Exporters warned of new EU rules on deforestation

EXPORTERS of cattle, soy, coffee, palm oil, rubber and wood will be subject to new European Union (EU) deforestation regulations restricting access to products that benefited from the clearing of forest cover, according to the Department of Trade and Industry (DTI).

"Exporting products to the EU has become increasingly challenging with its new and emerging regulations as part of the EU Green Deal," the Philippine Exporters Confederation, Inc. said, citing Bianca Pearl Sykimte, director of the DTI's Export Management Bureau at a seminar.

"These regulations aim to make the EU the first climate-neutral continent by 2050," it added.

Under the EU Green Deal, exporters of the seven products are required to demonstrate that their products are deforestation-free and not linked to forest degradation or risk not being admitted into the EU.

The deal was first adopted in June to curb forest loss and land degradation, giving companies until Dec. 30 to be compliant, except for micro and small companies which have until June 30, 2025.

The deforestation regulation will cover products derived from the seven commodities, like meat products, leather, chocolate, coffee, palm nuts, and palm oil derivatives, among others.

The regulation takes effect on goods produced after June 29, except for timber and timber products.

Commodities covered by the regulation are required to be deforestation-free and produced in a country with relevant legislation on environment protection. Their producers must also provide a due diligence statement.

Aside from blocked market access, non-compliance could also result in penalties such as fines amounting to up to 4% of the company's EU turnover, confiscation, or exclusion from public funding or contracts.

The EU was the Philippines' sixth largest export market in 2023 with $8.4-billion total export sales. — **Justine Irish D. Tabile**

World Bank cites upside to GDP view with enhanced investment

PHILIPPINE gross domestic product (GDP) is expected to rise around 5.5% to 6% this year, with possible upside provided by accelerated investment and productivity reforms, according to the World Bank (WB).

"Over the past few years, what you see is that the economy has been very close to that potential output growth," Gonzalo Varela, lead economist and program leader of the Equitable Growth, Finance and Institutions Practice Group for Brunei, Malaysia, the Philippines, and Thailand, said at a briefing at the World Bank office in Taguig City last week.

In its April update, the bank estimated Philippine economic growth at 5.8% this year and 5.9% next year.

If realized, this would fall within the Development Budget Coordination Committee's revised 6-7% growth target for 2024.

The economy grew by a revised 5.5% in 2023, weaker than the World Bank's 6% forecast at the time. It also failed to meet the government's 6-7% target for the year.

"The important thing is that you get investment acceleration, you get reforms that stimulate productivity growth, so that potential output growth keeps rising and the economy can grow accordingly, sustainably, in a way that creates good quality jobs," Mr. Varela said.

Growth in emerging markets and developing economies, which includes the Philippines and excludes China, is expected to accelerate this year, with average GDP growth estimated at 4%.

"There is growth, but that growth is somewhat subdued if you put it in a historical context and compare with the growth average prior to the pandemic," according to Ayhan Kose, World Bank deputy chief economist and director of the Prospects Group.

Mr. Kose also noted that the US, one of the Philippines' major export markets, will stay resilient this year.

Meanwhile, the global economy is expected to slow for a third consecutive year due to post-pandemic effects and ongoing geopolitical turmoil.

Other downside risks affecting the growth outlook include continued high interest rates, fragmented trade, disruptions in food and energy markets, climate change, and financial stress.

Possible inflation shocks, as well as "weaker-than-expected" near-term growth in major economies may also limit global growth, according to the WB.

"Global growth over the period 2020 (to) 2024 on average, in the first half of this decade, will be the lowest we have seen since the early 1990s," Mr. Kose said at the briefing.

The World Bank expects the global economy to slow to 2.4% this year from 2.6% in 2023.

"That, in turn, could again, fuel inflation and will lead to a more protracted period of elevated real interest rates," Mr. Kose said.

The WB expects major central banks to cut interest rates by the second half of the year if inflation cools further.

In the Philippines, headline inflation accelerated for a second consecutive month to 3.7% in February, due to surging prices of rice and other basic commodities.

Weakening trade, as well as a contraction in goods trade, also hampered global growth, Mr. Kose said.

"Excessive inventory accumulation, still challenges associated with geopolitical tensions, weak manufacturing activity... they all together led to the weak trade performance last year."

"This year, we are expecting trade growth to be north of 2%, but still much lower than what we saw over the period 2010 (to) 2019 on average," he added.

The WB called for greater global cooperation to address food security issues, climate change, debt distress, and trade fragmentation. — **Beatriz Marie D. Cruz**

EMS.COM.PH

European consumer industry investment seen creating at least 5,000 jobs in PHL

AT LEAST 5,000 jobs in the consumer products industry are expected to be created by new investment from Europe, according to EMS Group., a provider of recruitment and engineering services to international firms.

