INVESTOR RELATIONS OFFICE

Think Growth.
Think Philippines.

Q4 2018 ISSUE

Table of Contents

Philippines keeps robust growth in 2018

Growth follows surge in public, private investments

THE PHILIPPINE economy maintained robust growth in 2018, as the surge in government spending on infrastructure and social services was matched by a sustained rise in investments from the private sector.

The economy expanded by 6.2 percent during the year, thus recording 20 consecutive years of growth that proved true its resiliency to external headwinds.

"This is a firm finish that cements the Philippines' standing as one of the fastest-growing economies in Asia," Socioeconomic Planning Secretary Ernesto Pernia, Finance Secretary Carlos Dominguez III, and Budget Secretary Benjamin Diokno said in a joint statement issued by the National Economic and Development Authority (NEDA), Department of Finance (DOF), and Department of Budget and Management (DBM) on January 24, 2019.

2015-2018 GDP Growth Rate of Select Countries (%)

	2015	2016	2017	2018
Philippines	6.1	6.9	6.7	6.2
India	7.6	7.9	6.4	7.7 (Q1-Q3)
China	6.9	6.7	6.9	6.6
Vietnam	6.7	6.2	6.8	7.1
Malaysia	5.1	4.2	5.9	4.7 (Q1-Q3)
Indonesia	4.9	5.0	5.1	5.2 (Q1-Q3)
Thailand	3.0	3.3	3.9	4.3 (Q1-Q3)
Korea	2.8	2.9	3.1	2.7
Singapore	2.2	2.4	3.6	3.7 (Q1-Q3)
Taiwan	0.7	1.5	2.9	2.9 (Q1-Q3)
Japan	1.4	0.9	1.7	0.9 (Q1-Q3)

Ernesto M. Pernia
Socioeconomic Planning Secretary

Carlos Dominguez III
Finance Secretary

Benjamin Diokno
Budget Secretary

"As we are now in a higher growth trajectory, with our economy growing at an average of 6.5 percent in the first 10 quarters of the [Duterte] administration, we want to focus more on sustaining this momentum," the economic managers added.

While 2018 growth was short of the government's revised full-year target (set at a range of 6.5 to 7.5 percent) and marked a deceleration from the previous year's 6.7 percent, it nonetheless kept the Philippines among the fastest growing economies in Asia.

Among the three major sectors of the Philippine economy, the industry sector registered the fastest growth rate in 2018 at 6.8 percent, followed by the services sector at 6.6 percent. The agriculture sector finished with a growth of 0.8 percent, owing in part to weather disturbances that adversely affected harvest.

On the demand side, growth in 2018 was driven partly by a surge in government spending, as the Duterte administration embarks on the country's most ambitious infrastructure development program to date, called 'Build, Build, Build.'

Data from the Philippine Statistics Authority (PSA) showed that public investments during the year grew by 21.2 percent, accelerating from 12.7 percent the previous year.

Under the 'Build, Build, Build' program, the government has lined up over 4,000 infrastructure projects all over the country, 75 of which are considered flagship projects by the Duterte administration given their expected high impact on the economy. Flagship projects include airports, inter-island connector roads, and mass transit systems.

Also driving 2018 economic growth were private-sector investments. PSA data showed these grew by 12.9 percent, faster than the previous year's 3.7 percent.

Looking ahead to 2019, Secretary Pernia said the government is keen on hitting the goal of 7.0- to 8.0-percent economic growth, which the Duterte administration has programmed for the remainder of its term up to 2022.

In the press conference held January 29, 2019, Secretary Pernia said going full speed ahead with the government's 'Build, Build, Build' program and initiatives to boost performance of the export and tourism sectors were among the top suggestions on how the Philippines can attain the growth target.

He also said developments in the Bangsamoro region following the enactment of the Bangsamoro Organic Law (BOL) may help drive investments and growth in Mindanao and the entire economy.

Also, the mid-term elections in May and the country's hosting of the Southeast Asian Games in November will add stimulus to growth for 2019.

In the meantime, the economic managers expect private-sector investments to sustain steady growth this year amid the favorable outlook of the economy. The Philippines is widely expected to maintain a robust growth rate in the years ahead and to remain among the fastest growing economies in Asia, owing in part to its buffers against external headwinds, such as strong domestic demand and healthy external accounts.

GDP Growth Projections for the Philippines (%)

	2019	2020
Asian Development Bank (ADB)	6.7	--
International Monetary Fund (IMF)	6.7	6.9
World Bank	6.5	6.6

The government targets the country's gross domestic product (GDP) to grow between 7 and 8 percent from 2019 to 2022

Quick Stats

INDICATOR	2017	2018
Credit Ratings		
Fitch Ratings	BBB/Stable	BBB/Stable
Moody's Investors Service	Baa2/Stable	Baa2/Stable
Standard & Poor's	BBB/Stable	BBB/Positive
Japan Credit Rating Agency	BBB+/Stable	BBB+/Stable
R&I Information Inc.	BBB/Stable	BBB/Stable
NICE Investors Service	BBB/Stable	BBB/Stable
RAM Ratings	gBBB3(pi)/Positive	gBBB2(pi)/Stable
Real Gross Domestic Product Growth (year-on-year, %)	6.7	6.2
Per-capita GDP, (current prices, USD)	2,989	3,104
PPP concept (at current prices, USD)	8,360	8,889
Unemployment Rate (%)	5.7	5.3
Population (mn)	104.9	106.6
Balance of Payments (USD, mn)	(863)	(5,136) p/ (Jan - Sept)
(as % of GDP)	(0.3)	(2.2) p/ (Jan - Sept)
Current Account (USD, mn)	(2,163)	(6,471) p/ (Jan - Sept)
(as % of GDP)	(0.7)	(2.7) p/ (Jan - Sept)
Exports (USD mn)	68,712	62,767 (Jan - Nov)
(year-on-year growth, %)	19.7	(0.89) p/ (Jan - Nov)
Imports (USD mn)	96,093	100,455 p/ (Jan - Nov)
(year-on-year growth, %)	14.3	15.8 p/ (Jan - Nov)
Cash Remittances (USD, mn)	28,060	26,094 p/(Jan - Nov)
Gross International Reserves (USD, mn)	81,570	78,461
(months' worth of imports)	7.7	6.9
External Debt (as % of GDP)	23.3	23.5 p/ (end-Sept)
Inflation Rate (%) (2012=100)	2.9	5.2

Quick Stats (Continued)

INDICATOR	2017	2018
National Government Balance/GDP (%)	(2.2)	(3.0) (Jan - Sept)
National Government Revenue/GDP (%)	15.6	16.9 (Jan - Sept)
Interest Payments/Revenue (%)	12.6	12.8 (Jan - Sept)
Average Bank Lending Rate (%)	5.630	5.906 (Jan - Sept)
General Government Debt/GDP (%)	36.6	37.3 (end-Sept)
National Government Debt/GDP (%)	42.1	42.3 (Jan - Sept)
PHP Close per USD (on last trading day)	49.923	52.50
BSP Rates Overnight Lending Rate (%) Overnight Repurchase Rate (%) Overnight Deposit Rate (%) 7-Day Deposit Rate (%) 28-Day Deposit Rate (%) *weighted averages in percent per annum*	 3.500 3.000 2.500 3.234 3.446	 3.851 (Jan - Sept) 3.327 (Jan - Sept) 2.824 (Jan - Sept) 3.540 (Jan - Sept) 3.717 (Jan - Sept)
91-Day T-bill Rate (%) *weighted averages in percent per annum*	2.15	3.54
PSEi Close (on last trading day)	8,558.42	7,466.0
ROP 10-year Bond Spread over US Treasuries (bps)	86.7	125.53
ROP 5-year Bond Spread over US Treasuries (bps)	36.2	120.04
ROP 10-year CDS Spread (bps) (last price for the period)	106.4	140.25
ROP 5-year CDS Spread (bps) (last price for the period)	67.3	88.23

p/ preliminary

Sources: PSA, BSP, BTr, Bloomberg, Various Credit Rating Agencies

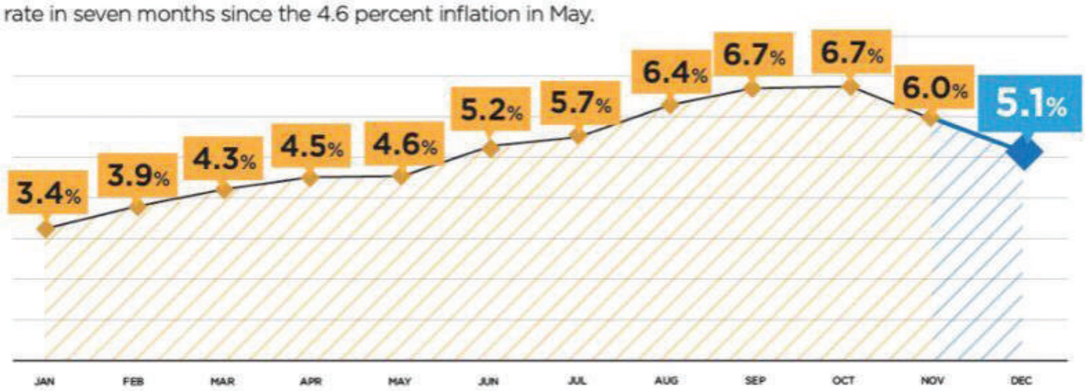
Monthly Report on

INFLATION FOR **DECEMBER 2018**

HEADLINE INFLATION RATES

(Philippines: January to December 2018)

The Philippine Statistics Authority (PSA) announced that year-on-year inflation decelerated for the second consecutive month at 5.1 percent in December from 6.0 percent in November. This was the lowest inflation rate in seven months since the 4.6 percent inflation in May.



Factors that Affected Headline Inflation

Prices of food and non-alcoholic beverages continued to slow down with inflation settling at 6.7 percent in December from 8.0 percent in November.

Non-food inflation moderated to 3.4 percent in December from 4.1 percent in the previous month, primarily on account of lower transport costs which slowed down by more than half to 4.0 percent from 8.9 percent in November.

NCR and AONCR inflation further decelerated to 4.8 and 5.3 percent, respectively. For NCR, this was due to slower price increases in food and non-alcoholic beverages, transport, restaurant and miscellaneous goods and services, and alcoholic beverages & tobacco.

Measures to Address Inflation

Ensure the full operationalization of **National Window System** to allow for seamless processing, timely arrival, and immediate release of rice imports particularly those scheduled to arrive in 2019 following the issuance of **Administrative Order No. 13.**

Ensure sufficient supply of rice and other major agricultural products from local sources; and prioritize the reassessment of the vulnerability and suitability of farm areas to bring forth adaptive farming activities.

Increase fish production by strengthening the government's crackdown against illegal fishing accompanied by sustainable coastal resource management efforts; and hasten the issuance of the **Fisheries Administrative Order No. 259** to compensate for the limited supply as some parts in the Visayas are under closed fishing season.

Fast-track the implementation of the mitigating measures scheduled this year under the **Tax Reform for Acceleration and Inclusion Law**, particularly the unconditional cash transfer and fuel vouchers.

Source of data: PSA

National Economic and Development Authority www.neda.gov.ph /NEDAhq

(Sources: National Economic Development Authority and Philippine Statistics Authority)

Maiden 'Banking Sector Outlook Survey' shows upbeat industry

ACCORDING TO the results of the maiden "Banking Sector Outlook Survey" (BSOS) released by the Bangko Sentral ng Pilipinas (BSP) last October, the Philippine banking system is expected to stay robust over the next two years given the country's strong macroeconomic fundamentals, the industry's adequate liquidity, rising capital buffers, and profitability.

The results of the survey revealed that 66.7 percent of respondents foresaw a stable outlook for the banking system for the next two years, with the remaining 33.3 percent believing that the industry will be even stronger during this period.

Amongst the respondents were chief executive officers and other top bank executives of universal and commercial banks, thrift banks, and the 20 biggest rural/cooperative banks in terms of loan portfolio.

The results were anchored on the respondents' economic growth projection of 5 to 7 percent. Industry leaders largely expected the Philippines to remain among the fastest growing economies in the region.

The banking sector's improved credit fundamentals were also seen to have contributed to the respondents' positive sentiments.

Moreover, respondents were confident in a 10-20 percent growth in their assets, loan portfolios, deposits, and net incomes within two years. Most of the respondents also mentioned a continued focus on corporate and retail banking in terms of products and services offered.

A favorable outlook for the banking industry is one of the key signs of a healthy economic performance in the future, given the vital role that banks play in the economy.

