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SPECIAL POINTS OF INTEREST

Inflation could ease to around 2% this year

January 09, 2025 | Luisa Maria Jacinta C. Jocson | BusinessWorld

HEADLINE INFLATION could fall to around the 2% range this year amid easing price pressures, analysts said, which would be well below the projection of the Bangko Sentral ng Pilipinas (BSP).

VEGETABLES are on sale at a market in Tandang Sora, Quezon City, Jan. 2, 2025. — PHILIPPINE STAR/MIGUEL DE GUZMAN

"We maintain our forecast for consumer price index (CPI) inflation to average 2.7% in 2025 which is lower than the 3.2% in 2024, and below BSP's baseline forecast of 3.3%," Nomura Global Markets Research analysts Euben Paracuelles and Nabila Amani said in a commentary.

Inflation accelerated to 2.9% year on year in December from 2.5% in November.

This brought the full-year print to 3.2%, matching the Bangko Sentral ng Pilipinas' (BSP) forecast for 2024. It also marked the first time that full-year inflation fell within the central bank's 2-4% target since 2021, when inflation averaged 3.9%.

This year, the BSP expects inflation to average 3.3%. Accounting for risks, inflation could hit 3.4%.

HSBC economist for ASEAN Aris D. Dacanay said he expects inflation to average 2.5% in 2025, citing the continued drop in rice prices.

"Nonetheless, we think the acceleration in inflation may be short-lived, as downside risks to global oil prices persist while retail rice prices fall," he said.

In December, rice inflation sharply slowed to 0.8% from 5.1% in November and 19.6% a year prior.

Rice is one of the biggest factors driving faster inflation, but prices have been declining since the government in July slashed tariffs on rice imports to 15% from 35% previously. This tariff regime is set to be implemented through 2028.

The Philippine Statistics Authority (PSA) has also noted the possibility for rice inflation to turn negative this month.

"Importantly, the output gap remains negative, and we continue to assume that the impact of lower rice import tariffs on food inflation will continue to play out in coming months," Nomura said.

Nomura said inflation pressures are seen to be "well-contained" amid the government's continued supply-side measures and its oil price assumptions.

"You also have the deflationary impulse from Chinese goods as trade gets rerouted. And at the same time, risks to global energy prices are tilted to the downside," Mr. Dacanay said.

"Because if Fed rates are high while mainland China growth is weaker than before, the demand for global energy or at least oil, will actually get reduced, bringing down energy prices and bringing down inflation," he added.

Meanwhile, Citi economist for the Philippines Nalin Chutchotitham projects inflation to average 3.1% this year, still below the BSP's forecast.

She said inflation this year will continue to be "well-within policy target" despite upside risks from electricity rate increases.
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Inflation could ease to around 2% this year
[Cont. from page 1]

"We revised up 2025 inflation from 2.8% to 3.1% on the back of planned increases in electricity rates during the first half, noting also potential further adjustments in the remainder of the year, although this may be partly offset by potentially lower oil prices," Ms. Chutchotitham added.

With inflation expected to remain manageable, the BSP has room to continue its easing cycle.

"We see limited implications for our BSP forecasts because of the still-favorable inflation outlook, which is the main policy driver for BSP despite a more hawkish Fed," Nomura said.

The BSP kickstarted its rate-cutting cycle in August last year, delivering a total of 75 bps for 2024. This brought the benchmark rate to 5.75% by yearend.

"We still have one more CPI print before the next BSP meeting, and unless we see another sharp pickup in headline inflation to well above 3%, we see no reason for BSP to pause," Nomura added.

Nomura expects the BSP to deliver 75 bps worth of cuts this year in its first three meetings.

"Despite currency weakness, BSP may continue to cut rates and decouple from the Fed or regional peers, given its assessment of well-anchored inflation expectations and a limited FX (foreign exchange) pass-through," it added.

The peso fell to the record-low P59-per-dollar level thrice last year, twice in November and once in December.

Meanwhile, Mr. Dacanay sees up to 75 bps of rate cuts by the third quarter, in increments of 25 bps.

