Mizuho Flash: Philippines

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Philippines: Taking Stock of the 2022 Presidential Election (II)

*In a nutshell: The Philippines election is set on the 9 May. Among a large spread of candidates, Bongbong Marcus and Sara Duterte remain in the lead for the President and Vice-President respectively. The various President-Vice President pairings have brought up complementarity such as the Bongbong-Duterte **North-South support base strategy** among others. Despite Bongbong Marcos' lead in opinion polls, current Vice President Leni Robredo's candidacy is still likely to be viewed favourably by markets. While spending plans are touted in abundance, **fiscal consolidation attitudes have ranged from Bongbong's comparison to other countries with 100% of debt-GDP ratios, Manny Pacquiao's proposals to raise non-tax revenues through higher dividends of SOEs to Leni Robredo's institutional quality and labour market focus to raise revenues**. In turn, these directions would feed into Philippines credit outlook and borrowing cost which continues to be **vulnerable to rising oil prices**. The higher oil prices translate to worsening **twin deficits** as current account worsens alongside **fiscal pressures for more fuel subsidies**. These deficits feed into a **weakening PHP** which exacerbates **inflationary pressures**. The BSP will have their hands full with undivided attention onto these **worrying inflation-PHP-growth dynamics**, rather than being tied to the political winds.*

The Spread

With the finalisation of the election candidate list by the Comelec (Philippines Commission on Elections), a total of 10 candidates (out of 97 filings) will be running for the position of president in the Philippines which is the highest number of candidates since 2010. Current Vice president Leni Robredo will be the only female candidate running for the Presidential post.

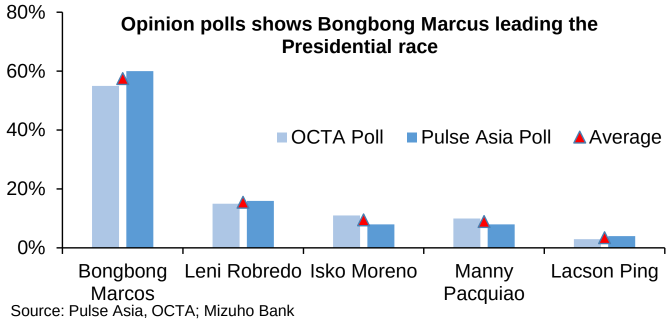
Meanwhile, voters in the Philippines will also be **separately electing their Vice President** from a total of 9 candidates. Davao City mayor, Sara Duterte, daughter of current President will be the only female candidate vying for Vice President.

While voters choose the both posts of President and Vice President separately, candidates have traditionally form **formidable partnerships to bolster their election prospects**. Therefore, it is more apt to examine the election through various pairings rather than standalone candidates. The **risks of separate voting also entail the outcome of President and Vice-President from different political parties which is the case with the current government.**

The Front Runners

Table of Selected Pairs of Candidates

	Presidential Candidate	VP Running Mate
1	Bongbong Marcos	Sara Duterte
2	Leni Robredo	Francis Pangilinan
3	Manny Pacquiao	Lito Atienza
4	Isko Moreno	Willie Ong
5	Lacson Ping	Tito Sotto



Source: Pulse Asia, OCTA; Mizuho Bank

According to various opinion polls, Bongbong Macros has retained a huge lead over his rivals. Hailing as son of former President Ferdinand Macros, Bongbong Macros is undoubtedly a political heavyweight with financial clout. These will certainly matter in the Philippines election where political dynasties have traditionally featured prominently. More importantly, his **partnership with Sara Duterte is seen as**

highly complementary as Macros family stronghold bases lie in the North while Sara Duterte's family support base resides in the South.

Meanwhile, Leni Robredo who is the current vice President and is without a cabinet post due to on-going tussle with President Duterte as she remains a critic of the drug war, remains quite far behind in the 2022 Presidential race. Her vice presidential candidate, Francis Pangilinan, current Senator and career public servant, currently lies in third place for opinion polls behind Sara Duterte and Tito Sotto.

The Dark Horses

The dark horses for the Presidential race are Manny Pacquiao, former boxing champion and current Senator, and Isko Moreno who is the current Manila city mayor.

