Consumer non-essential spending dropping on worries about PHL economy

CONSUMERS have cut back on non-essential items due to worries about the Philippine economic climate, PwC said, citing the findings of a survey.

PwC said on Tuesday that its February 2023 Global Consumer Insights Pulse Survey found that 80% of respondents cut spending on non-essentials, with 16% stopping altogether and 64% reducing their spending.

The spending restraint is more pronounced than the Asia-Pacific average of 65%, PwC said.

"Concerned about inflation and the cloudy macroeconomic climate, consumers are realigning their shopping habits and adopting cost-cutting behaviors," PwC said in the report.

The PwC report also found that consumers in the Philippines expect to spend less over the next six months on categories such as fashion (50%), home entertainment (46%), and consumer electronics (45%).

"As 2023 unfolds, powerful internal and external forces are weighing on consumers and companies, producing frictions that gum up the gears of commerce and stand in the way of more satisfying customer experiences," PwC said.

The PwC report also found that consumers will make purchases only when they are discounted (61%), buy from retailers offering "better value" (53%), or switch to cheaper brands (47%).

The PwC report also indicated that 53% of respondents are worried about their personal financial situation as the cost of living escalates, higher than the 48% average for the Asia-Pacific.

According to PwC, the survey was conducted in December involving 9,180 consumers across 25 territories including the Philippines. The respondents were at least 18 years old and shopped online at least once in 2022.

PwC said that 96% of all respondents plan to adopt cost-saving measures over the next six months. — **Revin Mikhael D. Ochave**

NGCP warned red alerts may ultimately go before Congress

THE Department of Energy (DoE) said Congress has the power to hold the National Grid Corp. of the Philippines (NGCP) accountable for the power disruptions on the Luzon grid.

"It is Congress that approves the franchise and Congress has various ways of exacting accountability from those who operate as monopolies under the franchise. We will work closely with Congress in making sure that the performance standards are adhered to by those who enjoy the franchise," Energy Secretary Raphael P.M. Lotilla said in a briefing on Tuesday.

Red alerts were raised over the Luzon grid on Monday, triggering rotational brownouts that affected over 300,000 customers in Metro Manila and nearby provinces.

The Luzon power grid was placed on red alert twice and on yellow alert once on Monday. The supply instability affected the export of power to the Visayas grid, which was placed under yellow alert as a result.

Red alerts are declared when baseload power is insufficient to supply the grid, forcing power to be rationed, leading to rotating brownouts. Yellow alerts are issued when the power supply falls below a designated safety threshold.

Separately on Tuesday, Manila Electric Co. (Meralco) announced an automatic load dropping incident due to the tripping of the Duhat-Hermosa 230-kiloVolt (kV) line.

Meralco said this has affected more than 200,000 customers in portions of Paco, and Sta. Mesa, Manila; Caloocan, Malabon, Batangas, Antipolo, Rizal, San Pedro and Biñan, Laguna, and San Rafael and Pulilan, Bulacan.

Energy Undersecretary Rowena Cristina L. Guevara said that the red and yellow alerts can be traced to the tripping of transmission lines.

She noted that only two power plants went on forced outage — units 1 and 2 of Masinloc. The other power plants' outages were actually scheduled.

"At 1 p.m. (Monday), the Masinloc-Bolo 230-kV transmission line of NGCP tripped. This was the main cause why the two units of Masinloc Power plant bogged down, triggering a yellow and red alert until mid-afternoon," Ms. Guevara added.

In a statement, Sherwin T. Gatchalian, vice-chairman of the Senate's energy committee, said the NGCP should be held accountable for the line tripping that resulted in the outage of the Masinloc coal-fired plants.

"There can be no valid excuse for NGCP for its failure to conduct a comprehensive audit of its facilities given that system disturbances have already led to brownouts in Panay and Negros Islands just a month ago," Mr. Gatchalian said.

Mr. Lotilla said that a financial audit has been conducted by the Energy Regulatory Commission (ERC), which will be followed by a "performance audit."

"The next step for us is to use this audit report as a basis... What we want to do is to (find) the weak links, the problems in the transmission system and what we can do to address these problems," Mr. Lotilla said.