In the Philippines, banks serve as major sources of funding for consumption and investment activities. Banks' investments in government securities likewise help fund the government's massive infrastructure projects and other development programs.

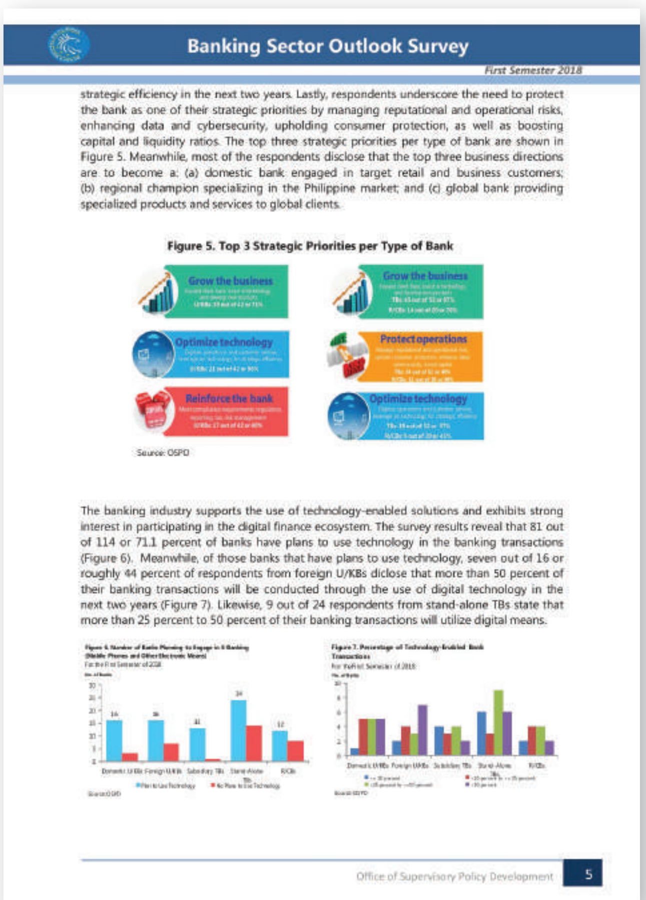
In a statement released on October 3, 2018, the BSP said "Bullish outlook on the banking industry implies that banks will continue to support the sustained development of the national economy. This resonates with our overarching policy objective to promote a stable and sound banking system that is globally competitive, dynamic, and responsive to the demands of a developing economy."

In the survey, the respondents also identified their top three strategic priorities. These were: 1) bank growth through expansion of client base, deepening customer relationships, and development of new products; 2) optimization of available technology for digital operations and customer service; and 3) bank protection through the management of reputational and operational risks, enhancing data and cyber security, and increased consumer protection.

The survey revealed that given intense competition, banks are seeking to develop new capabilities, expand market research, and leverage client relationships to improve their operational performance.

The results of the maiden BSOS complemented a recent favorable move of credit rating firm S&P Global. Under its Global Banking Industry Country Risk Assessment (BICRA), S&P upgraded the Philippine banking system's credit rating to "6", from "7" previously, particularly due to "the establishment of credit bureaus and the banks' improving underwriting practices in the consumer loans segment" (scores range from 1 to 10, with the latter reflecting the highest risk).

The BSP conducts the BSOS as part of its proactive approach to surveillance and financial supervision. Through the survey results, the BSP is able to better understand the evolution of banks' business models to help in formulating prudent regulations for a stronger and more stable banking system.



Banking Sector Outlook Survey

First Semester 2018

strategic efficiency in the next two years. Lastly, respondents underscore the need to protect the bank as one of their strategic priorities by managing reputational and operational risks, enhancing data and cybersecurity, upholding consumer protection, as well as boosting capital and liquidity ratios. The top three strategic priorities per type of bank are shown in Figure 5. Meanwhile, most of the respondents disclose that the top three business directions are to become a: (a) domestic bank engaged in target retail and business customers; (b) regional champion specializing in the Philippine market; and (c) global bank providing specialized products and services to global clients.

Figure 5. Top 3 Strategic Priorities per Type of Bank

Grow the business

Optimize technology

Reinforce the bank

Grow the business

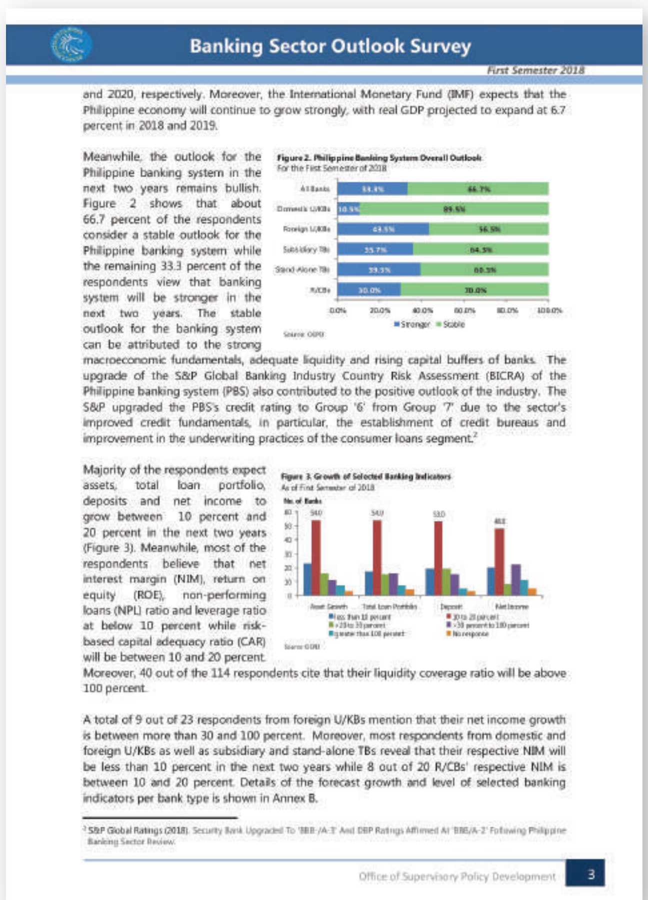
Protect operations

Optimize technology

Source: OSPD

The banking industry supports the use of technology-enabled solutions and exhibits strong interest in participating in the digital finance ecosystem. The survey results reveal that 81 out of 114 or 71.1 percent of banks have plans to use technology in the banking transactions (Figure 6). Meanwhile, of those banks that have plans to use technology, seven out of 16 or roughly 44 percent of respondents from foreign U/KBs diclose that more than 50 percent of their banking transactions will be conducted through the use of digital technology in the next two years (Figure 7). Likewise, 9 out of 24 respondents from stand-alone TBs state that more than 25 percent to 50 percent of their banking transactions will utilize digital means.

Office of Supervisory Policy Development 5



Banking Sector Outlook Survey

First Semester 2018

and 2020, respectively. Moreover, the International Monetary Fund (IMF) expects that the Philippine economy will continue to grow strongly, with real GDP projected to expand at 6.7 percent in 2018 and 2019.

Meanwhile, the outlook for the Philippine banking system in the next two years remains bullish. Figure 2 shows that about 66.7 percent of the respondents consider a stable outlook for the Philippine banking system while the remaining 33.3 percent of the respondents view that banking system will be stronger in the next two years. The stable outlook for the banking system can be attributed to the strong macroeconomic fundamentals, adequate liquidity and rising capital buffers of banks. The upgrade of the S&P Global Banking Industry Country Risk Assessment (BICRA) of the Philippine banking system (PBS) also contributed to the positive outlook of the industry. The S&P upgraded the PBS's credit rating to Group '6' from Group '7' due to the sector's improved credit fundamentals, in particular, the establishment of credit bureaus and improvement in the underwriting practices of the consumer loans segment.[2]

Figure 2. Philippine Banking System Overall Outlook
For the First Semester of 2018

Figure 3. Growth of Selected Banking Indicators
As of First Semester of 2018

Majority of the respondents expect assets, total loan portfolio, deposits and net income to grow between 10 percent and 20 percent in the next two years (Figure 3). Meanwhile, most of the respondents believe that net interest margin (NIM), return on equity (ROE), non-performing loans (NPL) ratio and leverage ratio at below 10 percent while risk-based capital adequacy ratio (CAR) will be between 10 and 20 percent. Moreover, 40 out of the 114 respondents cite that their liquidity coverage ratio will be above 100 percent.

A total of 9 out of 23 respondents from foreign U/KBs mention that their net income growth is between more than 30 and 100 percent. Moreover, most respondents from domestic and foreign U/KBs as well as subsidiary and stand-alone TBs reveal that their respective NIM will be less than 10 percent in the next two years while 8 out of 20 R/CBs' respective NIM is between 10 and 20 percent. Details of the forecast growth and level of selected banking indicators per bank type is shown in Annex B.

[2] S&P Global Ratings (2018). Security Bank Upgraded To 'BBB-/A-3' And DBP Ratings Affirmed At 'BBB/A-2' Following Philippine Banking Sector Review.

Office of Supervisory Policy Development 3

BSP reactivates Currency Rate Risk Protection Program, addressing exchange rate volatility

Nestor Espenilla, Jr.
BSP Governor

"The Monetary Board (MB) approved the enhanced guidelines on the Currency Rate Risk Protection Program (CRRP) aimed at easing the demand pressures in the foreign exchange spot market."-- BSP, Press Release, 17 September 2018

THE BANGKO SENTRAL ng Pilipinas (BSP) reactivated the Currency Rate Risk Protection Program (CRRP) in August 2018 in a move to proactively manage and mitigate peso volatility.

The move further safeguards the stability of the Philippine economy, establishing an effective risk management facility while adhering to the existing market-determined exchange rate policy.

The CRRP is a non-deliverable forward (NDF) hedging facility offered by the BSP through commercial banks to eligible corporate entities that normally have huge foreign currency-denominated borrowings, such as exporters, oil companies, and other importers. These companies are constantly in need of dollars to ensure smooth business operations.

Due to the nature of their business, these entities are more exposed to foreign exchange risks.

Previously, firms might rush to buy or borrow dollars from the market to reduce risk. With the BSP's hedging tool, corporate entities can offload currency risk without rushing to buy or borrow dollars from the market, resulting in the effective management of peso volatility while adhering to the market-determined exchange rate policy.

Following the initial announcement by BSP Governor Nestor Espenilla, Jr. on the reactivation of the CRRP in August 2018, guidelines were subsequently released by the BSP in September 2018.

Under the CRRP, eligible corporate entities may hedge their foreign currency obligations in amounts not less than $50,000. Given the nature of an NDF hedging facility, only the net difference between the forward rate agreed upon by both parties (the eligible corporate entity and the commercial bank) as specified in the contract, and the spot rate at the time the agreement was made, shall be settled in pesos upon maturity.

The CRRP was first introduced to the domestic market in 1997, during the East Asian financial crisis.

The reintroduction of the CRRP is in line with the BSP's commitment to its mandate to maintain price and financial stability for sustainable and inclusive economic growth.

President orders ease of importation of agricultural products

Move seen to ensure steady supply of basic food items, ease inflation

LAST SEPTEMBER, President Rodrigo Duterte signed Administrative Order (AO) No. 13 (Removing Non-tariff Barriers and Streamlining Administrative Procedures on the Importation of Agricultural Products) to cut regulatory hurdles on the importation of agricultural products. The AO, which ensures the sufficient supply of basic food items, is an important part of the administration's wide-ranging effort to stabilize prices and bring inflation back to its target range.

President Rodrigo R. Duterte

(Photo credit: Philippine Communications Operations Office)

Under the AO, concerned government agencies including the Department of Agriculture, Department of Trade and Industry, National Food Authority, Sugar Regulatory Administration, and the Bureau of Customs were mandated to remove non-tariff barriers, ease administrative processes, and reduce the time spent importing agricultural products.

Relevant agencies submit monthly progress reports to ensure sound management and implementation of the AO.

Examples of initiatives under the AO include importation of agricultural products beyond their minimum access volumes (MAVs), liberalization of issuance of import permits, and the reduction of import fees.

The issuance of the AO was one of the decisive and timely actions which contributed to reducing the inflation rate in 2018. It was designed to work in concert with an array of other measures including the Rice Tariffication Act (expected to be signed by the President soon), additional importation of rice, and strengthened price monitoring, among others.

All of these measures were complemented by a series of policy rate hikes by the Bangko Sentral ng Pilipinas to address brewing demand-side pressures and better anchor inflation expectations.

Infographics on Administrative Order No 13 of 2018 (Source: Investor Relations Office)

Government set to implement rice tariffication

Removal of quantitative restrictions on rice imports hailed as poverty-relieving, inflation-easing reform measure

(Photo courtesy of Philippine Rice Research Institute)

THE PHILIPPINES is set to implement a landmark measure to remove the quantitative restriction on imported rice in favor of tariffication.