"We updated our policy rate forecast and expect a more gradual easing cycle, wherein the BSP — mindful of Fed moves and FX volatility — will cut in alternate rate-setting meetings until the policy rate reaches 5% by the third quarter," he said.

"However, we do not think the upside surprise in headline inflation derails the policy rate outlook altogether. Looking under the hood, the inflationary pressures seem to be short-lived in nature," he added.

BSP Governor Eli M. Remolona, Jr. has said the central bank prefers to reduce rates in "baby steps."

"The current policy rate remains relatively high, and given the time lag in monetary policy, we expect the BSP to continue with its gradual 25-bp rate cuts in February, the second quarter and third quarter," Ms. Chutchotitham said.

The BSP trimmed the number of Monetary Board meetings to six this year from seven previously, citing the need for more in-depth analysis of data.

"We expect 50 bps more likely to follow in 2026 if inflation stays close to the target midpoint, thus bringing real policy rate closer to historical level and continue to support economic growth," Ms. Chutchotitham added.

Source: https://www.bworldonline.com/top-stories/2025/01/09/645542/inflation-could-ease-to-around-2-this-year/

Economist: In ASEAN, PH most insulated from higher US tariffs
January 08, 2025 | Anna Leah Gonzales | Philippine News Agency

HSBC Global Research ASEAN economist Aris Dacanay. *(PNA file photo by Anna Leah Gonzales)*

MANILA – Among member states of the Association of Southeast Asian Nations (ASEAN), the Philippines is the most insulated from the effects of the possible imposition of higher tariffs by United States President-elect Donald Trump, an economist from HSBC Global Research said on Wednesday.

Trump earlier pledged to impose 60-percent tariffs on goods from China and 10 percent from the rest of the rest of the world.

In a briefing at the Shangri-la at The Fort in Bonifacio Global City, HSBC Global Research ASEAN economist Aris Dacanay said the Philippines is "very insulated" from the risks of higher US tariff rates.

"Our trade surplus or the US trade deficit with the Philippines is negligible. Putting a tariff rate on the Philippines will not really lead to so much," Dacanay said.

"But I guess more importantly... the risk of global trade contracting, or not contracting, or at least getting smaller, even the exposure of the Philippines is quite small because across ASEAN, our goods exposure is the smallest in ASEAN." *[Cont. page 3]*

Economist: In ASEAN, PH most insulated from higher US tariffs

[Cont. from page 2]

Dacanay, however, said the Philippines is known for its services exports.

"You cannot put tariffs on services. You cannot put a tariff on the internet, you cannot put a tariff in digitalization. The name of the game today is artificial intelligence and that's where the Philippines is in the position to rise and shine," he said.

Aside from the growth in services exports, Dacanay said the country's fiscal space is also robust.

He said that while tax revenue to gross domestic product (GDP) is falling in other countries in the region, the tax revenue to GDP ratio in the Philippines is rising.

"And because of that, we do have a space to invest in our long-term goals," he said.

Dacanay said the increase in infrastructure to GDP spending will also help boost economic growth, which is expected to settle at 6.3 percent this year and further accelerate to 6.7 percent in 2026.

Dacanay, however, said the Philippines is not completely insulated from the impact of higher US tariffs.

"Because these tariff risks go through one part of our economy, and that is monetary policy. You have the Fed rate, with Trump being elected, markets are now pricing in higher interest rates in the US. Even the Fed adjusted its FOMC forecast for the Fed rate to settle around 3.75 percent," he said.

Dacanay said this means that the Bangko Sentral ng Pilipinas (BSP) cannot cut rates below the Fed due to currency volatility.

With this, he said they now expect a more gradual easing cycle wherein the BSP – mindful of Fed moves and foreign exchange volatility – will cut in alternate rate setting meetings until the policy rate reaches 5 percent by the third quarter of the year.

"So we do have a view that the BSP will follow the Fed one-to-one in its easing cycle. We first forecasted that the BSP will achieve the policy rate of 5 percent as early as the second quarter of 2025," he said.