He said a regulatory performance audit will be conducted by the ERC, while a contract performance review will be conducted by the Power Sector Assets and Liabilities Management Corp. and National Transmission Corp.

"There have been problems in the past and I look forward to everybody's cooperation so that this time we will be able to conduct it fully knowing that it is the country's interest," Mr. Lotilla said.

Privately owned NGCP was asked to comment but had yet to reply at the deadline.

Ms. Guevara also cited the delay in constructing various transmission lines as the cause of the tight power supply.

She said the San Jose-Hermosa transmission line was supposed to be completed in December, later delayed to July. She said this transmission line could have added about 600 megawatts (MW) of power.

Ms. Guevara also said that if the NGCP had completed the Mindanao-Visayas Interconnection Project (MVIP) earlier, then Mindanao could have supported the power needs of other grids as only 70% of its supply is used.

"The Visayas (is experiencing) yellow alerts. If the MVIP had been (at full capacity) then Mindanao could have assisted," she said.

The NGCP has started to energize the MVIP with an initial load of 22.5 MW. It will have a transfer capacity of 450 MW once fully completed.

Meanwhile, the DoE said the Luzon grid is expected to enjoy stable supply by June, following the resumption of operations at the Ilijan natural gas-fired power plant on May 26.

However, the DoE clarified that Ilijan will not immediately operate at its full capacity of 1,200 MW. Ilijan had a natural gas contract with the Malampaya gas field that expired in June 2022. The plant's output is deemed critical if the Luzon grid is to be adequately supplied during the dry season.

The DoE did not give assurances that similar power alerts and power interruptions experienced on Monday will not recur.

On Monday, the Luzon power grid's peak demand hit 12,418 MW, the highest so far for this year. The DoE expects Luzon's peak demand to peak at 13,125 MW this month. — **Ashley Erika O. Jose**

Gov't may have shifted to 'austerity' stance, posing risk to growth

By Luisa Maria Jacinta C. Jocson *Reporter*

WEAK government spending, elevated inflation and rising debt have been cited as possible factors slowing down growth, analysts said.

"Lackluster spending from the government will be one reason we expect growth to slow this year. Government expenditures were a solid source of support throughout the pandemic but with the fiscal balances showing elevated debt and deficit levels, this may be forcing fiscal authorities to shift to a more austere mode," ING Bank N.V. Manila Senior Economist Nicholas Antonio T. Mapa said in a Viber message.

The National Government's (NG) fiscal deficit narrowed 14.51% to P270.9 billion in the first quarter, against the P298.705 billion deficit programmed by the government.

Expenditures in the January-to-March period declined 1.06% to P1.09 trillion due to a drop in interest payments. It was also below the P1.12-trillion program for the period.

On the other hand, revenue rose 4.38% to P818.7 billion in the first quarter, within the P818.685-billion program. This was driven by growth in the collections of the Bureau of Internal Revenue and Bureau of Customs.

Albay Rep. Jose Maria Clemente S. Salceda said in a statement last week that the government is "not spending cash fast enough, despite good collection performance by the tax collection agencies."

Mr. Salceda also said that if the government doesn't spend more, the country may need to "rely solely on private investment, which could mean it misses its growth targets."

The government is targeting gross domestic product (GDP) growth of 6-7% this year.

First quarter GDP likely settled at 6.1%, according to a *BusinessWorld* poll of 23 economists. This is well below the 7.1% growth in the fourth quarter and the 8.2% expansion a year earlier.

The Philippine Statistics Authority is set to release first quarter GDP data on Thursday.

Leonardo A. Lanzona, an Ateneo de Manila economics professor, said government spending is being held back by inflation and debt.

"Despite the promises of economic transformation, the government is effectively undertaking an austerity program to stem inflation and reduce the already huge debt," he said.

NG outstanding debt hit a record of P13.75 trillion at the end of February.

At the end of December, the debt-to-GDP ratio stood at 60.9%, still above the 60% threshold considered manageable by multilateral lenders for developing economies.

"The decline in inflation last month is a sign that the high interest rate policies and decreased government expenditure have succeeded in reducing aggregate demand and in the process stifling economic growth, as observed in the recent declines in agricultural and manufacturing growth," Mr. Lanzona added.

