Total exports growth target set at 5% this year

By Justine Irish D. Tabile
Reporter

THE Department of Trade and Industry (DTI) said it is aiming for 5% growth in 2023 merchandise and services exports, a level which would exceed the Development Budget Coordination Committee's (DBCC) projections.

"We are confident that it will be a little bit more favorable than the DBCC targets of 1% for goods and 6% for services. So, we are hoping for at least 5% growth in terms of total exports," Bianca Pearl R. Sykimte, director of DTI's Export Marketing Bureau, said in an online briefing on Thursday.

Ms. Sykimte said services will drive exports after posting around $98 billion in total exports last year.

However, she said that it will be difficult to reach the targets set under the Philippine Export Development Plan (PEDP) 2023-2028, which projected total exports of $126.8 billion in 2023.

"The PEDP targets were set when there were no geopolitical tensions yet, (and before) high inflation set in. No one had also factored in a less favorable Chinese recovery," she said.

"The PEDP projections did not take into account the slowdown in the international trading environment," she added.

The Philippine Statistics Authority reported that merchandise export earnings in the first eight months amounted to $47.81 billion, a 6.6% decline from a year earlier.

"We're still down by 6.6%. But when we look at our August performance, we are the only country among the Asian economies that we're tracking that grew in August," Ms. Sykimte said.

"Year on year, our exports grew 4.2% for the month… Japan, Thailand, Hong Kong, Vietnam, Taiwan, South Korea, China, Singapore, Malaysia and Indonesia all declined," she added.

She said that in the eight months to August, the Philippines is in the middle ranks. Japan led the region with 2.1% growth in exports. It was followed by China with a 5.1% decline and Thailand, which saw a 5.4% decrease in exports.

Ms. Sykimte said that the Philippines beat Malaysia which recorded a 7.8% decline, Vietnam (-9.6%), and Indonesia (-11.8%). The Philippines were also ahead of South Korea, Singapore, Hong Kong and Taiwan, which all recorded double-digit declines in exports.

For services, she said the Philippines posted 22% export growth in the first half, driven by travel services which surged to $4 billion from $800 million in the same period last year.

"Other exports of services under information technology and business process management, telecommunications, computer information services and other business services were up 49% for January to June," she added.

Manufacturing services posted a 23% decline during the period, which includes assembly and packaging services.

Asked whether there is a need to review the PEDP, Ms. Sykimte said: "This is something that we're discussing with Philippine Exporters Confederation, Inc. and with the overall Export Development Council (but) usually we recalibrate based on the trading environment."

BoC now sees digitalization timeline delayed to 2026

THE Bureau of Customs (BoC) is seeking to postpone the full digitalization of its processes to 2026, citing procurement delays.

"We're asking for 2026, just a little bit of an adjustment, because of some delays that we've experienced… we've been asked to at least restructure a little bit (and) give a little bit of an extension to the original timeframe," Customs Assistant Commissioner Vincent Philip C. Maronilla told reporters.

"This is the first time we're doing this together with the World Bank. Unfortunately, there are intricacies in our procurement processes and the procurement processes of the World Bank that there were adjustments that needed to be made, that caused a little delay," he added.

Mr. Maronilla said the BoC is still "optimistic" about the progress made under its initial 2025 timetable.

"We still have 2024 and 2025, that's two years. But if you base it on the original timeline and delays that have happened, that's what we're basing the 2026 extension on. Even if we're able to implement it by 2025, there are other catch-up systems that we need to put up," he added.

Mr. Maronilla said that the agency's digitalization rate will be 98% this year.

"Right now, conservatively, we're predicting we're at that because some of the systems that we're trying to finish up are systems we need to integrate with other agencies and other offices and are dependent on the level of preparedness of the systems of those agencies," he added.

The remaining processes to be digitalized mostly have to do with port operations rather assessment, Mr. Maronilla said.

The Philippines Customs Modernization Project was approved by the World Bank in 2020. It aims to improve the efficiency of the agency and reduce trade costs.

Customs has reported collections in the 10 months to October of P739 billion, exceeding its target by 2.4%.

In October, revenue hit P78.616 billion, up 1.4% against target. — **Luisa Maria Jacinta C. Jocson**

PHL inflation expected to cool but stay above BSP forecast — Moody's Analytics

HEADLINE INFLATION is expected to ease over the remainder of the year, but will come in above the central bank's 5.8% full-year forecast, Moody's Analytics said.

"We expect inflation to cool through the rest of the year, but the pace will be gradual and not in the large steps seen at the start of 2023," Moody's Analytics economist Sarah Tan said in an e-mail.

She said inflation will likely average 6% this year, higher than the 5.8% full-year forecast of the Bangko Sentral ng Pilipinas (BSP) as well as the 5.8% reading in 2022.

"The El Niño weather pattern is also expected to strengthen from year's end until early 2024 which will disrupt domestic supply and put upward pressure on food prices," Ms. Tan said.

