Debt service bill seen rising when PHL refinances short-term loans

THE Philippines and India are "most at risk" of having to refinance debt in an environment of rising interest rates because of the short-term debt they are carrying in their financing mix, ANZ Research said in a report on Wednesday.

"The maturity profile of government debt is an important consideration. The greater the proportion of short-dated debt, the faster it takes for the budget squeeze to materialize. In this context, India and the Philippines appear to be most at risk of a quicker jump in debt servicing costs," it said.

The Philippines and India had "the highest share of debt maturing in the next one to three years that may need to be refinanced at higher rates."

The Philippines' debt maturity profile indicates that largest slice of its debt is due to mature in three to five years. The next-largest component is debt maturing in one to three years.

The report came to this conclusion after analyzing India, Indonesia, Malaysia, Thailand, and the Philippines.

Relative to pre-pandemic levels, end-2021 public debt was higher by an average of 14.6% of gross domestic product (GDP) in the countries studied.

"The largest increase amounted to nearly 20% of GDP in the Philippines, with that in India and Thailand only marginally lower," the report said.

"Consequent to the adoption of these aggressive fiscal policies, mandated public debt ceilings were relaxed in India, Indonesia, Malaysia and Thailand. The Philippines does not have a mandated ceiling but nonetheless, debt has exceeded 60% of GDP, the threshold regarded by policymakers as prudent," it added.

The National Government's (NG) outstanding debt was down 2.1% at P12.5 trillion at the end of May.

At the end of the first quarter, the Philippines' debt-to-GDP ratio was 63.5%, against 60.5% at the end of 2021 and 39.6% at the end of 2019.

The highest debt-to-GDP on record was 65.7% in 2005.

"In our view, the National Government debt has already peaked... Although fiscal policy is becoming more conservative, bringing debt back to the pre-pandemic level of around 40% will be challenging. The government is also looking at a gradual reduction of the pandemic-related debt of around P3.2 billion (about 14.8% of GDP)," ANZ Research said in a separate report.

The interest payments to revenue ratio could also further rise "considering the steady increase in interest rates."

"Official estimates suggest that for a 1% increase in the interest rate, debt-servicing costs rise by around 0.5 percentage point. Meanwhile, the growth to interest rate differential, an important determiner of debt sustainability, is also likely to narrow as economic growth stabilizes amidst rising borrowing costs," it said.

However, it is also possible that "a structural rise in public indebtedness will decrease policy space to cope with unforeseen shocks, particularly against the backdrop of rising interest rates and slower global growth," ANZ Research said.

On the fiscal side, the NG is targeting to reduce the budget deficit from 7.6% to just 3% by 2028.

ANZ Research gave its own estimate at 7.7%, accounting for a possible incremental rise in revenue that does not offset the supplementary spending requirements.

"The pre-pandemic medium-term objective was to stabilize the budget deficit at this level. Underlying this reduction is a combination of expenditure reduction and revenue enhancement, the latter recovering to its 2019 pre-pandemic level of 16.1% of GDP," ANZ Research said.

The NG projects to hit the 16% mark by 2025.

"While this is not a tall order, the underlying assumptions of annual real GDP growth being sustained at 6-7% will be challenging," it added.

Economic managers recently revised their growth projections, targeting 2022 growth of 6.5-7.5%.

For 2023 to 2028, the growth target was 6.5-8%. — **Diego Gabriel C. Robles**

Marcos urged to support agri, manufacturing without relying on FDI

THE GOVERNMENT should seek to grow the economy to ease its debt burden by offering incentives for agricultural and manufacturing projects, following the failure of its efforts to attract foreign direct investment (FDI), the Freedom from Debt Coalition said on Wednesday.

"Rather than relying on FDI inflows, which have not materialized despite the passage of investor-friendly legislation such as CREATE (the Corporate Recovery and Tax Incentives for Enterprises), government should focus on reviving and strengthening the domestic economy by providing support and incentives to key sectors such as agriculture and manufacturing," the coalition said in a statement.

These industries, it added, have been neglected for decades due to "ill-advised policies such as the infamous Rice Tariffication Law which failed to deliver its promise of cheaper rice even as it resulted in bankruptcy of millions of farmers."

The coalition also called for significant investment in human capital by ramping up spending on education, healthcare, housing, and nutrition.

"The current obsession with chasing after investors at the expense of people's needs could backfire if we end up with lower human capital stock than before the pandemic, jeopardizing our long-term development prospects," it said.

The national debt was P12.5 trillion at the end of May, putting the government under pressure to curtail spending, particularly on social services, and impose additional taxes, the coalition said. "Both moves risk further widening the inequality that was only exacerbated by the pandemic."

Other issues that need to be addressed include inflation and the expansion of the current account deficit, it added. — **Alyssa Nicole O. Tan**

Support for growers of feed corn seen having follow-on benefits for livestock

SUPPORT for growers of yellow corn, the variety used in animal feed, will be beneficial to downstream users of the grain like the livestock and poultry industries, industry officials said.

