

## Philippine Country Report, Asia Securities Forum 2018

The Philippine economic miracle continues and now spans four decades, from 1980 to 2018.

Through structural economic reforms introduced by seven past and present administrations, Philippine GDP growth has significantly accelerated from 2% in the 80's, to 2.8% in the 90's, 4.5% in the 2000's and 6.3% the past eight years.

Philippine GDP has risen from \$27.5 billion in 1980 to \$314 billion in 2017, equivalent to an average annual gain of 27.4% or 6.6% compounded over 38 years.

This year, the country's economic managers are expecting Philippine GDP growth of 6.5% to 6.9%.

Over the medium-term, the present administration is aiming for 7% to 8% GDP growth from 2019 to 2022, underpinned by its medium-term fiscal and tax-reform program.

Fixed investments has been growing by 17% per year and now account for 27.2% of GDP, the highest in more than two decades.

Foreign direct investments rose by 22% to a record \$10 billion in 2017 and accounted for 3.2% of GDP.

Overseas Filipino remittances rose 4.3% to \$28.1 billion in 2017 or 9% of GDP.

BPO revenues rose 9.6% to \$22.2 billion or 7% of GDP.

The government's P9-Trillion Build! Build! Build! infrastructure program is underway.

Out of the 75 flagship projects worth P2.3 trillion, the National Economic and Development Authority has approved 35 projects or P1.24 trillion, and targeting to implement 26 projects by next year.

Under Build! Build! Build!, infrastructure spending will rise from 5.4% of GDP in 2017 to 7.3% in 2022.

Build! Build! Build! is financed by a higher deficit ceiling and the Comprehensive Tax Reform Program, with a combined contribution of 1.5% to 2% of GDP per year.

The budget deficit ceiling has been raised to 3% of GDP (from 2% of GDP).

The first tax package was implemented at the start of this year and imposed higher taxes on sweetened beverages, cigarettes, fuel and automobiles.

At the same time, it lowered personal income taxes across the board to improve consumer spending.

The second package will be ratified in November. It seeks to rationalize tax incentives and lower the corporate income tax from 30% to 25%.

Inflation accelerated to 5% in the first eight months of this year, breaching the 4% threshold of the central bank.

Monthly inflation rose from 3.4% y-y in January to 6.7% y-y in September.

Higher inflation is due mainly to supply factors such as delayed importation of rice, higher energy prices and additional excise taxes.

In response, the Bangko Sentral ng Pilipinas raised its key policy rate four times in 2018, from 3.0% in May to 4.5% in September.

Inflation is expected to moderate to 4.3% in 2019 and 3.2% in 2020.

The current account deficit doubled to US\$2.5 billion or 0.8% of GDP in 2017 on account of the country's oil bill, which rose 31% or \$2.3 billion to \$9.9 billion.

As of the first half of this year, the current account deficit has reached \$3.1 billion, of which \$1.6 billion is the increase in the oil bill.

The Philippines Peso has depreciated by 8% to P54.02 as of end-September, due to narrowing of real interest rate differential between US and Philippine sovereigns by 1% to 1.47% and a widening current account deficit.

The real interest rate in the U.S. has risen by 2.5x to 0.76% from 0.31% at the start of the year, as opposed to Philippine real interest rates, which declined to 2.23% from 2.79%.

The National Economic and Development Authority is projecting a Peso-Dollar exchange rate of P52.50-P53 this year and P52-P55 from 2019 to 2022.

The Philippine Stock Exchange Index is on the road to recovery after declining by as much as 25% from the all-time high of 9078 in January to 6790 on October 11.

San Miguel Food and Beverage, Inc., which owns San Miguel Brewery is conducting a follow-on offering of as much as P57 billion, which will add to the equity capital raisings of P181 billion YTD versus P147 billion in 2017.

The Philippine Stock Exchange has embarked on several key financial technology initiatives.

The PSE Electronic Disclosure Generation Technology or PSE EDGE is a state-of-the-art, fully automated system that facilitates the efficient processing, validation, submission, distribution, and analysis of time-sensitive disclosure reports submitted to the Exchange.

The PSE Tradex has integrated an order management system into its mobile application, which allows investors to execute orders via smartphone.

The Securities Clearing Corp. has adopted the use of standard connectivity such as ISO20022 for connecting settlement banks.

The PSE has established a monitoring system for securities borrowing and lending by gathering data from the Depository and Depository Participants and processing into a consolidated database and reporting system.

The PSE offers co-location services to market participants which improve latency in terms of sending orders or receiving market data.

The PSE Local Small Investors online portal ensures the efficient and widespread distribution of the 10% allocation to local small investors for IPOs.

In closing, the Philippines believes that our economic growth will be sustainable, provided we continue to employ the appropriate economic, monetary and fiscal initiatives to combat the challenges of containing inflation and preserving growth, as well as maintaining political stability in the country.

Thank you.