CURRENCY RATE
P48.41 TO $1

PSEi
6,607.78
UP 0.97%

Business Times
www.manilatimes.net

TUESDAY MARCH 30, 2021

ASIAN STOCKS: ▲ Shanghai 0.50% ▲ Singapore 0.56% ▲ ▼ Seoul 0.16% ▲ Tokyo 0.71% ▼ Jakarta 0.46% ▲ Hong Kong 0.01% ▲ Bangkok 0.57%

PSEI SHRUGS OFF FIRST DAY OF ECQ

THE local bourse ended in the green on Monday despite the first day of the reimplementation of stricter quarantine measures in the capital region and its neighboring provinces.

The benchmark Philippine Stock Exchange index (PSEi) climbed 0.97 percent or 63.15 points to 6,607.78, while the broader All Shares gained 0.51 percent or 20.30 points to finish at 3,988.09.

AAA Equities head of research Christopher Mangun said the market remained resilient despite opening with substantial losses.

"The optimism may be coming from the government's commitment to the economy's recovery despite the recent setback," Mangun explained.

Presidential Spokesperson Harry Roque on Sunday announced the reimplementation of enhanced community quarantine in Metro Manila and the provinces of Bulacan, Cavite, Laguna and Rizal from March 29 to April 4.

Longer curfew hours were also put in place in the areas, which would run from 6 pm to 5 am.

The areas were placed under stringent restrictions again as the number of local pandemic cases continue to rise.

Mangun said the tightened quarantine restrictions prompted panic selling in the beginning but buyers quickly picked up the shares at cheaper prices.

PSEi opened at 6,469.26 and fell to its intraday low of 6,432.07. It also peaked at 6,653.52 during the day.

"Despite the gains, we are not out of the woods yet as the main index is coming up against resistance at 6,600 to 6,700. We may see it give back some gains in the coming days," Mangun noted.

Regina Capital Development Corp. Managing Director Luis

➤ECQ B2

ING Bank sees lower GDP Q1 growth

BY ANNA LEAH E. GONZALES

ING Bank Manila on Monday cut its first quarter Philippine economic growth forecast to -3.6 percent from the earlier -3.4 percent due to the stricter quarantine measures recently imposed to prevent the spread of coronavirus disease 2019 (Covid-19).

"A spike in Covid-19 cases forced authorities to reinstate strict lockdowns in the Philippines' capital region and surrounding provinces for a week. This development shaves off roughly 0.1 percentage point from our 1Q (first quarter) GDP (gross domestic product) forecast, clouding to recovery efforts," said ING Bank senior economist Nicholas Mapa.

President Rodrigo Duterte earlier approved the Inter-Agency Task Force for the Management of Emerging Infectious Diseases' (IATF-MEID) recommendation to place Metro Manila and the provinces of Cavite, Laguna, Bulacan and Rizal under enhanced community quarantine (ECQ) from March 29 to April 4, 2021.

Mapa said that if the government extends the ECQ for another week, this would have a negative impact on full-year GDP.

"I think if the ECQ is extended another week, this could have a negative impact on FY (full-year) GDP once again, negating the favorable base effects for the GDP dynamic. Given that the current version of lockdowns can be considered 'ECQ lite,' we can expect anywhere from 0.1 to 0.3 percentage points impact on overall GDP," he said.

Mapa earlier forecast the country's GDP to grow by 5.1 percent this year and 4.3 percent in 2022 from a record low of -9.5 percent last year.

His estimates fall below the government's 6.5 to 7.5 percent projection for 2021 and the 8 to 10 percent forecast for 2022.

"The sector that will be bearing the brunt of the lockdowns will be the services sector with other services shutting down while restaurants are only allowed to operate for take-out orders," said Mapa.

"Nonetheless, we can not discount the negative impact caused by the now more than 1-year long lockdown that is definitely weighing down on the collective psyche of the Filipinos consumer," he added.

Aside from ING, the World Bank and Moody's Analytics also earlier expressed concern on the country's growth prospects.

According to Moody's, elevated inflation, a large output gap, a recent resurgence of Covid-19 infections, and limited vaccine availability are all reasons for concern.

The World Bank, for its part, downgraded its economic growth forecast to 5.5 percent from the earlier 5.9 percent, noting that the Philippines continues to struggle in containing the spread of the virus.

Create to help attract more investments

THE National Economic and Development Authority (NEDA) welcomed the enactment of the Corporate Recovery and Tax Incentives for Enterprises (Create) Act, noting the law will help the country attract more investments.

In a statement on Monday, NEDA Acting Secretary Karl Chua said Create will provide one of the country's largest stimulus measures for micro, small and medium enterprises (MSMEs).

"The impact of Create is twofold. First, it provides immediate relief to our MSMEs with a 5- or 10-percentage point reduction in the regular corporate income tax (CIT) rate. Second, it brings our corporate tax rate closer to our Asean peers and enhances our fiscal incentives system to help attract more foreign direct investments (FDIs), which will help generate more jobs and accelerate our recovery," said Chua. Asean is the Association of Southeast Asian Nations.

