Recessions in key markets to weigh on electronics growth

By Luisa Maria Jacinta C. Jocson
Reporter

THE electronics industry, which produces the Philippines' leading exports, is expected to come under pressure in 2023 as its most important markets go through recessions, analysts said.

"We expect recessions in major economies like Europe and the US and so export growth of the Philippines will likely fall sharply too. In addition, the technology sector is on a steep downcycle so electronics exports are unlikely to hold up," Nomura Chief ASEAN Economist Euben Paracuelles said in an e-mail.

Electronics accounted for 60.60% of the Philippines' $58.31 billion in commodity exports, according to the Semiconductor and Electronics Industries in the Philippines Foundation, Inc.

As of September, year-to-date electronics exports totaled $35.34 billion, up 4.71% year on year.

Last year, electronics exports totaled $45.92 billion, up 12.9%.

"As global headwinds increase, we are becoming more pessimistic about the outlook of the country's electronics sector. Indicators from Taiwan and South Korea, top producers, point towards weaker demand. Historically, a weakening electronics sector precedes a global slowdown," China Banking Corp. Chief Economist Domini S. Velasquez said in a Viber message.

The Russia-Ukraine war has also affected the supply chains of most industries, especially in electronics.

Russia and Ukraine are major producers of neon and palladium, key materials in semiconductor manufacturing.

Ukraine accounts for about 70-80% of the global supply of neon, while Russia supplies 35-45% of the world's palladium.

"Domestic demand will be the main growth engine for 2023 but its resilience to an export-led downturn is also likely lower than before because persistently high inflation will hurt household spending alongside rising interest rates," Mr. Paracuelles added.

Headline inflation is likely to have peaked in December, according to a *BusinessWorld* poll of analysts.

The median estimate for December inflation of 11 analysts was 8.3%, within the 7.8% to 8.6% forecast issued by the Bangko Sentral ng Pilipinas (BSP) last week.

If realized, this would mark the ninth straight month of inflation exceeding the BSP's 2-4% target range.

The 8.3% estimate would also be the highest for the indicator since it hit 9.1% at the height of the Global Financial Crisis.

Headline inflation was 8% in November, the highest in 14 years. In the first 11 months, inflation averaged 5.6%.

John Paolo R. Rivera, an economist at the Asian Institute of Management, said that electronics exports "have always been resilient."

"The new record high in exports on a monthly basis, largely driven by electronics and still to be driven by electronics, going forward, (will) to service increased demand due to global supply chain disruptions since the pandemic started," Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort added in a Viber message.

According to the latest trade deficit report, exports of electronic products surged 39.6% to $5.10 billion in October. This export category accounted for more than three-fourths of manufactured goods exports and 66.3% of total exports.

Exports of semiconductors, which make up the bulk of electronic products, rose 62.7% to $4.30 billion. Semiconductors accounted for more than half of total exports during the month.

Mr. Rivera said that the government must ensure the industry's competitiveness through greater market access.

"The Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) can help increase the coverage of this export due to a much bigger market," Mr. Rivera said in an e-mail.

"More free trade agreements and regional pacts (would) help spur greater demand and growth for the country's exports especially electronics," Mr. Ricafort added.

RCEP is a free trade agreement involving the 10 members of the Association of Southeast Asian Nations (ASEAN) and dialogue partners China, Japan, South Korea, Australia, and New Zealand.

The Senate failed to ratify RCEP in 2022 as some senators raised concerns about the lack of safeguards for the agriculture sector. Former President Rodrigo R. Duterte signed on to RCEP in September 2021.

The CPTPP is a trade deal involving Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

"Further expansion and diversification of the country's export markets through improved diplomatic and business relations with other countries would help further boost the country's exports, especially electronics, as well as other export items with high local content," Mr. Ricafort added.

