



Philippine Country Report

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RESILIENCE | CONFIDENCE | OPPORTUNITY

Outline: Philippine Country Report

▼ The Philippine Economy

- Positive 1Q09 and 2Q09 GDP Growth
- Low Inflation and Expansionary Monetary Policy
- Balance-of-Payments Surplus Growth, Narrower Trade Deficit and Record GIR Level
- Manageable Fiscal Situation and Reduced Burden
- Overall Assessment
- 2009 and 2010 Forecasts

▼ The Philippine Stock Market

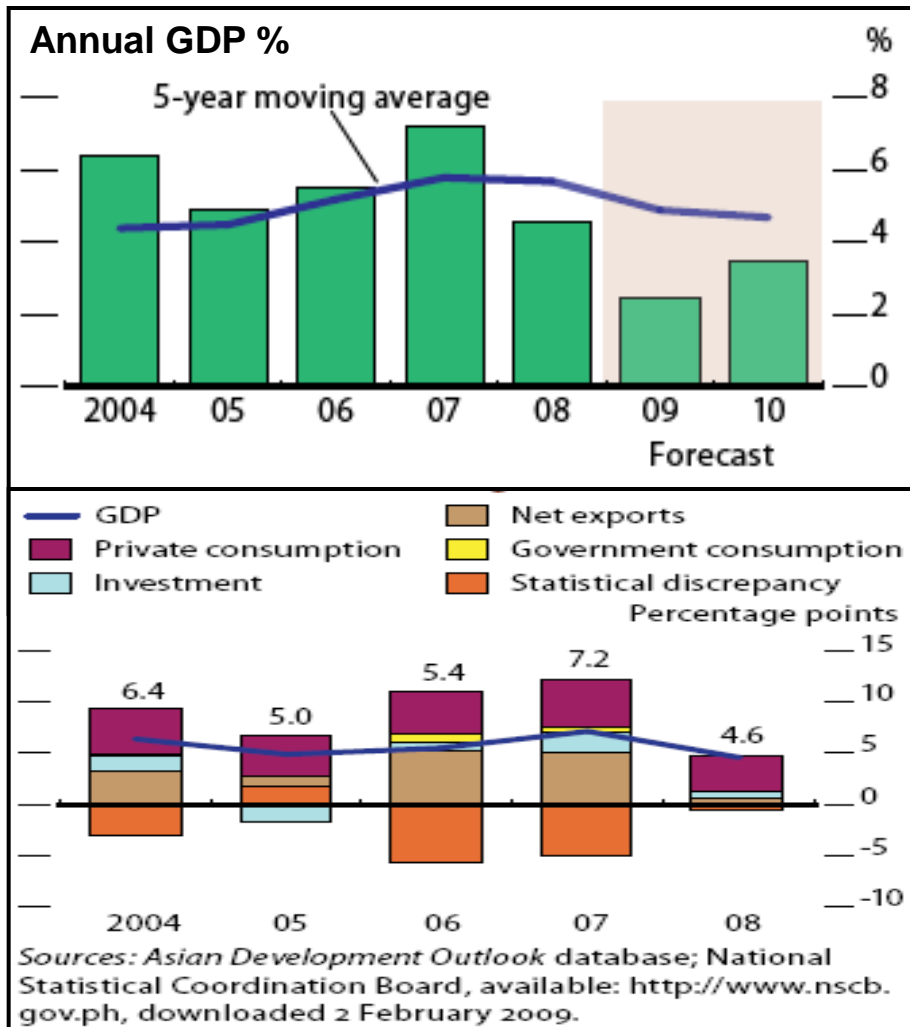
- Bull-market Performance, Growth in Volume Turnover and Market Capitalization

▼ Capital Market Initiatives

- PSE New Trading System, Fixed Income Exchange, Personal Equity Retirement Account, Real Estate Investment Trust and others

