15 Ensuring Sound Macroeconomic Policy

CHAPTER 15

ENSURING SOUND MACROECONOMIC POLICY

Despite the slowdown in the Philippine economy's growth in 2018, it sustained above 6.0 percent growth for the seventh consecutive year. Such growth was made possible by robust government spending, supported by improved revenue performance in the first year of the Tax Reform for Acceleration and Inclusion (TRAIN) implementation.

Prompt and effective monetary policy decisions helped anchor inflation expectations, while non-monetary measures helped ease upward pressures on prices. Significant financial inclusion initiatives were also undertaken to further reach the underbanked.

The passage of the New Central Bank Act will strengthen the Bangko Sentral ng Pilipinas (BSP) to keep prices stable and the Philippines' financial system robust amidst a fast-evolving market.

However, much remains to be done to sustain growth momentum and ensure inclusivity. Various domestic and external factors exert pressure on the country's fiscal position, not to mention funding requirements of measures pushed under the Philippine Development Plan (PDP), hence the need to achieve revenue targets. Players in the financial sector must adapt to the rapid technological advancements that change the way of doing business to remain competitive, while financial authorities need to strike a balance between encouraging innovation and ensuring financial stability.

Assessment

INDICATOR	BASELINE		TARGET			ACTUAL 2018 (Full year, otherwise indicated)
	YEAR	VALUE	2018	2019	2020	
Sector Outcome: Stable, sound, and supportive macroeconomic environment achieved						
Subsector Outcome 1: Responsible, strategic and supportive fiscal sector achieved						
Government revenue-to-GDP ratio improved (%)[e]	2016	15.2	16.6	16.9	17.0	16.4
Tax revenue to GDP ratio improved (%)[e]	2016	13.7	15.7	16.1	16.2	14.7
Primary expenditure to GDP ratio improved (%)[e]	2016	15.5	17.7	18.0	18.1	17.6
Percentage share of interest payments in the total disbursements declined (%)[e]	2016	11.9	10.1	10.0	9.7	10.2
Ratio of discretionary spending to total budget increased (%)[f]	2016	42.7	47.5	48.1	48.6	49.1 (as of Sept)
NG fiscal deficit to GDP ratio maintained (%)[e]	2016	2.4	3.0	3.0	3.0	3.2
Percentage share of Outstanding NG debt stock to GDP reduced (%)[e]	2016	42.1	38.9	37.4	36.8	41.9
Manageable consolidated public sector balance as a share of GDP maintained (%)	2016	-0.1	-0.9	-0.8	-1	1.2 (as of Sept)

INDICATOR	BASELINE		TARGET			ACTUAL 2018 (Full year, otherwise indicated)
	YEAR	VALUE	2018	2019	2020	
Investment grade credit rating improved	2016[h]	Moody's: Baa2/Stable Fitch: BBB-/ Positive S&P. BBB/ A-2/Stable	At least Stable/ Positive	At least Stable/ Positive	At least Stable/ Positive	Stable (as of June)/ Positive (as of June)
Ratio of local source of LGU income to total current operating income increased (%)	2016	33.0	34.4	35.2	36.2	35.7 (as of Sept)
Subsector Outcome 1.2 Resilient and inclusive monetary and financial sector achieved						
Low and stable inflation rate achieved (%)[a]	2016	1.3 (2012=100)	2.00 - 4.00	2.00 - 4.00	2.00 - 4.00	5.20
Growth of financial system's total assets increased (%)[b]	2016	11.3	>10.0	>10.0	>10.0	8.9 (as of November)
Gross National Savings to GNI Ratio sustained (%)	2016	30.0	>30.0	>30.0	>30.0	*not yet available*
Number of deposit accounts maintained above 50 million (cumulative)	2016	53.3	>50	>50	>50	59.6 (as of June)
Annual value of microfinance services delivery maintained above PHP10 billion (PHP billion)[c]	2016	13.7	>10	>10.0	>10.0	18.5 (as of June)
Number of access points per 10,000 adults increased (cumulative)[d]	2016	10.1	>10	>10	>10	13.7 (as of Sept)
Remittance costs as a proportion of the amount remitted reduced (%)[e]	2016 (as of Q4)	4.7	<5.0	<4.5	<4.0	4.5 (as of Q4)
Percentage of adults with formal account (as a share to total adult population)	2015	22.0	>22	>22	>22	22.6 (2017)
Microinsurance penetration or density expanded (as % of total population, cumulative)	2016	30	32.0	33.0	34.0	36.1 (as of Sept)
Subsector Outcome 3: Strategic external trade policy regime achieved						
Exports of goods increased (US$ billion, cumulative)[f]	2016	43.4	47.8-48.8	51.2-52.7	54.8-56.9	51.7
Exports of services increased (US$ billion, cumulative)[f]	2016	31.3	38.3-39.0	42.6-43.7	47.2-49.0	37.5
Sustainable current account balance to GDP ratio achieved[g]	2016	-0.4	0.02	0.01	0.01	-2.4

