

IMF warns inflation fight, geopolitical events adding risk to financial stability

WASHINGTON/NEW YORK — The International Monetary Fund (IMF) warned on Tuesday of a disorderly repricing in markets, saying global financial stability risks have increased, raising the risks of contagion and spillovers of stress between markets.

The IMF said that “storm clouds” are looming over the global economy, including persistent inflation, a slowdown in China and ongoing stresses from Russia’s invasion of Ukraine which have driven up the risk of a severe downturn to levels not seen since the onset of the COVID-19 pandemic.

“It’s difficult to think of a time where uncertainty was so high,” said Tobias Adrian, director of the IMF’s Monetary and Capital Markets Department. “We have to go back decades to see so much conflict in the world, and at the same time inflation is extremely high.”

The combination of high inflation with central bank policy uncertainty “creates this environment of really high risk and volatility,” he said.

“When risk is high, correlations are high,” Mr. Adrian said. “So spillovers and contagion, (are) at a higher level in these times of high uncertainty.”

In its latest Global Financial Stability Report, the IMF warned that global financial stability risks had increased since the April 2022 edition, leaving the balance of risks “significantly skewed” to the downside.

“The global environment is fragile with storm clouds on the horizon,” the report stated.

Lingering market vulnerabilities, tightening liquidity, stubborn inflation and ongoing efforts by central banks worldwide to raise rates to combat it have combined to create a volatile and risky environment, the report stated.

“With investors aggressively pulling back from risk-taking recently as they reassess their economic and policy outlook, there is a danger of a disorderly repricing of risk,” the report stated. “In particular, volatility and a sudden tightening in financial conditions could interact with, and be amplified by, pre-existing financial vulnerabilities.”

Markets have had a brutal year with the S&P 500 down 24% so far this year while global bonds entered a bear market and the dollar is around a two-decade high — causing problems for the rest of the world.

In particular, the IMF warned that any sharp downturn would be acutely felt by emerging market economies, where they are grappling with a “multitude of risks” like high borrowing costs, high inflation, and volatile

commodity markets. The IMF also cautioned that credit spreads have widened substantially in the corporate sector, and higher rates could adversely impact housing markets.

In China, the property sector downturn has already deepened, and failures of property developers could spill over into the banking sector, the IMF cautioned.

While banks in advanced economies seem to have sufficient capital and liquidity, the IMF noted that in its global bank stress test, up to 29% of emerging market banks would breach their capital requirements in a severe global recession, leading to a capital shortfall of over \$200 billion. US banks will report third-quarter earnings starting this week and are expected to show weaker profits.

“It’s certainly possible that in an adverse scenario there could be stress on individual institutions,” said the IMF’s Mr. Adrian. “Even in the bank stress test that uses a globally consistent scenario, we find banks are broadly safe but it doesn’t mean every bank is resilient under every scenario.”

Credit Suisse has been the center of global attention as speculation about the bank’s future gathered pace on social media earlier this month amid anticipation it may need to raise billions of francs in fresh capital, sending its stock and some bonds to new lows.

Mr. Adrian declined to comment on specific banks.

Other specific markets to watch were dollar funding markets where Mr. Adrian said there was a widening in cross-currency basis swaps.

“We are just under three months prior to the year end and typically around the year end there’s a bit of balance sheet stress as some trades are taken off or reshuffled, but the magnitude of the (moves) is quite unusual,” said Mr. Adrian. “There are dollar funding shortages.”

The three-month yen swap rate widened to 60.25 basis points on Tuesday, slightly pulling back from a more than two-year high hit early last week. The current yen swap rate meant that investors were willing to pay more than 60 bps over interbank rates to swap three-month yen into dollars.

He also said there was a risk of a “dash for cash” in the event of a common global shock.

“I wouldn’t exclude that there couldn’t be another dash for cash — meaning (US) Treasury yields suddenly increasing in a time when there’s a flight to quality. Usually in a flight to quality people buy Treasuries, but there could be a sharp sell-off of duration at some point. When it’s disorderly, that’s when you see the stress.” — **Reuters**

Argentina to apply new 25% duty on purchases in foreign currencies

BUENOS AIRES — Argentina will charge a new 25% refundable duty on all purchases made in foreign currencies, a senior tax official said on Tuesday, as the government aims to protect scarce hard currency reserves amid a severe economic slump.

