

# Nomura raises Philippines' growth estimate for 2022

NOMURA Holdings, Inc. said it raised its 2022 economic growth forecast for the Philippines to 6.8% from 6.5% previously, but warned about the continuing risk posed by the pandemic and political instability associated with the impending change of government.

The projections were contained in a report, "Philippines: Election season in full swing" prepared by Nomura Chief ASEAN (Association of Southeast Asian Nations) Economist Euben Paracuelles and analyst Rangga Cipta.

"We raised slightly our GDP growth forecast in 2022, mainly reflecting stronger-than expected growth over the last two quarters," according to the report.

"However, this is still below the government's range of 7-9%, reflecting our view that still low vaccination rates and the risk of a re-acceleration in new COVID-19

cases could hinder further reopening which, alongside limited fiscal support, could weigh on growth," it added.

Nomura likewise raised its growth projection for 2023 to 5.8% from 5.2% previously, also below the 7-9% growth target set by economic managers.

While the Omicron wave appears to have subsided, election season-related activities run the risk of increasing the case count again, which could in turn hinder further reopening, Nomura said.

Active cases rose by 3,792 on Saturday to 84,229, according to the Department of Health.

Further delays in vaccination will also pose a downside risk to growth this year, Nomura said.

The government hopes to fully vaccinate 77 million citizens by the end of March. The Health department estimates that more than 60 million are fully dosed as of Feb. 9.

The report also cited the possible implications of the Mandanas ruling on fiscal policy and government spending.

"This not only runs the risk of severe underspending, as local governments have weak absorptive capacity, but also leaves less resources for the central government to address the pandemic, in line with our view of some fiscal paralysis this year," it said.

The Supreme Court ruled in favor of Batangas Governor Hermandino I. Mandanas, who successfully challenged the government's restrictive definition of the portion of National Government revenue that local government units (LGUs) are entitled to. This year will be the first year that the more expansive definition of the LGU share of national revenue, known as Internal Revenue Allotments (IRAs), will be in force.

In response, the National Government has devolved many basic services to the LGUs commensurate to the LGUs' increased IRA income.

Nomura also warned of the probability of a ratings downgrade for the Philippines this year.

"The likelihood of a credit rating downgrade by Fitch Ratings will also likely rise this year, owing to an uncertain medium-term fiscal consolidation path," it said.

The Philippines' debt levels and fiscal space will be tracked closely as the pandemic drags on, Sagarika Chandra, director, Fitch Asia-Pacific Sovereign Ratings, said at a speaking engagement last month.

In July, Fitch downgraded the Philippines' "BBB" sovereign rating's outlook to "negative" from "stable," signaling a possible downgrade in the next 12-18 months. — **Luz Wendy T. Noble**

## DoE's Cusi urges NGCP to meet reserve contract requirement instead of seeking Palace intervention

By Marielle C. Lucenio

ENERGY Secretary Alfonso G. Cusi called on the power grid operator to meet the standards for power reserve contracts, which serve as a buffer in the event power plants fail unexpectedly, instead of asking the Palace to resolve its standoff on reserve levels with the Department of Energy (DoE).

"I don't think (it's necessary) all the National Grid Corp. of the Philippines (NGCP) has to do is comply with its obligation to provide firm reserves in accordance to the concession agreement," Mr. Cusi told *BusinessWorld* in a text message.

The NGCP wrote to the Office of the President (OP) seeking its intervention, citing the need to ensure continuous power during the election period in May.

The DoE requires the grid to have reserve power, known as ancillary services (AS) on tap committed under firm contracts. The NGCP's position is that full compliance with the firm-contract requirement will ultimately raise power prices because of the expense involved in committing reserves. It said it instead proposes to tap a network of AS providers under firm and non-firm contracts.

## Bohol returns to power spot market after restoration of grid

BOHOL is back to the spot market trading after the Energy Regulatory Commission (ERC) lifted its trade suspension over the province after the grid operator has powered the 138-kilovolt (KV) Maasin-Ubay Line, which connects north-eastern Bohol to Leyte Island.

"The recent resynchronization is a welcome development. In view of this, we are now lifting the market suspension in Bohol to ensure sustainable power supply and help in the province's economic recovery after the devastation caused by Typhoon Odette," the ERC said in a statement late Friday.

The 138-KV line connects the island to the grid and serves as an internal backbone, the National Grid Corp. of the Philippines (NGCP) said in a Viber message last month.

The province returned to the spot market operations on Feb. 10, a day after the grid operators reintegrated the island into the Visayas Grid.

Under ERC Resolution No. 12, Series of 2018, the regulator must determine when the spot market is ready to resume operations 24 consecutive hours after the grid operators resynchronize the portion of the grid that had been isolated.

