KPMG

*cutting through complexity*

# The Philippines

High Growth Markets country profile

The Philippines has the thirteenth largest population in the world and is one of the most westernized nations in Southeast Asia. The country is composed of 7,107 islands that are the highest portions of a partly submerged mountain chain. The economy has weathered global economic and financial downturns better than its regional peers, due to a number of factors: minimal exposure to troubled international securities; lower dependence on exports; relatively resilient domestic consumption; large remittances from four to five million overseas Filipino workers; and a rapidly expanding business process outsourcing industry. Real gross domestic product (GDP) is expected to grow by 6.8 percent in 2014, although this could be compromised by stronger than anticipated post-typhoon reconstruction investment. Economic expansion should average 5.9 percent a year between 2015–2018.

## Country overview

### Geography and climate

- **Location:** southeastern Asia; an archipelago between the Philippine Sea and the South China Sea, east of Vietnam
- **Climate:** tropical marine; northeast monsoon (November to April); southwest monsoon (May to October)
- **Regions:** 80 provinces and 39 chartered cities
- **Major cities:** Manila (11.45 million); Davao (1.48 million); Cebu City (0.85 million); Zamboanga (0.837 million) (2009)

### Political system

- **Type of government:** republic
- **Capital:** Manila

### Population, language and religion

- **Population:** 105.7 million
- **Urban population:** 48.8%
- **Demographics:** 0–14 years: 33.7%, 15–64 years: 60.5%, 65 years and over: 4.4%
- **Median annual household income:** 5,608 US dollars (US$)
- **Official language:** Filipino and English
- **Prominant religions:** Catholic, Muslim, Evangelical, Iglesia ni Cristo Christian

### Currency and central banking

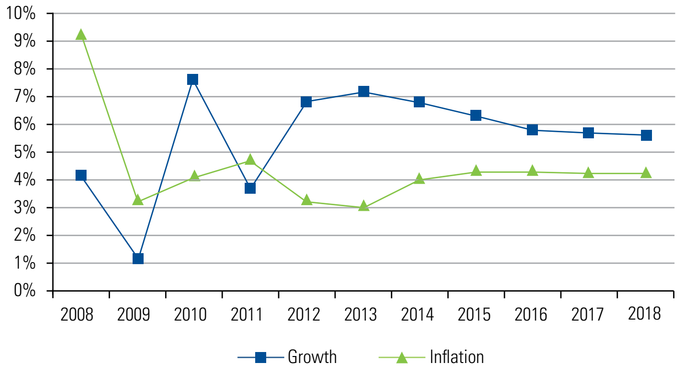
- **Local currency:** Philippine Peso (PHP)
- **Exchange rate:** 1 PHP = US$0.0223 (1 April 2014)
- **Interest rate (average annual rate):** 0.3% (2013); 1.5% (2012); 1.3% (2011); 3.5% (2010); 4.2% (2009)
- **Foreign exchange reserves:** US$85.04 billion
- **Total debt (2013):** external: US$72.81 billion; internal public debt: 50.2% of GDP (2013 estimate)

## Business environment

### Economic environment

- **GDP in 2013 was US$457.4 billion.** Real GDP is expected to grow by 6.8% in 2014. However, stronger than anticipated post-typhoon reconstruction investment could threaten this forecast. Economic expansion is expected to average 5.9% a year from 2015–2018. The median household income should increase to US$6,739 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$1.4 (2008); US$3.7 (2013); US$3.7 (2018 forecast); outbound: US$0.2 (2008); US$1.8 (2013); US$0.4 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$46.3 (2012); US$46.6 (2013); US$75.1 (2018 forecast)
- **Imports FOB (billions):** US$61.5 (2012); US$61.5 (2013); US$100.3 (2018 forecast)
- **Sector breakdown:** service: 57.8%; industrial: 31%; agriculture: 11.2%
- **Trade balance (billions):** deficit of US$15.2 (2012); US$14.9 (2013); US$25.2 (2018 forecast)
- **Stock exchanges:** PSE

**GDP growth and inflation (average consumer price index (CPI))**




Source: Economist Intelligence Unit, 2014

## Investment climate

### Key considerations

- **Fiscal and monetary policy:** The administration is tasked with improving public finances in 2014–2016. The quest for a balanced budget has been sidelined in a bid to improve public services, and consequently is targeting a budget deficit equivalent to 2 percent of GDP in 2014.
- **Competition policy:** The constitution prohibits monopolies, mergers or business combinations that restrain trade or create unfair competition. Congress has enacted laws to deregulate and dismantle monopolies in the domestic shipping, banking, telecommunications, power, and mining and downstream oil industries. Cartels are common, due to a limited domestic market. The Price Act allows the president to impose price controls on a list of basic commodities, to curb inflation or ease social tension. During 2014–2015, open access and free retail competition will be introduced in the electricity sector. Between 2016–2018, tax incentives should be rationalized. The disposal of state assets is set to continue.
- **FDI policy:** FDI levels in the Philippines are amongst the lowest in Southeast Asia. One of the main reasons for this failure is the Foreign Investment Act of 1991, which limits foreign equity in companies from certain sectors. Nevertheless, FDI has increased consistently in recent years, thanks to a reformist government that is intent on eradicating large-scale corruption and maintaining fiscal discipline. Such advances are making the Philippines a more attractive place in which to do business.
- **Foreign trade and exchange controls:** With a highly literate labor force and favorable strategic location, the Philippines offer a sound, medium-cost manufacturing base for exporting companies. Special economic zones use various tax and non-tax incentives to attract export enterprises. Certain items cannot be imported or exported without clearance from government agencies. The central bank (Bangko Sentral ng Pilipinas) has steadily liberalized further foreign exchange regulations, following the easing of restrictions. The liberal exchange rate regime is due to be maintained in 2014–2015, but domestic political pressures are likely to limit tariff reduction to existing commitments under the Association of South East Asian Nations (ASEAN) Free-Trade Area. In 2016–2018, the tariff-cutting program should continue, but political pressures mean that some areas may liberalize faster than others.
- **Financing policy:** Improved capital adequacy ratios and deposits during 2014–2015 should support the stability of the banking sector. Between 2016–2018, the trend of bank consolidation and mergers is likely to continue.
- **Taxes:** Attractive tax incentives are available for qualified foreign investors, especially for international companies that establish regional headquarters in the Philippines. Domestic companies are subject to a 30 percent tax rate on income derived from all sources inside and outside the Philippines. The same rate applies to resident foreign corporations, including branches. The tax rate for non-resident foreign companies is 30 percent of gross income received during each taxable year from all sources within the Philippines. Net capital gains from the sale of shares of domestic corporations not traded on the stock exchange are subject to a 5 percent or 10 percent tax rate. Interest earnings in the Philippines are classified as passive income and are subject to a uniform final withholding tax of 20 percent. A 20 percent withholding tax applies to royalties and fees paid to resident foreign corporations. Excise duties on alcohol and tobacco were inflation-indexed in January 2013, adding to upward price pressures. The government hopes to avoid raising other tax rates, but is expected to clamp down on tax evasion. 2016–2018 should witness renewed efforts to increase tax revenue, given the declining stock of government assets available for sale.

## KPMG in the Philippines

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In the Philippines, KPMG has approximately 900 professionals and five offices.

KPMG in the Philippines aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

**For more information, please visit the KPMG in the Philippines website: kpmg.com/ph/en**

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Philippine Stock Exchange, 2014





Designed by Evalueserve. Publication name: The Philippines: High Growth Markets country profile
Publication number: 130913u. Publication date: June 2014