



Decide with Confidence

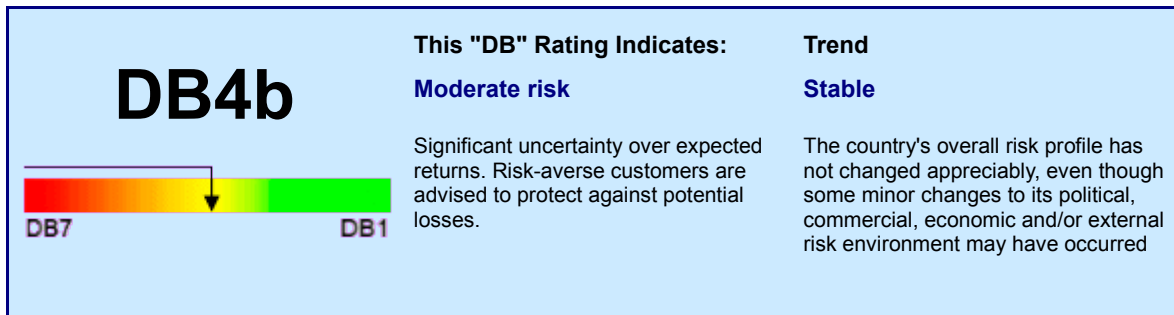
D&B Country RiskLine Report

PHILIPPINES

Region : Asia Pacific

Edition : May 2014

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:	97.2m
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):	271.8bn
GDP per capita (USD):	2,797
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-March, FX reserves in the Philippines stood at USD79.8bn; the reserves are sufficient to cover 11.1 months of imports, well above the IMF-recommended 3.0-month minimum and 5.2 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, the government aims to boost FDI in the country by easing foreign ownership in previously restricted areas such as utilities, airports and roads; the authorities are preparing a bill in this regard. The Philippines attracts much less FDI than peer economies, such as Indonesia.

Export Credit Agencies

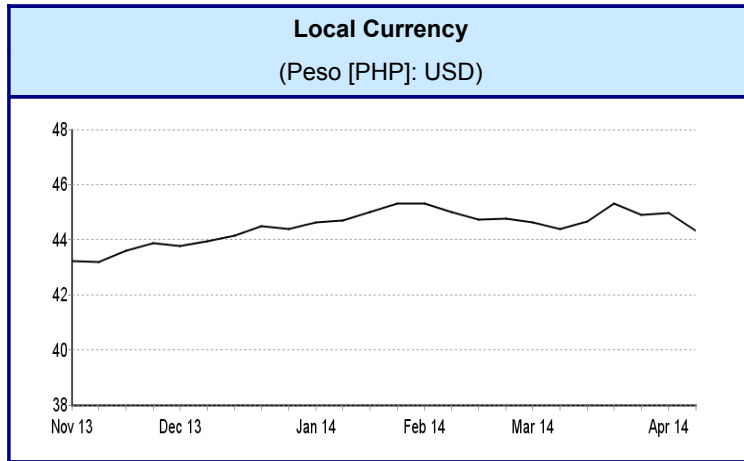
US Eximbank	Restricted cover available
Atradius	ST cover available, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	3.9	6.8	7.2	5.9	5.6
Inflation, annual ave, %	4.6	3.1	3.0	4.8	3.3
Govt balance, % GDP	-2.0	-2.3	-1.4	-2.0	-2.0
External debt, % GDP	27.5	26.8	24.8	22.4	25.0
C/A balance, % GDP	3.1	2.8	3.5	2.2	2.8

Currency Information

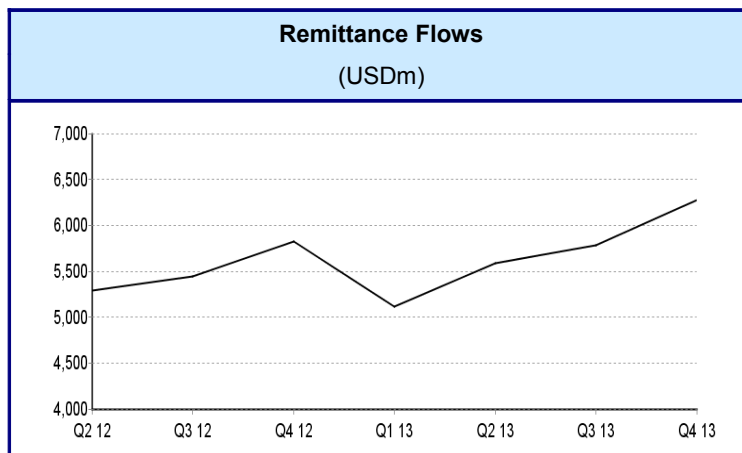
Exchange Rates	
(London, 10 Apr 14)	
EUR	61.4998
GBP	74.3239
JPY*	43.6416
USD	44.305
*(x 100)	



Local Currency
(Peso [PHP]: USD)

	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14
Week 1	43.210	43.775	44.640	45.320	44.635	44.955
Week 2	43.190	43.950	44.700	44.995	44.390	44.305
Week 3	43.585	44.145	45.015	44.745	44.662	
Week 4	43.865	44.490	45.310	44.758	45.300	
Week 5		44.382			44.890	

Remittance Flows



Data Table

Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
5285.7	5443.1	5820.4	5112.0	5587.5	5780.6	6279.6

Risk Factor

D&B has upgraded the Philippines by one quartile against a background of strong economic growth. Exports surged by almost 25% year on year (y/y) in February, with strong performances by the electronics, wood and chemical sectors, and mineral products in general. This follows an export growth rate of 9.2% y/y in January. Shipments to Japan and China (the two biggest export markets) surged by around 70% y/y in February. Moreover, following the good performances in the first two months of 2014, and the revised sales outlook of biggest producer Toyota, the Philippine auto industry association has raised its 2014 forecast for vehicle sales, expecting now to exceed the 90,000 vehicles it had initially forecast. Capital inflows have continued (seemingly unabated by the Fed tapering and the emerging market turmoil) with almost USD500m of foreign funds going into the local stock market in 2014 to date. Meanwhile, inflation has declined from the peak of 4.1% in February, coming in at an annual 3.9% in March. Going forward, the strengthening peso is likely to help alleviate inflationary pressures. Having expanded by 7.2% in 2013, the Philippine economy is expected to grow by 5.9% in 2014.

The Philippine government is boosting public spending as well, particularly on infrastructure. While the risk of an overheating economy clearly exists, the central bank has opted not to raise the policy rate (currently at 3.5%) at its latest policy meeting. Instead, it has increased commercial banks' reserve requirements from 18% of deposits to 19%, thereby reducing the amount that banks can lend. Given the recent slowdown in inflation, and the weaker than expected Q1 corporate earnings reports, it is likely that an interest rate increase will only take place in H2 2014.

On the political front, the United States and the Philippines reached a defence cooperation agreement, which will see the US boost its military presence in the country, and act as a deterrent to China's following up its territorial claims in the disputed South China Sea with military measures. The Philippines has also sued China at a UN tribunal following Chinese aggression against Filipino fishermen in disputed waters. Also, progress was made on the decade-long Mindanao conflict in early 2014 when the government signed a final agreement with the local rebels, which also stipulates the start and terms of rebel disarmament (in May 2014) which had been a major point of contention and an obstacle to an effective implementation of the peace agreement. Mineral deposits on Mindanao are estimated at USD312bn. Moves to pacify the region may result in the unlocking of these natural resources; while the outcome is by no means decided yet, this most recent agreement is a crucial step forward.

Glossary & Definitions

DEFINITIONS

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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:

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.

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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