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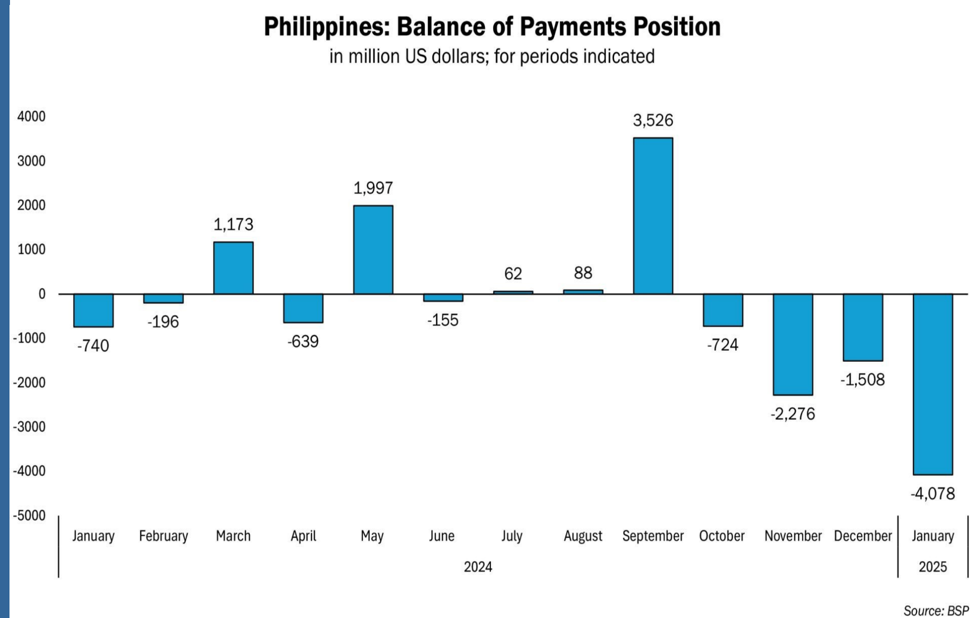
SPECIAL POINTS OF INTEREST

PH Jan payments deficit widens yr-on-yr to $4.1B, biggest in 11 yrs

February 21, 2025 | Jimmy Calapati | Malaya Business Insight



The Philippines' balance of payments (BOP) stood at a deficit of $4.1 billion in January 2025, widening from a $740 million deficit recorded in the same month last year, the Bangko Sentral ng Pilipinas (BSP) said yesterday.

The BOP deficit was the biggest in 11 years, or since January 2014, when the gap was at $4.48 billion.

The central bank, however, is expecting the BOP to return to a surplus of $2.1 billion by yearend.

The January deficit reflected the BSP's net foreign exchange operations and drawdown by the national government on its foreign currency deposits with the BSP to meet external debt obligations, BSP Governor Eli M. Remolona Jr. said in a statement.

The BOP is a measure of the country's economic transactions in a given period with the rest of the world.

Remolona said a decrease in gross international reserves (GIR) also had an impact on the payments position. The GIR dropped to $103.3 billion in January 2025 from $106.3 billion at the end of 2024.

Remolona, however, stressed that the latest GIR level represents a more than adequate external liquidity buffer equivalent to 7.3 months' worth of imports of goods and payments of services.

"Specifically, the latest GIR level ensures availability of foreign exchange to meet the balance of payments financing needs, such as for payment of imports and debt service, in extreme conditions when there are no export earnings or foreign loans," Remolona said.

Moreover, it is also about 3.7 times the country's short-term external debt based on residual maturity, he said.

Earlier, the BSP said the latest forecast points to the payments position's resilience in 2025.

Full-yr surplus

BSP's projections as of Jan. 3, 2025 showed the BOP reaching a full-year surplus of $2.1 billion, or 0.4 percent of GDP, an improvement from an earlier estimate of a $1.7 billion surplus. *[Cont. page 2]*

PH Jan payments deficit widens yr-on-yr to $4.1B, biggest in 11 yrs

[Cont. from page 1]

Remolona said this assessment is underpinned by stable yet moderating global and domestic economic growth prospects; a slowing inflation trajectory across jurisdictions; lingering geopolitical and weather shocks; as well as possible shifts in US trade and investment policies under the Trump administration.

Foreign inflows

Michael Ricafort, RCBC chief economist, said BOP and GIR data could increase in the coming months, "largely due to the $3.3 billion additional foreign commercial borrowings made by the national government in the latter part of January 2025."