"We're pushing this back to the third quarter of 2025, mainly because to be able to manage the higher interest rates in the US, the BSP will need to follow the Fed and gradually cut interest rates as well to keep the peso stable."

Dacanay, meanwhile, said the Philippine peso and other Asian currencies are expected to depreciate this year.

He said the peso will likely breach the 59-to-a-dollar level most likely in the second quarter of the year.

"But we do think all Asian currencies will depreciate across the board but the Philippines will be the more resilient one mainly because there are three conditions that make the Philippines or at least the peso currency more robust," he said.

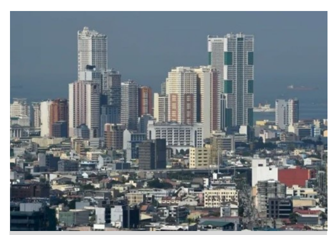
Dacanay said these include the Philippines being relatively insulated from tariff risks, the BSP having more reserves than other central banks in Asean, and growth which will likely remain robust.

Source: https://www.pna.gov.ph/articles/1241308

Toward more gas power development in the Phl

January 08, 2025 | ENERGY, INFRA AND ECONOMICS - Bienvenido Oplas Jr. | The Philippine Star

The fastest-growing major economies in the world – those in the top 50 largest GDP size – are mostly Asians. For instance, the average GDP growth from 2015-2023 were as follows: Vietnam, six percent; China and India, 5.8 percent; Turkey, five percent; Philippines, 4.7 percent; Egypt, 4.6 percent; Indonesia, 4.1 percent; Malaysia, 3.9 percent and Poland, 3.7 percent.



One thing I notice about these countries is that they are mostly small users of natural gas. Their gas/total generation ratio in 2023 were as follows: Vietnam, 9.5 percent; China, 3.1 percent; India, 2.7 percent; Indonesia, 17.4 percent; Philippines, 14.4 percent; Turkey, 21.2 percent and Poland, 9.8 percent. They are high coal users. STAR/File

One thing I notice about these countries is that they are mostly small users of natural gas. Their gas/total generation ratio in 2023 were as follows: Vietnam, 9.5 percent; China, 3.1 percent; India, 2.7 percent; Indonesia, 17.4 percent; Philippines, 14.4 percent; Turkey, 21.2 percent and Poland, 9.8 percent. They are high coal users.

Compare that with these countries which have high gas/total generation ratio and low average growth over the same period. The respective numbers are as follows: Mexico, 57.7 percent and 1.4 percent; Argentina, 51.8 percent and 0.3 percent; Italy, 44.3 percent and 1.2 percent; Russia, 44.8 percent and 1.2 percent; US, 43.1 percent and 2.5 percent; Netherlands, 37.5 percent and 2.2 percent; UK, 34.3 percent and 1.5 percent and Japan, 31.7 percent and 0.6 percent.

Some Asians have a balanced energy mix and modest growth. The gas/total generation ratio and average GDP growth respectively over the same period are as follows: Taiwan, 39.6 percent and three percent; Malaysia, 37 percent and 3.9 percent, and South Korea, 27 percent and 2.6 percent.

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Toward more gas power development in the Phl

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Middle East countries with big gas reserves naturally have high gas/total generation ratio, like Iran with 84.5 percent, United Arab Emirates with 72 percent and Saudi Arabia with 62.7 percent.

So it seems that natural gas is not cheap enough to power high growth. There are many factors for a country's fast or slow growth and energy input is one of them but it is among the major contributors.

The Philippines has a coal/total generation ratio of 62 percent in 2023. The moratorium on new or "greenfield" coal projects declared in 2020 paved the way for more gas plants and recently, entertaining nuclear energy in the power generation mix.

Two good developments in Philippines gas power sub-sector. One is the approval by the Philippine Competition Commission last December for the liquified natural gas (LNG) partnership of three big power companies – San Miguel Global Power (SMGP), Aboitiz Power (AP) and Meralco Power Gen Corp. (MGen) sealed in March 2024. They will jointly own two LNG plants, the Ilijan plant of South Premier Power Corp. (SPPC) and Excellent Energy Resources Inc. (EERI) with combined capacity of nearly 2,000 MW, and an LNG import and re-gasification terminal, all in Batangas.

