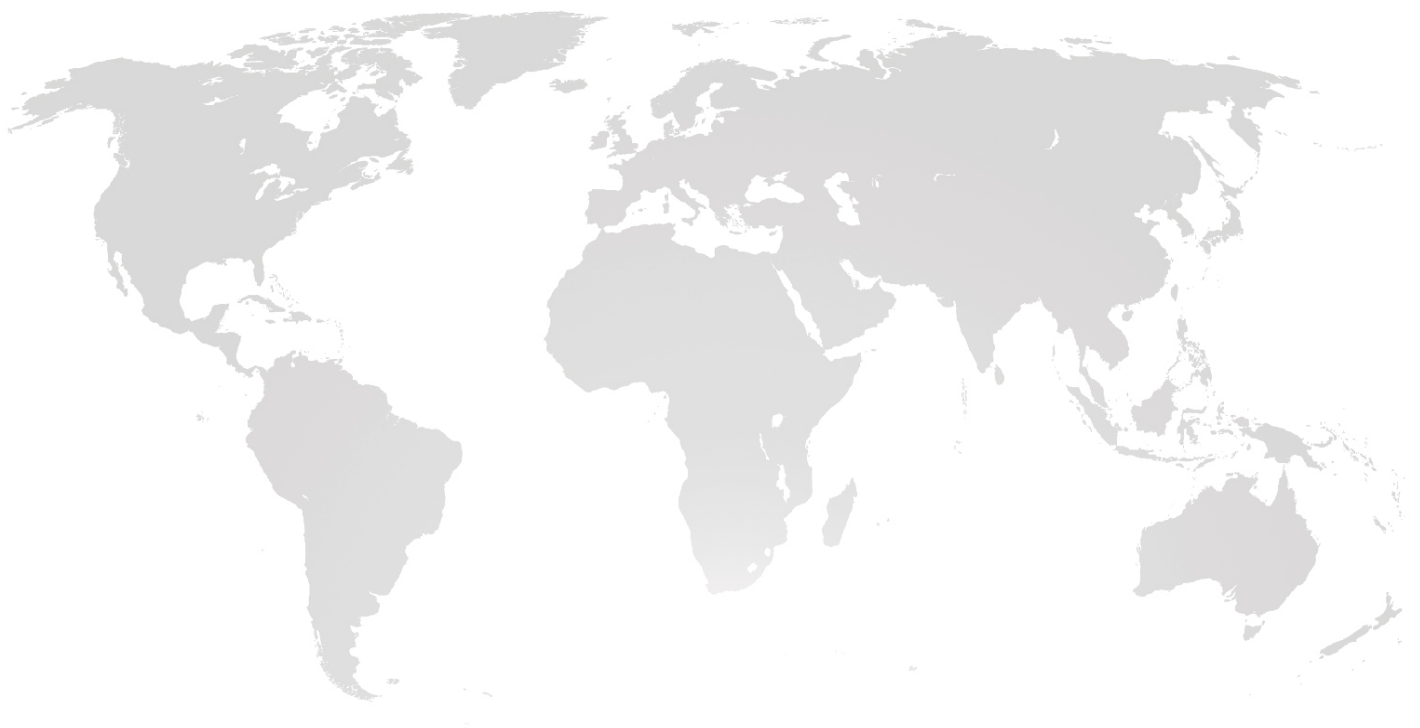


Country Insight Snapshot Philippines

February 2016





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4B

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

A

Rating Outlook:

Stable



CORE OUTLOOK

- + With a population of approximately 100m people, the Philippines has a large domestic market potential.
- 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 costs or delays caused by domestic transportation, as well as burdensome import procedures.

KEY DEVELOPMENT

Domestic investment and consumption will compensate for external headwinds and ensure the Filipino economy remains one of the fastest growing in the world.