The Rice Tariffication Bill, certified as urgent by President Rodrigo Duterte, received the nod of approval from the Bicameral Conference Committee of Congress in late 2018 and is expected to be signed into law by the President soon.

Congressional approval of the law was a result of the economic managers' push to remove quantitative restrictions, which were seen as limiting the supply of the staple in the domestic market, causing inflationary pressures.

The anticipated law, namely the Revised Agricultural Tariffication Act, will replace quantitative restrictions on rice imports with tariffs set at the following rates: 35 percent for rice from ASEAN member-states and 50 percent from non-ASEAN countries.

Prior to the law's implementation, the supply of imported rice in the domestic market is determined by the National Food Authority.

Once the bill is signed by the President, rice tariffication will allow unlimited importation of rice provided that traders secure phytosanitary and sanitary permits from the Bureau of Plant Industry and pay the tariffs.

Senator Cynthia Villar, Chair of the Senate Committee on Agriculture and Food and principal sponsor of the bill, earlier endorsed the legislative reform as it would remove all "unnecessary intervention" in the rice market.

The President's move to certify the rice tariffication bill as urgent amid the temporary spike in inflation is a reflection of the Duterte administration's determination to uphold the best interest and well-being of all Filipino people through implementing bold and necessary reforms.

Based on government estimates, rice tariffication will reduce the price of rice by P4 to P7 per kilogram. In effect, the bill is expected to further aid in tempering inflation and help alleviate poverty by making staple food and other essentials more affordable for Filipinos.

The Bangko Sentral ng Pilipinas estimates that rice tariffication will contribute to a further 0.4-percentage-point reduction in the inflation rate.

(Photo credit: Philippine Information Agency)

Creating a Rice Fund

A provision in the anticipated law states that a Rice Competitiveness Enhancement Fund (RCEF) would be created to protect the rice industry from potential price fluctuations. The fund is set at a minimum of P10 billion annually for six years.

According to Senator Cynthia Villar, the RCEF will be used to lower rice farmers' high labor costs to enhance their competitiveness. In particular, the fund will provide different forms of assistance to the rice farmers, such as the development of inbred rice seeds, modernization of rice farm equipment, and skills enhancement.

- A portion of the fund will be earmarked for the Philippine Center for Postharvest Development and Modernization (PhilMech). The aim is to provide farmers with rice farm machineries and equipment that will help increase their yield per hectare.

- An allocation will be given to the Philippine Rice Research Institute for the development, propagation, and promotion of inbred rice seeds.

- A portion of the fund will be used for a credit facility that provides loans with minimal interest rates to rice farmers and cooperatives.

- Lastly, a part of the fund will be used for training initiatives for rice crop production, modern farming techniques, seed production, and farm mechanization – all of which are to be facilitated by PhilMech, the Agricultural Training Institute (ATI), and Technical Education and Skills Development Authority (TESDA).

Considering the wide range of assistance covered by the fund, this forward-looking legislative reform is poised to further aid in tempering inflation, alleviating poverty, and making the Philippine agriculture sector more competitive globally in the long run.

The Rice Tarrification Bill
(Senate Bill no. 1998)

Salient points:

- Rice importation to be covered by a tariff system from previous quota
- Sets a 35% tariff rate on all rice imports from ASEAN countries, and a 50% tariff on those from non-ASEAN countries.
- Removes National Food Authority's (NFA) power to import and distribute cheaper rice.
- NFA role becomes to buy grains from farmers to maintain buffer stocks for calamities and emergencies.
- Establishes a Rice Competitiveness Enhancement Fund (RCEF).

Why implement it?

- To increase food security, uplift communities out of poverty and improve Filipino lives.
- To increase competition and cut price of rice by as much as P7 per kilo.
- To temper inflation.
- For the RCEF to support farmers and enhance competitiveness.

History

The Philippines has always had some of the highest rice prices in Southeast Asia. As of August 2016, Filipinos were paying more than twice the price for a kilo of rice compared to citizens of Thailand and Vietnam.

1972

Historically, rice imports were controlled by the National Food Authority (NFA), and its predecessor the National Grains Authority (created by ex-president Ferdinand Marcos in 1972).

Miscalculations have led to over- or under-importation.

1995

When the Philippines joined the World Trade Organization (WTO) in 1995, it committed to putting an end to import quotas and to "tariffy" rice importation.

1995

Initiatives to tariffy were postponed several times with extensions granted on condition that the private sector import rice within a certain quota with a tariff rate. (1995 - 59,730 metric tons, with a 50% tariff; and 2018 - 805,000 metric tons, with a 35% tariff).

2016

In 2016, the shift to tariffication was proposed.

2018

Bill was passed by Both Houses (11/28/2018) and is waiting to be signed into law.

Government shift to cash-based budgeting seen to improve spending efficiency

Benjamin Diokno
Budget Secretary

"The lower underspending rate is a result of what we started last year which is to shorten the validity of appropriations to one year. Because of this, agencies are compelled to expedite the implementation of their projects and programs. They were also required to include only projects that are shovel-ready." -- Budget Secretary Diokno

THE GOVERNMENT will shift to a cash-based budgeting system this year. The new system underscores the administration's determination to instill fiscal discipline and ensure timely disbursement of payments to suppliers, so that important projects are delivered on time and on budget.

Under a cash-based budgeting system, contractual obligations and disbursements of payments to goods delivered and services rendered will be done within the same fiscal year, resulting in the timely disbursement of payments and rectification of the perennial issue of underspending.

As a result of these reforms, government agencies may only propose programs, activities, and projects that can be fully implemented within the fiscal year.

For multi-year contracts with an implementation period of over 12 months, agencies will need to secure a multi-year obligational authority before signing such contracts.

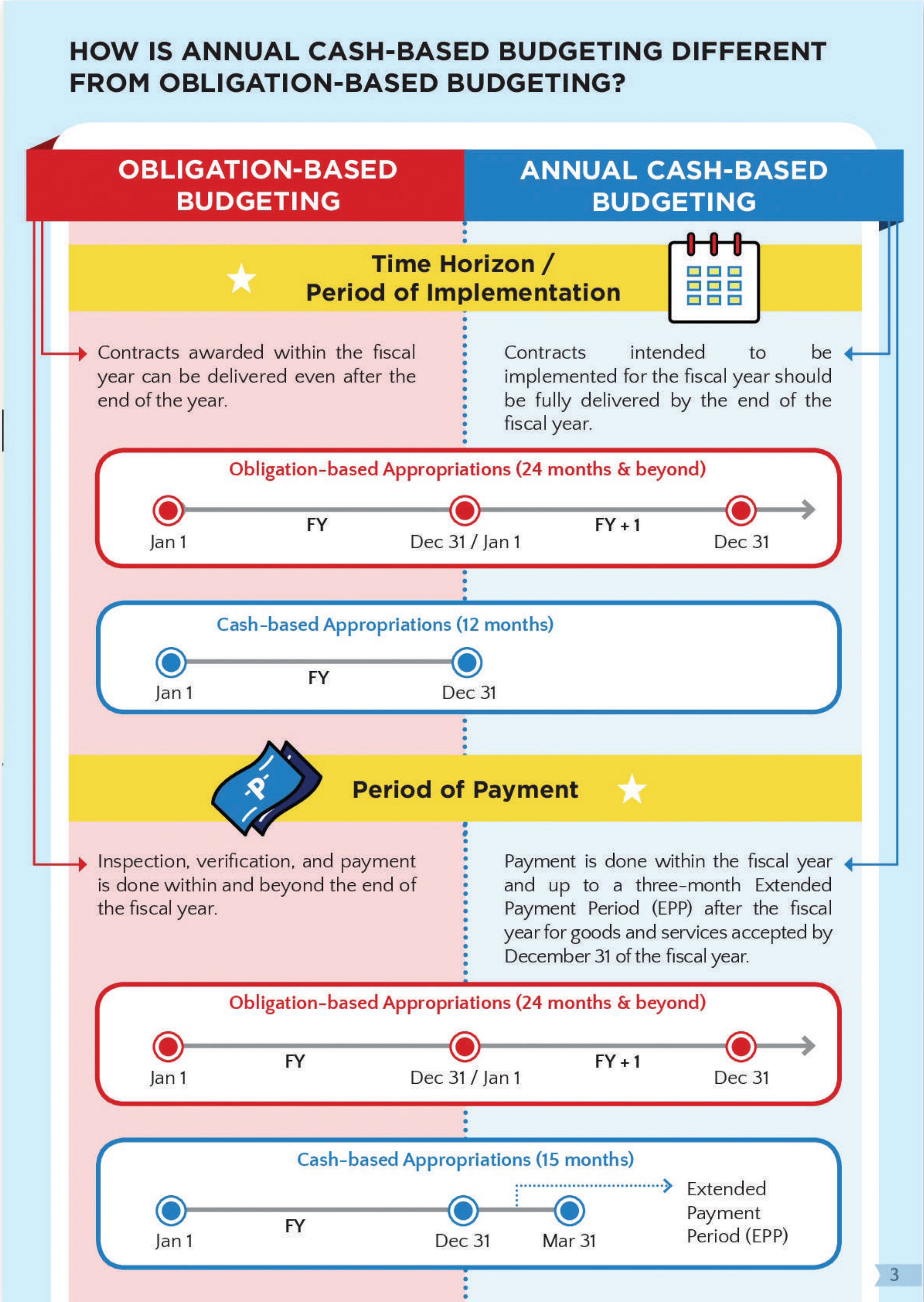
Cash-based budgeting reforms the less efficient, obligation-based system observed in previous years. Under an obligation-based budgeting system, contracts awarded before the end of the fiscal year can be delivered even after the fiscal year.

The old system allowed for delayed payment of goods and services, resulting in government underspending and in many cases, delays to important projects and policy measures.

The Department of Budget and Management (DBM) said the shift to cash-based budgeting will help to ensure that underspending is avoided. Timely implementation of government projects and the on-time payment of obligations supports government efforts to maintain robust economic growth.

The shift to cash-based budgeting aligns with the Duterte administration's fiscal policy and facilitates its target of increasing infrastructure spending to more than 7.0 percent of GDP by 2022 to support sustainable and inclusive economic growth.

The DBM is seeking to embed the cash-based budgeting system through the Budget Reform bill, which is currently being deliberated in Congress. Successful legislation of the system will ensure that the progress made in the reform efforts will be carried forward in succeeding administrations.



HOW IS ANNUAL CASH-BASED BUDGETING DIFFERENT FROM OBLIGATION-BASED BUDGETING?

OBLIGATION-BASED BUDGETING	ANNUAL CASH-BASED BUDGETING

Time Horizon / Period of Implementation

Obligation-based	Annual cash-based
Contracts awarded within the fiscal year can be delivered even after the end of the year.	Contracts intended to be implemented for the fiscal year should be fully delivered by the end of the fiscal year.

Period of Payment

Obligation-based	Annual cash-based
Inspection, verification, and payment is done within and beyond the end of the fiscal year.	Payment is done within the fiscal year and up to a three-month Extended Payment Period (EPP) after the fiscal year for goods and services accepted by December 31 of the fiscal year.

(Source: Primer on Reforming the Philippine Budget, DBM)

Peso-Renminbi trading facility launched

Philippine-China investments, trade, tourism seen to rise

UNDER THE LEADERSHIP of the Bangko Sentral ng Pilipinas (BSP), members of the banking industry collaborated to establish a facility that will allow the direct exchange of Philippine pesos to renminbi (RMB), and vice versa.

Last October, Bank of China-Manila (BOC Manila) formalized a deal with 13 other banks for the creation of the “Philippine Renminbi Trading Community,” which will operate the peso-renminbi spot market.

The facility enables the direct conversion of pesos to renminbi and vice versa, removing a previously required interim step of first converting either of the currencies into US dollars.

In the context of existing strong ties between the two countries, the move is expected to further invigorate trade, investments, and tourism between the Philippines and China.

Under the BSP’s supervision, BOC Manila will serve as the clearing bank for peso-renminbi transactions.

Chuchi Fonacier
Bangko Sentral ng Pilipinas Deputy Governor

In a message delivered on behalf of BSP Governor Nestor Espenilla Jr. during the launch of the Philippine Renminbi Trading Community, BSP Deputy Governor Chuchi Fonacier said, "By establishing the PHP-RMB trading market, the Philippine peso can be directly priced against the RMB…Moreover, banks can now manage their RMB liquidity requirements and improve services with RMB deposits dedicated to payment and fund transfer needs."

