

Philequity Corner (June 9, 2014)

By Valentino Sy

Beyond 2016

Last week, we wrote an article about the importance of having a good leader (*The Importance of a Good President*, June 2, 2014). In that article, we cited how the election or anticipated election of good leaders in India, Italy and Indonesia has caused their stock markets and currencies to rally. On the other hand, the Brazilian stock market surged 3.0% while the Brazilian ETF went up 3.4% last Friday, as Brazil's ineffective and populist leader appears to have lost support for the upcoming elections.

The PNoy Experience

Our experience in the Philippines shows that a good leader like President Noynoy Aquino (PNoy) can bring major positive changes to a country. PNoy's administration has implemented important structural reforms and has stuck to its good governance platform. These have consequently translated to strong economic and stock market performance.

With the improvements that everyone has witnessed so far, many are concerned that the Philippines might backslide in terms of reforms or economic performance if it gets a bad or corrupt leader in the 2016 elections. As such, one of the most frequently asked questions that we encounter is this: "What will happen to the Philippines when PNoy steps down?"

Beyond the Current Administration

Last month, major credit rating agency Standard & Poor's (S&P) upgraded the credit rating of the Philippines to BBB from BBB-. The upgraded rating is one notch above investment grade and is the highest credit rating that our country has received in its history. While the upgrade itself is a momentous event for our country, it is the reason behind the upgrade that is particularly noteworthy. Below, we quote S&P's rationale for the credit rating upgrade. We also highlight the important key words from the S&P's statement.

*"We raised the ratings because we now believe the ongoing reforms to address shortcomings in structural, administrative, institutional, and governance areas **will endure beyond the current administration**. In turn, we believe the resulting gains in government revenue generation, spending efficiency, and the improvements in public debt profile and investment environment **will at least be preserved in the medium term under the next administration**. This is based on our assessment that even though a change of administration after the presidential elections in 2016 represents some uncertainty for reforms, **the risks have shifted toward maintaining the impetus and direction of the process, away from a potential reversal or abandonment of advances achieved to date.**"*

Important Quotes from the Country's Top Leaders

S&P's views beyond 2016 are shared by some of our country's most important leaders. Below, we share some quotes from recent interviews with these leaders when they were asked about the effects of the impending political changes after 2016.

BSP Governor Amando Tetangco, Jr.:

“The changes have been institutionalized. Important governance reforms are now embedded in the laws and implementing rules and regulations of the country.”

“The changes will continue after 2016. People have already realized the positive effects of good governance. This is shown in the increase in investor confidence and GDP growth.”

Finance Secretary Cesar Purisima:

“The question in many people’s minds is whether the positive things happening in the Philippines at the moment can be sustained after this administration. The answer to this is a resounding yes.”

“People who have realized the benefits of good governance will demand that the country continues to stay on this path.”

Jaime Augusto Zobel de Ayala:

“I think President Aquino has been a reformist president. He has set new goals with respect to governance. I think that has been respected.”

“He has found the formula to create trust in our economy and our people. Why would anyone want to turn back the clock on a winning formula? So, I remain optimistic that whoever follows our current president will turn to a similar agenda for success that is taking place right now.”

Doomsday No More

Before the S&P upgrade came out, many had painted a negative, if not dire scenario for the Philippines in 2016 and beyond. There have been legitimate concerns that the country might backslide in terms of structural reforms, especially if it ends up with a corrupt or incompetent set of leaders. There are also many who fear that the country might be worse off when it gets a new set of leaders in 2016. Words from the S&P and our top leaders have so far assuaged these doubts and concerns. In their view, the benefits of the various structural reforms that have been implemented are not easily reversible and are likely to endure, regardless of who wins in the 2016 elections.

Good Governance is Transformative

What has been pointed out in the recent interviews with Mr. Tetangco, Mr. Purisima and Mr. Ayala is the increasing awareness of the transformative powers of good governance. As seen with various countries in the world, good leaders can help shape a country’s fate for the better. And it seems that Filipinos, based on what they have experienced since 2010, have become more aware of the importance of a good leader. Now, everyone wants a leader who can sustain this type of growth momentum or even implement better. It will also be very helpful if prospective candidates can now identify potential members of his/her economic team.

An Efficient Economic Team

PNoy and his team have done their part in pushing the country forward. They have properly identified what the country needs in order to grow faster and become stronger. In that sense, the path has practically been laid and the reform agenda has already been set by the PNoy administration.

It is also quite clear that our country's infrastructure is sorely lacking. Our country's next leader should make it a priority to improve and address our outmoded and inefficient infrastructure. The government has to focus on faster and more efficient implementation of infrastructure projects in order to avoid potentially severe economic gridlocks in the future.

Our next leader should therefore surround himself/herself with the right people who can do the right jobs. Our next president has to have a team of high-caliber individuals who are honest and are also experienced, credible and have a proven track record in completing large-scale projects. This team should have the dedication as well as the managerial skills to effectively implement major initiatives of the government.

Getting It Done

In a previous article, we talked about how various structural reforms have led to the structural growth story that we are now experiencing (*Secular Bull Market*, January 28, 2013). These are major structural reforms that took decades to implement. Hence, their effects are also long-lasting. These, along with recently instituted reforms, will ensure that our country's structural growth story remains intact beyond 2016. As what the S&P, Mr. Tetangco, Mr. Purisima and Mr. Ayala have all said, our country will still reap the gains from these structural reforms, regardless of who is elected in 2016. However, our country can fast-track its transformation if we elect a leader who can tirelessly work at successfully implementing large-scale, big-ticket projects and major government initiatives. Since the path for reform has been laid, what we need in 2016 is a leader who can get it done.

Philequity Investors Briefing – June 9, 2014

Philequity Dividend Yield Fund will hold its annual stockholders' meeting and investors briefing today, June 9, 2014, 4:00pm. This will be held at the PSE Centre Auditorium, Ground Floor, PSE Centre, Exchange Road, Ortigas Center, Pasig City. Seating will be limited so please call Wealth or Philequity to register if you wish to hear the views of our research analysts and fund manager on the stock market and currencies.

Please visit our online trading platform at www.wealthsec.com or call 634-5038 for detailed stock market research. You can also visit www.philequity.net to learn more about the Philequity Fund and view our archived articles. You can email us at feedback@philequity.net for feedback on the Philequity Corner articles.