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SPECIAL POINTS OF INTEREST

PHL growth may fall below 6% in '25

December 26, 2024 | Luisa Maria Jacinta C. Jocson | BusinessWorld

PHILIPPINE ECONOMIC GROWTH could fall below 6% in 2025 amid a "gentle" recovery in domestic demand and expectations of a widening trade deficit, Bank of America (BofA) said.

A general view of the rush-hour traffic at a market in Manila, Philippines, Dec. 20, 2024. — REUTERS

BofA Securities economist for the Philippines Jojo Gonzales said they forecast Philippine gross domestic product (GDP) to grow by 5.9% in 2025.

This would narrowly miss the government's revised 6-8% growth target next year.

The economy expanded by a slower-than-expected 5.2% in the third quarter, its weakest growth in five quarters.

In the nine-month period, GDP growth averaged 5.8%, slower than the 6% print a year ago.

Earlier this month, the Development Budget Coordination Committee tweaked its economic growth targets to account for "evolving domestic and global uncertainties."

"While we expect a gentle recovery in private consumption and investments over the next year, the growth in government spending is likely to be muted, and a wider net trade deficit is anticipated," Mr. Gonzales told *BusinessWorld* in an e-mail.

In the third quarter, growth in government spending slowed to 5% from 11.9% in the previous quarter.

Latest data from the Philippine Statistics Authority (PSA) showed that the country's trade deficit ballooned to $5.8 billion in October, the widest gap in over two years.

Meanwhile, BofA said it expects inflation to average 3% next year, well within the central bank's 2-4% target.

The Bangko Sentral ng Pilipinas (BSP) expects inflation to average 3.3% in 2025. The central bank said that risks to the inflation outlook for next year remain tilted to the upside.

Headline inflation averaged 3.2% in the 11-month period, according to latest data from the PSA.

"A weaker peso remains a risk to this forecast, though softer oil prices will likely provide a cushion to negate the impact of the weaker currency," Mr. Gonzales said.

BofA expects the dollar strength to persist next year, with the peso potentially breaching the P61 mark.

"The US dollar will remain stronger in 2025, and our end-2025 forecast is P61," Mr. Gonzales said.

So far this year, the peso has hit a record-low P59-per-dollar level thrice.

BSP Governor Eli M. Remolona, Jr. earlier said they are watching the peso closely and have been a bit more active in the markets than usual.

The BSP had to intervene in small amounts in the past few months amid the stronger dollar after Donald J. Trump won as US President. *[Cont. page 2]*

PHL growth may fall below 6% in '25

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Meanwhile, BofA estimates that the central bank will deliver up to 75 basis points (bps) worth of rate cuts next year.

"This will bring down the policy rate to 5% (by end-2025)," Mr. Gonzales said.

Last week, the Monetary Board reduced borrowing costs by 25 bps at its final policy review of the year, bringing the key rate to 5.75%.

The central bank has slashed rates by a total of 75 bps this year since it began its easing cycle in August.

Mr. Remolona earlier said delivering 100 bps worth of rate cuts next year might be "too much."

The central bank will likely keep reducing rates in "baby steps" as it is still carefully monitoring upside risks to inflation, the BSP chief added.

"We also expect the Fed rate to settle at 4% — one cut in December and two cuts in the first half of 2025," Mr. Gonzales added.

The Fed continued cuts in December after a period of aggressive rate hikes but signaled fewer cuts in 2025. Investors are now focused on how gradually the US central bank would cut rates next year, Reuters reported.

While a benign US inflation reading on Friday eased some concerns about the pace of cuts next year, markets are still pricing in just about 35 bps worth of easing for 2025.

US investors are preparing for a swathe of changes in 2025 — from tariffs and deregulation to tax policy — that will ripple through markets as Mr. Trump returns to the White House in January.

Source: https://www.bworldonline.com/top-stories/2024/12/26/643454/phl-growth-may-fall-below-6-in-25/

PHL, SoKor FTA takes effect December 31

December 24, 2024 | Malou Talosig-Bartolome | BusinessMirror

BusinessMirror
A broader look at today's business

ON the last day of 2024, the Philippines and South Korea will officially enter a new regime on free trade of goods and services, marking a significant milestone on their robust 75 years of bilateral relations.

The South Korean Embassy in Manila announced that the landmark Philippine-South Korea Free Trade Agreement (FTA) will come into effect on December 31, 2024.

