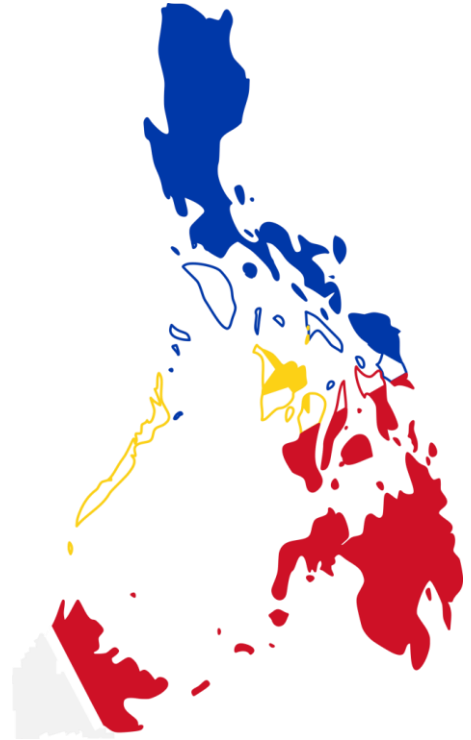


Philippine Constructors Association Inc.,

Country Report



MACROECONOMIC OVERVIEW

The second semester of 2016 saw a sustained growth momentum in the Philippine economy. The real gross domestic product (GDP) of the country further accelerated to 7.0 % in the second quarter of the year, beating market expectations of 6.6 % and the previous three months' growth rate of 6.8 %. No longer the "sick man of Asia", the Philippines retained its title as the fastest growing economy in the region by expanding by 6.9 % in the first six months of 2016. This is greater than the 5.5 % expansion in the second semester of 2015.



Graph 1. Philippine GDP Growth
2016- Preliminary GDP Growth (2Q 2016)

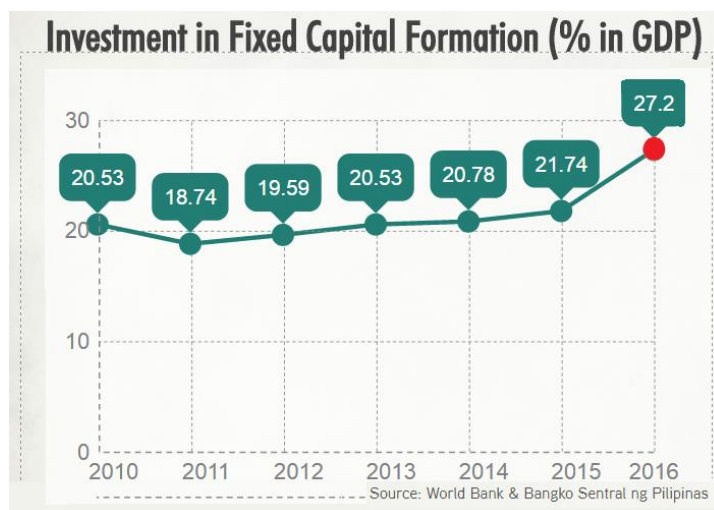
MACROECONOMIC CONTRIBUTORS

1. THE CURRENT MACROECONOMIC POLICIES ARE RETAINED

Although the election of Rodrigo Roa Duterte as the 16th Philippine President earlier raised investment risks and political hazards, present record shows that the new administration achieved an upbeat start on their six-year term. The administration decided to retain the macroeconomic policies established by the previous Aquino administration which have helped greatly in achieving a healthy economy.

2. BULLISH INVESTMENTS (Q2 2016)

Investment in Fixed Capital Formation which includes land improvements; plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings soared by 27.2% in the second quarter of 2016 from 12.7% during the same period last year. (See Graph 2.)



Graph 2. Investment in Fixed Capital Formation
2016- As of Q2 2016)

Meanwhile, Investments in Capital Formation for Durable Equipment increased to its highest growth of 42.8% in the first six month of 2016 from the 13.8% recorded in the same period last year. (See Graph 3)

Similarly, investment pledges approved by the Board of Investments (BOI) in the first nine months ending September 2016 soared 49% year-on-year to P286.44 billion.

3. GOV'T MAINTAINS LOW INTEREST RATES AND MANAGEABLE INFLATION RATES

Driving in more investors, the Philippine central bank (Bangko Sentral ng Pilipinas) maintained its key policy rates for overnight borrowing at 3.0% since last year. The favourable inflation environment, solid household spending and robust domestic demand have helped in maintaining this interest rate.

Meanwhile, a slight upward movement is observed in the prices of goods and services this September. From the previous month's 1.8%, inflation accelerated to 2.3%. (See Graph 4) All the more, it remained manageable and within the government's inflation target range of 3.0 percentage point (ppt) for this year.



