



Decide with Confidence

D&B Country RiskLine Report

PHILIPPINES

Region : Asia Pacific

Edition : July 2013

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	96.5m
Surface area (sq km):	300,000
Capital:	Manila
Timezone:	GMT +08:00
Official languages:	English; Filipino
Head of state:	President Benigno Simeon AQUINO
GDP (USD):	250.3bn
GDP per capita (USD):	2,592
Life expectancy (years):	69
Literacy (% of adult pop.):	92.6

Country 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 Philippines' 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.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC
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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
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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
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-1 month
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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
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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.

Trade & Commercial Environment

As of end-June, the Philippines' FX reserves fell to USD81.6bn, a ten-month low, as a result of the recent fall of the currency; the reserves are still sufficient to cover 11.8 months of imports. 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. However, given the country's recent weak and unstable trade performance, we advise an increased level of caution when dealing with exporters. Elsewhere, according to Bangko Sentral ng Pilipinas, the central bank, the non-performing loans ratio of universal and commercial banks was 1.8% of the total loan portfolio at the end of last year, down from 2.2% a year earlier; this helps to ease payment risks in the country.

Export Credit Agencies

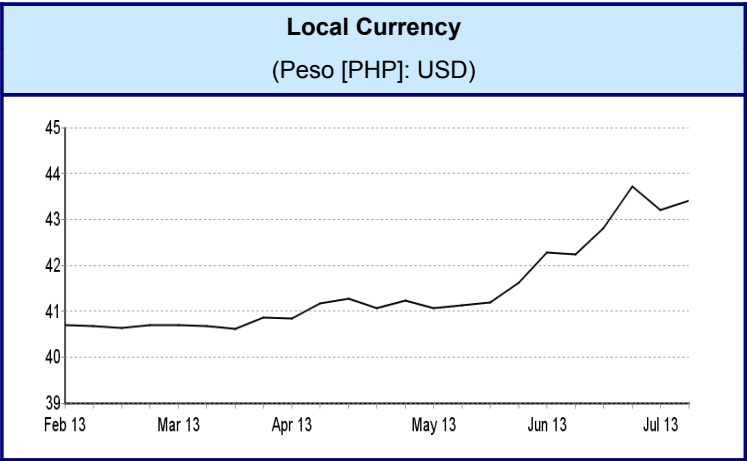
US Eximbank	Restricted cover available
Atradius	ST cover available, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	7.6	3.9	6.7	6.3	5.2
Inflation, annual ave, %	3.9	4.6	3.1	3.2	3.1
Govt balance, % GDP	-3.5	-2.0	-2.7	-2.9	-2.4
External debt, % GDP	30.1	27.5	26.8	24.8	22.4
C/A balance, % GDP	4.5	3.1	3.9	3.9	4.0

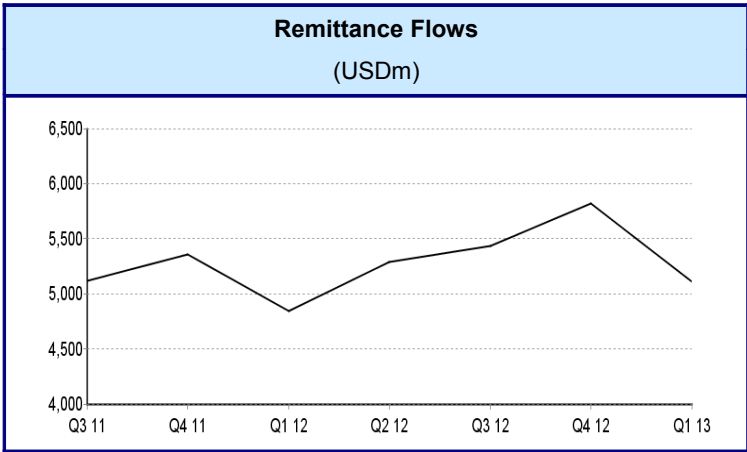
Currency Information

Exchange Rates	
(London, 08 Jul 13)	
EUR	55.6986
GBP	64.5863
JPY*	43.0083
USD	43.3975
*(x 100)	



Local Currency (Peso [PHP]: USD)						
	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13
Week 1	40.705	40.685	40.840	41.065	42.270	43.200
Week 2	40.680	40.680	41.165	41.120	42.240	43.398
Week 3	40.638	40.610	41.270	41.198	42.805	
Week 4	40.685	40.850	41.070	41.628	43.720	
Week 5			41.225			

Remittance Flows



Data Table						
Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
5121.0	5360.0	4842.3	5285.5	5433.0	5820.0	5112.0

Risk Factor

The Philippine peso continued to depreciate at the beginning of July over concerns that the Federal Reserve's monetary stimulus will be gradually withdrawn and that this will cause high capital outflows from those emerging markets that have previously benefited from the low yields in developed countries. Previously, the quarter through to June saw a 5.5% weakening of the peso against the dollar, the steepest quarterly depreciation since 2008. Long-term bond yields have had a similar trajectory, and stock exchange data show that over the course of 2013 foreign investors have divested 14% of their Philippine share holdings. Moreover, the peso depreciation was exacerbated by the comparatively high 2.8% annual CPI inflation in June (up from 2.6% in May). The Philippine central bank is unlikely to increase the policy interest rate in response, as the inflation rate is still below the lower limit of the 3-5% target band. Given the continuing positive news from the US (an improving job market) the odds for a sooner-than-expected policy tightening are growing, which will sustain capital outflows from (or limit inflows to) emerging markets. However, we do not expect depreciation to spiral out of control and impair the sovereign's ability to honour its external debt. The Philippines's foreign reserves cover almost 12 months of imports (as of end-June), well above the IMF-recommended 3 months minimum, and exceed short-term debt by a factor of 5.

The Philippines' exports fell 12.8% year on year (y/y) in April, after growing marginally by 0.1% in the previous month, due to weak demand. Shipments of semiconductors and electronics products (the country's top export item) fell by 0.4% y/y in April, marking the slowest pace of contraction in five months. Exports to the US and China both dropped, by 10.2% and 8.3% y/y respectively, while shipments to Japan (the country's largest trading partner) rose by 27.5% y/y in April. However, balance of payments data from Q1 show that over the whole of the first quarter goods exports had increased by 7.9%, while imports contracted by 8.2%, and that the current account surplus was more than eight times larger than in Q1 2012. Services exports are expanding rapidly, in particular business process outsourcing services. The excellent current account performance, together with currency movements, have caused Philippines' external debt to fall by 4% y/y in Q1.

Under the positive influence of increased public spending on infrastructure, domestic demand remains robust. Vehicle sales in the country jumped 11.2% y/y in May to 15,859 units, bringing sales growth since the start of the year to 23.3% y/y, according to the Chamber of Automotive Manufacturers of the Philippines Incorporated (CAMPI). Given the solid start to the year, CAMPI expects industry sales to hit 210,000 units for 2013, up 34% from last year.

Glossary & Definitions

DEFINITIONS

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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D&B Country Risk Services

For information relating to D&B's Country Risk Services.

UK

Telephone: 01628 492700

Fax: 01628 492929

Email: CountryRisk@dnb.com

USA Inquiry

Telephone: 1-800 234-3867 option 1, 1 and then 2

Email: CountryRiskServices@dnb.com

Rest of World

Telephone: +44 1628 492700

Email: CountryRisk@dnb.com

D&B Customer Services

For all other information or queries relating to D&B products and services.

UK

Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)

Email: CustomerHelp@dnb.com

USA

Telephone: 1-800 234-3867 option 1, 1 and then 2

Email: CustomerService@dnb.com

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