The Deputy Governor added: "RMB users are allowed better liquidity management, faster conversion, and available hedging facilities for trade-related and payment requirements. The PHP-RMB trading market also enhances price discovery with supply and demand determining FX rates."

During the launch, Finance Secretary Carlos Dominguez III noted that the establishment of the Philippine Renminbi Trading Community in the Philippines is a win-win development for both the Philippines and China. "We take this as major step forward in the economic partnership between the Philippines and China," he added. "On both sides, there is confidence that this partnership will bring great benefits to both our peoples. This is a partnership nurtured by the warm friendship between our two countries."

Secretary Dominguez, Deputy Governor Fonacier, and former BSP Governor Amando M. Tetangco Jr. were among those who witnessed the launch at the Makati Shangri-La, Manila in Makati City.

President Duterte signs Executive Order No. 65

Further opening up Philippines to foreign investment

President Rodrigo R. Duterte
(Photo credit: Philippine Communications Operations Office)

"... there is a need to formulate the Eleventh Regular Foreign Investment Negative List... consistent with the policy to ease restriction on foreign participation in certain investment areas or activities..." -- President Rodrigo Duterte in Executive Order No. 65 , signed Oct. 25, 2018

IN LINE WITH the Duterte administration's commitment to job creation, President Duterte signed Executive Order No. 65 in October 2018, further opening the Philippines to foreign investors. The Executive Order contained the Philippines' latest, more liberalized Foreign Investments Negative List (FINL).

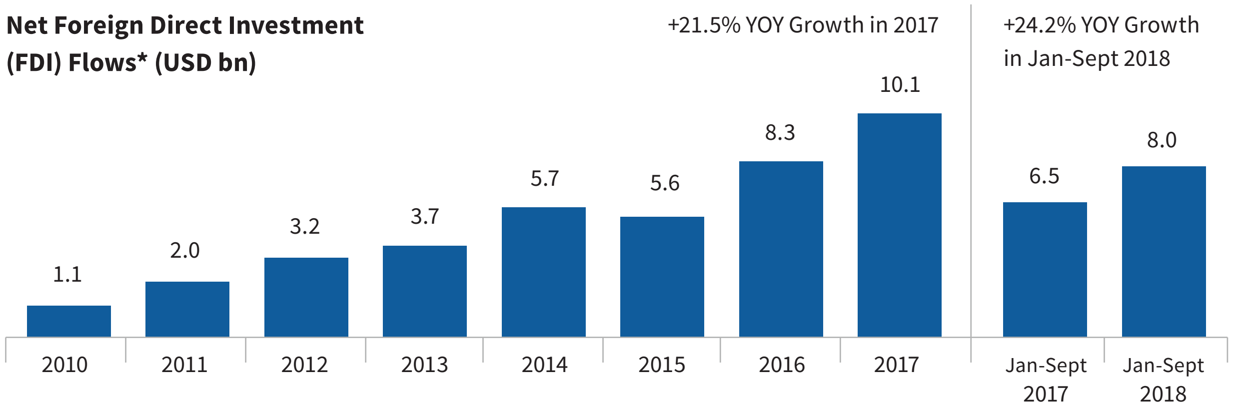
The game-changing and forward-looking 11th Regular FINL serves as a guide for foreign investors, specifying areas of business open to them.

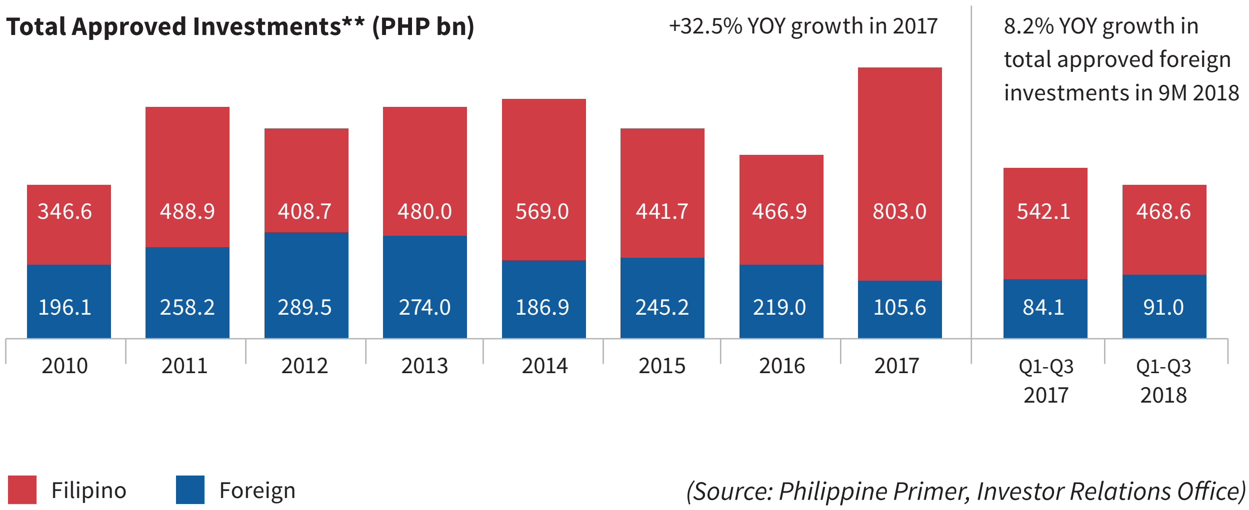
It also sheds light on investment areas in which foreign-equity participation is limited for reasons of security, defense, health and moral risks, and protection of small- and medium-scale enterprises.

A shorter list means foreign investors have more access to investment opportunities than before.

Welcoming the renewed FINL, Socioeconomic Planning Secretary Ernesto M. Pernia said that by welcoming more foreign investments and participation in a wider range of industries and business domains - particularly those that will introduce new technologies and stimulate innovation - the EO is expected to contribute to the strengthening of the country's competitiveness and attractiveness as a foreign investment destination. It allows us to keep pace with other ASEAN member-states."

The National Economic and Development Authority is the agency mandated to formulate and recommend the FINL to the President. The updated RFINL allows up to 100 percent foreign ownership of five investment areas and activities, including:





(Source: Philippine Primer, Investor Relations Office)

- Internet businesses, which are now excluded from "mass media" (under the Philippine Constitution, mass media remains completely closed to foreign ownership and participation);

- Teaching at higher education levels, provided that the subject being taught is not a professional subject (one covered or included in a government board or bar examination);

- Training centers engaged in short-term, high-level skills development that do not form part of the formal education system;

- Adjustment companies, lending companies, financing companies, and investment houses; and

- Wellness centers.

Meanwhile, in support of the Duterte administration's massive infrastructure push, EO No. 65 relaxes restrictions and now allows foreigners to own up to 40 percent of contracts for the construction and repair of locally funded public works, subject to applicable regulatory frameworks. This will allow local developers and contractors to bring in foreign contractors and experts to participate in infrastructure projects. Previously, foreign participation in public works contracts was limited to 25 percent.

In addition, the latest FINL allows foreigners to own up to 40 percent of private radio communication networks, an increase from the previous 20 percent.

The Executive Order is part of the Duterte administration's overall agenda of opening the Philippine economy to more foreign investors. In addition to this, the Executive Branch is pushing for bills in Congress that will allow greater foreign participation in an even wider range of sectors.

TRABAHO bill seen to attract more job-creating investments, level tax playing field

Karl Chua
Finance Undersecretary

The TRABAHO Bill is "pro-investments, pro-jobs, and pro-incentives." -- Finance Undersecretary Chua

IN ITS ONGOING effort to make the Philippine tax system simpler and more equitable, the Department of Finance (DOF) is advocating for Package 2 of the Duterte administration's comprehensive tax reform agenda.

Under the proposed "Tax Reform for Attracting Better and High-Quality Opportunities" (TRABAHO) bill, the corporate income tax will be reduced in order to make the Philippines' tax rate for corporate entities competitive vis-à-vis countries in the region.

At the same time, the bill also seeks to broaden the tax base by rationalizing the granting of tax incentives and improving tax compliance.

The bill is the second package of the Duterte administration's tax reform agenda.

As described by Finance Undersecretary Karl Kendrick Chua, the TRABAHO bill is "pro-investments, pro-jobs, and pro-incentives."
Package 1, which took effect in January 2018, reduced personal income tax rates while adjusting the excise tax on oil and imposing an excise tax on sugary drinks.

Lowering of corporate income tax for all

Under the bill, the corporate income tax will be gradually reduced from 30 to 20 percent over a span of 10 years.

At the 30-percent-level, the Philippines' existing corporate income tax rate is the highest among ASEAN countries. Once signed into law, the reform is expected to improve the Philippines' business climate and further boost competitiveness.

TRABAHO is also expected to bring relief to micro, small, and medium enterprises that are unable to enjoy incentives and are therefore currently subject to the 30-percent corporate income tax.

Finance Assistant Secretary Antonio Lambino II said: "A lower corporate income tax will make the Philippines more attractive to investors, and could free up more capital for firms to invest and hire more workers, which, in return, could create a million jobs for Filipinos over the medium term."

Tony Lambino
Finance Assistant Secretary

"A lower corporate income tax will make the Philippines more attractive to investors, and could free up more capital for firms to invest and hire more workers, which, in return, could create a million jobs for Filipinos over the medium term." -- Asec. Lambino

(Photos from Sulong Pilipinas 2018 website)

Rationalizing and modernizing fiscal incentives

Meanwhile, the Department of Finance underscored the need to reorient the country's current incentives regime to provide support for priority investment activities, while ensuring that the economy and the general public gain from every peso of tax incentives granted to corporate entities.

"Every peso granted as a tax incentive is a peso off the budget that could have been spent on infrastructure, health, education, and social protection—crucial investments that benefit everyone, not just a few," Undersecretary Chua explained.

With the planned rationalization of fiscal incentives, perks will be given in a manner that is time-bound, transparent, performance-based, and targeted.

As such, the reform is poised to bring equity into the tax system. Under the present setting, some large corporate entities no longer needing assistance still enjoy tax perks.

By putting a system in place that will grant tax incentives in a targeted, time-bound, performance-based, and transparent manner, Package 2 will help plug unnecessary revenue losses and boost government coffers to support inclusive development initiatives.

Prerequisites for incentives

- **Performance-based.** Recipients are required to meet performance targets that would benefit society. Perks shall be given to investors who will create more and better jobs, promote research and development, encourage innovation, stimulate domestic industries, and diversify product base for higher value exports.

- **Targeted.** Only sectors that satisfy the criteria specified in the Strategic Investment Priority Plan (SIPP) will be granted incentives. The Board of Investments (BOI) will formulate the SIPP, which will determine the strategic investment areas in the country. The list is expected to evolve over time according to the country's development priorities.

- **Time-bound.** The granting of incentives will include sunset provisions. Under the proposal, all approved projects will be given incentives for five to seven years. After this period, innovative firms are free to apply for the incentives again.

