OUR OUTLOOK IS STRONG

FINANCE SECRETARY CARLOS G. DOMINGUEZ III
PHILIPPINE ECONOMIC BRIEFING-MANILA
SEPTEMBER 18, 2018; BSP COMPLEX

The Philippines remains one of the
BEST PERFORMING ECONOMIES
in the region and its
OUTLOOK IS STRONG

Photo Source: Justin James Wright (gettyimages)

We aim to bring down poverty incidence from **21.6 percent in 2015** to just **14 PERCENT BY 2022**

Photo Source: Headwaters Relief Organization

BUILD BUILD BUILD

MORE RAILWAYS, MASS URBAN TRANSPORT, AIRPORTS AND SEAPORTS

MORE BRIDGES AND ROADS

NEW AND BETTER CITIES

We aim to induce more **INVESTMENTS** to **OPEN MORE JOBS** for the next generation of Filipinos

Photo Source: Philippine Star

SHARE TO GDP BY TYPE OF EXPENDITURE (%)

TYPE OF EXPENDITURE	SEMESTRAL		AVERAGE SHARE
	2017S1	2018S1	2010-2017
Capital Formation	**25.4**	**27.4**	**21.3**
A. Fixed Capital	25.5	27.2	21.5
a. Construction	12.8	13.6	11.1
Public Construction	4.0	4.6	2.7
Private Construction	8.9	9.0	8.4
b. Durable Equipment	10.7	11.6	8.4
c. Breeding Stock & Orchard Development	1.3	1.4	1.5
d. Intellectual Property Products	0.6	0.6	0.4
B. Changes in Inventories	(0.1)	0.1	(0.1)

**at current prices*
Source: DOF Office of the Chief Economist (OCE)

RISING INVESTMENTS HIGHLIGHT CONFIDENCE IN PHILIPPINE GROWTH PROSPECTS

Net Foreign Direct Investment (FDI) Flows
(In USD Billion)

Source: Bangko Sentral ng Pilipinas

THE LATEST CREDIT RATING UPGRADES REFLECT DEEPENING INVESTOR CONFIDENCE ON THE DUTERTE WATCH

FITCH	MOODY'S	S&P	RAM
Maintained the long-term credit rating of the Philippines to "BBB" with a stable outlook	Kept the Philippines' "Baa2" rating and maintained the outlook at stable	Maintained the Philippines' BBB rating and raised the outlook from "stable" to "positive"	Upgraded the Philippines' global credit rating by one notch to "BBB2" with a stable outlook

Source: Bangko Sentral ng Pilipinas Investor Relations Office

THE TIGHT SPREADS OF OUR BOND ISSUANCES INDICATE CONFIDENCE IN OUR FISCAL AND DEBT MANAGEMENT

GLOBAL BONDS

- 2 billion US dollars 10-year global bonds
- Issued on January 2018
- 37.8 basis points

PANDA BONDS

- 1.46 billion renminbi 3-year Panda bonds
- Issued on March 2018
- 35 basis points

SAMURAI BONDS

- 154.2 billion yen multi-tranche Samurai bonds
- Issued on August 2018
- 34.7 basis points

Source: Bureau of the Treasury

COMPREHENSIVE TAX REFORM PROGRAM

The tax reform program seeks to make the tax system

It also seeks to create a **LEVEL PLAYING FIELD FOR BUSINESS** and **GENERATE A RELIABLE REVENUE PROCESS** to support both economic investments and more robust social services.

FISCAL PERFORMANCE
(From January to July 2018)

(In PHP Billion)

Particulars	2017 Jan-Jul	2018 Jan-Jul	Year on Year
Revenues	**1,371.0**	**1,652.3**	**21%**
Tax Revenues	**1,243.6**	**1,472.5**	**18%**
BIR	986.1	1,128.5	14%
BOC	245.3	331.5	35%
Other Offices	12.2	12.5	2%
Non-Tax Revenues	**127.4**	**179.8**	41%
BTR	61.2	77.9	27%
Other Offices	66.2	101.9	54%

Source: Bureau of the Treasury

IMPACT OF NEW TAX REFORM LAW ON TAXPAYERS' PERSONAL INCOME

Workers earning **below PHP 250,000 (USD 4,500) annually** are now **exempted** from paying personal income taxes

Workers earning **above PHP 250,000 (USD 4,500) annually** are now receiving about **a month's extra take-home pay each year**

Department of Finance made history in 2017 by collecting from a cigarette manufacturer a total of

USD 600 MILLION

for its non-payment of excise taxes and use of counterfeit tax stamps on its cigarette packs.