"The first thing that needs to be done is to help yellow corn farmers... When you support yellow corn farmers, you support the entire industry, from poultry farmers, livestock farmers — you help everyone, even fishermen and those in aquaculture," United Broiler Raisers Association President Elias Jose M. Inciong said in an interview on One News.

"We need to help our farmers... President Ferdinand R. Marcos, Jr. must... bring back the confidence of our farmers. If our farmers have confidence, then we have the chance to win. These past years, our farmers have not had the chance to win. That is the sad reality of our situation," he added.

Federation of Free Farmers Chairman Leonardo Q. Montemayor said economic managers should immerse themselves in agriculture to gain a grasp of the situation, which will guide policymaking.

"The problem is the mindset of some key economic managers and economists. They are too far away in the city. They are far away from the reality of what our everyday Filipinos go through, especially in rural areas. They do not feel the problems of the agriculture sector," he said.

"This is why they are unable to give the proper attention to the sector. We lack the right policies and budgetary support. When they say that agriculture is useless, this is a result of wrong policymaking," he added.

The administration should also focus on ramping up production through fertilizer subsidies, according to Mr. Montemayor.

"The priority now is production. For example, providing more fertilizer subsidies because many if not most farmers have really cut down on their fertilizer usage," he said.

"It's possible, for example, in the coming harvest period around October or November, (that) the harvest could drop by anywhere from 10% to 15%. That is a big drop. To arrest or minimize that, we need to ramp up the distribution of more subsidies," he added.

Mr. Marcos has announced that he is considering government-to-government deals with Russia and China to ensure favorable fertilizer pricing.

"It will take a little time for negotiations to (conclude) and for the fertilizer to actually arrive and be available to farmers," Mr. Montemayor said.

"In fact, we (must first) address the issue of the price of palay (unmilled rice). To me, that's the most critical. The price and the market for palay should be attractive enough to cover the basic costs of farmers. Otherwise, they are just producing to make themselves lose money," he added.

Samahang Industriya ng Agrikultura President Rosendo O. So said separately that the price of fertilizer was rising even before the Russia-Ukraine conflict.

"Before the war between Russia and Ukraine, the price of fertilizer (rose) because of demand from other countries. Since urea comes from the countries that produce oil, this is (effectively) a byproduct of oil," he said on BusinessWorld Live.

"What we need now, immediately, is the fertilizer subsidy for the farmers. If we will not give subsidies, we will have high prices of palay... and the price of our rice will not go down," he added. — **Luisa Maria Jacinta C. Jocson**

RCEF aid called inaccessible as bid to repeal rice law intensifies

THE industry modernization component of the Rice Tariffication Law, which is funded by tariffs on rice imports, has been inefficiently handled, with rice farmers unable to tap the program's benefits, resulting in rice production remaining stagnant, a peasant organization said.

"The P10 billion (in annual funding) could not compensate for the losses of the rice industry. Not all rice farmers can access the (Rice Competitiveness Enhancement Fund). We have received complaints from farmers that they have not received or accessed RCEF, even though they are registered. In some areas, seed distribution is delayed," Amihan National Federation of Peasant Women Secretary-General Cathy Estavillo said in an e-mail.

RCEF receives P10 billion from rice import tariffs a year for six years to drive farm mechanization, seed development, propagation and promotion, credit assistance, and extension services.

Ms. Estavillo called for the repeal of the Rice Tariffication Law because the liberalization of rice imports did not lower prices after the National Food Authority (NFA) was stripped of its function as the primary importer of the grain.

"The flood of rice imports as a result of the liberal import (policy) resulted in the drop in the farmgate prices of palay and losses in the first two years of its implementation...rice farmers were pushed deeper into poverty and bankruptcy due to the low prices of palay," she said.

"It also limited the (ability) of the NFA to (put together a buffer stock); thus, it can no longer regulate the market price through subsidized (rice), which is no longer available in markets. The proponents of the law promised that retail prices of rice would fall to P25 per kilo, but our experience for the first three years of implementation proved otherwise," she added.

Magsasaka at Siyentipiko para sa Pag-unlad ng Agrikultura Regional Coordinator Rowena A. Buena said that the law "virtually obliterated the rice market and buried rice farmers neck-deep in debt."

"It basically intensified the food security problem both in the peasant and consumer sector... food security (has) always been problematic in the Philippines. On the production level, with chemical-based agriculture as the dominant production system, farmers are trapped in a cycle of expensive production costs and unpredictable yields," she said in an e-mail.

"Paired with neoliberal policies such as the (Rice Tariffication Law) that allows the unregulated entry of foreign rice... farmers are once again burdened (by) unfair market prices. If not, farmers are totally removed from the market (losing the) chance to sell their milled rice at a price that would sustain them," she added.

Ms. Buena said that conventional farmers and agricultural workers were also falling ill due to the continuous usage of glyphosate, a herbicide.

"It tells us that both the current agricultural production system and the neoliberal policies that govern it are not actually built to achieve food security. Ironically, it... serves only the profits of agri-transnational corporations (which) is the very reason we have food insecurity in the first place," she said.