"The entry into force of the Korea-Philippines FTA marks the dawn of a new era in our strategic partnership," Korean Ambassador to Manila Lee Sang-hwa said.

Under the agreement, South Korea will remove tariffs on 94.8 percent of Philippine products. The Philippines, on one hand, will no longer impose tariffs on 96.5 percent of South Korean products.

For the Philippines, banana, processed pineapples, and other fruits would be able to penetrate Korean market.

On the part of South Korea, many automotive units and components will no longer be charged with tariffs.

This will open the door for Korean auto industry which has been struggling to enter the Philippine market.

The Embassy said the FTA will also open the doors for Korean companies which are expected to invest the Philippines in advanced manufacturing sector, including automobiles, information technology and electronics, and energy.

Aside from tariff reductions, the FTA also has provisions for capacity building in emerging sectors such as smart farming, film production and electric vehicles.

Korean and Philippine service providers in finance, telecommunications and professional services sectors may also benefit from the FTA. *[Cont. page 3]*

PHL, SoKor FTA takes effect December 31

[Cont. from page 2]

The Philippines and South Korea started negotiating for an FTA in 2019. The agreement was signed on September 2023 on the sidelines of the 43rd Association of Southeast Asian Nations (ASEAN) Summit in Jakarta, Indonesia, with both Philippine President Ferdinand Marcos Jr and South Korean President Yoon Suk-yeol at witnesses.

The Philippine Senate ratified the agreement last September. Two months later, the Korean National Assembly also ratified it.

"The FTA will unlock significant opportunities for both countries. By fostering deeper trade and investment ties across key sectors such as industry, agriculture, infrastructure, and energy, the agreement will pave the way for economic growth," the Korean embassy said in a statement.

The Embassy hopes that the FTA will serve as a "catalyst" for future collaboration such as in healthcare, carbon reduction, innovative technologies and electric vehicle.

Source: https://businessmirror.com.ph/2024/12/24/phl-sokor-fta-takes-effect-december-31/

CREATE MORE biggest Christmas gift to investors —DOF

December 25, 2024 | By Manila Standard Business

The enactment of the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act in 2024 is one of the government's biggest Christmas and New Year's gifts to local and foreign investors and the Filipino people, according to the Department of Finance.

Signed into law on Nov. 11, 2024, Republic Act No. 12066, or the CREATE MORE Act, transforms the Philippines into an attractive destination for business by making the tax incentives regime more globally competitive, investment-friendly, predictable and accountable.

"CREATE MORE is definitely among the best gifts for our current and future investors as well as the whole nation this year," Finance Secretary Ralph Recto said.

"The economic outlook for 2025 is brighter as we see foreign investment pledges materialize and local businesses grow stronger because of this law. This is a true win-win for everyone — not only for the businesses but especially for Filipinos, who will reap the bigger benefits of CREATE MORE," he said.

Among the exciting features of the law is a more competitive and generous incentive package that awaits strategic and highly desirable investments.

Registered business enterprises (RBEs) will have the option to choose between the Special Corporate Income Tax (SCIT) of 5 percent or the enhanced deductions regime (EDR) right from the start of their commercial operations.

The SCIT and EDR incentives, initially capped at a maximum of 10 years, are now extended to a period of up to 17 or 27 years. Labor-intensive projects will be allowed to apply for an extension of another five or ten years.

More incentives are given to registered export enterprises (REEs) and high-value domestic market enterprises (DMEs) with investment capital exceeding P15 billion and are engaged in sectors considered import-substituting or export sales in the immediately preceding year of at least $100 million.

CREATE MORE also expands the EDR to provide additional relief to RBEs by reducing the CIT rate to 20 percent from 25 percent.

The law also increased to 100 percent from 50 percent the additional deduction on power expenses, significantly cutting costs for the manufacturing sector.

To boost the tourism industry, an additional 50 percent deduction for expenses related to trade fairs and tourism reinvestments will be provided until 2034.

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CREATE MORE biggest Christmas gift to investors —DOF
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The law also maximized the benefits of the net operating loss carry-over (NOLCO) by changing the reckoning period from "year of loss" to the "last year of the project's income tax holiday (ITH) entitlement period".

It also provides tax and duty exemption on donations of capital equipment, raw materials, spare parts or accessories to the government, government-owned or -controlled corporations (GOCCs), the Technical Education and Skills Development Authority (TESDA), State Universities and Colleges (SUCs), and the Department of Education (DepEd) or the Commission on Higher Education (CHED)-accredited schools.