"Any improvement in BOP data and GIR data for the coming months could still help provide a greater cushion for the peso exchange rate, especially against any speculative attacks. It will also help strengthen the country's external position," Ricafort said.

The "Philippine economy is still expected to have one of the fastest economic growth rates in the region," Ricafort said.

Ricafort said that reform measures are expected to continue to encourage foreign investment inflows into the country, such as the CREATE MORE, amendments to the Public Service Act, Retail Trade Liberalization Act, amendments to the Foreign Investment Act, and 100 percent foreign ownership on renewable power projects, among others.

Jonathan Ravelas, BDO Unibank's chief market strategist, is not surprised that the BOP recorded a deficit in January, but he took note of the large amount of the gap.

"It is not uncommon to see deficits at the start of the year due to seasonal factors, such as payment of foreign debts and other obligations, but the magnitude of this deficit is unusually large," Ravelas said in a Viber message.

"This higher deficit can be concerning as it indicates a substantial outflow of foreign currency, which can put pressure on the country's foreign exchange reserves and the peso weaken anew."

Ravelas, however, pointed out the importance of considering the context, such as the national government's foreign debt payments and foreign exchange operations amid a volatile peso exchange rate.

"In the long term, the impact of such a deficit will depend on how the government manages its foreign obligations and whether it can sustain growth in structural US dollar inflows from remittances, BPO (business process outsourcing) revenues, and other sources," Ravelas said.

Source: https://malaya.com.ph/business/business-news/ph-jan-payments-deficit-widens-yr-on-yr-to-4-1b-biggest-in-11-yrs/

Pre-CREATE firms to enjoy longer sunset provision

February 21, 2025 | Ian Nicolas P. Cigaral - @inquirerdotnet | Philippine Daily Inquirer

Companies that had been granted tax breaks even before the enactment of the Duterte-era corporate tax law have until 2034 to enjoy such fiscal perks, giving these firms more time to transition to the revamped incentives system.

Such was provided in the implementing rules and regulations (IRR) of Republic Act (RA) 12066 or the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy, popularly known as the CREATE MORE Act.

CREATE MORE amended the Duterte-era RA 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which cut corporate taxes and restructured tax perks deemed excessive.

According to the IRR — which was made public this week — projects or activities that were already entitled to income tax holiday and the 5-percent gross income tax (GIT) even before the enactment of CREATE in 2021 can enjoy such perks until Dec. 31, 2034.

At the same time, registered business enterprises that availed of the GIT prior to CREATE can also enjoy the incentive until the end of 2034.

Before the amendments to the law, these pre-CREATE companies could only keep such a perk until April 2031. *[Cont. page 3]*

Pre-CREATE firms to enjoy longer sunset provision

[Cont. from page 2]

"On the part of the government, we are committed to making CREATE MORE not just a tool to attract more investments—but a magnet to keep them here, grow them here, and give every reason for investors to place their trust in the Philippines. Again and again," Finance Secretary Ralph Recto said.

Apart from the longer sunset provision, the IRR of CREATE MORE also sought to tackle investor concerns regarding the issuance of the value-added tax (VAT) zero-rating certificate, providing guidelines on eligibility and compliance criteria and clarifying the certificate's covered period.

The new law also tasked the Fiscal Incentives Review Board or FIRB to conduct impact evaluations to guide the president in deciding the grant of fiscal and non-fiscal incentives for highly desirable projects.

This is to determine whether the benefits outweigh the costs of incentives.

Additionally, the IRR prohibits double registration of projects, preventing redundant incentives and ensuring responsible fiscal management.

Source: https://business.inquirer.net/507478/pre-create-firms-to-enjoy-longer-sunset-provision

Boon to PHL with FATF grey list exit: More FDI, easier cross-border payments, credit upgrade

February 22, 2025 | Reine Juvierre S. Alberto | BusinessMirror

AFTER being taken off the Financial Action Task Force's (FATF) grey list on money laundering and terrorism funding, the Philippines is now seen looking forward to: increased foreign direct investments, no more "de-risking" in cross-border payments, and a credit upgrade.

The country's exit from the grey list is a "significant step" for the Philippines to receive a credit rating upgrade, Finance Secretary Ralph G. Recto said on Saturday.

"It's a seal of good housekeeping that strengthens public confidence in our financial system," the Finance chief said.

"This will directly benefit our remitting overseas Filipino workers, businesses, and the Filipino people. By upholding the highest standards of financial governance, we will attract more foreign direct investments and expand more trade partnerships that will help accelerate economic growth," Recto added.