"Given the large contribution of the food category to top-line inflation, we expect headline CPI (consumer price index) to remain above the BSP's 2% to 4% target until the first half of 2024," she added.

The BSP expects inflation to ease to 3.5% in 2024 and 3.4% in 2025. However, monetary officials have said the central bank could revise its inflation forecasts on Nov. 16.

A *BusinessWorld* poll of 13 analysts conducted last week yielded a median estimate of 5.7% for October inflation, well within the 5.1-5.9% forecast of the BSP.

If realized, October CPI would slow from the 6.1% posted in September and the 7.7% from a year earlier. The median would represent the lowest reading since the 5.3% in August.

However, October would still mark the 19th straight month that inflation has breached the central bank's 2-4% target band.

The Philippine Statistics Agency will release inflation data on Nov. 7.

Ms. Tan said she expects headline inflation to ease to 5.7% as well in October.

"Food inflation should ease a touch as we entered the palay harvest season in October. That should see a stabilization in rice supply which supports the case for a softer price growth for rice compared to September," she said.

The price of regular-milled rice ranged from P41 to P44 a kilo as of Oct. 31, while well-milled rice sold for P45-P53, the Agriculture department showed.

The price of rice has steadied after President Ferdinand R. Marcos, Jr. lifted price controls on Oct. 4.

In September, Mr. Marcos ordered prices to be capped at P41 a kilo for regular-milled rice and P45 for well-milled rice.

"However, the increase in transport fares on jeepneys, and higher electricity bills as Manila Electric Co. (Meralco) passed down the costs from higher generation charges will keep inflation hot," Ms. Tan added.

In October, traditional and modern jeepneys increased their fares by P1 to P13 and P15, respectively.

Meralco also raised rates for typical households by P0.4201 per kilowatt-hour to P11.8198 in October.

The BSP hiked borrowing costs by 25 basis points (bps) in an off-cycle move, bringing the key rate to a fresh 16-year high of 6.5%. The BSP has raised policy rates by 450 bps since May 2022.

The BSP's next policy-setting meeting is scheduled on Nov. 16. – **Keisha B. Ta-asan**

OPINION

Strategizing for sustainable development

SUITS THE C-SUITE
NOEL P. RABAJA

Public policies attempt to fulfill one or more of the following objectives: efficiency, equity, and stability. Efficiency and stability are necessary conditions for sustainable growth while equity helps make development inclusive.

This is the second article in our series following the 2nd SGV Tax Symposium, which focused on how a sustainable and effective tax ecosystem can advance the sustainability agenda for both the public and private sectors.

In this article, we will discuss the Philippine strategy for sustainable development.

GROWTH THROUGH TRADE AND INVESTMENT

The Philippine Development Plan (PDP) 2023-2028 aims for a deep economic and social transformation to reinvigorate job creation and accelerate poverty reduction by steering the economy back to a high-growth path. In this regard, two main performance indicators are identified and will be monitored by the National Government.

The first is for the country to graduate into upper middle-income class status within the term of the current administration. For this, the economy must grow its per capita income above the threshold set by the World Bank, which means a gross national income (GNI) per capita of at least $4,466. In 2022, the Philippines achieved a GNI per capita of $3,950.

The second is to lower the poverty level from 18.1% in 2021 to single digits by 2028 — the end of the term of the current administration. Both indicators require high growth rates. For the next year through 2028, the government pencils the growth rate between 6.5% and 8%.

Growth is expected to be investment-led with the implementation of structural changes such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law, which lowered the corporate income tax rate, and the amendments to the Public Service Act (PSA), Foreign Investment Act (FIA), and Retail Trade Liberalization Act (RTLA), which further liberalized the economy. The new legislation is expected to attract more local and foreign investment, especially in the liberalized sectors. For the energy sector in particular, amendments to the PSA are envisioned to help raise the capital needed to speed up the energy transition of the country to renewables.

In addition, the Regional Comprehensive Economic Partnership (RCEP), a trading bloc that encompasses the ten members of the Association of Southeast Asian Nations (ASEAN) and the ASEAN Plus One Free Trade Agreement (FTA) partners Japan, China, South Korea, Australia, and New Zealand, is already in force for the Philippines, helping ease market access through trade and investment rules and supporting global and regional supply chains. The Philippines can potentially position itself as a regional manufacturing hub if the right incentives and policy measures are put in place to encourage local and foreign investors to participate. Together, trade and investment are expected to play an important role in attaining economic transformation, the second goal of the PDP.

HUMAN CAPITAL AND INFRASTRUCTURE

The ability of people to take advantage of market opportunities arising from investment rests on human capital. To this end, the first goal of the PDP is social transformation which includes, among others, sustained expenditure on social services, mainly education, health, and social protection.

