

Strong growth hindered by political uncertainties

General Information



| | |
|---------------------------|--|
| GDP | USD291.9bn (World ranking 40, World Bank 2015) |
| Population | 100.7mn (World ranking 12, World Bank 2015) |
| Form of state | Republic |
| Head of government | Rodrigo DUTERTE |
| Next elections | 2019, general election |



Strengths

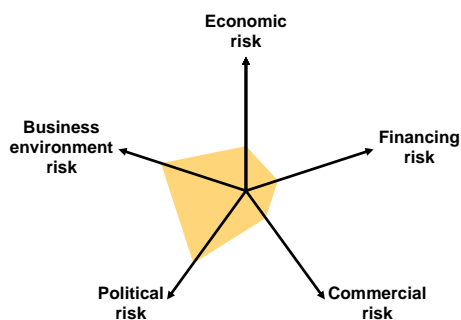
- Robust GDP growth since 2002 and resilience of the economy to the global economic crisis 2008-2009 as well as recent external headwinds
- Solid monetary and fiscal policies in recent years
- Continued current account surpluses since 2003
- Relatively low external debt
- Ample foreign exchange reserves
- Strong remittances inflows

Weaknesses

- History of political turmoil and ongoing security issues threaten political stability
- Strong income disparities
- High dependency on electronic, electrical exports and tourism
- Weak business environment

Country Rating

B2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

| Exports | Rank | Imports |
|----------------------|-------|-----------------------|
| Japan | 23% 1 | 15% China |
| United States | 14% 2 | 9% United States |
| China | 13% 3 | 8% Japan |
| China, Hong Kong SAR | 9% 4 | 8% Korea, Republic of |
| Singapore | 7% 5 | 7% Singapore |

By product (% of total)

| Exports | Rank | Imports |
|------------------------------------|-------|-------------------------------------|
| Electrical machinery | 35% 1 | 19% Electrical machinery |
| Office machines | 11% 2 | 18% Petroleum and related materials |
| Metalliferous ores and metal scrap | 5% 3 | 6% Road vehicles |
| Cork and wood manufactures | 5% 4 | 4% Other transport equipment |
| Vegetables and fruits | 4% 5 | 3% Office machines |

Source: UNCTAD

Strong growth

The Philippines will rank among the top performers in the region in 2016. The strong growth - above +6% - is buoyed by solid domestic demand. Low inflation, robust remittances inflows and solid job markets support a rise in private consumption. Private investment benefits from low energy costs, robust growth in credit and a rise in new orders. Public expenditures growth has been particularly strong in the first half of 2016 due to election-related spending and continued growth in public investment.

Looking ahead, GDP growth is forecast to decelerate slightly. Net exports will continue to underperform due to strong growth of imports and limited growth of exports. Private consumption is set to moderate. A rise in inflation is to be blamed as it hinders purchasing power. Fiscal policy should remain supportive with spending focusing on infrastructure and social services.

Macroeconomic policies buffers are solid

Public finances have improved to a large extent over the past ten years. Public debt has decreased to around 45% GDP in 2015 (down from 68.5% GDP in 2005) and should remain broadly stable over 2016-2017. The fiscal deficit remains acceptable despite an increase in spending in 2016. The monetary policy stance is adequate. Inflation is in the lower range of the Central Bank's target range (3% ± 1pp) and the institution left room for monetary easing if needed.

The Philippines has enjoyed a structural current account surplus since 2003 with strong worker remittances and robust exports of services. The external debt is at an acceptable level. Foreign exchange reserves are significant, covering close to 10 months of imports. The goods trade deficit remains the main hurdle, with a weak exports performance compared to imports.

Weak business environment, political uncertainties could hinder the outlook

The business environment is weak. The country ranks 103rd out of 189 countries in the World Bank's latest Doing Business survey. That survey highlights difficulties in legal procedures to start companies and to protect minority investors (155th).

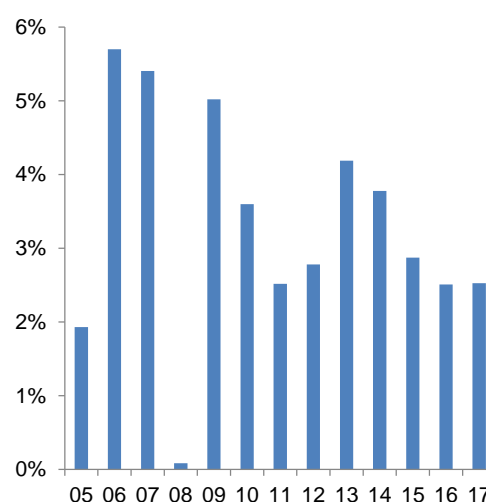
The current political landscape raises uncertainties. The government's controversial 'war on drugs' has evoked criticism from international institutions (e.g. U.N.) and denunciations of human rights abuses. Intemperate remarks by the country's president, against key allies (U.S.), could hinder private sector sentiment, trade, and investment flows.

Key economic forecasts

| | 2014 | 2015 | 2016f | 2017f |
|------------------------------|------|------|-------|-------|
| GDP growth (% change) | 6.2 | 5.9 | 6.5 | 6.0 |
| Inflation (% , year average) | 4.2 | 1.4 | 1.8 | 2.7 |
| Fiscal balance (% of GDP) | -0.6 | -0.9 | -2.3 | -2.7 |
| Public debt (% of GDP) | 45.4 | 44.8 | 44.5 | 45.0 |
| Current account (% of GDP) | 3.8 | 2.9 | 1.8 | 1.5 |
| External debt (% of GDP) | 27.3 | 26.6 | 26.3 | 26.0 |

Sources: IIF, Euler Hermes

Current Account (% GDP)



Sources: IHS, Euler Hermes

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