

Country Insight Snapshot Philippines

January 2017



Written 27 January 2017

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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 approximately 100m people, the Philippines has large domestic market potential.
- Restrictions on hiring foreign workers necessitates 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

Boosted by strong domestic demand and investment, the country's 2016 GDP growth was among the fastest in the world.

CREDIT ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



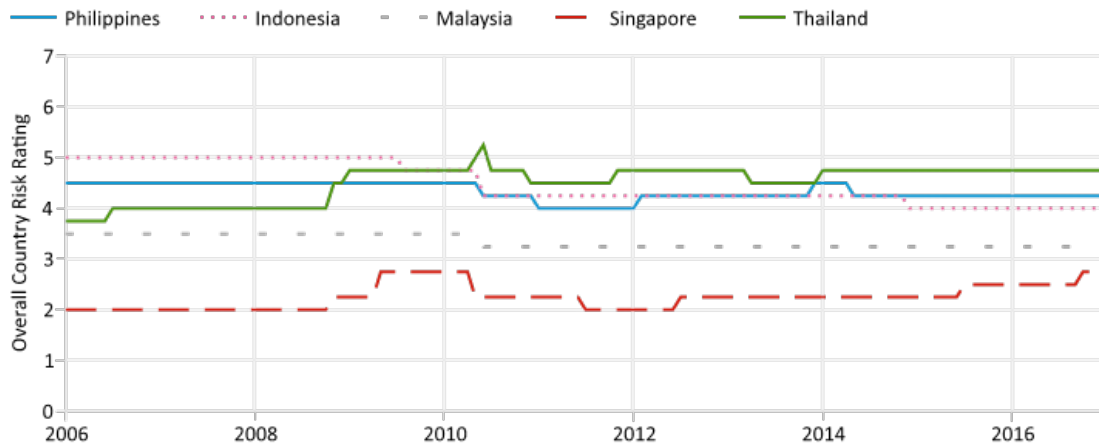
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

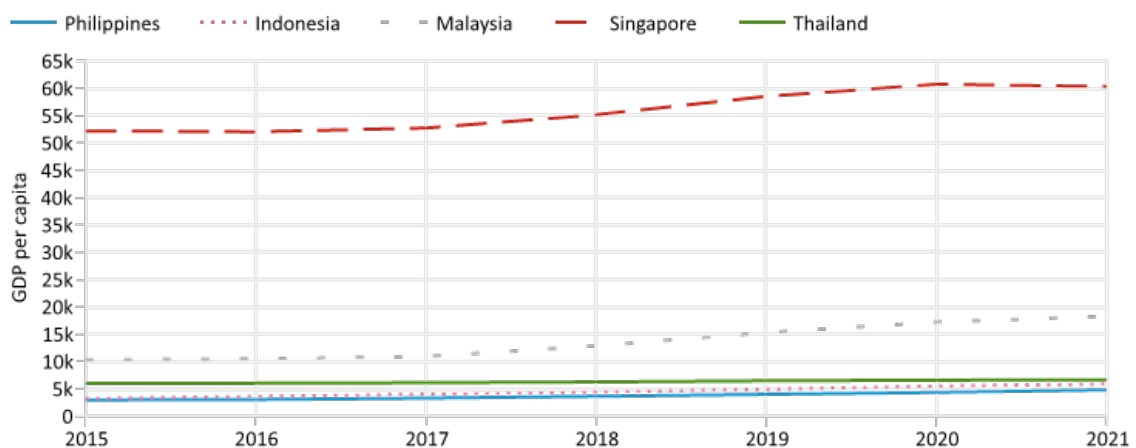
Rating History and Comparison



Source : Dun & Bradstreet

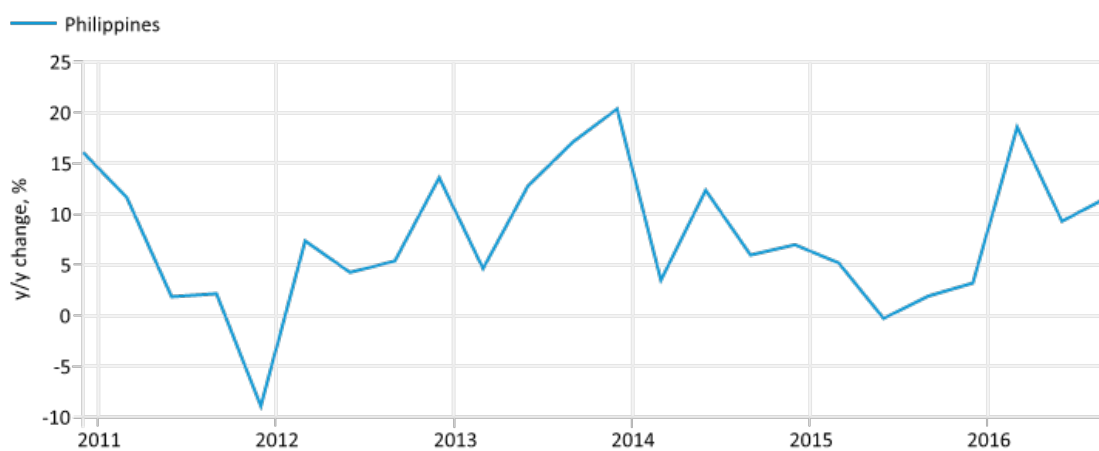
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	3.7	2.8	1.9	2.0	1.6	2.8	2.5	2.2
FX reserves (yr-end, USDbn)	72.1	74.0	81.0	83.1	84.9	88.4	91.9	95.3
Govt balance, % GDP	-0.6	-0.9	-2.5	-3.0	-2.5	-2.5	-2.5	-2.5
Inflation, annual avge %	4.2	1.4	1.8	2.5	3.4	3.5	3.5	3.5
Real GDP Growth, %	6.2	5.9	6.8	7.0	6.5	6.8	7.0	7.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