The Philippine Economy

The Philippine Economy: Slower 2008 GDP Growth



▼ Below-average GDP growth in 2008

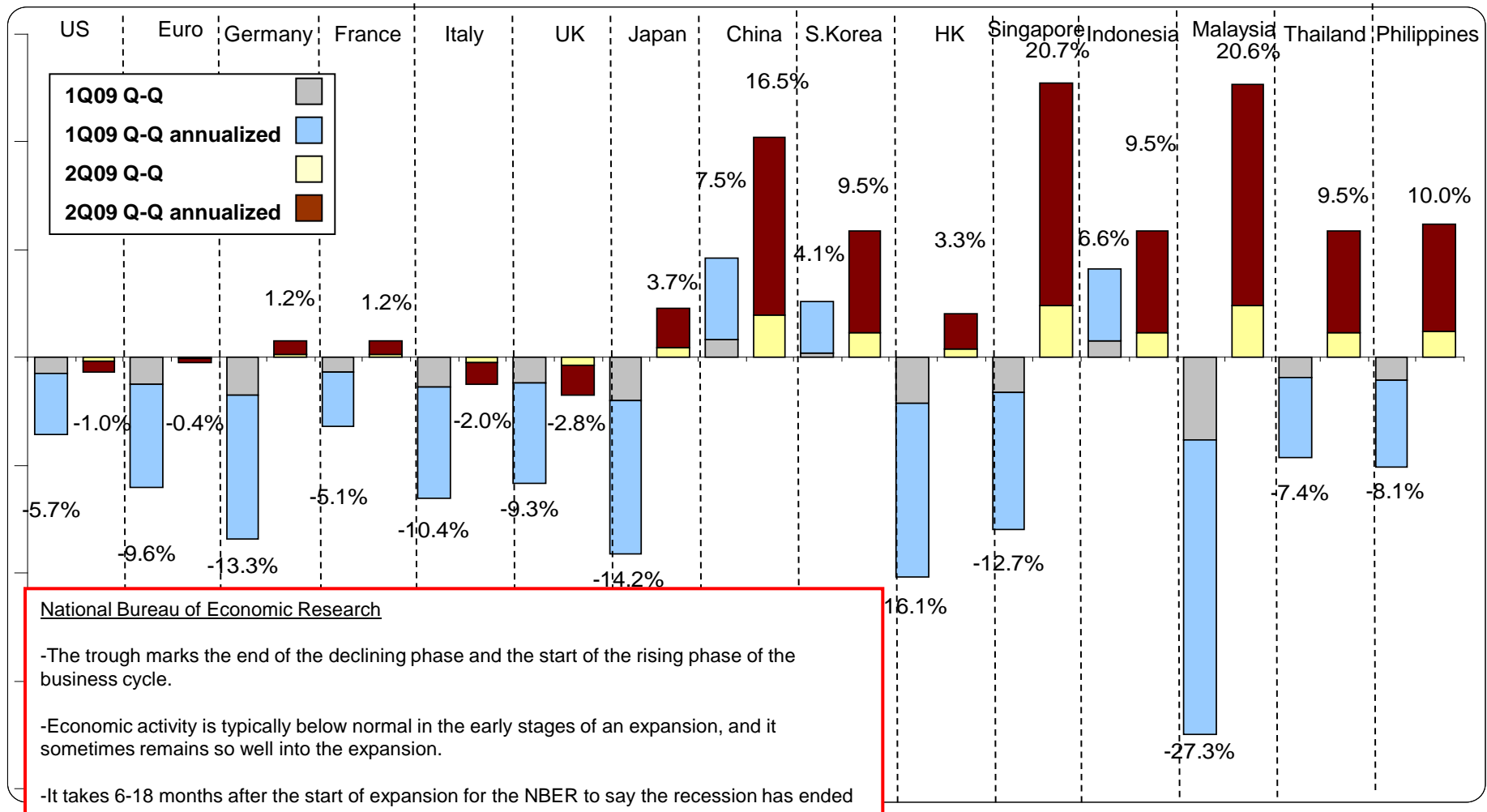
- GDP growth slowed to 4.6% in 2008 from 7.2% in 2007, which was the highest in three decades
- 0.9 percentage points below the 5-year average GDP growth of 5.5% from 2004 to 2008
- Slower growth reflected the effects of:
 - Decade-high inflation on consumption and;
 - Weaker global demand for exports

▼ Slower growth in private consumption

- Private consumption grew at a slower pace of 4.5% in 2008, from 5.8% in 2007
- Private consumption accounted for 77% of total GDP