Faced with sky-high inflation and a slump in the local peso, Argentina’s government has sought to minimize strains on dwindling US dollar reserves needed to pay for costly energy imports and debt payments alongside other priority spending.

The new duty, which can be refunded next year, goes into effect on Wednesday, public revenues chief Carlos Castagneto told reporters at a news briefing.

It will be added to a separate 45% levy and a 30% tax that also seek to protect reserves, as the government looks to discourage some spending that would force the central bank to tap into its reserves.

Annual inflation in the South American country is seen reaching 100% by the end of this year, while the tightly controlled official

exchange rate hovers around 150 pesos per US dollar, or half the value of the parallel black market rate of around 300 pesos per greenback.

“We want to take care of the reserves to boost production and job creation,” said Mr. Castagneto. He added that the 25% duty will apply to monthly purchases worth \$300 or more, used to buy foreign tourist trips, credit card purchases for goods in foreign currencies, as well as luxury goods.

Economy Minister Sergio Massa has sought to incentivize the flow of US dollars into central bank coffers and discourage unnecessary outflows, in part to meet the terms of a \$44-billion debt deal with the International Monetary Fund, since taking the job nearly three months ago.

The measure will affect only 7% of those who register consumption in dollars with credit cards, sources from the economy ministry said.

While millions of Argentines have credit cards, only 200,000 people spent more than \$300 a month, according to August data from the country’s tax office. — **Reuters**

GM to invest in Australian mining company

WASHINGTON — General Motors Co. (GM) said on Tuesday it will invest up to \$69 million and take an equity stake in Queensland Pacific Metals to secure a new source of nickel and cobalt for battery cells for use in the US automaker’s vehicles.

GM said the investment will help support electric-vehicle eligibility for consumer incentives under new, clean energy US tax credits. GM said the nickel laterite ore is expected to be processed using a new, proprietary process that helps reduce waste.

Under a law passed in August, automakers must source battery minerals from countries with free trade agreements in order to qualify for the US consumer EV tax credits.

The GM investment is to assist in the development of its proposed Townsville Energy Chemicals Hub (TECH) Project in Northern Australia. High-grade nickel laterite ore will be imported from nearby New Caledonia, GM said.

GM already has binding agreements securing all battery raw material supporting its goal of one million units of annual capacity in North America by the end of 2025.

Queensland Pacific Metals CEO Stephen Grocott said “GM’s investment in our company and the associated offtake brings us one step closer towards construction of the TECH Project.” — **Reuters**

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE FORCE MAJEURE EVENT CAPITAL EXPENDITURE PROJECT NAMED: REPAIR AND REHABILITATION OF DISTRIBUTION LINE AND OTHER FACILITIES AFFECTED BY THE ONSLAUGHT OF TYPHOON ODETTE AND AUTHORITY TO SECURE LOANS

ERC CASE NO. 2022-062 RC

BOHOL II ELECTRIC COOPERATIVE, INC. (BOHECO II), Promulgated: September 16, 2022
Applicant.

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 05 September 2022, Bohol II Electric Cooperative, Inc. (BOHECO II) filed an *Application* dated 28 June 2022, seeking the Commission’s approval of its Force Majeure Event Capital Expenditure Project, namely: repair and rehabilitation of distribution line and other facilities affected by the onslaught of Typhoon Odette, and authority to secure loans.

The pertinent allegations of the *Application* are hereunder quoted as follows:

- BOHECO II is an electric cooperative duly organized and existing under Philippine law, with a principal office address at Cantagay, Jagña, Bohol; franchised to construct, own, operate, and maintain an Electric Distribution system in the municipalities of Alicia, Anda, Bien Unido, Buenavista, Candijay, Carlos P. Garcia Island, Dagohoy, Danao, Duero, Garcia Hernandez, Getafe, Gundulman, Jagña, Mabini, Pilar, San Miguel, Sierra Bullones, Talibon, Trinidad, Ubay and Valencia, all in the Province of Bohol; represented herein by its General Manager is Engr. Eugenio R. Tan Sr.;

LEGAL BASIS OF APPLICATION

- Pursuant to Section 3.3 of ERC Resolution 26, Series of 2009 which provides that if a Force Majeure or Fortuitous Event, as the case may be, occurs, the regulated entity shall seek the ERC’s confirmation of the implementation of capital expenditure projects arising from such event, as well as other laws and rules, BOHECO II seeks confirmation and approval from this Honorable Commission of its implementation of Force Majeure Event Capital Expenditure (CAPEX) Project subject of the instant application.

