

# March inflation could exceed BSP target band at 4.51% — Nomura

INFLATION may have accelerated well above the central bank's target in March due to surging pump prices, electricity rates and the cost of rice, Nomura Global Markets Research said.

In a report, Nomura Global analysts said the consumer price index (CPI) could come in as high as 4.51%, the strongest reading since the 4.9% posted in October 2023.

"We expect CPI inflation to jump to 4.51% year on year in March from 2.42% in February, owing to surging

retail fuel prices, combined with higher electricity rates and rice prices," Nomura Global said.

If realized, this would mark the first time in about two years that the headline indicator breaches the Bangko Sentral ng Pilipinas (BSP) target band, which was last exceeded in July 2024, when inflation came in at 4.4%.

Nomura Global said core inflation, which excludes volatile food and fuel prices, could pick up slightly to 3.2% from 2.9% the previous month due to

"some spillovers from higher energy costs."

Based on the median estimate of 18 analysts polled by *BusinessWorld* last week, headline inflation is expected to accelerate to a 20-month high of 3.8% in March from 2.4% in February and 1.8% a year earlier.

This is near the upper end of the BSP's 3.1%-3.9% forecast for the month and would mark the third straight month that inflation settled within the central bank's 2%-4% target.

This would also bring the three-month inflation average to 2.7%, below the BSP's revised inflation estimate of 5.1% for the full year and Nomura Global's 4.4% projection.

The Philippine Statistics Authority will release the March inflation data on Tuesday, April 7.

Philippine fuel prices have risen by double digits weekly since the US and Israel launched attacks on Iran in late February.

In March, fuel retailers hiked pump prices by up to P43.50 a liter for gasoline,

P67.35 per liter for diesel and P70.90 per liter for kerosene.

Fuel costs are expected to rise once more this week, with Shell Pilipinas Corp. set to implement a P5.90 per liter increase for gasoline, P19.80 per liter for diesel and P9.10 per liter for kerosene.

Manila Electric Co. also charged 64.27 centavos more per kilowatt-hour (kWh) in March, bringing the electricity rate to P13.8161 per kWh from P13.1734 per kWh the previous month. — **Katherine K. Chan**

# WB approves \$600-million loan for Philippine education project

By Justine Irish D. Tabile  
Senior Reporter

THE World Bank (WB) said that it approved a \$600-million loan to improve learning outcomes in Philippine primary and lower secondary education.

In a statement on Monday, the World Bank said the loan will finance the Project for Learning Upgrade Support and Decentralization (PLUS-D) which aims to improve foundational literacy, numeracy and mathematics outcomes.

The loan will finance grants and tailored support for 10 selected Department of Education (DepEd) regional offices and over 11,100 schools, benefiting more than 21 million K-10 students and 770,000 teachers.

"For the Philippines, sustaining growth and creating more jobs will depend on strong human capital — a workforce with solid foundational skills in literacy and numeracy," according to Zafer Mustafaoglu, division director for the Philippines, Malaysia, and Brunei at the World Bank.

"This effort is about giving every Filipino child a fair start, ensuring they can build the skills that underpin lifelong learning and future success in the labor market," it added.

According to the bank, the Philippines faces a severe learning crisis in basic education, exacerbated by the COVID-19 pandemic, with recent studies showing that 91% of 10-year-olds are unable to read and understand an age-appropriate text.

"Low learning outcomes are closely linked to inadequate teaching and learning conditions, including limited teacher capacity, suboptimal school leadership, insufficient infrastructure, and subpar quantity and quality of learning materials," the World Bank said.

PLUS-D aims to address these challenges through delivering nationwide support to



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help K-10 learners catch up and excel by focusing on foundational literacy and numeracy improvement.

"It will support DepEd's learning acceleration and recovery program, while improving how learning is measured and used in classrooms through enhanced assessments," it said.

The program will also strengthen teaching and leadership through evidence-based training and coaching, making inclusive teaching-learning materials accessible, and advancing DepEd's digitalization and decentralization programs.

"PLUS-D is about combating learning poverty nationwide by equipping teachers with evidence-based support, promoting school autonomy and accountability, and helping Filipino learners become independent, confident readers," World Bank Senior Education Specialist and Project Leader Janssen Edelweiss Teixeira said.

"We have seen this work in countries around the world, and the Philippines will be no exception. Help is on the way," he added.

In a separate statement, the World Bank said that it expects Philippine inflation to intensify further due to the war in the Middle East.

"Price pressures increased in February and are likely to intensify further. Inflation accelerated to 2.4%, driven by higher prices of food, utilities, and restaurant services," it said.

