Decide with Confidence

D&B Country RiskLine Report

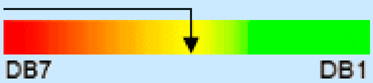
PHILIPPINES

Region : Asia Pacific

Edition : December 2010

D&B Country Risk Indicator

DB4a



This "DB" Rating Indicates:

Moderate risk

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

Trend

Improving

The country's overall risk profile is improving as a result of favourable political/commercial, economic and/or external developments

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:	92.0m
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):	161.1bn
GDP per capita (USD):	1,750.9
Life expectancy (years):	71
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 (1972-1986) 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

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.

Transfer Situation

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.

Trade & Commercial Environment

Philippine banks' net profits rose 30.3% in Q3 2010, with non-interest income up year-on-year at double-digit rates for all but two of the 14 largest institutions. In turn, the non-performing loan ratio improved for the 24th month in a row in September, falling to 3.11% from 3.25% a year before. Business expectations are positive, even if some post-seasonal weakness in demand was anticipated in Q1. Proctor & Gamble and Nestle Philippines have committed to large investments in recent months, and the central bank expects the business process outsourcing sector to see a 28% rise in export revenues in 2010 and a 30% rise in 2011; 2010 revenues are expected to pass the USD9bn mark. Nevertheless, the Philippines is still a small market, with Toyota expecting to sell just 50,000 vehicles in 2010.

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

	2008	2009	2010e	2011f	2012f
Real GDP growth, %	3.7	1.1	6.3	5.0	2.5
Inflation, annual ave, %	9.3	3.2	4.0	4.8	3.9
Govt balance, % GDP	-0.9	-3.9	-3.9	-3.5	-1.9
External debt, % GDP	32.3	33.0	33.5	30.6	29.2
C/A balance, % GDP	2.2	5.3	4.7	3.3	2.1

Currency Information

Exchange Rates

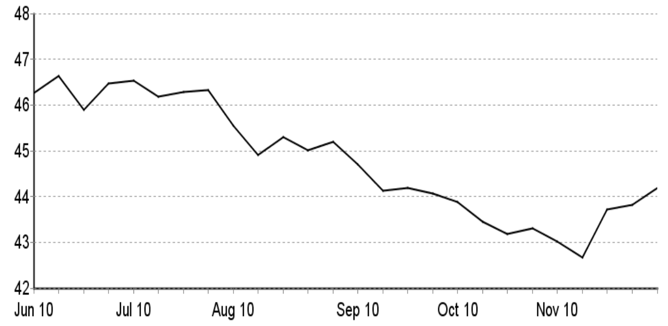
(London, 29 Nov 10)

EUR	58.3993
GBP	68.9895
JPY*	52.5821
USD	44.19

*(x 100)

Local Currency

(Peso [PHP]: USD)

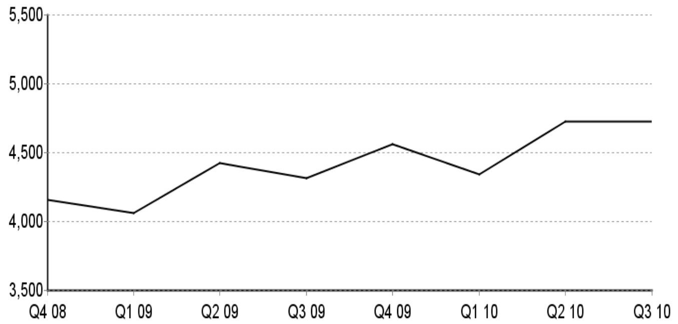


Local Currency (Peso [PHP]: USD)						
	Jun 10	**Jul 10**	**Aug 10**	**Sep 10**	**Oct 10**	**Nov 10**
Week 1	46.270	46.530	45.550	44.700	43.880	43.020
Week 2	46.635	46.175	44.900	44.120	43.445	42.675
Week 3	45.902	46.278	45.300	44.190	43.190	43.720
Week 4	46.460	46.318	45.020	44.075	43.300	43.815
Week 5			45.195			44.190

Remittance Flows

Remittance Flows

(USDm)



Data Table					
Q1 09	**Q2 09**	**Q3 09**	**Q4 09**	**Q1 10**	**Q2 10**
4057.0	4423.0	4310.0	4558.0	4339.4	4722.3

Risk Factor

D&B is upgrading the Philippines' risk indicator from DB4b to DB4a, maintaining its outlook on 'improving'. Since Q3, the number of positive factors in the Philippines' risk equation has crossed a critical threshold, while the economy has to date shown resilience to potential shocks from global food price inflation and extreme weather. Demand has been growing fast enough to suggest that it will continue to be substantial after the favourable effects of the 2009 base have passed. Real GDP grew 6.5% in Q3, year on year (y/y), and GNP, including net income from abroad, was up 7.5% y/y. Import demand is strong, with imports of electronic parts up 35.7% y/y to USD1.63bn and those of industrial machinery up 65.0% y/y to over USD200m in September. The balance of payments surplus of USD9.3bn in January-October 2010 supported FX liquidity, reflecting the close to USD20bn in overseas worker remittances due in 2010. This has allowed the peso to appreciate and absorb inflation, which declined to 2.8% y/y in October (from 3.5% y/y in September). Super Typhoon 'Juan' (which appears to have destroyed over 0.5m tonnes, or 3% of expected 2010 output, in October) did not affect the CPI, despite the shock to the rice harvest of Northern Luzon, thanks to adequate national stocks.

Meanwhile, the central bank's Business Expectations Survey for Q4, published in November, put business sentiment at a record level. This broad front of positive developments also contributed to S&P's decision in November to upgrade the country's long-term foreign currency rating by one notch to BB, putting it at the same level as Indonesia. However, the steady progress to date in fiscal stabilisation was also behind S&P's decision. Since July's inauguration of President Benigno Aquino, most government departments have been straining to rebalance public finances. Neglect of reform and corruption have chronically weakened tax collection, and the near-recession of 2009 and pre-election largesse of outgoing President Gloria Macapagal Arroyo will have pushed public borrowing in 2010 to a record level. Nevertheless, there are grounds for continued mild optimism, with the government running a budgetary surplus in August for the first time since 2008, and the shortfall of PHP270.3bn for January-October 2010 below the anticipated PHP292.8bn. Despite the Bureau of Customs' stubborn difficulties in raising revenues (it has a reputation for being among the most corrupt agencies), both short- and medium-term economic trends should support collection efforts, and there is little risk of funding difficulties in current conditions.

The key uncertainty is whether the government will be able to mobilise investment and alleviate poverty by constructing, via public-private partnerships, the transport and electricity infrastructure the national archipelago requires. First bids for projects are due in Q1, but this will only be the beginning.

Glossary & Definitions

DEFINITIONS

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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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