THE FORCE MAJEURE EVENT (TYPHOON ODETTE)

- The BOHECO II coverage area and its Member-Consumers have experienced the wrath of super typhoon Odette with the fifth landfall at Pres. Carlos P. Garcia, Bohol at 6:30 PM, sixth at Bien Unido, Bohol at 7:30 PM of December 16, 2021. The storm’s aftermath had left severe damage to houses, properties, and to the coops’ distribution systems and facilities causing areawide power interruption.
- The wake of super typhoon Odette left BOHECO II coverage area destroying more than 1,000 poles of the backbone lines and about 8000 poles in the lateral lines which will require replacement. The damage to various distribution lines and facilities left this part of the region in total blackout, with more than 145,000 member-consumers-owner (MCO) affected.
- On the morning of December 17, 2021, BOHECO II personnel immediately conducted an ocular inspection of all the affected municipalities. Damage assessments were done to be able to plan for the immediate restoration of power and rehabilitation of lines. Around 60% of the total area covered by BOHECO II was damaged, with disconnected/cut conductors, leaning, and toppled poles.

DESCRIPTION OF THE PROJECT

- The project involves the repair and rehabilitation of distribution lines, and other facilities and equipment damaged by the onslaught of Typhoon Odette.

ESTIMATED PROJECT COST

- The estimated cost of repair and rehabilitation of distribution lines, and other damaged facilities and equipment damaged by the onslaught of Typhoon Odette amounts to *Five Hundred Sixty Six Million Two Hundred forty-two Thousand Thirty Six and 75/100 (PHP 566,242,036.75)*.

PROJECT SCHEDULE

- By December 17, 2021, Damage assessment was conducted and rehabilitation works started immediately with manpower from BOHECO II personnel. On December 24, 2021, task force kapatid from CASURECO IV first batch arrived to help with line rehabilitation. Followed by another batch of Electric Cooperatives such as CANORECO, CANORECO II, CASURECO I, CASURECO II, CASURECO III, CASURECO IV, SORECO I, SORECO II, TITELCO, MASLECO, FICELO, FICELO II, ESAMELCO, NEECO II Area I, NEECO II Area 2, PELCO I, PELCO II, PELCO III, CEBECO II, BANELCO and fifty-four personnel from One MERALCO Foundations.
- Buffer stock of poles, materials and hardware were utilized to start the line restoration. But due to severe damage to the coverage area, emergency purchases of other materials were also made while waiting for the arrival of additional necessary materials and equipment to be used to fast track the restoration and rehabilitation activities.
- BOHECO II Backbone lines were restored by March 30, 2022, with the help of the task force kapatid. And another Batch of task force arrived on March 6, 2022 to help for the remaining lateral line restoration. The restoration of the lateral lines is still on-going with a target completion date on April 30, 2022. For Household Restoration, the target completion date will be on August 30, 2022.

PROJECT FINANCING

- The on-going repair, restoration and rehabilitation activities of the damages brought by Typhoon Odette were funded thru calamity loan from the National Electrification Administration (NEA) amounting to PHP31,643,654.88 and PHP42,337,800.34 received on February 14, 2022 and March 30, 2022 respectively with an interest rate of 3.25% per annum payable in ten (10) years. Another Financing source is from a calamity grant from NEA amounting to PHP32,738,521.96 but was not yet release due to election ban. BOHECO II also filed a long term loan from REPC (Rural Electrification Financing Corporation) amounting to PHP20 million but still waiting for the release as of to date. For other payables that have no financing yet, BOHECO II opt to apply for a short term loan or a working capital loan from the following banks payable in a maximum of one (1) year with the corresponding amounts:

BANK	AMOUNT (PHP)
Development Bank of the Philippines	50,000,000.00
Land Bank of the Philippines	100,000,000.00

The interest and amortization of said loans will be funded from BOHECO II’s General Fund taking into consideration that said application of Force Majeure CAPEX is still on going and will be converted into term loan or long term loan as soon as BOHECO II can secure approval from ERC for this application, thus the funding for its amortization payment will be drawn from the coop’s RFSC.

