ThomasLloyd

COUNTRY REPORT PHILIPPINES 2018

SUMMARY

The Philippines is the 73rd largest country in the world, with a total land area around 300,000 km². Located in South East Asia, it consists of 7,641 islands of which only around 2,000 are inhabited. The 11 largest islands contain 94% of the total land area. The biggest of these islands is Luzon at about 105,000 km². The next largest island is Mindanao at about 95,000 km² then Samar at 13,429 km² and Negros 13,310 km².

The Philippines was under Spanish colonial rule for 333 years and takes its name from the sixteenth century King Philip II of Spain. After the Spanish-American War in 1898, it was taken over by the United States. The country was granted self-rule in 1935 and after the Second World War, the Treaty of Manila in 1946 established an independent Philippine Republic.

Historical links to the United States have left the Philippines with a constitution which strongly resembles the US model, as does its legal system. Filipino/Tagalog is the official national language, although over 100 languages and dialects are spoken throughout the country. English is widely spoken and is the primary language in business communication.

It is the world's 13th largest country by population with just over 106 million people; around 1.4% of the world's total population. The United Nations estimates the population will increase by almost 45 million by 2050, equivalent to adding the current total population of Spain.

The Philippine economy is the 34th largest in the world, with an estimated 2017 gross domestic product of $348.5 billion. Over the past ten years (a period which includes the GFC in 2008 – 09), the average annual growth of GDP in the Philippines was 5.6%; one of the best performances in the whole of Asia.

Looking forward, the World Bank says, "The economic outlook for the Philippines remains positive. The economy is expected to continue on its expansionary path, and the World Bank projects the country's GDP to grow at an annual rate of 6.7% in both 2018 and 2019, before settling at 6.6% in 2020… The country's external environment remains accommodative to growth."

Standard & Poor's sovereign credit rating for the Philippines, most recently updated in April 2018, stands at BBB with outlook positive.

Moody's credit rating is Baa2 with stable outlook whilst Fitch is at BBB with stable outlook.

The last general election took place on May 9th 2016 for the executive and legislative branches of all levels of government: national, provincial and local. Rodrigo Duterte of PDP-Laban and Leni Robredo of the Liberal Party won the presidential and vice presidential elections. With The Senate Leader and House of Representatives' speaker, PDP-Laban currently holds three of the four elected highest political offices for the first time since 1986. The next legislative elections will be held on May 13th 2019, with the Presidential Election not until 2022.

The World Bank's 'Doing Business 2018 report' gave the Philippines a score of 58.74. This was marginally below the average for the East Asia and Pacific region and saw the country's rank slip 14 places to 113 amongst the 190 countries that are studied annually.

According to the Trade Secretary and National Competitiveness Council Chair, the government is still aiming to reach the "top 20%" of 190 countries tracked by World Bank before President Rodrigo Duterte ends his term in 2022. "It's an ambitious target but we will still try to do it… The higher you move up, the competition will get tougher. We have to push the score." In pursuit of this goal, on May 28th 2018, President Rodrigo Duterte signed into law the "Ease of Doing Business and Efficient Government Service Delivery Act of 2018."

"Improving ease of doing business in the Philippines is an endeavour that involves the Executive, Legislative, and Judicial branches of government. It is a whole-of-government effort."

Trade Secretary Ramon Lopez, November 2017

In December 2018, the Philippines government passed a tax reform bill, the key provisions of which include a rise in the excise tax on coal. The Act also significantly raised excise taxes on automobiles, petroleum products, including diesel, gasoline and cooking gas, and hiked mining levies.

The Tax Reform Act seeks to achieve a simpler, fairer and more efficient tax system characterised by lower rates and a broader base, to encourage investment, job creation, and poverty reduction. It is designed to help finance what President Duterte has called "a golden age of infrastructure" with total planned spending around $180 billion for roads, railways and airports to transform the Philippines' economy. This has become known as the "Build, build, build" programme.

BTI 2018

The Bertelsmann Stiftung Transformation Index (BTI, scale 1 to 10) analyses and evaluates the quality of the democracy, market economy and political management in 129 developing and transitioning countries. Progress and regress is measured on a path to constitutional democracy and a market economy accompanied by social policy.

Status Index

6.5 **#38** || 129 Philippines

5.4 Asia/Oceania*

Democracy Status

6.3 **#50**|| 129 Philippines

5.1 Asia/Oceania*

Market Economy Status

6.6 **#33** || 129 Philippines

5.7 Asia/Oceania*

Governance Index

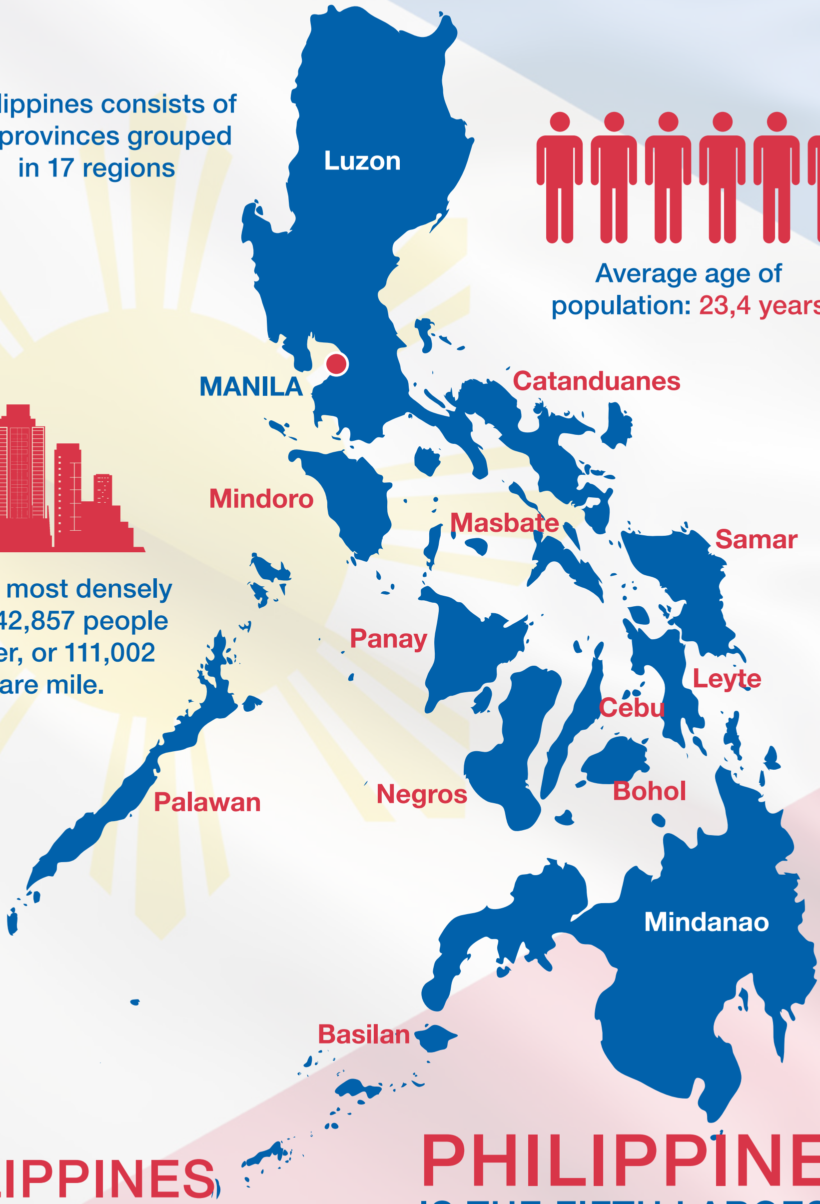
4.9 **#69** || 129 Philippines

4.7 Asia/Oceania*

*Regional average

PHILIPPINES
AN OVERVIEW

Philippines consists of 81 provinces grouped in 17 regions



Average age of population: 23,4 years

Manila is the world's most densely populated city with 42,857 people per square kilometer, or 111,002 people per square mile.

₱ CURRENCY
PHILIPPINE PESO (PHP)

PHILIPPINES
IS THE THIRD LARGEST…

catholic community in the world

PHILIPPINES
IS THE FIFTH LARGEST…

English speaking nation in the world, with around 100 additional local languages

+61%

POPULATION GROWTH
from 2000 – 2030

+79%

GDP GROWTH
from 2014 – 2023

+48%

POWER CONSUMPTION
from 2006 – 2015

BBB
WITH POSITIVE OUTLOOK

CREDIT RATING
Standard & Poor‘s

13TH
largest population in the world, which will increase by 45 million by 2050

BUT

56TH
of 137 countries in the world by infrastructure quality

10 MILLION
people without electricity access

SECOND
largest geothermal energy producer in the world

180
BILLION US$

The Philippines government has announced total planned expenditure on infrastructure equal to 7.3% of GDP by the end of President Duterte’s term of office in 2022

GEOGRAPHY

The Philippines is the 73rd largest country in the world, with a total land area around 300,000 km². Located in South East Asia, it consists of 7,641 islands of which only around 2,000 are inhabited. Facing the South China Sea to the west, the Philippine Sea on the east and the Celebes Sea to the South, its 36,289 km of coastline makes it the country with the 5th longest coastline in the world.