CREATE MORE provides an optional imposition of an RBE local tax (RBELT) at a rate not exceeding 2 percent of gross income, in lieu of all local taxes, fees, and charges during the ITH or EDR.

The reform acknowledges the evolving business model as it institutionalizes the adoption of flexible work arrangements for RBEs operating within economic zones and freeports, without compromising their tax incentives.

Export-oriented enterprises' local purchases are zero-rated while importations are value-added tax (VAT)-exempt.

The law liberalizes the condition for the availment of VAT incentives by shifting from "direct and exclusive use" to "directly attributable" requirements for goods and services. This broadens the scope of VAT incentives covering necessary services such as janitorial, security, financial consultancy, marketing, and administrative services.

https://manilastandard.net/business/314540079/create-more-biggest-christmas-gift-to-investors-dof.html

Bill on 99-year land lease for foreigners seen to boost PHL investments
December 26, 2024 | John Victor D. Ordoñez | BusinessWorld

The House of Representatives and the Senate last week approved separate bills allowing foreigners to lease land up to 99 years from the current 75 years. — PHILIPPINE STAR/NOEL PABALATE

A MEASURE seeking to extend the maximum term for land leases entered by foreigners to 99 years is likely to help the Philippines attract more investments, analysts said.

"Investors may be more inclined to commit to projects in the Philippines when they see the availability of longer-term leases as an assurance of stability," Philippine Institute for Development Studies Senior Research Fellow John Paolo R. Rivera said in a Viber message.

He said industrial parks, economic zones and tourism-related projects are expected to benefit as foreign firms are more likely to invest if they can be assured of longer land leases.

Last week, the House of Representatives and the Senate approved separate bills allowing foreigners to lease land up to 99 years from 75 years. Both bills allow foreign investors to sublet properties, unless barred by a contract.

Under both versions, foreign private land leases related to tourism will be allowed if the investments are not less than $5 million. Of this amount, 70% must be infused in the project within three years after a contract is signed.

The bill is one of President Ferdinand R. Marcos, Jr.'s priority measures, that the administration aims to approve before June 2025.

Lawmakers have yet to come up with a reconciled version of the measure through a bicameral conference committee.

However, Mr. Rivera said the government must come up with clear guidelines for the measure and ensure safeguards for local stakeholders.

"There may be concerns that longer lease terms could encourage speculative investments, where land is tied up for extended periods without being used productively," he said.

"Extending lease terms could also lead to potential disputes with local communities over land use and allocation, especially in areas where indigenous peoples' rights and agricultural interests are at stake."

The 1987 Constitution bars foreigners from owning land in the country, but the 31-year-old Investors' Lease Act allows foreign investors to lease private land for 50 years, renewable only once after 25 years. *[Cont. page 5]*

Bill on 99-year land lease for foreigners seen to boost PHL investments

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"The 99-year lease bill, if passed into law, will contribute to a more favorable investment climate for foreign investors," Foundation for Economic Freedom President Calixto V. Chikiamco said in a Viber message.

He cited a provision in a Senate bill that requires a lease to be registered with the Land Registration Authority (LRA), which he said would improve the "security and bankability" of leases.

Both bills allow foreign investors to lease land for agriculture, agroforestry and ecological conservation purposes.

They will also be allowed to enjoy longer leases to build industrial estates, factories, assembly or processing plants and tourism sites.

Sublease contracts must be registered with the registry of deeds under the LRA, according to copies of both the House and Senate bills.

The proposed measures also impose a fine of P1 million to P10 million on people who enter into illegal lease agreements.

Only the Senate version imposes jail time of up to six years for lease agreement violators. Congressmen removed the imprisonment penalty.

The upper chamber's version also provides that in cases of corporations, associations or partnerships violating lease deals, the president, manager, director, trustees or other officers will be held criminally liable.

Both versions also mandate that only the Board of Investments or relevant investment promotion agencies may review and approve long-term lease agreements.

Lease contracts will also be subject to termination if an investment project is not initiated within three years.

Leonardo A. Lanzona, an economics teacher at the Ateneo de Manila University, said the government is better off coming up with a comprehensive plan that would ease the entry and exit of foreign companies in local markets.

"We are going to replace the restrictions to attract huge corporations that aim to take control of our markets in the long run because of their absolute control over the land," he said in a Facebook Messenger chat.

Mr. Rivera said the Philippines still needs to work on improving the general investment environment.