[a] *Headline inflation targets are only until 2020. Figures for 2021 and 2022 are inflation assumptions.*

[b] *The Philippine Financial System is composed largely of the banking system which includes universal and commercial banks, thrift banks, rural banks, and cooperative banks. In addition, the country's financial system accounts for Non-Bank Financial Institutions with Quasi-Banking Functions and non-stock savings and loan associations. This indicator excludes assets of the Bangko Sentral ng Pilipinas but includes the total assets of all BSP-supervised financial institutions including those under special laws such as pawnshops, non-stock savings, and loan association. This also includes the asset of private and government insurance companies i.e., Social Security System (SSS) and Government Service Insurance System (GSIS) (Source: Bangko Sentral ng Pilipinas).*

[c] *Data refer to microfinance services delivery by the banking sector. Data from the cooperative and microfinance non-government organization sectors are not yet included. No numerical target but value should be increasing over time.*

[d] *This includes deposit accounts and e-money accounts. There is no numerical target but the ratio should be increasing over time. The BSP will monitor improvements based on results of a biennial demand-side survey.*

[e] *Proxy indicator: cost (in %) of sending USD 200 from the United States to the Philippines*

[f] *Baseline figures for goods and services exports are based on BOP (BPM6) data. Figures for 2017-2022 were estimated based on annualized 2016 BPM6 levels and latest DBCC assumptions on growth rates for exports of goods and services approved on December 20, 2016.*

[g] *Targets were based on the medium-term projections as approved by the Monetary Board on December 23, 2016*

Fiscal

Tax revenues improved but remained below target. Tax effort improved in 2018 to 14.7 percent of the gross domestic product (GDP) from 14.2 percent in 2017. However, this fell short of the 15.7 percent target in 2018. This was partly because the TRAIN Law enacted in 2017 had a lower expected revenue yield than the original version proposed by the executive branch. This may be due to the delay in the implementation of some administrative measures, notably fuel marking and the Electronic Receipt and Invoicing System (ERIS). The boost from the better-than-expected non-tax revenues, mainly driven by privatization, was not able to fully offset the shortfall in tax revenues. Consequently, the total revenue effort of 16.4 percent, while higher than the 15.6 percent effort in 2017, remained lower than the target of 16.6 percent. There was also no significant improvement in the revenue self-reliance of local government units (LGU).

National government (NG) spending accelerated as "Build, Build, Build" gains traction. Primary spending improved to 17.6 percent of GDP in 2018, significantly higher than the 15.9 percent recorded in 2017. However, it marginally missed the target of 17.7 percent of GDP for 2018. Spending on infrastructure and other capital outlay was up by 41.3 percent in 2018, a significant improvement from the 15.4 percent year-on-year growth in 2017. Given the revenue shortfall and despite the decline in the share of interest payments to total disbursements to 10.2 percent, the budget deficit exceeded the target of 3.0 percent of GDP by 0.2 percentage points.

NG debt remained sustainable despite increased borrowing. With a larger deficit and higher interest rates, the financing program for 2018 was revised upwards. The NG debt-to-GDP ratio increased to 41.9 percent, higher than the 38.9 percent full-year PDP target for 2018. Most of the additional financing was sourced from international borrowing in anticipation of tighter global financing conditions. Consequently, the share of foreign borrowing in the financing mix increased to 32 percent in 2018.