Two, expansion of MGen's subsidiary in Singapore, the Pacific Light Power (PLP) in Jurong Island. Currently PLP operates an 830-MW LNG plant since 2014, plus a 100-MW fast-start LNG peaking plant under construction and be operational in second quarter of 2025. Singapore's Energy Market Authority (EMA) this week awarded PLP the right to build, own and operate a hydrogen-ready 600-MW combined cycle gas turbine (CCGT), to be operational by 2029.

I say this is good development for the Philippines because MGen will generate more lessons and experience in running big LNG plants that can supplement its knowledge running SPPC and EERI, along with its partners AP and SMGP.

If the Philippines will sustain an average GDP growth of six to 6.5 percent yearly, we will need about 7,000 to 8,000 gigawatt-hours (GWH) yearly increase in power generation until 2026, then 9,000 to 10,000 GWH yearly by 2028 onwards. Currently the average increase is only 5,000 to 6,000 GWH yearly, that largely explains why we still have frequent yellow-red alerts until middle of 2024.

A 1,000-MW LNG plant with average capacity factor of 85 percent should be able to generate about 7,446 GWH/year of electricity. Thus, we should have at least one big gas plant with 1,000 MW capacity or higher, commissioned single year non-stop.

With the moratorium in "greenfield" coal projects plus unavailable legal framework for nuclear development, we have little choice in the short-term but entertain more big LNG plants. Plus push for committed coal projects approved prior to the moratorium order, like the planned 1,200-MW Atimonan coal plant in Quezon province.

Source: https://www.philstar.com/business/2025/01/09/2412785/toward-more-gas-power-development-phl

BDO analyst describes PH as global outperformer

January 08, 2025 | By Manila Standard Business | Manila Standard

Dante Tinga Jr., senior vice president and director of research at BDO Unibank's Investor Relations and Corporate Planning Group, shares his insights on the effect of global events on the Philippine economy during BDO's exclusive economic briefing for its Japanese clients.

The Philippine economy stands out as a global outperformer, bolstered by robust domestic consumption and a favorable demographic profile, according to a bank economist.

Despite facing global headwinds, the nation continues to demonstrate remarkable resilience and growth potential, said Dante Tinga Jr., senior vice president at BDO Unibank's Investor Relations Group.

Tinga highlighted this optimistic outlook during an exclusive economic briefing for BDO's Japanese clients.

Addressing an audience of over 80 executives from Japanese companies, Tinga underscored the critical role of the country's young, growing population and strong consumer spending in driving economic performance, showcasing the Philippines' capacity to sustain growth amid global uncertainties.

The country's young, fast-growing population underpins its economic resilience. With half of its citizens aged 25 or younger and an annual population growth rate of 1.6 percent, domestic consumption has remained strong, he said.

Tinga said household spending surpassed pre-pandemic levels, fueled by a resurgence in overseas labor deployment and a steady flow of remittances from abroad. These inflows continue to strengthen the purchasing power of Filipino families, driving consumption-led growth.

Inflation in the Philippines returned to the Bangko Sentral ng Pilipinas' (BSP) target range, opening the door for potential monetary easing. *[Cont. page 5]*

BDO analyst describes PH as global outperformer

[Cont. from page 4]

Stabilized rice prices, supported by government measures such as reduced import tariffs, contributed to price stability. As a result, the BSP is expected to lower interest rates cautiously, creating a favorable environment for business investments and improved consumer confidence.

Tinga said globally, easing monetary policies—including the U.S. Federal Reserve's push to lower interest rates—align with local conditions, further supporting economic recovery.

Lower rates are expected to reinvigorate private sector investments, boost business sentiment and potentially accelerate the Philippine economy to its pre-pandemic growth trajectory, he said.