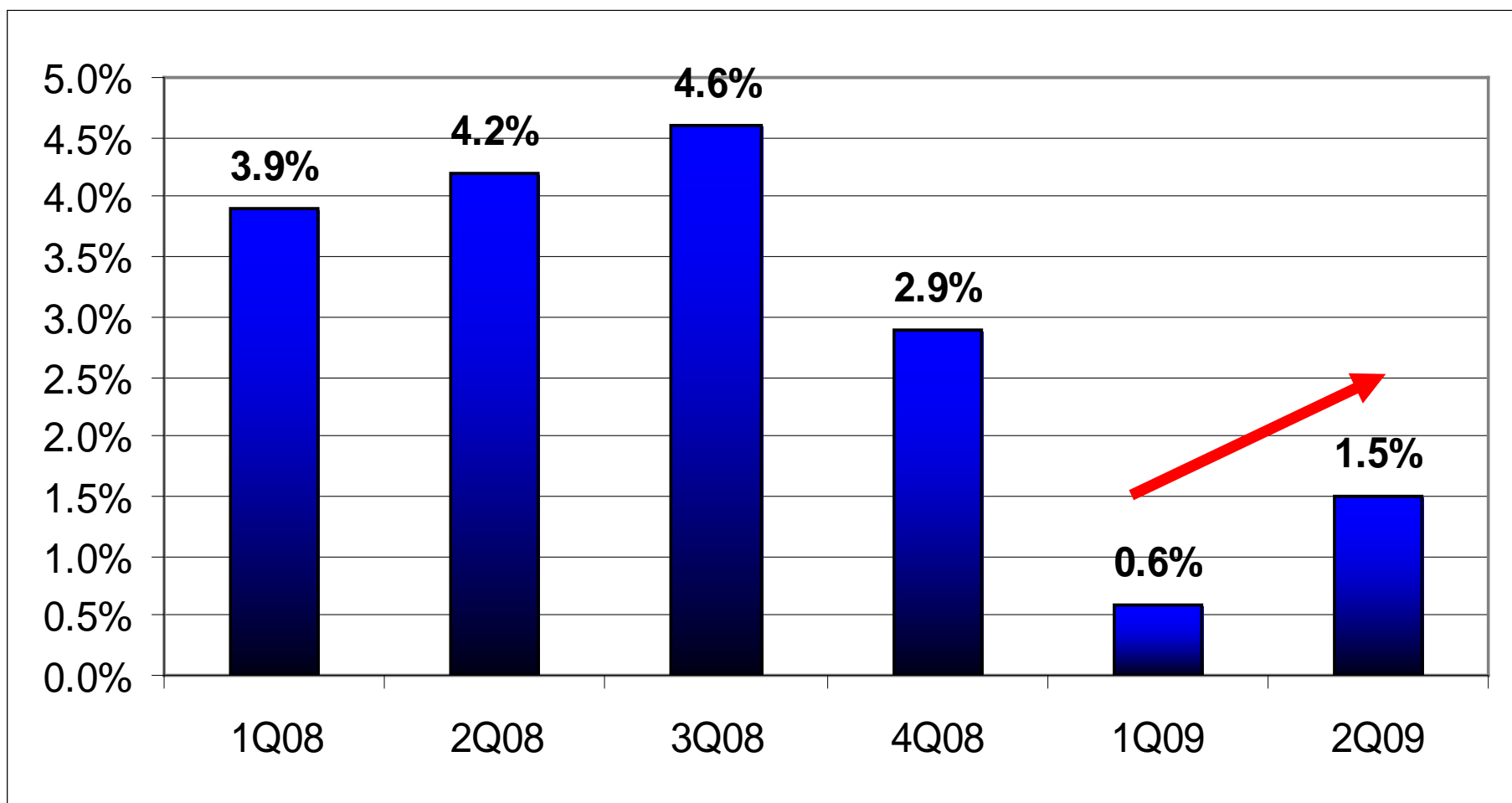
Onset Of Recovery For Major Economies

1Q09 & 2Q09 GDP (Q-Q and Annualized)



The Philippine Economy: Positive 1Q09 And 2Q09 GDP Growth

Quarterly GDP Growth (Y-Y)



The Philippine Economy: Improvement In Private Consumption, Government Spending And Services

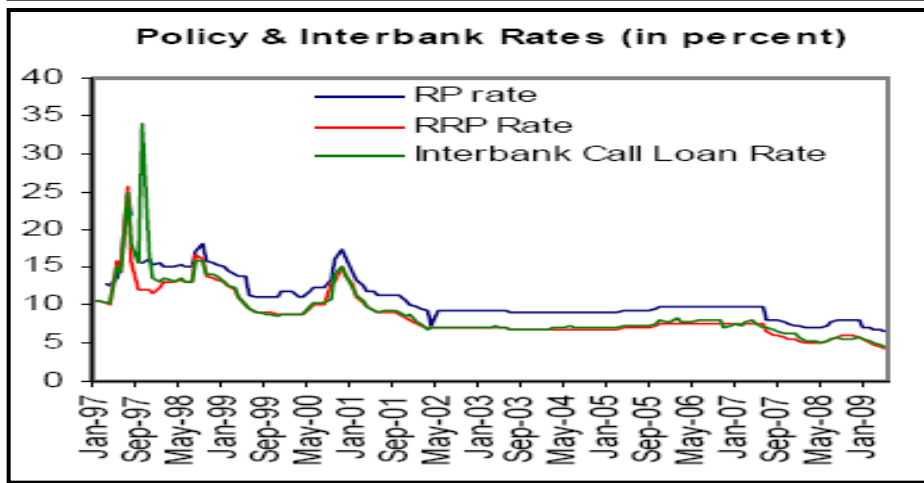
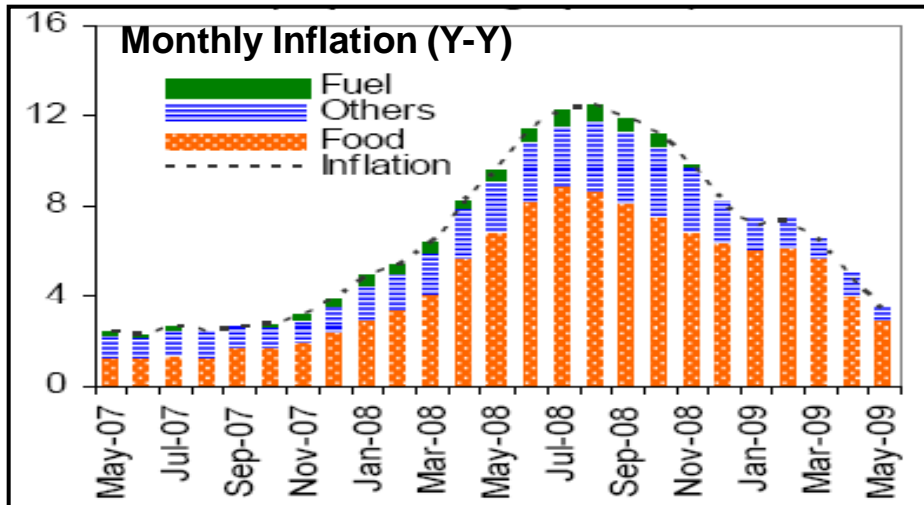
Quarterly Growth Of Demand And Supply Side Components (Q-Q, Y-Y)



