Industrial policy deemed key to elevating PHL to UMIC status

By Aubrey Rose A. Inosante
Reporter

THE Philippines needs to make public spending more transparent and assign more weight to industrialization to achieve upper middle-income country (UMIC) status, analysts said.

The road to UMIC status, a long-stated government objective, is now expected to face further delays, possibly to 2027, due to cooling economic growth, they added.

"Better transparency on public spending and strong industrial policy are the key to reaching UMIC status," Oikonomia Advisory and Research, Inc. economist Reinielle Matt M. Erece told *BusinessWorld* via Viber.

A corruption scandal in infrastructure projects surfaced after heavy rains in July, which exposed flood control works that were substandard or even nonexistent. It resulted in an overhaul of the Department of Public Works and Highways, whose disbursements were subjected to greater scrutiny, slowing down public spending and damaging investment confidence.

Mr. Erece also noted that the government may find it challenging to achieve UMIC status unless the gross domestic product (GDP) growth expands by at least 7%.

"Even if we reach that pace in 2026, we may only reach UMIC status by 2027," he added, noting that this projection represented the optimistic scenario.

This will take longer than the government's target of achieving UMIC status by 2026. The Philippines has been classified as lower middle-income since 1987.

"It's going to be quite a challenge to do that. (Economy Secretary Arsenio M.) Balisacan already said he'd want 6 to 7% growth to have a strong chance of achieving that goal," Ser Percival K. Peña-Reyes, director of the Ateneo Center for Economic Research and Development, said via Viber.

Finance Secretary Frederick D. Go last week said he remains optimistic the Philippines can achieve UMIC status by 2026, assuming a rebound in economic growth.

"Our strategy is to grow the economy and make sure that no one is left behind," Mr. Go told reporters on Dec. 18.

The Philippines' gross national income per capita stood at $4,470 in 2024, up from $4,230 a year earlier, according to the World Bank's country income classification issued in July.

The Philippines was $26 short of the threshold of $4,496 to be reclassified as an UMIC. The upper end of the UMIC band is $13,935.

Securing up to 7% GDP growth is likely out of reach, with Mr. Balisacan conceding that the Philippines may not even hit 5.5 to 6.5% goal this year.

"If public spending continues to be tight, and more politicians continue to want to cut spending rather than improving transparency measures, GDP growth will continue to falter," Mr. Erece said.

Analysts also lagged the peso's recent weakness as a potential risk to UMIC status, but some said it could support exports, with remittance inflows also cushioning the currency's depreciation.

Mr. Peña-Reyes said he sees the weak peso as a concern but noted that the central bank is intervening to stabilize the currency.

The central bank said it is intervening in the foreign exchange market to dampen volatility in the peso, thought it has no target rate against the dollar.

"We don't always intervene. We're kind of shy about intervening. But if we do decide to intervene, we're more likely to do it when the market is going crazy," Bangko Sentral ng Pilipinas governor Eli M. Remolona, Jr. said.

The peso breached the P59-to-the-dollar mark several times since November and hit a record low of P59.22 on Dec. 9.

Mr. Go has said that the peso could be one of the obstacles to the UMIC transition, as the World Bank income categories are set in dollars.

"Even if we grow in pesos, if the foreign exchange rate works against us, that's the problem," Mr. Go said.

Mr. Erece said the depreciation of the peso is an economic risk, but does not consider it a "major risk" in achieving UMIC.

"A depreciated peso may even be helpful in boosting export demand due to competitive prices, and OFW (Overseas Filipino Workers) remittances may also offset the falling peso," he said.

The weak peso can make the exports more competitive, Mr. Erece said.

"Thus, a strong industrial policy is also needed to boost the economy and create more jobs. If the government is concerned about higher import costs due to the falling peso, a strong industrial policy is much more needed to create competitive domestic industries, which may even absorb some of the demand away from imports," he said.

Foundation for Economic Freedom President Calixto V. Chikiamco said pursuing UMIC status is irrelevant, as it does not account for how income is distributed.

"The fact that a fluctuating figure like the exchange rate affects the milestone emphasizes its artificiality," he told *BusinessWorld* via Viber.

Mr. Chikiamco said the UMIC transition is "nothing to celebrate and nothing to keep watching over," as it affects the country's eligibility for access to cheap loans or multilateral assistance.

Achieving UMIC status would mean the Philippines would have reduced access to official development assistance from development partners.