The 11 largest islands contain 94% of the total land area. The biggest of these islands is Luzon at about 105,000 km². The next largest island is Mindanao at about 95,000 km² then Samar at 13,429 km² and Negros 13,310 km². The archipelago is around 800 km from the Asian mainland and is located between Taiwan and Borneo. It shares maritime borders with Taiwan to the north, Vietnam to the west, Palau to the east and Malaysia and Indonesia to the south.

53,336,134

inhabitants live in Luzon, the Philippines´ most populous and largest island. It is the 15th largest island on earth. Metro Manila, which is situated in Luzon and the world's most densely populated city, serves as the country's economic and financial hub.

Most of the mountainous islands are covered in tropical rainforest and are volcanic in origin. The highest mountain is Mount Apo. It rises to 2,954 meters above sea level and is located on the island of Mindanao. The Galathea Depth in the Philippine Trench is the deepest point in the country and the third deepest in the world. The longest river is the Cagayan River in northern Luzon.

The climate of the Philippines is tropical and strongly monsoonal with three main seasons: the hot dry season or summer from March to May; the rainy season from June to November; and the cool dry season from December to February. The western shores facing the South China Sea have the most marked dry and wet seasons. Temperatures throughout the year usually range from 21°C to 32°C, with January being the coolest month and May the warmest. The average yearly temperature is around 26.6°C.

Annual rainfall measures as much as 5,000 mm in the mountainous east coast section but less than 1,000 mm in some of the sheltered valleys. The wettest known tropical cyclone to impact the archipelago was the July 1911 cyclone, which dropped over 1,168 mm of rainfall within a 24-hour period in Baguio City.

From June to November tropical cyclones (typhoons) often strike the Philippines. Most of these storms come from the southeast, their frequency generally increasing from south to north. In some years the number of cyclones reaches 25 or more.

Total land area:
300,000 km², Ranked 73rd largest, (99.38% land, 0.62% water)

Capital:
Manila

Time zone:
UTC + 8

Currency:
Philippine peso (abbreviated as PHP)

Continent:
Asia

Coordinates:
13°00'N, 122°00'E

Highest point:
Mount Apo, 2,954m

Lowest point:
Galathea Depth, -10,540m

Longest river:
Cagayan River, 505 km

Largest lake:
Laguna de Bay, surface area about 911 km²

The Philippines experiences frequent seismic and volcanic activity. The Benham Plateau to the east is an undersea region active in tectonic subduction and around 20 earthquakes are registered daily, though most are too weak to be felt. The last major earthquake was the 1990 Luzon earthquake which measured 7.7 on the Richter scale and caused damage over an area around 20,000 km^2. There are altogether about 50 volcanoes, of which more than 10 are known to be active such as the Mayon Volcano, Mount Pinatubo, and Taal Volcano. The eruption of Mount Pinatubo in June 1991 produced the second largest terrestrial eruption of the 20th century bringing vast quantities of minerals and toxic metals to the surface environment.

Due to the monsoon climate and heavy rainfall, around one-quarter of the Philippines comprises tropical rainforest, though this figure has been declining gradually over a long period of time as a result of logging, mining, and farming activities. Between the mid-20th century and the early 21st century, the country's forestland was reduced by more than half. A ban on the export of hardwoods has been in effect since the mid-1980s, but it appears that hardwood timber continues to leave the country illegally.

Much of the land of the hilly and mountainous regions consists of moist, fertile soils, often with a significant concentration of volcanic ash, whilst the alluvial plains and terraces are a mixture of clay and younger soils and much of the Visayas and north-west of Luzon is dark and mineral-rich. These areas support a wide range of cultivated crops although the eastern mountains of Luzon are largely covered with shrubs, bushes, and other secondary growth that typically emerges in areas that have been cleared of their original forest cover.

The rich and fertile soils mean the agricultural sector comprises a major part of the Philippines economy and employs nearly one-third of the total workforce. Almost a quarter of the total farmland is used for rice growing with other staple crops including sugarcane and maize. The Philippines is one of the world's largest producers of coconuts and coconut products with bananas, pineapples, papayas and other tropical fruits also cultivated along with coffee, tobacco and hemp.

The indigenous vegetation of the Philippines resembles much of the Malay archipelago and the islands are home to an estimated 13,500 species of flowering plants and ferns, including hundreds of species of orchids, some of which are extremely rare. The rafflesia plant found on Mindanao has a flower almost one metre in diameter.

The Philippines' rainforests and extensive coastline make it home to a wide range of birds, animals, and sea creatures and it is one of the world's ten most biologically diverse countries. Around 1,100 land vertebrate species can be found in the Philippines including over 100 mammal species and 170 bird species not thought to exist elsewhere.

The Philippines are inhabited by more than 200 species of mammals, including water buffalo (carabao), goats, horses, hogs, cats, dogs, monkeys, squirrels, lemurs, mice, pangolins (scaly anteaters), mongooses, civet cats, and red and brown deer, among others. The country lacks large predators, with the exception of snakes, such as pythons and cobras, saltwater crocodiles and birds of prey, such as the national bird, known as the Philippine Eagle, one of the three largest and most powerful in the world.

The seas surrounding the Philippine islands and its inland lakes, rivers, estuaries, and ponds are inhabited by more than 2,000 varieties of fish. The Tubbataha Reefs in the Sulu Sea were designated a UNESCO World Heritage site in 1993 in recognition of their abundance and diversity of marine life and in 2009 the boundaries of the World Heritage site were extended to triple its original size.

Due to the volcanic nature of the islands, mineral deposits are abundant. The country is estimated to have the second-largest gold deposits after South Africa and one of the largest copper deposits in the world. Most of the country's metallic minerals, including gold, copper, iron ore, lead, zinc, chromite, and copper, are drawn from major deposits on the islands of Luzon and Mindanao. Smaller deposits of silver, nickel, mercury, molybdenum, cadmium, and manganese occur in several other locations. The Visayas are the principal source of non-metallic minerals, including limestone for cement, marble, asphalt, salt, sulphur, asbestos, guano, gypsum, phosphate, and silica whilst petroleum and natural gas are extracted from fields off the northwest coast of Palawan.

The Galathea Depth is a 10,540-metre-deep (34,580 ft) depth in the Philippine Trench in the western Pacific Ocean. Biological samples collected during an expedition demonstrated a wide variety of fish, amphipods, and bacteria surviving at depths seldom seen before.

DEMOGRAPHICS

The Philippines is the world's 13th largest country by population with just over 106 million people; around 1.4% of the world's total population. The United Nations estimates the population will increase by almost 45 million by 2050, equivalent to adding the current total population of Spain.

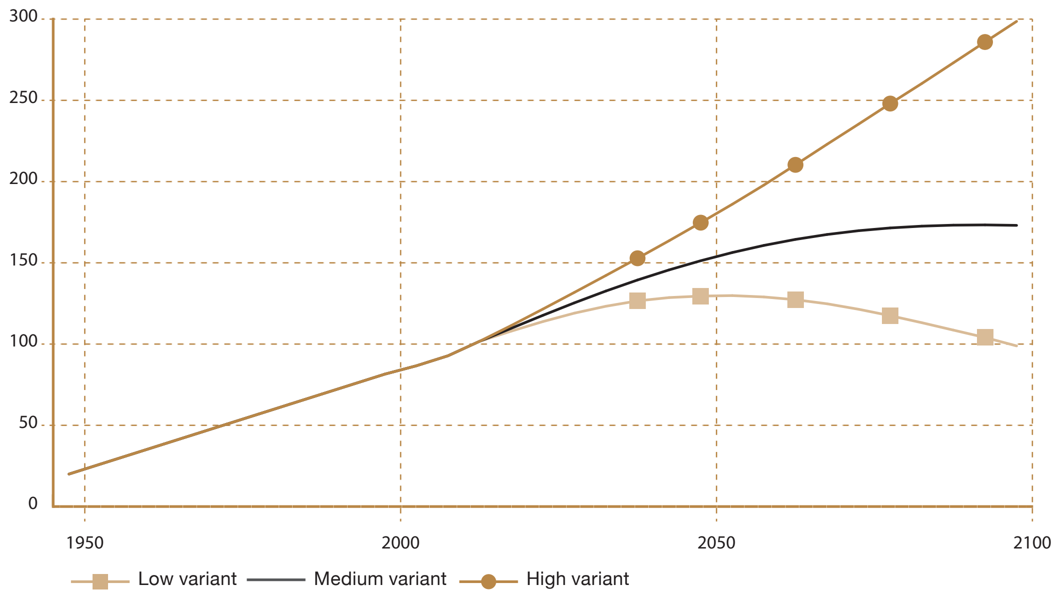
The population is very young, with a median age of just 23.4 years of which male is 22.9 years and female is 23.8 years. There are around 65.5 million adults in the Philippines. Average life expectancy is around 69.3 years and it is ranked 124th in the world according to the World Health Organisation. The birth rate for every 1,000 of the population is 22.8 and the death rate for every 1,000 of the population is 6.5. The country's birth rate remains significantly higher than the world average, as well as the average for the Southeast Asian region.

