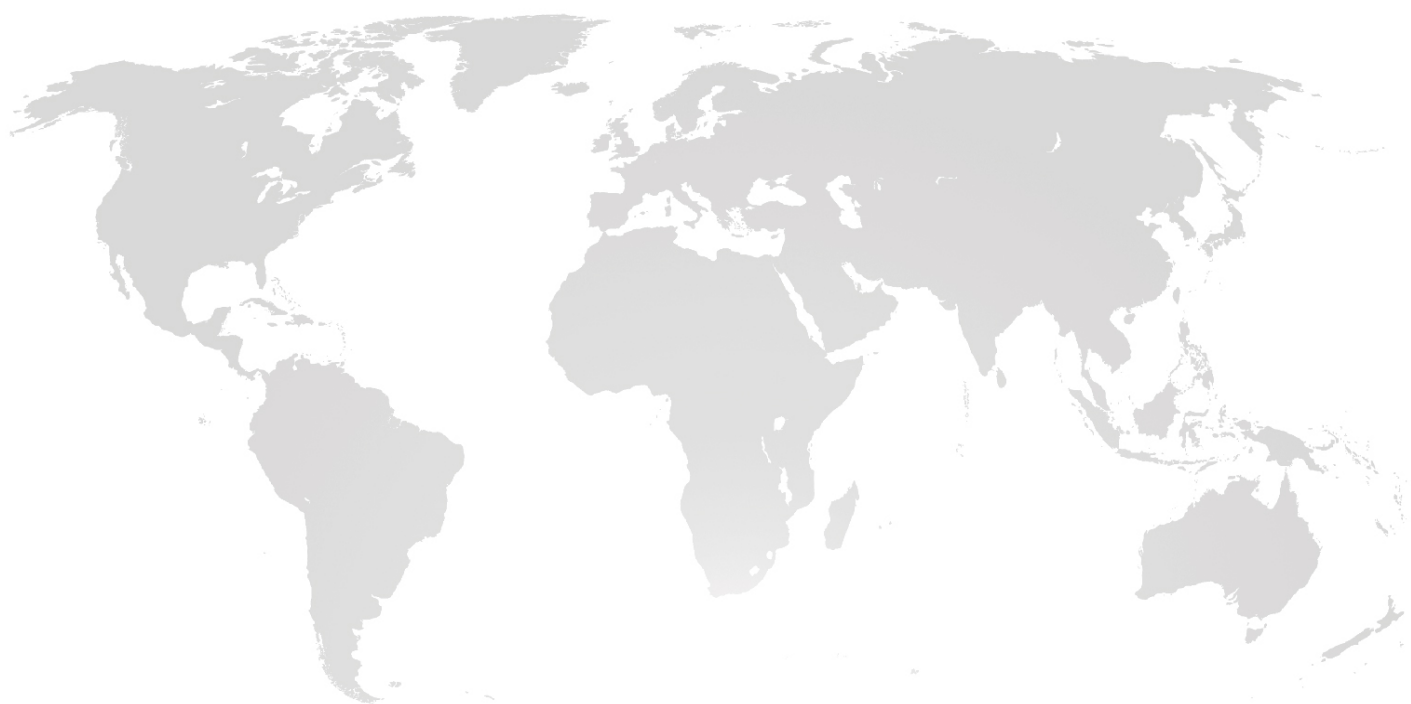




# D&B Country Insight Snapshot: Philippines

*March 2015*





## Overview

**Overall Country Risk Rating : DB4b**



**Moderate risk:** Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

**Rating Outlook:** Stable →

## Core Outlook

- + With a population of almost 100m people, the Philippines has a large potential domestic market.
- Restrictions on hiring foreign workers necessitate a factoring in of the cost of training on the job.
- The influence of oligarchs/conglomerates prevents new businesses from entering the marketplace and thus constrains competition.
- Export hurdles include high cost or delays caused by domestic transportation, as well as burdensome import procedures.

## Key Development

Economic growth is amongst the fastest globally, driven by strong expansion in almost all GDP components and the low oil price, with an overheating economy the main risk.

Credit Environment Outlook 

Key Development has had a positive impact on the outlook.

Supply Environment Outlook 

Key Development has had a neutral impact on the outlook.

Market Environment Outlook 

Key Development has had a positive impact on the outlook.