On Jan. 17, the regulator directed the resumption of spot market trading on Visayas grid, except for Bohol, after the commission suspended the Wholesale Electricity Spot Market (WESM) on Dec. 16 due to oversupply conditions among power generators after Typhoon Odette (international name: Rai).

The grid operator said it restored all lines in Bohol on Jan. 18, 13 days ahead of the initial target, after the reconnection of the Ubay-Trinidad-Carmen 69KV line serving the franchise areas of Bohol 1 Electric Cooperative (BOHECO 1) and Bohol 2 Electric Cooperative (BOHECO II). — **Marielle C. Lucenio**

Non-firm contracts are verbal agreements to supply AS if needed.

In a news conference on Jan. 25, Electric Power Industry Management Bureau Director Mario C. Marasigan said the NGCP must

have all of its power reserves committed under firm contracts to insulate it from power market disruption.

The NGCP's letter to the OP specifically sought Palace intervention on demand-side

management — referring to measures that will regulate consumer usage. Among its proposals were holiday declarations to ensure power is available during critical election and vote counting days.

"Non-working holidays can help to ensure there will be more power supply in the grid on the day and a day after the elections especially with the closure of commercial (establishments) and government offices," NGCP Assistant Vice-President and spokeswoman Cynthia D. Perez-Alabanza told *BusinessWorld* via Viber Sunday.

The Jan. 31 letter, which the OP received on Feb. 3, noted that 2021 actual demand exceeded 2019 pre-pandemic demand by 296 megawatts (MW) with the 2022 projected demand peak expected to exceed 2019 levels by 1,043 MW or 9%.

This is the first time the NGCP has written to the OP regarding power supply matters. It is also the second time it has sought Palace intervention in connection with the elections.

The NGCP's own data indicate a firm contract level equivalent to 809.3 MW. It estimates that it requires 1,776.7 MW more to meet the full coverage level on firm contracts. Non-firm contracts are equivalent to 2,807.2 MW.

## Clearer POGO tax regime seen producing steady revenue growth

THE GOVERNMENT expects to collect steadily higher revenue from Philippine Offshore Gaming Operators (POGOs) after more clearly defining their tax obligations, the Bureau of Internal Revenue (BIR) said.

Since the new taxes were enacted late last year, the BIR said the government has collected P1.22 billion from the industry.

"As we already have rules and regulations in place for the POGO industry, we expect POGO operations to continue and we foresee an increase in revenue arising from said activities," the BIR said in a document sent to reporters on Friday.

An Act Taxing Philippine Offshore Gaming Operations, or Republic Act No. 11590, took effect on Oct. 9, 2021. Since the implementation date up to Dec. 31, the BIR collected P1.22 billion from licensees, service providers, and employees.

The law subjects offshore gaming licensees to 5% tax on gross gaming revenue. Foreign individuals employed by a POGO or its service provider must also pay 25% withholding tax on gross income.

The nongaming revenue of Philippine-based POGOs is subject to 25% regular income tax.

Of the P1.22 billion, the government collected P409.9 mil-

lion in tax on gaming revenues, which includes gaming tax and franchise tax.

Including taxes not covered by the law, withholding taxes accounted for P709.4 million, while income taxes represented P89.7 million.

Value-added and percentage tax came in at P5.3 million, while documentary stamp tax generated P3.3 million. Other taxes amounted to P4.9 million.

"We started collecting from Philippine Offshore Gaming Operations (POGOs) entities and their employees (starting) 2018. This was not without any legal and administrative difficulties," BIR said.

The passage of the law, it added, created a "clear regulatory and taxation framework for POGO entities and their employees."

Tax collections from POGOs stood at P2.38 billion in 2018, P6.4 billion in 2019 and P7.18 billion in 2020, according to the Department of Finance (DoF).

With the new taxes, the DoF expects collections from POGOs to hit P76.2 billion by 2023.

POGOs have been leaving the Philippines during the pandemic, with a knock-on effect on demand for office space.

— **Jenina P. Ibañez**

## Country's food exporters exhibit at Dubai trade fair

THIRTY-NINE food exporters are exhibiting their goods at Dubai's Gulf Food Hotel and Equipment Exhibition Salon Culinaire 2022, known as Gulfood, which runs between Feb. 13 and 17.

The Department of Trade and Industry (DTI), through its Center for International Trade Expositions and Missions (CITEM) said the Philippine delegation to Gulfood is the largest ever.

The exhibitors hope to "strengthen (their) presence within the Middle East and African region with Philippine halal-certified products, high-value coconut products, and other distinct and quality food products," the DTI said in a statement.