The population density of the Philippines is high, but the distribution of the population is uneven. It has six cities with a population exceeding one million residents; Quezon City, Manila, Caloocan City, Budta, Davao and Malingao whilst parts of Metro Manila have a population density that is more than 100 times that of some outlying areas such as the mountainous area of northern Luzon. At the beginning of the 20th century, more than 80% of the population was rural, but by the early 21st century that proportion had dropped to roughly 40%.

Quezon City, which at the time of the 2015 census contained 2.9 million people, forms a part of the wider Metropolitan Manila area, which is comprised of 17 cities and municipalities and has an overall population of 12.8 million people. The entire Greater Manila urban area spills out beyond the boundaries of Metro Manila and is reported to contain around 22.7 million people, which is more than one-fifth of the Philippines' entire population. Of the 81 provinces outside Metro Manila, four have a population more than 3 million, nine between 2 and 3 million and eighteen between 1 and 2 million.

Religion in the Philippines is heavily influenced by its history as a part of the Spanish Empire. As well as naming the country after its King (Philip II), Spain also exported its religion, and today around 81% of the country's citizens are Roman Catholic Christians.

Philippines Population Prospects
(Total population in million)



Source: United Nations (https://esa.un.org/unpd/wpp/Graphs/DemographicProfiles/)

POLITICS

The constitution of the Philippines was drafted then ratified in a popular referendum held in February 1987. Its key provision was a return to a bicameral legislature, called the Congress of the Philippines, consisting of a lower House of Representatives (currently composed of 297 members) and a much smaller upper house, the Senate, of 24 members.

Executive power is vested in the President of the Philippines who serves as both the head of state and head of government and who appoints his or her cabinet over whom he or she presides. The President also serves as the Commander-in-Chief of the Armed Forces and has the power to declare martial law. The President and Vice-President are elected by direct vote every six years, usually on the second Monday of May and may serve for only one single, fixed term. The Vice-President is first in line to succession if the President resigns, is impeached or dies and four vice presidents in history have assumed the presidency without having been elected to the office.

Congressional representatives are elected for a term of three years. They can be re-elected twice but they may not run for a fourth consecutive term. The senators are elected to a term of six years. They can be re-elected but may not run for a third term. The constitution provides Congress with impeachment powers, with the House of Representatives having the power to impeach, and the Senate having the power to try the impeached official.

The last general election took place on May 9th 2016 for the executive and legislative branches of all levels of government: national, provincial and local. In addition to a vote for successors to President Benigno Aquino III and Vice President Jejomar Binay, there were elections for 12 seats to the Senate, all 297 seats for the House of Representatives, all governors, vice governors, and 772 seats to provincial boards for 81 provinces, all mayors and vice mayors for 145 cities and for 1,489 municipalities and members of the city councils and 11,924 seats on municipal councils.

Rodrigo Duterte of PDP-Laban and Leni Robredo of the Liberal Party won the presidential and vice presidential elections with, respectively, 39.01% and 35.11% of the votes. The Liberals also won a plurality of seats in both houses of Congress, but several of the Liberal Party members of the House of Representatives switched their allegiance to Duterte's PDP-Laban. The Senate leadership was ultimately won by PDP-Laban's Koko Pimentel, with the Liberals comprising the minority bloc there. With Pantaleon Alvarez chosen as speaker of the House of Representatives, PDP-Laban currently holds three of the four elected highest political offices for the first time since 1986.

The next elections will be held on May 13th 2019. The seats of 12 senators elected in 2013 are to be filled during this election and all 297 seats in the House of Representatives will be contested. The winners will serve in the 18th Congress of the Philippines from June 30th, 2019 to June 30th, 2022.

The Philippines have been ruled twice by women.

Corazon Aquino
1986 – 1992

Gloria Macapagal-Arroyo
2001 – 2010

ECONOMY

The Philippine economy is the 34th largest in the world, with an estimated 2017 gross domestic product of $348.5 billion. Over the past ten years (a period which includes the GFC in 2008–09), the average annual growth of GDP in the Philippines was 5.6%; one of the best performances in the whole of Asia. Indeed, for the each of the last six years, growth has never fallen below 6.1% and the 6.6% seen in 2017 was amongst the highest in the continent.

Due to its very high population, GDP per capita is only around $8,230; a figure which sees its world ranking just 118, but still above India which the International Monetary Fund lists in 122nd place with $7,174. According to the Philippine Statistics Authority, in January 2018, the total population aged 15 years and over was estimated at 70.9 million of which the number of persons who were in the labour force was reported at 44.1 million.

The total number of employed persons was estimated at 41.8 million whilst the proportion of employed persons to total labour force was 94.7%. The agricultural sector employs around 26% of the work force, industry around 18% and services 56%.

Three in every five (61.7%) of the estimated 41.8 million employed persons in January 2018 were males. Employed females were reported at 38.3% of the total employed population. Among the various occupation groups, workers in elementary occupations make up the largest percentage of the employed population with 27.6%. Managers are the second largest group at 16.2% with service and sales workers third with 14.7%, then skilled agricultural, forestry and fishery workers 13.1%.

The ongoing global economic recovery has raised the demand for Philippine exports, which constituted the country's main driver

#1

The US News & World Report named the Philippines as the "Best Country to Invest In" for its 2018 Best Countries report.

Annual Change in Gross Domestic Product (GDP)

														Forecast				
	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
China	11.3	12.7	14.2	9.6	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.5	6.3	6.2	6.0	5.8
India	9.3	9.3	9.8	3.9	8.5	10.3	6.6	5.5	6.4	7.5	8.0	7.1	6.7	7.4	7.8	7.9	8.1	8.2
Indonesia	5.7	5.5	6.3	7.4	4.7	6.4	6.2	6.0	5.6	4.0	4.9	5.0	5.2	5.3	5.5	5.5	5.5	5.5
Thailand	5.2	5.0	5.4	1.7	-0.7	7.5	0.8	7.2	2.7	0.9	2.9	3.2	3.7	3.5	3.4	3.1	3.0	3.0
Philippines	4.8	5.2	6.6	4.1	1.1	7.6	3.7	6.7	7.1	6.1	6.1	6.9	6.6	6.7	6.8	6.8	6.8	6.8
Malaysia	5.0	5.6	6.3	4.8	-1.5	7.5	5.3	5.5	4.7	6.0	5.0	4.2	5.4	4.8	4.8	4.9	4.9	4.9
Pakistan	6.3	6.9	6.5	5.5	5.3	6.0	6.4	6.3	6.0	6.3	6.8	7.2	7.1	7.0	7.0	7.0	7.0	7.0
Bangladesh	7.5	7.0	7.1	5.7	1.7	-0.7	7.5	0.8	7.2	2.7	0.9	2.9	3.7	3.5	3.4	3.1	3.0	3.0
Vietnam	7.5	7.0	7.1	5.7	5.4	6.4	6.2	5.2	5.4	6.0	6.7	6.2	6.3	6.3	6.2	6.2	6.2	6.2
Sri Lanka	6.2	7.7	6.8	5.9	3.5	8.0	8.4	9.1	3.4	5.0	4.8	4.4	4.7	4.8	4.9	5.0	5.1	5.3

Detailed breakdown of GDP, actual and forecast (in %)

				Forecast		
	2015	2016	2017	2018	2019	2020
GDP at market prices	6.1	6.9	6.7	6.7	6.7	6.6
Private consumption	6.3	7.0	5.8	5.8	7.2	6.1
Government consumption	7.6	8.4	7.3	8.9	7.1	6.6
Gross fixed investment	16.9	25.2	10.3	11.8	11.9	12.6
Exports of goods & services	8.5	10.7	19.2	15.1	15.0	15.0
Imports of goods & services	14.6	18.5	17.6	15.8	15.8	16.0
Consumer Price Inflation	0.7	1.3	2.9	3.3	3.0	3.0
Government deficit (% of GDP)	-0.9	-2.4	-2.2	-2.5	-2.6	-2.8
Current account balance (% of GDP)	2.5	-0.4	-0.8	-1.2	-1.4	-1.6

of economic growth in 2017. Exports grew by 10.7% in 2016 and a very impressive 19.2% in 2017; the fastest pace since the cyclical rebound in 2010 after the GFC. The country's strong export performance in 2017 was driven by a rebound in the exports of electronics components – its main export commodities – which grew by 27.5%; more than three times the growth rate in 2016.