Monetary and Financial

Inflation exceeded the government's target due to elevated food and oil prices. Inflation averaged 5.2 percent in 2018, higher than the 2.9 percent recorded in 2017. The uptick was driven by elevated prices of food, mainly rice, fish, meat, and vegetables, along with oil and other energy-related commodities during the review period. To rein in inflation expectations and to forestall supply-side price pressures from the second-round effects, the Bangko Sentral ng Pilipinas raised its policy rates five times in 2018 with a cumulative increase of 175 basis points. The government likewise issued Administrative Order No. 13 to ease administrative rules affecting food imports. In late 2018, the Congress passed the Rice Tariffication Bill, removing the quantitative restrictions on rice imports and abolishing the rice import monopoly of the National Food Authority. This was enacted into law in early 2019.

More people and enterprises have been gaining access to better and more responsive financial services through financial inclusion initiatives. The value of microfinance services rose by 32.0 percent to PHP18.5 billion in June 2018, well above the full-year target. As of Q3 2018, both microinsurance penetration as a percentage of total population (36.1%) and the number of access points (13.7 per 10,000 adults) also exceeded targets. The Monetary Board approved the framework for banks to offer Basic Deposit Accounts that feature simplified customer identity requirements and "no minimum maintaining balance," among others. This will also encourage participation of the unbanked in the digital payment ecosystem. The eventual introduction of a national ID under the recently enacted Philippine ID System (PhilSys) Law will further simplify customer identification and secure electronic fund transfers with the use of unique PhilSys numbers as identifiers. Moreover, the enactment of the Personal Property Security Law will allow the use of non-traditional or movable collaterals such as accounts receivables, inventory, crops, livestock, machinery, and warehouse receipts in accessing credit.

Key reforms were implemented to further increase the breadth and depth of the capital market. In the equities market, the increase in Minimum Public Ownership of companies applying for initial public offering[1] will expand current public ownership level of Philippine publicly listed companies. In the bonds market, the Guidelines on the Issuance of Green Bonds under the ASEAN Green Bonds Standards will primarily govern the issuance of these bonds where proceeds will be exclusively applied to finance or refinance eligible Green Projects; while the Rules on the Administration of Government Securities Benchmarks will govern the administration of the Philippine Peso-denominated government securities benchmarks and ensure protection of investors. To facilitate cross-border movement of investment advisers, a Memorandum of Understanding on the ASEAN Capital Markets Forum Pass was signed, allowing licensed professionals to provide advisory services within participating ASEAN jurisdictions, with fast-track registration and no additional licensing requirements. Meanwhile, the Securities and Exchange Commission (SEC) issued the Implementing Rules and Regulations of the Investment Company Act or ICA Rules to align with global standards and practices, as well as enable the investment companies to compete in international cross-border transactions.

In addition to the above reforms, the Consolidated Listing and Disclosure Rules of the Philippine Stock Exchange was amended to increase the maximum subscription of local small investors to equity securities from PHP25,000 to PHP100,000, thereby increasing investor base. Further to improving liquidity in the equity market, the guidelines for short selling in the Philippine Stock Exchange was approved.

Financial system growth remained broadly steady, while reforms to enhance payment systems were introduced. The growth of the financial system's asset eased to 8.9 percent as of November 2018 amid rising policy rates, but remained broadly in line with the growth of the economy. The total assets of the Philippine Banking system, which comprised more than three-fourths of the total financial resources, contributed heavily to the growth, averaging 11.1 percent from 2014 to 2017. Asset expansion was mainly driven by loans which grew by 15.0 percent as of end-November 2018. On the other hand, the enactment of the National Payments System Law will further empower the BSP to oversee and supervise payment systems, including financial technology (FinTech) companies that provide payment services, to ensure the stability and effectiveness of the monetary and financial system. Moreover, InstaPay, the latest automated clearing house under the National Retail Payment System, was launched to enable real-time, low value (up to PHP50,000) electronic fund transfers.

The cost of sending overseas Filipinos' remittances fell but fewer overseas Filipino worker (OFW) households channeled remittances to savings and investments. The BSP redesigned its approach to financial education in 2018 through broadening strategic partnerships with the Overseas Workers Welfare Administration and other agencies to ensure sustainability and reach. As of Q3 2018, the cost of sending remittances as a proportion of the amount remitted fell to 4.2 percent from 5.2 percent in 2017. However, the percentage of OFW households in the Philippines that uses remittances for savings and investments has decreased in the last quarter of 2018 compared to the previous year.[2]

External Trade

Exports of goods exceeded the annual target for 2018. Merchandise exports was 6.0 percent higher than the upper bound target for 2018. The increase was on account of higher exports of fruits and vegetables (7.0%), forest products (48.5%), petroleum products (24.9%), and electronic products (4.5%) which allowed the sector to post higher than expected levels. In terms of markets, exports to the United States and China contributed most to the improvement as exports to these countries grew by 10.1 percent and 10.0 percent, respectively, during the year.

