External debt at record $111.268 billion in 2022

OUTSTANDING external debt hit a record $111.268 billion, the central bank said, equivalent to 27.5% of gross domestic product (GDP), exceeding the year-earlier level of 27%.

Preliminary data released by the Bangko Sentral ng Pilipinas (BSP) late Friday indicated that external debt at the end of 2022 rose 4.5% from a year earlier.

"Year on year, the country's debt stock increased by $4.8 billion. This was due to net availments of $8.4 billion (largely by the National Government) and prior periods' adjustments of $1.6 billion," the BSP said in a statement.

The rise in external borrowing was partially offset by the negative foreign exchange revaluation and the increase in residents' investment in offshore debt paper, the BSP added.

The higher external debt was partly due to the diversification of the borrowing mix amid rising interest rates and elevated global inflation globally, Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in a Viber message.

The Monetary Board started to increased borrowing costs in May, raising the key policy rate by a total of 400 basis points to 6% in order to curb soaring inflation.

Headline inflation eased for the first time in six months, slowing to 8.6% in February from the 14-year high 8.7% in January. It was the 11th straight month that inflation exceeded the BSP's 2-4% target.

Despite the increase in the external debt-to-GDP ratio, this is still one of the lowest in the region, Mr. Ricafort said.

The debt-service ratio (DSR) fell to 6.3% in 2022 from 7.5% in 2021.

The DSR is a gauge of the adequacy of foreign exchange earnings for meeting its maturing debt obligations.

External debt includes all types of borrowing by residents from non-residents.

In the fourth quarter, external debt rose by $3.4 billion or 3.1% from the $107.9 billion posted at the end of September.

The growth in the debt stock in the fourth quarter was mainly driven by net availments of $1.8 billion, with the National Government issuing bonds, while banks sought external financing of $765 million to support lending activity and to service maturing obligations, the BSP said.

The government raised $2 billion (P118 billion) from its first dollar bond issue in October, the Bureau of the Treasury said.

Borrowing by the public sector grew 4% from a quarter earlier to $67.4 billion at the end of December.

Some $59.8 billion of public-sector obligations consisted of borrowing by the National Government, while the remaining $7.6 billion were loans incurred by government-owned and -controlled corporations, government financial institutions and the BSP.

Private-sector debt rose 1.9% from a quarter earlier to $43.9 billion at the end of December.

Japan ($14.7 billion), the US ($3.5 billion), and the United Kingdom ($3.2 billion) were the Philippines' top creditor countries last year.

Loans from multilateral and bilateral sources accounted for 37.9% of all external borrowing.

Other sources were bonds (33.1%) and foreign banks and other financial institutions (22.9%), while the remainder (6.1%) was owed to suppliers and foreign exporters.

According to Mr. Ricafort, the appreciation of the peso to P55.755 against the dollar at the end of 2022 from its record-low close of P59 in October may have encouraged the increase in foreign borrowing.

Moving forward, the government and private sector should continue to borrow more from local sources in order to mitigate foreign exchange risk, he added.

For this year, the government set a budget deficit cap of P1.47 trillion which is equivalent to 6.1% of GDP. — **Keisha B. Ta-asan**

ECoP warns P750 wage hike to force small firms to downsize or raise prices

By Beatriz Marie D. Cruz

THE EMPLOYERS Confederation of the Philippines (ECoP) said micro and small enterprises, which account for 98% of all businesses, may have to raise prices or reduce their staffing if Congress legislates a P750 wage hike.

"90% of our enterprises are micro, 8% are small, 1% are medium, and 1% are large," ECoP President Sergio R. Ortiz-Luis, Jr. said by telephone.

"Any untoward increase would push the company to either pass it on to the market or downsize its workforce," Mr. Ortiz-Luis said.

"I'm not even speaking for the big ones, because they can probably afford it," he said.

House Bill No. 7568, filed by the minority bloc, proposes a wage increase of P750 for all private-sector workers, including those working in special economic zones, freeports, and in the agricultural sector. The bill runs contrary to the advice of economic managers, who warned that such a wage increase could affect the Philippines' competitiveness.

Kabataan Party-list Rep. Raoul Danniel A. Manuel said in a briefing on Thursday that small businesses will not be left behind because the pending bill has provisions for wage subsidies.

Under the measure, micro and small enterprises and landowners owning at most five hectares may apply for subsidies until they are able to fully afford the proposed increase. However, companies cannot lay off workers or reduce headcount to comply with the proposed wage increase.

Mr. Ortiz-Luis said, "I don't think the government can afford to subsidize the whole of the 90% (micro and small enterprises), considering it will still need to provide the P2,000 subsidy," referring to the government's P9.3-billion cash transfer program for nine million poor households.

He also said any wage increase proposals should be referred to the Regional Tripartite Wages and Productivity Board (RTWPB) because a legislated wage increase "will be politicized, you will never know what their (motives) will be." He added that workers, employers, and government agencies are better represented in regional wage boards.

The RTWPB in January said that the National Capital Region had the highest daily minimum wage at P570. The lowest was the Bangsamoro Autonomous Region with P316.