"Successfully, we were able to attract a couple of big investors in the Philippines. So, we're in the process now of finalizing their entry into the Philippines," Ferdinand A. Ferrer, chairman and chief executive officer of EMS Group, told reporters on Friday.

"This will be big. You know, our advocacy in EMS is about creating jobs. And this one will probably create 4,000 to 5,000 jobs just for this one company," Mr. Ferrer said.

He said that the investment will be in partnership with EMS and will cover the operations of a large plant in Batangas that will manufacture consumer products for women.

He said the target for the Batangas site to obtain international certification will be in the fourth quarter with the start of operation set for the first quarter next year.

Meanwhile, he said that EMS is also working on expansion at the Laguna Technopark, banking on the growing interest from foreign companies diversifying from China.

"We're working on it now. The first phase is now successful in Laguna Technopark. Our phase two, hopefully, is going to be much larger," he said.

"There's a lot of (foreign) companies that are saying 'Anywhere but China' (ABC) ... we don't want to always have this type of scenario, but the Philippines is in the right spot to take advantage of those who are trying to exit," he added.

He said the trade war with the US is behind the divestment from China.

"There are several different products or services leaving China. And those are what we are trying to look for a partner here, not necessarily with EMS. If it doesn't suit us, we will make introductions to other Philippine companies," he added.

In particular, he said that the group is talking with semiconductor companies from the US and Japan, which could potentially create 2,600 jobs and invest $700 million–$750 million.

"Potentially, EMS could be their partner, but that is not the priority; the priority is to bring them here, potentially to Calabarzon," he added. — **Justine Irish D. Tabile**

GOCC subsidies rise in February

SUBSIDIES provided to government-owned and -controlled corporations (GOCCs) rose to P12.715 billion in February, the Bureau of the Treasury said.

Budgetary support to GOCCs rose 35.3% from the P9.401 billion a year earlier.

No subsidies were provided in January.

In February, the National Irrigation Administration received the most subsidies with P7.093 billion or 55.8% of the total.

This was followed by the National Food Authority, which got P2.25 billion.

The Social Housing Finance Corp. was granted P667 million for the month.

Other top recipients in February were the Philippine Heart Center (P303 million), Sugar Regulatory Administration (P284 million), Small Business Corp. (P250 million), Philippine Children's Medical Center (P228 million), National Kidney and Transplant Institute (P207 million), National Power Corp. (P181 million), Light Rail Transit Authority (P144 million), Philippine Rice Research Institute (P135 million), National Home Mortgage Finance Corp. (P112 million) and Philippine Coconut Authority (P100 million).

Other GOCCs that were given at least P50 million were the Lung Center of the Philippines (P94 million), Philippine Postal Corp. (P70 million), Development Academy of the Philippines (P68 million), Cultural Center of the Philippines (P60 million), and Local Water Utilities Administration (P51 million).

All GOCCs received subsidies during the month.

The government provides subsidies to GOCCs to help cover operational expenses not supported by revenue.

Last year, GOCCs were provided P163.535 billion. — **Luisa Maria Jacinta C. Jocson**

OPINION

Priorities for financial services firms in the digital age

IN BRIEF:

- *Upskilling is one clear priority toward upgrading legacy systems, but 94% of CROs say they need new skills and resources to meet the changing needs of the risk management function.*
- *Third-party technology in digital transformation efforts can be revolutionary for customers and for internal ways of working, but it can increase a bank's risk profile.*
- *Proactive monitoring is key to addressing cybersecurity issues, which remain the top near-term risk for banks around the world.*

Political and economic issues are not the sole contributors to the growing complexity of the global financial services landscape. Digital assets and the digitalization of finance, including digital payments and artificial intelligence (AI), are also greatly impacting regulatory standards for effective supervision.

In the Philippines, the digital transformations of the banking and financial services sectors are rapidly accelerating, driven by efforts to integrate more Filipinos into the formal banking system. Data from the Bangko Sentral ng Pilipinas (BSP) shows that approximately 22 million Filipinos acquired access to formal financial accounts between 2019 and 2021. This development indicates an increase in banked Filipino adults to around 56% in 2021, up from 29% in 2019.

This development was driven by the faster growth in digital payments, particularly in merchant payments, peer-to-peer remittances, and business transactions of salaries and wages. BSP aims to digitalize 50% of retail payments and to onboard at least 70% of adult Filipinos into the formal financial system.