[1] *SEC Memorandum Circular No. 12, s. 2018*
[2] *Based on the BSP's Consumer Expectations Surveys.*

Services exports came close to reaching the 2018 target. The services sector grew by 7.8 percent from 2017 levels, buoyed by higher export receipts from other business services (6.9%), technical, trade-related and other services (6.5%), besides manufacturing services (16.2%). This, however, slightly fell short of the target for 2018 by USD800 million. The faster pace of the growth of imports in relation to that of exports widened the current account deficit to 2.4 percent of GDP for 2018. This, however, is an improvement from the current account to GDP deficit of 2.7 percent for the first three quarters of 2018.

The number of exporters supported and export products certified as *Halal* continued to exceed targets. The number of Department of Trade and Industry (DTI)-assisted technology-enabled and technology-based exporters reached 170 in the first ten months of 2018, exceeding the 2018 target of 150. In the same period, the number of new export products certified as *Halal* was more than double the 2018 target of 100. Likewise, the number of enrollees who were able to export under the Regional Interactive Platform for Philippine Exporters Plus Program reached 170 in the first ten months of 2018, so it is highly likely that the 2018 target of 200 would be reached.

Moving Forward

Outlook

Fiscal Sector

The fiscal sector remains supportive of the country's growth targets. Additional revenues are expected to come from recently enacted measures, such as the Tax Amnesty Act. Higher revenues are estimated to be generated from TRAIN with the implementation of the second tranche of the excise tax on fuel products and the roll out of fuel marking system.

On the other hand, fiscal pressure could arise from the passage of several reforms and legislative measures that are crucial in attaining the PDP targets. Among these reforms are the Universal Health Care Act and the transition to Bangsamoro Autonomous Region in Muslim Mindanao. In addition, the potentially larger allotment to local governments following the Supreme Court ruling on the Mandanas Case will also require considerable funding.

The delay in the passage of the 2019 budget and election ban on spending may slow down the implementation of some infrastructure projects in the first half of the year. Capacity deficiencies in the operationalization of procurement reforms may also obstruct the execution of projects. Moreover, the shift to cash-based budgeting may pose adjustment difficulties among the implementing agencies.

Monetary and Financial

The Philippine financial system is expected to remain robust moving forward, anchored on strong economic growth and stable macroeconomic fundamentals. Headline inflation is expected to further ease in the near term with the declining global oil prices vis-à-vis 2018 and the passage of the Rice Tariffication Act. The Bangko Sentral ng Pilipinas is projecting inflation to settle between the government's target in 2019 and 2020.

Innovations in financial technology will continue to shape the delivery of, and access to, financial services. The recent passage of the New Central Bank Act empowers BSP to adapt to this rapidly changing market landscape, and similarly, empowers the central bank to promote the stability of prices and financial system.

External Trade

Ongoing trade tensions between the world's major economies may continue to pose downside risks to exports. At the same time, imports are expected to remain robust given the increasing demand for raw materials and capital equipment to support the expanding economy.

Given the risk of a further expansion in the trade deficit, the government must intensify its efforts in promoting and developing Philippine exports through the strategies outlined in the latter portion of this chapter.

Strategies

Given this outlook, the government will implement strategic activities to leverage available opportunities for the sector and ensure that it continues to support the country's growth and poverty targets.