Growth in consumption, the second biggest driver of GDP growth, decelerated from 7.1% in 2016 to 6.0% in 2017 – close to its seven-year average of 5.8%. There was sustained expansion of credit in the banking system and strong growth in remittances from overseas Filipinos from 4.9% in 2016 to 5.3% in 2017, totalling US$31.3 billion, or almost 10% of GDP. The PSA estimates there are around 2.2 million Overseas Filipino Workers (OFW); more than half of whom work in the Middle East, but only 6% work in Europe.

Investment growth slowed in 2017, following two consecutive years of rapid expansion. Growth in fixed capital formation decelerated from 25.2% in 2016 to 10.3% in 2017, as investment growth in durable equipment and construction declined sharply although some of the strength in 2016 was likely due to pre-election capital spending which then had a 'base effect' on the 2017 numbers.

Credit growth remained strong in 2017. Total credit growth accelerated from 14.3% in 2016 to 17.8%. Credit to firms grew from 13.5% year-on-year 2016 to 17.4 in 2017, while the growth in household loans was 20.3% in 2017, only marginally lower than the 20.5% increase in 2016.

The World Bank notes that, "the Philippines' financial system remains stable and resilient." The share of nonperforming loans declined from an average of 2.2% of total loans in 2016 to 1.9% in 2017. Philippine banks are well capitalized, with a total capital adequacy ratio at 15.3 in September 2017, well above the 10% regulatory minimum.

On fiscal policy, public expenditure has consistently exceeded public revenue in the Philippines. The fiscal balance has been in deficit since 2000, reaching a high of 5.0% of nominal GDP in 2002 and a low of 0.2% of GDP in 2007 and was at 2.2% in 2017. Since 2013, most public spending has been directed to education, health, and infrastructure and is set to rise substantially in the coming years as the administration rolls out its flagship infrastructure and social investment programs.

In terms of monetary policy, the Philippines' Central Bank – Bangko Sentral Ng Pilipinas (BSP) – is tasked, "to promote a low and stable inflation conducive to a balanced and sus-

The Philippines are the world´s Top Call-Center Nation. In 2016, the market for outsourced customer service and other business services generated $22.9 billion in revenue and 1.15 million jobs in the Philippines, according to a report by the Oxford Business Group.

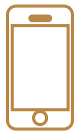
tainable economic growth.” The adoption of an inflation targeting framework for monetary policy since January 2002 is aimed at achieving this objective and entails the announcement of an explicit inflation target that the BSP promises to achieve over a given time period. Effective from a resolution in December 2015, the current inflation target is set at 3.0% ± 1.0 percentage point.

As with most of the G7 countries, the seven-person advisory committee holds eight monetary policy meetings per year with the decision announced immediately but the detailed ‘highlights’ of the meeting released one month later. Four times each year, an Inflation Report is published as part of the BSP’s transparency mechanism under inflation targeting and to convey to the public the overall thinking and analysis behind the BSP’s decision on monetary policy.

From September 2014 to May 2016, the official repurchase rate was left unchanged at 4.0%. In June 2016, as other central banks in the region (notably Indonesia and Australia) moved to ease monetary policy, BSP cut the official rate from 4.0% to 3.0%. This was then left unchanged until the May 2018 meeting when the RRP was raised by 25bp to 3.25%; the first hike in rates in more than 3 ½ years. A second 25bp increase in this current cycle then came at the June 20th meeting.

The BSP noted that, “inflation expectations remained elevated for 2018 and that the risk of possible second-round effects from ongoing price pressures argued for follow-through monetary policy action. Although inflation expectations remain within the target range for 2019, elevated expectations for 2018 highlight the risk posed by sustained price pressures on future wage and price outcomes. Equally important, while latest baseline forecasts have shifted lower for 2018–2019, upside risks continue to dominate the inflation outlook, even as various measures of core inflation continue to rise”.

Looking forward, the World Bank says, “The economic outlook for the Philippines remains positive. The economy is expected to continue on its expansionary path, with GDP growth at an annual rate of 6.7% in both 2018 and 2019, before settling at 6.6% in 2020. The country’s external environment remains accommodative to growth. However, the Philippine economy is currently growing at its potential and productive physical and human capital investments are necessary for the economy to continue along its current growth trajectory. The risk of overheating the economy is increasing. Potential signs that the economy is overheating include the rise of core inflation, the high capacity utilization rate in the manufacturing sector, and the tight labour market”.



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Surveys report about 400 million text messages are sent by Filipinos every day or 142 billion a year. They are king of text messaging because most Filipinos find texting texting is a convenient way to communicate without using up their data allowance.

Philippines real GDP Growth – actual and forecast

Source: PSA, World Bank staff estimates

ECONOMIC DEVELOPMENT

The World Bank Group's (WBG) partnership with the Philippines spans nearly 60 years, providing longstanding support for infrastructure as well as engagement in key sectors including governance, social protection, water resources and disaster risk management. The WBG is also an active partner in helping spur private sector growth, expanding engagement with civil society, and promoting peace and development in Mindanao.

The Bank's Country Partnership Strategy (CPS) for the Philippines from 2015 – 2019 revolves around the theme "Making Growth Work for the Poor," supporting the country's goal of inclusive growth that reduces poverty and creates more and better jobs that raise real wages. The recently completed mid-term review of the strategy affirms the continued relevance of five CPS engagement areas:

- Transparent and accountable government: strengthening public financial management, improving fiscal transparency and financial accountability, and supporting greater citizen demand for government accountability;
- Empowerment of the poor and vulnerable: improving health and education outcomes, strengthening social protection and ensuring the availability of more timely and improved measurements of poverty;
- Rapid, inclusive and sustained economic growth: promoting economic policy reform for inclusive growth, boosting private sector development by improving the investment climate for firms of all sizes, and increasing productivity and job creation – especially in rural areas;
- Climate change, environment and disaster risk management: increasing physical, financial and institutional resilience to natural disaster and climate change impacts, and improving natural resource management and sustainable development; and
- Peace, institution building, and social and economic opportunity: supporting governance, social and economic development and citizen security and justice in conflict-affected regions in Mindanao, including the territory of the proposed new Bangsamoro autonomous political entity.

Through funding assistance, technical advice and knowledge, the World Bank Group has been responsive to the country's development priorities as reflected in the Philippine Development Plan 2017 – 2022.

As of end of March 2018, the Bank's active portfolio in the Philippines consists of 13 operations financed by IBRD loans, GEF grants, and recipient-executed grants with total net commitment of US$3.2 billion (including one CAT-DDO operation of US$500 million). The Philippines trust fund portfolio consists of 64 active grants with total commitment of $198.4 million, of which 17.7% are Bank executed.

The World Bank Group's private sector arm, the International Finance Corporation (IFC), has invested more than $3 billion to support more than 100 private sector companies in the country since 1962. As of December 2017, IFC's committed portfolio is at US$763.9 million, which focuses on reducing impacts of climate change, increasing rural incomes, promoting sustainable urbanisation and helping address governance constraints.

IBRD – The *International Bank for Reconstruction and Development* is an international financial institution that offers loans to middle-income developing countries.

GEF – The *Global Environment Facility* was established on the eve of the 1992 Rio Earth Summit to help tackle our planet's most pressing environmental problems. The GEF unites 183 countries in partnership with international institutions, civil society organizations (CSOs), and the private sector to address global environmental issues while supporting national sustainable development initiatives.

CAT-DDO – The Development Policy Loan with a Catastrophe Deferred Drawdown Option (Cat DDO) is a contingent credit line that provides immediate liquidity to IBRD member countries in the aftermath of a natural disaster.

ECONOMIC AND BUSINESS ENVIRONMENT

The Philippine government is committed to a future economic agenda consistent with the United Nations' 17 Sustainable Development Goals for 2030. Indeed, it was among the first countries to participate in the UN Voluntary National Reviews (VNR) and all the current SGD's are to be incorporated in the current and next three medium-term Philippine Development Plans to be pursued until 2040.