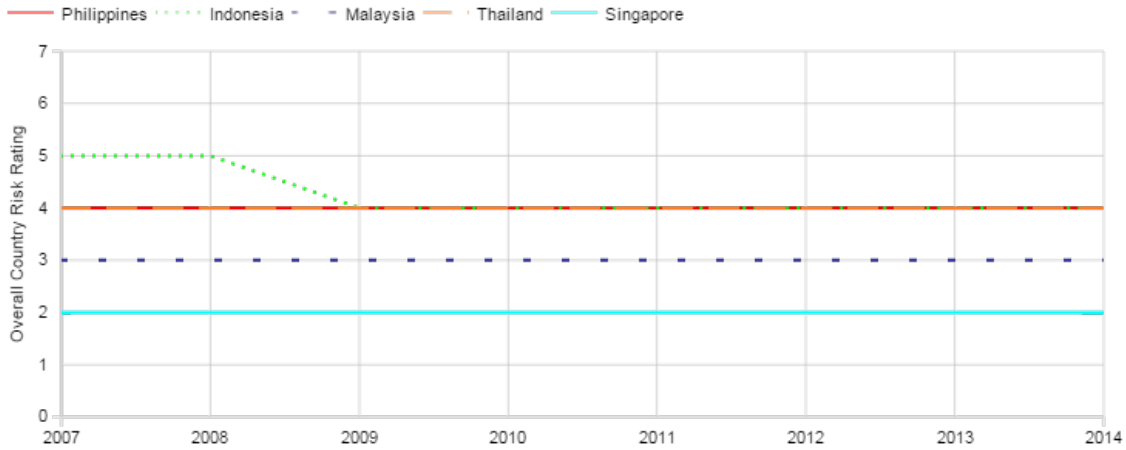
Political Environment Outlook 

Key Development has had a neutral impact on the outlook.



## Key Indicators

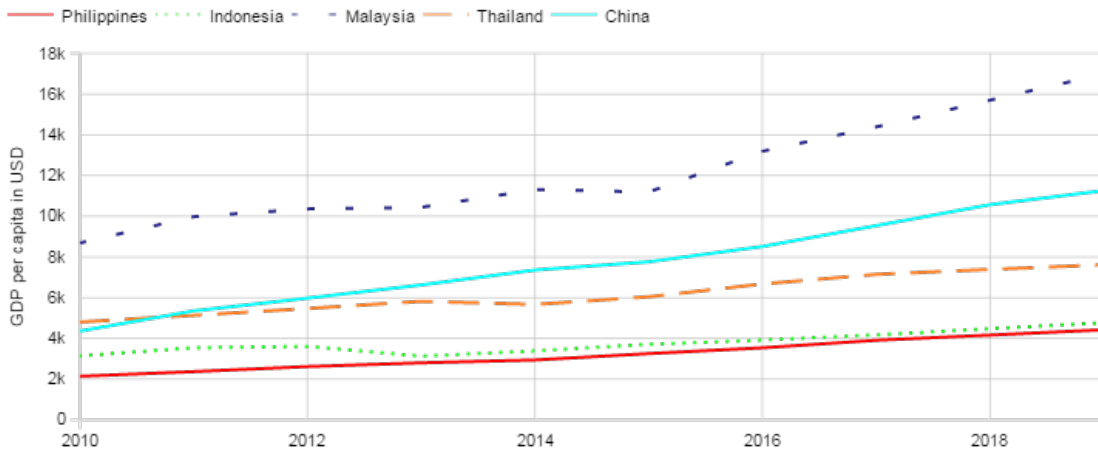
### Rating History and Comparison



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : D&B

### Chart of the Month



Source : National Statistical Offices / Haver Analytics

## Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	2.5	2.8	3.5	3.2	2.8	2.5	2.2	1.9
FX reserves (yr-end, USDbn)	67.3	73.5	75.7	80.0	82.7	85.3	87.9	90.3
Govt balance, % GDP	-0.4	-0.6	-0.1	-0.2	-0.8	-0.9	-1.2	-1.0
Inflation, annual avge %	4.6	3.1	3.0	4.2	2.5	2.7	3.0	2.9
Real GDP Growth, %	3.7	6.8	7.2	6.1	6.5	5.8	5.7	5.2

Source : Haver Analytics/D&B

## Trade and Commercial Environment

As of end-January, FX reserves in the Philippines stood at USD80.7bn, sufficient to cover 10.3 months of imports and well above the IMF-recommended 3.0-month minimum and almost 6.0 times the country's short-term external debt based on residual maturity. The country's ample FX reserves and robust economic growth are contributory factors to D&B's decision to maintain LC as both minimum and recommended terms. Meanwhile, banking sector risk indicators are improving. Non-performing loans (NPL) as a share of total loans (belonging to universal and commercial banks) dropped to a low of 2.0% in November (the smallest share of NPLs since 2009). Moreover, banks' loan loss reserves in November covered 140% of total NPLs.