MARK POTTERTON-UNSPLASH

Infrastructure spending sharply lower in October on month-on-month basis

INFRASTRUCTURE spending fell 38.3% month on month in October to P61.2 billion, according to the Department of Budget and Management (DBM).

The DBM said on Tuesday that on a year-on-year basis, expenditure on infrastructure and other capital outlays rose 0.5%.

The DBM said in October, disbursements fell for the Armed Forces of the Philippines Modernization Program, which offset the increased spending on infrastructure projects overseen by the Department of Public Works and Highways (DPWH) and Department of Transportation.

Spending was also affected by the minimal direct payments made by donor partners for foreign-assisted projects, it added.

In the 10 months to October, infrastructure spending rose 12.3% to P788.9 billion.

Citing preliminary figures, the DBM also noted in a report that disbursements for November were positive, driven by capital outlays for DPWH projects.

"This robust spending performance is expected to continue for the rest of the year as line agencies catch up on the implementation of their programs and projects and settle outstanding due and demandable obligations before the year ends," it added.

UnionBank of the Philippines, Inc. Chief Economist Ruben Carlo O. Asuncion said October spending was "consistent" with the government's narrower budget deficit and even lower debt stock.

"This may be a deliberate effort since debt targets for the year were already breached," he said in a Viber message.

The National Government's outstanding debt inched up 0.02% to P13.644 trillion at the end of November.

Year on year, the debt stock increased 14.35%.

Meanwhile, the budget deficit narrowed 3.7% to P123.9 billion in November.

Month on month, the November deficit widened from the P99.1 billion posted in October.

In the first 11 months, the fiscal deficit contracted 7.2% year on year to P1.24 trillion. The deficit was equivalent to 75% of the revised P1.7-trillion full-year deficit target.

"The wider budget deficits that led to higher outstanding National Government debt may have also led to more disciplined spending amid the need for more tax reform measures to bring down the debt-to-gross domestic product (GDP) ratio from the 17-year of 63.7% to below the international threshold of 60%," Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in a Viber message.

"That may also include prudent government spending including on infrastructure to prevent the budget deficit from widening further and in turn preventing undue ballooning of the outstanding debt," he added.

The government's debt-to-GDP ratio stood at 63.7% at end-September.

According to the recently released Philippine Development Plan, the government aims to bring the debt ratio down to 60-62% in 2023, 57-61% in 2024, and 56-59% in 2025.

The government is aiming to bring down deficit-to-GDP ratio to 6.1% in 2023, 5.2% in 2024 and 4.1% in 2025. — **Luisa Maria Jacinta C. Jocson**

Nuclear decision to hinge on economics of BNPP rehab, compliance with safety rules

THE decision to incorporate nuclear power into the energy mix now rests on project economics and the Philippines' ability to comply with safety requirements, a government think tank said.

"The decision whether to rehabilitate (the Bataan Nuclear Power Plant) must be guided by project economics. The Korea study implies that rehabilitation is technically feasible. The Russian assessment implies that it will be very costly and raises (questions about) whether it is worth it," according to the Philippine Institute for Development Studies (PIDS), in a study written by Adoracion M. Navarro.

The Philippine Nuclear Research Institute has said that the South Korean government offered to rehabilitate the Bataan Nuclear Power Plant (BNPP) at a cost of about $1 billion.

The Department of Energy (DoE) put the cost in 2017 at $1.17 billion for a BNPP rehabilitation to be performed by Korea Hydro and Nuclear Power Co. Ltd., KEPCO KPS, and Doosan Heavy Industries and Construction. The quote covers preliminary work, purchasing, replacement parts, inspection, maintenance and testing.

"The Russians did not give an exact figure as to how much the rehabilitation of the BNPP would cost unless the Philippine government commits at that time, which we did not," a DoE official who asked not to be identified told *BusinessWorld* via Viber.

The PIDS study noted that the alternative to operating the BNPP — deploying small modular reactors (SMRs) — will hinge on the Philippines' ability to meet the requirements set by the International Atomic Energy Agency (IAEA).

