DBCC growth target cut should be in play, ex-Finance secretary says

THE Development Budget Coordination Committee (DBCC) should consider cutting its growth targets as inflation and the weaker peso could curb the economy's expansion, a former Finance secretary said.

"There may be a need to revise the economic growth projection for 2024 downwards within 5.8% to 6.3% due to inflation and the depreciation of the peso," former Finance Secretary Margarito B. Teves told *BusinessWorld* via Viber.

In April, economic managers lowered their gross domestic product (GDP) growth target for 2024 to 6-7% from 6.5-7.5% previously.

For 2025, the DBCC expects GDP growth to average 6.5-7.5%, with the range widening to 6.5-8% beyond that, until 2028.

The committee is due to update its fiscal targets on Thursday.

Inflation, which is near the top end of the central bank's 2-4% target for this year, is expected to curb spending and weaken growth in the coming months, Mr. Teves said.

"While average inflation for 2024 remains within the Bangko Sentral ng Pilipinas' (BSP) target range of 2-4%, it has been accelerating since the year started."

Year to date, the consumer price index was up 3.5%, the Philippine Statistics Authority reported.

Headline inflation accelerated to 3.9% in May led by transport and utility costs. It was the fourth straight month of stronger inflation readings.

"If this upward trend continues, we can expect consumption to further slowdown, which would dampen growth," Mr. Teves said.

However, Bank of the Philippine Islands Lead Economist Emilio S. Neri, Jr. said the government should wait for second quarter GDP growth data before considering new targets.

"It's too early to say we will miss the growth target with only one quarter of data. Many of our leading indicators point to more than 6% growth for the second quarter of 2024 so maybe economic managers can wait before they revise," he said via Viber.

The economy fell short of the government's growth target in the first quarter, expanding by only 5.7%.

Addressing supply side pressures to inflation though private sector investment in agricultural inputs, technology, warehouses, cold storage facilities, and processing plants will help make up for the limited fiscal space, Mr. Teves said.

"Lower inflation would boost consumption which would increase government revenue from consumption-based taxes such as VAT (value-added tax)," he noted. "Moreover, lower inflation would also reduce the risk of more interest rate increases which can dampen economic growth."

The Monetary Board is expected to maintain its key policy rate at a 17-year high of 6.5% on Thursday amid sticky inflation.

Cooler inflation would boost consumer confidence, which has been dampened by two straight years of soaring prices, Mr. Neri said. Consumption accounts for a quarter of GDP growth.

The weaker peso may also dampen growth in the Philippines due to its heavy dependence on imports, Mr. Teves said.

"The weakening of the peso puts an upward pressure on prices, and thus also dampens growth," Mr. Teves said.

On the other hand, Mr. Neri said the weaker peso would boost incomes of exporters, overseas Filipino worker families, and the business process outsourcing sector. — **Beatriz Marie D. Cruz**

P12B in excess rice tariffs eyed for farmer financial assistance

THE Department of Agriculture (DA) said it plans to tap P12 billion in excess rice import tariff collections to provide financial assistance to farmers.

Agriculture Secretary Francisco P. Tiu Laurel, Jr. said the funds he is considering are tariffs left over after the legally mandated P10 billion a year is set aside for the Rice Competitiveness Enhancement Fund (RCEF).

"This year we plan to give P12 billion; and then the balance we will be diverting to crop diversification," Mr. Laurel told reporters.

Under the Rice Tariffication Law of 2019 (Republic Act 11203), the Rice Farmers Financial Assistance (RFFA) program is the designated recipient for tariffs that exceed the RCEF funding requirement.

The RFFA program pays out P5,000 per farmer.

Eligible farmers are those tilling two hectares or less. The payout is being billed as compensation for the projected reduction in income arising from the liberalization of rice imports.

Mr. Laurel added that he is looking at distributing the financial assistance to the 2.4 million rice farmers by September.

"Last year *kasi* December *na lumabas* (the funds were released in December) … I'm targeting September for the P12 billion," he said.

In 2023, rice tariff collections amounted to about P30 billion, according to the Bureau of Customs.

Legislators are seeking an extension to the RCEF's term beyond the initial six years, while also expanding its allocation from tariffs.

Under the proposed amendments from the House of Representatives, 53% of the expanded, extended RCEF will go to mechanization, 28% to rice seed, and the rest to farm credit and extension services. — **Adrian H. Halili**

PHL rubber producers pushed to raise raw material sales to Yokohama Tire

THE Department of Trade and Industry (DTI) said it the rubber industry could end up generating P1 billion in revenue if it can supply 100% of Yokohama Tire Philippines, Inc.'s raw material requirements.