Graph 3. Inflation Rate 2010-2016
- As of September 2016

4. LABOR MARKET IMPROVES AS UNEMPLOYMENT RATE DROPS

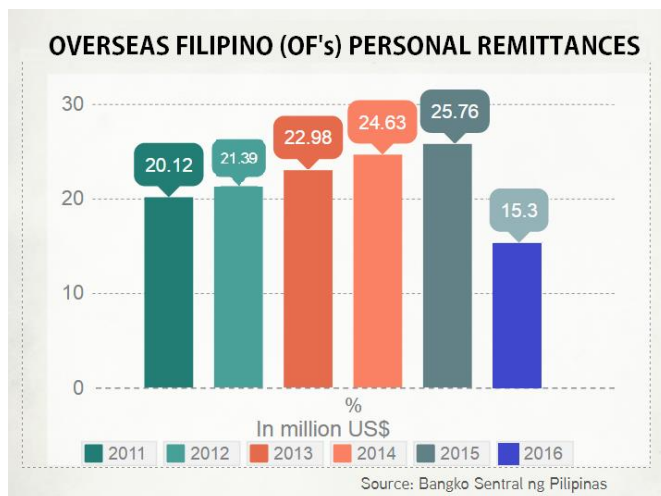


Graph 4. Unemployment Rate 2011-2016
2016- Preliminary result as of July 2016

As the economy sustained its growth momentum, a more improved labor market is witnessed in the country. Both rates in unemployment and underemployment dropped considerably on the first half of the year, this is according to the preliminary results of the 2016 Labor Force Survey administered by the Philippine Statistics Authority.

Employment rate augmented by 94.6% to reach 41.0 million employed persons. Consequently, unemployment rate further decelerated to 5.4% against the 6.5% recorded in the same period last year. (Refer to Graph 4) Similarly, underemployment dropped to 17.3% from 21% last year.

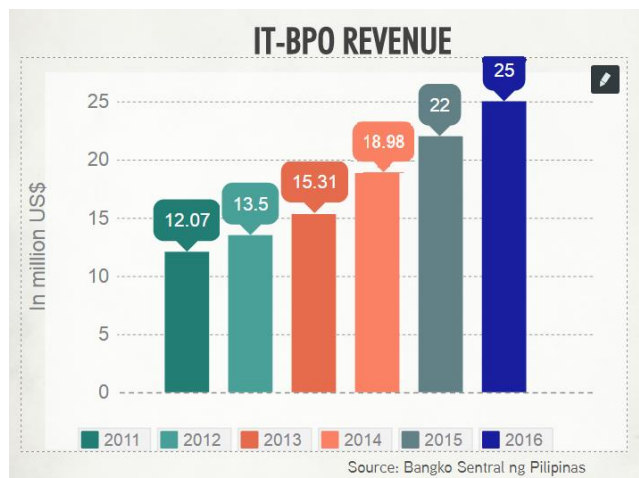
5. Overseas Filipinos (OF's) Remittances remains stable



Graph 5. Overseas Filipino's Remittances
2016- Preliminary (January-July 2016)

Still the leading source of dollar income of the country, personal remittances from the Overseas Filipinos (OFs) have soared by 2.9 percent year-on-year during the first seven months of the year to reach US\$16.9-billion. Furthermore, cash remittances from OF's rose by 3.0 percent year-on-year to US\$ 15.3-billion for the period of January to July 2016.

5. IT and BPO Industry still thrives because of the rich Filipino talent pool



Graph 6.IT-BPO Revenue
2016- Projection

Another reason for the economic growth of the Philippines is that it has retained its status as one of the most popular IT-BPO location in the world. This is mainly because of the vast talented Filipino workforce as well as the affordable office rental rates in the country. In a research released by a leading global managing consulting firm (A.T. Kearney) entitled 2016 Global Services Location Index, the country ranked 7th among 55 countries for outsourcing worldwide.

Projected to reach \$25-billion revenue for this year, this industry continues to thrive as the second largest dollar income source of the country.