SSB EXCISE TAX

P6 per liter of volume capacity for SSBs using purely caloric, and purely non-caloric, or a mix of both

P12 per liter of volume capacity for others using purely HFCS or in combination w/ any caloric or non-caloric sweeteners

Products covered by SSB excise tax under TRAIN:

Sweetened juice drinks

Sweetened tea

Other beverages:

All carbonated beverages with added sugar, including those with caloric and non-caloric sweeteners

Flavored water

Energy drinks

Sports drinks

Other powdered drinks not classified as milk.

Cereal and other grain beverages

Other non-alcoholic beverages that contain added sugar

KEY EXEMPTIONS: 3-in-1 coffee, milk, 100% natural juice

TAX REFORM PACKAGE 2 MAIN HIGHLIGHTS

Reduction of corporate income tax rates

This will bring our tax regime closer to the regional average, help us attract investments to fuel our economic growth, and benefit small and medium enterprises that employ the biggest number of Filipinos.

Rationalization of fiscal incentives

This will create a level playing field for our enterprises and attract new players to compete.

CURRENT TAX INCENTIVES SYSTEM

boi BOARD OF INVESTMENTS PHILIPPINES

Maximizing Opportunities for a Stronger Philippine Economy

- 14 Investment promotion agencies (IPAs)

- **123** investment laws and 192 non-investment laws that provide tax incentives.
- **Income Tax Holiday (ITH)** is the centerpiece of the incentives system followed by the **5% Gross Income Earned (GIE) tax**, and customs duty exemption. The GIE is given indefinitely and is in lieu of income, VAT, and local taxes.
- **Since 2015, Tax Incentives Management and Transparency Act (TIMTA) law** requires reporting of the tax incentives granted for registered investments.

- **50 years** of picking winners thru the Investment Priorities Plan (IPP), which started in 1968 (RA 5186).

COMPARATIVE INCOME TAX HOLIDAY / SPECIAL RATE IN ASEAN COUNTRIES

Country	Maximum years of incentives
Philippines	**4 + 8 extension + 5% Gross Income Earned (GIE) forever**
Brunei Darussalam	20
Cambodia	9
Indonesia	20
Lao PDR	20
Malaysia	5 + 5 extension
Myanmar	5 to 7
Singapore	3
Thailand	8
Vietnam	2 to 4

2015 ESTIMATED FOREGONE REVENUE DUE TO TAX INCENTIVES

Type of tax	Forgone revenue (in PHP billion)
Income tax	86
Customs duties	18
Sub total	**104**
Import VAT (gross)	160
Local VAT (gross)	37
Local Business Tax	TBD
Sub total	**301**
Leakage	43
Total	**344**

Source: DOF Strategy, Economics and Results Group

FOUR MAIN PRINCIPLES FOR TAX INCENTIVES

PERFORMANCE-BASED

TIME-BOUND

TARGETED

TRANSPARENT

OTHER TAX REFORM PACKAGES

PACKAGE 1B	PACKAGE 2+	PACKAGE 3	PACKAGE 4
Proposed tax amnesty program which is complemented by tax transparency measures such as the lifting of bank secrecy laws in tax fraud cases; allowing the automatic exchange of information between the Philippines and its treaty partners; and adjustments to the Motor Vehicle Users' Charge (MVUC)	Additional excise taxes on tobacco and alcohol products as well as an increase in the government's share from mining	Reforms in property valuation to make the system more equitable, efficient and transparent	Rationalization of capital income taxation to address the multiple rates and different tax treatments and exemptions on capital income and other financial instruments

