Rate cut impact on manufacturing to lag as policy settings still 'tight'

By Beatriz Marie D. Cruz
Reporter

THE IMPACT of lower rates may not be reflected in the results of manufacturers this year, with Bangko Sentral ng Pilipinas policy remaining "tight," according to analysts.

"Given that the Philippines' monetary policy remains tight and borrowing costs are still high after its policy rate cut in August and considering lags between changes in monetary policy before they affect economic activities, we expect the central bank policy rate cut and expected rate cuts to have positive effects on the manufacturing sector in 2025 rather than this year," Harumi Taguchi, principal economist at S&P Global Market Intelligence, said in an e-mail.

In August, the Philippines' Manufacturing Purchasing Managers' Index (PMI), which surveys around 400 manufacturers, was 51.2, unchanged from the July reading.

A PMI reading above 50 means stronger purchasing of raw materials, a leading indicator of future manufacturing activity. PMI of below 50 heralds a contraction.

Pantheon Macroeconomics Chief Emerging Asia Economist Miguel Chanco said it may take a few years before rate cuts have any real bearing on factory output.

"For one, monetary policy moves tend to filter through with a long lag. And second, the policy setting in the Philippines is still quite tight, even though rate cuts have entered the picture," Mr. Chanco said in an e-mail.

Between May 2022 to Oct. 2023, the Monetary Board (MB) hiked borrowing costs by 425 basis points (bps) to tame inflation.

In its Aug. 15 meeting, the MB eased interest rates by 25 bps to 6.25%. The previous setting of 6.5% had been an over 17-year high.

"The real rate of interest — i.e., adjusted for inflation — is still very elevated at the BSP's current setting, and will remain so if the Board pursues only gradual 25 bp adjustments," Mr. Chanco said.

BSP Governor Eli M. Remolona, Jr. has cited the possibility of another 25-bp cut in the fourth quarter. Only two MB meetings are left for this year — Oct. 17 and Dec. 19.

A less restrictive policy environment is expected to fuel demand and spending, which would benefit industries like manufacturing.

Manufacturing activity in the medium term will be driven by the global demand for electronics. However, external demand may remain muted, Ms. Taguchi said.

According to S&P Global, the Philippines' export sales in August fell for the first time since the year began, signaling weak foreign demand.

The Philippine Statistics Authority reported that exports of electronic products grew 2.5% to $23.88 billion at the end of July. This accounted for 56% of total exports for the period.

In July, electronic exports fell 11.9% to $3.25 billion and accounted for 52.1% of total exports for the month.

Ms. Taguchi also cited the Global Manufacturing PMI, which came in at 49.5 in August from 49.7 in July.

"These indicators suggest a notable upturn in external demand in the coming months is unlikely," she said.

Southeast and East Asia supply more than 80% of the world's semiconductors, the Asian Development Bank said earlier this year.

Initial work starts on preparing three ports to serve offshore wind farms

THE Philippine Ports Authority (PPA) has kicked off the process of repurposing three ports to service the nascent offshore wind (OSW) industry, according to the Department of Energy (DoE).

"The PPA has formally expressed its full support to the DoE to initiate the detailed engineering designs and take immediate steps to repurpose three priority ports to ensure that they are fully equipped to handle the installation, commissioning, and operational requirements of OSW projects," the DoE said in a statement on Sunday.

The DoE has identified the Port of Currimao in Ilocos Norte, Port of Batangas in Sta. Clara, Batangas City, and Port of Jose Panganiban in Camarines Norte as priority sites due to their proximity to high-potential offshore wind energy service contracts (OWESCs).

The Port of Currimao is located near 13 OWESCs with a potential capacity of 9,489 megawatts (MW). Of the total, three service contracts are in the "advanced pre-development stage."

The port in Batangas is close to 29 OWESCs with a total capacity of 24,300 MW, with six contracts in the permitting, licensing, and data gathering stages.

Situated close to 14 OWESCs, the Port of Jose Panganiban is expected to service wind farms with estimated capacity of 8,150 MW. Two projects in the area are in the advanced pre-development phase.

"The modernization of port facilities will not only accelerate OSW projects but also play a critical role in securing the country's clean energy future and promoting economic growth," Energy Secretary Raphael P.M. Lotilla said.

Mr. Lotilla said that the ports will serve as "vital logistical hubs" throughout the lifecycle of the offshore wind projects — from installation to commissioning and decommissioning.

Upgrading these facilities will ensure that the Philippines is prepared to satisfy the increasing demands of OSW, which should yield "significant contributions to energy security and economic stability," he said. — **Sheldeen Joy Talavera**

Delays in landing imports also affecting shipments of meat

PORT CONGESTION is also delaying the unloading of frozen meat, an importers group said, potentially adding another imported commodity to the list of items that cannot be brought to market promptly to mitigate high prices.

"One of the reasons for port congestion is that the containers are not released and unloaded (immediately)," Meat Importers and Traders Association President Emeritus Jesus C. Cham said.