SUITS THE C-SUITE
CHRISTIAN G. LAURON *and* **JANETH T. NUÑEZ-JAVIER**

Amidst financial pressures, new competition, regulatory scrutiny, and shifting consumer behavior, banks are under pressure to embrace new technologies and pivot towards digitalization.

Last week, we discussed trends covered in the 2024 EY Global Financial Services Regulatory Outlook Report, which highlights areas of longstanding regulatory interest. This article will focus on four critical areas that financial services firms need to prioritize in the age of digitalization and AI.

UPGRADING LEGACY SYSTEMS THROUGH UPSKILLING

The financial services industry is increasingly focused on modernizing outdated systems and embracing an agile approach across all business functions. Therefore, firms must remodel their operating structures to enhance agility and efficiency.

A key focus is upskilling, particularly for Chief Risk Officers (CROs), who must understand the risks associated with cloud computing and predictive analytics. Moreover, they need to grasp the implications of emerging technologies, such as machine learning, and adapt to new processes and methodologies, such as the agile approach.

Some firms are still struggling to update legacy systems, however, leading to greater regulatory scrutiny. The 12th EY and Institute of International Finance (IIF) Global Risk Management Survey found that 94% of CROs say they need new skills and resources to meet the changing needs of the risk management function, with data science and cyber expertise topping the list.

ENHANCING DIGITAL TRANSFORMATION RESILIENCE

According to the 11th Annual EY/IIF Global Bank Risk Management Survey, CROs expect their senior management team to focus on implementing process automation (88%), modernizing core IT functions (66%), using analytics to improve customer insights (64%), cloud migration and adoption (63%), and customer self-service capabilities (63%) over the next few years.

However, if not integrated effectively, such changes can introduce unwanted risks. Introducing a third-party technology, a common requirement of digital transformations, can be revolutionary for customers and for internal ways of working, but it can increase a bank's risk profile.

Also, per EY's 2024 Global Financial Services Regulatory Outlook, regulators will continue raising the standard of digital resilience and tackle increased operational reliance on IT systems, third-party service providers, and innovative technologies, which increases complexity and interconnections within the financial system and is driven by digital transformation.

PROACTIVE MONITORING TO ADDRESS CYBERSECURITY RISKS

Amidst unprecedented levels of volatility and global uncertainty, cybersecurity has remained top of the list of near-term risks for banks around the world.

The 13th EY/IIF Bank Risk Management Survey showed that in the short term, nearly three out of four CROs identified cybersecurity risk as their top concern over the next 12 months (73%) and two-thirds (66%) of respondents naming liquidity risk as the top financial risk for the next year.

The report, which was based on data from 86 banks across 37 countries, explored the dynamic nature of risk management in banking. For example, CROs must be vigilant regarding the rise in fraud and other financial crimes caused by economic stress. Given the constantly evolving cyber threats, socio-economic disruptions, and third-party risks, organizations must be proactive and agile.

ESTABLISHING CROSS-FUNCTIONAL TEAMS AND AN AI GOVERNANCE FRAMEWORK

AI regulation has advanced in the past years but still lacks overall clarity. International bodies such as the Organization for Economic Cooperation and Development and the United Nations are developing guidelines to support coordinated approaches for responsible AI use.

Various governments are pushing ahead with new legislation. For example, China included a draft AI law in its 2023 legislative work plan, but the process timeline is unclear. Canada also seeks to establish legislation through an AI and Data Act. However, some countries are cautious about government intervention, which might stifle innovation. The US, Japan, South Korea, and Singapore are focusing on voluntary guidelines. Recently, EU institutions have reached an agreement on an AI Act, a comprehensive legal framework regulating AI and a landmark in global AI regulation.

On a micro level, AI adoption will continue to advance in the banking industry, from both a business and risk management perspective. Utilizing advanced technologies will be critical to realizing positive outcomes from digital transformations; therefore, organizations must establish technology- and AI-enabled risk management teams as well as a robust AI governance framework.

FUTURE-PROOFING IN THE DIGITAL AGE

Amidst financial pressures, new competition, regulatory scrutiny, and shifting consumer behavior, banks are under pressure to embrace new technologies and pivot towards digitalization.

While financial regulators are considering the need for new rules to complement their existing authority, financial services firms should focus their attention on building resilience through senior management accountability, developing and implementing an enhanced operational resilience framework, and addressing operational disruptions.

Finally, they should create cross-functional teams for AI projects to manage risk and compliance effectively. Establishing a comprehensive governance framework for adopting digital or new technologies can help organizations realize benefits and minimize risk, strengthening their positions in the digital era.

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 authors and do not necessarily represent the views of SGV & Co.

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