FISCAL PERFORMANCE
(From January to July 2018)

(In PHP Billion)

Particulars	2017 Jan-Jul	2018 Jan-Jul	Year on Year
Expenditures	**1,576.0**	**1,931.7**	**23%**
Surplus/ (Deficit)	**(205.0)**	**(279.4)**	**36%**
Primary Surplus/ (Deficit)	**(8.8)**	**(69.0)**	**687%**

Source: Bureau of the Treasury

	First Half of 2017	First Half of 2018
Deficit-to-GDP ratio	**2.05%**	**2.34%**

Source: DOF Office of the Chief Economist

RAPID ADMINISTRATIVE RESPONSE FOR INFRASTRUCTURE DEVELOPMENT

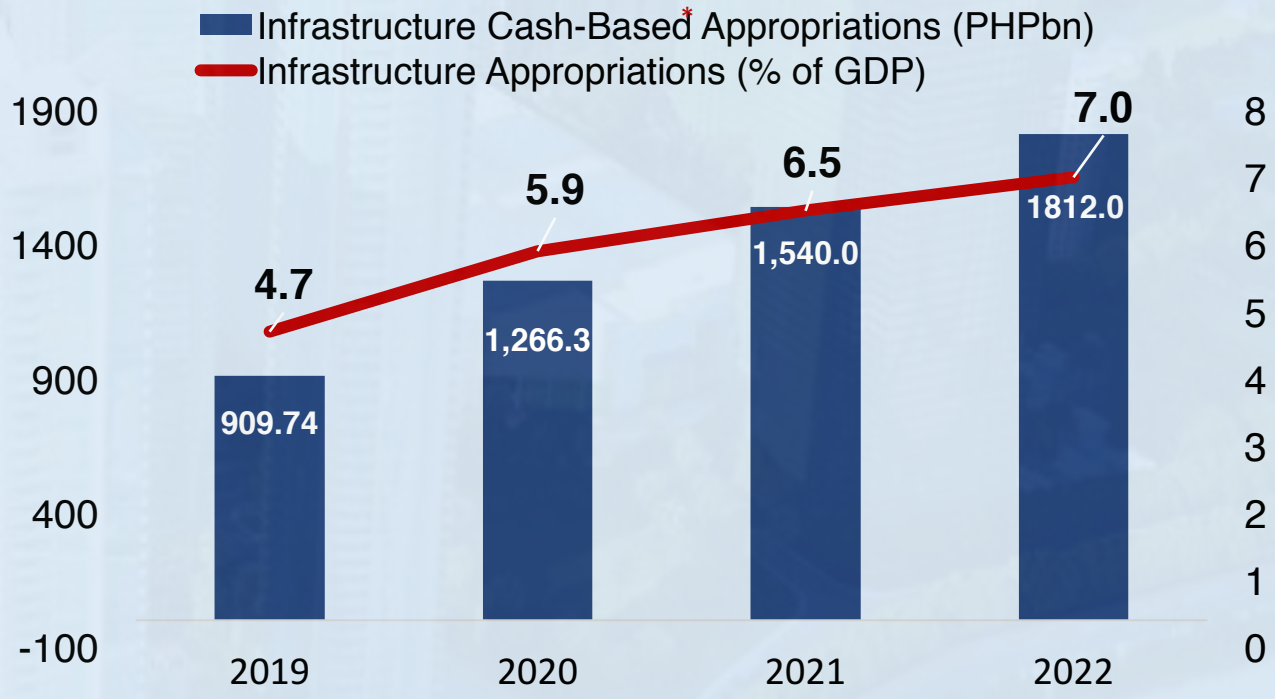
INFRASTRUCTURE DISBURSEMENT PERFORMANCE
(in PHP Billion)

	Program	Actual	Variance	Percent (%)
FY 2017	549.4	568.8	19.4	3.5
First Semester 2018	**338.3**	**352.7**	**14.4**	**4.3**

