



2016

ANNUAL MEETINGS

International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 22

October 7, 2016

Statement by the Hon. **CARLOS G. DOMINGUEZ**,
Governor of the Bank for **PHILIPPINES**

Statement by the Hon. Carlos G. Dominguez,
Governor of the Bank for Philippines

The Philippines now finds itself at an opportune moment. We have the hard work of previous political administrations to thank for that.

We have reduced debt to 45% of GDP. The lower debt service that entails allows us to free revenues to address crucial backlogs in infrastructure that hampered our economic growth.

We have achieved investment-grade credit ratings. That will help us shift from consumption- to investment-led growth. That shift will ensure our economic expansion will pace the rest of Asia.

We have brought down inflation to historically low levels. That gives us the elbow room to increase our deficit limit and pump prime our economy with public spending on modernizing our logistics backbone, improving education and public health care as well as raising the capacity of government.

The Philippines benefited immensely from the lower price regime for fossil fuels, as well as lower interest rates. Over the medium term, we intend to sustain a growth rate of 7% or better. That is the key to bringing down our poverty rate from 26% to only 17% by 2022.

The new administration that assumed office three months ago fully intends to do the difficult reforms ranging from upgrading law enforcement capabilities to modernizing our tax administration.

The new administration submitted to our Congress the first package of a tax reform initiative that seeks to lower the oppressive individual and corporate rates now prevailing. The revenue loss that goes with lowering rate, will be compensated for that with a broader tax base enabled by making our tax system fairer, simpler and more efficient.

A full 40% of public spending will be devoted to poverty reduction programs and investments in our human capital. That provides the context that allows us to call the tax reform package “pro-poor.” The more important “war” the Duterte administration is waging is that against poverty. It is a war we intend to win resoundingly.

Much of the volume of poverty plaguing the Philippines is due to uneven development of the many islands composing this archipelagic country. We have to open access to economic mainstream. We have to end the armed insurgencies that are most active in the regions that are poorest. They compound the challenge of poverty reduction. We are now seeking peace settlements with the armed insurgent groups. Peace will allow progress for the excluded among our people.

To properly disperse economic activity and reduce unevenness in our economic growth, we need to rapidly modernize the logistics backbone that will make our archipelagic economy more coherent. This means modernizing our ports and domestic shipping so that goods can flow most efficiently.

We intend to invest in improving agricultural productivity so that farm production ceases to be a poverty trap for millions and becomes an important driver for our overall economic growth. We will encourage individual farmers, cooperatives and agribusinesses to raise output per unit of land and water.

We will raise our deficit limit from 2% to 3% of GDP. Our strong fiscal position allows that. We expect massive investments in new infrastructures to produce substantial improvements in our economic performance. We expect to lead Asian growth in the next few years.

In the three decades since our bout with a debt crisis, the Philippines worked hard to put its house in order. We undertook the prescribed structural adjustments. We maintained exemplary fiscal discipline.

However, we also postponed spending on vital infra and on the poorest communities. That made our recent economic accomplishments less inclusive than what was necessary. Now with the beneficial conjuncture mentioned above, it is time to undertake the economic investments we long postponed. These investments will allow us to move to a higher growth plane and make the Philippines a regional economic leader instead of the region's laggard.

Now is the moment to break from the past of low growth. Now is the moment to do what past austerity programs prevented us from doing: investing in the young, building the bridges that will connect our communities, building up our energy supplies, improving domestic transport and mass transit in our cities, using information technologies to open new business opportunities.

This is the moment to achieve an economic breakthrough. Interest rates are at their lowest. Inflation rates are benign. We have millions of well trained young Filipinos entering the workforce over the next few years. Our economic fundamentals are at their strongest. Our banks are awash with funds.

We do not intend to shirk from the challenges of this vital conjuncture. As the mature industrial economies slow down, we intend to pick up the slack and contribute our fair share in driving growth for the global economy.

We have defined a 10-point economic agenda that is ambitious. It includes breaking the stranglehold of the oligarchy as we shift to investment-led growth. It includes rapidly improving our public health services as much as laying down the infrastructure that we need. This comprehensive agenda requires great political will to pursue. That factor, as most of you have become aware of over last three months, is abundant in the presidency of Rodrigo Roa Duterte.

The unprecedented political support President Duterte enjoys arms him with more than sufficient political capital to invest in profound reforms of government and the economy. That immense political capital will be deployed judiciously.

The equation complete and the benign conjuncture is rare. We are confident the Philippines will move forward quickly through the medium term. There is newfound optimism among our people. There is uncharacteristic determination on the part of our nation's leaders.

We are entering a period of vigor and vibrancy, of new opportunities and new challenges. We seek your support at this important turning point for our nation. Change has indeed come to our archipelago.

@ @ @