"Addressing food insecurity and malnutrition will start with shifting from chemical-based agriculture to sustainable organic agriculture that puts emphasis on a diversified and integrated farming system ultimately championing a diversified, accessible, and nutritious diet for the masses," she added.

"The seeds distributed under RCEF are dependent on massive use of chemical farm inputs which [also] increases the cost of production, instead of promoting local and traditional varieties," Ms. Estavillo added. — **Luisa Maria Jacinta C. Jocson**

OPINION

Audit notice: No point in delaying the inevitable

TAXWISE OR OTHERWISE
DENNED MIGUEL PINZA

I can only imagine the worry that taxpayers feel when they receive a Letter of Authority (LoA) from the Bureau of Internal Revenue (BIR). "Should we accept this?" "Is this valid?" "Does this mean we are not paying our taxes right?" These are just some of the usual questions we receive from taxpayers when a BIR revenue officer comes knocking on their door with an LoA.

An LoA represents the authority given to the named BIR revenue officers to perform assessment functions to ensure the collection of the correct amount of tax. It is a required document before any audit and assessment takes place.

Recently, the BIR issued Revenue Memorandum Circular (RMC) No. 82-2022, which removed the requirement for the BIR to serve the LoA to the taxpayer within 30 days from issuance.

In effect, a taxpayer can no longer refuse the service of an LoA or question its validity, in case the document is served beyond 30 days. However, the RMC also clarified that the deletion of the 30-day requirement from the BIR's Updated Handbook on Audit Procedures and Techniques should not be an excuse for the concerned revenue officer to delay its service.

According to the circular, an LoA that remains unserved, or has been served beyond 30 days from the date of issuance, remains valid and enforceable, provided that the prescribed period to complete the audit process has not yet expired.

Previously, Revenue Audit Memorandum Order (RAMO) No. 1-2000 required that the LoA be served within 30 days; otherwise, it becomes null and void. Service or presentation may be performed via 1) personal service, 2) substituted service, or 3) service via mail.

An exception to the 30-day requirement is when the LoA has been revalidated by the BIR, which effectively extends the period within which the revenue officer must submit the report of investigation. In several cases, the Court of Tax Appeals has ruled in favor of taxpayers by declaring the assessments as invalid when the LoA was served beyond the 30-day period, since the revenue officers, in the first place, did not have the authority to conduct the tax audit. The principle is thus well-established that, in the absence of a valid LoA, the resulting assessment against the taxpayer is null and void.

Tax audits are heavily bound by a set of rules, with some cases ultimately decided one way or another by technicalities. What happens then, when the other party can set and change the regulations?

With the recent circular, the period for LoA service to the taxpayer appears to matter no longer. With the 30-day requirement provided in a previous RAMO by the BIR, the new rule (or lack thereof) seems anchored on RAMO No. 1-2020, except without the 30-day service period.

Generally, the entire audit process must be completed within 180 days from the issuance of the LoA for cases at Revenue District Offices or 240 days for those handled by the Large Taxpayer Service. This process covers the examination of the taxpayer's books and records by the revenue officer until a report of investigation is submitted to the higher authorities to issue a deficiency tax assessment. Non-observance of the 180/240-day period by the revenue officers would constitute gross neglect of duty, subject to appropriate administrative sanctions.

One cannot help but question the purpose of the deletion of the 30-day requirement, even though the circular points out that the LoA's immediate service is in the government's best interest.

Perhaps the circular was issued by the BIR in light of the recent suspension of the service of any written orders to audit taxpayers as of May 30 until further notice, which may have resulted in LoAs not being served by revenue officers. Notably, RMC No. 82-2022 was dated June 28, a day before the lapse of the 30-day service period for LoAs issued on May 30.

However, the suspension of tax audits in May could soon be lifted with the BIR's new leadership in place. Such policy shifts from the tax authorities are not unusual. Remember when the BIR relaxed its requirements for a valid waiver of the Statute of Limitations for issuing tax assessments, leaving the taxpayers little to no room to challenge the validity of waivers and resulting assessments?

Whatever may be the reason for the circular, it is clear that timelines are put in place to observe due process, which is a crucial factor in BIR tax audits. The Supreme Court has held that in exercising power to assess and collect taxes, the BIR has the commensurate duty to uphold a taxpayer's fundamental right to due process. The BIR's authority must be understood to take effect only after it issues and serves an LoA to the taxpayer.

Tax audits by the BIR are, as they say, inevitable. And like in most things, there is no point in delaying them.

If the revenue officer is given a strict timeframe to complete his audit, the taxpayer should be notified as soon as possible, through the service of the LoA. With or without the 30-day requirement, it is in the best interest of both the taxpayer and the BIR that the LoA is served immediately, in order to commence and complete the tax audit in a timely manner and avoid the additional stress of unnecessary rush during an investigation.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

DENNED MIGUEL PINZA is a senior associate at the Tax Services Department of Isla Lipana & Co., the Philippine member firm of the PwC network.
+63 (2) 8845-2728
denned.miguel.v.pinza@pwc.com