in Southeast Asia. The gameplan is to breach the highest investment registration of P311.9 billion recorded in 2012, he said.

"Winning industries like electronics, IT-BPM (information technology-business process management) and major sources of foreign direct investments like Japan and the US will continue to drive investments in 2025," the PEZA chief said.

"As soon as we breach that, we will be a serious FDI (foreign direct investments) contender in Southeast Asia," Panga added.

The government agency is tasked to assist, register, grant incentives and facilitate the business operations of investors in export-oriented manufacturing and service facilities within special economic zones.

"There are bright spots despite the global disruption as Asia-Pacific is more vibrant. That is good enough to attract investments from the European Union and the US and make the Philippines as their gateway to the region," Panga said.

Now that the agency can register domestic-oriented companies servicing PEZA locators, the Philippines expects more investments from local companies, as it catches up with its Asean neighbors in attracting FDIs. Asean is the Association of Southeast Asian Nations.

"We cannot be totally reliant on FDIs," Panga said.

For the first time, countries like Bahrain, Africa, Russia, among other non-traditional markets have shown interest in Philippine special economic zones, the agency said.

Other major FDI sources for the Philippines are South Korea, China and Taiwan.

Panga said PEZA will leverage on the country's free trade agreements (FTAs), especially with South Korea — set to begin in 2025.

The Philippines has existing FTAs with Asean, Asean trading partners (Australia, New Zealand, China, Japan, Korea and India), Japan, and the European Free Trade Area. It is also a signatory to the Regional Comprehensive Economic Partnership, an FTA with 15 Asia-Pacific countries.

PEZA has a healthy pipeline of investments that would materialize in 2025, mostly in companies involved in nascent technologies that are looking for a viable alternative to China.

These projects include electric vehicle battery, smart manufacturing, data centers, green ores or mineral processing, integrated circuit design and electronic manufacturing services.

PEZA is also looking at prospective investors in the next wave of technologies such as biopolymers for producers of biodegradable plastics, capacitors, silicon carbide for makers of electric vehicle batteries, solar concentrator, and marine-based ecozone.

*Source: https://malaya.com.ph/business/enterprise/diversification-key-to-higher-fdis-peza-eyes-10-rise-in-investments/*

## ‘Locators’ VAT issues resolved in Create More’

December 17, 2024 | Cai U. Ordinario | BusinessMirror


THE Philippine Economic Zone Authority (Peza) said concerns of their locators on the Value Added Tax (VAT) have already been addressed by the CREATE More Law.

In a briefing on Monday, Peza Director General Tereso O. Panga told reporters the investment promotion agency (IPA) is working closely with the Bureau of Internal Revenue (BIR) and the Fiscal Incentives Review Board (FIRB) on the Implementing Rules and Regulations (IRR) of the law.

“It’s now clearly spelled out in the law, in the Create More law. So we just want to make sure that the IRR will be aligned with the law. So in the law, it says that locators, especially export companies, will not go through any VAT refund process,” Panga said.

The law, Panga said, also removed six items in the foreign investment negative list (FINL) which will lead to a shorter negative list and allow more foreign businesses to locate in the Philippines.

As early as January 2024, the National Economic and Development Authority (Neda) had given assurances of a shorter negative list in light of previous legislations that were passed by Congress. ***(See: https://businessmirror.com.ph/2024/01/04/next-rfinl-briefer-to-reflect-recent-laws/).***

Panga added that the BIR has also set up a one-stop action center to deal with VAT issues, including for Peza locators. He hoped that recent changes will lead to the elimination of Peza locator issues, particularly on the VAT.

“Maybe the VAT issues will apply more to those companies who are exposed to VAT payments when actually they were not supposed to. It was not supposed to happen that way. It was at that time when there were inconsistencies between the IRR, the RMCs [Revenue Memorandum Circulars] versus the CREATE law,” Panga said.

Last year, Panga said some locators had resorted to importing their materials as it was easier to avail themselves of tax perks and duty-free incentive than sourcing the materials from the local market given the “gray area” in the BIR’s definition for direct and exclusive use in a registered activity.

In April last year, the BIR issued its Revenue Regulation (RR) 3-2023 2023 to clarify the list of goods and services that will be zero -rated. ***(See: https://businessmirror.com.ph/2023/05/02/vat-zero-rating-rules-a-fillip-to-local-sourcing-peza/).***

Meanwhile, other proposals that could complement the changes introduced by the Create More Law include the extension to 99 years the lease period for foreign investments.