The Philippines has accomplished one of the 19 milestones prescribed by the IAEA, which is the development of a national position on nuclear power.

The main regulatory obstacle is the Electric Power Industry Reform Act (EPIRA) of 2001, which barred the government from engaging in power generation with the exception of powering remote, off-grid areas. The PIDS study called EPIRA "the biggest hurdle" to be cleared if the BNPP were to go ahead.

"The Philippines also needs to ratify the international legal instruments that it signed in the past. The existing legal framework in the Philippines for nuclear energy development and regulation also needs to be updated."

The DoE in its yearend report said moving forward with nuclear power is among its areas of focus this year.

The DoE said that it will prepare a nuclear power roadmap and will study the feasibility of adding nuclear power to the power mix by developing small-scale nuclear power plants.— **Ashley Erika O. Jose**

EPIRA bills seek to promote competition

PROPOSED amendments to the Electric Power Industry Reform Act (EPIRA) of 2001 (Republic Act 9136) are focused on encouraging broader competition in the power industry, according to a co-author of one of the pending bills as well as an industry analyst.

"The introduction of more private power generation companies necessitates policy changes to promote healthy competition for the benefit of our captive end-consumers," according to Representative Presley C. De Jesus of the Philippine Rural Electric Cooperatives Association party-list.

Mr. De Jesus co-wrote House Bill (HB) 3430, which seeks to impose related-party restrictions on ownership in the National Transmission Corp. (TransCo) or its concessionaire. The parties subject to ownership restrictions in Transco are generation companies, distribution utilities, or relatives of these organizations' key officials to the sixth civil degree.

The bill also seeks to cap at 15% related-party ownership, operation, or control of the installed capacity of any one grid. For the national grid, the proposed ceiling is 25%.

Mr. De Jesus said EPIRA, as constituted, does not adequately monitor capital expenditure and interconnection, to the detriment of connecting off-grid areas. He hopes to reduce government controls on electricity cooperatives.

The two other bills pending at the committee on energy are HB 4263 and HB 3432.

HB 4263 seeks to cap holdings of any one party in a distribution utility at 15% of voting shares, unless the utility is already listed on the Philippine Stock Exchange.

HB 3432 seeks to shield electric cooperatives and customers from the impact of power users availing of the Retail Competition and Open Access program, which may result in lower-than-expected demand for EC power, effectively raising consumer costs.

Roberto Emilio Hernandez, associate for energy policy at the Institute for Climate and Sustainable Cities, said that the power industry needs policy reform that favors "flexible and distributed generation."

"Our country's vulnerability to volatility in the global fuel price and domestic supply insecurity is primarily due to the energy sector's outdated bias for large-scale, rigid, centralized generation," Mr. Hernandez said.

Mr. Hernandez added that amendments to EPIRA must consider the current investment environment and developing energy systems and technology.

EPIRA was designed to end the National Power Corp. monopoly on power generation and transmission, introducing private investors to the power generation industry.

Amending EPIRA was designated one of the 12 priorities of Congress after it returns from recess on Jan. 23.

Mr. Hernandez added, "What we need is a genuinely competitive energy market that encourages investment and targeted interventions to dramatically increase the share of renewable energy in the energy mix, establish energy security, and minimize the country's exposure to fuel price volatility."

He added that energy regulators must ensure reliable, secure, and affordable power and consumer protection.

"We need to prioritize the use of indigenous renewable energy sources, promote genuine competition in the energy sector through the abolition of automatic fuel cost pass-through, and create an enabling environment for all renewable energy players to participate," Mr. Hernandez said. — **Beatriz Marie D. Cruz**

German consumer goods trade show attracts 30 exhibitors from Philippines

THE Department of Trade and Industry (DTI) said 30 exhibitors from the Philippines will participate in the Ambiente consumer goods trade show in Frankfurt.