In the fight for presidency, Manny Pacquiao will be relying on his reputation as a world champion in the boxing ring. While the lack of a statesman demeanour has been seen as a disadvantage, the pride and joy he has brought to the Philippines man with his boxing achievements should not be underestimated. His rags to riches story may also strike a chord with the electorate. To complement his lack of political experience, Manny Pacquiao chose House Deputy Speaker and former Manila Mayor, Lito Atienza who has a 50-year political career. With architecture background, the vice Presidential candidate's achievements having been related to housing programs and revamp of public infrastructure.

The other dark horse in this race is Isko Moreno who has 2 decades of public service experience and has sought out current President Duterte's endorsement (as he has yet to endorse anyone). Notably, in 2016, when he lost in the race for the Senate, President Duterte appointed him as Chairman of the North Luzon Railway Corporation. His running mate is Dr Willie Ong, whose strength lies in the medical field and he has generally deferred to Moreno's proposals when quizzed on other policies.

Economic Policies and Market Perceptions

While the elections are not won on economic policies, investor and business interests will continue to look out for policy continuity or pivots. **Focus will be on general directions and leanings of candidates towards specific sectors of the economy** rather than detailed policy proposals which are not usually a key feature of election campaigns. For the Philippines, it is these directions which remain key as **fiscal sustainability, institutional quality and infrastructure development** continue to underpin potential growth.

Marcos-Sara: Known as the UniTeam, they have espoused for a **continuation and improvement of the current administration's infrastructure** program. They have added emphasis on the need for digital and power infrastructure enhancements. Sara Duterte has also promised to continue the campaign against illegal drugs.

On taxes, Bong Bong Marcos has previously called for a suspension of excise tax on petrol to curb inflationary pressures. The **picture for fiscal consolidation remains cloudy** at this moment as Marco Bong Bong has compared the Philippines debt to GDP ratio as being better than those in other countries with over a 100% ratio.

The pair's absence at CNN Philippines Presidential debates while Bong Bong Marcos joins his first debate linked to televangelist on the FBI's wanted list may not lend themselves favourably in the perception of foreign investors.

Leni Robredo-Francis: Undoubtedly Leni Robredo is **widely perceived as market friendly** with a well-articulated stateswoman-like persona and has presented her policy views via several forums. With her time as the vice-President, she has built on her brand of good governance as a clean office holder through anti-poverty programs.

On corruption issues, she is in favour of a full disclosure bill which all government expenses are made available to the public. On business, she continues to champion for Private Public Partnerships with focus on **sectors such as water resources and public transport**. On the environmental aspect, she leans towards responsible mining and intends to **nullifying** Duterte's lifting of a 9-year moratorium on the **issuance of new mining permits. On fiscal consolidation,** while acknowledging the high debt to GDP ratio as a lack of "elbow room", Leni Robredo's **response relies on an improvement of institutional quality and improving local business and in turn generate higher investments and tax collections.**

Meanwhile, running mate Francis Pangilinan has opted to focus on **food security** and farmer's livelihood and has solid experience in enacting laws helping poor farmers.

Table 1: Brief Summary of Key Fiscal Stance

	Tax Policies/ Revenue Collection	Stance
Bongbong Marcos	Tax holidays for micro, small entreprises Suspension of Excise Taxes on Oil Products	Dismissive of Debt-GDP Issues
Leni Robredo	Fixing institutions Raise employment to improve collections	Acknowledged High Debt Issue
Manny Pacquiao	Cuts in corporate and personal income taxes, Raise Non-Tax Revenues from SOEs	Displays Debt Aversion with caveat of allowing "good debt"
Isko Moreno	50% Excise Tax Reduction on fuel excise tax Cut Unnecessary Expenses	Use Loan Progammes of Local Banks for project partnerships
Lacson Ping	Revert Budget to Obligation instead of Cash based Zero-Budgeting Approach	Fiscal reform focus of "pork barrel" funds

