

## Strong growth amid global uncertainty

### General Information



|                           |  |
|---------------------------|--|
| <b>GDP</b>                | USD284.582bn (World ranking 40, World Bank 2014) |
| <b>Population</b>         | 100.1mn (World ranking 12, World Bank 2014)      |
| <b>Form of state</b>      | Republic   |
| <b>Head of government</b> | Benigno AQUINO III                               |
| <b>Next elections</b>     | 2016, presidential                               |



### Strengths

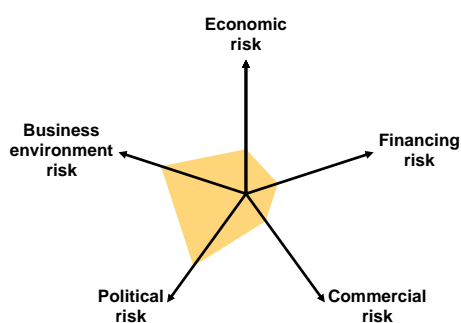
- Robust GDP growth since 2002 and resilience of the economy to the global economic crisis 2008-2009 as well as recent external headwinds
- Solid monetary and fiscal policies in recent years
- Continued current account surpluses since 2003
- Relatively low external debt
- Ample foreign exchange reserves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

### Weaknesses

- History of political turmoil and ongoing security issues threaten political stability
- History of government ineffectiveness and sluggish structural reforms
- High dependency on electronics 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, Mainland |
| United States    | 14% 2 | 9% United States    |
| China, Mainland  | 13% 3 | 8% Japan            |
| China, Hong Kong | 9% 4  | 8% South Korea      |
| 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 products    |
| Metalliferous ores   | 5% 3  | 6% Road vehicles          |
| Cork and wood        | 5% 4  | 4% Other transport equip. |
| Vegetab.and fruits   | 4% 5  | 3% Office machines        |

### Maintaining high growth

The Philippines is among the best performers in the region in 2015. Strong GDP growth (above +5.5%) is underpinned by solid domestic demand. Low inflation, robust remittances inflows and positive improvement in the job markets support a rise in private consumption. Private investment is gaining traction, benefitting from low energy costs, robust credit growth and positive business sentiment. Public expenditures are rising in line with a pro-growth budget focusing on increasing social services and infrastructure. Net exports are the main drag on growth due to higher growth of imports compared to exports. GDP growth is forecast to accelerate gradually to +5.8% in 2016 and +6% in 2017. Downside risks stem from political instability after 2016 elections, sharp deceleration in demand from China and rising in Fed interest rate. The long-term economic outlook will depend on the ability of the next government to implement reforms: enhancing the tax system, reducing administrative burden for businesses, creating a more business-friendly environment.

### Monetary policy: cautious stance

In 2015, the Central Bank maintained its policy rate unchanged while inflation decelerated significantly, close to the lower end of the targeted corridor (2%-4%). This prudent approach helped to avoid strong currency volatility and maintain solid capital inflows. In the short run, the Central Bank will probably keep its cautious stance. First, inflation showed some signs of acceleration in November (+1.1% y/y from +0.4% in October) and disruptions related to El Niño can result in further inflationary pressures. Second, downward pressures on the currency will likely increase with the rise in Fed interest rates.

### Public finances are at acceptable levels

Public debt continued to decrease over the past years (45% GDP in 2015 vs 74% in 2004) and should stabilize over 2016-2017. The fiscal deficit is contained so far but should deteriorate somewhat in the short run, due to election-related expenditures next year and a rise in public investment.

### Sound external position

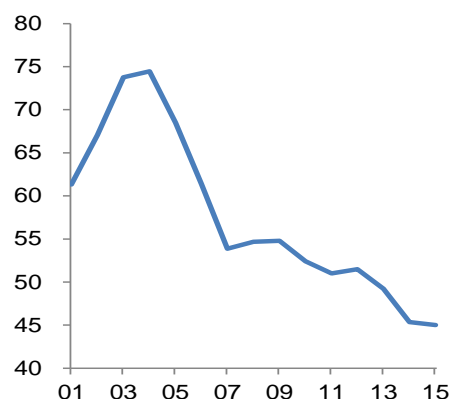
The Philippines has posted structural current account surpluses since 2003 on the back of strong worker remittances and services exports. The goods trade deficit remains a hurdle with weaker export performance compared to imports. External debt is at an acceptable level. Foreign exchange reserves are ample, covering close to 10 months of imports.

### Key economic forecasts

|                            | 2014 | 2015f | 2016f | 2017f |
|----------------------------|------|-------|-------|-------|
| GDP growth (% change)      | 6.1  | 5.6   | 5.8   | 6.0   |
| Inflation (% average)      | 4.2  | 1.5   | 2.5   | 3.0   |
| Fiscal balance (% of GDP)  | -0.6 | -2.0  | -2.1  | -2.4  |
| Public debt (% of GDP)     | 45.4 | 44.6  | 45.0  | 45.0  |
| Current account (% of GDP) | 4.4  | 4.0   | 3.5   | 3.0   |
| External debt (% of GDP)   | 27.3 | 26.9  | 26.6  | 25.0  |

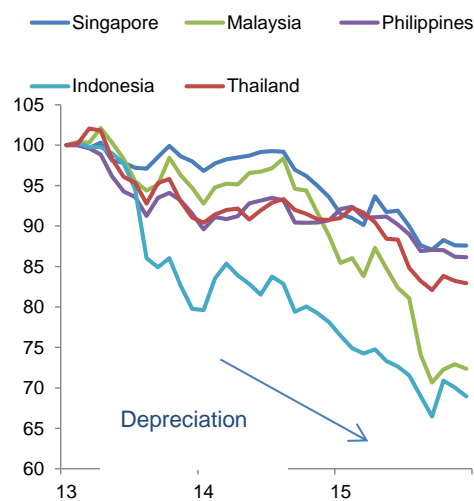
Sources: ADB, IMF, Euler Hermes

### Public debt (% GDP)



Sources: ADB, Euler Hermes

### ASEAN currencies (100 = 01/2013)



Sources: IHS, Euler Hermes

#### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.