DBCC may revisit growth targets — Balisacan

THE DEVELOPMENT Budget Coordination Committee (DBCC) has a "good case" for revisiting its growth targets for this year amid a weaker global economic outlook, National Economic and Development Authority (NEDA) Secretary Arsenio M. Balisacan said on Tuesday.

"When we were preparing our assumptions, forecast and growth programs in the last quarter of last year, we were working on the assumption that the global economy would recover from its downturn in 2023. Now, IMF (International Monetary Fund) and many other organizations are saying that it's likely to continue to slow down further," he told a media briefing in Pasig City.

Last December, the DBCC narrowed its gross domestic product (GDP) growth target to 6.5-7.5% from 6.5-8% previously. The Philippine economy grew by 5.6% in 2023, falling short of the DBCC's 6-7% goal for the year and slower than the 7.6% expansion in 2022.

But since the start of 2024, Mr. Balisacan said the global economy has not been growing as much as earlier expected. According to the IMF, global growth is projected at 3.1% this year, but risks remain.

"In other words, it's less robust. It's more anemic the global growth than was initially expected," he said.

The NEDA chief said the Philippine economy is also facing challenges from the El Niño weather phenomenon, inflation and high interest rates.

The El Niño phenomenon has been affecting agricultural production, with the weather bureau expecting it to last until the second quarter of the year.

Last month, the Philippine central bank kept the key rate at 6.5% — the highest in nearly 17 years — for a third straight meeting. The Bangko Sentral ng Pilipinas (BSP) has raised policy rates by 450 basis points (bps) from May 2022 to October 2023 to tame inflation.

For the first two months of 2024, headline inflation averaged 3.1%. The BSP expects inflation to average 3.6% this year.

Mr. Balisacan said there is a "good case" for revisiting the macroeconomic assumptions and targets, but they would still have to wait for the release of the first-quarter GDP data on May 9.

"But even if we set it from the range of 6.5-7.5%, to say 6-7%, that's still to us, a good range. I think for this year, I'm okay with the 6-7% [target], it's very much achievable," he said.

Last month, Finance Secretary Ralph G. Recto said the government might have to adjust its fiscal targets for the year to be "more realistic."

Most multilateral institutions' Philippine growth forecasts do not meet the lower end of the DBCC's target range for 2024, including the World Bank (5.8%), the International Monetary Fund (6%) and the Asian Development Bank (6.2%). — **B.M.D. Cruz**

BUSINESSWORLD B-SIDE

Future-proofing Philippine education with technology

THE Philippine education sector must maintain the strides it has made in technology adoption to upgrade teaching methods and prepare students for future jobs that require a deep understanding of technology, an expert said.

In this B-Side episode, Ryan Lufkin, vice-president of Global Strategy at Instructure, a New York-listed education technology innovator, discusses with *BusinessWorld* reporter John Victor D. Ordoñez how modern technology can be used to ensure that Philippine education remains relevant. >>> *https://tinyurl.com/26k9rjvo*

Trade,
from S1/1

Outbound shipments of manufactured goods in January, which accounted for 81.4% of total exports, grew by 10.5% year on year to $4.83 billion.

Electronic products, which accounted for 58.2% of the manufactured goods or more than half of total exports, rose by 16.3% to $3.45 billion.

Semiconductors, which made up 45.5% of the total, jumped nearly 20% to $2.7 billion in January.

"Electronics, the country's largest export segment, showed a stronger recovery. This outturn was in line with positive trends in the global semiconductor industry, where technology bellwethers Taiwan and South Korea have also experienced improved export performance due to strong chip demand," China Banking Corp. (China Bank) said in a research note.

However, ANZ Research economists Debalika Sarkar and Sanjay Mathur said the rebound in exports was mainly driven by favorable base effects.

"The base effect lift to exports was particularly evident in the electronics segment, which accounts for close to half of overall exports," they said in a research note.

They added that even if the growth is impressive, export levels remained almost unchanged wherein the lack of improvement in level data makes them less confident about the real strength of the export recovery.

This also showed that the relationship between the Philippines' semiconductor exports and the global technology cycle is weakening.

The United States was the main destination of Philippine-made goods in January as exports amounted to $902.33 million or 15.2% of the total exports that month.

Other top export trading partners include Japan, which accounted for a 14.6% share or $869.25 million, and Hong Kong with 12.8% or $761.08 million.

IMPORTS CONTINUE TO DROP

Robert Dan J. Roces, chief economist at Security Bank Corp., said in an e-mail that the imports decline in January can be attributed to "lower global commodity prices or a slowdown in domestic spending."

The Philippines' importation of raw materials and intermediate goods slipped by 5% to $3.73 billion in January. This segment accounted for 36.8% of the January import bill.

Imports of capital and consumer goods were valued at $2.95 billion (down 6.5%) and $2.09 billion (up 15.8%), respectively.

"The persistent decline in imports of capital goods and of raw materials and intermediate goods remains an area of concern for the economy, as it reflects businesses' hesitance to invest in items that would contribute to economic productivity," China Bank said.

Mineral fuels, lubricants and related materials plunged 35.4% to $1.34 billion in January from $2.07 billion a year earlier.