Sources: Philstar, Inquirer, Rappler, Mizuho Bank

Credit Ratings – Fiscal Stance and the Mandanas Ruling

Table 2: Credit Ratings

	S&P	Fitch	Moody's
2011	**BB**	**BB+**	**Ba2**
2012	**BB+**	**BB+**	**Ba1**
2013	**BBB-**	**BBB-**	**Baa3**
2014	**BBB-**	**BBB-**	**Baa2**
2015	**BBB**	**BBB-**	**Baa2**
2016	**BBB**	**BBB-**	**Baa2**
2017	**BBB**	**BBB**	**Baa2**
2018	**BBB**	**BBB**	**Baa2**
2019	**BBB+**	**BBB**	**Baa2**
2020	**BBB+**	**BBB**	**Baa2**
2021	**BBB+**	**BBB**	**Baa2**
Outlook	**Stable**	**Negative**	**Stable**
Last Credit Analysis	**2021 May**	**2022 Feb**	**2021 March**

Source: S&P, Moody's, Fitch, Mizuho Bank

On credit ratings which affects sovereign borrowing costs, major ratings agencies will be set to focus on **fiscal consolidation approach of the new administration** given the **high levels of debt due to the pandemic spending** while noting that GDP recovery is still uneven. With spending proposals in abundance, the focus turns to revenue sources and inclinations. Table 1 shows a brief summary of key fiscal stance of candidates thus far. At this juncture, while drastic fiscal policy pivots from the current administration by any of the incoming slate is not expected, **gradual fiscal slippages over the next 1-2 years remain a risk to a downgrade in credit outlook.**

In addition, the **implementation of Mandanas ruling** which mandates increased transfers by the central government to the local government units will also be of interest. The increase transfer of revenue also comes with the devolving of programs and projects to local government. For one, the increase transfers could lead to slower spending amid execution lags and the resulting under-spending may impede growth. On the other hand, being nearer to the ground may serve to reap efficiency in spending. The key risk lies in the **assumption of fiscal neutrality** as a result of the implementation of this ruling.

On balance, credit ratings agencies have afforded many countries much debt room within their ratings as a result of the pandemic thus far, but looking ahead fiscal consolidation will be key to maintaining these ratings as this **pandemic leeway increasingly tighten**. In the next 12 months, as we do not expect more than a **one notch downgrade** unless fiscal considerations pivot drastically with the new administration, the Philippines debt rating is still likely to **remain within investment grade**.

The Oil Catalyst

Current surge in oil prices will threaten to thwart attempts at fiscal consolidation by the new administration or even worsen the state of finances to a more vulnerable state when the new administration takes over. For one, the Philippines remains a substantial net importer of oil, higher oil prices have already led to a **worsening trade deficit** in recent months and will be exacerbated by the recent escalation in oil prices as the geo-political situation persist.

To relief the pain of higher oil prices, the Philippines authorities are faced with a **transfer of risks onto the fiscal account.** Fuel subsidies costing up to P2.5billion are set to be given out soon as vouchers to public utility operators. While current politicians (and aspiring Presidential candidates) have called for a suspension of fuel excise tax, the Finance ministry has warned of the drastic loss of revenue P147billion (~0.5% of GDP) which indeed warrants concerns on multiple fronts as it may push towards a higher debt to GDP ratio. **The deteriorating fiscal position may feed into a downgrade of credit outlook and feedback via higher borrowing cost and in turn destabilising macroeconomic dynamics. However, we acknowledge not all downgrades are equal, with a 2 notch buffer above investment grade, the sovereign rating is likely to remain within the investment grade realm and not result in excessive escalation of borrowing costs.**

The BSP and PHP

In any case, the BSP will not be swayed by the incoming administration as Governor Diokno continues to be wary of the inflationary pressures amid an unfortunate feedback mechanism between ascending oil price and a weakening peso. The **higher oil prices which heightens twin deficit risks on one hand and also adds to inflationary pressures which weakens real policy rate differentials with the US.**

In turn, the consequent depreciation of the PHP then aggravates the problem of imported inflation and hurting growth. The BSP will have their hands full with undivided attention onto these worrying inflation-PHP-growth dynamics, rather than being tied to the political winds.

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