On October 11, 2016, President Rodrigo R. Duterte signed Executive Order No. 5, s. 2016 approving and adopting the 25-year long-term vision entitled AmBisyon Natin 2040 as a guide for development planning. It laid down four areas for strategic policies, programs, and projects over the next 25 years that will help realize the AmBisyon Natin 2040:

- Building a prosperous, predominantly middle-class society where no one is poor
- Promoting a long and healthy life
- Becoming smarter and more innovative
- Building a high-trust society

In June 2017, the National Economic and Development Authority launched the current Philippine Development Plan (PDP) 2017–2022, the blueprint for the country's development under the Duterte Administration. The PDP is the first of four medium-term plans that will work towards realizing the collective vision of Filipinos over the next 25 years. It aims to lay a strong foundation for inclusive growth, a high-trust and resilient society, and a globally competitive economy: all of which are designed to enable Filipinos to achieve their aspiration of a *"matatag, maginhawa, at panatag na buhay"*; a stable, comfortable and secure life.

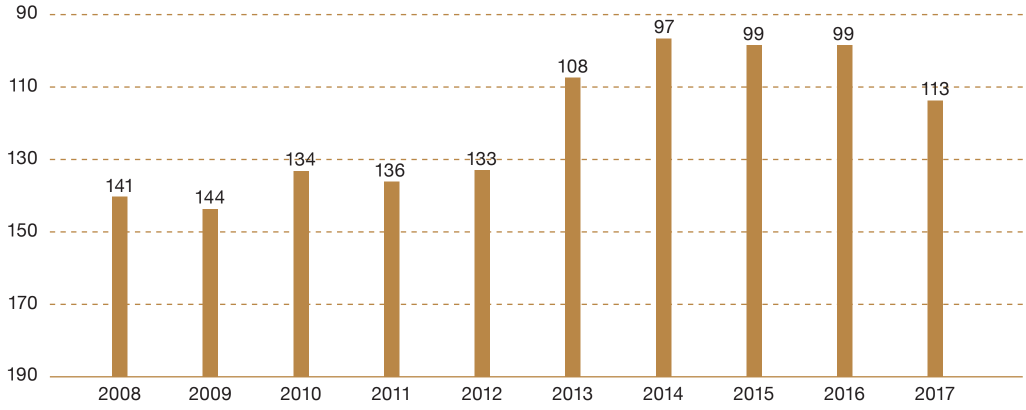
The plan is structured along the three pillars of *malasakit* (enhancing the social fabric), *pagbabago* (inequality-reducing transformation), and *patuloy na pag-unlad* (increasing growth potential). The government intends by 2022, "to lay down the foundation for inclusive growth, a high-trust and resilient society, and a globally-competitive knowledge economy".

The strategic outcomes sought by the government at the end of the first PDP will be:

- "Greater trust in public institutions and across all of society. Government will be people-centred, clean, and efficient. Administration of justice will be swift and fair. There will be greater awareness about and respect for the diversity of our cultures".
- "Greater economic opportunities, coming from the domestic market and the rest of the world. Access to these opportunities will be made easier. Special attention will be given to the disadvantaged subsectors and people groups".
- "More adoption of modern technology, especially for production. Innovation will be further encouraged, especially in keeping with the harmonized research and devel-

The 17 sustainable development goals (SDGs) are political objectives set by the United Nations (UN) with the aim of ensuring sustainable development economically, socially and ecologically. The goals were defined akin to the development process for the millennium development goals (MDGs) and took effect on 1 January 2016 for a period of 15 years (running until 2030). Unlike the MDGs, which were only for developing countries, the SDGs apply to all countries.

Ease of doing business in Philippines (ranking 190 countries)



opment agenda. And in order to accelerate economic growth even more in the succeeding Plan periods, interventions to manage population growth will be implemented and investments for human capital development will be increased".

As for quantitative and internationally-comparable measures of progress towards an environment for businesses – which are vital to create the prosperity upon which future economic development depends – the World Bank has been publishing its flagship "Doing Business" report every year since 2004.

As part of this study, project teams compile two measures for 10 indicators thought to influence the ease of doing business in a country. The first indicator is the Distance to Frontier Score, measured on a scale from 0 to 100, which quantifies the distance of the country's business environment to the best environment observed since 2005 ('the global best practice', which is given a score of 100). Second, using the distance to frontier scores, it calculates a ranking of scores among all participating countries.

Doing Business 2018 gave the Philippines a Distance to Frontier score of 58.74. This was marginally below the average for the East Asia and Pacific region and saw the country's rank slip 14 places to 113 amongst the 190 countries that are studied annually. In the ease of doing business indicators, the Philippines' ranked 173rd in starting a business, 101st in dealing with construction permits, 31st in getting electricity, 114th in registering property, 142nd in getting credit, 146th in protecting minority investors, 105th in paying taxes, 99th in trading across borders, 149th in enforcing contracts, and 59th in resolving insolvency. The World Bank noted that the Philippines improved its business regulations last year, but despite the continued reforms, small and medium-sized businesses still face significant regulatory challenges. It said there was still room for further improvements especially in the areas of enforcing contracts, protecting minority investors and starting a business.

According to Trade Secretary and National Competitiveness Council chair Ramon Lopez, the government is still aiming to reach the "top 20 percent" of 190 countries tracked by the World Bank before President Rodrigo Duterte ends his term in 2022. He told a Press Conference in November 2017 that, "It's an ambitious target but we will still try to do it… The higher you move up, the competition will get tougher. We have to push the score. Improving ease of doing business in the Philippines is an endeavour that involves the Executive, Legislative, and Judicial branches of government. It is a whole-of-government effort."

On May 28th 2018, President Rodrigo Duterte signed into law the "Ease of Doing Business and Efficient Government Service Delivery Act of 2018." The EODB-EGSDA Act, which amended the Anti-Red Tape Act of 2007, requires all Local Government Units to setup a Business One Stop Shop (BOSS) to facilitate business permits application. Apart from streamlining, the law also provides for the creation of a Central Business Portal that will receive and capture application data on business-related transactions. Trade and Industry Secretary Ramon Lopez said, "We realized that for the EODB reforms to be fully implemented and integrated, a whole-of-government approach was necessary. Thus in full support of the President's vision, Congress enacted a law that will make doing business in the Philippines easier and more importantly, create a more efficient government."

INFRASTRUCTURE

The planning, design, construction and maintenance of infrastructure facilities, especially national highways, flood control and water resources development systems in accordance with national development objectives is the responsibility the Department of Public Works and Highways (DPWH or Obras Publica), whose history stretches way back to 1868.

The Philippines' road system comprises about 215,000 km, of which about 15% are classified as national roads, thereby falling under the jurisdiction of the DPWH. The remaining 85% of the network is defined as local roads and falls under the jurisdiction of a variety of local government units. The national network has a total length of 31,035 km of concrete roads, 9,853 km of asphalt roads, 1,779 km of gravel roads, and 53 km of earth roads. According to DWPH's own figures in November 2017, only 41% of the roads were classified as good quality and 31% were fair with the balance either poor or bad. For local roads, only around 20% are classified as being in good or fair condition.

The Asian Development Bank notes that, "The extent of the road network in the Philippines, when measured in terms of road km per square km, road km per capita, and road km per dollar of GDP per capita, is comparable with or better than many neighbouring developing member countries. However, when the quality of the road system is considered – both in terms of the percentage of paved roads and the percentage of roads in good or fair condition – the Philippines lags well behind nearly all of its regional neighbours and competitors".

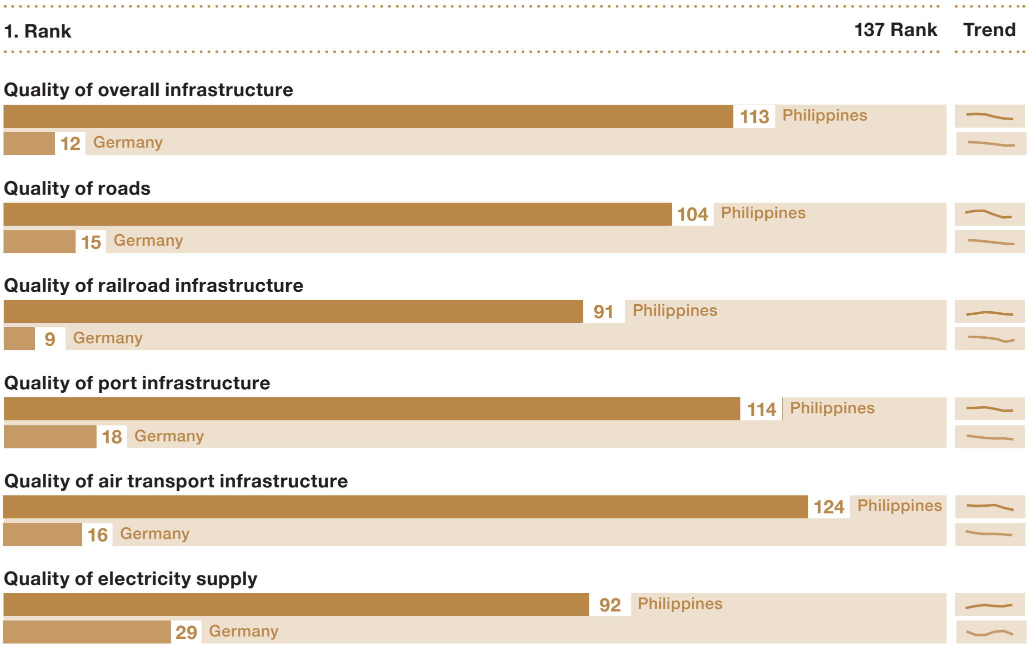
The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has recognized the Philippines as one of the most prepared Southeast Asian countries to carry out a massive infrastructure buildup program.

