WB: PHL inflation seen within 2-4% band each month of 2024

INFLATION in the Philippines may settle within the 2-4% target band for every month in 2024, the World Bank (WB) said, though it warned of the need to remain alert for risks to the inflation outlook.

At the 2024 International Tax Conference, World Bank Philippine Senior Economist Ralph van Doorn said containing inflation through both monetary and nonmonetary measures remains the main challenge this year.

"We think it's likely that inflation will stay over the whole year between 2-4%," he told reporters on the sidelines of the event. "We know there are risks to it, but we'll have to see if they materialize. If we see that these risks are becoming more concrete, then we will have to also make adjustments to our projections."

The Philippine Statistics Authority reported that headline inflation decelerated to an over three-year low of 2.8% in January, marking the second straight month it fell within the Bangko Sentral ng Pilipinas (BSP) target range of 2-4%.

In its December update, the World Bank projected Philippine inflation to settle at 3.6% this year and 3% in 2025. The BSP expects inflation to average 3.6% this year and 3.2% in 2025.

Asked if easing inflation could prompt the BSP to cut borrowing costs, Mr. Van Doorn said it is difficult to forecast what the BSP will do.

"We have to really let the central bank do its job," he said. "The BSP has a very data-driven approach, so it will look carefully at inflation, at underlying core inflation and inflation expectations before making a decision on rate cuts."

The BSP has kept its benchmark interest rate unchanged at a 16-year high of 6.5% for three straight meetings. It had hiked rates by 450 basis points (bps) between May 2022 and October 2023 to tame inflation.

BSP Governor Eli M. Remolona, Jr. has said that the Monetary Board may consider a rate cut in the second half, but cited as a condition that inflation be firmly within the 2-4% target.

Mr. Van Doorn said the World Bank sees global and domestic risks for the Philippine economy this year.

"We see tensions and wars in various parts of the world, and that means this all could have an effect on supply chains, on food supply, on fuel prices," he said.

"If that happens, it's most likely to have an effect on many countries that import food and fuel, and the Philippines is one of them," he said.

Another risk is that major central banks may keep their own monetary policy tighter for longer, as global inflation may be "stickier-than-expected," which could affect the Philippines as well.

The BSP is widely expected to maintain an interest rate differential with the Federal Reserve to shield the peso from depreciation pressures and volatility.

The Fed has kept borrowing costs unchanged at 5.25-5.5% since September, following the combined 525 bps worth of rate hikes implemented between March 2022 and July 2023.

"Our third risk would be more of a domestic nature. We see the risk of El Niño, the impact it could have on the agricultural sector, and that could have an effect on the food supply and food prices," Mr. Van Doorn said.

He also cited uncertainties like the proposed minimum wage hikes, which could stoke inflation and add pressure to inflation expectations.

"It's important to be very careful in considering these wage hikes to make sure that inflation expectations remain anchored at between 2-4%," he said.

Legislators have been considering whether to increase minimum wages in the private sector by P100.

Meanwhile, investments into the Philippines will be challenging this year due to a slower global growth outlook, he said.

"But we also see that that country has done a lot (to) attract investment, passing very important laws that promote investment competitiveness. It's important to implement these and make sure investors know about it," Mr. Van Doorn said.

The central bank reported that net inflows of foreign direct investment (FDI) grew 27.8% year on year to $1.048 billion in November.

This was the highest FDI net inflow level recorded for an individual month since the $2.662 billion posted in December 2021.

Month on month, net FDI inflows rose 60% from $655 million in October.

The BSP projects FDI net inflows of $8 billion by the end of 2023 and $10 billion at the end of 2024.

Separately, Finance Secretary Ralph G. Recto met with World Bank Group Managing Director and Chief Financial Officer Anshula Kant to discuss how to improve the bank's lending terms for the Philippines and identify potential areas for partnership.

"The World Bank committed to introducing innovative financial instruments tailored to the needs of the Philippines," the Department of Finance (DoF) said in a statement on Tuesday.

"These include instruments specifically designed to sharpen the country's crisis toolkit to ensure swift access to funding during times of emergency," it said.