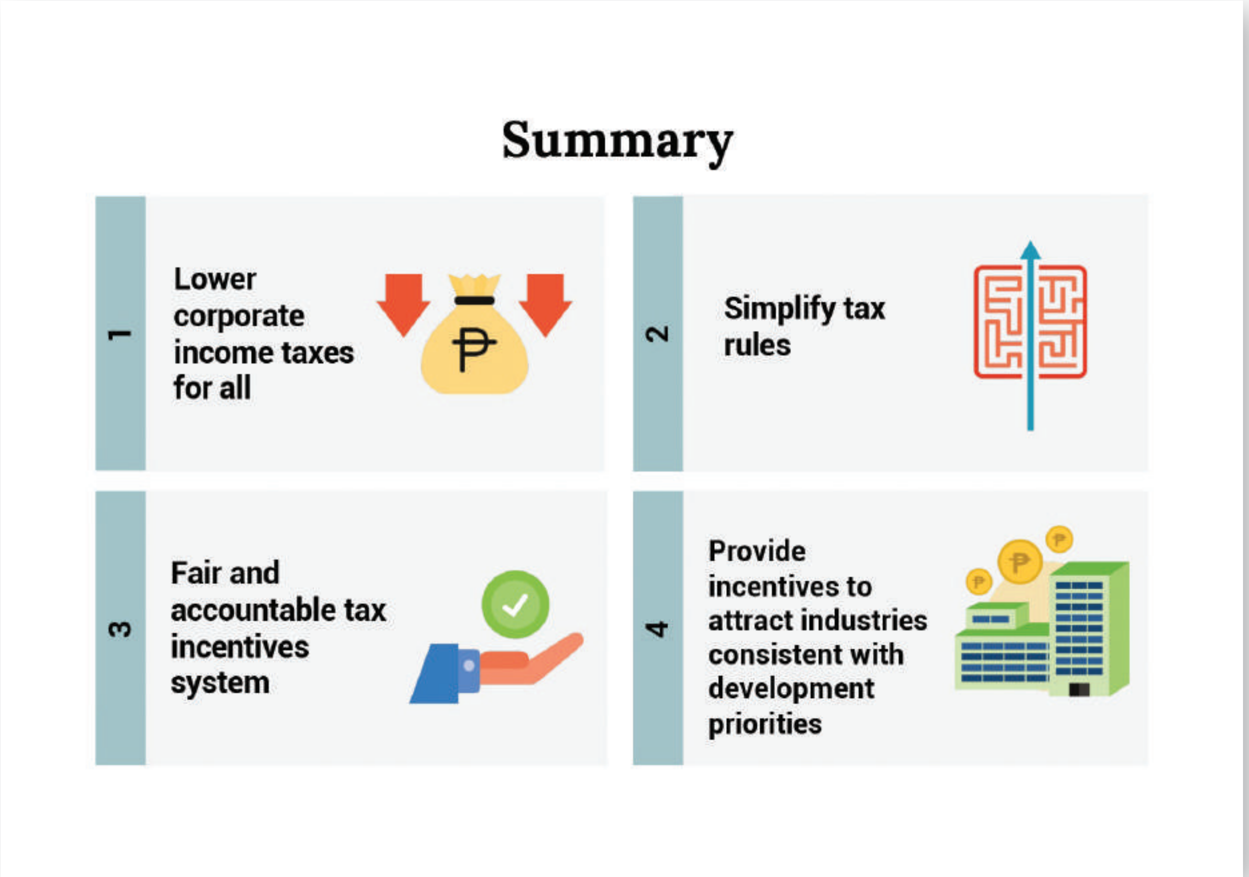
- **Transparent.** An effective monitoring and evaluation system will be implemented. The names of firms receiving incentives will be made public, including the amount of their incentives and their contributions to society.

Meanwhile, TRABAHO will also harmonize all investment-related activities into the tax code. The tax code will specify the menu of incentives that will be available for the qualified activities. Additionally, the granting of incentives will be implemented by a single entity –as opposed to the current complex mechanism under which different incentives are granted by various Investment Promotion Agencies (IPAs).

Current status of TRABAHO

Following the President's directive to fast-track the passage of all remaining tax reform packages, the House of Representatives approved its version of Package 2 in September 2018.

The bill is being deliberated in the Senate, and the DOF is targeting for its enactment into law in 2019.



(Source: DOF Presentation on Package 2, CTRP, Oct. 2, 2018)

Korean debt watcher keeps Philippines' 'BBB' rating

Economy's resilience to shocks, prudent fiscal policy cited

Carlos G. Dominguez
Finance Secretary

"A decisive leadership that implements game-changing reforms in policymaking, tax administration, and infrastructure modernization in pursuit of high and inclusive growth, characterizes the Duterte Administration." -- Finance Secretary Dominguez

KOREA-BASED NICE Investors Service maintained the Philippines' investment grade rating of "BBB," recognizing the country's ability to weather external headwinds and the government's prudent tax and spending policies.

The existing rating, a notch above the minimum investment grade, is assigned a "stable" outlook, given perceived absence of factors that can materially affect the country's creditworthiness over the short term.

"The policy direction of the Duterte administration [that is] set to increase government expenditure through expanding [the] tax base is deemed appropriate, given the need for infrastructure investment. The government's tax reform and infrastructure investment acceleration are already showing tangible effects in 2018," NICE said in its report on the Philippines released October 31.

Noting the volatility in the foreign exchange market globally as a result of the US-China trade war and interest rate hikes in advanced economies, NICE said the impact will be appropriately managed, "given the country's response capability in terms of FX liquidity."

Responding to the latest credit rating development, Finance Secretary Carlos G. Dominguez III said: "A decisive leadership that implements game-changing reforms in policymaking, tax administration, and infrastructure modernization in pursuit of high and inclusive growth, characterizes the Duterte Administration. The Government's Comprehensive Tax Reform Program (CTRP) and the 'Build, Build, Build' infrastructure initiative are expected to sustain the country's growth momentum, achieve financial inclusion, and propel the Philippines into an upper-middle income economy by 2022. We thank NICE Investors Service for recognizing the scope and purpose of the Duterte Administration's policy directives."

President Duterte and members of his cabinet

Nestor Espenilla, Jr.
Bangko Sentral ng Pilipinas Governor

"The BSP constantly monitors external and domestic developments, and stands ready to implement appropriate policy actions consistent with its price and financial stability mandates." -- BSP Governor Espenilla

On a similar note, BSP Governor Nestor A. Espenilla, Jr. said: "As observed by independent third-parties from the international community, such as NICE Investors Service, the Philippine economy has sufficient buffers against external shocks. With gross international reserves equivalent to about seven months of imports, a steady source of FX inflows led by remittances, BPO revenues, and tourism receipts, a flexible exchange rate policy, and overall prudent management of the country's external accounts, the economy shall remain resilient amid global volatilities. Moreover, the BSP constantly monitors external and domestic developments, and stands ready to implement appropriate policy actions consistent with its price and financial stability mandates."

The first package of the Duterte administration's tax reform — the Tax Reform for Acceleration and Inclusion (TRAIN) — took effect in January 2018, generating net revenues for the government, helping fund the "Build, Build, Build" initiative. Among other provisions, the law slashed individual income tax rates, and adjusted excise taxes on oil, automobile sales, and sugary drinks.

Succeeding tax reform packages are pending in Congress. Tax reform helps government address the infrastructure gap without compromising fiscal health.

The BSP likewise reactivated the Currency Rate Risk Protection Program (CRPP) through which universal/commercial banks offer a hedging facility for parties with foreign currency-denominated borrowings. Such facility will temper pressures on the peso, amid global events adversely impacting emerging markets.

International institutions project the Philippines to remain among the fastest growing economies in Asia in 2019.

Fitch affirms Philippines' 'BBB' rating on strong growth prospects

Debt watcher cites fiscal discipline amid rising public investments

FITCH RATINGS has kept the Philippines' investment grade of "BBB", projecting sustained robust economic growth in the years ahead, driven in part by massive public infrastructure investments.

The debt watcher foresees the Philippine economy to grow by 6.6 percent in the next two years.

At the same time, Fitch sees the government keeping its liabilities manageable even as public investments grow. It noted that rising public expenditures, driven by infrastructure, are matched by efforts to raise revenues, such as tax reform. As such, the budget deficit is projected to remain under control, thereby keeping the government's outstanding debt in check.

"Growth prospects remain favourable, supported by strong domestic demand and increasing infrastructure investment," Fitch said, adding that the government's budget deficit is expected "to remain within manageable levels of around -3% of GDP in 2019 and 2020, as revenues are expected to go alongside the increase in government expenditure."

Consistent with this, Fitch expects the government's outstanding debt as a percentage of gross domestic product to remain broadly stable at 37 percent by 2020.

The debt watcher has assigned a "stable" outlook on the country's "BBB" rating, given the absence of factors seen to materially change the country's credit profile over the short term.

The debt watcher said inflation is likely to go back to within the Bangko Sentral ng Pilipinas' (BSP) target level of 2.0 to 4.0 percent by 2019 after being elevated in 2018. Fitch recognized the effectiveness of the successive rate hikes implemented by the BSP and the measures done by the national government to ease constraints to rice supply. From May to November 2018, the BSP raised its key policy rates by a total of 175 basis points, a proactive move meant to ensure inflation goes back to within target range.

Diwa Guinigundo
Bangko Sentral ng Pilipinas Deputy Governor

"While credit is growing, the pace of increase is within levels considered manageable based not only on the BSP's own metrics but even on international benchmarks." -- BSP Deputy Governor Guinigundo

Also, Fitch recognized the stability of the country's banking sector, which helps fund rising investment activities in the economy. "Rating profiles [of banks] should remain steady backed by satisfactory risk controls, adequate loss-absorption buffers, and generally stable funding and liquidity profiles," it said.

Welcoming Fitch's decision are two of the country's top economic officials.

Finance Secretary Carlos Dominguez III said: "Fitch's forecast of strong growth in the years ahead affirms the soundness of the Duterte administration's economic development strategy, which is to sustain high growth, accelerate poverty reduction, and achieve financial inclusion by way of unmatched investments in infrastructure modernization and human capital development without losing its grip on fiscal discipline."

Dominguez added: The first package of the CTRP (Comprehensive Tax Reform Program), which has already delivered in terms of raising more revenues to fund the government's priority programs, along with the rest of the tax reforms that we hope the Congress can pass in 2019, will put in place a simplified tax system that will primarily benefit ordinary taxpayers and small businesses while being supportive of our medium- and long-term goals for the Philippines to become an upper-middle income economy by 2022 and a high-income one by 2040."

BSP Governor Nestor Espenilla, Jr. said: "Fitch's favorable growth projection for the economy is consistent with that of the BSP. We expect growth to remain solid in the years ahead, owing in part to the BSP's commitment to price and financial stability, which provides an enabling environment for businesses to thrive and for consumers to keep their purchasing power intact. We will continue to complement the government's development efforts through conduct of sound and proactive monetary policy and financial supervision."

Espenilla noted the latest inflation forecast pointing to within-target inflation in 2019 and 2020 following the successive monetary policy increases by the BSP's Monetary Board in 2018. "The elevated inflation in 2018 was mainly driven by supply-side factors that are beyond the control of monetary policy, but we acted pre-emptively to address any brewing demand-side pressures and potential second-round effects ahead. This proactive move will help ensure that inflation settles within target, at least over the next two years," Espenilla said.

Meantime, in response to Fitch's statement of some perceived overheating risks of the economy, BSP Deputy Governor Diwa Guinigundo stressed that the economy is not facing any material threat of overheating.

"While credit is growing, the pace of increase is within levels considered manageable based not only on the BSP's own metrics but even on international benchmarks. Additionally, credit growth in the country is driven not only by consumption, but more importantly by investment activities which boost the economy's productive capacity. As such, we see growth in demand continually and sufficiently being matched by rising supply, thereby continuing to dampen demand-side inflationary pressures moving forward," Guinigundo said.

The Philippines' "BBB" rating with Fitch matches the "BBB" rating assigned by S&P Global and the "Baa2" rating by Moody's Investors Service. In the meantime, S&P assigns a "positive" outlook on its rating on the Philippines, signaling opportunity for an upgrade.

FitchRatings

Philippines highlights bright economic prospects before Hong Kong, US investors in non-deal roadshow

A PHILIPPINE DELEGATION led by National Treasurer Rosalia de Leon and Bangko Sentral ng Pilipinas (BSP) Deputy Governor Diwa Guinigundo visited institutional investors in Hong Kong and Los Angeles, Boston, New York, New Jersey, and Philadelphia in the US to showcase the Philippines' robust growth outlook.

During a series of one-on-one investor meetings, Deputy Governor Guinigundo discussed economic updates and the country's positive growth prospects supported by sound macroeconomic fundamentals and important policy reforms. Guinigundo communicated that the Philippines is expected to continue to outperform most emerging markets in terms of economic growth and resilience to external shocks in the years ahead.

During the meetings, Guinigundo cited rising government and private-sector investments, as well as improving labor productivity as some growth drivers. He likewise stressed the country's strong external payments position, supported by steady FX inflows and prudent external account management to maintain Philippine resilience to external shocks.

Guinigundo likewise discussed the inflation outlook, which in 2018 accelerated due to supply side factors and rising global oil prices, and is expected to return to within the target range of 2.0 to 4.0 percent in 2019.

Committed to its price stability mandate, the BSP took a series of policy rate hikes totaling 175 basis points from May to November in 2018 to help anchor inflation expectations and address second round effects.

In the meantime, National Treasurer De Leon discussed the government's bold fiscal program, under which tax reform generates additional revenues to fund vital and long over-due infrastructure projects launched under the Government's Build, Build, Build program. The infrastructure thrust is aimed to further create jobs, improve connectivity, attract investments, and increase the country's productive capacity.

Under the 'Build, Build, Build' initiative, big-ticket infrastructure projects are being rolled out all over the country to squarely address the infrastructure gap. In doing so, the National Treasurer said that

BSP Deputy Governor Guinigundo and National Treasurer De Leon during the Hong Kong non-deal roadshow

the government is mindful of keeping the fiscal deficit within manageable levels — at 3.2 percent of GDP for 2019 and 3.0 percent of GDP for 2020 to 2022.