As of end-2016, FX reserves in the Philippines stood at USD80.7bn, sufficient to cover 9.2 months of imports, more than three times the IMF-recommended 3.0-month minimum, and four times the country's short-term external debt, based on residual maturity. Other financial and external stability indicators are also sound. Total external debt represented only 25.5% of GDP (as of end-September 2016), a very manageable level. Over 80% of the Philippines' external debt is long- or medium-term debt, meaning that the risk of liquidity problems in the event of a negative financial shock is minimal. The debt is divided almost evenly between the public sector and the private sector. Meanwhile, according to the latest survey published by the central bank, commercial banks' lending standards are expected to remain unchanged over Q1 2017.

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

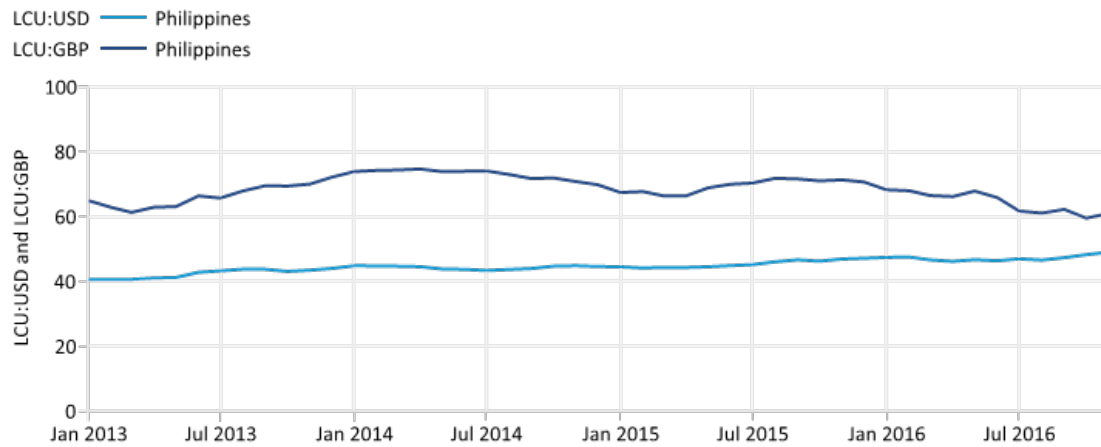
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



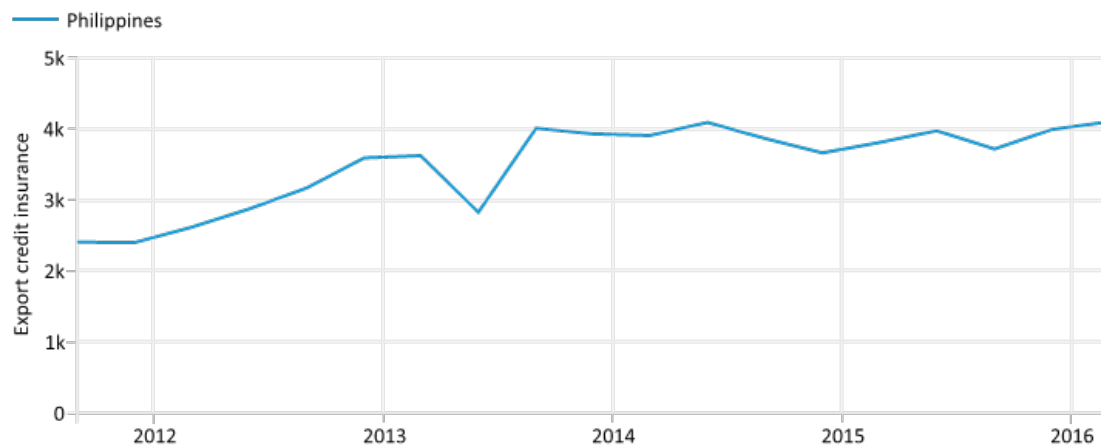
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Philippine peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economic growth among the fastest in the world