The DoF and the World Bank reiterated their strong commitment to boost the government's socioeconomic agenda through their partnership, the DoF added. — **Keisha B. Ta-asan**

Unfunded Mindanao rail may need to undergo further NEDA review

THE Department of Transportation (DoTr) may need to bring the feasibility study for the Mindanao Railway project back to the National Economic and Development Authority (NEDA) to update the proposal, with the withdrawal of financing from China requiring an overhaul of cost estimates and a change of contractors.

Transportation Secretary Jaime J. Bautista in a briefing on Monday said the government has not sought financing from the Japan International Cooperation Agency (JICA) or other official development assistance (ODA) sources for the project.

"We will need to review the detailed engineering design and since this project has been delayed, we might need to again bring this to NEDA for updating," he said.

Earlier this month, Mr. Bautista said the DoTr will continue to work on the first phase of the Mindanao Railway project after withdrawing its request for ODA from China.

The DoTr will also continue the various pre-construction activities in Davao City while negotiating funding for the project.

"We inherited this project from the previous management and they have started working with some landowners so there are lot owners already paid," Mr. Bautista said.

"But since we will update the feasibility study, we will have to again look at the numbers and if the cost is more than 10%, we will need to go back to NEDA. Also, we'll need to look at the ridership because the alignment is almost similar to the existing highway," he said.

He said the government is hoping to update the feasibility study within the year, calling the Mindanao rail project "important," noting, "we've already promised this."

Mr. Bautista also said NEDA approval process has been efficient, citing the Manila International Airport project, which only took six weeks to approve.

"As long as we give the right information and numbers to NEDA, they will be able to work fast and issue the approval," he said.

Last year, the DoTr said it is considering applying for ODA with Japan, South Korea, or India to fund the government's three major railway projects, including the Mindanao Railway, after ruling out China as a funding source.

The decision to withdraw the Philippine request for ODA from China was due to lack of progress in signing a loan deal.

Finance Secretary Ralph G. Recto said there is a possibility the project could be implemented as a public-private partnership (PPP).

"We already have the new PPP Code. We are just awaiting as well as the updated feasibility study of the project and then we can discuss the best way to procure the project," he said.

Jeremy S. Regino, undersecretary for railways, said the financing could very well involve DoTr budget funds, ODA, or private partners, adding that the mix of financing "will make the project more viable."

Meanwhile, JICA Chief Representative Sakamoto Takema said the aid agency has not received any information from the Philippine government regarding the project.

"We respect the preparation of the well-organized plan like the master plan. We don't know the details of the project. We need to see more information, maybe after (the proposal is updated) by DoTr," he said.

The first phase of the Mindanao Railway project covers the 102-kilometer segment from Tagum City, Davao del Norte to Digos City, Davao del Sur. This segment is valued at P81.6 billion.

Once finished, the line will serve around 122,000 passengers a day and is expected to reduce travel time to one hour from the current three hours from Tagum City to Digos.

Separately, Mr. Regino said the Philippines has not terminated its negotiations on the Philippine National Railways (PNR) South Long-Haul project with China, and discussions are still ongoing.

"In fact, the CEXIM (China EXIM Bank) technical team was here last December and looking into the progress of our right of way acquisition, and another study is being conducted by the Chinese consultants," he said.

The Duterte government in February 2022 awarded to China Railway Design Corp. a contract to build the PNR South Long-Haul project. State-owned Export-Import Bank of China, however, has not confirmed whether it will approve the loan. — **Keisha B. Ta-asan**

Prototyping wafer fab deemed crucial for chip industry development

By Justine Irish D. Tabile
Reporter

THE GOVERNMENT economic team's coordinating secretary, Frederick D. Go, said the establishment of a laboratory-sized wafer fabrication plant for prototyping will address the current gaps in the chip industry's capabilities.

"We are targeting to boost what we are already good at and to grow the integrated circuit (IC) design industry by establishing a prototype or laboratory-sized wafer fab," according to Mr. Go, who heads the Office of the Special Assistant to the President for Investment and Economic Affairs.