According to Trade Secretary Abdulgani M. Macatoman, participation in Gulfood promises to expand the reach of Philippine halal products.

Other goods on offer are plant-based foods, processed marine,

fruit and vegetable products, frozen native delicacies, noodles, coffee, cacao nibs, spices, and condiments.

Philippine participation is both onsite and virtual, via terminals displaying the IFEXConnect and FOODPhilippines websites.

"We are bringing a holistic-sourcing experience through a mix of digital and physical showcases in the pavilion that will act as the onsite storefront of IFEXConnect. It will showcase the exhibitors' products in a curated retail store-like setting and these products can be viewed online through the QR codes that we set in place," CITEM Executive Director Paulina Suaco-Juan said. — **Revin Mikhael D. Ochave**

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### OPINION

## The CEO as the overall risk executive

WE all understand the critical role played by the Chief Executive Officer (CEO) in protecting and enhancing the company's value, but we should consider that the CEO is also responsible for managing significant uncertainties that may become obstacles to the achievement of the company's objectives or desired outcomes. These uncertainties are referred to as business risks. This makes the CEO the Overall Risk Executive (ORE), being technically the owner of all the critical risks of the company.

With this enhanced risk management responsibility given to the CEO, it is imperative that he or she is very much familiar with the framework, principles and process of risk management, particularly enterprise risk management (ERM), which has been recommended by the Philippine Securities and Exchange Commission (SEC) in its various codes of corporate governance. ERM has also been mentioned in the guidelines for well-governed companies released by the Philippine Stock Exchange (PSE).

### THE RISK MANAGEMENT EXECUTIVE TEAM

The CEO as the ORE should be assisted by his executive team, usually composed of executives who are co-risk owners in the organization. This is usually referred to as their Risk Management Executive Team (RMET). In most companies, this could be the management committee or executive committee. Oftentimes, the RMET is composed of the following:

- Chief Financial Officer — for financial risk;
- Chief Operating Officer — for operational risk;
- Chief Information Officer — for information risk;
- Chief Legal Officer — for legal risk;
- Compliance Officers — for regulatory risk;
- Chief Innovation Officer — for new and emerging risk related to markets and competition; and
- Other key executives who are critical in identifying and managing uncertainty

Another role which is critical is that of the Chief Risk Officer (CRO) or its equivalent. The CRO is usually part of the RMET unless the board requires the CRO to functionally report to the Board Risk Oversight Committee (BROC) directly and to the CEO for administrative support (similar to that of the internal auditors). Another factor to consider is the sector to which the company belongs as there can be some regulations in the area of reporting protocols.

There is a common misconception that the CRO, which should ideally be a full-time role, is the owner of all the risks in the organization. The reality is that the CRO (again in a full-time capacity) does not own any risk except for the failure of the risk management process, making the CRO the owner of this process. It is important to note that the function/process owners (i.e., CFO, CIO, CLO, among others)

are actually the respective owners of the risks within their purview.

The CRO's primary role is to make sure that all the members of the RMET, who are co-owners of the risks, are working together as a highly integrated, collaborative, cross-functional team. Let us liken the CRO to a conductor of an orchestra, whose job it is to ensure that all the different instruments and performers come together into a harmonious whole. As most of the risks are interrelated and have interdependencies, business risks should not be managed in silos to better maximize the resources needed to manage them.

This also ensures that no critical risks fall between the cracks.

The CRO (or its equivalent) is the face of the CEO in the risk management activities of the company. But the tone from the top is the responsibility of the CEO supported by the leadership team.

### THE CEO AT THE FOREFRONT OF IDENTIFYING AND MANAGING BUSINESS RISKS

In most of the board sessions that I have attended, the CRO reports to the BROC on behalf of the CEO. However, for questions on decisions made about how risks are prioritized and managed, the CEO provides his insights to the BROC and also solicits from the latter additional insights to further strengthen their risk management strategies. This emphasizes that the CEO is given the responsibility

to ensure that critical risks that will significantly impact the company are identified and managed at acceptable levels.

A layman's definition of business risk is "anything that keeps management awake at night." That is why the CEO is also referred to as the chief paranoia officer in some circles. Of course, that is just to emphasize the critical role they play in risk management.

I would like to share an anecdote about a presentation I made to the board of one listed company. I showed a slide presenting the layman's definition of business risk. The CEO immediately made a comment that he can sleep well at night. His colleagues in the board room said jokingly that this made the CEO their biggest risk, since he did not know they had risks to manage. At an event after that session, the CEO approached me and said, "You know, Leo, after your session with us, I can no longer sleep well at night."

We had a good laugh but that said it all.

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