On Monday, the Senate of the Philippines passed the measure on third reading. Currently, the lease period allowed for foreign businesses is only good for 50 years.

“There is this pending legislation to also relax the, to extend the lease period in the Foreign Service, Foreign Investment Act, extending it to 99 years. So, this will be a welcome development by investors because they don’t have to invest upfront in buying,” Panga said.

He noted that the measure is important given that land prices in the Philippines has been increasing. Allowing foreign entities to be able to lease the land they are operating in gives these investors some flexibility in their operations in the Philippines.

In June 2024, Speaker Ferdinand Martin Romualdez and House Committee on Ways and Means Chairman Joey Sarte Salceda believe that allowing longer-term leases would make the Philippines more attractive to foreign investors.

By offering more extended lease terms, Salceda said foreign investors can develop long-term plans, which could boost investment inflows. ***(See: https://businessmirror.com.ph/2024/07/05/house-backs-99-year-land-lease-for-aliens/).***

*Source: https://businessmirror.com.ph/2024/12/17/locators-vat-issues-resolved-in-create-more/*

## Potential bidders invited to rehab Basilan port

December 16, 2024 | Ashley Erika O. Jose | BusinessWorld

FACEBOOK.COM/P/PHILIPPINE-PORTS-AUTHORITY-TMO-ISABELA

THE Philippine Ports Authority (PPA) said it issued an invitation to interested parties in the rehabilitation and expansion of Isabela port.

The port regulator is allocating P546.22 million for the works at the Port of Isabela in Isabela City, Basilan.

The auction format will be open competitive bidding, the PPA said, noting that all bidders must have taken on a project of similar type beforehand.

Bids in excess of the amount allocated for the project will be automatically rejected at the bid opening on Jan. 21, the PPA said.

The PPA said it will start accepting bids for the project on or before Jan. 21.

The winning bidder will have 720 calendar days from the receipt of the notice to proceed to complete the project.

Earlier this month, the PPA said that at least two more port upgrade and rehabilitation contracts will go up for auction by year's end.

In separate bid notices posted on the PPA's website, the regulator is seeking interested parties to rehabilitate and improve Virac port in Catanduanes for P120.07 million and to improve San Carlos port in Negros Occidental for P351.93 million.

Over the next four years, the PPA plans to allocate about P16 billion for infrastructure projects, including 14 flagship projects.

*Source: https://www.bworldonline.com/economy/2024/12/16/641953/potential-bidders-invited-to-rehab-basilan-port/*

## ASEAN+3 remains fastest-growing region

December 16, 2024 | By Manila Standard Business | Manila Standard

AMRO
ASEAN +3 MACROECONOMIC RESEARCH OFFICE

The ASEAN+3 Macroeconomic Research Office (AMRO) held the ASEAN+3 Economic Cooperation and Financial Stability Forum (AMRO Forum) in Seoul, South Korea in collaboration with the International Monetary Fund (IMF) and Bank of Korea (BOK).

Centered on the theme "Sustainable Growth: Reinforcing Resilience, Revitalizing Productivity," the third edition of the AMRO Forum gathered policymakers, academics and experts from multilateral institutions to discuss evolving economic challenges affecting the ASEAN+3 region and to explore potential solutions.

AMRO director Kouqing Li, in his opening remarks, Li emphasized the region's global significance. "Nearly five years after the onset of COVID-19 pandemic and multiple shocks, the ASEAN+3 region has demonstrated remarkable resilience. While ASEAN+3 is expected to remain the world's fastest-growing region, our longer-term prospects face formidable challenges, including aging populations, climate change risks, heightened geopolitical tensions, and growing geoeconomic fragmentation," he said.

Li underlined three priorities for the region to adapt to the long-term challenges. "First, we must prepare by rebuilding policy space and enhancing policy flexibility to respond to shocks. Second, it is crucial to revitalize long-term growth by embracing technological advances and adopting innovative strategies. Finally, we must intensify regional cooperation to navigate the complexities of an increasingly fragmented world," he said.

*Source: https://manilastandard.net/business/314536865/asean3-remains-fastest-growing-region.html*

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