Policies for a Competitive Philippines

- Philippine Competition Act (R.A. 10667) –this act prohibits anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions. It aims to enhance economic efficiency and prevents economic concentration.
- Philippine Co-Loading Act (R.A. 10668) – aims to cut logistic costs and allow foreign vessels to dock at Philippine ports as well as co-load import and export cargoes approved by the Bureau of Customs.
- Ease of Doing Business (EoDB) Gameplan for Competitiveness- conducts of activities that help improve the ease of doing business (EODB) in the country, particularly for 10 specific processes: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.
- Cities and Municipalities Competitive Index (CMCI)- an annual ranking of Philippine cities and municipalities developed by the National Competitiveness Council to measure

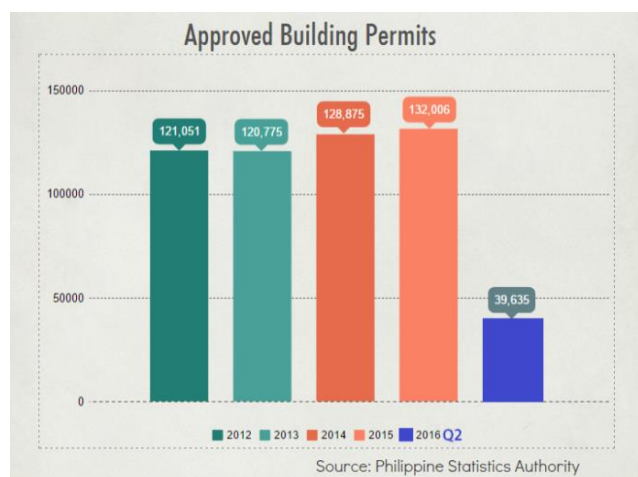
CONSTRUCTION SECTOR REMAINS UPBEAT IN Q2 2016

- Growth in the construction industry remains upbeat at an 11% rate in the second quarter of 2016.



Graph 7. Construction Annual Growth
2016- As of Q2 2016)

- Public Construction*, which accounted for 32.9% of total construction, boosted the growth of the sector with 27.9% from 20.7% in the same period of 2015. On the other hand, private construction grew by, although at a slower pace, 8.3% in the second quarter from 11.9% in the same period last year.
- Total value of construction* amounted to PHP116.9 billion (2.41 Billion US\$) in Q2 2016, a surge of 48.0 % compared with the PHP79.0 billion (1.63 Billion USD) recorded during the same period last year.
- Total number of constructions* in the second quarter of 2016 reached 39,635, a 20.2 % surge from the 32,974 constructions recorded during the same period in 2015. (Data based on the total number of approved building permits.

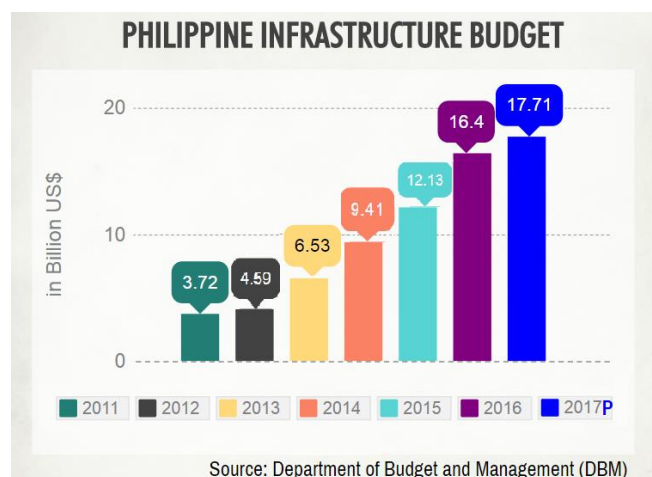


Graph 8. Approved Building Permits
2016- Approved Building Permits as of Q2 2016)

- Meanwhile, the *Wholesale Prices of Construction Materials* in National Capital Region (NCR) generally increased by 0.1 % in September 2016. This is according to the most recent data released by the Philippine Statistics Authority (PSA). The indices of fuels and lubricants gained 0.6 percent and; sand and gravel, 0.1 percent. Cement, on the other hand gained a slower increment of 0.1 percent. All the other commodity groups registered a flat growth during the month.

The Golden Age of Public Infrastructure

Aside from waging war on drugs, the Duterte administration has also waged war on the infrastructure gap in the country by pronouncing that they will make their term the "golden age of public infrastructure." To achieve this, the government will raise its deficit spending from 2 percent to 3 percent of the GDP. This would amount to 478.1 billion pesos (\$10.3 billion) and is almost four times the 121.7 billion peso deficit recorded in 2015.



Graph 9. Philippine Infrastructure Budget
2017- Proposed Budget

Infrastructure outlay this year was set by the government at P575.67 billion equivalent to 4.3 percent of GDP, rising to P756.44 billion or 5.1 percent of GDP next year.

Government Infrastructure Program: BUILD, BUILD, BUILD

In an article published in the government's official media center, the Philippine Information Agency, it was revealed that Duterte's infrastructure spending on its first year of presidency will represent 5.4 percent of the country's Gross Domestic Product and will be the highest since the Marcos era.