China remained the country's biggest source of imports with a 26.1% share worth $2.65 billion. Japan trailed with a 7.8% share ($789.36 million) and Indonesia with a 7.7% share ($779.13 million).

Looking ahead, Mr. Tsuchiya expects exports growth to remain weak due to the expectations of a slowing global economy, which will put pressure on overall external demand.

"On the other hand, elevated interest rates and lower investment demand will weigh on capital goods," he said.

Mr. Roces said it's still too early to predict if the exports growth and imports decline seen in January will continue "given the possibility of market volatility due to various central banks globally preparing to unwind rates."

China Bank said it expects a further recovery in exports, particularly semiconductors, in the second semester.

"Going forward, firm private consumption, government's infrastructure spending and existing food supply issues in the domestic economy will provide a floor to imports. In combination with a tentative recovery in exports, we do not expect a material reduction in the trade deficit this year," ANZ Research said.

'Temperature,'
from S1/1

The study also showed that El Niño Southern Oscillation (ENSO) events also stoke inflation.

"Short-term inflationary effects of temperature shocks on headline, food, and non-food are deeper in magnitude at 0.49 ppt, 0.69 ppt, and 0.49 ppt, respectively, when we incorporated dummy variables for episodes of ENSO events," the BSP economists said.

The Philippines is currently in the midst of an El Niño weather event, which has caused dry spells that disrupted agricultural output and fueled food inflation. El Niño is expected to persist through the second quarter.

Headline inflation accelerated for the first time in five months to 3.4% in February as prices of food continued to rise. Rice inflation, which accounts for almost half of the headline print, surged to 23.7% in February — the fastest since the 24.6% in February 2009.

The BSP earlier said that inflation could temporarily accelerate above the 2-4% target range in the second quarter due to the "adverse impact of El Niño weather conditions on agricultural production and positive base effects." The BSP expects inflation to average 3.6% this year.

In the study, BSP economists noted that temperature shocks more heavily impact the prices of food over non-food.

"Disaggregating the components of consumer prices, the results show that the inflationary impact of temperature shocks on food prices is deeper in magnitude and long-lasting in period at 0.79 ppt vis-a-vis the effect on non-food prices, which is rather small at 0.31 ppt and transitory up to 2 years only," they said.

FULL STORY

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Chip-making,
from S1/1

The Philippines currently has 13 semiconductor assembly, testing, and packaging facilities.

"Let's double it (the number of facilities). It's now the moment for growth. Your country has the talent; you have the expertise," Ms. Raimondo said.

She said the Philippines is at the top of the list for companies looking to diversify and make their supply chains more resilient.

"What do companies want? Democracy, which you have, rule of law, transparency, anti-corruption, reasonable regulations, and also talent," she said.

Department of Trade and Industry (DTI) Undersecretary and Board of Investments Managing Head Ceferino S. Rodolfo said that Ms. Raimondo's target of doubling the number of facilities is "doable."

"This is doable. In fact, our objective is to produce 120,000 (engineers) for the semiconductor industry. So, it's really anchored on talent development, and even the (US) Presidential Trade and Investment Mission said that the most important attraction of the Philippines is talent," Mr. Rodolfo said in mixed English and Filipino.

"That is why there is a clear need for skilling and upskilling... those are the things that we must give our attention to," he added.

The Philippines is one of seven countries that the US is partnering with to diversify its semiconductor supply chain under the CHIPS and Science Act.

Under the law, the US will provide $52.7 billion in federal subsidies to support chip manufacturing and persuade chipmakers with operations in China to relocate to the US or other friendly countries.

"But more than the funds, it's access to the technical expertise that is important," Mr. Rodolfo said.

However, American Chamber of Commerce of the Philippines, Inc. Executive Director Ebb Hinchliffe said that the cost of power remains a challenge in making the Philippines an attractive destination for investments in the semiconductor sector.

"The biggest obstacle is the cost of energy and consistent power. You can't have a wafer factory or a semiconductor factory to go on and off, because that could cost you a million dollars," Mr. Hinchliffe said.

"So, energy consistency and constant feed are very critical, and the cost of energy remains high. But DTI has taken steps now to let you have a rebate on your income tax if you invest a certain amount to help you cover your energy costs. So all those are very positive steps," he added.

Electronic products are the Philippines' top exports in January accounting for 58.2% or $3.42 billion of the total exports.

Last year, the country's total electronic product exports totaled $41.9 billion, accounting for 57% of the country's total exports.

MORE PARTNERSHIPS

Ms. Raimondo led a US Presidential Trade and Investment Mission, composed of executives from 22 US companies that have pledged to invest over a billion dollars in the country.

Some members of the trade mission announced partnerships with the Philippine government and local companies on the sidelines of the business forum on Tuesday.

One of the partnerships announced is with UltraPass ID, which signed a memorandum of understanding with the Department of Budget and Management (DBM) and NOW Corp.

"The expectations will be that we will embed inside existing applications and introduce another layer of login," said Eric Starr, co-founder and chief executive officer of UltraPass ID.

"In the case of DBM, we will be using biometrics as a form of multi-factor ... It introduces a much higher degree of security and authentication," he added.

Scott McHugh, chief executive officer and chairman of the board of Sol-Go, Inc., said that the company plans to expand its operations in the country.

FULL STORY

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