Last week, Agriculture Secretary Francisco P. Tiu Laurel, Jr. cited the need for more ports to fast-track the landing of imported farm goods.

Mr. Cham added that the requirement that shipments bear the seals of the National Meat Inspection Service, and the Bureau of Customs have also caused further delays.

"(Now) they are talking about pre-border inspection, cross-border electronic invoicing, and then you have the cold examination facilities in agriculture (CEFA), these are additional (requirements)," he said.

The CEFAs are intended to ensure that imports are disease-free, and to mitigate the risks from smuggled farm goods.

All imported agri-fishery products are to undergo a 100% examination by the various food regulators overseeing animal industry, plant industry, fisheries and aquatic resources, and meat.

Meat imports rose 9.64% by volume year on year in the first half, led by pork, chicken, and beef, the Bureau of Animal Industry (BAI) reported.

Shipments of imported meat amounted to 647.75 million kilograms during the first six months.

Mr. Laurel has cited the congested ports as delaying rice imports from reaching the market, blunting the intended impact of lower tariffs in containing rice prices.

Mr. Laurel had called for the Philippine Ports Authority to fast track the release of container vans stalled in Manila. About 888 shipping containers holding about 20,000 metric tons of rice have not yet been released.

"The delay in releasing the imported rice has raised concerns over food security, especially as the country faces ongoing inflation pressures," the Department of Agriculture (DA) said in a statement.

In June, President Ferdinand R. Marcos, Jr. signed Executive Order No. 62 which lowered the tariff on imported rice to 15% from 35% until 2028, citing the need to stabilize rice prices. The order took effect in July.

"It is doubtful whether the 20 million kilos or 20,000 MT in the pier has any impact on prices. It is less than 4% of the 530,000 MT that arrived in the July-August at 15% tariff; 96% of the arrivals are already out in the market," Federation of Free Farmers National Manager Raul Q. Montemayor said via Viber.

Rice imports have totaled 3.01 million MT as of Sept. 12, according to data from the Bureau of Plant Industry.

Leonardo A. Lanzona, an economics professor at the Ateneo de Manila, said that the delay in landing goods is due partly to importers waiting for more favorable prices.

"Importers seem to have contributed little to the price decreases as their goods are stuck in ports. If the government subsidizes the farmers, instead of lowering tariffs and improving port infrastructure, the rice producers and consumers are protected from these importers who wish to manipulate prices," he said via Messenger chat.

Mr. Laurel has said that the DA is studying developing 17 ports with private partners that will specialize in handling agricultural shipments.

Mr. Montemayor added that prices could drop with the influx of palay (unmilled rice) during the dry season harvest. — **Adrian H. Halili**

OPINION

Navigating change: 10 key shifts shaping sustainability in the Philippines

(Second of two parts)

IN BRIEF:

- The SEC's new sustainability reporting form aligns Philippine companies with global standards, enhancing climate risk transparency.
- The full adoption of IFRS S1 and S2 by 2027 will improve the Philippines' attractiveness to investors seeking reliable ESG data.
- Innovations in insurance, electric vehicles, green steel, renewable energy and battery storage, and aviation fuel are creating new sustainable investment opportunities.

SUITS THE C-SUITE
BONAR A. LAURETO

Strategic sustainability shifts are creating new investment frontiers in the Philippines, bolstering the nation's economic and environmental resilience.

The Philippines is rapidly embracing a future where sustainability is not just a buzzword but a core aspect of business and economic strategy. Building on the regulatory reforms and market dynamics discussed in the first part of this series, the country is laying the groundwork for a transformative shift towards a more sustainable and resilient economy.

The first part of this article discussed the first five key shifts that are shaping the sustainability landscape in the Philippines, focusing on the implications for businesses and the opportunities for investors in this emerging low-carbon economy.

This second article examines the key shifts that are influencing this green transition. It will discuss the roadmap for IFRS S1 and S2 adoption, the severity of rising climate-related loss and damage, rising growth in electric vehicle (EV) adoption, emergence of green steel in construction, decarbonization of the aviation industry, and the innovative approaches and opportunities that are emerging for businesses ready to adapt and thrive in this new landscape.

ROADMAP FOR IFRS S1 AND S2 ADOPTION

The Philippine Sustainability Reporting Committee has proposed a roadmap for the adoption of IFRS S1 and S2, with a transition phase starting in 2025 and full adoption expected by 2027, which was approved by the Philippine Financial and Sustainability Reporting Standards Council (FSRSC) and for approval by the Board of Accountancy. This phased approach allows companies to gradually align their reporting processes with international standards, improving transparency and comparability across the market. As more companies adopt these standards, the Philippines is set to become increasingly attractive to global investors seeking consistent and reliable ESG data, which is crucial for sustainable investment portfolios.

RISING CLIMATE-RELATED LOSS AND DAMAGE

The increasing severity of climate-related loss and damage in the Philippines has led the insurance sector to re-evaluate its risk models. Consequently, premiums for natural catastrophe insurance products are expected to rise, potentially widening the insurance coverage gap. However, businesses that proactively assess facility-level climate risks can better manage these costs. Additionally, this scenario presents an opportunity for insurance companies to develop innovative products that address the unique risks posed by climate change in the Philippines, thereby safeguarding businesses and communities.