CREDIT ENVIRONMENT OUTLOOK

G

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

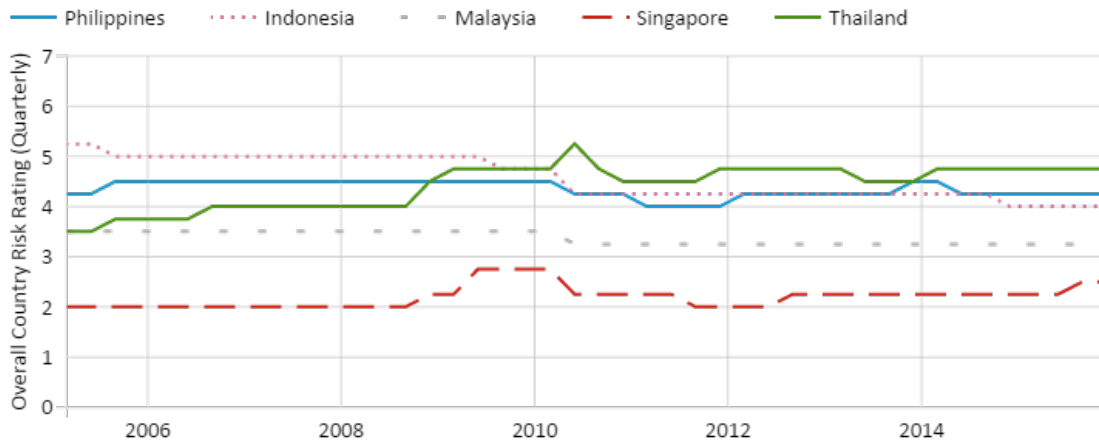
A

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

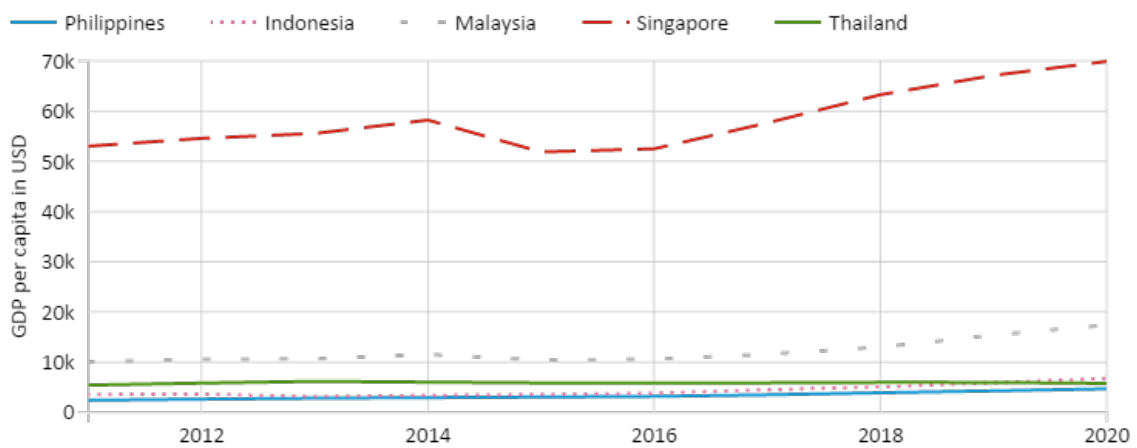
Rating History and Comparison



Source : Dun & Bradstreet

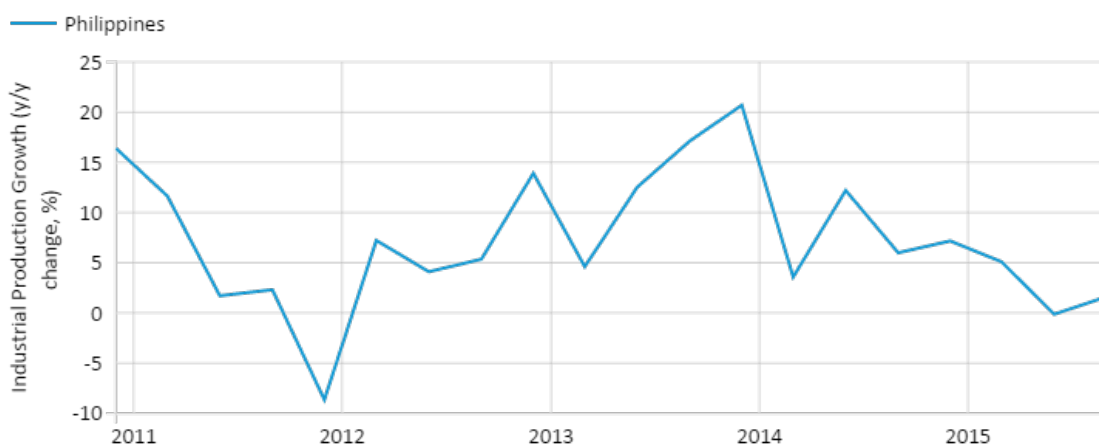
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	4.2	3.8	4.3	3.9	3.4	2.9	2.6	2.3
FX reserves (yr-end, USDbn)	75.7	72.1	76.0	79.7	83.3	86.8	90.4	93.8
Govt balance, % GDP	-1.4	-0.6	-1.5	-2.0	-1.8	-1.7	-1.6	-1.4
Inflation, annual avge %	3.0	4.2	1.4	2.4	3.3	3.4	3.5	3.5
Real GDP Growth, %	7.3	6.1	5.8	6.2	6.3	6.5	6.8	7.0