## Trade Terms and Transfer Situation

### Minimum Terms: LC

*The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: LC

*D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-60 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

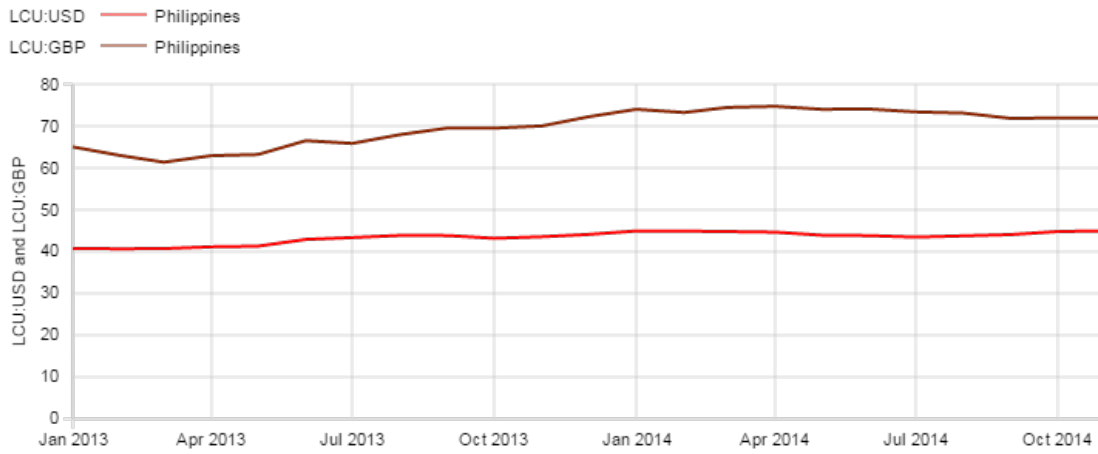
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-2 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



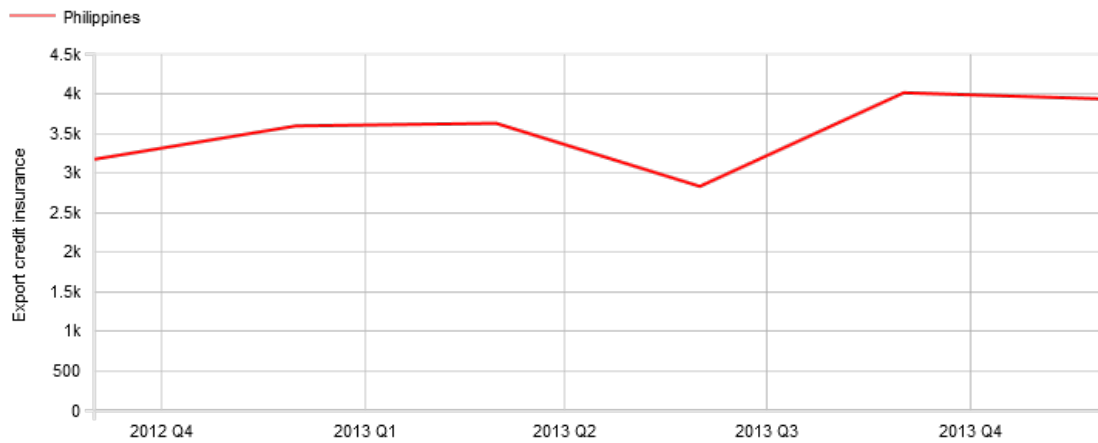
## Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions



Source : Haver

*Insured export credit exposures, USDm*

## Risks and Opportunities

### Short-Term Economic Outlook

*Growth is amongst the world's fastest*

As anticipated by D&B, the Philippines remain among the most buoyant economies in the world. Real GDP growth in the fourth quarter was 6.9% year on year (y/y) (up from 5.3% in Q3), meaning that total growth for 2014 was 6.1%. All GDP components expanded at a strong pace for the year as a whole, with the exception of government consumption (up by just 1.8%), due to a court order that temporarily blocked a large part of the discretionary public projects. But as we predicted, the last quarter's exceptionally high growth rate was also due to a rebound in public spending (which increased by 9.8% y/y in Q4, having contracted in Q3). Private consumption (by far the largest GDP component), increased by 5.4% in 2014, and gross fixed capital formation by 8.6%. Both the construction and equipment components contributed heavily to investment growth. Exports, meanwhile, soared by 12.1%, despite the regional slowdown, and far outpaced imports (up by 5.8%). On the production side, growth was again fairly broad-based: manufacturing expanded by 8.1% and services by 6.0%, but agriculture and mining also recorded positive, albeit smaller, growth rates. Looking ahead, our main concerns are with regard to overheating. The country is currently experiencing a confluence of positive growth shocks (the low oil price, strong remittances, resumption of public investment, the booming financial sector etc.). Moreover, with so many emerging economies undergoing growth corrections, the country is attracting an even bigger share of global speculative capital (the Manila stock exchange reached a record high in February). The risk of misallocation and creating bubbles is as present as ever, and we consider some sectors, in particular the real estate and construction sectors, to be particularly vulnerable (this is true for related segments such as furniture and fixtures, which soared by 25% in 2014).