Some 30 Philippine participants from the home, fashion, and lifestyle industries will exhibit at the Ambiente 2023 trade fair organized by Messe Frankfurt between Feb. 3 and 7, according to the DTI's export promotion arm, the Center for International Trade Expositions and Missions (CITEM).

The Philippine exhibitors are beneficiaries of CITEM's Manila FAME export promotion program for micro, small, and medium enterprises (MSMEs) and artisan communities.

"The strong presence of our homegrown products empowers the Filipino craft and lets us cater to more markets, therefore allowing our MSMEs to have a wider reach," CITEM Executive Director Edward L. Fereira said in a statement on Tuesday.

"A mix of returning and neophyte exporters are set to make a mark on the international stage where our local designs can be appreciated by attendees from different parts of the globe," he added.

CITEM said that 10 of the 30 exhibitors are from Tarlac province.

The Philippine products due to be exhibited are marked by "fine workmanship and creative use of natural materials by the local communities that cultivate homegrown crafts," CITEM said.

"The participating MSMEs have sustainability and social development in mind, and are given labor opportunities brought by the continuously strengthened export industry," it added.

CITEM said Ambiente, which returns after a three-year hiatus, will attract 4,700 exhibitors overall. — **Revin Mikhael D. Ochave**

LANDBANK farm lending program approves P17.8B in loans in first 10 months

LAND BANK of the Philippines (LANDBANK) said one of its financing programs for farmers approved P17.8 billion worth of loans as of the end of October to 1,245 borrowers, against the year-earlier total of P17.4 billion to 1,220 borrowers.

The bank disclosed the lending totals for the Sulong Saka program in a statement released in conjunction with its sixth AgriSenso forum, which was staged virtually this year.

Sulong Saka is available to individual smallholder farmers, small and medium enterprises, cooperatives, farmer associations and organizations, large agribusiness enterprises and corporations, local government units, non-government organizations (NGOs), and countryside financial institutions.

The program supports the development of high-value crops, nurseries, budwood/mother plant/parent clone gardens, new plantations, and the replanting, rejuvenation and rehabilitation of old trees.

At the forum, LANDBANK Assistant Vice-President Edgardo S. Luzano discussed its other agriculture-focused financing program, the Rural Agro-enterprise Partnership for Inclusive Development and Growth (RAPID Growth) Credit Facility, which is available to cooperatives, farmers' associations and organizations, NGOs, and micro, small and medium enterprises endorsed by the Department of Trade and Industry (DTI) in selected provinces of Regions VIII, IX, X, XI, XII, XIII, and the Bangsamoro Autonomous Region in Muslim Mindanao.

RAPID, offered in partnership with the DTI and supported by the International Fund for Agricultural Development, offers loans to develop new plantations; replant, rejuvenate, and rehabilitate old trees; establish nursery gardens; support post-harvest activities; and finance processing, manufacturing, packaging, storage, and trading activities.

The bank said RAPID's areas of focus are developing the agricultural value chains for cacao, coffee, coconut, and processed fruit and nuts.

The bank did not disclose loan totals for the RAPID program.

Gerald Glenn F. Panganiban, officer-in-charge director of the Department of Agriculture's (DA) Bureau of Plant Industry, also promoted at the forum technical assistance programs for banana, cacao, coffee, rubber and pineapple, while Mr. Luzano said planters of these crops may also avail of credit packages offered by the bank.

Mr. Panganiban said planters must overcome challenges like limited infrastructure and post-harvest facilities, high production costs, and limited access to quality planting materials.

He added that available support from the DA's High-Value Crops Development Program includes the distribution of planting materials, machinery and equipment, facilities constructions, and capacity-building activities for farmers.

The bank said some of its leading agricultural loan clients are Kennemer Foods International, Inc., the Goodyear Agrarian Reform Beneficiaries Multi-Purpose Cooperative, which delivered presentations at the forum. — **Aaron Michael C. Sy**