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The Philippine economy needs industrial advances to sustain the growth

AKI FUKUCHI
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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Looking at Asian economies, decelerating trend has become slightly more distinct particularly in exports reflecting softening of production activities in manufacturing sector globally however the Philippine economy led by domestic demand continues a relatively solid expansion. Looking at major monthly economic indicators, while motor vehicle sales have been sluggish due to tax increase (see note), motorcycle sales and constructions such as housing and commercial facilities maintained high growth (see table1). As for high inflation, which has been a concern to the Philippine economy, growth of Consumer Price Index (CPI) slowed down in November owing to completion of the impact of tax increase and drop in crude oil price and agricultural price. Private consumption is likely to remain firm backed by stable increase in income, completion of the impact of tax increase and price stability. Together with an expansion of infrastructure investment, the economy is expected to remain solid in general.

Meanwhile, attention needs to be paid to a slowdown in foreign direct investment (FDI) which is a key to medium-to-long-term growth through industrial advances. The approved amount of FDI decreased by half year-on-year in 2017, and continued to grow at a sluggish pace in 2018 (see chart 1). Looking at the infrastructure development, which is often pointed out as one of the challenges in the investment climate, the Duterte administration, which came to power in 2016, set it as a core of its economic policy and is aimed at expanding infrastructure spending from 5.4% of GDP in 2017 to 7.3% of GDP by 2022. However, in addition to uncertainty after the regime change in 2016, the possibility that tax incentives in the Philippine Economic Zone Authority (PEZA) might be removed under the Comprehensive Tax Reform Program (CTRP), from which the administration seeks to generate additional revenue to partially fund infrastructure investment, appears to have curbed foreign investment. In view of this, the government is looking into setting a transition period and introducing tax incentives for strategic industries such as electric and electronic and automobile-related industries in order to avoid decrease in foreign investment and employment. In addition to these measures, it is important to have a vision of attracting foreign investment into a wide range of industries, not only in labour-intensive export-bound machining and assembly industry, by enhancing human resource development and as a result achieve medium-to-long-term growth.

Note: Under the first package of CTRP that took effect in January 2018, excise tax on sugar-sweetened beverages, alcohol and tobacco, petroleum products and automobiles were increased. The second package of CTRP (scheduled to be implemented in 2019) seeks to gradually reduce corporate income tax (CIT) rates (currently 30%) and modernize fiscal incentives to investors.

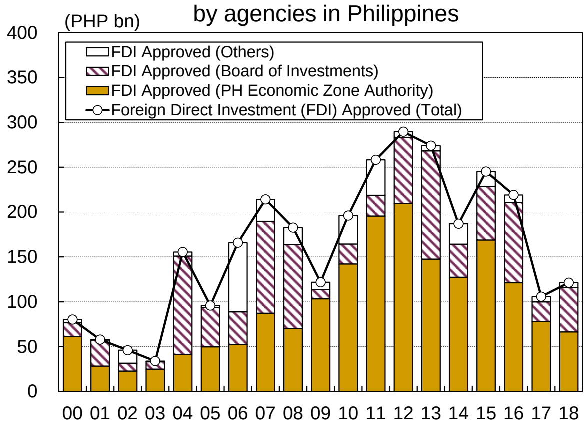
Table1: Major economic indicators in Philippines

(YoY, %)

	2017		2018				
	Q3	Q4	Q1	Q2	Q3	Oct	Nov
Real GDP growth rate	7.2	6.5	6.6	6.2	6.1	n.a.	
Industrial Production	- 3.5	- 7.6	12.4	14.9	8.2	3.9	n.a.
Private Bldg Construction Permits	- 5.2	6.7	- 4.3	5.2	16.7	n.a.	n.a.
Motor Vehicle Sales	13.6	25.1	- 8.5	- 16.2	- 16.2	- 9.2	- 23.4
Motorcycle & Scooters Sales	17.5	19.3	27.0	23.6	18.4	n.a.	n.a.
Exports	17.2	13.4	- 5.5	- 1.3	1.5	3.3	n.a.
Imports	8.7	21.1	6.9	19.6	22.2	21.4	n.a.
CPI	1.9	2.0	3.4	4.4	5.1	6.7	6.0

Source: Philippine Statistics Authority, ASEAN Automotive Federation CAMPI, MUFG Bank Economic Research Office

Chart 1: Approved amount of Foreign Direct Investment by agencies in Philippines



Note: 2018 figure is an annualized rate of Jan-Sep results

Source: Philippine Statistics Authority, MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Aki Fukuchi <aki_fukuchi@mufg.jp>