

Climate change puts sovereigns at downgrade risk, study finds

A GLOBAL FAILURE to curb carbon emissions will lead to rising debt-servicing costs for 59 nations within the next decade, according to a study that simulated the economic impact of climate change on current sovereign credit ratings.

Among them, China, India, the United States and Canada could expect higher costs as their credit scores fall by two notches under a “climate-adjusted” ratings system, the study published in the *Management Science* journal on Monday found.

“Our results support the idea that deferring green investments will increase costs of borrowing for nations, which will translate into higher costs of corporate debt,” researcher Patrycja Klusak said of the study led by the University of East Anglia (UEA) and the University of Cambridge.

Rising debt costs would be just one extra facet of the overall economic damage which climate change is already causing. Insurance giant Allianz estimates that recent heatwaves will already have shaved 0.6% points off global output this year.

While ratings agencies acknowledge the vulnerability of economies to climate change, they have so far been cautious in quantifying those risks in their ratings exercises because of uncertainties about the likely extent of the damage.

The UEA/Cambridge study trained artificial intelligence models on S&P Global’s existing ratings and then combined that with climate economic models and S&P’s own natural disaster risk assessments to create new ratings for various climate scenarios.

A downgrade to 59 sovereigns emerged from a so-called RCP 8.5 scenario of emissions that keep rising. By comparison, 48 sovereigns expe-

rienced downgrades between January 2020 and February 2021 during the turmoil of the COVID-19 pandemic.

If the planet manages to stick to the goal of the Paris Climate Agreement, with temperatures held under a two-degree rise, sovereign credit ratings would under the simulation see no impact in the short-term and only limited long-term effects.

A worst-case scenario of high emissions through to the end of the century would on the other hand result in higher global debt-servicing costs, rising up to the hundreds of billions of dollars in current money, the model found.

While developing nations with lower credit scores are seen hit hardest by the physical effects of climate change, nations with the highest ranking credit scores were likely to face more severe downgrades simply because they have furthest to fall.

“There are no winners,” Ms. Klusak said in an interview.

The findings come as regulators around the world seek to better understand just how much damage to economies and the global financial system to expect from climate change. A European Central Bank paper last year urged greater clarity in how those risks were being built into credit ratings.

S&P Global Ratings has published the environmental, social and governance (ESG) principles used in its credit ratings which include reference to the risk of economic damage from climate change and the costs associated with mitigating it. It declined to comment on the UEA/Cambridge study.

Fitch Ratings pointed to its system of “ESG Relevance Scores” as including factors such as exposure to environment impacts as one component in its assessments. — Reuters

Indonesian economy grows by 5.17% in Q2, fastest in 3 quarters

JAKARTA — Indonesia’s economic growth in the second quarter (Q2) accelerated unexpectedly to its highest rate in three quarters, shored up by strong household and government spending, and despite its exports weakening amid falling commodity prices.

However, some economists still expect activity to slow in the second half of the year, with exports likely to fall due to weaker global demand and businesses potentially delaying investments ahead of general elections due in February 2024.

Southeast Asia’s biggest economy expanded 5.17% in the April-June quarter from the same period a year earlier, Statistics Indonesia data showed, outpacing the 4.93% growth predicted by economists polled by Reuters. First-quarter growth was revised up slightly to 5.04%.

On a quarterly, non-seasonally adjusted basis, gross domestic product (GDP) expanded 3.86%,

compared with the poll’s prediction of 3.72% growth.

A commodities-led export boom last year boosted Indonesia’s post-pandemic recovery, but analysts expect momentum to cool as prices for its top products, like palm oil and coal, fall as global demand weakens on interest rate hikes in many countries.

Despite Indonesia’s own monetary tightening of 225 basis points from August 2022 to January 2023, household consumption, which makes up over half of GDP, expanded 5.23% on a yearly basis last quarter, the quickest pace since the third quarter of 2022.

That was due to rising household spending for the Muslim fasting month and Eid al-Fitr festivities in late April and school holidays in June, the statistics bureau said.

Growth in investment and government spending also more than doubled to 4.63% and 10.62%, respectively, as the government ex-

pected construction of roads and irrigation systems ahead of the end of President Joko Widodo’s final term in 2024.

Meanwhile, exports contracted 2.75% in the second quarter on a yearly basis, in stark contrast to last quarter’s growth of more than 10%.

Myrdal Gunarto, economist with Maybank Indonesia, said he might raise his bank’s full-year 2023 GDP growth outlook of 5.05%, but described the second quarter data as “a sign that economic activities had peaked.”

Mr. Myrdal said companies would likely pause investment decisions ahead of the elections, pointing to slower loan growth already in June.

The better-than-expected data may spur monetary policymakers to shift their focus from growth to the current account, as strong domestic demand typically leads to rising imports, said Fakhrul Fulvian, economist with Trimegah

Securities, who maintained his full-year 2023 GDP growth outlook at 5%.

Indonesia has reported a current account surplus every quarter from the July-September period of 2021 due to the export boom, helping the rupiah perform better than most other emerging Asian currencies against the US dollar.

The rupiah fell 0.1% against the dollar on Monday.

“2Q GDP outcome aligns with the BI’s (Bank Indonesia) constructive view on the economy’s growth prospects, providing them with the room to extend the pause on rates and focus on currency stability,” said Radhika Rao, economist with DBS Bank.

Last year’s growth was 5.3%, a nine-year high. The government is targeting the same growth rate for 2023. The central bank predicts GDP will expand in a range of 4.5% to 5.3% this year. — Reuters

Pope says Church open to everyone, including LGBT people, but has rules

ABOARD THE PAPAL PLANE — Pope Francis said on Sunday that the Catholic Church is open to everyone, including the gay community, and that it has a duty to accompany them on a personal path of spirituality but within the framework of its rules.