	1Q09			2Q09		
	Q-Q	Y-Y	% of Total	Q-Q	Y-Y	% of Total
Private consumption	-17.6%	+0.8%	76.5%	+8.7%	+2.2%	77.6%
Investments	-8.6%	-16.5%	16.5%	+16.9%	-9.8%	17.9%
Government spending	+16.2%	+3.8%	7.1%	+20.9%	+9.1%	8.1%
Exports	-15.8%	-18.2%	35.5%	+31.1%	-16.0%	43.4%
Imports	-26.2%	-19.2%	-35.1%	+29.5%	-2.7%	-42.4%

	1Q09			2Q09		
	Q-Q	Y-Y	% of Total	Q-Q	Y-Y	% of Total
Agriculture	-15.6%	+2.1%	19.6%	-10.0%	+0.3%	16.5%
Industry	-17.5%	-2.1%	30.5%	+17.3%	-0.3%	33.3%
Services	-14.1%	+1.4%	49.8%	+7.8%	+3.1%	50.1%

The Philippine Economy: Low Inflation and Expansionary Monetary Policy



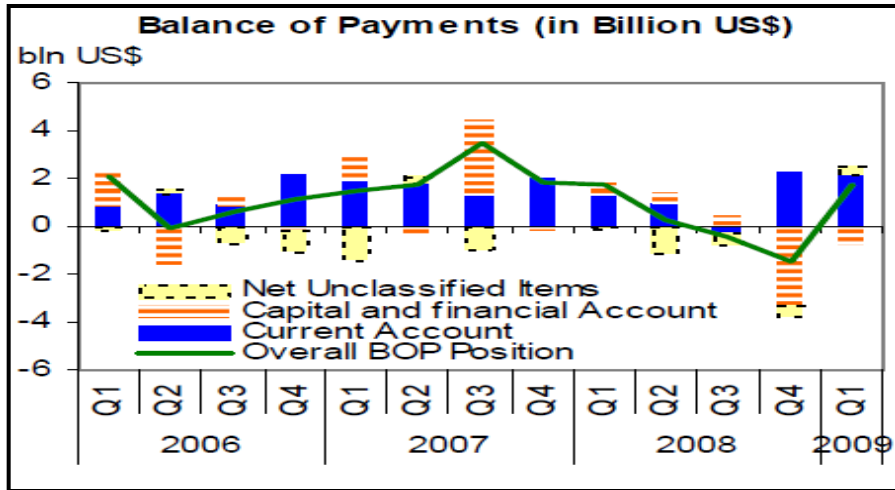
Declining inflation

- Inflation has been trending down for the last 12 months
- Inflation peaked at 12.4% in August 2008 and slowed to 8.0% by December and 0.1% by August 2009
- YTD average of 3.7%
- BSP hiked rates by 100bp to 6% between June and August 2008

Shift to expansionary monetary policy

- BSP has cut by 200 bp to 4% between December 2008 to July 2009
- In November 2008, BSP cut the reserve requirement on deposits by 200 bp to 8%

The Philippine Economy: Balance-of-Payments Surplus Growth, Narrower Trade Deficit, and Record GIR Level

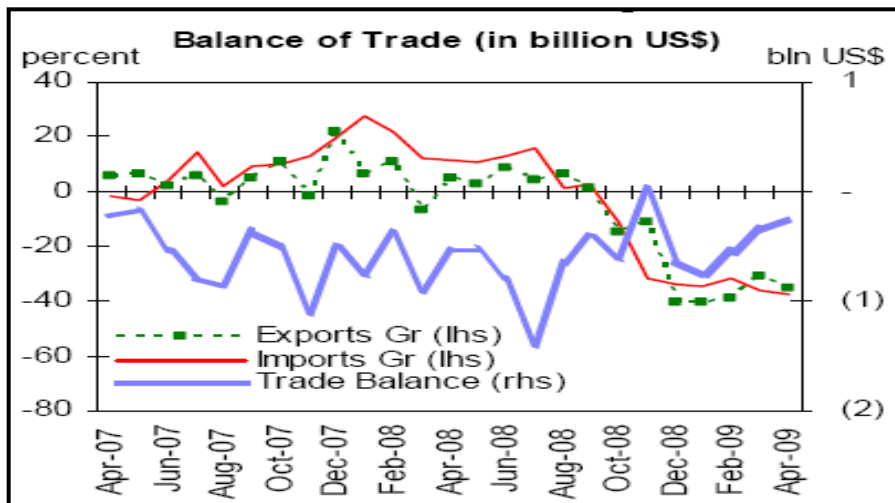


▼ BoP surplus growth

- BOP surplus rose 31% to \$2.7b in 7M09
- The government raised \$1.5b in January and \$750m in July from global bond issuances

▼ Narrower trade deficit

- Trade deficit declined by 18% in 1H09 to \$11.2b, due to sharper declines in imports

