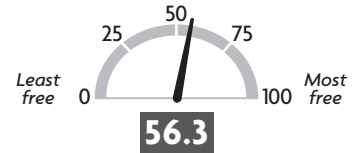


THE PHILIPPINES

World Rank: **109**

Regional Rank: **20**

Economic Freedom Score



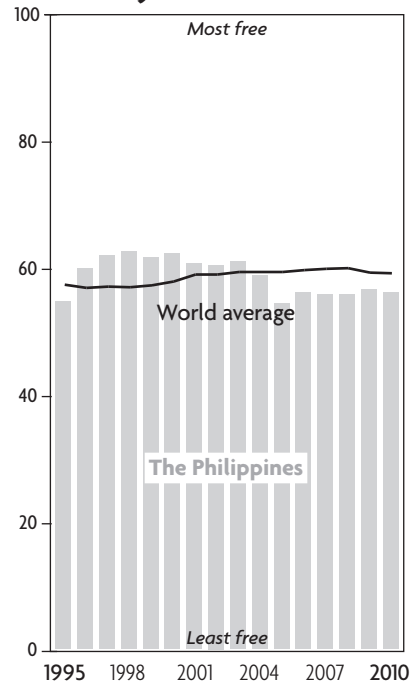
The Philippines has an economic freedom score of 56.3, making its economy the 109th freest in the 2010 *Index*. Its score is 0.4 point lower than last year, reflecting small reductions in monetary freedom and freedom from corruption. The Philippines ranks 20th out of 41 countries in the Asia-Pacific region, and its overall score is slightly below the world and regional averages.

The Philippines scores above the world average in half of the 10 economic freedoms. The government has pursued a series of structural reforms to improve the entrepreneurial environment and develop a stronger private sector that generates more dynamic job growth. Overall progress has been mixed, but some fiscal reforms have been accomplished. The top corporate tax rate has been reduced, and progress in privatization and fiscal prudence has helped to reduce the public debt. Improving tax administration remains a priority.

The Philippines is weak in business freedom, investment freedom, property rights, and freedom from corruption. The government imposes formal and non-formal barriers to foreign investment. Reflecting a lack of domestic economic dynamism, the Philippines still relies heavily on remittances from abroad. The judicial system remains weak and vulnerable to political influence.

BACKGROUND: The Philippines' diverse population, which speaks more than 80 languages and dialects, is spread over 7,000 islands in the Western Pacific Ocean. The country returned to democracy in 1986 after two decades of autocratic rule. President Gloria Arroyo took office in 2001 and since then has weathered multiple impeachment attempts. The government's failure to do anything substantial to liberalize the economy has set back efforts to attract much-needed foreign investment in basic industries and infrastructure, and the Philippines continues a long slide from being one of Asia's richest economies to being one of its poorest. The economy relies heavily on emigrants' remittances equivalent to about 10 percent of GDP.

Country's Score Over Time



Quick Facts

Population: 90.3 million

GDP (PPP): \$317.1 billion
 3.8% growth in 2008
 5.5% 5-year compound annual growth
 \$3,510 per capita

Unemployment: 6.8%

Inflation (CPI): 9.3%

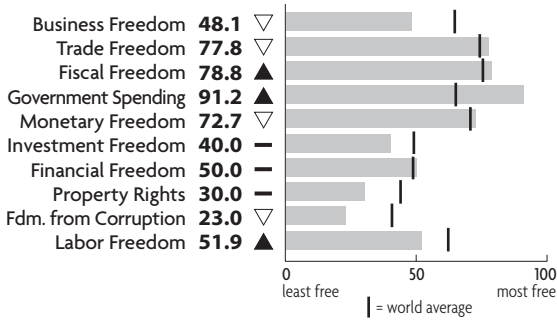
FDI Inflow: \$1.5 billion

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

THE PHILIPPINES' TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 48.1

The overall freedom to start, operate, and close a business is limited under the Philippines' regulatory environment. Starting a business takes an average of 52 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 218 days. Closing a business can be a difficult and lengthy process.

TRADE FREEDOM — 77.8

The Philippines' weighted average tariff rate was 3.6 percent in 2007. Some high tariffs, import and export restrictions, quotas and tariff rate quotas, services market access barriers, import and export taxes, import licensing requirements, restrictive and non-transparent standards, labeling and other regulations, domestic bias in government procurement, inconsistent and non-transparent customs valuation and administration, export subsidies, widespread corruption, and weak protection of intellectual property rights add to the cost of trade. Fifteen points were deducted from the Philippines' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 78.8

The Philippines has relatively high tax rates. The top income tax rate is 32 percent. The top corporate tax rate is 30 percent, down from 35 percent as of January 1, 2009. Other taxes include a value-added tax (VAT), a real property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 14.0 percent. Despite domestic political pressure, authorities did not repeal the VAT on petroleum products during the financial crisis.

GOVERNMENT SPENDING — 91.2

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 17.1 percent of GDP. Privatization of the power sector continues, with two more generating plants privatized in the past year.

MONETARY FREEDOM — 72.7

Inflation has been moderately high, averaging 7.4 percent between 2006 and 2008. The government influences prices through state-owned enterprises and utilities and controls the prices of electricity distribution, water, telecommuni-

cations, and most transportation services. Price ceilings are usually imposed on basic commodities only in emergencies, and presidential authority to impose controls to check inflation or ease social tension is rarely exercised. Ten points were deducted from the Philippines' monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 40

Foreign investment is restricted in a number of sectors. All foreign investments are screened and must be registered with the government. Regulatory inconsistency and lack of transparency, corruption, and inadequate infrastructure hinder investment. Dispute resolution can be cumbersome and complex, and the enforcement of contracts is weak. Residents and non-residents may hold foreign exchange accounts. Payments, capital transactions, and transfers are subject to some restrictions, controls, quantitative limits, and authorizations. Foreign investors may lease but not own land.

FINANCIAL FREEDOM — 50

Banking dominates the growing financial sector, handling more than 90 percent of financial activity. In general, the financial system welcomes foreign competition, and capital standards and oversight have improved. Consolidation has progressed, and non-performing loans have gradually declined to less than 5 percent of total loans. The banking sector has 38 commercial banks, five of which dominate the sector. Two large state-owned banks account for about 15 percent of total assets. A small government Islamic bank serves Muslim citizens in the South. Credit is generally available at market terms, but banks are required to lend specified portions of their funds to preferred sectors. The non-bank financial sector remains small. Capital markets are centered on the Philippine Stock Exchange. The impact of the global financial crisis on banking has been relatively constrained because of the sector's very limited exposure to failed or distressed international financial institutions.

PROPERTY RIGHTS — 30

The judicial system is weak. Judges are nominally independent, but some are corrupt or have been appointed strictly for political reasons. Organized crime is a serious problem. Despite some progress, enforcement of intellectual property rights remains problematic.

FREEDOM FROM CORRUPTION — 23

Corruption is perceived as pervasive. The Philippines ranks 141st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a decline from 2007. A culture of corruption is long-standing, and enforcement of anti-corruption laws is inconsistent.

LABOR FREEDOM — 51.9

Labor regulations in the Philippines are inflexible. The non-salary cost of employing a worker is low, but dismissing an employee is difficult.