Tinga said that on the international front, the Philippines should navigate risks such as potential US fiscal policies under the upcoming Trump administration and the effects of a stronger dollar, which could make imports costlier and weigh on the peso.

He said while the Philippines excels in services exports and benefits from significant remittance inflows, there is an urgent need to upskill the workforce to stay competitive in an increasingly digital global economy.

Private capital expenditures remain subdued due to previously high interest rates, but with inflation now under control and rates set to decline, the outlook for private sector investment is improving.

Tinga said the Philippines is well-positioned for accelerated growth, bolstered by resilient domestic consumption, strong household balance sheets and prudent monetary policies.

He also emphasized the importance of understanding the needs of international investors in supporting the country's economic trajectory.

BDO's Japan Desk, in particular, plays a crucial role in this effort, offering tailored insights and solutions to Japanese businesses navigating the local market.

Source: https://manilastandard.net/business/314544718/bdo-analyst-describes-ph-as-global-outperformer.html

Marcos allies join call to defer SSS contribution hike

January 08, 2025 | By Llanesca T. Panti, GMA Integrated News

GMA NEWS ONLINE
YOUR NEWS AUTHORITY

Administration lawmakers have joined the call to defer the implementation of the increase in Social Security System contributions from 14% to 15%, saying that the timing is not right.

Baguio Representative Mark Go and House Labor panel head and Rizal Rep. Fidel Nograles made the call under House Resolution 2157 and a statement, respectively.

The solons referred to the increase as provided Under Republic Act 11199 or Social Security Act of 2018 which mandates the state-run pension firm to increase its contribution rate every two years.

Go said that the SSS could afford to suspend the increase in contributions because the pension fund's revenue increased by 15.6 percent or P353.82 billion in 2023 from P306.16 billion in 2022 per former SSS President and Chief Executive Officer Rolando Macasaet.

"There is a wide clamor from all sectors to defer the implementation of the scheduled increase in the rate of contribution for SSS for the year 2025 in consideration of the current economic situation that affects our low-income earners," Go, chairperson of the House committee on higher and technical education, said.

He pointed out the Philippine Statistical Authority's data showing that the inflation rate in December 2024 has increased to 2.9% from 2.5% in November 2024.

"The SSS should consider to defer the implementation of the supposed increase in contribution rate this year to provide our low-income earners a breathing space from the continued rising cost of commodities and services," Go added. *[Cont. page 6]*

Marcos allies join call to defer SSS contribution hike

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Likewise, he said that the 2023 Commission on Audit (COA) audit report on SSS revealed that there is an inefficiency in the collection of premium contributions from delinquent employers with the collection only reaching P4.581 billion or 4.89 percent of the established collectibles of P93.747 billion in 2023.

COA added there are at least P89.17 billion in uncollected premium contributions from 420,627 employers.

“The inefficiency of SSS in the collection of premium contributions as revealed in the COA report should first be addressed before the government insurance agency proceeds to implement the schedule of contribution rate hike,” Go said.

Nograles, for his part, called on President Ferdinand Marcos, Jr. to suspend the SSS contribution hike “to protect workers from being further burdened with the lessening of their take-home pay.”

“We call on the President to suspend the increase because this will add to the burden of the workers and will reduce their capacity to provide for their family,” Nograles said.

SSS implemented its final increase in the monthly contribution of members starting this month in accordance with RA No.11199.

In lieu of the mandated increase, Nograles said the President could order the SSS to make its collection more efficient.

“The SSS should address systemic bottlenecks and gaps first to ensure that our collection efforts are maximized,” he said.

The SSS should also be transparent and state the full effects of a gradual increase on the pensioner’s fund life.

“If a deferment won’t lead to a significant dent to the SSS’ funds, perhaps it is more judicious to choose compassion and empathy for our fellow Filipinos instead of implementing the contribution hike right this year. Maybe we can do a gradual increase so that the Filipino worker can cope much better,” Nograles said.

House Assistant Minority Leader and Gabriela party-list Rep. Arlene Brosas earlier called the SSS hike a cruel New Year’s present for workers.