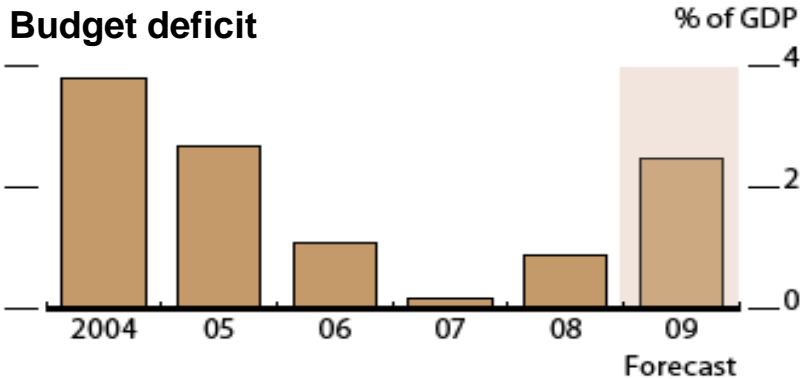


▼ Record GIR level

- As of end-August, GIR of \$41.3b
- Boosted by IMF's Special Drawing Rights, which grew 100-fold to \$1b as of end-August from only \$10m in as of end-July
- Coverage of 7.1 months of imports or 6.6x the country's short-term external debt

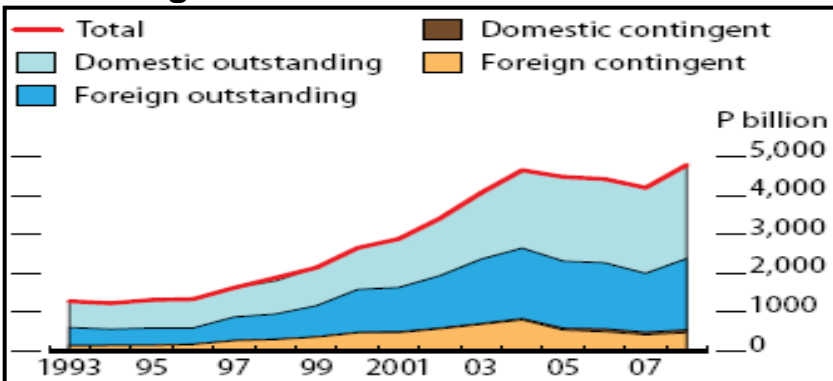
The Philippine Economy: Manageable Fiscal Balance And Reduced Debt Burden

Budget deficit



Sources: CEIC Data Company Ltd.; Bureau of the Treasury, available: <http://www.treasury.gov.ph>, both downloaded 3 March 2009; staff estimates.

National government debt



Sources: CEIC Data Company Ltd.; Bureau of the Treasury, available: <http://www.treasury.gov.ph>, both downloaded 3 March 2009.

▼ Economic stimulus package financed by deficit

- As of 7M09, budget deficit reached P188b from P33b in 7M08
- 75% of the programmed P250B ceiling, equivalent to 3.2% of the GDP
- Expenditures rose 18% due mainly to the implementation of the government's economic resiliency plan
- Planned asset sales to meet the target
 - Privatization sales of P664m as of July, compared to P6.9b last year

▼ Favorable outlooks on RP sovereigns

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

▼ Reduced NG debt level

- NG debt of P4,221b (56.9% of GDP) at end-2008 from 77.7% in 2003
- As of end-June, NG debt level has been maintained at P4,227b

Positive Factors

- ▼ **2009 GDP growth forecast is still positive (+1.3% in 2009)**, while most economies are likely to register negative growth for the year.
- ▼ **Inflation rate for the 8M09 slowed to 3.7%** from 9.3% in 2008 on lower oil and food prices
- ▼ **Interest rates are at a record low** of 4% and 6% for borrowing and lending, respectively
- ▼ **OFW remittances in the 1H09 still showed +2.9%** vs. forecast of negative to 0% growth
- ▼ Government **stimulus package of P300B** will boost economic growth
- ▼ **Balance of Payments surplus for 7M09 rose 31% to \$2.7B** driven by the government bond sale last July, and likely to meet target of \$700M forecast for 2009 from only \$82M in 2008
- ▼ **Trade deficit narrowed 18% in 1H09 to \$11.2b**, due to sharper declines in imports
- ▼ **FDI in 1H09 rose 47% to \$892M**, outperforming forecast of -50% for 2009
- ▼ **Successful elections** will result into a new leadership that will bring

Negative Factors

- ▼ **Exports continue to decline, and is forecasted to drop 14% this year** due to the global economic slowdown. (-33% in 1H09)
- ▼ **Balancing the budget this year has been sidelined**. Instead the deficit ceiling was revised upward to **P250B or 3.2% of GDP for 2009** from P200B or 2.8% of GDP
- ▼ **External debt is at 55% Debt-to-GDP ratio, among the highest in the region**. (Regional average: 37.8% Debt-to-GDP ratio)
- ▼ The risk of **failure of elections**

