

# Favorable beverage tax outcomes depend on 'efficient design' – WB



POSITIVE OUTCOMES from a sugar-sweetened beverage taxes like reduced consumption and improved health will depend on how well the tax is designed, the World Bank (WB) said.

"Sugar-sweetened beverage (SSB) taxes are an important fiscal and health policy tool since they raise tax revenue and improve health by reducing demand, as well as reduce health expenditures by alleviating the burden on the health system," the bank said in a note.

"SSB taxes can be designed efficiently to reduce costs of over-consumption related to both negative externalities and internalities and do not generally

distort other aspects of economic activity," it added.

Last year, former Finance Secretary Benjamin E. Diokno proposed to increase the excise tax on sweetened beverages. The initial proposal sought to raise the tax to P12 per liter for beverages using any kind of sweetener.

Under the Tax Reform for Acceleration and Inclusion law, the government introduced an excise tax of P6 per liter for drinks containing caloric or non-caloric sweetener, and P12 per liter for drinks containing high-fructose corn syrup or any such sweeteners in combination.

The tax increase on sweetened beverages along with another pro-

posal for a "junk food" tax could yield up to P76 billion in revenue in the first year of implementation, according to Mr. Diokno.

Current Finance Secretary Ralph G. Recto said he is not pursuing his predecessor's proposals for these taxes.

The World Bank said that SSB taxes must take into account each government's capacity to implement taxes.

"Overall, SSB taxes can be considered a win-win policy that can help to improve health outcomes and at the same time generate tax revenue, while generating benefits for equity, health system efficiency, and further societal gains," it added.

The bank noted that one concern often raised about SSB taxes is that they "lead to job losses."

"However, it is important to keep in mind that when consumers reduce their purchases of SSBs they will reallocate their spending to other goods and services, including untaxed products from the same beverage industries, and governments will spend the revenue generated by the tax," it said.

"Studies of employment and unemployment outcomes following the introduction of SSB taxes in Mexico, Peru and two local jurisdictions in the US have found no impact on jobs or unemployment claims, including in industries that produce and sell SSBs," it added.

It also noted concerns on the tax's impact on lower-income groups.

"Indeed, while consumption taxes can be regressive because lower-income individuals spend a higher share of their income on consumption, from a health tax perspective they can be considered progressive for several reasons."

"Low-income individuals tend to be more price sensitive and so are likely to be more responsive to the tax and reduce their consumption to a greater extent. They therefore garner a relatively higher health improvement and, therefore, a commensurate benefit," it added. — **Luisa Maria Jacinta C. Jocsos**

## Poverty, from S1/1

To grow by 8% or higher, the Philippine government needs to boost productivity in the agriculture sector, which should expand by at least 3% annually over the next five years.

Based on PSA data, the Philippine economy grew by 5.6% in 2023, slower than the 7.6% growth in 2022. The agriculture, forestry and fishing sector posted growth of 1.2%, better than 0.5% in 2022.

Mr. Villegas said the government needs to attract more foreign direct investments to ensure long-term capital that is needed for at least 8% annual growth.

"Our investment-to-GDP ratio is still at a low of 22% and we must be able to increase that. It is quite clear that it will not come from local sources because we are highly indebted and our savings rate is also one of the lowest in this region," he said.

Latest central bank data showed net inflows of FDIs into the Philippines rose by 27.8% to \$1.048 billion in November 2023 from \$820 million in the same month in 2022. This was the highest monthly FDI net inflow recorded since \$2.662 billion in December 2021.

For the first 11 months of 2023, FDI net inflows went down by 13.3% to \$7.58 billion from \$8.74 billion in the comparable year-ago period. The BSP expects to record FDI net inflows of \$8 billion at end-2023 and \$10 billion at end-2024.

"We have to make sure that every year until the end of the present administration, we get an average of \$15-20 billion worth of FDIs and that is not difficult to attain," Mr. Villegas said, citing the Maharlika Investment Fund and an amended law for public-private partnerships.

The Marcos administration should also enhance its governance and boost the business environment in the Philippines, Mr. Villegas said.

"Oftentimes when I talk to foreign investors, the word is the left hand of the government does not know what the right hand is doing. That there is no coordination and sometimes even policies go against one another," he said.

"So, if the present administration is able to improve business sentiment, fight against corruption, enhance agriculture productivity, and attract more foreign investments, we can bring down poverty incidence to single digit."

Meanwhile, Jose Enrique "Sonny" A. Africa, executive director of think tank IBON Foundation, said a decrease in official poverty statistics was mostly due to changes in methodology rather than improvements in the income of the poorest households.

"For instance, changes in methodology in 2000 and 2009 in effect reduced poverty incidence by 6.5 and 6.1 percentage points, respectively," he said. "Some portion of the gains from economic growth probably trickled down but definitely much less than official poverty figures would indicate."

Mr. Africa also said that the recent decline in poverty incidence could be attributed to the short-term income boost that was provided by the Pantawid Pamilyang Pilipino Program, and not the creation of enough quality jobs.

"To be blunt — it is completely wrong to fixate on economic growth as if this headline statistic is what will reduce poverty incidence," Mr. Africa said.

"The more important metrics to look at for really broad-based, equitable and sustainable development are more productive agriculture, more extensive Filipino industrialization, and more extensive publicly provided social services and social protection," he said.

Foreign industrial firms that operate as low value-added links of global value chains in export territories is not industrialization, he said.

"The structural reason for chronic poverty is that decades of reckless globalization have caused manufacturing to fall to its smallest share of the economy in 75 years, and agriculture to its smallest in history," he said.

"This is because narrow-minded neoliberal thinking has wrongly dismissed the critical importance of responsible state intervention to develop the economy and reduce poverty."

Mr. Africa said the government should address inequality to help reduce poverty. This includes wage increases to redistribute a portion of profits to workers, or a wealth tax for billionaires to expand social services. — **Keisha B. Ta-asan**

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