February inflation is still within the 2-4% target of the Bangko Sentral ng Pilipinas (BSP).

Although the BSP held policy rates steady in an off-cycle meeting on March 26, it said that it could shift to monetary policy tightening if oil price shocks threaten to un-anchor inflation expectations.

It said the conflict also poses a negative terms-of-trade shock for the Philippines as the country heavily relies on imported oil and fertilizer shipments transiting the Strait of Hormuz.

"Depending on the extent of disruption, reduced supply and higher prices will weigh on growth and increase inflation," it said.

In particular, it said every 10% rise in international oil prices could raise headline inflation by up to 0.5 percentage points.

"Brent crude prices have risen by 42.5% between Feb. 27-March 23. If oil prices remain 60% above the 2025 average, nominal household incomes could fall by 3.3%," it added.

The government has declared a one-year state of national energy emergency to create freedom of action to deal with the impact of the conflict, including giving President Ferdinand R. Marcos, Jr. the power to reduce fuel excise taxes.

According to the World Bank, if the excise taxes on fuel are suspended through 2026, it will result in foregone revenue equivalent to over 0.5% of gross domestic product.

The World Bank said it will be watching out for the pass-through impact of the oil price shock on domestic inflation and further policy responses to the Iran crisis.

# Pharma industry grapples with cost, supply issues

By Beatriz Marie D. Cruz  
Senior Reporter

THE pharmaceutical industry is bracing for higher costs as the conflict in the Middle East disrupts global supply chains that the Philippine drug industry depends on, industry executives said.

They noted, however, that some drug manufacturers have sufficient inventory to cover the next 12 months, beyond which they, too will be under pressure if the fighting is prolonged.

Maria Blanca Kim Bernardo-Lokin, president and chief executive officer of Philippine Pharma Procurement, Inc. (PPPI), said the pharmaceutical industry remains import-dependent, leaving it vulnerable to supply chain disruptions.

"Most, if not all, raw materials used in the drug manufacturing process are imported. Beyond medicines, we source our medical supplies, machines, and vaccines almost exclusively through importation," she said via Viber.

The industry also imports key ingredients for so-called lifestyle medicines like potassium, sodium, calcium, and magnesium salts, Ms. Lokin added.

She said supply chain disruptions stemming from the Middle East conflict are likely to widen the pharmaceutical trade deficit, which was \$2.3 billion in 2025, Fitch Solutions unit BMI reported in March.

Ms. Lokin said that the conflict will eventually drive up the price of medicine.

"While prices are expected to increase — for both manufacturers and consumers alike — PPPI has been regularly conferring and coordinating with industry stakeholders to ensure the steady supply of essential medicines," she said.

"We are very much affected since almost 95% of our raw materials and 50% of our packaging materials are imported," Philippine Pharmaceutical Manufacturers Association (PPMA) President Higinio P. Porte, Jr. told *BusinessWorld* via Viber.

He said the peso breaching the P60-per-dollar mark last month will also increase costs for drug manufacturers.

"On top of this, per unit cost will also increase in the next two months by about 5% to 15%," Mr. Porte added.

Diana M. Edralin, president of the Pharmaceutical and Healthcare Association of the Philippines (PHAP), said drug manufacturers remain "significantly exposed" to global trade disruptions.

"The Middle East serves as a vital artery for global shipping and logistics networks that facilitate the movement of essential goods, including pharmaceutical products and raw materials," she said in an e-mail.

"We note that there are already delays in the replenishment of stocks for some medicines due to the conflict," Ms. Edralin noted.

She said that while there are no signs of shortages, uncertainty over the duration of the Iran war poses risks.

## OPINION

# The BIR's updated approach to cross-border services

Since the Supreme Court issued its landmark *Aces Philippines Cellular Satellite Corp. v. CIR* ruling, the taxation of cross-border services has been the subject of extensive debate. The subsequent issuance of Revenue Memorandum Circular (RMC) No. 5-2024, as later supplemented by RMC No. 38-2024, sought to clarify the ruling but only raised further concerns among taxpayers due to its expansive interpretation and the aggressive audit assessments that followed.

On March 30, the Bureau of Internal Revenue (BIR) seems to have taken a step back with the issuance of RMC No. 24-2026, which appears to have tempered the reach of RMC No. 52024. While framed as a clarification, the new Circular refines its application by underscoring the need for careful factual determination and closer adherence to governing law and jurisprudence.

### THE ISSUE OF AUTOMATIC TAXABILITY

One of the most significant takeaways from RMC No. 24-2026 is its clear statement that cross-border services are not automatically subject to Philippine income tax simply because they are categorized as such. This clarification addresses a key concern about RMC No. 5-2024, which listed various services (e.g., consulting, IT outsourcing, and management services) in a way that appeared to presume taxability whenever the services benefited a Philippine entity.