Speaking at the World Trade Center Metro Manila late Monday, Mr. Go said that the semiconductor industry is already strong in the assembly, testing, and packing elements of the value chain.

He said the development of the new capability is a presidential priority, with the Board of Investments (BoI) and the Department of Trade and Industry (DTI) directed to pitch possible investors.

He added that the government-owned National Development Co. (NDC) will support and fund the project.

"Obviously, we have to get the support of the various agencies to roll out these priority programs and initiatives," Mr. Go said.

"I told DTI and BoI that we want to really grow the semiconductor and microelectronics sectors. And one way to really do it is by doing this project, and I'm very glad that they're very supportive of this," he added.

Mr. Go also said that he will seek the support of the Department of Science and Technology (DoST), Semiconductor and Electronics Industries in the Philippines Foundation, Inc. (SEIPI), and the private sector.

"We can probably put this together with the support of the DoST, DTI, and SEIPI. If you put all these three and the private sector participants together, I believe we can get this done," he said.

He added that a full-sized wafer fabrication plant may be possible in the future with "a mature assembly and packaging industry, a strong IC design industry, and reduced power costs."

"Unfortunately, I think that would be beyond my term in office. But we must lay the foundation now," he added.

NDC General Manager Antonilo DC. Mauricio, who also attended the event, said the company is often tapped for projects such as the prototype wafer fabrication plant.

"Since we are a government investment company, we identify gaps that need a corporate vehicle for national development. And normally, since there's no other company like us, they think about us for pushing opportunities like this," Mr. Mauricio said.

Philippine Economic Zone Authority (PEZA) Director General Tereso O. Panga said a wafer fabrication plant is on the wish list of the US delegation expected to visit the Philippines.

"That is the purpose of the US delegation's trip here — to look at the possibility of putting up a wafer fabrication plant," Mr. Panga said on the sidelines of the event. "It's upcoming, but we are also in coordination with the US Trade and Commercial Section."

Mr. Panga recently met with US officials led by Economic Counselor Phil Nervig, Trade and Investment Economic Officer Tom Pohlman, Commercial Specialist Easter Villanueva, and Economic Specialist Alta Paraiso.

The US is currently diversifying its chip sourcing and building up its on capacity in light of the risks posed by a potential disruption of chip supply from Taiwan.

PEZA reports that the US is the investment promotion agency's second largest foreign investor, accounting for 14.16% of its registered business enterprises, including Texas Instruments, Collins Aerospace, Analog Devices, Concentrix, MOOG, Teradyne, and JP Morgan Chase Bank.

"With PEZA being home to the largest industry players in the semiconductor industry, the parties also discussed collaboration through the CHIPS and Science Act, a US policy initiative aimed at diversifying its semiconductor supply chain," PEZA said in a statement on Tuesday.

Expected on March 11-12, the US Presidential Trade and Investment Mission will be led by US Secretary of Commerce Gina Raimondo.

"With the incoming high-level trade mission to be dispatched by President Joseph R. Biden in March, PEZA is bullish on welcoming more US companies to increase their investment portfolio in the economic zones from the current P404.37 billion pesos," Mr. Panga said.

Wearables industry warns more jobs at risk if wage hike bill becomes law

THE Confederation of Wearable Exporters of the Philippines (CONWEP) said more jobs in the wearables industry could be lost if the P100 wage hike bill is signed into law, noting that previous wage increases are estimated to have resulted in the loss of 21,912 jobs.

In a briefing on Tuesday, CONWEP Executive Director Ma. Teresita Jocson-Agoncillo said the industry is projecting job losses just from the wage hikes implemented last year and in 2022.

Citing feedback from foreign clients, Ms. Jocson-Agoncillo said that "a legislated minimum wage hike with the recent increase on the Regional Tripartite Wages and Productivity Board (RTWB) last September and October is like the final nail in our coffin."

CONWEP estimated a decline of at least 12% in industry employment this year to 160,888 direct and indirect jobs, without even considering the proposed P100 wage hike.

