

Press release

Philippines: ‘Build, Build, Build’ Initiative and Tax Reforms to Sustain Robust Near-term Growth

Singapore, 16 March 2018 – The Philippine economy continues to enjoy favorable macroeconomic prospects despite a slight moderation in growth and the small deficit in the current account balance in 2017. This is according to the 2017 Annual Consultation Report on the Philippines published by the ASEAN+3 Macroeconomic Research Office (AMRO) today. The report was prepared on the basis of AMRO’s Annual Consultation Visit to the country in September 2017 and data availability as of 15 February 2018.

After expanding by 6.7 percent in 2017, the Philippine economy is expected to grow by 6.8 percent in 2018 and 6.9 percent in 2019 as exports remain buoyant while budget execution gradually improves. Amidst the softening in private sector demand last year, an ambitious ‘Build, Build, Build’ program in public sector infrastructure is expected to lift growth momentum in the near term.

Meanwhile, headline inflation has returned to within the government’s 3±1 percent target range, averaging 3.2 percent in 2017. However, headline inflation rose to 4.0 percent at the start of 2018 and is expected to rise to slightly above the upper end of the band in 2018 on the back of the excise tax increases in the recently approved tax reform, higher crude oil prices, and the modest pass-through from the sustained depreciation of the peso. But as the impact of the excise tax increases diminishes, inflation is expected to ease back to within the target range in 2019.

The first package of the proposed comprehensive tax reform program recently passed by the government is expected to help finance the ‘Build, Build, Build’ initiative while containing the budget deficit within the ceiling of 3.0 percent of GDP. Nonetheless, risk pockets continue to warrant close monitoring. The progress of the infrastructure program may be constrained by the weak implementation capacity of the government and private sector participants. Notwithstanding these structural impediments, a strong pick-up in public infrastructure spending, accompanied by a crowding-in of private investment, cannot be ruled out, and this could cause the economy to overheat and the external imbalance to widen.

Against these risks, monetary policy should be on guard against an intensification of demand-induced pressures with core inflation having trended upwards in recent months. The rapid growth of credit may also require continued enhancements in the BSP’s financial surveillance framework to safeguard against the build-up of financial imbalances. Although the peso has depreciated recently, largely reflecting the deterioration of the

current account balance, a flexible exchange rate policy should be maintained—with the BSP intervening to smooth excessive volatilities in the peso—to preserve external buffers. Finally, reforms to stimulate private investment and address the labor market mismatch would complement initiatives to support the infrastructure drive, and pave the way for an improvement in the economy's productive capacity.

About AMRO and AMRO's Annual Consultation Report:

The ASEAN+3 Macroeconomic Research Office (AMRO) was established to contribute to securing the economic and financial stability of the ASEAN+3 region, which include 10 ASEAN countries and China (including Hong Kong), Japan, and Korea. AMRO fulfils its mandate by conducting macroeconomic surveillance, supporting the implementation of the regional financial arrangements, the Chiang Mai Initiative Multilateralisation (CMIM), and providing technical assistance to the members.

The Annual Consultation Report was prepared in accordance with AMRO's macroeconomic surveillance function. AMRO is committed to monitoring, analyzing and reporting to its members on their macroeconomic status and financial soundness. It also helps identify relevant risks and vulnerabilities, and assists members, if requested, in the timely formulation of policy recommendations to mitigate such risks.