RMC No. 24-2026 corrects this impression by underscoring the basic principle of tax law that the classification of a service does not determine its taxability.

### LET'S TALK TAX IVY CLARIZE A. BERNARDEZ

RMC No. 24-2026 brings the focus back to the general rule for the taxation of situs of services, i.e., that the income is taxed where the service is performed. In considering the application of the *Aces Philippines* case, which expands the situs rule for taxation of services to include the place where the benefit is received or where the service is completed, Revenue Officers are directed to factually establish the source of income within the Philippines, and not merely rely on the classification of the service. For businesses engaging foreign service providers, this clarification offers much needed assurance that cross-border arrangements will not be taxed by default.

### HOW THE BIR MUST ESTABLISH TAXABILITY

As a more disciplined application of the *Aces Philippines* case, the new Circular emphasized that cross-border service agreements are to be examined as a whole, the evaluation of which must consider the entirety of the services performed, and not just isolate a single activity as the sole income-producing act. Assessments must clearly show the existence of the following essential elements:

- The payor is a Philippine resident or domestic entity, and the payee is a non-resident service provider;
- The service or activity: (a) is integral to the completion or delivery of the service, and (b) results in actual

payment or accrual, creating economic benefit to the nonresident;

- The income-producing activity is situated in the Philippines; and
- There is no applicable exemption in tax treaties or domestic law.

Passive income, income from the sale of goods, and pass-through payments made to another nonresident for services performed outside the Philippines are excluded from this coverage. This explicit exclusion appears to be an attempt to address the confusion around reimbursable expenses, cost allocations, and shared services. The clarification reduces the risk that simple reimbursements will automatically be treated as taxable income. That said, the Circular provides limited detail on how to distinguish true pass-through payments from taxable service fees, leaving room for interpretation in more complex arrangements.

### DOCUMENTS TAXPAYERS MAY PRESENT DURING AUDIT

RMC No. 24-2026 reiterates the principle in the *Aces Philippines* case that the burden of proof rests on the taxpayer to show that payments to nonresident service providers are from sources outside the Philippines, and therefore not subject to Philippine income tax. Thus, the new Circular provided guidance as to the supporting documents that the taxpayer may present, including, but not limited to sworn statements describing the transaction and services rendered; service contracts, master service agreements, statements of work, invoices, billing statements, or relevant correspondence; Tax Residency Certificate of the non-resident service provider; SEC

Certificate of Non-Registration of the nonresident foreign corporation; proof of foreign organization or registration; proof of outward remittance; relevant BIR rulings, if any; and, Certificate of Entitlement to Treaty Benefits, if applicable. A prior BIR ruling is not required, and the lack of one will not prejudice a taxpayer if the position can be properly supported during audit.

### AREAS FOR FURTHER CLARIFICATION

While RMC No. 24-2026 provides meaningful clarification and introduces a more disciplined framework, there remain areas where additional guidance would be welcome and beneficial to taxpayers.

One area where further clarification may be helpful is the inclusion of practical examples. Illustrative scenarios covering common cross-border arrangements, such as consulting services, IT outsourcing, management fees, and fixed-fee engagements could assist taxpayers and revenue examiners alike in applying the sourcing principles consistently and with greater certainty.

Additional guidance may also be useful in relation to fixed-fee and outcome-independent services. While the Circular emphasizes the concepts of "completion" or "delivery" of services, it remains unclear how these tests apply where payment is not contingent on the successful use or measurable results of the service.

There is likewise room for further clarification on cost allocations and shared service arrangements. Although RMC No. 24-2026 excludes pass-through payments from its scope, the lack of clear criteria for evaluating cost charges, particularly in related party arrange-

ments, may still pose challenges for both taxpayers and revenue examiners.

Finally, taxpayers may benefit from guidance on the treatment of pending ruling requests or tax treaty applications during audit. Clarifying whether and how such pending applications may be considered in evaluating taxability would help address procedural concerns for taxpayers who have proactively sought confirmation and are awaiting BIR action.

### CONCLUSION

RMC No. 24-2026 reins in the earlier expansive interpretations of RMC Nos. 5-2024 and 38-2024, placing greater emphasis on the facts of each transaction and ensuring that tax assessments are grounded in established legal principles. However, the Circular is best viewed as a course correction rather than a final settlement. Until further guidance is issued, taxpayers should continue to approach cross-border service arrangements with careful documentation, clear contracts, and a well-reasoned sourcing analysis.

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