Inflation slowed to 6.6% in April, within the forecast range set by the Bangko Sentral ng Pilipinas (BSP) of 6.3-7.1%.

However, it was still above the BSP's 2-4% target range and 6% full-year forecast. Inflation averaged 8.3% in the first quarter.

Mr. Salceda also said tight monetary conditions are impacting growth.

"Unfortunately, despite growth in collections, we are actually implementing contractionary fiscal policy, with disbursements being 1.05% down, despite expectations of around 6% real GDP growth this year. Together with the Federal Reserve's continued commitment to increase hikes further, and the contractionary monetary policy that these actions force our BSP to take, we cannot expect resilient growth with these economic policies," he said.

The Federal Reserve has now raised borrowing costs by 500 basis points (bps) since March last year, bringing the Fed funds rate to 5-5.25%.

To tame inflation and keep in step with the Fed, the BSP has raised rates by 425 bps since May 2022, bringing its key rate to a 16-year high of 6.25%.

The Monetary Board is set to hold its next policy meeting on May 18.

The government should focus on spending on programs that will expand productivity, such as infrastructure, Mr. Salceda said.

"That means we also need to expedite National Government disbursements especially for asset creating projects such as infrastructure," he added.

"If government spending is not going as planned, growth will be less than expected. However, it's important... that spending is for infrastructure and other programs that raise productivity because the increased productivity can help pay for the loans that were incurred," Calixto V. Chikiamco, Foundation for Economic Freedom president, said in a Viber message.

This year, the government plans to spend 5.3% of GDP on infrastructure, equivalent to P1.29 trillion.

Mr. Lanzona also said the government should better manage the digital transformation, micro, small and medium enterprises policy, and develop the "green" sectors of the economy.

"The government needs to do its job. What is missing is a comprehensive government that will bring along growth and a productive workforce.... the limited government expenditures are forming the barriers to the country's full recovery," he added.

This year, the government set a budget deficit ceiling of P1.499 trillion, equivalent to 6.1% of GDP. This deficit will be the result of P3.729 trillion in revenue and P5.228 trillion in disbursements.

Mr. Salceda also called on the Department of Budget and Management (DBM) to release funds at a faster rate.

In its latest Status of Allotment Release report, the DBM said it had released P4.31 trillion or 81.9% of the 2023 national budget by the end of March.

Releases to government agencies and departments amounted to P2.953 trillion or 93.8% of the budgeted funds.

Around P954.4 billion of the P5.268-trillion budget for this year remains to be distributed.

"Since the start of the year, we continue to ensure the timely release of all budget allotments in adherence to President Ferdinand R. Marcos, Jr.'s call for swifter implementation of programs and projects," the DBM said in a statement.

"While disbursements and project implementation can be best explained by the agencies themselves, and given that most of the budget is already released, the DBM hopes that procurement procedures are already underway on the part of the agencies to facilitate the implementation of their respective projects, especially in the infrastructure sector," it added.

The proposed 2024 budget is estimated at P5.8 trillion, up 10% from this year's budget.

Retailers back VAT refund scheme for foreign tourists

THE Philippine Retailers Association (PRA) backed a value-added tax (VAT) refund scheme for foreign tourists, saying it will support international arrivals and boost the retail industry.

Paul A. Santos, PRA chairman, told reporters on the sidelines of a furniture trade show launch on May 8 that the Philippines is "one of the few countries left" that has no such VAT refund scheme.

Philippine purchases are subject to the 12% VAT on goods and services.

"What you want to do is encourage shopping in all the areas of the Philippines. You want tourists to spend more of their dollars or euros in Philippine shops," Mr. Santos said.

"We want to encourage tourists to do their shopping in the Philippines. Shopping is an integral part of the tourist experience. You go visit Hong Kong or Singapore, apart from seeing the sites and eating, the next thing that you do is shop," he added.

Mr. Santos said Singapore, Thailand, and Malaysia have VAT refund schemes.

On March 6, the House of Representatives approved House Bill No. 7292 on third and final reading. The measure will allow VAT refunds for foreign visitors on purchases worth at least P3,000.

The bill authorizes the Finance Secretary, upon recommendation of the Internal Revenue commissioner and the Tourism Secretary, to adjust the P3,000 limit based on the administrative costs of processing refunds, inflation, and other considerations.