The Philippines' economy remains one of the fastest growing in the world. Real GDP growth came in at 6.5% y/y in Q4 2016, taking full-year growth to 6.9%. On the domestic front, growth was broad-based. Private consumption increased by 6.3% y/y in Q4 (and by 6.9% in 2016), continuing the consumption boom that started in 2011 (consumption growth has topped 5.5% in every year since). Boosted by remittance growth, a low and declining unemployment rate (5.0% in Q4), and low level of indebtedness, the outlook for household spending remains positive. Public spending was also buoyant, partly due to election-related spending. The outlook for 2017 is for continued high public expenditure, as the administration has very ambitious infrastructure investment plans and is eliminating some of the bureaucratic bottlenecks that have hampered public investment in the past. Most encouragingly, gross fixed capital formation grew by a very high 18.6% y/y in Q4 (and by 23.6% in 2016), driven chiefly by the 'durable equipment' component (which bodes well for future growth). Foreign trade, meanwhile, had a large negative contribution to growth. Domestic demand in the Philippines far outpaces global demand, meaning that the country's imports are soaring while exports have grown at about half their pace.

We forecast 7.0% GDP growth in 2017, and 6.5% in 2018. Downside risks, however, are prevalent. These include the potential of civil unrest as a consequence of President Duterte's controversial anti-crime policies, US immigration curbs which negatively impacts on remittances, risks to the country's large US-focused outsourcing industry and, at a broader level, a regional decrease in foreign trade as a consequence of the US' protectionist policies. With regional supply chains being highly integrated, a US trade war with China would reverberate across South-East Asia.

FX Risk

Positive outlook for the peso

According to most market observers, the Philippines' currency is the South-East Asian currency least exposed to external risks in 2017. The peso's (anticipated) resilience is partly due to the country's poorly integrated financial markets and low indebtedness, but also due to the lower export share in GDP relative to regional peers and the very high domestic demand growth. We forecast a slight appreciation of the peso for 2017, to 47 peso per USD.

Business Regulatory Environment

Corruption hinders business

Corruption remains a serious impediment to doing business in the Philippines. According to the Transparency International's 2016 *Corruption Perceptions Index*, the Philippines ranks 101st in the world (out of 176 evaluated countries). It has the same ranking as regional peer Thailand, and is slightly above Vietnam (103rd), but is well below Malaysia (55th) and Indonesia (90th).



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 Rodrigo DUTERTE
Capital	Manila
Timezone	GMT +08-00
Official languages	English, Filipino
Population (millions)	101.7
GDP (USD billions)	313.8
GDP per capita (USD)	3,085
Life expectancy (years)	68
Literacy (% of adult pop.)	96.6
Surface area (sq km)	300,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	6.7	7.1	6.2	5.9	6.8
Nominal GDP in USDbn	250	272	288	303	314
Nominal GDP in local currency (bn)	10,565	11,546	12,795	13,782	14,902
GDP per Capita in USD	2,606	2,788	2,907	3,008	3,085
Population (year-end, m)	96.0	97.6	99.1	100.7	101.7
Exchange rate (yr avge, USD-LCU)	42.23	42.45	44.4	45.5	47.49
Current Account in USDbn	7.0	11.4	10.8	8.4	6.0
Current Account (% of GDP)	2.8	4.2	3.7	2.8	1.9
FX reserves (year-end, USDbn)	73.5	75.7	72.1	74.0	81.0
Import Cover (months)	10.7	12.0	8.9	9.0	9.0
Inflation (annual avge, %)	3.2	2.9	4.2	1.4	1.8
Govt Balance (% GDP)	-2.3	-1.4	-0.6	-0.9	-2.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	7.0	6.5	6.8	7.0	7.0
Nominal GDP in USDbn	344	382	423	468	519
Nominal GDP in local currency (bn)	16,178	17,575	19,026	20,595	22,302
GDP per Capita in USD	3,351	3,682	4,035	4,422	4,852
Population (year-end, m)	102.7	103.8	104.8	105.8	106.9
Exchange rate (yr avge, USD-LCU)	47.0	46.0	45.0	44.0	43.0
Current Account in USDbn	7.0	6.0	11.7	11.5	11.5
Current Account (% of GDP)	2.0	1.6	2.8	2.5	2.2
FX reserves (year-end, USDbn)	83.1	84.9	88.4	91.9	95.3
Import Cover (months)	8.8	8.2	7.7	7.3	6.8
Inflation (annual avge, %)	2.5	3.4	3.5	3.5	3.5
Govt Balance (% GDP)	-3.0	-2.5	-2.5	-2.5	-2.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Philippines	Indonesia	Malaysia	Singapore	Thailand
Income per Capita (USD)	3,008	3,248	10,346	52,239	6,023
Country Population (m)	100.7	257.6	30.3	5.6	68
Internet users (% of population)	40.7	22	71.1	82.1	39.3
Real GDP Growth (% p.a., 2017 - 2026)	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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