Collectibles

Meanwhile, Senator Sherwin Gatchalian said the SSS should first collect the P93 billion collectible debts, before increasing the premium contributions of its members.

Amid this, the senator said he is eyeing to file a resolution next week or he will talk to the Senate committee on banks and financial institutions to launch a motu proprio investigation on what he deemed as a "management problem" in the SSS.

"Gusto mo magtaas ng ng contributions para makakolekta ka ng P51 billion para magamit mo sa iba't-ibang programa, pero 'yung utang sa'yo ay P93 billion. So in other words, kung makokolekta mo 'yung utang mo, hindi mo na kailangan magtaas ng contributions," Gatchalian said.

(You want to increase the contributions to collect P51 billion to fund different programs, but there are still P93 billion worth of collectibles. In other words, if you were able to collect that, you don't need to increase the contributions.)

For Gatchalian, there is a need to exercise congressional oversight over SSS and ask its management to explain its supposed failure to collect the P93 billion debt.

"Dapat papuntahin dito ang SSS at panagutin at i-explain bakit may utang sa kanila... at hindi nila kinokolekta at lumobo ito eh... 'yung mga 'di nagbabayad pinapakawala mo lang. Ang pinaparusahan ngayon ang mga nagbabayad…so di patas ang ganyan na pangyayari," he said.

(SSS should appear here in the Senate and they should explain why there are collectibles that are not yet paid. They were not able to collect the debts and now they are punishing the members. That's unfair.)

He will also ask the SSS about their investments, which he said should be the source of funds to provide the members' benefits.

"Definitely, 'yung P93 billion na utang ay isang senyales na 'yan na may management problem at dapat makolekta 'yang P93 billion na 'yan," he said. *[Cont. page 7]*

Marcos allies join call to defer SSS contribution hike

[Cont. from page 6]

(Definitely, the P93 billion debt is a sign that there is a management problem and that amount should be collected.)

"Magpo-focus ako doon sa management side. Tignan natin kung ang management ay efficient, nagpe-perform at tingnan din natin kung ang investment nila ay maganda ang ibinibalik sa miyembro. Theoretically nga dapat ang investment ang nagbabayad sa mga benepisyo hindi ka na dapat magtaas," he said.

(I will focus on the management of the SSS during the investigation. Let's see if the management is efficient and performing, and if their investments benefit its members. Theoretically, the investments should pay for the benefits and the SSS contributions should not be increased.)

SSS has defended the scheduled contribution increase, saying it will safeguard the fund life of the state-run pension fund. **—LDF, GMA Integrated News**

Source: https://www.gmanetwork.com/news/topstories/nation/932249/marcos-allies-join-call-to-defer-sss-contribution-hike/story/

Updated tax clearance required for gov't contractors before final payment

January 08, 2025 | Arthur Fuentes, ABS-CBN News

MANILA - Government contractors will have to present an Updated Tax Clearance before they can receive their final payment, the Bureau of Internal Revenue said on Wednesday.

BIR Commissioner Romeo Lumagui Jr. said government contractors are now required to secure an updated tax clearance from the agency certifying that the contractor does not have any outstanding tax liabilities, and that the contractor has duly filed its latest income and business tax returns and paid the corresponding taxes due.

Lumagui said this is needed before the contractor can be given the final settlement of a government contract.

"Otherwise, the Government has the power to suspend the final settlement of the government contract," Lumagui said.

The BIR chief said that the agency wants to ensure that before government contractors get the final payment in their contracts, these firms are cleared of any tax liabilities.

"In this way, the BIR will be able to protect the taxes collected from our hardworking taxpayers against Government Contractors who do not even pay their taxes" Lumagui said.

The BIR said the amount of final settlement on the government contract which was suspended for failure to present an updated BIR tax clearance will be subject to a tax lien in favor of the government to satisfy the contractor's outstanding tax liabilities.

Source: https://www.abs-cbn.com/news/business/2025/1/8/updated-tax-clearance-required-for-gov-t-contractors-1454

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