According to the ADB, "The major cause of the overall low quality of the road network is poor and inadequate maintenance. This is the result of (i) insufficient financial resources being made available for maintenance, and (ii) inadequate institutional capacity of agencies responsible for road maintenance… In addition to the low quality of the road network, the poor state of repair of much of the vehicle fleet and inadequate enforcement of traffic regulations are also major contributors to the unsatisfactory status of road transport in the Philippines."

The railway system consists of light rail transit (LRT) lines in Metro Manila and heavy rail lines in Luzon. The three LRT lines commenced operations in 1984, 1999, and 2003. Two lines known as the Yellow and Purple Lines are owned and operated by a government-owned corporation, the Light Rail Transit Authority (LRTA), while the third, Blue Line, was financed and constructed by a private corporation, the Metro Rapid Transit Corporation (MRTC), and is operated by the government under a build-lease-transfer agreement. The lines operated by the LRTA carry about 605,000 passengers along 31 km and between 31 stations each day, while the MRT line has 13 stations along 16.9 km and carries more than 600,000 passengers daily.

A limited number of heavy rail commuter services are operated by Philippine National Railways (PNR), serving areas to the south of Metro Manila. Other than these commuter services and some other services linking towns in the Bicol region, however, the heavy rail lines in the Philippines have been essentially non-operational for several years.

The Global Competitiveness Index for Infrastructure



Source: The Global Competitiveness Report 2017–2018, World Economic Forum

Note: Trend lines depict evolution in values since the 2012–2013 edition (or earliest edition available)

Inter-island water transport is a very important subsector of the national transport system. There are about 1,300 ports, of which about 1,000 are government-owned and the rest are privately owned and managed. Of the government-owned ports, about 140 fall under the jurisdiction of the Philippine Ports Authority (PPA) and the Cebu Ports Authority; the remainder are the responsibility of other government agencies or local government units. Inter-island shipping suffers from a poor reputation for safety, with an average of 160 maritime accidents annually. The causes of maritime accidents include human error; natural causes, such as typhoons, bad weather, and rough seas; lack of vessel traffic management; lack of navigational aids; and poor ship maintenance. The busiest port is the Port of Manila, especially the Manila International Cargo Terminal and the Eva Macapagal Port Terminal, both in the pier area of Manila.

In recent years, there has been significant development of roll-on roll-off (ro-ro) ferry services, which are aimed at providing an alternative to traditional long-distance inter-island shipping services. In 2003, the Government of the Philippines issued a policy to promote ro-ro: the Strong Republic Nautical Highway Program. This is composed of three major trunk lines: the western, eastern, and central nautical highways consisting of 12 main routes served by different shipping operators. This program has not only linked the country's major island groups of Luzon, Visayas, and Mindanao, but it has also had positive effects on the economies of the smaller islands along the major routes.

There are 215 airports in the Philippines, of which 84 are government-owned and controlled and the rest are privately owned and operated. Of the government-controlled airports, 10 are designated as international airports, 15 are Principal Class 1 airports, 19 are Principal Class 2 airports, and 40 are community airports. The Ninoy Aquino International Airport is currently the main gateway of the Philippines, serving the Metro Manila area and its surrounding regions. In 2017 it was the world's 44th busiest airport by passenger numbers with 42.02 million. A new terminal building is under construction at Clark International Airport which will bring its total capacity to 12.2 million passengers upon completion in 2020. Two more terminals are expected to be completed and be fully operational by 2025, boosting Clark's passenger capacity to more than 110 million annually.

Philippine Airlines (PAL) is the national flag carrier of the Philippines and was the first commercial airline in Asia. It is the country's biggest airline company and has the largest number of international flights to the Philippines as well as domestic flights. Cebu Pacific is the low fare leader in the country, and the leading domestic airline. It links Manila to

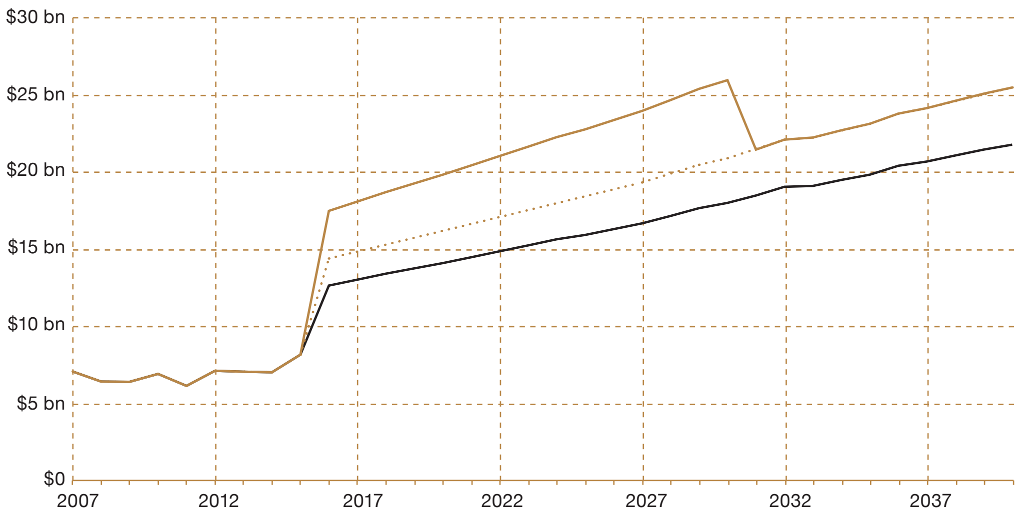
21 different domestic destinations in Philippines and to 39 international destinations with its direct flights.

The telecommunications industry in the Philippines was de-regulated in 1995, leading to the creation of many telecommunication service providers for mobile, fixed-line, internet and other services. Subsequent mergers and takeover activity have seen the emergence of two dominant players; PLDT and Globe, with market capitalisations of $6.4 billion and $4.4 billion respectively. The government has said it plans to announce the winner of an auction to become the country's third telecoms player in summer 2018. President Duterte has opened up the auction for foreign firms to participate, albeit as a minority partner working with a domestic firm. He extended an invitation to China in 2017 and Beijing has since given permission for China Telecom Corp Ltd to invest in the Philippines' telecoms sector although government officials have said there is no guarantee a bid involving a Chinese firm will be chosen.

As of 2017, more than 57,000,000 people used the internet in the country, accounting for 55% of the total population. It is estimated there are almost 70 million mobile phone users of which around 30.4 million are smartphones. The country's average fixed-internet speed is 15.2 megabits per second, below the global average of 40.7 Mbps while mobile internet speed is 13.5 Mbps, below the global average of 21.3 Mbps.

With 70 million internet users the Philippines is forecast by eMarketer to rank 10th worldwide by number of internet users in 2018 after being 13th in 2014.

Infrastructure investment at current trends and need (total across all sectors)



Investment need inc. SDGs · Investment need · Current trends

Sustainable Development Goals (SDGs): Includes the additional investment needed for countries that have not yet met the SDGs

INVESTMENT ESTIMATES FOR PHILIPPINES

$ 429 Billion
Investment current trends

$ 559 Billion
Investment needed

$ 131 Billion
Investment gap

ENERGY MARKET

Figures from the Department of Energy show that total installed power capacity in the Philippines currently amounts to just over 22,728 MW; a figure which has increased almost 50 per cent since 2005.