BOHECO II is highly requesting the Honorable Commission to give BOHECO II an authority to secure loans from NEA and other Banks specifically Landbank of the Philippines (LBP) and Development Bank of the Philippines (DBP) seeing its lower interest rates from other banks so that the coop’s General Fund will not be drained.

INDICATIVE RATE IMPACT

- Considering the impact of the damages caused by Typhoon Odette, BOHECO II foresees the downfall in its financial capability of its operation unless complete power restoration will be done. The coop’s revenue in terms of KWH sales dropped down and cannot sustain even DSM expenses. The highpoint to restore the distribution lines as well as house connections can help the coop to recover from the downfall, thus, need to capitalize the restoration. Seeing that the existing RFSC rate of the coop cannot sustain to cover up the payments of loan amortizations to this effect even considering a collection efficiency of 98%. As such, BOHECO II will apply for a rate increase of 0.0978 Php/kWh brought about by the implementation of the total rehabilitation and complete restoration of the damaged facilities, as shown in the Table below:

	2020 (MTRM)	2021 (MTRM)	2022	2022	TOTAL
RFSC Rate	0.4916	0.4938	0.4958	0.4978	0.4998
Forecasted Energy Sales (MWh)	104,455,951.00	104,541,882.00	111,831,831.00	116,633,092.00	121,186,722.00
Actual Energy Sales (MWh)	100,847,658.00	112,144,681.00	127,467,181.00	132,148,141.00	138,148,141.00
Cash balance beginning (P/F)	18,493,081.00	1,478,981.00	1,888,075.00	12,024,388.54	1,832,346,000.00
					11,665,420.54
					(4,879,824.47)
					(8,642,211.07)
					(8,642,211.07)

FUND INFLOWS

Department/Commitment/Year/Collection	2020 (MTRM)	2021 (MTRM)	2022	2022	TOTAL
Department/Commitment/Year/Collection (P/F)	35,309,574.00	43,791,614.00	47,969,427.00	53,259,291.00	53,259,291.00
Actual Value/Year/Collection (P/F)	33,675,328.27	31,238,132.32	49,648,662.59	62,703,274.30	62,703,274.30
General Fund (P/F) (General Fund bank)	16,131.27	8,618.05	10,937.77	20,131.18	3,208.32
Procurement from General Fund					2,132,924.41
Income on loan/proprietor (P/F)					
Less proceeds from financial institutions/NEA (P/F) - EXISTING					
FME Typhoon Odette/NEA Calamity loan					73,081,453.21

FUND OUTFLOWS

Capital Expenditure Project/Reimbursement of General Fund (P/F)	2020 (MTRM)	2021 (MTRM)	2022	2022	TOTAL
Capital Expenditure Project (P/F)	33,836,211.91	27,130,070.91	26,830,298.61	30,838,073.18	38,002,654.61
Reimbursement of General Fund (P/F)	1,920.12		300,200.00	54,600.00	355,720.12
Payment for FME CAPEX/Other CAPEX (P/F)					56,542,295.75
Amortization (NEA) existing	10,628,824.00	11,454,368.00	12,448,073.40	13,790,733.30	13,790,733.30
FME amortization NEA calamity loan					8,770,842.00
Amortization (DBP) existing					14,273,628.00
Amortization (DBP) Short Term Loan					14,273,628.00
Amortization (DBP) existing	1,827,028.40	1,863,285.20	1,443,024.00	10,000,000.00	21,233,337.60
Amortization (DBP) existing					4,939,999.96
(RF) existing	1,074,941.50	1,251,755.50	1,099,473.50	1,099,473.50	1,099,473.50
Payment of amortization FME (RF) (P/F)					84,796.00
ERC Permit Fee					2,108,743.00
Total Cash Outflows (P/F)	60,401,793.31	44,139,224.55	48,144,024.48	73,481,328.00	70,871,970.27
					664,757,453.68
					107,886,044.10
					1,061,269,320.03
Fund balance ending P/F, excess (shortfall)	1,761,981.27	8,681,657.00	12,024,388.54	1,832,346.00	11,665,420.54
					(4,879,824.47)
					(8,642,211.07)
					(8,642,211.07)