Fiscal

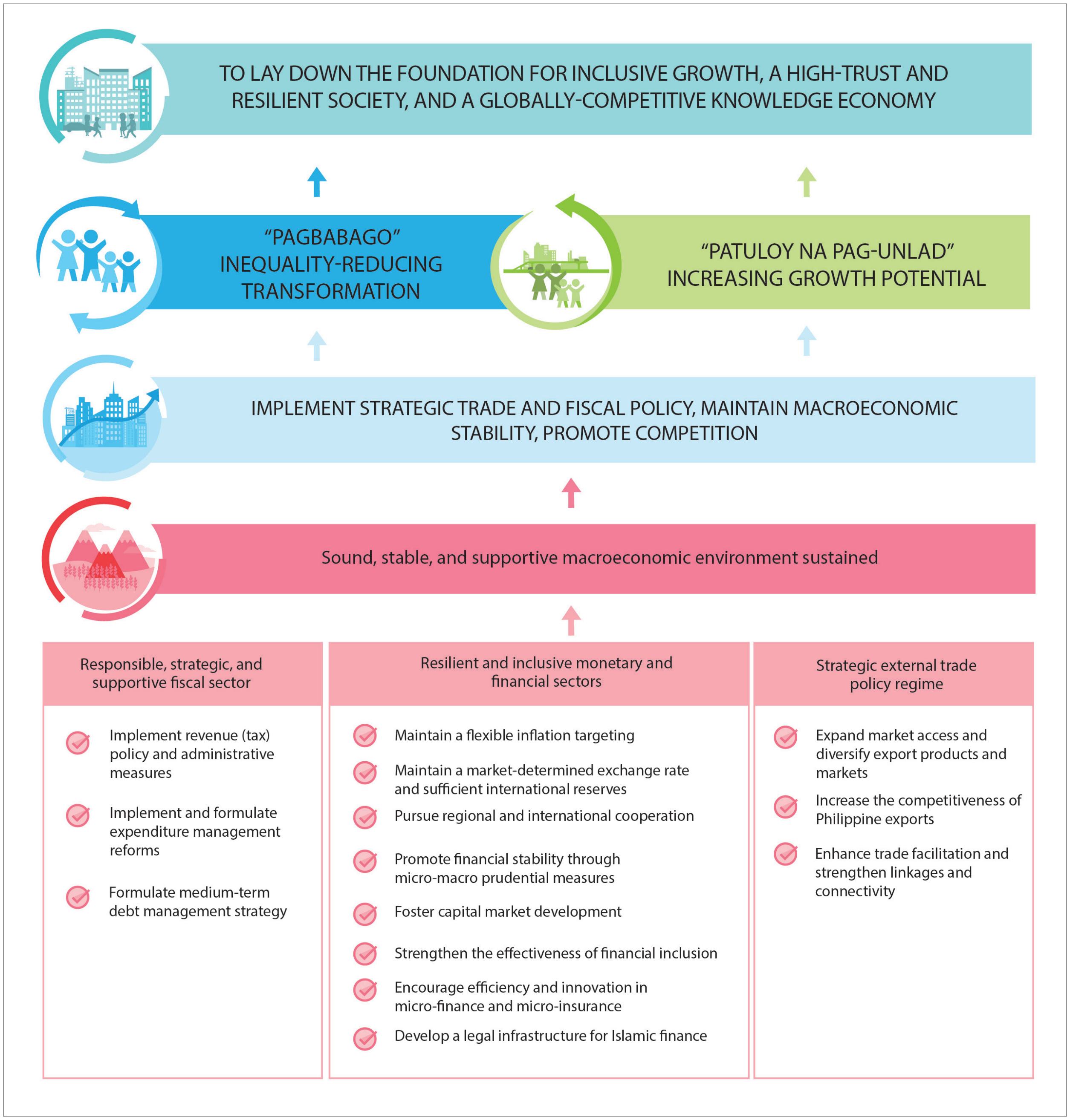
Accelerate revenue-yielding measures. Tax administration measures such as the ERIS and the fuel marking under TRAIN, as well as the establishment of the tax database as provided under the recently approved Tax Amnesty Bill, need to be implemented swiftly. These will boost confidence in, and support for, the remaining tax reform packages, particularly those that can yield net positive revenue, such as the Motor Vehicle Users Charge under Package 1B, Alcohol and Tobacco Taxation, as well as Mining Taxation under Package 2+, and Property Valuation and Taxation under Package 3.

Enable LGUs to fully carry out devolved functions. Alongside efforts to mobilize local sources of revenue, enabling LGUs to competently carry out devolved functions as provided under the Local Government Code could ease the pressure on NG fiscal position.

Assist implementing agencies in adopting budget reforms. To address difficulties in adjusting to budget reforms, timely dissemination of clear guidelines, complemented by the continuous conduct of Cash Management Advisory Support, is essential. In addition, the Medium-Term Expenditure Plan must be rolled out to further strengthen the linkage between operational planning, costing, and budgeting. This will particularly aid big-spending agencies in expediting flagship projects.