"Our projection of a dip of another 12-15% in industry employment was projected without incorporating the additional legislated wage increase," she said.

In 2022 and 2023, the industry recorded a 2% and 13% decline in employment, respectively, following the pullout from the Philippines of a major European client, which she said was "just one brand in the sportswear sector. One (company) had to retrench 7,000 workers between 2022 and 2023," she said.

"For this particular brand in Region VII (Central Visayas), close to 10,000 workers were retrenched. There was another factory manufacturing the same brand which also had to retrench 2,800 workers," she added.

She said that the European brand shifted production to Vietnam following the signing of a free trade agreement between Vietnam and the European Union, while a US brand in sportswear and sport equipment also has plans to pull out ahead of the looming P100 wage hike.

"Mere news (about) the Senate pushing for a P100 minimum wage increase alarmed investors and buyers," she said.

She said that the US brand, which currently employs 6,000 workers, is planning to pull out and move to Indonesia and Cambodia "if the Philippines started to really get more expensive while not having been able to recover from the past two years' increases in minimum wages."

According to Ms. Jocson-Agoncillo, the two consecutive wage board-ordered increases in 2022 and 2023 increased wages by P73, P80, P106, and P64 in the National Capital Region, Region III or Central Luzon, Region IV-A or Calabarzon, and Region VII, respectively.

"The two consecutive mandated RTWB minimum wage increases (weakened) the industry's competitive position ... We were unable to protect jobs, unable to keep jobs in the country. So another regulated or even mandated wage increase will really be devastating," she said.

CONWEP put the daily minimum wage in the Philippines at $6.7-11, more expensive than Vietnam ($5.45-7.84), Indonesia ($4.8-12.15), Laos ($2.5-3.15), and Myanmar ($2.28-2.76).

Meanwhile, the P100 wage hike is expected to lead to a 21% increase in labor costs, which constitutes 35% of total cost in the industry.

Asked how many jobs are at risk, Ms. Jocson-Agoncillo said passing the bill could result in the retention of only about 20-30% of the current workforce.

CONWEP has written President Ferdinand R. Marcos, Jr., the Senate, the Department of Trade and Industry, and the Department of Labor and Employment (DoLE), seeking a two-year subsidy and a freeze to the wage increase plans.

The group proposed a monthly P1,000 government inflation subsidy for two years for minimum wage earners, instead of a legislated increase in the minimum wage.

"We are currently exploring the possibility of tapping into the Adjustment Measure Program, which is in some form a Job Protection Program of DoLE," Ms. Jocson-Agoncillo said.

Ms. Jocson-Agoncillo said this is similar to the government support measures for employers during the pandemic in order to preserve employment levels.

"We are hoping to tap this again — anything between a P600 and P1,000 inflation subsidy," she added.

In the group's letter, the two-year inflation subsidy was pitched as a means to allow the industry to recover, with global demand for apparel exports expected to remain soft until March 2026.

It added that Vietnam, China, and Cambodia have implemented support programs for their apparel exporters.

"That is the reason why we sent the letter, to look into a job protection program for the industry. We are already a distressed industry, so we request the government put this up first. Then by 2026, who knows, we can start to recover," Ms. Jocson-Agoncillo said.

She said the subsidy will allow the industry to maintain a staffing level of 160,000.

CONWEP projects exports in 2024 to decline 11% to $1.2 billion in 2024.

"Our projections for 2024 don't look good. We ran a survey because CONWEP represents 60-70% of the industry, and our projection shows that we may run another 11% at minimum to 15% maximum negative growth," Ms. Jocson-Agoncillo said.

She said that the study does not cover data for textiles and only covers apparel, leather goods, and footwear.

"We are not interesting anymore to brands because we are not enjoying any preferential status for garments," she added.

Ms. Jocson-Agoncillo said that January to February are usually the peak seasons for orders for the spring and summer collections.

"But we are not getting the orders. The orders are still soft, unlike in previous years," she added.

She said that orders for spring and summer normally come in by December-February, with production runs set between March and May, just in time for the spring and summer schedules. — **Justine Irish D. Tabile**