### FX Risk

*Economic boom triggers strong peso appreciation*

As often is the case when a small open economy undergoes a boom, the local currency appreciates. The Philippines' peso is doing precisely that, with the currency currently the best-performing Asian currency against the dollar in the last three months, appreciating by 1.5% (all the more remarkable since the USD is also on an appreciating trend). There are numerous upsides to the positive attention the Philippines is receiving from investors, for instance in the form of very cheap borrowing: in January the country issued USD20bn worth of dollar-denominated 30-year bonds at a record low yield. However, concerns about overheating – the possible downside to the boom – have prevented the central bank from cutting the interest rate at its latest policy meeting, and signalled that they would stay there for most of 2015 (even though the inflation rate is declining). Positively, the current account is not an immediate issue, as the country is running surpluses, and the low oil price means the trade surplus could go even higher in 2015 (the Philippines is estimated to be the biggest beneficiary of the low oil price). In the near term, we expect the peso to appreciate against the USD.

## Country Profile and Statistics

### Overview

The Philippines consists of an archipelago in Southeast Asia. Since achieving independence from first Spanish, then US, colonial rule in 1946, it has suffered both from dictatorship (1972-86) and political instability under a succession of weak democratic governments.

The Philippines has consistently failed to live up to its significant economic potential, with poverty still endemic and the country's most notable export being its well-educated, English-speaking workforce (whose remittances provide a sizeable contribution to the economy). There has been an improvement in macroeconomic performance in recent years, aided by the global trend towards a declining cost of borrowing, which has helped to reduce state debt-servicing. However, the underlying oligarchic structure of Philippine society, which severely limits the tax base, still remains intact.

Corruption is a major problem, as is a violent separatist conflict in the Muslim-majority south that occasionally spills over into the capital, Manila.

### Key Facts

Key Fact	Detail
Head of state	President Benigno Simeon AQUINO
Capital	Manila
Timezone	GMT +08-00
Official languages	English, Filipino
Population (millions)	98
GDP (USD billions)	288.3
GDP per capita (USD)	2,941
Life expectancy (years)	68
Literacy (% of adult pop.)	92.6
Surface area (sq km)	300,000

Source : UN / Haver Analytics / D&B

### Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	7.63	3.91	6.8	7.16	5.92
Nominal GDP in USDbn	199.59	224.77	250.18	272.31	287.56
Nominal GDP in local currency (bn)	9,003	9,736	10,565	11,546	12,768
GDP per Capita in USD	2,140	2,370	2,617	2,802	2,934
Population (year-end, m)	93.26	94.85	95.6	97.2	98
Exchange rate (yr avge, USD-LCU)	45.11	43.31	42.23	42.4	44.4
Current Account in USDbn	7.18	5.65	6.95	9.42	9.2
Current Account (% of GDP)	3.6	2.51	2.78	3.46	3.2
FX reserves (year-end, USDbn)	55.36	67.29	73.5	75.7	80
Import Cover (months)	9.09	10.83	10.7	12	9.9
Inflation (annual avge, %)	3.9	4.6	3.1	3	4.2
Govt Balance (% GDP)	-2.4	-0.4	-0.6	-0.1	-0.2

Source : D&B

## Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	6.5	5.8	5.7	5.2	5.2
Nominal GDP in USDbn	322.1	353.7	394.7	424.5	455.6
Nominal GDP in local currency (bn)	14,012.69	15,209.6	16,579.27	17,828.39	19,136.19
GDP per Capita in USD	3,255	3,538	3,910	4,162	4,424
Population (year-end, m)	99	100	101	102	103
Exchange rate (yr avge, USD-LCU)	43.5	43	42	42	42
Current Account in USDbn	9	8.8	8.6	8	7.5
Current Account (% of GDP)	2.79	2.49	2.18	1.88	1.65
FX reserves (year-end, USDbn)	82.7	85.3	87.9	90.3	92.6
Import Cover (months)	10.02	9.48	8.13	7.79	7.46
Inflation (annual avge, %)	2.5	2.7	3	2.9	2.7
Govt Balance (% GDP)	-0.8	-0.9	-1.2	-1	-1.1

Source : D&amp;B

## Comparative Market Indicators

Indicator	Philippines	Indonesia	Malaysia	Singapore	Thailand
Income per Capita (USD)	3,255	3,713	11,189	55,631	6,067
Country Population (m)	99	255.7	30.8	5.6	67.4
Internet users (% of population)	37	15.8	67	73	28.9
Real GDP Growth (% p.a., 2014 - 2023)	4.5 - 5.3	5.3 - 6	3.5 - 4.5	4 - 5.5	3.5 - 4

Source : D&amp;B



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