Budget utilization rate hits 94.5% in November

THE cash utilization rate of government agencies hit 94.5% at the end of November, the Department of Budget and Management (DBM) said.

In a report released Dec. 19, the DBM said the National Government, local governments, and government-owned and -controlled corporations used P4.32 trillion worth of notices of cash allocation (NCAs) issued during the period.

Unused NCAs amounted to P249.78 billion, as of the end of November.

The cash utilization rate compares with the year-earlier pace of 94%.

NCAs are quarterly disbursement authorities issued by the DBM to agencies, allowing them to withdraw funds from the Bureau of the Treasury for their spending needs.

During the 11 months, line departments used P3.15 trillion, or 92.9% of their allotments, while P241.90 billion remained unused.

The Department of Migrant Workers posted the highest utilization rate of 99.4% at the end of November.

This was followed by the Department of Social Welfare and Development (97.5%), the Office of the Vice-President (95.8%), the Commission on Human Rights (95.6%), and the Department of Education (95%).

The Department of Energy and the Commission on Elections posted the lowest usage rates of 62.5% and 67.7%, respectively.

Budgetary support to state-run firms was 98.6% utilized, while allocations to local government units amounted to 99.4%. — **Aubrey Rose A. Inosante**

NGCP approved to build P13-B CamSur substation

THE Energy Regulatory Commission (ERC) granted approval to the National Grid Corp. of the Philippines (NGCP), which is seeking to build the Milaor 500-kilovolt Substation Project in Camarines Sur to accommodate the additional power to be generated by offshore wind farms.

In a decision promulgated on Dec. 18, the ERC called the P13-billion project a necessary component of the NGCP's expansion plans.

The regulator said cost recovery will be determined after expenses are validated in the next rate reset process.

Camarines Sur is expected to host several energy projects, including offshore wind farms. Developers with offshore wind power projects in the province have targeted commissioning of their projects as early as 2027. — **Sheldeen Joy Talavera**

Go sees continued role in attracting investment following move to DoF

FINANCE SECRETARY Frederick D. Go will continue to assist President Ferdinand R. Marcos, Jr. in screening global investors next year, after he relinquished his position as the government's chief investment adviser.

Mr. Go said he will "continue to help coordinate and support the investment promotion activities of the government" as the new Secretary of Finance.

His previous posting was as head of the head of the Office of the Special Assistant to the President for Investment and Economic Affairs (OSAPIEA), starting 2023, until his appointment to the Department of Finance (DoF) on Nov. 13.

Despite the abolition of the OSAPIEA, Mr. Marcos appointed former Deputy Treasurer and World Bank Executive Director Erwin D. Sta. Ana as undersecretary for economic affairs.

"For example, there are overseas plans next year of the President. So again, we will meet some of the most serious investors or interested investors in the Philippines," Mr. Go told reporters on Dec. 18.

He will also vet prospective investors and recommend those that Mr. Marcos should meet.

"I'll continue to help with investments. That's what we really need. It's all about job creation, increasing the number of jobs," he said.

Foreign direct investment net inflows fell 25.8% to $320 million in September, the lowest monthly level in over five years, the Bangko Sentral ng Pilipinas reported. This brought the nine-month tally to $5.537 billion.

Mr. Go said 10 staffers from his former OSAPIEA team will remain with the Office of the President to assist on investment matters.

Mr. Go said he would like reforms like the Public-Private Partnership Law and the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy Act tax incentives to play a key role in attracting investment.

He added that the Accelerated and Reformed Right-of-Way Act, the Land Lease for Foreign Investors Act, and the Philippine Mining Fiscal Regime Act should be broadened.

Mr. Go said the Department of Trade and Industry (DTI) remains the key agency in trade negotiations, with the DoF's input to be required on issues that involve taxation.

"I'll still be very much involved because in trade negotiations, majority of the discussion are tariff considerations. So as Secretary of Finance, again, no choice but I'll be actively involved," he said.

Mr. Go as head of OSAPIEA had been a key member of the delegation that negotiated tariff arrangements with the US after Washington imposed its reciprocal tariff regime in April. — **Aubrey Rose A. Inosante**

OUTLIER

ALI shares dip despite developments

STOCKS of Ayala Land, Inc. (ALI) inched down weekly despite promising announcements as external factors dragged markets, analysts said.

Data from the Philippine Stock Exchange (PSE) website showed ALI ranking sixth last week among most actively traded stocks by value, as 72.16 million shares worth P1.60 billion exchanged hands up to Friday.