2017 Jan-Jul	2018 Jan-Jul	Year on Year
297.5	**437.2**	**47%**

Source: Department of Budget and Management

INFRASTRUCTURE SPENDING PROGRAM, ANNUAL CASH-BASED APPROPRIATIONS



Our ambitious infrastructure program benefits from expanded official development assistance (ODA) flows from our friends in the region

Committed **USD 9 BILLION** worth of aid and investments

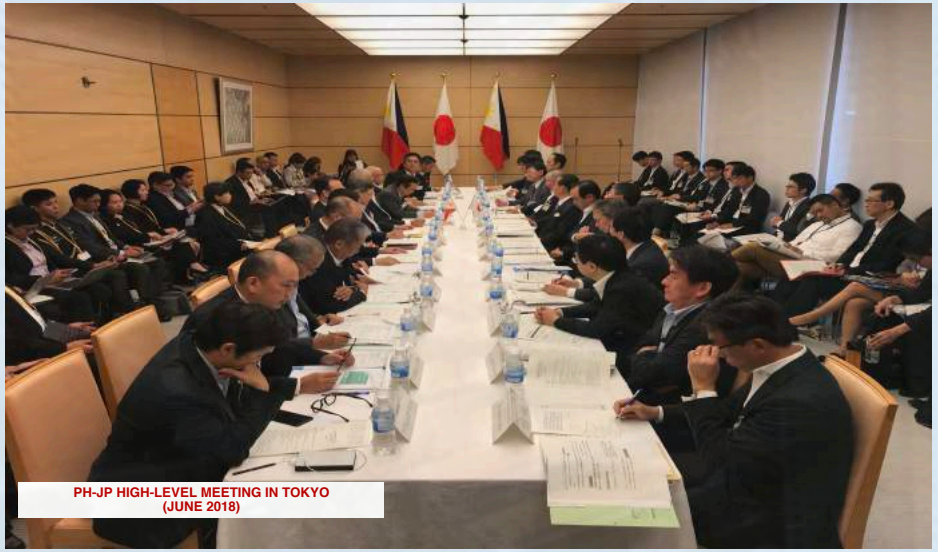
Pledged **USD 9 BILLION** worth of investment and development aid package

Pledged up to **USD 1 BILLION** in official development assistance

HYBRID PUBLIC-PRIVATE PARTNERSHIP (PPP) SCHEME

The government undertakes the projects using **budget allocations**, **ODA** and **funds raised from bond flotation**. The completed projects are then passed on to **private partners** for **management** or even **acquisition**.

HIGH-LEVEL MEETINGS AMONG GOVERNMENT AGENCIES AND WITH ODA PARTNERS ARE HELD REGULARLY



PH-JP HIGH-LEVEL MEETING IN TOKYO
(JUNE 2018)

PH-CN HIGH-LEVEL MEETING IN MANILA
(MARCH 2017)

PH-JP HIGH-LEVEL MEETING IN CEBU
(FEBRUARY 2018)

PH-CN HIGH-LEVEL MEETING IN MANILA
(SEPTEMBER 2017)

PH-JP HIGH-LEVEL MEETING IN MANILA
(JULY 2017)

PH-CN HIGH-LEVEL MEETING IN BEIJING
(AUGUST 2018)

The project was officially presented to the Japanese government for financing in September 2017 and after **SIX MONTHS**, the loan agreement was signed between two parties.

METRO MANILA SUBWAY PROJECT

Finance Secretary Carlos Dominguez and JICA chief representative Yoshio Wada signed on March 16, 2018 the 104.530 billion yen (USD 935 million)-loan agreement for the first tranche of the Metro Manila Subway Project.

