Q2 consumer confidence drops due to inflation

CONSUMER sentiment deteriorated in the second quarter due to concerns about inflation, low incomes, and persistent high unemployment, the Bangko Sentral ng Pilipinas (BSP) said, though it noted that the outlook is more positive over the next 12 months.

The BSP confidence index for the second quarter of the year fell to 6.4% in the first three months of the year from 9.3% in the final quarter of 2021, according to the results of its Consumer Expectations Survey issued on Friday.

"Respondents' less upbeat sentiment for Q2 2022 stemmed from their concerns about: (a) the faster increase in the prices of goods, (b) low to no increase in income and (c) high unemployment rate," the BSP said in a statement.

Inflation is likely to breach 5% in May led by food and oil prices amid disruptions in global supply chains.

A *BusinessWorld* poll of 16 analysts yielded a median estimate of 5.4% for May inflation, the highest in more than three years, matching the midpoint of the 5% to 5.8% forecast by the BSP.

Some 40.4% of households surveyed said they expect increased spending on goods and services for the second quarter, from 29.6% at the end of 2021.

Households reporting a positive outlook for the next 12 months rose to 30.4% from 23.6% at the end of 2021.

"Respondents attributed their brighter year-ahead outlook to expectations of: (a) more available jobs, (b) additional and high income, (c) good governance and (d) salary increase," the BSP said.

The survey indicated that households that consider the next 12 months a favorable time to buy big-ticket items increased to 5.7% from 5.1% at the end of 2021.

Respondents planning to buy property within the next 12 months increased to 6.3% from 4.2% previously. This was driven by the higher number of households that plan to acquire single-detached houses (at 52.1% from 39.4%), and apartment units (at 2.6% from 0.8%).

"When asked about the price range of real properties they intend to purchase in the next 12 months, majority, or 57.5% of the households indicated a range of P450,000 and below," the report said.

Consumers expect interest rates to increase in the current quarter, the next quarter, and the next 12 months, the survey found.

Some 6.9% and 7.4% of households expressed their intention to apply for a loan in the second quarter and in the next 12 months, respectively.

Most respondents plan to seek unsecured loans.

The central bank's latest Consumer Expectations Survey was conducted from March 21 to 31.

The BSP surveyed 5,282 households, with 2,720 (51.5%) from the NCR and 2,562 (48.5%) from the rest of the country. — **Keisha B. Ta-asan**

Expanded public consultation sought on managing gov't debt

By Kyle Aristophere T. Atienza
Reporter

CIVIL SOCIETY organizations (CSOs) need to be given a place at the table in determining how to deal with the national debt, after they were largely left out of discussions on the record levels of debt the current government has taken on, a think tank said.

The government has tended to exclude the broader public from discussions on public finances, leaving them uninformed of the costs of foreign-funded projects, according to Sonny A. Africa, executive director of think tank Ibon Foundation.

"Governments have for too long portrayed economic policymaking as the domain of experts and of finance in particular as its most rarefied realm," he said in a Messenger chat. "This results in the broader public being excluded from vital decisions that bear on them, their livelihoods and their economic welfare."

Failure to engage the public on the national debt and inform them of the consequences effectively excludes them from governance, Mr. Africa said.

"CSOs have long proven their ability to serve as organized channels of the broad public interest independent of vested political and economic interests," he said. "Even just the presence of civil society in key decision-making bodies can go far in bringing the people's perspective into the process and improving transparency."

President Rodrigo R. Duterte will leave behind a record P12.76 trillion in debt when he steps down on June 30. Outstanding debt rose by 16.2% from a year earlier according to preliminary data from the Bureau of the Treasury.

"The public should be involved in decisions on national debt for the simple reason that it's the public that pays for the national debt through their taxes and whatever the government earns using public assets and resources," Mr. Africa said.

Sri Lanka has been rocked by weeks of protests after its government defaulted on a multi-million foreign debt payment, pushing its economy to the brink of collapse.

The Sri Lankan economic crisis was attributed to the government's handling of the national debt, allegedly accompanied by corruption.

Sri Lanka's economic crisis is a consequence of its government's failure to ensure transparency and people's participation in the management of national debt and public finances, said Rene E. Ofreneo, president of the Freedom from Debt Coalition.

In an e-mail, he called for "debt transparency — transparency in government plans to borrow and service debt, transparency on the rationale for borrowings and purposes, transparency in the selection of creditor institutions, transparency on the conditionalities and cost/terms of borrowings."

Mr. Ofreneo noted that when the government went to the Asian Development Bank (ADB) in 2020 for a $1.5-billion budgetary support loan, both the bank and the Department of Finance (DoF) claimed that the debt scenario for the Philippines was "sustainable" and is not expected to exceed the debt-to-GDP threshold of 60%.

"But this was breached in 2021 and we are now headed towards mid-60%, with serious economic implications," he said.