The first two goals of the PDP help attain the developmental objectives of efficiency and equity, which rest on the pillars of sustainability and resilience. The third fosters societal resilience: an enabling environment encompassing institutions, macroeconomic stability, and the physical and natural environment.

Institutions are vital to economic acceleration, which is why the government's steps to enhance the ease of doing business are most welcome. Infrastructure development also enables an economy to sustain higher levels of growth, which, in turn, catalyzes yet more investment. The Public-Private Partnership (PPP) Act is up for the signature of President Marcos and, if approved, is expected to further enhance the business atmosphere in mobilizing private resources for infrastructure development.

The government aims to sustain its infrastructure program at 5-6% of GDP through 2028 amid a six-year medium-term fiscal framework. This plan gradually narrows the deficit to 3% of GDP by 2028, down from 7.3% in 2022, such that the debt-to-GDP ratio is reduced from nearly 61% in 2022 to a more sustainable level of at most 53% by 2028.

DEBT MANAGEMENT

The National Government's debt was less than 40% before the pandemic struck. It expended much of its fiscal space combatting the pandemic, incurring debt and large budget deficits. While the current 61% debt-to-GDP ratio may be manageable for an emerging economy like the Philippines for some time, the country may not have the fiscal space to respond to another potential domestic or external shock. If the debt continues to rise more than the economy, risks will increase, and the government may "crowd out" private investment as it competes with the private sector for funds to service its debt.

The planned fiscal consolidation entails harmonizing the revenue needs with the promotion of investment through the structure and administration of the reformed incentive system. The National Government plans to raise more revenue to finance the country's socio-economic needs, largely through a progressive and simplified tax system, more efficient and effective tax collection measures through digitalization and, to some extent, from policy measures such as value-added tax on digital service providers and excise tax on sweetened beverages and junk food.

Achieving fiscal stability presupposes the sustainability of fiscal policy, and fiscal stability helps "crowd in" private investment.

PRICE STABILITY AND INFLATION

In his second State of the Nation Address (SONA), President Ferdinand Marcos, Jr. singled out inflation as the country's most pressing problem. In the first nine months of 2023, inflation averaged 6.6% — far above the upper end of the target range of 2-4% set by the BSP. If left unchecked, inflation could undermine growth. Not only does this increase costs to organizations, but it also sets in motion second-round effects as workers start demanding higher wages, consequently increasing business costs and discouraging investments.

Inflation is partly driven by supply-side issues and the government is allocating more resources to the agriculture sector to boost production. Mr. Marcos also mentioned that the National Government had distributed 28,000 new tools and machinery to farmers. An additional 600 km of farm-to-market roads were laid down to support the 14 million hectares of farmland, enhancing farmer access to markets. In addition, he signed Executive Order No. 28 in May, forming the Inter-Agency Committee on Inflation and Market Outlook, which is tasked to keep inflation within government targets and boost the economy.

ENHANCING CLIMATE RESILIENCE

While price stability and fiscal sustainability are important macroeconomic issues, environmental sustainability is increasingly gaining importance. Climate change uncertainties and challenges need to be managed and both the Philippine government and the private sector are hard-pressed to deliver their commitments to addressing them. Despite climate change risks, the Philippines has the opportunity to position itself as a prime destination of foreign investments against climate change or environmental, social, and governance (ESG) investments.

The government calls for embedding resilience, sustainability, and nature-based solutions in infrastructure planning and investment to enhance climate resilience. Likewise, investments in renewable energy are expected not only to enhance energy security but also reduce greenhouse gas (GHG) emissions.

From an economic vantage point, GHG emissions are economic "bads" and are a cause of inefficiency as they get over-produced. Their effects, however, go beyond national borders, and while the Philippines contributes minimally to global GHG emissions, the World Risk Index 2022 report identifies the Philippines as the most disaster-prone country in the world.

The government envisions that by 2028: (1) Climate and disaster risk resilience of communities and institutions will increase (2) Ecosystem resilience will be enhanced, and (3) A low-carbon economy transition is enabled.

To ensure that these are realized, the government is set to safeguard cross-sectoral convergence and implement a comprehensive risk management approach to address the adverse consequences posed by climate change. It will also promote a green and blue economy coupled with improved governance to guarantee long-term climate and disaster resilience.

BUILDING RESILIENCE THROUGH SUSTAINABLE DEVELOPMENT

Coming off from the pandemic and with the current global economic climate, it is opportune for the government to proactively drive for actionable policies and programs that focus on building the resiliency of the economy through sustainable development with greater emphasis given to addressing climate change.

Navigating external and domestic economic headwinds will not be an easy feat for the administration, but the private sector will be an important catalyst for sustainable development. With the private sector sharing industry knowledge, resources and potentially even leading certain socio-economic programs and projects of the National Government, it is to be hoped that AmBisyon Natin 2040 of long and healthy lives for Filipinos that are strongly rooted, comfortable, and secure will be achieved.

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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