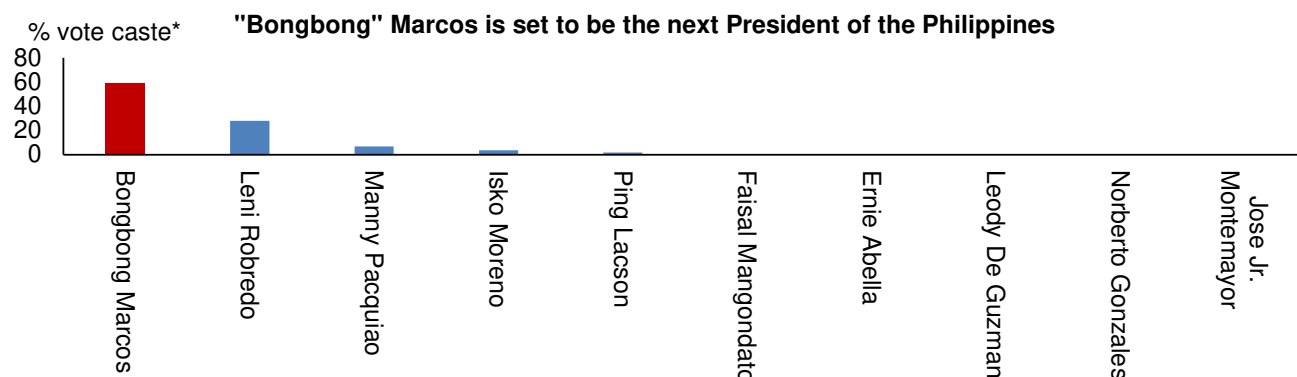


Philippines Elections III: “Bongbong” Marcos to Be President

In a nutshell: “Bongbong” Marcos is set to be the next President of the Philippines along-side his Vice President and running mate Sara Duterte. Marcos’ legacy and lineage have caused concerns among investors and looking ahead, while our base case is for policy continuity under the new Marcos administration, we will look for certain signposts, or potentially red flags, against which we will assess our baseline. These include the promise to continue focussing on infrastructure spending, the administrations’ stance on fiscal consolidation and debt management, the independence accorded to BSP and the new cabinet appointees for key economic management positions.

“Bongbong” Marcos & Sara Duterte Set to Assume Posts of President and Vice President

“Bongbong” Marcos is set to be the next President of the Philippines. According to the partial, unofficial count released by the Election Commission (Comelec), Marcos has garnered 58.8% of the total votes cast, blazing ahead of the closest competitor Leni Roberdo, who has 28% of the vote. **Given “Bongbong” Marcos’ family lineage and the baggage that it carries, the initial negative market reaction was not surprising.** USD/PHP moved higher while the equity index sold off more than 3%. Following the knee-jerk reaction, however, both FX and equity regained some lost ground.

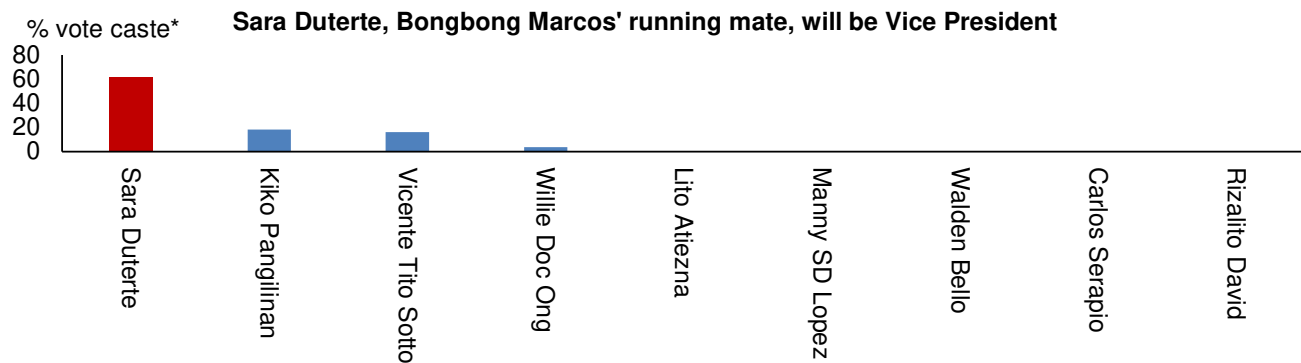


*Calculated by Mizuho Bank by adding total votes for candidate and providing a vote share of total.