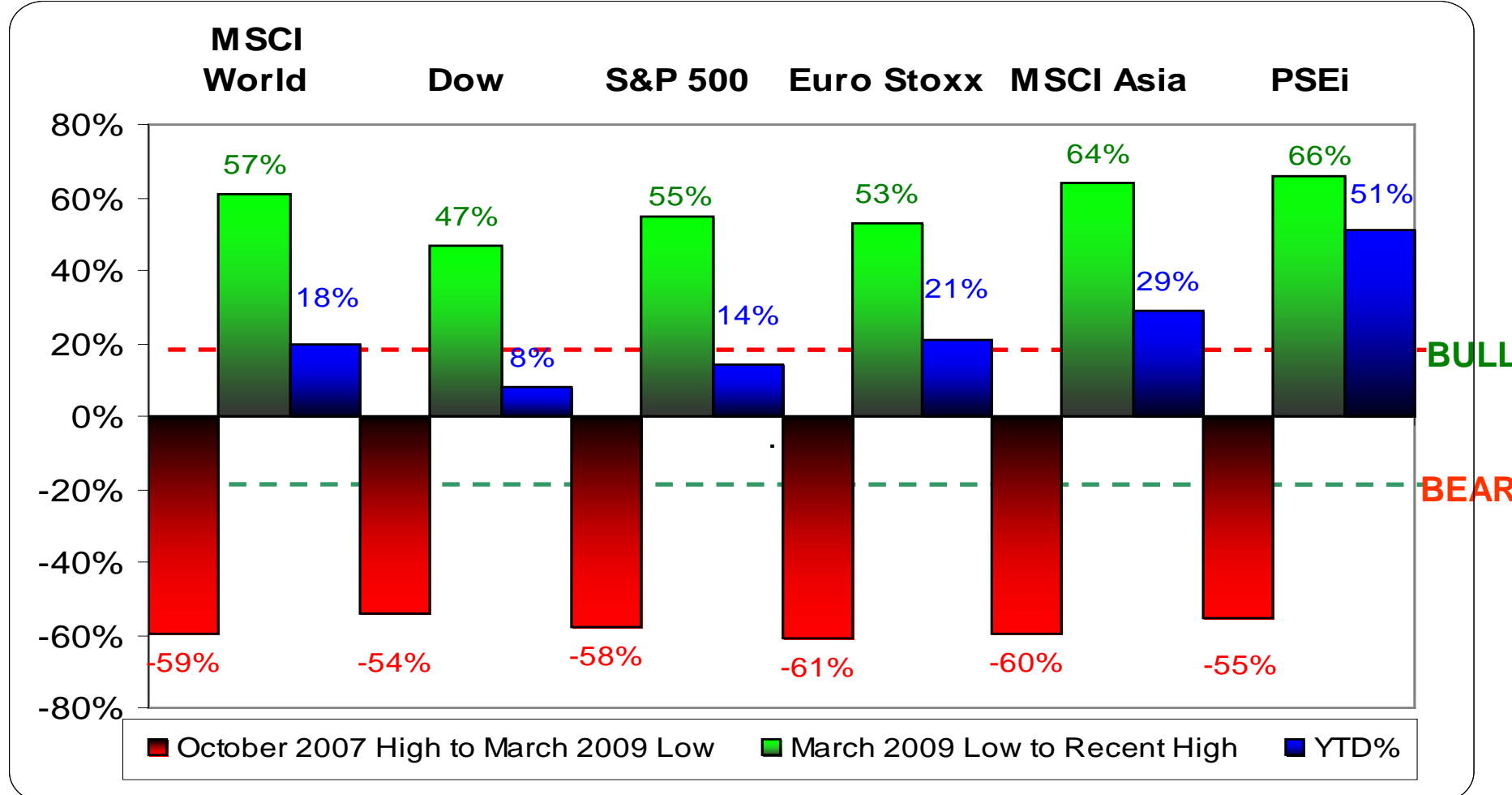
The Philippine Economy: 2009 and 2010 Forecasts

Economic Indicator	2009F	2010F
GDP	+0.8% to 1.8%	+2.6% to +3.6%
Inflation rate	+2.5% to +4.5%	+3.5% to +5.5%
Gross international reserves	+8% to \$40b	-
OFW remittances	+2% to +3%	-
FDI	-50% to \$760m	-
Balance of Payments	\$700m surplus	-
Budget deficit	P250b or 3.2% of GDP	P233b or 2.8% of GDP
Exports	-14%	+8% to +9%
Imports	-13%	+12% to +14%

*Source: Various Philippine government agencies

The Philippine Stock Market

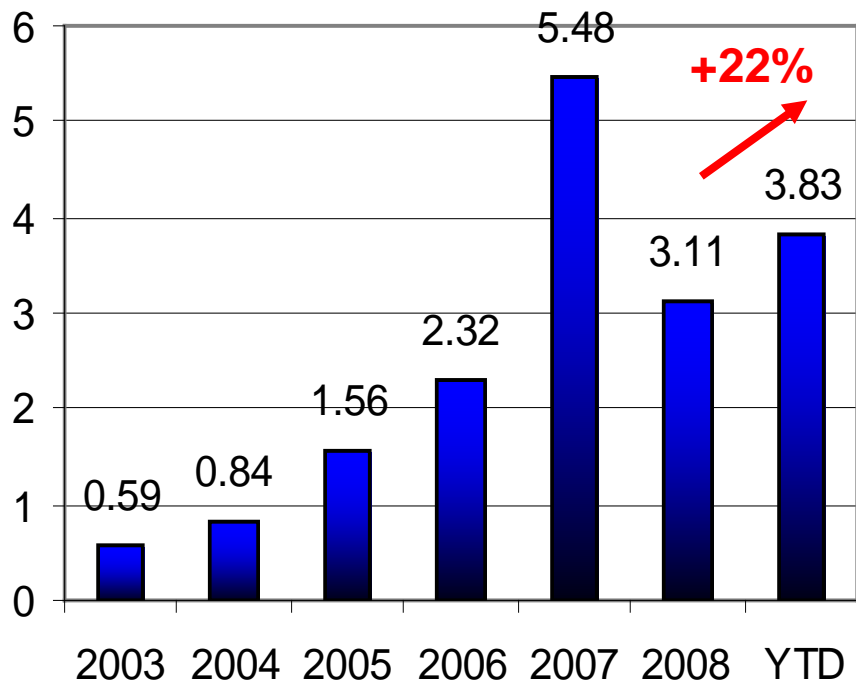
The Philippine Stock Market: Markets Have Turned Into 'Bulls'