On Friday, Paris-based global financial watchdog FATF announced the Philippines's exit from its list of jurisdictions under increased monitoring, or grey list, after nearly four years *(See: https://businessmirror.com.ph/2025/02/22/phl-exits-fatfs-dirty-money-grey-list/)*.

The grey list identifies countries with strategic deficiencies in their regimes for countering money laundering, terrorist financing and proliferation financing, but are actively working with the FATF to address their deficiencies.

"This achievement is a result of strong cooperation within the government as well as the private sector. It also complements our ongoing efforts to make the financial system a stronger driver of sustainable growth," Anti-Money Laundering Council (AMLC) Chairman and Bangko Sentral ng Pilipinas (BSP) Governor Eli M. Remolona Jr. said.

AMLC said in a statement that the removal will facilitate faster and lower-cost cross-border transactions, reduce compliance barriers and enhance financial transparency.

"These will support business, strengthen the country's position as an attractive destination for foreign direct investment, and benefit Filipinos, particularly overseas Filipino workers (OFWs)," it added. *[Cont. page 4]*

Boon to PHL with FATF grey list exit: More FDI, easier cross-border payments, credit upgrade

[Cont. from page 3]

The Philippines's delisting would support market sentiment and could increase investor confidence in the country, according to Michael L. Ricafort, chief economist at Rizal Commercial Banking Corporation.

"[This is] a welcome development and among the positive leads that the markets badly needed recently, in view the Trump premium/factor that weighed on the markets in recent weeks," Ricafort said.

The exit is also a "good signal" on the country's improved governance, especially in view of the country's ban on Philippines offshore gaming operations by the end of 2024 and other remedial measures in recent years, Ricafort added.

FATF Plenary at OECD Headquarters in Paris, February 16-21, 2020 (Photo by Hervé Cortinat / OECD)

Pagcor: sustained gaming reforms

FATF President Elisa de Anda Madrazo said the Philippines is now actively combating the risk of dirty money flowing through casinos in the country, as casino junkets are now closely scrutinized following the closure of offshore gaming operators.

In response, Philippine Amusement and Gaming Corporation (Pagcor) Chairman and Chief Executive Officer Alejandro H. Tengco said the state gaming firm will continuously strengthen regulations and strictly monitor the local gaming industry.

Much of Pagcor's anti-money laundering efforts are handled by the Pagcor Anti-Money Laundering Supervision and Enforcement Department (Pased) and the Anti-Money Laundering Compliance Department (ACD).

"We also commit to sustain the fight against money laundering and terrorist financing in the entire Philippine gaming industry, including our online gaming operators, land-based casinos and junket operators," Tengco said, adding that all its licensees are compliant with all anti-money laundering rules and regulations.

'No more de-risking'

For University of Santo Tomas Research Center for Social Science and Education (RCSSED) Director Jeremiah M. Opiniano, the delisting would stop foreign financial institutions from restricting or cutting off cross-border payment services for Filipinos and remittances sent to the Philippines.

Previously, Opiniano said there have been fears that financial institutions do what is called "de-risking," where financial institutions limit their operations to certain customers and business activities to minimize their risk exposure to money laundering and other crimes.

"Hopefully, these banks will [no longer ask too many] documentary information from Filipino remitters just to prove the identity of the sender. Hopefully too, charges for sending money to the Philippines become cheaper," Opiniano told BusinessMirror.

Opiniano, also the Executive Director of the Institute for Migration and Development Issues (IMDI), noted that even with years of being on the grey list, the Philippines has been receiving record-high remittances annually.

Cash remittances coursed through banks climbed to $34.49 billion in 2024. This is 3 percent higher than the $33.49 billion recorded in 2023, based on data from the central bank.

Despite the grey list exit, Madrazo said reforms must be sustained to prevent future vulnerabilities.

The Philippines must continue to refine its counterterrorism financing (CFT) measures, ensuring effective identification and prosecution of terrorism financing (TF) cases, while preventing unnecessary disruption to legitimate non-profit organization (NPO) activities, according to the FATF. ###

Recto: credit rating upgrade next

Finance Secretary Recto asserted the Philippines's successful exit from the FATF grey list is a significant step for securing a credit rating upgrade under the Marcos, Jr. administration.

The Philippines, he said, has also been cited as a model and regional leader in addressing financial integrity issues in the international financial system.

"This is a landmark achievement of the Marcos, Jr. administration. It's a seal of good housekeeping that strengthens public confidence in our financial system. I thank all of those in the government who worked tirelessly to achieve this goal," Recto said.