Senate President Juan Miguel F. Zubiri has filed a bill seeking a P150 minimum wage increase.

PCCI considers regional boards the right venue for setting wages

By Alyssa Nicole O. Tan

THE Philippine Chamber of Commerce and Industry (PCCI) said regional wage boards are the appropriate venue for setting the minimum wage compared to plans in Congress to legislate wage hikes.

"As to wage increases, it is better to have the tripartite of labor, government and management to discuss the matter and decide the amount of wage adjustment," President George T. Barcelon said in a Viber message.

"They will tackle issues such as inflation, cost of living, reasonable adjustment of different sectors and regions," he added, "considering job creation and possible retrenchment."

Senate President Juan Miguel F. Zubiri filed a bill seeking an increase of P150 nationwide, while the three-person Makabayan Bloc at the House of Representatives filed a bill seeking a hike of P750.

Antonio A. Ligon, a law and business professor at De La Salle University, in a text message to *BusinessWorld* called the legislated proposals "laudable" but added that "the concerns and feasibility on the side of the business sector the entrepreneurs must be carefully weighed."

"Labor and capital (should seek) a 'win-win' situation," he added.

He concurred with National Economic and Development Authority Secretary Arsenio M. Balisacan that "forcing" wage increase via legislation would damage the Philippines' competitiveness.

"Legislating or compelling businesses to raise wages will not be good if no corresponding productivity and reasonable investment return to business or entrepreneurs," he said.

"To balance or avoid the harmful effect of legislated wages, there must be sufficient support mechanisms to the private business sector," he added. "If we force businesses to increase wages, they might complain, and say it's akin to confiscation — contrary to democratic free enterprise context."

On the other hand, Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort told *BusinessWorld* via Viber that legislated wage increases affect all businesses, industries and institutions, regardless of their situation.

He noted the need to take into consideration "challenging business environments for some businesses and industries, especially those hit hard during the pandemic, competitiveness issues compared to other ASEAN (Association of Southeast Asian Nations) countries on operating costs, among others."

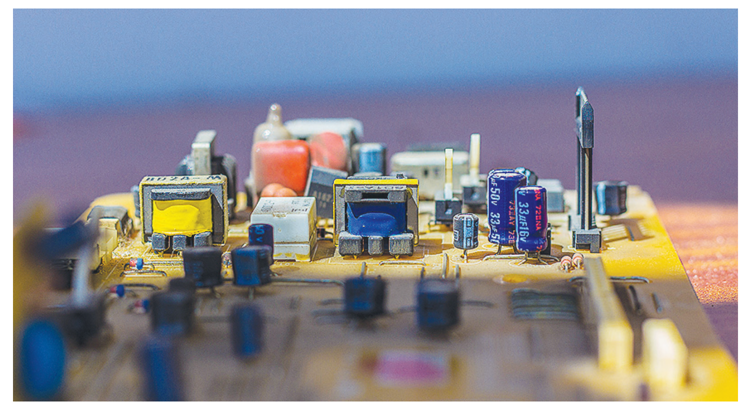
According to the think tank Ibon Foundation, the gap between workers' wages and the estimated family living wage continues to widen. As of January, the living wage for a family in the capital region was estimated at P1,161, more than double the region's minimum wage.

Headline inflation slowed to 8.6% in February from 8.7% in January. This marked the 11th consecutive month inflation was above the central bank's 2-4% target.

Other than wage increases, Mr. Ligon proposed that the government make farm produce cheaper, provide more incentives and support businesses to help workers deal with the rising cost of goods and services.

He also noted the importance of making Philippine products and services available to the world market, as well as improving and developing the tourism industry.

"These may help reduce the economic hardships brought about by inflation," Mr. Ligon said.



NENAD GRUJIC--UNSPLASH

Chip industry outlook clouded under RCEP

THE electronics industry said it remains uncertain about the precise impact of the Regional Comprehensive Economic Partnership (RCEP) on its business prospects, though it is pinning its hopes on more free trade to improve its situation.

Semiconductor and Electronics Industries in the Philippines Foundation, Inc. (SEIPI) President Danilo C. Lachica told *BusinessWorld* via Viber that the immediate impact of RCEP "is not so visible."

"The immediate impact is not so visible. (The effect of RCEP) remains to be seen. It is business as usual (for us)," Mr. Lachica said.

"In general though, free trade agreements (FTA) are good for trade. These FTAs reduce trade barriers," he added.

The RCEP, touted as the world's biggest FTA since it involves a third of the global economy, is expected to take effect for the Philippines around May after being ratified by the Senate on Feb. 21.

The Philippines was the last participating country to ratify RCEP following concerns about the lack of safeguards for agriculture.

The other participating countries include the remaining members of the Association of Southeast Asian Nations (ASEAN), Australia, China, Japan, New Zealand, and South Korea. The FTA started taking effect in the various jurisdictions on Jan. 1 last year.

Trade among participating countries is expected to increase as RCEP provides minimal to zero restrictions on quantity, tariffs, or import taxes. The government had been pushing for RCEP's ratification, saying that it would help attract more foreign direct investment.

SEIPI is targeting 5% exports growth for 2023, scaled back from its 10% target in 2022 on the back of slower global demand.