"It is our collective hope that President-elect Ferdinand R. Marcos, Jr. and DoF Secretary-designate Benjamin E. Diokno will be open to frank and sustained dialogue on debt and economic issues affecting the people within the framework of government and civil society organizations finding best solutions to our economic maladies."

Mr. Ofreneo said the 1987 Constitution requires that information on foreign loans obtained or guaranteed by the government must be made available to the public.

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link
<bit.ly/Debt060622>

Electronics industry to pursue dialogue with incoming gov't on pathways to growth

THE Semiconductor and Electronics Industries in the Philippines Foundation, Inc. (SEIPI) said it is seeking a dialogue with the incoming administration to discuss how to attract more investment in the electronics industry, the country's leading generator of exports.

SEIPI President Danilo C. Lachica said that the electronics industry wants to "get a dialogue scheduled with (President-elect Ferdinand R. Marcos, Jr.), the Cabinet, the Senate, and the House of Representatives. This dialogue will essentially clarify our concerns and hopefully prevent more capital flight and attract investment," Mr. Lachica said in a recent television interview.

"We'd like to discuss how we can harmonize policies, how we can possibly review Republic Act No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, specifically the incentives rationalization, eliminating corruption, and promote ease of doing business, and upgrading education to improve the skills of university graduates," he added. — **Revin Mikhael D. Ochave**

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link
<bit.ly/Electronics060622>

OPINION

Fintech: Powering digital transformation in financial services

SUITS THE C-SUITE
ALLENIEREY ALLAN V. EXCLAMADOR

(Second of three parts)

Over the past five years, the Philippines has gained traction in financial technology (fintech), growing from strength to strength and quickly earning the attention of the global fintech community. The Global Fintech Index 2020, the fintech ecosystems ranking created by Findexable, grouped the Philippines along with a few others as countries to watch because it is one of the fastest growing fintech destinations.

In the first part of this article, we discussed the key themes expected to dominate headlines in the fintech market in Asia and the Philippines. In the second part of this series, we look at the taxation issues in a market that is experiencing phenomenal growth.

The dramatic change in the financial services industry landscape reflects the Philippines' astounding growth as a fintech destination. In 2017, the Philippines had only 115 fintechs, which is tiny when compared with Singapore, which had the highest concentration (490) out of the 1,268 fintechs in ASEAN, and Indonesia (262). However, the Philippine total nearly doubled to 212 by the end of 2020. Growth in the Philippine fintech industry has since slowed, but a study by the Philippine Institute for Development Studies notes that investment surged 762.5% from 2016 to 2018.

In its rankings, Findexable also found that the Philippines excelled in fintech categories like payments, enabling processes and technology, and banking and lending. Stunning growth in numbers posted by the largest mobile e-wallet service supports this observation as it breached its initial full-year target of P3 trillion in gross transaction value for 2021, or three times the record set in 2020.

Much of the growth of in the fintech market stems in part from a supportive regulatory environment. Financial regulators in the Philippines have been equally aggressive as their peers in the region in pushing for fintech innovation even as they strive not to lose sight of their responsibility to foster financial stability. The Philippines is among a few economies in Southeast Asia where regulators have issued licenses for digital banking, an area that is anticipated to post significant development that will alter the financial landscape in the next few years.

There can only be progress by leaps and bounds for the fintech industry in the years to come as the market nears a point where very few in the workforce will have known of life before the internet. Banks have had a good look into the digital space due to the limitations that the pandemic imposed, and this can only lead to more confident steps in incorporating fintech products with their offerings.

TEAMING UP ON REGULATION AND TAX

In anticipation of a further surge in fintech activity, regulators have begun to set standards for the industry. All eyes have been on the tax agency for an issuance that will provide guidance in connection with the tax regime for the industry.

At the end of 2021, the Bureau of Internal Revenue (BIR) and the Securities and Exchange Commission (SEC) said they were working together to ensure that fintech companies are properly regulated and taxed even as the government encourages their growth and continued innovation. The Department of Finance instructed the two agencies to closely monitor fintech firms and find out what new digital business models they have been adopting to determine how they should be regulated and taxed.

Given the dramatic changes that fintech has brought into the financial services landscape, market participants have been on the lookout for clear guidelines or revenue regulations that explicitly apply to them. In the absence of such rules, fintech companies may have been advised to assess and analyze their transactions and apply the basic taxation principles and procedures to comply with tax obligations.

The tax agency said it will continue to impose the current Tax Code rules on compliance and taxation based on actual activities of fintech companies, which are similar to those of ordinary corporations or financial institutions. In the same vein, a previous article by this column titled "Taxation of fintech companies in the Philippines" noted that fintech companies are subject to regular income tax based on net taxable income at the rate of 25% effective July 1, 2020. The tax rate will be lowered to 20% for fintech companies with net taxable income not exceeding P5 million and with total assets not exceeding P100 million, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed. But given the infancy of the industry, in lieu of this regular tax rate, a minimum corporate income tax (MCIT) of 2% may be imposed on a new fintech company beginning on the fourth taxable year immediately following the year in which it began business operations. This MCIT rate shall be 1% from July 1, 2020 until June 30, 2023. Withholding taxes on such income may also apply.