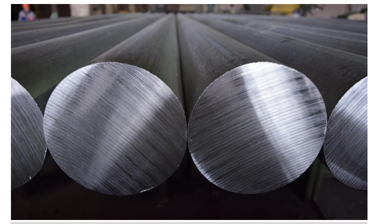
President Ferdinand R. Marcos, Jr. made the country's FATF exit a top priority, issuing Executive Order No. 33 in 2023 to fast-track compliance with global financial standards.

Image credits: Hervé Cortinat / OECD

Source: https://businessmirror.com.ph/2025/02/22/boon-to-phl-with-fatf-grey-list-exit-more-fdi-easier-cross-border-payments-credit-upgrade/

South Korea seeks exemption from Trump tariffs

February 21, 2025 | BusinessWorld



STOCK PHOTO | *Image by Russian Aluminium Association from Pixabay*

SEOUL – South Korean officials have requested an exemption from U.S. reciprocal, steel and aluminum tariffs during their visit this week to Washington, the industry ministry said in a statement on Friday.

Deputy Minister Park Jong-won, who led the first major South Korean government delegation to visit Washington since U.S. President Donald Trump announced sweeping tariffs, argued that almost all tariffs between the two countries have already been eliminated under their free trade agreement.

As a major global exporter and top trading partner with the United States, South Korea has viewed Trump's measures with increasing concern.

Mr. Park highlighted investments in the United States by South Korean companies and proposed holding high-level meetings with the Trump administration to discuss further cooperation, the ministry said.

He also met with members of Congress and pressed them to maintain incentives for South Korean companies to operate in the United States.

"In the future, the government will continue to consult at a high level on U.S. trade and trade measures, and will respond to minimize damage to Korean companies through close communication with the industry," the ministry's statement said.

South Korea's Acting President Choi Sang-mok said last week the country had invested more than any other in the United States in the past two years and that should allow it to negotiate with the Trump administration on tariffs.

On Friday, Mr. Choi ordered authorities to reach out to the U.S. more actively to seek cooperation and monitor response measures being taken by others, such as the European Union, Japan and China.

Japan has asked Washington to exclude it from steel and aluminum tariffs, while China has responded to U.S. measures with retaliatory tariffs. The EU said this week it was ready to discuss trade deals and lower tariffs.

"Given their substantial role in supporting US economic objectives, we think Korea and Japan are in a strong position to seek tariff exemptions," Standard Chartered economists said in note, citing more than 20,000 U.S. jobs South Korea contributed in 2023, more than any other country.

Seoul's responses to the Trump administration's moves have been complicated by a political crisis sparked when President Yoon Suk Yeol briefly imposed martial law in December.

South Korea's industry minister on Friday met with the acting U.S. ambassador in Seoul and said policies affecting trade and investment between the two countries should remain consistent and stable.

A delegation representing 20 South Korean companies also travelled to the U.S. this week to meet policymakers.

Mr. Choi, who took over after both Mr. Yoon and the prime minister were impeached, has yet to speak directly with Mr. Trump. – **Reuters**

Source: https://www.bworldonline.com/world/2025/02/21/654798/south-korea-seeks-exemption-from-trump-tariffs/

Rules on VAT exemption, zero rating for exporters out next month

February 24, 2025 | Alden M. Monzon - @inquirerdotnet | Philippine Daily Inquirer

INQUIRER.NET

The Export Marketing Bureau (EMB) of the Department of Trade and Industry plans to release a new set of procedures for local exporters seeking value-added tax (VAT) exemption and zero rating by next month.

"We are targeting to finalize the issuances and implement the certification process by the second half of March," EMB Director Bianca Sykimte said in a message sent to the Inquirer.

On Wednesday, the EMB conducted a public consultation following the signing of the implementing rules and regulations for the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act. *[Cont. page 6]*

Rules on VAT exemption, zero rating for exporters out next month
[Cont. from page 5]

Under the planned rules of the EMB, export-oriented enterprises will be required to be VAT-registered with the Bureau of Internal Revenue (BIR).

The export sales of these enterprises must reach 70 percent of total sales in the preceding taxable year. Further, goods or services should be directly attributable to the export activity.