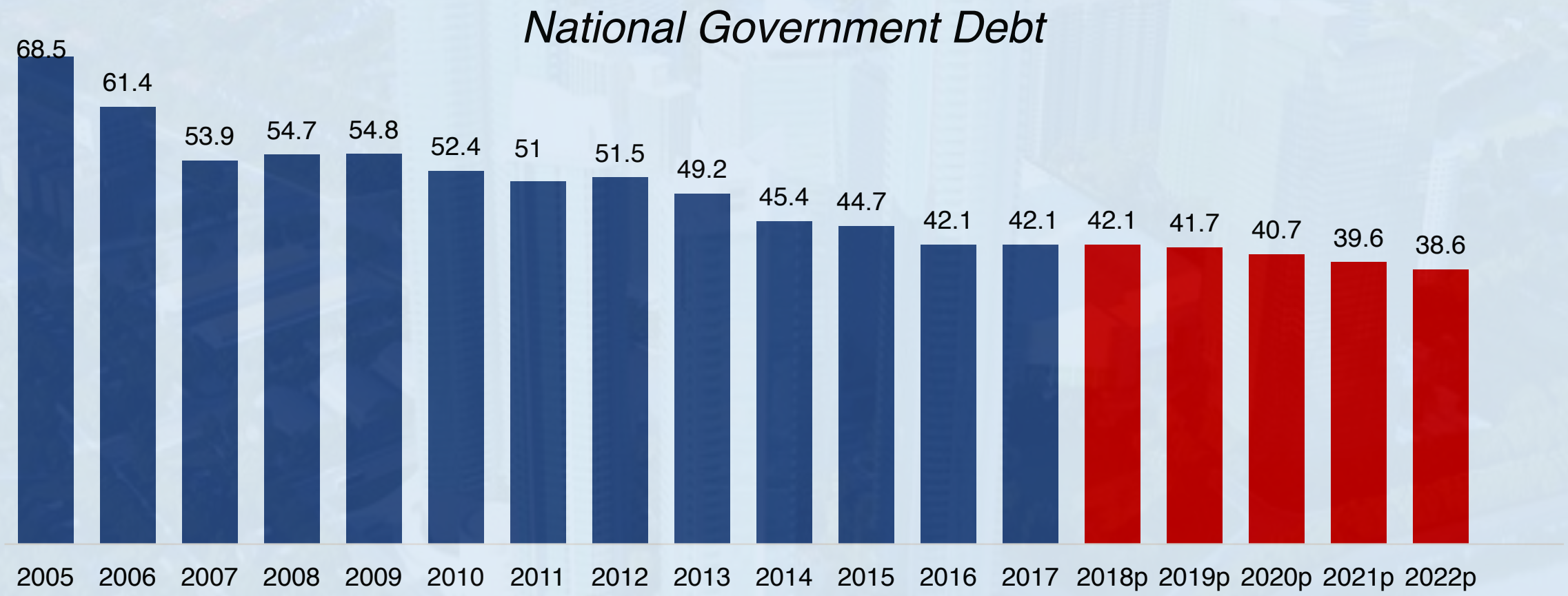
METRO MANILA SUBWAY PROJECT

THIS IS ONE OF THE SOFTEST WE HAVE EVER NEGOTIATED.

The **104.530 billion yen (USD 935 million)-loan agreement** for the first tranche carries an interest rate of **0.10% per annum for non-consulting services** and **0.01% per annum for consulting services**.

It will be payable in **40 years inclusive of a 12-year grace period**.

SUSTAINED DECLINE IN DEBT-TO-GDP RATIO



Source: Bureau of the Treasury

Measures to mitigate inflationary pressures in the immediate term:

Ample importation of rice

Expedite procedures and removal of administrative constraints and non-tariff barriers for other food imports such as fish, sugar and meat

Encourage barter trade in the south where rice stocks have tightened recently

The policy reform measures are complemented by other pieces of legislation

NATIONAL ID SYSTEM

This was signed into law on August 6, 2018. This will pave the way for efficient services delivery, will enhance administrative governance, reduce corruption, curtail bureaucratic red tape, promote ease of doing business, and strengthen financial inclusion.

EASE OF DOING BUSINESS ACT OF 2018

This was signed into law on May 28, 2018. The new law creates a unified business application form to make it easier to put up or renew business licenses in the Philippines. It also features the establishment of a central business portal that will receive all business applications and the zero-contact policy to reduce corruption.

The role played here by
DECISIVE LEADERSHIP
cannot be understated.

THE ROAD TOWARDS SUSTAINABLE AND INCLUSIVE GROWTH IS NOW OPEN

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