

Philequity Corner (November 23, 2015)

By Valentino Sy

Shining star in a cloudy sky

The APEC Economic Leaders' Meeting was held last week in Manila. The successful hosting of APEC, despite all the security threats caused by recent terror attacks around the globe, not only brings relief but also a sense of pride to us. Once again, our country was able to host an important meeting of world leaders.

“Building inclusive economies, building a better world”

The theme of this year's APEC meeting was “Building inclusive economies, building a better world.” The main things discussed were how to address persistent inequality and how to ensure that economic growth trickles down to all members of the society. For his part, President Noynoy Aquino outlined the Philippine government's initiatives to promote inclusive growth. These include the conditional cash transfer program, employment training scholarships and universal health care.

Don't forget about growth

Initiatives to make economies more inclusive would indeed be beneficial for an emerging country such as ours. These would allow us to harness the potential of our young population to further solidify our growth trajectory. But in order to make an economy more inclusive, robust economic growth has to be triggered and maintained. Below are some of the bottlenecks that should be addressed in order to sustain our country's structural growth story.

- Investment in adequate infrastructure
- Improvement in business competitiveness
- Encouragement of more foreign direct investments (FDIs)
- Amendment of certain economic provisions in our Constitution
- Comprehensive tax reform

The Philippines in 1996 APEC and 2015 APEC

The last time APEC was held in the country was in November 24-25, 1996. The country was so much different nineteen years ago. Below, we show a quick comparison and cite some statistics to illustrate how the Philippines was then (1996) and now (2015).

- 1) GDP.** In 1996, our GDP was at \$91.8b or P2.4t. Current growth estimates peg our 2015E GDP at \$297.3b or P13.5t.
- 2) GDP growth.** Since 1996 (from 1997 to 2015E), our country has delivered an average GDP growth rate of 4.7%. From 1997 up to 2009, our average GDP growth rate was 4.0%. From 2010 up to 2015E, our average GDP growth rate has accelerated to 6.1%.
- 3) Population.** In 1996, our country had a population of 71.2m. This is estimated to grow to 101.6m by end-2015.

- 4) **GDP per capita.** Based on our computation, GDP per capita in 1996 amounted to \$1,289. This is estimated to reach \$2,926 for 2015E. We are about to cross the \$3,000 threshold as GDP per capita has grown 1.3x since 1996.
- 5) **OFW remittances.** According to BSP figures, OFW remittances amounted to \$4.3b in 1996. The BSP expects OFW remittances to breach the \$25.0b level this year.
- 6) **BPO revenues.** The BPO sector, another important driver of our country's domestic consumption, was practically non-existent in 1996. The industry was in its fledging stages in the late 1990s and only started to gain traction in the early 2000s. 2015E BPO revenues are expected to reach \$21.2b, equivalent to ~7% of 2015E GDP.
- 7) **Philippine peso.** The Philippine peso closed at 26.26 vs. the US dollar on November 25, 1996. The Asian financial crisis, various political crises and a serious fiscal crisis caused the peso to depreciate and reach a bottom of 56.50 in 2004 (see Chapter 6 of the book – Calling the Bottom of the Peso). After going through a strengthening cycle on the back of the implementation of important structural reforms, the peso topped-out at 40.45 in 2013 (see Chapter 7 of the book – Peso Tops Out). Recently, US dollar strength and EM currency weakness has pushed the peso to close at 47.02 last Friday.
- 8) **Gross international reserves.** In 1996, our gross international reserves (GIR) amounted to \$11.7b. The BSP has made a conscious effort to build up our GIR since then. Our country's GIR stood at \$81.1b as of end-October 2015.
- 9) **PSE Index.** The PSE Index closed at 3,104 on November 25, 1996. It eventually reached a bottom of 1,075 in 1998 as the country dealt with the Asian financial crisis. Last Friday, the PSE Index closed at 6,933.
- 10) **Philequity Fund NAVPS.** Back in 1996, Philequity was still a relatively small fund and was just two years old. On November 25, 1996, Philequity ended with a NAVPS of 2.0405. Last Friday, Philequity Fund's NAVPS closed at 33.7914.

Structural reforms and changes

As we discussed in Chapter 5 of the book (Fiscal Reform in the Philippines), we went through a series of important structural reforms and changes that transformed our country. We enumerate some of these below.

- 1) **Deregulation and privatization of key sectors.** Even before 1996, moves to deregulate and privatize key sectors such as telecom, oil and power have already started. These lessened the fiscal burden on the government and paved the way for the modernization of these sectors thru private sector investments.
- 2) **Fiscal reform.** In 2004, the government implemented the expanded value-added tax (eVAT) to generate much-needed revenues and save our country from fiscal collapse. These efforts started a trend of fiscal consolidation which has supported our country's economic growth. Recently, the government has raised sin taxes. We hope that this fiscal strengthening trend will be sustained even as the government tackles the issue of comprehensive tax reform.
- 3) **Central bank and banking sector reform.** After going through the pains of the Asian financial crisis, our central bank and the banking sector went through a reform phase to strengthen the local

banking system. At present, the BSP is widely recognized as one of the best central banks in the world while the Philippine banking sector is viewed as one of the strongest globally.

- 4) **Rise of the middle class.** The emergence of the OFW and BPO sectors gave rise to a strong middle class which has fueled our country's domestic consumption story. Since our growth is driven by domestic consumption, our economy has been able to continue growing despite the various headwinds that the globe is facing.
- 5) **Trust in the government and good governance.** Our government now enjoys the trust and confidence of Filipinos, allowing it to continue its reform agenda. Moreover, the administration's thrust on good governance has driven the international community to recognize the benefits of the various structural reforms that have been implemented over the years.

"A bright star in a dim sky"

Indeed, our country has come a long way since the last APEC meeting was held here in 1996. From being previously called the "sick man of Asia", the Philippines was branded as "Asia's next economic tiger" in 1996. Though our country encountered a series of stumbling blocks after that, we continued our long-term transformation and we have started to reap the more tangible benefits lately. As such, our country has been called a variety of names by major institutions. We enumerate some of these below.

- 1) **"Breakout nation"** by Morgan Stanley's Ruchir Sharma
- 2) **"Asia's bright spot"** by Moody's
- 3) **"Bright star in a dim sky"** by HSBC

As described by these institutions, the Philippines is indeed a shining star in a cloudy sky. In fact, two years ago, we wrote an article entitled "The Best House in a Bad Neighborhood" (September 2, 2013). We believe that this monicker is still appropriate today. Our country continues to grow above-trend and our structural growth story remains intact even as the globe and our neighbors are grappling with various risks and headwinds.

APEC hosting shows Philippines is ready

Amidst the terror attacks in different parts of the world, the global economic slowdown and the imminent Fed lift-off, the Philippines was able to successfully host this year's APEC Economic Leaders' Meeting. This highlights that the country is ready to take on difficult and daunting challenges, especially if we Filipinos unite behind these common causes. This also reinforces our belief that the Philippines, for all its imperfections, has the right fundamentals to sustain its growth and engineer an economic lift-off of its own. We have favorable demographics. Our people are adaptable and resilient. And our economy has benefited from a long-term structural transformation. The groundwork for our country has been laid out and the next steps would be to address bottlenecks to growth and inclusion. Implemented correctly, these initiatives will be the crucial underpinnings of the next leg of our secular bull market.

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