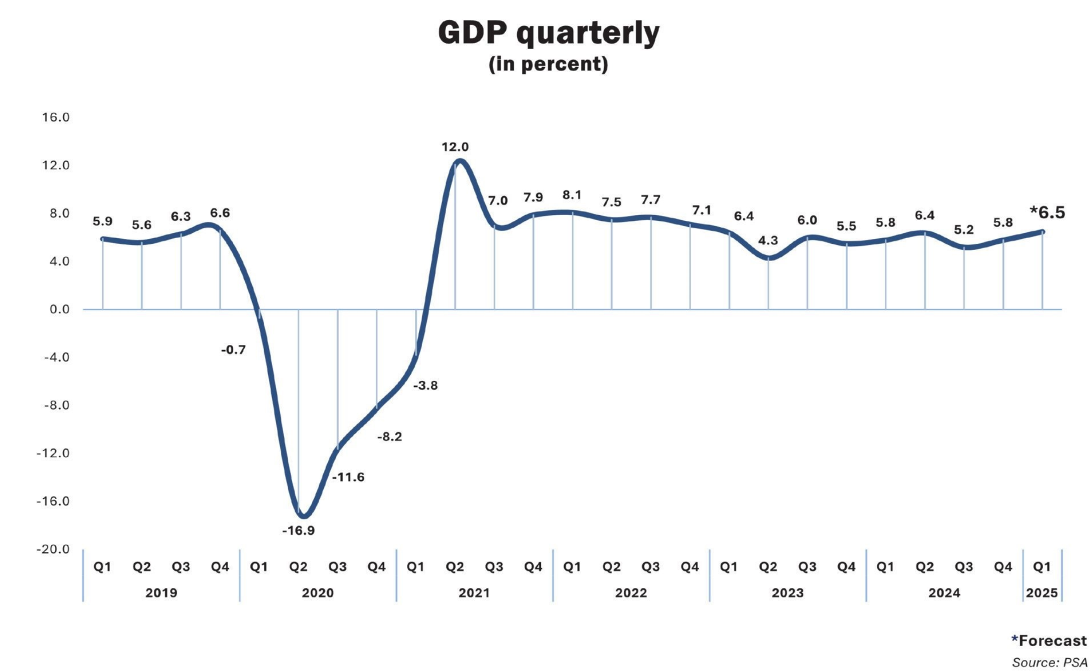
"Digital services consumed by export-oriented enterprises are VAT zero-rated as well," said Sykimte.

For each sale to the buyer of the export-oriented enterprise, suppliers will also be required to issue a duly-registered VAT invoice with the words "VAT zero-rated" stamped in compliance with invoicing requirements.

Export-oriented enterprises must also avail of VAT-zero rating on local purchases of goods and services as well as VAT-exempt importation on the basis of the certificate of accreditation issued by the EMB. This, however, is subject to the conduct of a post-audit investigation by BIR that the goods or services and importation are directly attributable to the activity of the export-oriented enterprise.

Source: https://business.inquirer.net/507979/rules-on-vat-exemption-zero-rating-for-exporters-out-next-month

GDP expected to grow 6.5% in Q1—analysts
February 24, 2025 | Angela Celis | Malaya Business Insight



The Philippine economy is expected to expand by 6.5 percent in the first quarter of 2025, the University of Asia and the Pacific (UA&P) said in a report.

UA&P's February issue of the Market Call Capital Markets Research released on Sunday said the low base in 2024, heavy election spending and milder inflation should propel growth in the first quarter of 2025.

The GDP forecast cited in the report is faster than the 5.8 percent rate of increase in the same period in 2024.

The report said the projected first-quarter expansion should support full-year growth of 6.3 percent, well within the government's 2025 growth assumption of 6 percent to 8 percent.

Last year, the Philippine economy grew 5.6 percent.

"The services sector will lead the climb, but the industry's construction sub-sector should take the pole position at the sub-sectoral level," the Market Call, prepared by UA&P senior economist Victor Abola and research assistant Marco Antonio Agonia, said.

"We expect total employment to hit a record high of 50.7 million in Q1 but should hold above 49.3 million for the rest of year," it added.

The report said the faster gross domestic product (GDP) upswing should bring the debt-to-GDP ratio to 60 percent. *[Cont. page 7]*

GDP expected to grow 6.5% in Q1—analysts

[Cont. from page 6]

"While the peso had stabilized in the first two months of 2025, it will have a depreciation bias for the rest of the year, as the US dollar retains robustness and PH trade deficits bloat further in line with stronger GDP growth," it said.

In the absence of major positive economic and political news, the Philippine Stock Exchange index is likely to trade between 6,000 and 6,500 points for the rest of the quarter.

"With expected good corporate earnings for that quarter, a good GDP print for Q1 2025 to be reported in May and election results may provide the added stimulus to push the market out of the sinkhole in Q2," the report said.

Source; https://malaya.com.ph/business/business-news/gdp-expected-to-grow-6-5-in-q1-analysts/

UPCOMING EVENT

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