Trade Secretary Alfredo E. Pascual told reporters at a recent briefing that the Japanese parent company, Yokohama Rubber Co., is planning to expand its Philippine footprint with an additional investment in its Clark facility.

"When we talked to Yokohama Rubber, they said that they are planning to invest close to $60 million to increase their capacity for tire production. They already have a big capacity, and they plan to increase it further," Mr. Pascual said.

"The sad part is that the raw materials are not fully provided by local suppliers. That is why we committed to helping Yokohama source the rubber in Mindanao so they can add local content to the tires being produced in the Philippines," he added.

According to Mr. Pascual, Yokohama plans to expand tire production by 5%, equivalent to an additional 500,000 units, to its current annual capacity of 10 million.

"We will help them source the rubber in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM)," he said.

"Of course, at a governmental level, we will talk to our colleagues in BARMM about how Yokohama could be supplied raw rubber sap," he added.

He said that the Philippines is missing out on rubber supply contracts. Yokohama currently imports the rest of its rubber requirement from countries like Malaysia.

"The ideal target is to increase the share of local producers to 100%; we need to improve the share of local producers," he said.

"Yokohama sources only 51% of its raw material, in the form of natural rubber, from domestic sources, which are mainly in Mindanao," he said.

"They are the only tire manufacturer left in the Philippines; that is why we need to take care of them by doing our part," he added.

He said the DTI could also help in addressing concerns about the availability of trained manpower. — **Justine Irish D. Tabile**

MIRU's TRACK RECORD: A CONCERN FOR THE US

By Rep. Rodante Marcoleta, SAGIP Party-List

An investigative piece by the US-based journal *Politico* has cast a spotlight on Miru Systems, questioning the deployment of their voting technology in Iraq and Congo— nations supported by US election funding but plagued by technical glitches. More than focusing on technological snafu, the article calls the attention of the US Agency for International Development (USAID) to reassess the wisdom of supporting countries using Miru technology.

Even more grimly, the *Politico* investigative report cited sanctions imposed by the US Treasury Department on the president of the Congo Election Commission for corruption — stating how he padded a contract for Miru's machines by up to US $100 million which was then deposited into a company he controlled.

This scrutiny gains local significance as Miru bagged a sole-bidder contract with Comelec to supply voting equipment for the Philippines' 2025 elections. Despite calls for vigilance from election watchdogs and lawmakers, Comelec's lackluster response was: "The winners in Congo and Iraq are happy and satisfied with Miru's performance." Really?

Amplifying these concerns is the dubious connection between Miru and Russian elections. Miru is openly affiliated with Bauman Moscow State Technical University, a relationship instrumental in the development of election scanners used in Russia's contentious 2018 presidential election and subsequently in Iraq, yet another authoritarian regime. Who knows—it might be the scanning technology we will use come 2025.

Miru's involvement in Russia reportedly began around 2009 and extended to their recent 2024 presidential elections. It may be recalled that during the March 19 Senate hearing, the company representative boasted on the supply of technology in that Russian elections—which was marked by Putin's sweeping victory for a fifth term. Such ties, ignored by Comelec amid the global pushback against Russian electoral practices, could cast a cloud of doubt over the transparency of the Philippines' electoral venture.

Filipinos' trust in Western-led democratic principles versus their skepticism of Russian and Chinese aggression, as revealed by Pulse Asia surveys, underscores the potential geopolitical conflict in Comelec's choice. A recent survey by Pulse Asia confirmed this, with 80% of Filipinos expressing a desire for the Philippines to work with the United States to counter China's increasing belligerence in the West Philippine Sea. Another survey revealed that 61% of Filipinos distrust China, while 58% distrust Russia. Comelec should seriously weigh the wisdom of being associated with a company doing business in Russia even as the administration labors to bolster our ties with the US and western democracies.

These unsettling revelations beg one question: Did Comelec even realize that the optical scanners it purchased might have originated from Russia, where elections are reportedly a farce? Proper due diligence should have alerted Comelec to these shady connections that could result to shady elections. The outcome of such due diligence, or lack of it, might not just impact on the credibility of our own elections, but also the nation's international repute as a regional beacon of democracy caught in a tense geopolitical landscape.

That said, something smells fishy with Comelec's choice. And the smell reportedly reeks from the Philippines all the way to the Cayman Islands in the Caribbean, North America, China, and Singapore.

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OPINION

POGOs: Stay or go?

TAXWISE OR OTHERWISE
VHALERIE BULURAN-REYES

POGO, POGO and more POGO stories seem to be flooding everyone's news feeds. As the troubled industry generates news that ranges from controversial at best to illegal at worst, it would be good to know more about POGOs and how they affect us. The short answer is — in more ways than we may realize.