Moreover, it should be noted that from 2011 to 2016, the government through the National Economic and Development Authority (NEDA) Board, approved a total of 94 infrastructure projects. 57 of these are transportation-related, 25 are water resource-related, seven are social infrastructure projects, three are ICT-related, and two are power and energy-related.

In the present, there are a total of P150 billion to P200 billion worth of big ticket projects waiting for NEDA's approval.

Below is the table of the government's planned big ticket infrastructure projects through the Department of Public Work and Highways (DPWH), Bases Conversion and Development Authority (BCDA), and those to be approved by the National Economic and Development Authority (NEDA).

DPWH Projects (to start next year)	BCDA (in MOU with China)	For NEDA Board Approval
<ul style="list-style-type: none"> Santa Monica- Lawton- BGC link bridge 	<ul style="list-style-type: none"> Subic-Clark railway 	<ul style="list-style-type: none"> Malitubog-Maridagao Irrigation Project Stage 2 (MMIP-II)
<ul style="list-style-type: none"> UP- Miriam-Ateneo Viaduct 	<ul style="list-style-type: none"> BGC-NAIA Segment of Metro Manila Bus Rapid Transit-EDSA 	<ul style="list-style-type: none"> Chico River Pump Irrigation Project
<ul style="list-style-type: none"> Iloilo-Guimaras-Negros-Cebu link bridge 	<ul style="list-style-type: none"> China Fortune Land Real Estate project 	<ul style="list-style-type: none"> Plaridel Bypass Toll Road Project
<ul style="list-style-type: none"> NLEX-SLEX connector road 	<ul style="list-style-type: none"> "Safe and Smart City" projects 	<ul style="list-style-type: none"> Improvement/Widening of the General Luis Road Project
<ul style="list-style-type: none"> 21 bypass projects 		<ul style="list-style-type: none"> New Cebu International Container Port (NCICP) Project
<ul style="list-style-type: none"> Metro Manila Flood Management Project, Phase I 		
*Data from the Press Briefing by the Presidential Communications Operations (PCO) in Malacañang Palace last November 3, 2016 as posted in Philippine News Agency (PIA).		

Public-Private Partnership (PPP) Programs

Notable Achievement: The Public-Private Partnership (PPP) program of the Philippines has generally gotten high scores from the World Bank (WB) report entitled "Benchmarking Public-Private Partnerships Procurement 2017." It received a score of 96 in preparation of PPP's, 85 on procurement, 84 for contract management and 67 for unsolicited proposals.

Projects in the Pipeline:

North-South Railway Project (South Line)- aims to provide a world-class transport and logistics services to the currently underserved areas in Southern Luzon. It will run from Metro Manila to Legazpi City, Albay, plus a number of existing and proposed branch lines totalling to approximately 653 km.

Plaridel Bypass Toll Road - a Php 9.33 B worth of 24.61-kilometer road starting at the Balagtas interchange in North Luzon Expressway (NLEX) up to San Rafael, Bulacan. The road project will be administered by the DPWH and will be under the Philippine-Japan Highway Loan Project. It will traverse five Municipalities of Bulacan: Balagtas, Guiguinto, Plaridel, Bustos, and San Rafael.

Philippine Travel Center Complex Project -comprises the financing, design, construction and maintenance of a mixed-use, multi modal complex in a 9,247 square meter property that will house various tourism-related agencies in Intramuros. The PTCC is envisioned to be a one-stop shop related to travel and tourism in a single complex as well as improve the delivery of government services and further increase ease of doing business.

Batangas-Manila (BatMan) 1 Natural Gas Pipeline Project –ambitions to transport natural gas to targeted markets located in the high-growth areas of Batangas, Laguna, Cavite and Metro Manila delivered through approximately 121 kilometers of transmission pipelines from Batangas to Metro Manila. Its projected cost amounts to PhP 14.72 Billion and it will be implemented by the Philippine National Oil Company (PNOC).

New Nayong Pilipino at Entertainment City Project - This PHP 1.47 Billion cultural theme park project intends to attract foreign and local tourists by showcasing various elements and dimension of the Filipino culture, identities and traditions spanning past and contemporary periods. It will be implemented by Department of Tourism (DOT) and Nayong Pilipino Foundation (NPF).

Manila Bay Integrated Flood Control, Coastal Defense and Expressway Project a project by the DPWH to protect the Manila Bay coastline against flooding from the sea, by means of a city flood barrier and coastal sea barrier. It will also provide an attractive urban waterfront development with space for new commercial activities.

Developments: Aside from partnering with local private corporations, the PPP Center (PPPC) has also established a *Foreign Investment Framework* in order to spur more foreign investors in the Philippine PPP market. Last October 24 2016, the British government signed a contract granting the Philippines £90,112.00 to fund the framework.