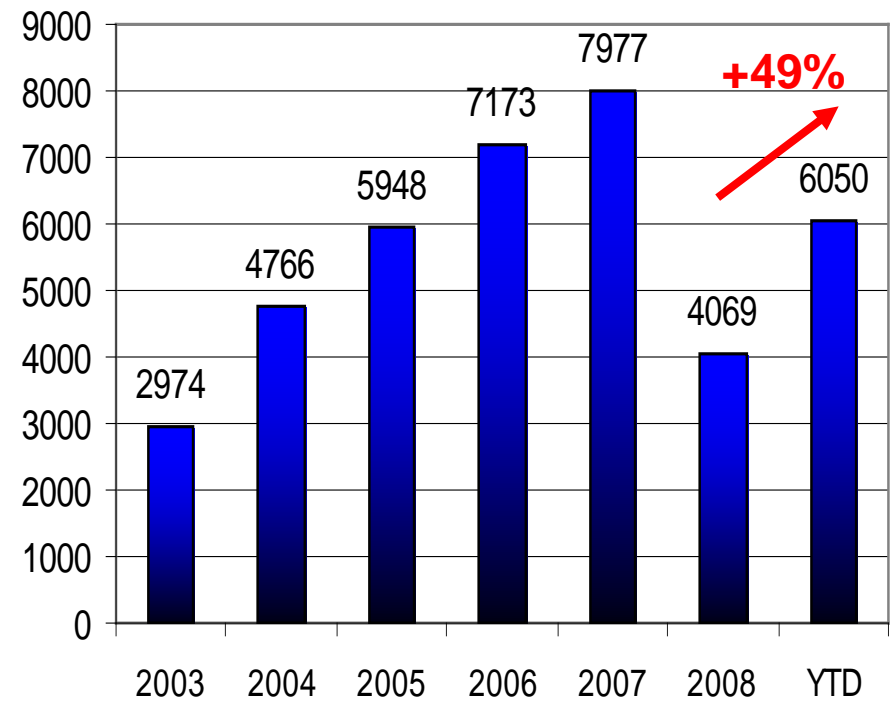
The Philippine Stock Market: Growth In Volume Turnover And Market Capitalization



Average daily turnover (in Php bn)