The industry failed to meet its 10% growth target in 2022 even though the value of electronics exports rose 6.88% to a record $49.09 billion, equivalent to 62.27% of Philippine commodity exports.

In early March, Mr. Lachica said SEIPI is counting on demand mainly from the automotive and industrial electronics segments. — **Revin Mikhael D. Ochave**

OPINION

Accelerating sustainability with emerging technology

SUITS THE *C*-SUITE

JOSEPH IAN M. CANLAS

(Second of two parts)

The most recent EY Reimagining Industry Futures Study, which examined executive attitudes and intentions toward 5G, IoT, and other emerging technologies from respondents across 1,325 global firms from various industries, found that organizations are increasingly relying on these emerging technologies to advance their sustainability initiatives. The study offers Chief Information Officers (CIOs) crucial solutions and steps to help their organizations rethink their future and demonstrates that emerging technologies provide advantages that include improved measurement, increased efficiency, and the capacity to create virtual goods and processes.

Findings from the study demonstrate significant convergence between business technology and sustainability strategy. The first part of the article discussed emerging technology as sustainability drivers, sustainability-related benefits of modern technology, environmental, social, and governance (ESG) as a key factor in emerging technology investments, enterprise sustainability strategies already benefiting from 5G and IoT, and how sustainability imperatives are changing perspectives towards industry ecosystems and technology suppliers.

The second part of this article discusses differing industry perspectives on emerging technology and sustainability, and considerations organizations can make to ensure expectations translate into long-term value creation.

DIFFERING INDUSTRY PERSPECTIVES

Energy efficiency and business circularity expectations at the sector level showed notable differences when respondents were asked how they perceive the sustainability benefits of emerging technology. Despite the fact that 46% of respondents across all industries cite decreased energy usage as the top benefit, only 38% of the healthcare sector mentioned this benefit compared to 54% of the automobile sector. Only 35% of executives in government organizations mentioned reduced waste output, compared to 50% of executives in the manufacturing sector.

The two industries most likely to point to benefits from emerging technology in gauging the environmental effect of their organizations were government and healthcare with both at 44%. However, evaluating the environmental impact of suppliers is seen as significantly less critical in government and healthcare but as a significant advantage among manufacturing and energy respondents.

This is because reporting Scope 3 emissions makes it more necessary than ever. Industries are aware of the potential for new technologies to aid in measuring performance and advancement, but the scope of their ambition varies depending on whether they are concentrating on their own organization or expanding to include their supplier chain.

CONSIDERATIONS FOR LONG-TERM VALUE CREATION

ESG factors are already influencing the technology investment decisions of several businesses, and sustainability requirements are expected to overpower other considerations when selecting technology vendors.

However, CIOs are able to do more to ensure that high expectations result in the production of long-term value through the following points of action:

Long-term sustainable advantages

Although businesses are aware of the variety of sustainability advantages offered by emerging technologies, it is crucial that technology leaders concentrate their ambitions. Technology leaders have to carefully consider the combined impact of many technologies before prioritizing and phasing the important ESG outcomes they are seeking and selecting the best technologies that can deliver them. Another consideration is including ESG risks as part of the assessment, as ESG risk should be embedded in a company's enterprise risk management process. In certain instances, these ESG risks can be resolved by utilizing appropriate technologies.

Assessing environmental implications

Organizations can examine the carbon footprint and energy efficiency of their portfolio of emerging technologies, and make sure their approach directly ties into the overarching goals of the organization for lower IT energy use. They will have to be sure to consider how upgrading their IT to newer standards and technologies will improve sustainability, particularly in how it will impact their carbon footprint and energy efficiency.

Sustainability agendas informed by tech

Working closely together with other leadership roles and responsibilities will make sure that everyone in the organization is aware of how new technology can accelerate ESG goals. Discussions with the Chief Sustainability Officer (CSO), or equivalent role, will contribute to the proper assessment of the acquisition and use of new technology. This will ensure that existing digital transformation roadmaps continue to serve their intended purposes while sustainable principles take on greater significance as motivating factors.

Sustainability as a guiding concept for relationships with technology suppliers

CIOs are already giving sustainability capabilities priority when looking for qualities in technology companies. It is critical that businesses prioritize sustainability in their conversations with wider partner networks. Although decisions about vendors and technology investments are currently being made with sustainability in mind, there is still room for more cooperation in the future regarding circular business models and shared ESG objectives.

Technological use cases created with sustainability in mind

Several firms already have established IoT projects, and the rapidly expanding deployment of 5G and edge computing is progressively enhancing these initiatives. Sustainability-aligned results must be incorporated into use cases and deployment methods. To do this, CIOs must think about how new technology use cases might benefit partners, customers, and employees alike. They must also establish the proper feedback loops with technology vendors to make their vision a reality.

Using emerging tech to drive sustainable outcomes

With sustainability goals coming under even more intense scrutiny, organizations will have to keep prioritizing the sustainability capabilities and credentials of their technology vendors in the future. CIOs will have to assess the benefits and drawbacks of developing technologies in achieving sustainability goals, creating long-term value and ultimately building a better working world.

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.

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