Pope Francis, speaking to reporters on the plane returning to Rome from Portugal, also said his health was good following surgery for an abdominal hernia in June. He said his stitches had been removed but had to wear an abdominal band for another two or three months until his muscles strengthened.

Flying back from the World Youth Day Catholic festival in Portugal, the 86-year-old pope appeared in good form as he took questions for about half an hour at his customary freewheeling post-trip press conference while seated at the front of the reporters’ section in the rear part of the plane.

One reporter reminded him that during the trip, he said the Church was open to “everyone, everyone, everyone” and asked if it was not incoherent that some, such as women and gay people, did not have the same rights and could not receive some sacraments.

This was an apparent reference to women not being allowed to become priests through the sacrament of Holy Orders and same-sex couples not allowed to contract marriage, which is also a sacrament.

“The Church is open to everyone but there are laws that regulate life inside the church,” he said.

“According to the legislation, they cannot partake in (some)

sacraments. This does not mean that it is closed. Each person encounters God in their own way inside the Church,” he said.

He said ministers in the Church had to accompany all people, including those not conforming to the rules, with the patience and love of a mother.

The Church teaches that women cannot become priests because Jesus chose only men as his apostles.

The Church does not allow same-sex marriage or even blessings for same-sex couples, but Francis supports civil legislation that gives same-sex couples rights in areas such as pensions, health insurance and inheritance.

It teaches that same-sex attraction is not sinful but same-sex acts are.

Since the start of his papacy, Francis has been trying to make the Church more welcoming and less condemning, including to members of the LGBT community, but without changing teachings that urge those with same-sex attraction to be chaste.

During one event during the trip to Portugal, he told a crowd that the Church had room for everyone, “including those who make mistakes, who fall or struggle,” and led the crowd in a chant of “Todos, todos, todos!” (Everyone, everyone, everyone!).

In another section of the news conference, referring to young people, he said: “Who among us has not made a moral error at some point in their lives?” — Reuters

BSP

from S1/1

However, Mr. Paracuelles said upside risks to food inflation remain due to rising global food prices and the delayed impact of the recent typhoons.

“Further out, El Niño — which the authorities expect to materialize in late 2023 or early 2024 — remains a key risk to watch,” he said.

The El Niño weather event has brought heat waves, dry spells, and heavy rains to countries around the world. It will likely persist until the first quarter next year in the Philippines.

Nomura sees full-year inflation at 5.3%, just a tad below the BSP’s 5.4% forecast and still above the 2-4% target.

“The trajectory of our forecast nonetheless implies that headline inflation will fall back to within BSP’s target by September, helped by base effects and less sticky core inflation,” Mr. Paracuelles said.

Core inflation, which excludes volatile food and fuel prices, slowed to 6.7% in July from 7.4% in June. For the first seven months of the year, core inflation averaged 7.6%.

Even as it remained above the headline figure, he said core inflation eased more substantially in July as items such as restaurants and accommodation services have become less “sticky.”

“We think a resumption of BSP’s hiking cycle will be inhibited by the continued decline in inflation, which we expect to continue in

Call centers,

from S1/1

A longstanding advantage of English-speaking proficiency for natives of the former US colony — a key component of its rise as a call center nation that helped expand its middle class since the dawn of the industry in the 1990s — is diminishing. Illustrative of the deterioration in the quality of education in the country, nine out of 10 Filipino children are unable to read a simple text with comprehension by age 10, according to World Bank data.

“I think we were better English speakers before,” Mr. Madrid said, urging the government to consider reverting to English as a mode of instruction in schools instead of the learner’s mother tongue.

Job applicants in the Philippines are also falling short on basic information technology skills like programming and troubleshooting, which BPOs increasingly need, according to Mr. Madrid.

During the pandemic, the Philippines’ outsourcing industry added 255,000 jobs, represent-

ing growth that’s at least 1% below the global expansion, Mr. Madrid said. That suggests that the country may be losing market share to India as well as newcomers such as South Africa, Egypt, Poland, Colombia, Costa Rica.

Part of the problem is poor employability. Only one is hired for every 10 outsourcing job applicants, according to industry leaders.

The skills mismatch is becoming a more urgent issue as AI threatens to disrupt industries worldwide. AI and similar technologies are projected to displace almost a quarter of the people in the Philippine outsourcing industry by 2030, according to the Asian Development Bank.

AI’s impact on the industry will be felt in a few years, and BPO workers should start learning how to use new technology to make their jobs more efficient, Mr. Madrid said. “There is time to prepare and upskill, but the time is shortening.” — Bloomberg

“This rhetoric also suggests the BSP is not in a rush to start cutting either, partly because we believe the newly appointed governor, Mr. Remolona, who has pledged policy continuity, likely shares the same view as his predecessor that it will be ‘dangerous’ to cut ahead of the Fed,” Mr. Paracuelles said.

“At the same time, the bar for the BSP to start its cutting cycle in the near term remains high, in our view, and will be carefully assessed by the BSP with due consideration of the Fed outlook to avoid adding to FX (foreign exchange) pressures and the risk of capital outflows,” he added.

Former BSP Governor Felipe M. Medalla earlier said before his term ended that it will be dangerous to start cutting rates before the US Federal Reserve due to markets’ preference for a wide interest rate differential between the Philippine and the US central banks. — Keisha B. Ta-asan and Luisa Maria Jacinta C. Jocoson

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