Pursue strategic financing program. Normalization of monetary policy in advanced economies will put pressure on interest rates and foreign exchange, leading to higher financing costs. Given these external pressures, the government needs to balance risks and minimize cost by widening its securities investor base and diversifying foreign borrowings by exploring other third currency denominations, among others.

Figure 15.1 Strategic Framework to Sustain a Sound, Stable, and Supportive Macroeconomic Environment



Monetary and Financial

Speed up measures[3] and initiatives that address weaknesses in the agricultural sector, and continuously undertake operational refinements to monetary policy instruments to maintain price stability. Facilitating access to modern farming technologies and promoting a shift to high-value crops will be important in stabilizing food supply in the medium term *(refer to Chapter 8)*. Continual operational refinements to the Term Deposit Facility, BSP's primary liquidity tool, can better guide short-term market interest rates toward the policy rate that will help achieve low and stable inflation. Maintaining sufficient international reserves can help manage peso volatility, while introducing a code of conduct governing trades in peso can help discourage speculative activities.

Support regulations that encourage innovation and minimize risks in the financial sector. The proposed regulatory framework on the use of FinTech applications recognizes new ways of delivering financial services (such as crowdfunding and initial coin offerings) while managing the associated risks. Similarly, the proposed Regulatory Framework for Futures Contract Market will govern how such derivatives are traded in an electronic trading system. The approval of Corporate Governance Code for investment companies and for small and medium enterprises—both of which play a vital role in the financial sector—will ensure that they are properly managed. On the other hand, the Capital Market Development Blueprint that will be crafted for 2019-2022 will further develop the Philippine capital market to match international standards in terms of efficiency and capital-raising capabilities.

Support legislation aimed at improving financial inclusion and consumer protection. The overhauling of the Warehouse Receipts Law will improve credit access of farmers as it allows a computerized central registry for receipts, which can be used as collateral. Similarly, the passage of an Islamic Banking Law aims to address, among others, tax and regulatory disparities that hinder the development of Islamic Banking. Meanwhile, the enactment of a Collective Investment Schemes Law will rationalize governance and lay the legal framework for new investment instruments. On the other hand, the passage of a Financial Consumer Protection law will grant financial regulators[4] the power to make and enforce rules to protect consumers of financial products and services.

Replicate the Overseas Filipino Remittances for Development (OF-RED) model in other LGUs while exploring other investment instruments. The OF-RED project[5] built up a collective fund for investment in select local development projects. The remittances invested in the fund were also matched by the international partners and the LGUs. In line with this, the Commission on Filipinos Overseas is targeting *BaLinkBayan* LGUs as a site for the replication of the project (*refer to Chapter 5*). At the same time, other saving and investment instruments, such as diaspora bonds, remittance bonds, provident fund, for overseas Filipinos should be explored.

Expand financial literacy programs for OFWs to include financial planning and management. With financial instruments that tap into remittances and savings being limited, the potential of earnings from Filipino migrants are not fully maximized despite a large inflow of remittances into the Philippines. In response, the BSP will have a Memorandum of Agreement with the Overseas Workers Welfare Administration[6] to implement the financial literacy campaign branded as "PiTaKa" or *Pinansyal na Talino at Kaalaman* for OFWs and their families. This will use more engaging learning tools and sessions during the pre-departure and post-arrival orientation seminars attended by OFWs. *PiTaKa* will include modules on financial planning and management as well as general orientation sessions for OFW families. The program is set to be launched on February 18, 2019.

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[3] *As identified in Administrative Order No. 13*
[4] *Such as Securities and Exchange Commission, Insurance Commission, Cooperative Development Authority, and Bangko Sentral ng Pilipinas.*
[5] *Launched by the United Nations Development Programme and the Western Union Foundation and implemented by CFO.*
[6] *As well as the BDO Foundation.*

External Trade

Intensify alternative trade promotion activities and utilize trade agreements. Exporters and enterprises must devise more resource-efficient and innovative promotion activities that include setting up highly visible pop-up stores in areas with high foot traffic and harnessing various social media platforms to help the country's export products penetrate more export markets. Furthermore, exporters and importers should be encouraged to utilize free trade agreements (FTAs), such as the European Free Trade Association-Philippines and the upcoming ASEAN-Hong Kong, China FTA in 2019 to enable them to offer more competitive prices to export markets and source raw materials at lower prices. Utilizing FTAs to source basic commodities would also reduce pressure on domestic supply and lower prices in the domestic market.