GROWTH IN ELECTRIC VEHICLE (EV) ADOPTION

EV adoption in the Philippines is gaining significant momentum, driven by investments in charging infrastructure and partnerships with global EV manufacturers. This trend creates investment opportunities in EV technology, infrastructure, and related services, catering to the growing demand for green mobility solutions in the region.

EMERGENCE OF GREEN STEEL IN CONSTRUCTION

The construction sector in the Philippines is increasingly turning to green steel to reduce scope 3 emissions. This shift is driven by the need to meet sustainability-linked bond requirements and access capital tied to ESG performance. Green steel, which is produced with significantly lower carbon emissions, is becoming a preferred material in real estate and infrastructure projects. This trend opens new avenues for steel manufacturers and suppliers who can meet the rising demand for sustainable construction materials, aligning with global efforts to reduce the carbon footprint of the construction industry.

The expansion of the electric vehicle (EV) and green steel industries is set to drive increased demand for renewable energy and battery storage. This surge presents significant opportunities for the renewable energy sector, supporting the Philippines' goal of 50% renewable energy generation by 2040.

DECARBONIZATION OF THE AVIATION INDUSTRY

The Philippine aviation industry is actively pursuing decarbonization strategies, including the production of Sustainable Aviation Fuel (SAF) from biomass feedstock and the implementation of carbon offset initiatives. Government is considering policies that would set clear direction for the use of SAF by airlines, creating a significant investment opportunity in SAF production. Moreover, private-sector companies that rely on aviation services can contribute to this decarbonization effort by purchasing SAF certificates. This approach not only supports the aviation industry's sustainability goals but also enables these companies to reduce their scope 3 emissions related to air travel and freight, thereby enhancing their overall sustainability profiles.

HOW BUSINESSES CAN ADAPT AND THRIVE

As the sustainability landscape in the Philippines rapidly evolves, businesses must adapt to remain competitive and resilient. The following strategic priorities are essential for navigating this transition:

Transforming management systems, analytical approaches

Traditional impact reporting, which often focuses on broad, enterprise-wide metrics, is no longer sufficient. The adoption of IFRS S1 and S2 entails a more detailed, data-driven analysis. Companies need to move beyond basic environmental metrics, employing advanced financial modeling to understand how climate and sustainability risks impact specific business segments. This granular analysis — tailored to the organization's different business models — enables targeted risk mitigation and strategic planning, ensuring resilience against unique challenges.

For instance, a retail mall and an office building within the same company might face vastly different climate risks, requiring tailored risk management strategies. By embracing this level of detail, businesses can better identify vulnerabilities, develop targeted mitigation plans, and ultimately enhance their resilience to climate-related disruptions.

Climate considerations in strategic planning and innovation

Incorporating climate-adjusted financials into strategic planning not only helps businesses anticipate disruptions but also allows them to understand the broader shifts in their business ecosystem, driven by sustainability and climate imperatives. For example, as the finance community increasingly values sustainable investments, real estate companies are under pressure to adopt green building practices. This shift creates opportunities for manufacturers of construction materials to innovate and supply eco-friendly products, such as green steel or recycled materials.

By aligning their strategies with these market dynamics, companies can meet the evolving needs of key customers and capitalize on the growing demand for low-carbon solutions across various sectors. This ecosystem viewpoint ensures that businesses remain competitive and relevant in a market increasingly shaped by sustainability considerations.

Elevating corporate governance and oversight

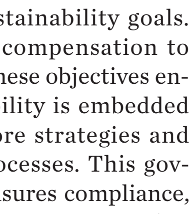
The transition to IFRS S1 and S2 significantly broadens the responsibilities of corporate boards, requiring a deep integration of climate and sustainability considerations into governance practices. Boards must ensure that climate-related risks are systematically managed, utilizing advanced tools like scenario analysis and stress testing to evaluate the resilience of the company's strategies under various environmental scenarios.

Effective governance is also about recognizing and seizing new opportunities. Boards should actively engage in pursuing opportunities identified through strategic planning, such as expanding into emerging markets for sustainable products and technologies. By focusing on both risk management and opportunity capitalization, boards can ensure that the company is not only protected from potential disruptions but also well-positioned to thrive in a changing market.

To reinforce this strategic focus, it's crucial that executive incentives are aligned with sustainability goals. Linking leadership compensation to the achievement of these objectives ensures that sustainability is embedded in the company's core strategies and decision-making processes. This governance approach ensures compliance, strengthens the company's reputation among stakeholders, and positions the business to capitalize on opportunities in the evolving sustainability landscape.

By focusing on these areas, businesses in the Philippines can navigate the evolving sustainability landscape and lead in building a resilient, sustainable future.

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



BONAR A. LAURETO is an assurance principal and leads Climate Solutions under the Sustainability Services team of SGV & Co.