The stock closed the week with a value of P21.30, lower by 1.8% from the previous Friday's P21.70. The property sector and the PSE index (PSEi) were likewise on the red week on week as the former declined by 1.3% and the latter by 1.9%.

Ayala Land saw an even sharper drop of 18.5% year to date from its P26.20 close on the last trading day of 2024, outpacing the downward movements of the property sector (6.5%) and PSEi (9.3%) during the span.

The price dip came despite a couple of welcome moves made by the company over that week.

On Tuesday, ALI announced the P13.5-billion sale of its 50% stake in Alabang Town Center to the Madrigal family.

The company said that proceeds from the sale will be used to support leasing growth plans in the future.

Aniceto K. Pangan, equity trader at Diversified Securities, Inc., said that the company "unlocked a premium value from its mature asset" through the sale to help boost its leasing portfolio and "provide better returns to its capital."

Additionally, Ayala Land also announced the launch of its second CityFlats living development in Cebu the previous Friday.

CityFlats properties aim to cater to residential- and working-space needs of young professionals and students — cutting down affordability and travel issues for the targeted stakeholders.

"Taken together, the Alabang Town Center stake sale and the CityFlats Cebu launch are both relatively good news [...] even so, ALI shares still fell, which suggests the market move was likely driven by external factors," Luis A. Limlingan, head of sales at Regina Capital Development Corp., added in a Viber message.

On Thursday, the PSEi's downward movement already began as it inched down 0.78% to end at 6,031.48.

Analysts said the sell-off was due to the market lacking catalysts for the week and instead setting its eyes on upcoming US inflation data which may set the tone for the Fed's outlook.

Banks' exposure to the property sector also slipped in the July-September period.

Data from the Bangko Sentral ng Pilipinas showed that the banking sector's real estate investments over the span slipped by 5.75% to P354.75 billion from P376.41 billion last year.

Analysts said the exposure eased due to higher nonperforming real estate loans in the quarter due to muted developments amid weaker demand.

Moreover, Mr. Pangan noted that valuation for ALI was low with its price in the week, citing its decline to levels lower than those seen during the pandemic.

According to PSE data, ALI shares dropped by 38% from its closing price of P34.35 at year-end 2020.

Moving forward, Mr. Limlingan said that Ayala Land investors may monitor updates on project launches, capital spending plans, and changes in real estate demand.

For this week, Mr. Pangan placed immediate support at P20 and immediate resistance at P22.70.

On the other hand, Mr. Limlingan pegged support and resistance at around P21-20 and P23-24.50, respectively. — **Matthew Miguel L. Castillo**

FREEPIK/REDGREYSTOCK

Sustainable procurement vital for competitiveness, ESGpedia says

PHILIPPINE COMPANIES should make sustainable procurement a core part of environmental, social, and governance (ESG) practices to strengthen their supply chains and stay competitive, sustainability consulting firm ESGpedia said.

"Another equally important pillar to consider is sustainable procurement, where companies evaluate and engage suppliers not just on price and efficiency, but on environmental performance, ethics, and social impact," ESGpedia Vice-President Jozsef Acabo said in an e-mailed reply to questions.

He said this approach embeds sustainability across the entire value chain — from raw materials to distribution — not just within the organization.

Companies that share data openly with suppliers and uphold ESG standards can better manage Scope 3 emissions, meet global expectations, and maintain resilient supply chains over the long term, he added.

Scope 3 emissions are indirect greenhouse gases from a company's supply chain, excluding direct operations and purchased power, which make up the majority of a company's carbon footprint.

"In many cases, responsible sourcing becomes a competitive advantage, especially for organizations aiming to export or partner with global brands," Mr. Acabo noted.

He said that adopting ESG practices is not just about compliance, but also a strategic step for companies seeking to secure international contracts and partnerships.

Philippine firms need to integrate ESG into core operations, including reducing emissions, improving social impact, strengthening governance, and adopting transparent ESG reporting aligned with global standards, he said.

"My advice to Philippine companies would be to view ESG as an opportunity to future-proof their business, especially as the regulatory landscape evolves toward 2026. With mandatory sustainability reporting on the horizon, companies that prioritize sustainability now will be ahead of the curve," Mr. Acabo said.

He added that focusing on ESG from the outset can also unlock new revenue opportunities through sustainability-linked loans and green financing, which are increasingly important to investors looking for measurable sustainability goals. — **Alexandria Grace C. Magno**