On the Philippine government's bond offerings, the National Treasurer said that in recent years, such have "been very well-received by the international market as evidenced by the bonds' favorable pricing." Non-deal roadshows are "opportunities to communicate to international stakeholders, respond to questions, and to clarify policy objectives to maintain healthy international investor perception of the Philippines," added De Leon.

Investors regard the Philippines as one of high-growth performing emerging markets, recognizing its solid economic growth and implementation of structural reforms to further enhance resiliency.

The Philippines is poised for accelerated and more inclusive economic growth moving forward. It grew by 6.7 percent in 2017 and 6.2 percent in 2018. The government is keen on seeing accelerated and more inclusive growth in the next few years.

The Hong Kong and US roadshows were part of the government's overall investor relations effort to build and maintain positive perception of the Philippines, such as among potential and existing holders of peso-denominated bonds. A well-informed investor community is believed to be crucial in helping Philippine government bonds fetch competitive yields and in raising funds for necessary development initiatives.

Both Guinigundo and De Leon agree that sufficient investor knowledge of prospects for the Philippine economy plays an essential role in maintaining economic growth and stability. As such, constant and active engagement of investors both here and abroad by our economic officials is a worthwhile and indispensable task.

Follow-up communications with the institutional investors, including responding to queries on the Philippine economy, the provision of data and informative materials, and any assistance in the setting of future meetings with private and public sector representatives is the task of the Investor Relations Office (IRO) of the Bangko Sentral ng Pilipinas, whose Director, Atty. Elizabeth Medina-Navarro, also joined the meetings.

BSP Deputy Governor Guinigundo and National Treasurer De Leon with the ROP delegation during the investor meetings

Top Philippine economic officials discuss economic growth with international investors at IMF-WB meetings amid FDI boom

Continued economic growth underpinned by sound macroeconomic fundamentals, infrastructure investment, resiliency to global uncertainty

BSP Deputy Governor Diwa Guinigundo during his presentation at the IMF-World Bank Meetings

PHILIPPINE ECONOMIC officials strengthened ties with international investors in a series of roundtable meetings on the sidelines of the 2018 IMF-World Bank Annual Meetings held in Bali Nusa Dua, Indonesia in October. The sessions coincided with a surge of positive investor sentiment, as FDI inflows grew by 1.8% to $8.53 billion in January to October 2018.

Bangko Sentral ng Pilipinas (BSP) Deputy Governor Diwa C. Guinigundo and Budget Secretary Benjamin E. Diokno deepened understanding of the Philippine economy in closed-door presentations to potential investors over the course of the week. The Philippines, as one of the best-performing economies in the world's fastest growing region, is undergoing rapid growth and

BSP Deputy Gov. Diwa Guinigundo and Monetary Board Member Felipe Medalla with the BSP delegation to the IMF-WB meetings

development due to its sound economic management, $180-billion infrastructure investment program, and resiliency. With one of the youngest populations in an increasingly ageing world, the Philippines is on the cusp of reaping the benefits of a major "demographic dividend."

Surveying the range of monetary and non-monetary measures being taken to temper inflation, Deputy Governor Guinigundo stressed that the BSP will continue to sustain its vigilance with a strong tightening bias while maintaining a data-dependent approach. He pointed to the numerous measures in place to address supply-side factors such as the price of food, which the BSP and the national government agree are the main factors behind the rise in inflation.

The briefing sessions provided an opportunity to update international investors on the progress of the Philippines' $180 billion 'Build, Build, Build' initiative. The once-in-a-lifetime nation building program has gained considerable momentum over the last year, with 44 of the 75 largest projects already at the implementation phase, while 24 are at the development stage.

'Build, Build, Build' is currently unlocking the economic potential of the Philippines by removing historic infrastructure bottlenecks, creating jobs and connecting the Philippines' 7,000+ islands to the opportunities of a more inclusive and growing economy.

Discussing the range of global economic challenges impacting the region, including rising oil prices, inflation, and pressure on emerging currency markets, Deputy Governor Guinigundo said he and the delegates from the national government remain confident in the resiliency of the Philippine economy.

"We are very confident in the underlying strength of our economy. The Philippines remains one of the best performing economies in the fastest growing region in the world. GDP growth remains strong, FDI inflows are at record levels, infrastructure investment is booming, and we have historically low levels of public sector debt," he concluded.

BSP Deputy Governor Diwa Guinigundo with BSP-International Relations Department Senior Director Rosabel Guerrero, Investor Relations Office Director Evie Medina, and Bank Officer V Rica Amador

Economic Briefing in London

Philippine economic growth, infrastructure opportunities showcased before investors

TOP ECONOMIC and infrastructure managers under the administration of Philippine President Rodrigo Roa Duterte in September showcased the Philippines' stable and robust growth prospects, along with infrastructure projects and big-ticket investment opportunities under the government's massive 'Build, Build, Build' programme, before investors and other foreign stakeholders during a Philippine Economic Briefing (PEB) held at the Four Seasons Hotel in Park Lane, London.

Attended by around 250 participants, the PEB carried the theme "Strengthening Economic Resilience and Spurring Infrastructure Development for Inclusive Growth." The first roadshow in London under the administration of President Duterte, this leg of the PEB highlighted the Philippines as one of the fastest growing economies in Asia and as an attractive investment destination under a reform-minded leadership focused on delivering results.

The PEB was led by Finance Secretary Carlos G. Dominguez, along with Budget Secretary Benjamin E. Diokno, Socioeconomic Planning Secretary Ernesto M. Pernia, Bangko Sentral ng Pilipinas Deputy Governor Diwa C. Guinigundo, Transportation Secretary Arthur P. Tugade, Public

From L-R: BSP Deputy Governor Diwa Guinigundo, DOTr Secretary Arthur Tugade, DBM Secretary Benjamin Diokno, DOF Secretary Carlos G. Dominguez, DPWH Secretary Mark Villar, and BCDA President and CEO Vivencio Dizon

From L-R: BCDA President and CEO Vivencio Dizon, NEDA Secretary Ernesto Pernia, DOTr Secretary Arthur Tugade, DBM Secretary Benjamin Diokno, DOF Secretary Carlos G. Dominguez, DOT Secretary Bernadette Romulo-Puyat, PH Ambassador to UK Antonio Lagdameo, DPWH Secretary Mark Villar, BSP Deputy Governor Diwa Guinigundo, DTI Secretary Ramon Lopez, IRO Director Evie Medina, and Alliance Global Co. CEO Kevin Tan

Works and Highways Secretary Mark A. Villar, and Bases Conversion and Development Authority President and CEO Vivencio B. Dizon. Trade and Industry Secretary Ramon M. Lopez and Tourism Secretary Bernadette Romulo-Puyat joined the team in a series of meetings and roundtable discussions with British firms and companies.

The private sector panel was composed of Tony Stringer, Managing Director of Fitch Ratings, and Kevin Tan, CEO of Alliance Global, one of the largest conglomerates in the Philippines.

"Like the rest of the economies in the world, the Philippines is not exempt from challenges. But what differentiates our economy from many is the decisiveness, extent, and the pace by which we are implementing policy and infrastructure reforms," said Secretary Dominguez. He said that these reforms have resulted in immediate revenue increases, helping the government to implement necessary investments that will benefit the country well into the future.

The Philippines enjoyed rising investor interest from in 2018, with FDI inflows from January to October exceeding inflows during the same period from record-breaking 2017.

"The Philippine banking system is on a sound footing, and it has been sustained and continues to be a stable comfort for the economy," said Deputy Governor Guinigundo. "We have been building relationships with other countries to diversify markets for our exports and to find other sources for our foreign direct investments," he added.

The Philippines is one of the most resilient economies in the world, consistently posting strong gross domestic product (GDP) growth despite external headwinds. GDP growth reached 6.2 percent 2018, with investments as a leading growth driver.

"The rule of thumb, as you know, is that a country with a debt-to-GDP ratio below 60% is fiscally sound. The Philippines is comfortably below that," said Budget Secretary Diokno. As of end-2017, general government debt was at 36.6 percent of GDP. Fiscal space allows the government to spend more on vital infrastructure. The Philippines will increase its infrastructure spending from 4.7 percent of GDP in 2019 to as high as 7% by 2022 – an unprecedented infrastructure investment in its history.

Credit rating firms recognize sustainability of the Philippines' favorable economic performance. In December 2017, Fitch Ratings upgraded the country's sovereign credit rating from "BBB-" to "BBB" and assigned a "stable" outlook on the new rating. Fitch retained the said rating and outlook for the Philippines in July 2018. Meanwhile, S&P raised its "BBB" rating outlook from "stable" to "positive" in April 2018, while Moody's affirmed the Philippines credit grade of "Baa2," maintaining a stable outlook for the country's economy, in July 2018.

"The role played here by decisive leadership cannot be understated. The road towards inclusive and sustainable growth is now open," Dominguez reiterated.

Government caps Sulong Pilipinas 2018

Private-sector recommendations for governance gathered

PHILIPPINE ECONOMY and infrastructure officials, led by Department of Finance (DOF) Secretary Carlos G. Dominguez, capped off November with the successful conduct of Sulong Pilipinas 2018. The program was also held in Cebu (November 9th), San Fernando, La Union (November 14th), and Clark, Pampanga (November 26th).

Sulong Pilipinas is a modern town hall consultative activity where private sector participants give policy recommendations and feedback on various areas of governance, such as economic development, infrastructure, local governance, peace and order, agriculture, social services, and micro, small, and medium enterprise (MSME) development.

The first Sulong Pilipinas for representatives of the business community was held in May 2016 by then-incoming Cabinet members of President-elect Rodrigo R. Duterte.

Since then, annual Sulong Pilipinas events have been spearheaded by the DOF and co-organized by other government agencies.

Hailing the importance of the consultative forum, DOF Assistant Secretary (ASec) Tony Lambino said: “In only two years of the Duterte administration, top recommendations from the first Sulong event have already been legislated on or implemented. These include the National ID System (signed into law in August), comprehensive tax reform (the first package of which took effect in January 2018), the Ease of Doing Business law (signed in May 2018), and the launch of a more aggressive infrastructure development agenda through the ‘Build, Build, Build’ program.”

Consistent with the principles of inclusive policy-making, a majority of the participants of Sulong Pilipinas 2018 were representatives of MSMEs.

DOF Assistant Secretary Tony Lambino, lead organizer of Sulong Pilipinas 2018, discusses the workshop mechanics during the Clark leg of Sulong Pilipinas 2018

Top recommendations during Sulong Pilipinas 2018 were to:

(1) Prioritize farming education and use new agricultural technology to improve agricultural output and farmers’ income;

(2) Build more infrastructure projects (seaports, airports, and mass-based transport systems) to improve access/mobility across regions and minimize congestion;

(3) Simplify loan requirements and offer low/reasonable interest rates for MSMEs and farmers;

(4) Improve access to education, particularly for the poor;

(5) For the DSWD to conduct stricter profiling of 4P recipients and consider monitoring their expenses. Livelihood trainings should also be provided to recipients;

(6) Enable speedy processing and issuance of license to operate (LTO) and certificate of product

DOF Secretary Carlos G. Dominguez delivers the keynote during the Davao leg of Sulong Pilipinas 2018

registration (CPR) by the Food and Drug Administration (FDA);

(7) Ensure proper planning in implementation of infrastructure projects to lessen disruptions to business operations;

(8) Simplify BIR processes;

(9) Enhance peace and order through : a) greater police and military visibility in rural areas; b) intensive monitoring of illegal business in coastal areas; and c) continuing martial law in Mindanao;

(10) Provide health services in every part of the country, with more funding for the Department of Health to build more health centers and hospitals to decongest district hospitals;

(11) Provide tax incentives for MSME development; and

(12) Streamline government processes.

Secretary Dominguez noted: "Sulong Pilipinas embodies the continuing effort of the Duterte administration to make our economic development story holistic and inclusive. The previous years' conferences have enabled the government to champion programs that will truly benefit the business sector. All comments and recommendations made in the previous forums were taken into consideration and were integrated in President Duterte's development agenda."

"This year we have stepped up our efforts to connect with the private sector," said Secretary Dominguez during the Sulong news briefing. "To improve representation of all parts of the country and increase access for stakeholders, we decided to hold regional forums, with the purpose of primarily gathering the inputs and recommendations of representatives from our small and medium enterprises or SMEs. This sector is a crucial component of our economy, representing 99 percent of business entities and employing the bulk of our workers."

All four legs of Sulong Pilipinas 2018 were opened by the Philippine Economic Briefing (PEB). The PEB is a flagship activity of the Investor Relations Office (IRO) of the Bangko Sentral ng Pilipinas (BSP). During the PEB, top economic and infrastructure officials presented updates on the country's economic performance, outlook, and policies, as well as the government's once-in-a-generation infrastructure drive.