Source: ABS-CBN News. Note: These are partial, unofficial results aggregates from Comelec data as of 10 May, 10:47am with 97% of election returns.

Meanwhile, the path is clear for Sara Duterte to be the next Vice President. She has secured an overwhelming 61% of the votes cast, leaving her competition far behind. She is “Bongbong” Marcos’ running mate and her win sets up for a team victory for the President and Vice President posts. This is in contrast to the current administration where VP Leni Robredo was in the opposition and largely side-lined. Although the VP

post is largely ceremonial in nature, Sara Duterte holding the post marks some sense of policy continuity from her father's current government. **The new President and Vice President will be sworn in on 30 June.**



*Calculated by Mizuho Bank by adding total votes for candidate and providing a vote share of total.

Source: ABS-CBN News. Note: These are partial, unofficial results aggregates from Comelec data as of 10 May, 10:47am with 97% of election returns.

Signposts & Red Flags

With the election being fought on emotional grounds, economic policy was largely relegated to the side lines. Our baseline is for policy continuity under a Marcos Presidency as the Philippines economy navigates its way out of the pandemic and into its 'new normal'. As such, we maintain our 2022 GDP growth forecast of 6% from 5.7% in 2021.

That said, we list the signposts, which could potentially become red flags, that we will look for with the new administration to assess our view against the baseline:

Infrastructure focus: The Marcos-Duterte duo made clear during the campaign trail that it will continue the current administration's **focus on infrastructure development and poverty alleviation, with renewed rigour around MSME development to create new employment opportunities** and ease pandemic related scars. We expect this focus will sustain into the Marcos Presidency.

Fiscal stance and debt management: The incoming administration's **stance on fiscal consolidation and debt management is unclear** and here will watch for signposts and red flags in terms of judging the direction of policy. During the Presidential campaign, **Marcos sent mixed signals:** on the one hand, stating that debt levels will need to be brought down given its sharp increase during the pandemic while on the other hand, mentioning the possibility of re-introducing fuel subsidies. **The 2023 Budget, which will be first budget to be presented under the new administration, likely in August, will set the tone in this regard.**

BSP Staying the course: **Even with political change afoot, we expect BSP will not deviate from its stated path of policy normalisation.** Recently, BSP Governor Diokno indicated that he would consider raising rates

at the June meeting if Q1 GDP growth (to be released on 12 May) held up well. Given our expectations for a relatively robust recovery, we expect rate hikes could commence as early as May.

Growth-inflation dynamics, with inflation consistently breaching BSP's 2-4% headline inflation target range in recent months, mandates BSP to act in a manner that will contain inflationary pressures and preserve its credibility. The latter will be important as EM Asia central banks are set to face increased portfolio outflow pressures as the US Fed tightens monetary policy aggressively, with the USD liquidity drain peaking in Q3. Moreover, for BSP to lean against US Fed tightening and subsequent USD strength will prove futile and hence, tightening policy will be the most effective path for it to steer. Finally, **it would be in the new administrations' interest to maintain central bank independence as it enables better management of currency and macro stability risks.**

Cabinet appointees: **The appointment of positions in the new cabinet will be watched closely.** Appointments of technocrats to post such as Finance Secretary, Budget Secretary and NEDA Chief will lend credibility to the economic policy making apparatus. The risk is that these appointees appear less qualified for their roles diminishing confidence in the new administration.

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