Albay Rep. Jose Ma. Clemente S. Salceda, also the House Ways and Means committee chairman, said in February that the proposed VAT refund scheme for tourists could raise tourism receipts by 29.8%.

In January, President Ferdinand R. Marcos, Jr. gave the green light for the VAT refund program, saying he plans to issue an Executive Order.

According to Mr. Santos, the refund process is likely to be document-intensive, judging from the practice in some jurisdictions.

"The most conservative scheme would be to apply for the tax refund, (which is) granted when all the documentation is presented on exit from the Philippines like how it is implemented in the European Union," Mr. Santos said.

"Another variant would be issue the refund now, submit the documents at the airport, and if the tax authority doesn't receive the documentation within x number of days, then the refund is reversed. That is how it is implemented in other countries. But I am guessing it will be more conservative," he added.

Mr. Santos said he expects the refund scheme to "require legislation to make it work. But the President himself has endorsed it, so we will probably see some action from the Congress when it resumes session in July," Mr. Santos said.

This year, the Tourism department is projecting 4.8 million international arrivals, against 2.65 million last year. — **Revin Mikhael D. Ochave**

DBS estimates PHL Q1 GDP growth at 6%, low end of range

THE economy is estimated to have expanded 6% in the first quarter, DBS Bank Ltd. said, joining the consensus towards the low end of the forecast range, with the bank citing slowing private consumption and easing investment.

Cooling inflation may also prompt the Bangko Sentral ng Pilipinas (BSP) to keep policy rates on hold at its May 18 meeting, the bank said.

In a research note issued May 8, DBS Bank Chief Economist Taimur Baig and Foreign Exchange & Credit Strategist Chang Wei Liang said Philippine gross domestic product (GDP) growth likely slowed in the first quarter relative to recent periods.

"The Philippines will release its first quarter 2023 GDP figures this week, and we expect real GDP growth to step down to 6% year on year from above 7% over the past three quarters," the bank said.

Growth in private consumption likely moderated due to elevated inflation and high interest rates, which dampened spending power.

Private consumption growth accounts for about 70% of GDP. Domestic consumption growth rose 7% in the fourth quarter, bringing 2022 household consumption growth to 8.3%.

At 6%, the bank's projection is at the low end of the government's 6-7% target this year, and more than a percentage point behind the pace from the fourth quarter, when growth was 7.1%.

The median estimate from a *BusinessWorld* poll of 23 economists conducted last week was 6.1%.

The Philippine Statistics Agency is scheduled to report the first quarter GDP growth data on May 11.

"Business investment likely eased too as corporate margins were hurt by higher costs. The tough global external environment also meant that net trade is not likely to have boosted headline growth," the bank said.

Gross capital formation, the investment component of the economy, grew 5.9% in the fourth quarter of 2022. Full-year growth was 16.8%, slowing from 20.3% in 2021.

The BSP has raised borrowing costs by 425 basis points (bps) since May last year to curb inflation. This brought the key policy rate to a near 16-year high of 6.25%.

The aggressive monetary tightening appears to have had an impact, as headline inflation eased to 6.6% in April, from 7.6% in March. It was the lowest inflation rate in eight months or since the 6.3% posted in August.

In the first four months of 2023, inflation averaged 7.9%. This remains above the central bank's 6% forecast for 2023 and its 2-4% target.

According to DBS Bank, the BSP's policy stance has recently shifted.

"We now expect the BSP to pause at its May meeting, given the shift in tone and the faster-than-expected softening (of) inflation since February 2023," it said.

BSP Governor Felipe M. Medalla has said that if inflation slowed further in April, the Monetary Board may consider pausing its tightening cycle this month.

"The BSP is likely to judge that the policy rate is tight enough to tackle inflation after 425 bps in cumulative hikes since May 2022 to 6.25%, but any pause would be hawkish," the bank said.

However, future policy decisions should still be based on incoming economic data especially as headline inflation, although slowing down, remains above the 2-4% central bank target range.

"Commodity prices have fallen vs 2022, and second round effects should be kept at bay. Monetary policy works with a lag and would continue to restrain prices, and push headline inflation to target by the fourth quarter of 2023," it added. — **Keisha B. Ta-asan**