POGOs or Philippine Offshore Gaming Operators (now going by the name Internet Gaming Licensees), offer gaming in the Philippines to virtual customers placing bets online. E-casinos and sports betting sites are types of POGOs. However, contrary to popular belief, POGOs do not actually cater to players or bets placed within the Philippines. Bets and payouts are made overseas through the operators' chosen financial institutions. Limiting the players to foreigners ensures that Filipinos are protected from the negative effects of gambling. In fact, while Republic Act (RA) No. 11590 (the law taxing POGOs) recognizes legal forms of gambling, including offshore gaming, it declares that such a recognition cannot be construed as the State endorsing such activity.

POGO licenses are mainly issued by the Philippine Amusement and Gaming Corp. (PAGCOR), which has a legal mandate to license games of chance, card games, and number games, to generate revenue for the government's socio-civic and national development programs and help promote tourism. In the past, freeport authorities like the Cagayan Economic Zone Authority (CEZA), the Aurora Pacific Economic Zone and Freeport Authority (APECO) and the Authority of the Freeport Area of Bataan (AFAB) were granted, under their respective charters, the power to operate or approve licenses to operate gambling businesses, including POGOs. However, this power has since been curbed by RA No. 11590.

Currently, there are two main types of offshore gaming licensees in the Philippines. They are Philippine-based POGO Licensees or Foreign-based POGO Licensees. Foreign-based POGO Licensees must have an appointed Local Agent which has to be PAGCOR-accredited. POGO sites in the Philippines must comply with PAGCOR regulations — for instance, they must not be in a residential area, and must have a maximum floor area of 25,000 square meters.

The Philippines started regulating POGOs in 2016. It was seen as a new source of revenue by the then administration, subject to regulation by gaming regulators and operators, PAGCOR and other mandated economic zones. On Sept. 22, 2021, RA No. 11590 otherwise known as the Act Taxing Philippine Offshore Gaming Operations, was signed into law, amending the Tax Code to include sections on taxing POGOs. Notable provisions are the corporate income tax of 25% on non-gaming revenue, final withholding tax of 25% on the gross income of alien employees, and gaming tax of 5% of their gaming income.

In 2023, P5 billion in PAGCOR revenue came from legitimate POGOs, leading PAGCOR to take the position that the industry helps provide jobs and livelihoods.

However, POGOs have again recently been attracting controversy for illegal activities conducted within their premises. Residents near POGO establishments have also expressed alarm about the establishments serving as breeding grounds for crime and human rights violations. Immigration violations are also a concern with foreign nationals employed by POGOs apparently illegally entering and residing in the Philippines. Add to these the potential national security concerns, many are now calling for a total ban of POGOs.

Nevertheless, PAGCOR reiterates that licensed POGOs are legal. It stresses that entities must go through a rigorous licensing process and satisfactorily demonstrate their fitness to hold such licenses like any other business. They are also closely monitored by the regulator.

PAGCOR has released a revised regulation for POGOs known as the Internet Gaming Licensing Regulations, which have the aim of strengthening and maintaining the highest standards of integrity for POGOs. The regulations took effect on June 12, 2023. Significant provisions require that licensees must have a capital of P100 million, of which P25 million must be paid up. Licenses are also valid for only two years and are site specific.

It appears, however, that the new rules have not managed to cull questionable activities. As such, on Sept. 19, 2023, the Senate Committee on ways and means issued Committee Report No. 136 calling for a total ban of POGO as a crime-prevention measure. In fact, as early as 2022, a cost-benefit analysis conducted by the Department of Finance (DoF) found that costs associated with enforcement and immigration relating to POGOs resulted in a net cost of about P3.3 billion to P14 billion annually.

On May 21, Senator Sherwin T. Gatchalian, filed a bill seeking to outlaw and prohibit offshore gaming operations, noting the industry's involvement in human trafficking and scams. The bill seeks to repeal RA No. 11590 which effectively legitimized POGOs by amending the Tax Code. On June 5, 2024, Senator Anna Theresia N. Hontiveros expressed her support for a total POGO ban, citing national security concerns and the industry's connection to money laundering. Recently, Rep. Francisca L. Castro filed House Bill 10525 or the Anti-POGO Act of 2024, which calls for licenses of current operators to be revoked and criminalizes their operations, citing the crimes associated with the industry such as murder, illegal recruitment, prostitution, illegal detention, inhumane labor practices and bribery of immigration officials.

After all is said and done, the latest commotion involving POGOs might just be the wakeup call to further examine the legal and social issues brought in by the industry that will allow us to finally answer the question: stay or go?

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

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