"Investors look at lease terms as part of a broader environment for investment, and the Philippines must continue to improve other aspects of its investment climate," he said.

Source: https://www.bworldonline.com/top-stories/2024/12/26/643453/bill-on-99-year-land-lease-for-foreigners-seen-to-boost-phl-investments/

PEZA, DOLE sign data sharing agreement to streamline visa processing

December 26, 2024 | Louella Desiderio | The Philippine Star

MANILA, Philippines — The Philippine Economic Zone Authority (PEZA) and the Department of Labor and Employment (DOLE) have signed a data sharing agreement to streamline the PEZA visa application process as part of efforts to improve ease of doing business.

In a statement, the investment promotion agency said the agreement aimed at streamlining the PEZA visa application and processing, was signed by PEZA director general Tereso Panga and Labor Secretary Bienvenido Laguesma on Dec.16.

The agreement provides a framework to facilitate secure and simplified information sharing, particularly in issuing the Alien Employment Permit (AEP), a prerequisite for PEZA visa issuance to foreign nationals seeking employment within PEZA economic zones.

According to Panga, the agreement would help foster a more business-friendly environment.

"By aligning processes and policies, we are fostering a faster, more transparent and service-oriented environment, while safeguarding the rights of Filipino workers. This partnership with DOLE reflects our dedication to efficiency and excellent service delivery," he said. *[Cont. page 6]*

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STAR / File

PEZA, DOLE sign data sharing agreement to streamline visa processing
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The PEZA aims to position the Philippines as a prime investment destination to help create jobs for Filipino workers.

Laguesma said the DOLE is monitoring developments related to PEZA to see more job opportunities for Filipinos.

He said the agreement strengthens employment verification measures in PEZA ecozones, while addressing the operational needs of both agencies.

"It also supports the understudy training program as outlined in the revised implementing guidelines of AEP, which are expected to be finalized this month," he said.

As part of DOLE's mandate, the agency oversees the employment of foreign nationals and their contribution to the local workforce through skills transfer programs to equip Filipino workers with technical expertise in highly specialized fields.

"The signing of this agreement also complements the goals of the Philippine Labor and Employment Plan 2023–2028 by enhancing data integration, optimizing resources and ensuring labor market programs meet the needs of investors, locators and Filipino workers," Panga said.

Both agencies vowed to further strengthen the partnership to create employment opportunities for Filipinos and improve the ease of doing business.

Source: https://www.philstar.com/business/2024/12/26/2409789/peza-dole-sign-data-sharing-agreement-streamline-visa-processing

Construction sector posts growth in October, driven by residential building surge
December 26, 2024 | By Manila Bulletin

MANILA BULLETIN

The local construction industry grew in October, driven by a surge in residential construction and investments in non-residential projects, while average construction costs decreased.

The Philippine Statistics Authority (PSA) reported that the construction sector continued its upward trajectory in October 2024, with a 4.0 percent year-on-year increase in the number of constructions to 13,848 projects.

According to the PSA, this growth is primarily attributed to a surge in residential building constructions, which accounted for the majority of construction projects in October, with 9,003 projects or 65.0 percent of the total.

The PSA said this represents a 5.4 percent increase compared to the same period in 2023. Single-type houses dominated the residential segment, comprising 76.6 percent of all residential constructions.

Non-residential constructions also played a significant role in the sector's performance, contributing 20.7 percent to the total number of projects.

However, this segment posted a slight decline of 2.2 percent year-on-year, with commercial buildings accounting for the majority of projects at 68.9 percent.

In terms of construction value, the sector registered a significant surge in construction value, reaching P44.39 billion in October, a 21.9 percent increase compared to the same period in the previous year.

Non-residential buildings led the way, accounting for 49.0 percent of the total value, driven by a 35.8 percent year-on-year growth in construction value.

The total floor area of constructions in October also expanded by 40.9 percent year-on-year to 3.87 million square meters. Non-residential constructions accounted for the larger share, with 56.3 percent of the total floor area, demonstrating a significant 60.4 percent growth compared to October 2023.

Despite the overall growth in construction activity, the average cost of construction per square meter decreased by 9.7 percent year-on-year to P10,596.33.

Residential buildings recorded the highest average cost at P11,448.35 per square meter, while non-residential constructions averaged PhP 9,941.63 per square meter.

Source: https://mb.com.ph/2024/12/26/ph-sees-4-rise-in-construction-projects

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