The ongoing joint initiative of the BIR and SEC aims to broaden the tax base of fintech-related enterprises by ensuring the two agencies have enough regulatory and collection capability to deal with these digital companies. The Finance department said the BIR will continue to gather information from other regulatory agencies on identifying, addressing and closing the gaps resulting from the development and proliferation of fintech entities not clearly or explicitly covered by existing regulations. In 2021, BIR planned to have a team that will evaluate the tax obligations of fintechs based on categories identified by the SEC and those regulated by the Bangko Sentral ng Pilipinas (BSP).

VAT ON DIGITAL TRANSACTIONS

Lawmakers are also considering a house bill that, once enacted, would subject the value created in the digital economy to withholding/income tax and value-added tax (VAT). House Bill 7425 (previously HB 6765) would impose a 12% VAT on the digital sale of services such as online advertising, subscription services, and the supply of other electronic and online services that can be delivered through the internet such as mobile applications, online marketplaces, online licensing of software, and webcasts, among others.

A key provision of the bill also seeks to add a new section in the National Internal Revenue Code of 1997 that would require foreign digital service providers to collect and remit VAT for all transactions made through their platforms.

In addressing concerns, the measure could unduly burden small enterprises and freelance workers who are dependent on digital channels to make a living, the BSP recently proposed VAT exemptions for low-value digital transactions and for service fees charged by payment service providers.

DIGITAL SERVICE TAX

In light of the infancy of the fintech services industry, it has become imperative for Philippine regulators to also find out what their peers in other countries have done for income tax purposes. The Finance department is monitoring developments in countries where digital services taxes have been imposed on online platforms.

In mid-2020, the department focused its efforts on collecting VAT on both local and cross-border digital transactions, similar to initiatives by neighbors in ASEAN. It said, however, that it was looking to review and propose tax reforms to levy income tax on cross-border digital transactions after international consensus has been reached on the taxation of the digital economy. Once passed into law, this digital service tax will come on top of the 12% VAT on online transactions.

As we look forward to guidance from the government on the taxation and regulation of fintech companies, the fintech market continues to become more complex, as adoption deepens and its benefits broaden to further impact the lives of consumers.

It is imperative for fintech providers, particularly those that handle transactions, to keep abreast of tax regulations and staying compliant, as doing otherwise and relegating tax considerations as an afterthought can be detrimental to their customers, partners and even their own bottom line.

Government regulators want regulation that does not to impede growth in this young market that has the potential to power the digital transformation of financial services. However, they are also wary of appearing to provide support that can be interpreted as giving fintechs an unfair competitive advantage. Active engagement with the government on the part of market participants will be key as the policy regime for the fintech market takes shape.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.

ALLENIEREY ALLAN V. EXCLAMADOR is a tax partner of SGV & Co.

SNAP hosts webinar on trends and innovations in the power sector

Renewable energy solutions provider SN Aboitiz Power Group held a virtual seminar on trends, updates, and innovations in the Philippine power sector on May 5, featuring Isidro Camacho, Head of Corporate Strategy and Communications of the Independent Electricity Market Operator of the Philippines (IEMOP) and Jason Soberano, Vice President and Chief Business Development Officer of SNAP Group.

In his talk, Cacho gave an overview of the Philippine power sector, market drivers, and the current situation. "In the short to medium term, we hope to open up WESM Mindanao; that would pave the way for Mindanao to have retail competition. We are also looking at the reserves market, the green energy auction program, and lowering the RCOA threshold." In addition to these, the IEMOP is also looking at the capacity market and how to assure a more secure and reliable supply for the country. These developments would make renewable energy more inclusive and accessible, and "help increase the adoption of RE in the country," he added.

Soberano, SNAP's head of business development, noted that as more members of the public and private sectors have announced their intent to reduce emissions or declared net-zero targets, there is more demand from customers for purely renewable energy solutions.

A global energy transition is underway, he said. 72% of new power plant orders being developed in the next ten years are renewables and storage – 60% of which is solar and wind, 6% hydro, 4% storage, 20% gas turbines, with coal and nuclear making up only around 10% of orders.

Energy transition globally – 72% of the new power plant orders/project being developed now in the next 10 years are renewables and storage. 60% of which is solar and wind, 6% hydro, 4% storage, 20% gas turbines, coal and nuclear only around 10% of orders. Soberano identified two key challenges in the country's energy transition: interconnection over long distances, and grid stability. "Transmission lines are an issue for power plants in remote areas, and we need to provide storage and more ancillary services," he said, adding that the RE transition would include a move from centralized to distributed power, or putting power plants where there are resources.

The event, organized by SNAP and supported by the Independent Electricity Market Operator of the Philippines, Nordic Chamber of Commerce in the Philippines, and the European Chamber of Commerce, is part of the company's quarterly webinar series "SNAP Conversations."