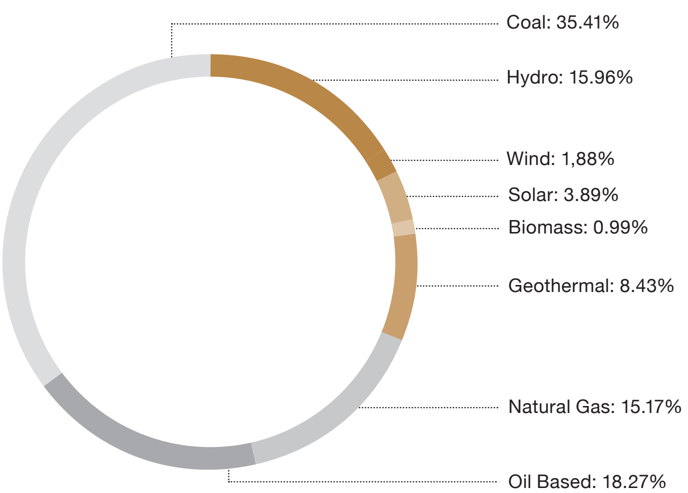
COAL: Coal and fossil fuels still account for more than three-quarters of all electricity supplied in the Philippines. Although the installed capacity of coal-fuelled power stations represents just 35% of the country's total, coal is used for almost 48% of all power actually generated and the Philippines has vast potential future coal resources. According to the Department of Energy, "our in-situ coal reserves amount to 470 million metric tons or 19.7% of the country's total coal resource potential of 2.39 billion metric tons". In the thirteen years from 2002, coal production more than quintupled to 8.17 million metric tonnes in 2015.

NATURAL GAS: Natural gas comprises almost 22% of the country's total power generation. In 1991, Shell Philippine Exploration B.V. and Oxy drilled the Malampaya gas field which became, so far, the largest gas discovery in the country with proven reserves of 2.7 to 3.2 trillion cubic metres of gas. The Malampaya gas field started its production in 2001 and as of end December 2017 has produced a total of 1.94 Tcf of gas and 75.0 million barrels of associated condensate. The natural gas from Malampaya provides clean fuel for five power plants in Batangas.

OIL-BASED: The installed capacity of 4,153 MW represents around 18% of the country's total. However, the increased cost of oil and a desire to reduce dependence on overseas suppliers (the Philippines is one of the world's top 10 importers of crude oil) mean that

Installed Capacity in year		Thermal (MW)			Renewable (MW)						Total (MW)
	Coal	Oil-based	Natural Gas	Sub-Total Thermal	Geo-thermal	Hydro	Wind	Biomass	Solar	Sub-Total Renewable	
2005	3,967	3,669	2,763	10,399	1,978	3,222	25	0	1	5,225	15,618
2007	4,213	3,616	2,834	10,663	1,958	3,293	25	0	1	5,276	15,940
2009	4,277	3,193	2,831	10,301	1,953	3,291	33	30	1	5,278	15,579
2011	4,917	2,994	2,861	10,772	1,783	3,491	33	83	1	5,307	16,079
2013	5,568	3,353	2,862	11,783	1,868	3,521	33	119	1	5,422	17,205
2015	5,963	3,610	2,862	12,435	1,917	3,600	427	221	165	5,945	18,380
2017	8,094	4,153	3,447	15,649	1,916	3,627	427	224	885	7,079	22,728

Installed capacity by source in the Philippines in 2017



diesel, oil thermal and combined cycle power generation amounts to just 4% of current power generation.

HYDROELECTRICITY: The Philippines is not short of water and there are many hydroelectric power plants located in Luzon, Visayas and Mindanao. Almost 16% of the country's installed power capacity comes from hydroelectricity and there are at least 30 operational plants with several more already under construction. According to the Department of Energy, hydro plants are classified based on their capacities. Micro-hydro: 1 to 100 kW; mini-hydro: 101 kW to 10 MW and large hydro: more than 10 MW. The total untapped hydropower resource potential of the country is estimated at 13,097 MW, of which 85% are considered large and small hydros (11,223 MW), 14% (1,847 MW) are classified as mini-hydros while less than 1% (27 MW) are considered micro-hydros. Almost all of the large hydro plants are connected to the main transmission grid, while most of mini and micro plants are embedded to the local distribution system.

GEOTHERMAL: According to the International Geothermal Association (IGA), the Philippines ranks second globally to the United States in producing geothermal energy. As of 2015, the US had a capacity of 3,450 megawatts of geothermal power, while that of the Philippines was 1,870 MW. Combined energy from the nation's six geothermal fields, located in the islands of Luzon, Leyte, Negros and Mindanao, accounts for approximately 8.4% of the country's installed generating capacity and around 10.3% of its total production as at end-December 2017.

WIND: Wind power accounts for less than 2% of total installed energy capacity, with 427 MW. All wind power sites in the Philippines are on-shore facilities and the 150 MW wind farm of the Energy Development Corp. (EDC) in Burgos, Ilocos Norte is the largest in Southeast Asia. According to a study by the US National Energy Laboratory, the Philippines has around 10,000 square kilometres of land area with good-to-excellent wind resources due to their elevation and proximity to coastline.

BIOENERGY: Bioenergy accounts for just 1% of power generation capacity, with 224 MW. The Philippines has plentiful supplies of biomass energy resources in the form of agricultural crop residues, forest residues, animal wastes and agro-industrial wastes. The Department of Environment and Natural Resources (DENR) says the Philippines could produce substantial volumes of residues which can be utilized as energy fuel.

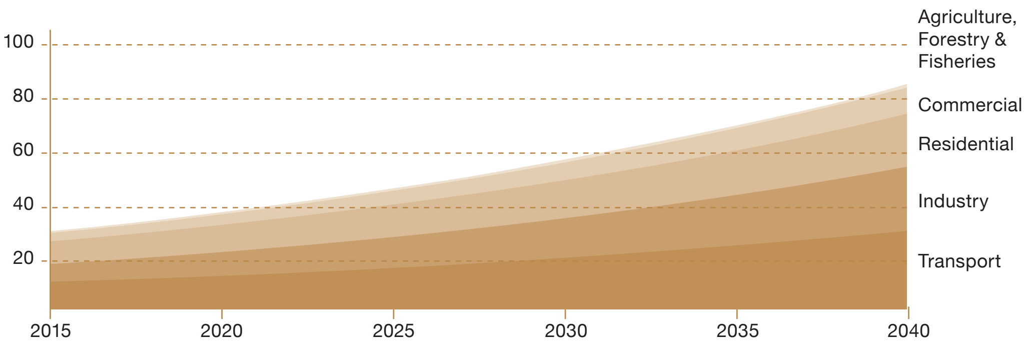
SOLAR: As at end-2017, the installed capacity of solar electricity was 885 MW, almost 4% of the total but more than five times than seen just two years' previously. The dramatic growth in solar energy is demonstrated by the fact that at December 2017 there were pending applications at the Department of Energy for a further 1,445 MW of installed capacity across Luzon, Visayas and Mindanao.

FUTURE ENERGY DEMAND & SUPPLY

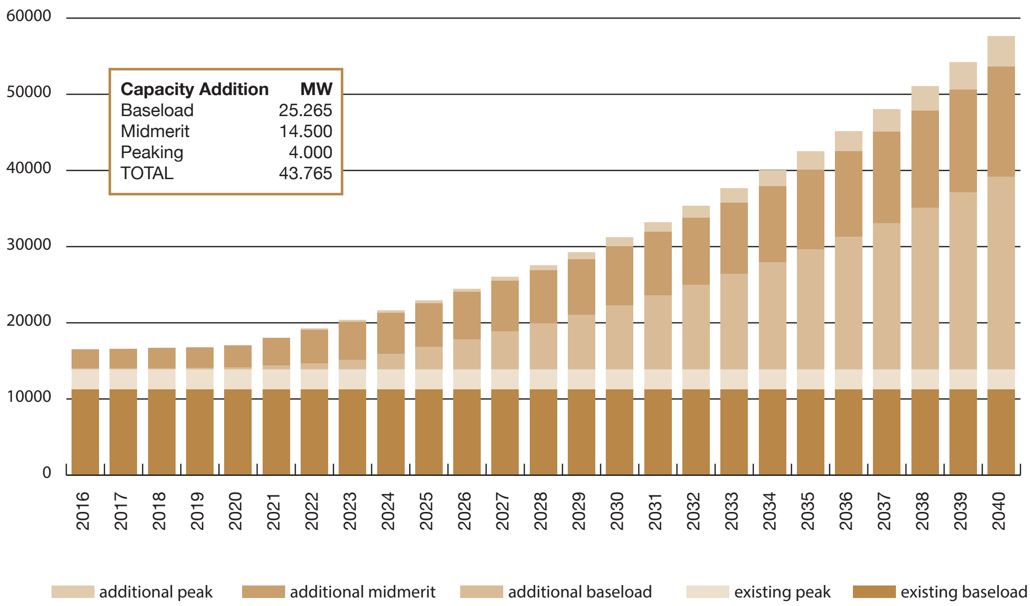
The Philippine government's energy plan 2017–2040 is aimed at securing resilient, reliable and reasonably priced energy supply to meet relentless demand from one of Asia's fastest growing economies. The country's total final energy consumption (TFEC) is expected to increase at an average rate of 4.2% annually, from 29.8 million tons of oil equivalent (MTOE) in 2015 to 54.9 MTOE in 2030 and then to more than 80 MTOE by 2040.