Source : Haver Analytics/Dun & Bradstreet

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, multiple times the IMF-recommended 3.0-month minimum, and nearly 4.0 times the country's short-term external debt, based on residual maturity. Prudential indicators also suggest the banking sector is healthy. The gross non-performing loans (NPLs) ratio was just 1.7% at the end of 2015. Meanwhile, the local shipping industry is under pressure after new rules broke up a national monopoly. The decision will allow foreign ships to transport between domestic routes, which means that the local shipping industry will no longer be able to impose the much higher fees it used to (and consequently attract higher revenues).

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

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

Recommended Terms: LC

Dun & Bradstreet'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

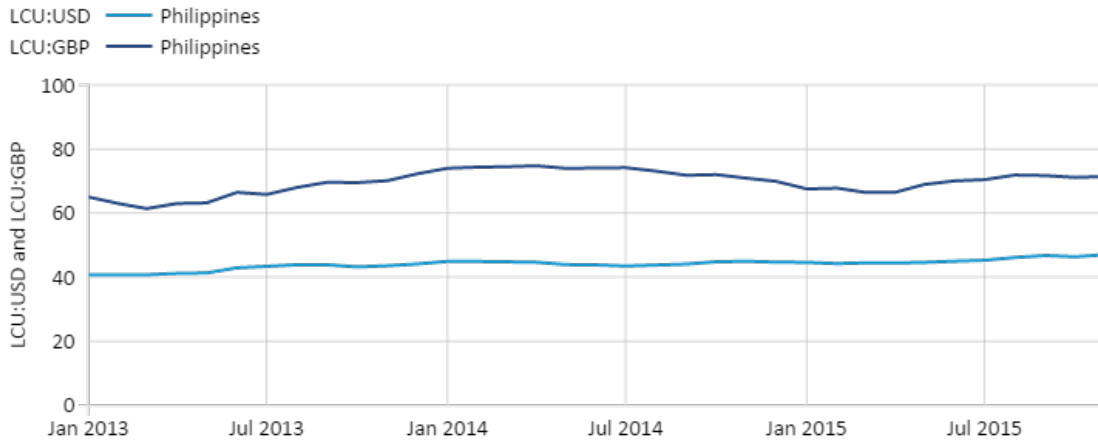
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



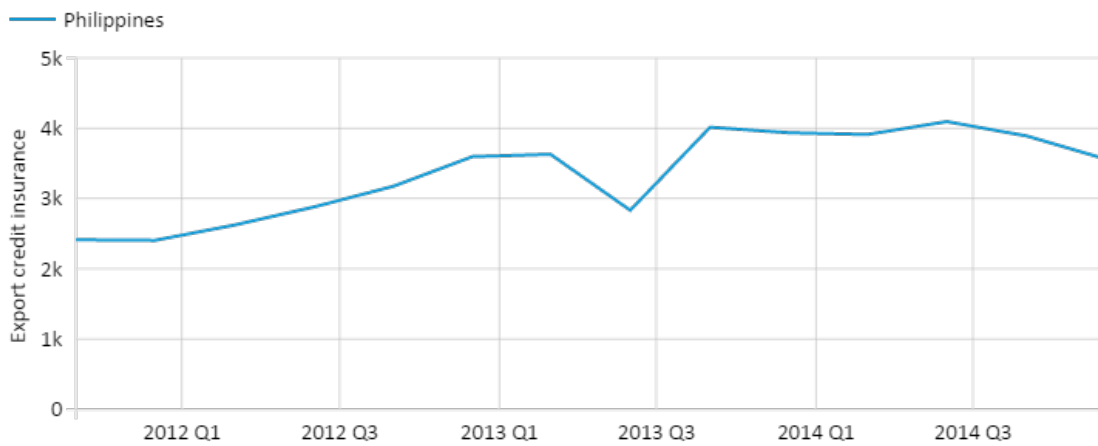
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU = Local Currency Unit

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Robust last-quarter growth

Philippines remains one of the fastest-growing countries in the world. As we expected, public sector spending picked up in Q4 from the previously weak expansion, driving GDP growth to a one-year high. Total GDP growth was 6.3% y/y in Q4. In both Q3 and Q4, public consumption increased in excess of 17% y/y as bottlenecks in government spending were unlocked. Private consumption has also been strong, and even accelerated a little from the previous quarter, advancing by 6.4% y/y. Gross fixed capital formation soared by 22.5% y/y, driven by the durable equipment and public construction components; the outlook for investment is very positive.