Dueses (shortfall) on RFSC, P/F (P/F)

(0.0000)

JUSTIFICATIONS OR BENEFITS TO BE DELIVERED BY THE PROJECT

- BOHECO II’s instant project ensures power restoration in its entire coverage area and in turn, provides an adequate, safe, more reliable, and efficient power supply to satisfy the needs of its member consumers. This is the cooperative’s justification for the project.

SUBMISSIONS

- Finally, in support of the instant application, BOHECO II is submitting herewith the following documents to form integral parts hereof as follows, to wit:

Annex Markings	Nature of Document
A	BOHECO II Board Resolution no. 68-A, series of 2022 FME Capex Application
B and Series	Notice of Force Majeure Event
C and Series	Executive Summary of the Force Majeure Event Capital Expenditure Project
D and series	Proof of furnishing of copies of the Application to the Sangguniang Bayan of Jagña and Sangguniang Panlawigan of Bohol.
E and series	Proof of publication of the Application in a newspaper of general circulation within BOHECO II’s franchise area or where it principally operates
F	Tropical Cyclone Bulletin no. 13 of Typhoon “Odette” Issued by PAGASA on December 16, 2021 at 8 PM.
G and series	Amortization Schedule
H	Progress Report on Reinvestment Fund 2018-2021
I	Restricted Funds from AFS 2016-2021
J	Approved CAPEX Project Status

PRAYER

WHEREFORE, premises considered, BOHECO II respectfully prays that this Honorable Commission that after due notice and hearing, the repair of distribution lines, massive replacement of damaged LWH meter, Distribution Transformers and other facilities, equipment and assets damaged by the onslaught of Typhoon Odette on December 16, 2022, be confirmed and approved accordingly, and the cost thereof be recovered from its consumers.

Other reliefs, just and equitable in the premises are likewise prayed for.

The Commission hereby sets the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference and presentation of evidence on the following dates and online platform for the conduct thereof, pursuant to Resolution 09, Series of 2020 dated 24 September 2020, and Resolution No. 01, Series of 2021 dated 17 December 2020 (ERC Revised Rules of Practice and Procedure):²

Date	Platform	Activity
08 November 2022 (Tuesday) at two o’clock in the afternoon (2:00 P.M.)	Microsoft Teams	Determination of compliance with the jurisdictional requirements and expository presentation
15 November 2022 (Tuesday) at two o’clock in the afternoon (2:00 P.M.)	Microsoft Teams	Pre-trial Conference and presentation of evidence

The Commission has directed BOHECO II to host the virtual hearings at BOHECO II’s principal office at Cantagay, Jagña, Bohol, as the designated venue for the conduct thereof, and ensure that the same is open to the public and the community quarantine guidelines are observed at all times. Moreover, BOHECO II shall guarantee that, during the conduct of the expository presentation, the participation of the public shall not be impaired.

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via electronic mail (e-mail) at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, all persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, a verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing, and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- The petitioner’s name, mailing address, and e-mail address;
- The nature of petitioner’s interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- A statement of the relief desired.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- The name, mailing address, and e-mail address of such person;
- A concise statement of the Opposition or Comment; and
- The grounds relied upon.

Any of the persons mentioned in the preceding paragraphs may access the copy of the *Application* on the Commission’s official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled virtual hearings by providing the Commission, through legal@erc.ph, with their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearings.

WITNESS, the Honorable Chairperson and CEO MONALISA C. DIMALANTA, and Commissioners ALEXIS M. LUMBATAN, CATHERINE P. MACEDA and MARKO ROMEO L. FUENTES, Energy Regulatory Commission, this 16th day of September 2022 in Pasig City.

FOR AND BY AUTHORITY OF THE COMMISSION:

[Signature]
FLORENSIA G. BALDO-DIGAL
Oversight Commissioner
For the Legal Service

* A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission.
* A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.