Atty. Evie Medina-Navarro, IRO Director, said: "We are happy to serve as the central office to bridge our stakeholders (local and international investors, and members of the media) with various government economic and infrastructure agencies to tell the Philippines' dynamic and compelling story of continued growth and inclusive development. Information campaigns such as these promote understanding and appreciation of policies that will benefit and impact all Filipinos. They serve as initial platforms for greater cooperation and coordination among agencies of government and the public."

During the PEB, BSP Deputy Governor Diwa C. Guinigundo stated: "The Philippines has been an outperformer in recent years. It is one of the fastest growing and most resilient economies in the region and the world. This trend is expected to continue on the back of strong macroeconomic fundamentals." He continued: "The BSP will continue to complement government efforts to hasten sustainable, robust, and more inclusive economic growth by staying committed to our price and financial stability mandates." On inflation, the Deputy Governor said that following a slew of policy initiatives, including monetary policy actions by the BSP, "inflation is expected to revert to within-target range in 2019."

Government economic officials who participated in at least one leg of Sulong Pilipinas 2018 and PEBs included Secretary Dominguez, Secretary Benjamin Diokno, ASec Rolando Toledo, Assistant Director Yolanda Reyes of the Department of Budget and Management, Secretary Arthur Tugade of the Department of Transportation, ASec Carlos Abad-Santos of the National Economic and Development Authority, and Undersecretaries (USec) Emil Sadain and Dimas Soguilon of the Department of Public Works and Highways. DOF USec Karl Chua and Director Juvy Danofrata also explained the tax reform program of government and the Trabaho Bill.

Joining them in various legs were BSP officials including Deputy Governor Guinigundo, and Assistant Governors Wilhelmina Manalac and Francisco Dakila Jr.

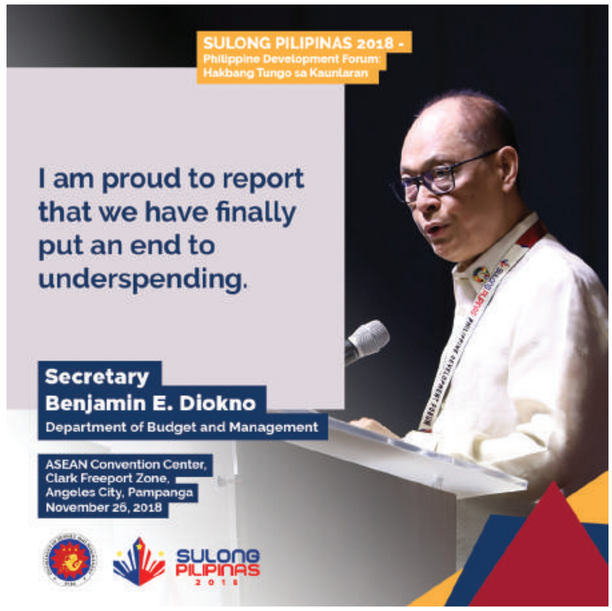
Kenneth Reyes-Lao, owner of Cacao Culture Farms based Davao City, said, "I find [Sulong Pilipinas and Philippine Economic Briefing] very useful because we are given updates on latest government programs, new laws, infrastructure projects for implementation, and other information. We are also given assurance that the government is doing something to improve the business environment."

Art Milan, president of Davao City Chamber of Commerce and Industry, described Sulong Pilipinas and the PEB as "a very useful exercise to maintain communication and engagement between the government and the private sector." He added that "Compared to previous administrations, the current administration is doing much better in terms of pursuing infrastructure development for Mindanao. But Mindanao lags far behind compared with other areas of the country in terms of competitiveness, and so my recommendation for the government is to hasten the speed of implementation of infrastructure projects in Mindanao. We need to uplift the economic situation in Mindanao so it can help boost growth of the national economy."

Given the warm reception of stakeholders to the concluded Sulong Pilipinas and PEBs, organizers are considering holding these in more locations across the country in 2019.

DOF ASec Tony Lambino said: "We are pleased to witness our stakeholders' active participation in Sulong Pilipinas. Our policymakers find this event an effective platform to generate valuable feedback from the people. As such, we hope to continue to deepen our engagement through further Sulong Pilipinas, and will aim for an even wider reach moving forward."

From L-R: DOF Director Juvy Danofrata, BSP Deputy Governor Diwa Guinigundo, DPWH Undersecretary Emil Sadain, and NEDA Assistant Secretary Carlos Abad Santos during the Clark leg of Sulong Pilipinas 2018



BSP's officials join economic managers in the various legs of Sulong Pilipinas 2018

Philippine economic, infra managers hail golden age of infra to usher in higher economic growth

From L-R: DOTr Undersecretary Ruben Reinoso, DPWH Undersecretary Catalina Cabral, BCDA President and CEO Vivencio Dizon, DOF Secretary Carlos Dominguez, III, NEDA Secretary Ernesto Pernia, DBM Secretary Benjamin Diokno, BSP Deputy Governor Diwa Guinigundo, and DOF Assistant Secretary Tony Lambino during the panel discussion of the Philippine Economic Briefing, September 18, 2018

IN A Philippine Economic Briefing (PEB) held on September 17, 2018 at the Assembly Hall of the Bangko Sentral ng Pilipinas (BSP), the country's top economic and infrastructure officials addressed over 350 guests from banks and other financial service organizations.

Secretary of Finance Carlos G. Dominguez, Socioeconomic Planning Secretary Ernesto M. Pernia, Budget Secretary Benjamin E. Diokno and BSP Deputy Governor Diwa C. Guinigundo each presented macroeconomic updates.

The economic management team expressed collective confidence in the continued growth of the Philippine economy, citing decisive governance and vital policy reforms.

On the monetary and financial sector, the BSP's initiatives such as the digitization of financial

From L-R: From L-R: DOTr Undersecretary Ruben Reinoso, BCDA President and CEO Vivencio Dizon, DOF Secretary Carlos Dominguez III, NEDA Secretary Ernesto Pernia, DBM Secretary Benjamin Diokno, and BSP Deputy Governor Diwa Guinigundo during the pre-event press conference for the Philippine Economic Briefing

transactions, liberalization of foreign exchange, and efforts to develop the domestic capital market were highlighted.

Secretary Diokno of the Department of Budget and Management shared the government's budget reforms, citing in particular a shift to a cash-based budgeting system which aims to enhance efficiency and speed of delivery of public services and projects.

The implementation of landmark laws and other policy reforms to further strengthen institutions and pave the way for an environment more conducive to investments and inclusive economic growth were also discussed.

Game-changing laws enacted recently include: (1) Tax Reform for Acceleration and Inclusion or TRAIN), (2) Ease of Doing Business Act, (3) Bangsamoro Organic Law or BOL, (4) National ID System law, and (5) Personal Property Security law.

During the second part of the PEB, Transportation Secretary Arthur P. Tugade, Public Works and Highways Secretary Mark A. Villar, and Bases Conversion and Development Authority (BCDA) President Vivencio A. Dizon delivered updates on the government's infrastructure initiatives under the 'Build Build Build' program.

Details on railway systems, airports, inter-island connector roads, expressways, and development of alternative growth hubs, such as New Clark City being built north of Metro Manila were shared. These infrastructure projects aim to significantly improve mobility, ease traffic congestion, and unleash the growth potential of areas outside major cities.

Question and answer sessions on both the macroeconomic and infrastructure portions of the PEB were held where the invited local and regional bank analysts, portfolio strategists, and economists were given the opportunity to learn more about the Philippine Government's initiatives to usher in the golden age of infrastructure and economic growth.

The PEB acted as a channel of communication between economic and infrastructure agencies, investors and other stakeholders to raise awareness on the country's sound economic fundamentals and sustainable growth path.

Government preps for Philippines' longest railway system

THE PHILIPPINES will soon have its first integrated commuter railway system connecting CALABARZON (Region IV-A), the National Capital Region (NCR), and Central Luzon (Region III).

The big-ticket project is part of the Duterte administration's strong push to usher in the Philippines' "golden age of infrastructure" through massive public works and transportation projects under the "Build, Build, Build" program.

Spanning about 145.2 kilometers, the double track North-South Commuter Rail (NSCR) System will link three rail systems: a) PNR South Commuter Line (Tutuban-Calamba), (b) PNR North 2 (Malolos-Clark International Airport – New Clark City); and (c) PNR North 1 (Malolos-National Capital Region)

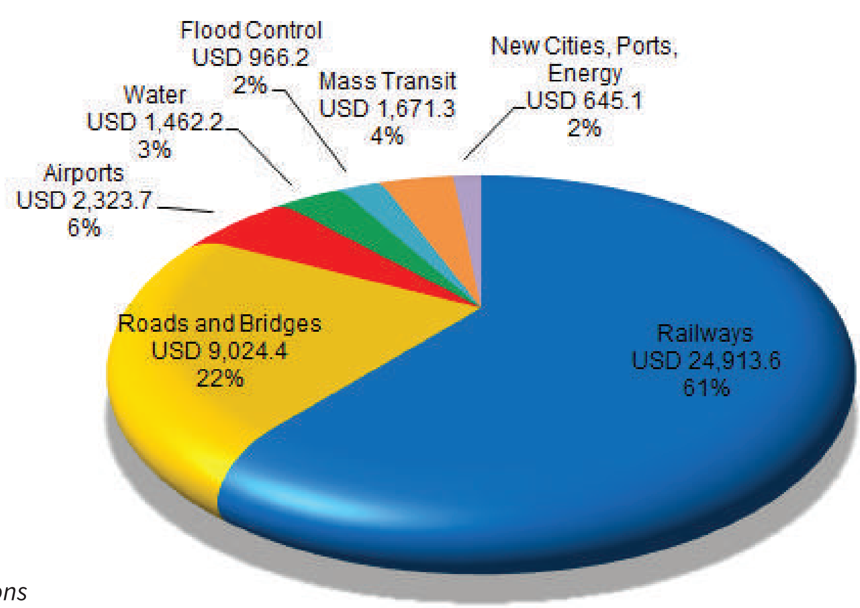
Spearheaded by the Department of Transportation (DOTr) and Philippine National Railways, the NSCR System is expected to ease Metro Manila traffic congestion and provide an alternative transportation option for those commuting between the three regions.

In addition, the NSCR System will also be connected to the existing LRT-1, LRT-2 and MRT-3 railway lines as well as with the upcoming Metro Manila Subway.

The NSCR System, which will cater to about 550,000 daily passengers, is expected to be partially operational by 2022 and fully operational by 2023.

Modern and sophisticated railway systems are a key part of the 'Build, Build, Build' program. This is in line with government's objective of reducing easing traffic congestion in urban areas by encouraging more people to use public transport instead of driving their own motor vehicles.

Railways have the biggest chunk of the budget among the 75 flagship infrastructure projects



Note: USD in millions

From L-R: Department of Transportation Secretary Arthur Tugade, Department of Foreign Affairs Secretary Teodoro Locsin Jr. and Japanese Ambassador Koji Haneda during the signing of the Exchange of Notes for North-South Commuter Railway Extension Project

The improved connectivity between regions is likewise expected to attract more job-generating investments in areas outside Metro Manila. With easier transportation across regions, labor mobility will also encourage investments in new locations.

At a 2018 economic managers' roadshow in London, Transportation Secretary Arthur Tugade encouraged UK-based businesses to invest in the Philippines amid a vibrant outlook for the Philippine economy in the years ahead driven in part by the massive infrastructure development agenda.

"I would like to encourage you to come to the Philippines and partner with us as we embark on what our President calls the golden age of infrastructure," Tugade said during the roadshow.

The latest cost estimate for the NSCR System, which has already secured approval of the National Economic and Development Authority's NEDA Board, is P733.7 billion (US$ 13.9 billion).

Portions of the NSCR project cost will be funded through official development assistance (ODA) from the Japan International Cooperation Agency (JICA) and the Asian Development Bank (ADB). Last November 22, 2018, the Exchange of Notes for the JPY167.199 billion loan (about $1.413 Billion) representing the first tranche for the North-South Commuter Railway (NSCR) Extension Project was signed between the Department of Foreign Affairs (DFA) and Embassy of Japan after the sixth meeting on infrastructure and economic cooperation between Philippines and Japanese officials held on November 21 in Pasay City.