GDP growth for the full year came in at 5.8%. Meanwhile, exports declined by 3.4% y/y in December, meaning that they have contracted for nine consecutive months. The December contraction is due to lower sales of manufactured products, and agricultural and mineral products. In geographical terms, the Chinese growth slowdown is a significant drag on Filipino exports. Remittances have also been growing at lower rates compared to previous years (4.1% annual growth in 2015, compared to at least 6% every year since 2010). The country's current account surplus looks set to decline relative to 2014 (Q4 data is not yet available), but we expect it to remain in the black. While uncertainty over who will succeed the current president, Benigno Aquino, could dampen business sentiment to some degree in the short term, we expect that improvements to the business environment will continue to be made after he leaves office. Overall, we maintain our broadly upbeat view of the economy as strong domestic spending patterns will compensate for external headwinds. We continue to expect a slight growth acceleration in 2016 to 6.2%, followed by an expansion of 6.3% in 2017.

FX Risk

Central bank holds rates

At its latest monetary policy meeting in February, the central bank decided to hold the benchmark interest rate steady at 4%, where it has remained since September 2014. Relatively low annual inflation – which registered at just 1.3% January (below the official 3% +/-1% target range) – has allowed the central bank to maintain its accommodative monetary policy stance and has increased policy-makers' tolerance for the weakening peso, particularly given the support it provides to the domestic manufacturing sector in the face of sluggish external demand.

Business Continuity

Long-term congestion problems

Congestion at Manila port has eased from last year, but this has been due to stop-gap measures rather than any permanent upgrade of access routes. According to several sources, the two infrastructure projects that are meant to solve the congestion problem (projects that involve elevated toll roads that bypass Manila) are far beyond schedule. Without a permanent solution in place within the next three years at least, there is a high risk that traffic will increase to the point where extensive queues and delays will once again become the norm.



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, 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)	100.1
GDP (USD billions)	303
GDP per capita (USD)	3,026
Life expectancy (years)	68
Literacy (% of adult pop.)	95.4
Surface area (sq km)	300,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	3.7	6.68	7.28	6.15	5.8
Nominal GDP in USDbn	224.77	250.18	272.31	288.26	303
Nominal GDP in local currency (bn)	9,736	10,565	11,546	12,799	13,786
GDP per Capita in USD	2,379	2,606	2,791	2,908	3,026
Population (year-end, m)	94.5	96.02	97.57	99.14	100.13
Exchange rate (yr avge, USD-LCU)	43.31	42.23	42.4	44.4	45.5
Current Account in USDbn	5.65	6.95	11.38	10.92	13
Current Account (% of GDP)	2.51	2.78	4.18	3.79	4.29
FX reserves (year-end, USDbn)	67.29	73.48	75.69	72.06	75.96
Import Cover (months)	10.83	10.7	12	8.91	9.21
Inflation (annual avge, %)	4.6	3.1	3	4.2	1.4
Govt Balance (% GDP)	-2	-2.3	-1.4	-0.6	-1.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	6.2	6.3	6.5	6.8	7
Nominal GDP in USDbn	319.6	354.2	400.2	443.2	491
Nominal GDP in local currency (bn)	15,023.0	16,468.0	17,807.0	19,278.0	20,867.0
GDP per Capita in USD	3,161	3,467	3,879	4,253	4,666
Population (year-end, m)	101.1	102.1	103.2	104.2	105.2
Exchange rate (yr avge, USD-LCU)	47	46.5	44.5	43.5	42.5
Current Account in USDbn	12.5	12	11.8	11.7	11.5
Current Account (% of GDP)	3.91	3.39	2.95	2.64	2.34
FX reserves (year-end, USDbn)	79.7	83.3	86.8	90.4	93.8
Import Cover (months)	8.86	8.62	7.98	7.53	7.08
Inflation (annual avge, %)	2.4	3.3	3.4	3.5	3.5
Govt Balance (% GDP)	-2	-1.8	-1.7	-1.6	-1.4

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Philippines	Indonesia	Malaysia	Singapore	Thailand
Income per Capita (USD)	3,026	3,502	10,346	51,879	5,843
Country Population (m)	100.1	257.6	30.3	5.6	68
Internet users (% of population)	39.7	17.1	67.5	82	34.9
Real GDP Growth (% p.a., 2016 - 2025)	4.5 - 5.3	5 - 8	3.5 - 4.5	3.2 - 5.7	1 - 4

Source : Various sources/Dun & Bradstreet



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