

Speech and Presentation delivered by Ismael G. Cruz, Philippine Association of Securities Brokers and Dealers, Inc. President at the 14<sup>th</sup> ASIA SECURITIES FORUM, Sydney, Australia, 11<sup>th</sup> to 13<sup>th</sup> October 2009.

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Good afternoon, my fellow colleagues at this 14<sup>th</sup> Asia Securities Forum.

First of all, I would like to thank the host organization of this Forum, The Australian Financial Markets Association (AFMA), and offer in advance our congratulations for a most successful event.

I am always pleased to visit Australia as I was associated with a major Australian conglomerate during my Hong Kong days.

We in the Philippines remain confident that the recovery both of the economy and the stock market is well on track and will be sustainable.

Our optimism is based on our sound economic environment which has fortunately been spared of both a recession and a financial crisis. If anything, the world financial crisis has taught Filipinos to be more patriotic, as we see domestic trust accounts with major Filipino banks growing 100% on an annual basis this year, as well as SDA's, bank deposits with our Central Bank, rising from P150B at the start of the year to P 700B at present. In addition, local participation in the stock market has grown to 70% this year from previous years' average of 35%.

In July 2009, Moody's upgraded the country's credit rating from B1 to Ba3 with stable outlook – after 4 years at B1. Fitch and Standard and Poor's reaffirmed their stable outlook.

Looking forward, we are optimistic; despite an economic slowdown, positive economic fundamentals will continue to improve, and our equity valuations are at historically low levels and one of the most attractive in the Asia Region.

Our presentation consists of three (3) parts:

1. The Philippine Economy
2. The Philippine Stock Market
3. And, the Capital Markets Initiatives

### The Philippine Economy

The Positive Factors:

- 2009 GDP forecast is positive 1.3%, on account of growth in private consumption (+2.2%) and government spending (+9.1%), but will below the 5.5% five-year average.
- 2009 8 months inflation slowed to 3.7% from 9.5% in 2008, on lower oil and food prices.
- Central Bank interest rates dropped to 4% in 2009 from 6% the previous year, when reserve requirements were cut by 200 b.p.
- OFW remittances was positive 3% in the first half of 2009 and plus 9.3% in July 2009.
- Government stimulus package of P 300B or 3.8% of GDP will boost economic growth.
- Balance of Payments surplus for 8 months 2009 rose 38% to \$ 2.8B, as a result of Government bond sales of US\$ 2.250B, and exceeded the annual forecast of \$ 700M for 2009 from only \$ 82M in 2008.
- Trade deficit narrowed 18% in first half 2009 to \$ 11.2B.
- FDI in first half 2009 rose 47% to \$ 892M, better than – 50% forecast for 2009.

### NEGATIVE FACTORS:

- Exports are forecasted to decline by 14% in 2009, but actual first half 2009 is -33%.
- Balancing the fiscal budget has been shelved for 2009 and instead the deficit was revised upwards to P 250 B or 3.2 % of GDP from P 200B or 2.8% of GDP the previous year.
- External debt is at 55% of GDP among the highest in the Region (Regional average of 38%) but significantly lower than 78% six years ago.

### FOR 2010

- GDP forecast is +2.6 to +3.6%, from +0.8% to 1.8% in 2009.
- Inflation at +3.5 to +5.5%, from +2.5% to +4.5%
- Gross International Reserves: +8% to \$ 40B
- OFW remittances: +2 to 3%
- Budget Deficit: P 233B or 28% of GDP, from P 250B or 3.2% in 2009.
- Exports +8% to +9% from -14% in 2009

National Elections in 2010 will bring in a modicum of political jitters but at the same time successful elections will usher renewed optimism on the whole.

### THE STOCK MARKET

The PSEi year-to-date is in a bull run and is up 51%, in line with major world indices, and somewhat less than some Asian peers, Indonesia, Taiwan and Thailand, and at par with Korea and Hong Kong.

Average daily turnover has risen 22% from P 3.1B to P 3.8B, but below the P 5.5B in 2007.

Total market capitalization is up 50% to P 6.0T from P 4.0T, but still less than P 8.0T in 2007.

PSEi valuations are reasonable at 16X equivalent to its 7-year average and one of the most attractive in the Asian Region (2009 PE of 34X or 19X ex-Japan).

However, select Philippine blue chips offer both value and growth: P/E of 10.2X and earnings growth of 13.5% (compared to PSEi earnings growth of only 4%).

Capital raisings, in terms of IPO's and follow-ons, were on the whole, dormant in 2009.

But our fixed-income market is booming: the annual Retail Treasury Bond offering this year reached P118B as compared to last year's of P70 B; and corporate bond issuances YTD are at P19B versus last year's P116B.

## CAPITAL MARKETS INITIATIVES

- The PSE New Trading System, the ATOS EURONEXT Market Solutions will be launched in January 2010.
- The PSE has signed up with the ASEAN Exchange Hub for intra-ASEAN cross border trading.
- The PSE continues to work on its program of new products:
  - Securities Borrowing and Lending Program
  - Exchange-Traded Funds
  - Personal Equity Retirement Accounts
  - Real Estate Investment Trusts
- Other legislative initiatives are underway in Congress:
  - Credit Information System Act, to establish a national credit information system.

- Corporate Recovery and Insolvency Act, to adopt an effective rehabilitation and insolvency system for ailing companies
  - Collective Investments Scheme Law, to rationalize on a comprehensive basis all incentives covering investment companies' products
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- Financial Sector Taxation Reform, to level the playing field on taxation of all financial instruments offered by different financial institutions, thereby avoiding tax arbitrage.

In closing, we reiterate our continued optimism based on our healthy economic environment of no recession, no financial crisis, slow but improving growth, and most importantly, attractive equity valuations relative to the Region; and lastly, our political stability.

Thank you.