On November 23, the Philippines and Japan signed a loan agreement worth approximately P95 billion (US$ 1.8 billion) covering JICA's loan commitment for the construction of the NSCR System and certain river projects. Present during the signing ceremony were Foreign Affairs Secretary Teodoro Locsin Jr., Secretary Tugade, H.E. Ambassador of Japan to the Philippines Koji Haneda, and Dr. Hiroto Izumi, Special Advisor to Prime Minister Shinzo Abe.

Philippines' first smart city rising in Clark

Northern Luzon becoming major investment destination

NEW CLARK CITY (NCC) — A smart, green, and disaster-resilient metropolis — is on its way to becoming the Philippines' new growth center and major investment destination in Northern Luzon.

First and only "smart and green city"

Located in Capas, Tarlac, NCC will be the "City of the Future," featuring the juxtaposition of technology, mobility, and sustainability with innovative urban planning. It will become a modern city well-suited for business, lifestyle, and leisure.

The construction of NCC's phase 1 is already in the works and is expected to be completed by 2021.

"The planned developments in Clark are already happening as we speak," Bases Conversion and Development Authority (BCDA) President and CEO Vivencio Dizon said.

Phase 1, constituting 60 hectares, is the site of the National Government Administrative Center (NGAC). Envisioned as a set of backup offices to ensure business continuity, NGAC will house offices of various government agencies which would operate should there be disruptions in Metro Manila due to natural disasters or other emergencies. NGAC broke ground on January 23, 2018.

Phase 1 will also be the site for facilities needed for the country's hosting of the Southeast Asian (SEA) Games, to be held from November 10 to December 10, 2019. These world-class facilities include a 20,000-capacity stadium, a 2,000-capacity Aquatic Center, a 1,000-capacity Athletes' Village, and a training center.

Retail, education, commercial, and health facilities will also be built alongside NGAC and the sports facilities.

Vivencio Dizon
BCDA President and CEO

Next premier investment destination

The government envisions NCC to be the country's next preferred investment destination.

Finance Secretary Carlos Dominguez III hailed NCC as the "next big metropolis," adding the city "will bring in several hundred enterprises and billions in new investments. New Clark City is where the future begins. We envision this as the hub of agro-industrial facilities, as well as the home for cutting-edge technology companies."

NCC is widely expected to boost economic activity in Northern and Central Luzon, consistent with the Duterte administration's agenda of spreading economic growth across the country.

(Photo credit: BCDA Presentation)

Interconnectivity of transport networks

Two access roads are being constructed to ensure the accessibility of NCC.

The Department of Public Works and Highways (DPWH) is overseeing the construction of the 16-kilometer New Clark-Bamban-Capas Access Road as well as the seven kilometer Clark Green City-MacArthur Access Road.

In addition, access roads from major points such as the Subic-Clark-Tarlac expressway (SCTEX) and Clark International Airport will soon be constructed.

The Department of Transportation (DOTr) will also build a mass transit system – the 106-kilometer Manila-Clark Railway project – which is expected to significantly boost mobility to and from Northern Luzon. The railway system will have 17 stations starting from Tutuban, Tondo, Caloocan, and Valenzuela in Metro Manila, and will cover the major towns of Bulacan and Pampanga, as well as Clark International Airport. The station at the airport will be connected to NCC.

In 2019, the government, led by BCDA and DOTr, will also start the construction of the Subic-Clark railway which will transport cargo coming from the Subic port.

The 'Clark' brand

In November 2018, BCDA and the Clark Development Corporation (CDC) launched the new Clark brand, which integrates the images of the districts of Clark Freeport Zone, Clark Global City, Clark International Airport, and New Clark City.

Said BCDA President and CEO Dizon: "Clark is different because it was built from scratch and crafted to be built for people to have the vibrancy of a city without the pressure of city life."

World-class Mactan-Cebu Int'l Airport to boost Philippines' air connectivity, tourism

WITH THE COMPLETION of its Terminal 2, the Mactan-Cebu International Airport (MCIA) has become a world-class facility poised to significantly boost the Philippines' air connectivity with other countries, promoting tourism and economic growth.

The newly completed Terminal 2 consists of a 65,000-square-meter property. It became operational starting July 1, 2018, allowing the resort-themed airport to now serve up to 12.5 million passengers per annum, up from 10 million per annum.

Better air connectivity

MCIA connects Cebu to 23 international destinations and 33 domestic destinations.

There are 26 airline carriers currently operating in MCIA. Both local and foreign carriers recently increased frequency of their flights to and from MCIA. They also launched new routes to maximize the new international terminal.

GMR Megawide Cebu Airport Corporation (GMCAC), operator of MCIA, is looking to attract more international carriers, particularly those that fly to locations where there are currently no direct flights from Cebu.

"We constantly explore new markets that have a potential to expand the connectivity of Cebu to other countries - particularly North America, Europe, Australia, and other Asian countries," GMCAC President Louie Ferrer noted in July.

President Rodrigo Duterte leads the inauguration of the Terminal 2 of the Mactan-Cebu Int'l Airport June 7, 2018

(Photo credit: PIA)

Resort-themed gateway

MCIA is the country's first resort-themed airport.

Its tropical resort feel exemplifies Cebu's attractiveness for travel, leisure, and business. The airport was designed by Hong Kong-based architectural firm Integrated Design Associates Ltd (IDA). World-renowned Cebuano furniture maker Kenneth Cobonpue and Filipino designer Budji Layug contributed to the unique design of the airport.

"While most other airports choose modern structures made of glass and steel structures, we stayed true to our island resort identity, with Cebu being one of the world's favorite resort destinations," Mr. Ferrer said.

Increase in tourism arrivals

With the opening of Terminal 2, MCIA is not only be able to accommodate an influx of passengers and tourists but has become the world's central gateway to the Visayas and Southern Philippines.

GMCAC actively implements destination marketing initiatives to promote Cebu as a destination.

Promoted as the "friendliest gateway to the Philippines," MCIA has an array of shops, dining options, retail stores, and service facilities for travelers.

The opening of Terminal 2, along with the recent inauguration of the Bohol-Panglao Airport, is expected to boost tourism in Western Visayas in 2019. In 2017, around 6.9 million tourists visited the region, with Cebu emerging as the top destination.

"If there's one big thing that happened in 2018, it is the opening of Terminal 2 of MCIA, which helps spur growth in Cebu," said Department of Tourism Director Shahlimar Tamano during the inauguration of Cebu-Macau flights of carrier Cebu Pacific on December 7th.

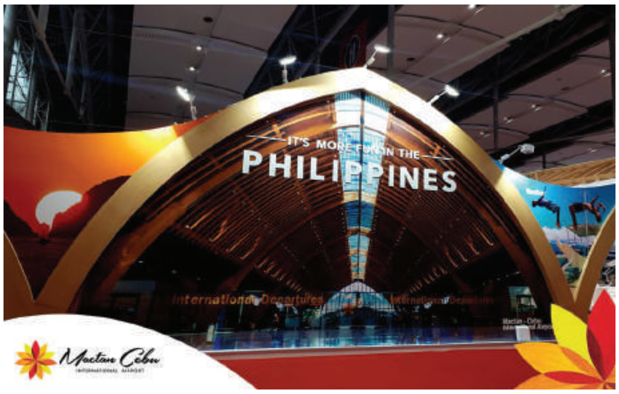
Industry-renowned airport

Despite being new, MCIA has already garnered expert recognition for its services.

In August, MCIA took the ninth spot in the "Top 10 Most On-time Airports in Southeast Asia" by UK-based travel intelligence company OAG.

In December, MCIA was named "Asia Pacific Airport of the Year" by the Center for Aviation, a Sydney-based market intelligence firm for the aviation and travel industry. According to the Department of Transportation, the award is given to an airport "with 10 to 30 million annual passengers that has been the biggest standout strategically, has established itself as a leader, and done the most to advance the progress of the aviation industry."

MCIA, including Terminal 2, is among the flagship projects of the Duterte Administration's 'Build, Build, Build' program. Operator GMCAC, a consortium between Megawide Corporation and India's GMR Group, is tasked with developing and managing MCIA for the next 25 years under the Philippine government's Public Private Partnership program.



(Photo credit: MCIA)

(Photo sources: MCIA, GMR Megawide, and Mr. Justin Parco)

First Metro: Philippine Economy to grow faster in 2019

FIRST METRO Investment Corporation, the investment arm of the Metrobank Group, expects the Philippine economy to regain its strength and grow at a faster pace in 2019 compared to 2018.

The country's gross domestic product (GDP) is projected to expand by 6.8-7.2% this year as macroeconomic fundamentals remain strong. Economic expansion will be driven by the upturn in consumption spending as a result of an improving inflation outlook. Sustained fiscal stimulus from infrastructure spending will also continue to power the economy. A recovery in manufacturing, rising tourist arrivals, and the expected hefty election spending will further boost growth.

First Metro president Rabboni Francis Arjonillo said, "The Philippine economy is again in a growth trajectory. Apart from the country's strong macroeconomic fundamentals and expected inflation easing this year, another important factor in pushing economic growth is the continued policy reform drive of the Duterte administration, which includes tax reform, corruption and red tape reduction, broadening the base of the financial system, and facilitation of new and disruptive technologies."

Inflation is on a clear downward trend and is expected to taper-off to 3.0-3.5% attributable to the normalization of food supply and lower global oil prices.

Cash remittances from overseas Filipino workers will sustain its 2.0-4.0% growth rate this year.

Exports did not grow as anticipated in 2018, weighed down by the lower demand from advanced economies and China. For 2019, exports are projected to recover by 4.0-8.0%. Imports, on the other hand, soared in 2018, growing by 16.8% (January-October 2018) and are expected to sustain the double-digit growth of 10.0-14.0-% on the back of strong government infrastructure spending and private investments.

(Source: First Metro Investment Corporation Press Release, issued January 15, 2019)

Rabboni Francis Arjonillo
President
First Metro Investment Corporation

‘Philippines faces brighter prospects in 2019’

Jonathan “Jonas” L. Ravelas
First Vice President and Chief Marketing Strategist
BDO Unibank, Inc.

THE PHILIPPINES is looking at a brighter year ahead—with inflation normalizing, growth staying well within the 6-percent territory, the peso becoming more stable, and the stock market performing better.

This was according to Jonathan L. Ravelas, First Vice President and Chief Market Strategist of BDO Unibank Inc., who added there is reason to be optimistic, albeit with caution, about the prospects of the Philippine economy in 2019.

“We are cautiously optimistic because we know we’re not there anymore. The waters are no longer murky. [Portfolio] investors are ready to dive back into the Philippines,” Ravelas said.

This year, Ravelas said he does not see a repeat of last year’s temporary spike in inflation, citing lower global oil prices and decisive government measures to address price pressures, including rice tariffication.

He also positively cited the government’s rising investments in human capital as well as the ‘Build, Build, Build’ program, under which it is investing significantly more in infrastructure. Ravelas said the government’s infrastructure development agenda is expected to help attract more investment, boosting manufacturing and tourism.

If the government continues its development strategy of spending more on infrastructure and social services, he said, the Philippines will remain resilient to external headwinds.

“This [2019] could be a great year for the Philippines,” he added.

ABOUT THE IRO

The Investor Relations Office

of the Bangko Sentral ng Pilipinas

Promoting excellence in investor relations; telling the Philippines' compelling and dynamic growth story

1st row, L-R: Queen Cave, Ivy DeHitta and Justin Parco; 2nd row, L-R: Michelle Remo, Atty. Evie Medina-Navarro, and Melanie Calumpang; 3rd row, L-R: Sherelle Perez and Marvin Brabante; 4th row, L-R: Jemie Contad, Joanna Cobarrubias, and Rica Amador

The Investor Relations Office (IRO) of the Bangko Sentral ng Pilipinas (the Central Bank of the Philippines) was created in July 2001 to raise the Philippines' credit profile and promote the country as a viable investment destination.

At the core of its mandate is to communicate before an international audience key messages on the strengths of the Philippine economy, including sound macroeconomic fundamentals, game-changing policy reforms, and sustainable economic growth.

Pursuing the IRO's mandate is a team of professional technical experts and communicators, who develop various communication materials and organize investor relations activities that fulfil the following functions:

- Provide and disseminate timely information on the National Government's key economic and financial policy objectives and performance;

- Arrange channels of active communication and dialogue between the Republic of the Philippines' economic and infrastructure managers, and stakeholders, including:
  - Local and international investors and businesses
  - Credit rating agencies
  - Financial institutions
  - Bilateral and multilateral organizations
  - Members of the diplomatic corps
  - International media
  - The general public

Following the Philippines' success in securing investment-grade status in 2013 and achieving subsequent credit-rating upgrades, the IRO is now leading the Republic's communication campaign to reach "A"-territory credit ratings.

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