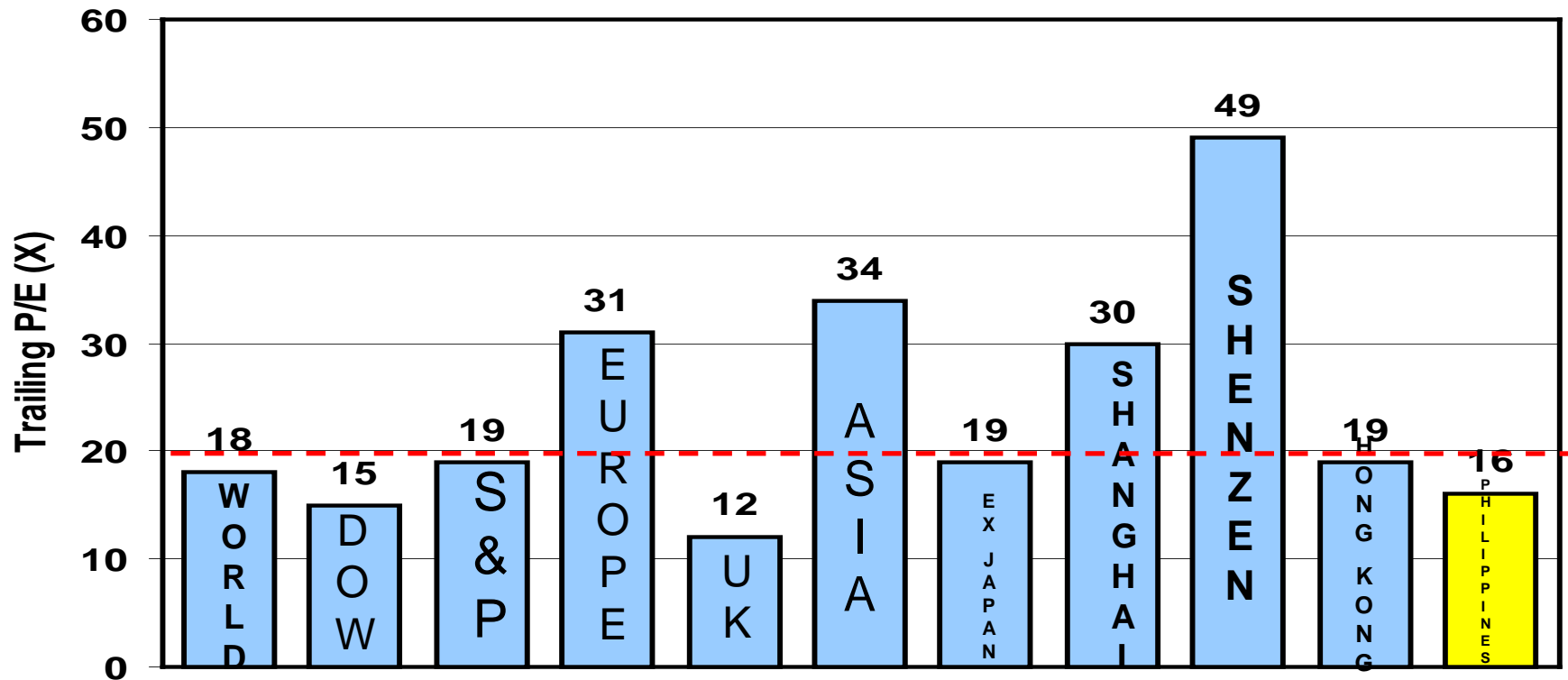


Total Market Capitalization (in Php bn)



The Philippine Stock Market: The Case For Philippine Equities

P/E Valuations of Major Stock Indices



▼ PSEi valuations are reasonably valued at 16x, equivalent to its 7-year average, and are one of the most attractive in the Asia region (2009 PE of 34x)

▼ **Select Philippine blue-chips offer value and growth: P/E of 10.2x and earnings growth of 13.5% (versus market earnings growth of 4%)**

Philippine Capital Market Initiatives

Philippine Capital Market Initiatives



Initiative	Update
<p>PSE New Trading System</p> <p>In April, the PSE announced plans to replace its Maktrade System with Atos Euronext Market Solutions SAS</p>	<p>Launch date on January 2010</p>
<p>PSE-NYSE Memorandum of Understanding</p> <p>Joint development of new exchange-traded products, explore new opportunities in trading system architecture and technology and enhance market participant connectivity and data management</p>	<p>Signed on June 26, 2008</p>
<p>Feasibility Study of Equity Derivatives Trading</p> <p>Engaged CBM Group, Inc. to develop a strategic plan to introduce derivatives and commodities trading on the PSE</p>	<p>Ongoing</p>
<p>PSE as signatory to ASEAN Exchange Hub</p> <p>The e-trading link, through one single access point, allows intra-ASEAN cross-border trading and will attract more international funds into the ASEAN.</p>	<p>Expected to go online in 2010</p>

Philippine Capital Market Initiatives

Initiative	Update
<p>Exchange-Traded Fund Listing Rules</p> <p>Will allow local and foreign ETFs, with minimum asset size of P250m and \$10m, respectively, to list on the PSE</p>	<p>Approved by the PSE on April 2008 and submitted to the SEC for approval</p>
<p>Philippine Dealing and Exchange Corp.</p> <p>PDEX began trading operations in Government Securities in March 2005, with a Negotiated Dealing System for the Inter-Dealer Market</p> <p>Owned 20% by the Philippine Stock Exchange and another 20% by the Singapore Exchange Limited</p>	<p>Operational</p>
<p>Personal Equity Retirement Account (PERA)</p> <p>Promotes voluntary long-term savings, through investments in PERA products designed to be locked for at least 5 years until retirement age of investor</p>	<p>Signed into law on August 22, 2008</p>

Philippine Capital Market Initiatives

Initiative	Update
<p>Real Estate Investment Trust (REIT)</p> <p>Seeks to provide a legal and regulatory framework and create a favorable market environment for real estate investment companies</p>	<p>Jointly submitted by the Committees on Banks and Ways and Means was approved on Third Reading on March 2, 2009</p>
<p>Securities Borrowing and Lending Program (SBL)</p> <p>Involves the loan of securities by a Lender who owns or controls them, to a Borrower who needs the securities to support settlement obligations or trading strategies</p>	<p>Operational</p>
<p>Credit Information System Act (CISA)</p> <p>Aimed at establishing a comprehensive credit information system, allowing financial institutions ready access to accurate and up-to-date credit information thru the proposed Central Credit Information Corporation</p>	<p>Signed into law on October 31, 2008; Implementing Rules and Regulations for Approval by Congress</p>

Philippine Capital Market Initiatives

Initiative	Update
<p>Corporate Recovery and Insolvency Act (CRIA)</p> <p>Focuses on the adoption of an effective rehabilitation and insolvency system for ailing companies</p>	<p>Under Public Hearing in Congress</p>
<p>Collective Investments Schemes Law (CISL) formerly referred to as the Revised Investment Company Act (RICA)</p> <p>Seeks to institute reforms in the domestic investment company industry, including mutual funds and aims to establish a comprehensive regulatory framework to enable investment companies to play a key role in capital formation</p>	<p>Legislative Committee report under preparation</p>
<p>Financial Sector Taxation Reform (Fin Tax)</p> <p>Meant to rationalize taxation to level the playing field as regards applicable tax on similar financial instruments offered by different financial institutions, thereby avoiding tax arbitrage</p>	<p>Legislative Committee report under preparation</p>

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