The key provisions of the law include the reduction of the regular CIT from 30 to 20 percent for domestic corporations with a taxable income of P5 million and below, and with total assets of not more than P100 million.

It will also reduce the regular CIT from 30 to 25 percent for all other domestic corporations, as well as foreign corporations currently paying the regular rate, and provide stronger governance in the grant and review of tax incentives through the oversight function of the Fiscal Incentives Review Board, ensuring accountability and transparency.

"Create is an integral part of the economic recovery package, along with the Financial Institutions and Strategic Transfer Act and the Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery bill. We thank the President and the Congress for approving this measure," said Chua.

The NEDA chief said that Create will put the country in a better position to compete for investments.

He said, however, that gains from Create will be limited if the Philippines will not relax restrictions on foreign investments.

➤Investments B2

■ National Economic and Development Authority Acting Secretary Karl Chua said the Corporate Recovery and Tax Incentives for Enterprises Act will provide one of the country's largest stimulus measures for micro, small and medium enterprises. THE MANILA TIMES FILE PHOTO

Worrisome state

ROUGH TRADE

BEN KRITZ

MOODY'S Analytics has a little quirk that signifies when one of the dozen or so research briefs and other press releases it makes in a given week is likely to be startling: The research firm will take pains to remind reporters not to conflate "Moody's Analytics" with "Moody's Investors Service," the credit ratings agency; in the latest example, which was released last Thursday (March 25) the reminder was highlighted in yellow in the accompanying email.

For the record, Moody's Analytics and Moody's Investors Service operate under the same large umbrella of the Moody's Corporation, but are otherwise independent; the Investors Service is one of the "big three" credit ratings agencies, while Moody's Analytics focuses on "financial intelligence," macroeconomic and sector research and analysis.

The research and analysis that Moody's Analytics knew would require a reminder about proper attribution because it would be widely reported was a brief entitled, "The Philippines is a worry," and it was indeed the top business story for most papers in town on Friday morning. The gist of the report was that the country's "Elevated inflation, a large output gap, recent resurgence of Covid-19 (coronavirus disease 2019) cases, and limited vaccine availability are all reasons for concern," and would probably result in a lowering of Moody's Analytics' current forecast for 6.3-percent gross domestic product (GDP) growth this year when its next report is released sometime next month.

Most news reports here pointed out that the 6.3-percent figure is lower than the government's target of 6.5 to 7.5 percent for this year, and that at about the same time Moody's Analytics released its latest outlook, the World Bank and S&P Global Ratings also lowered their forecasts for this year's GDP growth, citing the same reasons.

As with any economic forecast, the overall perception and sentiment that goes into the generation of a specific number like "6.3 percent" is far more important than the number itself. What Moody's Analytics and in slightly different terms, also the World Bank and S&P, is saying is that the Philippine economy, contrary to the strenuous assertions of the government's economic team, is neither stable nor recovering at this point.

The implicit argument goes something like this: Inflation is high, as Moody's acknowledges; it was 4.2 percent in January and 4.7 percent in February, both above the upper limit of the Bangko Sentral ng Pilipinas' (BSP) 2.0- to 4.0-percent target range. However, the BSP kept its benchmark interest rate unchanged at 2.0 percent; the Moody's Analytics report actually coincided with last Thursday's BSP Monetary Board meeting, as that decision or lack thereof would have some bearing on the overall forecast.

If inflation was climbing as a result of demand the BSP might have raised rates, or signaled that it would do so in the near future, but that is not the case here. Inflation is being driven by food prices, particularly pork, as a result of the African swine fever (ASF), which is an impermanent, exogenous factor that can be addressed through means other than monetary policy. Demand remains weak, so raising interest rates would be precisely the wrong response; furthermore, there is no indication that conditions indicating an interest rate hike will appear during the rest of 2021, in Moody's judgment.

The reasons demand remains weak are first of all, the surge in Covid-19 cases, on top of restrictions on economic activity that have now been in place for more than a year, albeit having been eased at times, has caused many consumers and businesses to hold back, fearing another round of tougher measures; they either have not resumed their normal activities, or are doing so in a much slower fashion than the government understands or wishes. Those fears were of course realized this week with a return to near-lockdown conditions in Metro Manila and the four neighboring provinces. Although Moody's Analytics did not take note of it, the report was released two days before the reimposition of lockdown measures – it is very likely the pace of the resumption of "normal" economic activity on anyone's part will be even slower once the current lockdown is lifted, because it simply confirmed everyone's worst fears and completely justified their earlier caution.

Moody's Analytics also suggested, at least indirectly, that the mishandling of the vaccination effort is also responsible for weak demand. Due to a lack of planning and several bad decisions on the part of the president and other key officials

➤Kritz B2