Partner with existing e-commerce platforms[7] and establish a uniform system in resolving e-commerce transactions disputes. Exporters should partner with e-commerce platforms to expand their market overseas, attract buyers, and entice more people to patronize Philippine export products. In line with this, improving cooperation between domestic courier and logistics service providers and foreign counterparts in export markets is a must to ensure seamless conduct of e-commerce transactions. On the other hand, despite the growing interest in e-commerce, the risk of encountering fraudulent transactions remains unchecked due to the lack of a uniform system governing the resolution of disputes. Hence, a uniform system for resolving disputes must be integrated in all e-commerce platforms to promote continued usage of the said technology and ensure consumer satisfaction. (*See Chapter 9 for more details*).

Strengthen the existing governance structure on negotiations for international trade agreements. The Philippines' increasing engagement with trade partners brings to light the importance of strengthening the coordination among different inter-agency bodies tasked with formulating and recommending the country's position in international trade agreements. A harmonized approach will ensure a cohesive and consistent national strategic trade policy for existing and future trade agreements, aligning them to the goal of improving the competitiveness of domestic sectors in the international market. This approach shall also incorporate a uniform monitoring and assessment mechanism of the different trade engagements, which will allow the country to gauge gains and challenges arising from trade agreements. Continued capacity building for Philippine negotiators should also be undertaken to ensure the availability and readiness of a continuing pool of negotiators.

Establish a centralized portal for trade-related information and integrate alternative sources to obtain market trends in the system. The lack of a centralized source of trade-related information makes it difficult for exporters and enterprises to acquire all relevant data for their transactions. Platform developers must be actively engaged to work towards a centralized portal for sharing trade-related information that would make it easy for exporters and enterprises to fully take advantage of market access opportunities and utilize free trade agreements. The portal should be user-friendly and must include pertinent materials on export products of the Philippines, the producers and their contact details, and, if the products exported to FTA partners are applied preferential rates, how to utilize the applicable FTA. This portal could bring together the Philippine National Trade Repository; Tradeline Philippines; Micro, Small, and Medium Enterprise Marketplace; Bureau of Investments One Window Network; Standards and Conformance Portal of the Bureau of Product Standards, and other sources of information that would aid exporters and enterprises in marketing and selling its products in overseas markets. The DTI can also partner with the Department of Information and Communications Technology to help improve the portal's cybersecurity.

[7] *Such as Alibaba and Shopee.*

Additionally, to allow exporters to be attuned to market demands and abreast with the latest trends, alternative sources must be utilized to obtain information on trends and consumer preferences from export markets. Tapping specialized outfits that process market information and prepare insights on export markets and making these available in the portal will assist exporters and enterprises to develop products tailored to the export markets and will further establish the presence of Philippine export products to more export markets.

Issue an Executive Order (EO) that will connect all trade regulatory government agencies to the TradeNet under the Inter-Agency Business Process Interoperability Project. To enhance the competitiveness of Philippine export products, the government must address the continuing issue of long processing times and high trading costs through the issuance of an EO that will adopt TradeNet as the National Single Window to facilitate and streamline trade transactions. This will lower the cost of doing business and increase competitiveness of enterprises.

Upgrade skills to better engage in higher value services and to keep up with frontier technologies such as automation and artificial intelligence. Data show a decelerating growth trend in the information technology and business process management's revenue in recent years, and the sector estimates an even lower compound annual growth rate in revenue for 2016 to 2022. This decline signals that the sector needs to invest in higher value services to sustain its growth. Sustaining the growth of services exports hinges on developing sectors that generate direct and indirect employment, such as tourism. (*See Chapter 9 for strategies to improve the growth potential of the services sector*).

Develop more programs that champion innovation and collaboration among the academe, research institutions, private sector, and government agencies to help exporters design and craft new products. Government needs to assist exporters and enterprises in developing new products that comply with product standards and technical requirements. (*See Chapter 9 for strategies in fostering innovation and complying with product standards*).

Improve efficiency and competitiveness in the manufacturing sector to entice more investments and reduce vulnerability to fluctuations in international supply. Adequate infrastructure and policy reforms to lower production costs can maximize the investment potential of the country. These will enable domestic industries to reduce their dependence on imported raw materials and intermediate goods and improve their capacity to supply to the local market. (*See Chapter 9 for more details)*