Although the transport sector's energy demand will be tapered down with the penetration of more efficient fuels, it will remain as the biggest energy consuming sector with a 35.6% average share across the entire planning horizon, and accounting for the bulk of the increase (38.1%) in TFEC levels between 2015 and 2030. The industry sector will exceed the level of residential sector demand as a second largest energy consumer in the near future, as the former takes a 26.6% share while the latter contributes an average

Total demand by sector in the Philippines (Million tons of oil equivalent)



Total electricity consumption by sector (High GDP Scenario: 8% GDP; 25% Reserve Requirement)



of 24.8% share to the TFEC. The commercial sector, as the major driver of the country's economic growth in the next 15 years, will hold an average share of 11.9%. On the other hand, the agriculture (including fishery and forestry) sector will remain the lowest energy user with 1.1% average share of the total energy demand.

Over this longer-term, the strong growth of the Philippines economy and its population will increase electricity demand significantly. Electricity will contribute an average of 22.1% share to the final energy demand across the entire planning horizon, making it the second-most consumed fuel after oil. Electricity consumption is projected to grow by an average of 5.7% annually over the entire period to 2040. From an existing peak demand of 13,390 MW in 2016 total demand is projected to rise to a peak of 49,287 MW in 2040, a fourfold increase. To meet this demand consistently, the DoE estimates there will need to be an additional 43,765 MW of capacity by 2040; equivalent to almost three times the total existing generating capacity.

Disaggregated by region, Luzon grid's peak demand by 2040 is expected to triple from 9,726 MW in 2016 to 29,852 MW by 2040. Given an average annual growth rate of 6.9%, the Visayas grid will need a total of 9,180 MW of additional capacity, whilst Mindanao will need an extra 10,200 MW.

Given the inexorable rise in electricity demand from a growing economy and a bigger, more prosperous population, the government also plans to connect the Mindanao grid with the interconnected Visayas and Luzon grids by 2020 to increase power supply reliability and resilience. This will also help support the planned 100% electrification of all targeted homes across the three major islands by 2022.

RENEWABLE ENERGY POLICY

The accelerated exploration and development of the renewable energy sector began with the enactment in 2008 of RA 9513 otherwise known as the Renewable Energy Act. This had the twin objectives of reducing dependence on fossil fuels, thus insulating the country's exposure to price fluctuation in the international markets, and increasing utilisation and development of renewable energy resources as tools in preventing harmful emissions.

To achieve the objectives of the REA, the Department of Energy together with its stakeholders headed by the National Renewable Energy Board (NREB) formulated the National Renewable Energy Plan (NREP) which summarised the 20-year aspirational targets from biomass, solar, wind, hydropower, geothermal and ocean energy. The DoE further released a Circular prescribing a policy of maintaining a fuel mix of at least 30-30-30-10 (coal, natural gas, renewables and others).

Although to European eyes a 30% target for renewables may appear high, the Philippines' share of renewables in the overall energy mix has historically been quite elevated. Indeed, it was around 38% in the mid-1990's and stood at 33% at the launch of NREP; mainly due to the impact of geothermal energy.

The NREP, which was launched in 2011, serves as the country's roadmap in the development and utilization of renewable energy. The targets under NREP were to triple the 2010 installed RE capacity of 5,398 MW to an estimated 15,304 MW by 2030 and to at least 20,000 MW by 2040. In achieving these targets, the Philippines would:

- Be the number one geothermal energy producer in the world (an additional 1,495 MW)
- Be the number one wind energy producer in South-East Asia (up to 2,500 MW)
- Double hydro capacity (an additional 5,400 MW)
- Expand contribution of
  – Biomass (265 MW)
  – Solar (at least 280 MW)
  – Ocean Energy (at least 10MW)

As of end-December 2017, the total installed capacity of RE had risen to 7,079 MW, an increase of 1,641 MW which is equivalent to just a 30 percent increase from the 2010 level. Compared to that 2010 baseline, by far the biggest increase in renewable energy has been seen in solar power – which has already exceeded its long-term target – although wind and biomass have both risen substantially, in actual and percentage terms. The Department of Energy currently has applications pending for a further 1,445.5 MW of solar generating capacity, and 99.8 MW of biomass, with pending hydro applications totalling 2,307 MW

In December 2017, the government passed a tax reform bill – the Tax Reform for Acceleration and Inclusion (TRAIN). This was designed to help finance what President Duterte called in his second State of the Nation address in

73%

Decreasing electricity generation costs in previous years have benefited photovoltaic power most of all. According to IRENA, photovoltaic power costs sank by 73 per cent worldwide between 2010 and 2017 whereas wind energy only decreased by a quarter. As a result, the two technologies are now both at the same level as fossil fuels in terms of electricity generation costs or are even cheaper.

Installed generating capacity in MW

	2010	2017	change	% change
Coal	4687	8049	3362	72
Oil based	3193	4153	960	30
Natural Gas	2861	3447	586	20
Renewable Energy	**5438**	**7079**	**1641**	**30**
Geothermal	1966	1916	-50	-3
Hydro	3400	3627	227	7
Wind	33	427	394	1194
Biomass	38	224	186	489
Solar	1	885	884	88400

July 2017, “a golden age of infrastructure” with total planned spending around $180 billion for roads, railways and airports to transform the Philippines’ economy. This has become known as the “Build, build, build” programme and will see infrastructure spending reach 7.3 percent of GDP by the end of the President’s term in 2022.

TRAIN’s key provisions included a rise in the excise tax on coal. This will increase incrementally by tenfold or 100 pesos a tonne by 2020. The Act also significantly raised excise taxes on automobiles, petroleum products, including diesel, gasoline and cooking gas, and hiked mining levies.

As well as raising revenues – almost $1.8bn in the first year – the tax reform also sends a signal about shifting priorities in energy policy. Given the scale of the increase in electricity power demand and the huge technological challenges around storage, the future energy mix will have to still rely heavily on the more traditional sources of generating capacity. Finance Secretary Carlos Dominguez described the tax bill as “the best gift the government can give to our people” and though this is obviously a political exaggeration, the increases in the duties on traditional fossil fuels should help to shape and define a fresh perception of energy priorities.

In February 2018, the Department of Finance (DOF) said it aims to construct four energy facilities that will ensure stable power supply at lower prices; ten water resource projects as well as irrigation systems that will raise agricultural output; five flood control facilities that will help protect vulnerable communities as well as boost their resilience against the impact of climate change; and three redevelopment programs that will deliver sustainable solutions to best meet the needs of the urban population.

Consistent with and aligned to the country’s long-term economic vision, the Department of Energy’s mission is, “to improve the quality of life of the Filipino by formulating and implementing policies and programs to ensure sustainable, stable, secure, sufficient, accessible and reasonably-priced energy.” Its vision is of, “a globally-competitive DoE powering up Filipino communities through clean, efficient, robust and sustainable energy systems that will create wealth, propel industries and transform the lives of men and women and the generations to come.”

It is the government’s clearly articulated economic and social vision which, along with President Duterte’s powerful desire for continued progress and reform, offers significant investment opportunities in the Philippines – one of the fastest growing countries in the whole of Asia.

Memberships and
voluntary commitments

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Sources: Republic of the Philippines, Department of Energy: Philippine Energy Plan 2017; Frankfurt School FS-UNEP Collaborating Centre: Global Trends in Renewable Investment Trends; The World Bank: The World Bank in the Philippines; www.britannica.com: Philippines; The World Bank: Philippines Economic Update: Investing in the future; The World Bank: Doing Business 2018, Philippines; International Energy Agency: Southeast Asia Energy Outlook 2017; Republic of the Philippines: Philippine Development Plan 2017-2022; Republic of the Philippines, Department of Public Works and Highways: National road length by classification, Nov. 2017; Asian Development Bank: Meeting Asia´s Infrastructure needs; Asian Development Bank: Transport Sector Asessment, Strategegy and Road Map; The Asia Foundation: To Realize Duterte's 'Golden Age of Infrastructure' in Philippines, Better Roads a Must; Republic of the Philippines, Department of Energy: Philippine Power Statistics 2017; Republic of the Philippines, Department of Energy: 3rd Renewable Energy Plans and Programs (2011-2030); Energy Policy and Development Program: Filipino 2040; Elsevier: The Philippines energy future and low-carbon development strategies; United Nations: Population Statistics; International Monetary Fund: World Economic Outlook Database, April 2018; International Energy Agency: Statistics, Electricity and Heat