Philippines: Build! Build! Build!

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President Rodrigo Duterte has signalled his resolve to lift the Philippines economic growth rate by building infrastructure at the fastest pace possible. So who will fund what the administration has dubbed the "Build! Build! Build" programme?

The Bank of the Philippines Islands (BPI)'s senior managing directors Reginaldo Anthony B. Cariaso and Juan Carlos L. Syquia, and PNB Capital & Investment chief executive Gerry B. Valenciano, shared their thoughts at *IJGlobal*'s Philippines Energy & Infrastructure Forum held in Manila in September.

Duterte has an ambitious plan: the Ps8.4 trillion ($165 billion) 2017-2022 Public Investment Program. In fiscal terms, spending on infrastructure will be ramped up from 5.4% to 7.1% of GDP by 2022 in order to raise economic growth to between 7% and 8%, and in the process reduce the poverty rate from 22% to 13%-15% by 2022. In 2016, the Philippines' GDP grew by 6.8%, according to the Asian Development Bank.

Around two-thirds of the 2017-2022 Public Investment Program would be financed with general government appropriation funds. Another 18% of the proposed projects will be procured as PPPs and 15% would be funded with overseas development aid.

Already in the second year of a single term six-year presidency, the administration has decided to side line the PPP Center and instead opt for what it calls a "hybrid PPP" model.

The priority will be on speed.

In the first phase, the government will fund, either directly through general appropriations or through overseas development aid, the construction phase. The operations and maintenance contract will be offered at a later date to the private sector, which will be expected to finance the cost of the decades-long contracts.

To date, the highly liquid local banks have funded the Philippines' projects with 10-year tenors and are not expected to leave much room for international banks to enter the most active infrastructure finance market in the region.

"Theoretically, the infrastructure programme is big enough and presents opportunities for foreign players but they would need to fund in pesos," BPI's Syquia said. "It's all about the risk and peso liabilities."

One ray of hope for foreign banks has been that Filipino banks may soon be hitting single borrower limits, although they will still hit the local currency hurdle.

"The Philippines only has a handful of conglomerates and banks will be hitting single borrower limits. But many local companies got burnt taking on US dollar loans during the 1997 Asian financial crisis, so they don't have much of an appetite for dollar denominated loans," PNB Capital & Investment's Valenciano cautioned.

Analysts certainly don't doubt the local banks can take on all the project financing on their own.

"The Philippine banks are well-positioned to fund the country's infrastructure programmes," S&P Global financial services ratings director Ivan Tan says.

"The credit cycle is in a good place and we forecast a 15-17% loans growth for 2017 and 2018. The Philippines banks are very well capitalised (with common equity Tier 1 ratio of about 12.5%) and are sitting on excess liquidity (the country's loans to deposit ratio of 72% is one of the lowest in the region)," according to Tan.

Indeed, Filipino banks are so liquid that taking project finance loans off the balance sheet and into the capital markets does not seem imminent. "Tapping the capital markets through project bond issuance is one strategy going forward," BPI's Cariaso said.

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