Euler Hermes Economic Research

Country Report

Philippines

Solid growth and firm policy buffers

General Information

GDP	USD304.9bn (World ranking 35, World Bank 2016)
Population	103.3mn (World ranking 12, World Bank 2016)
Form of state	Republic
Head of government	Rodrigo DUTERTE
Next elections	2019, General election

Strengths

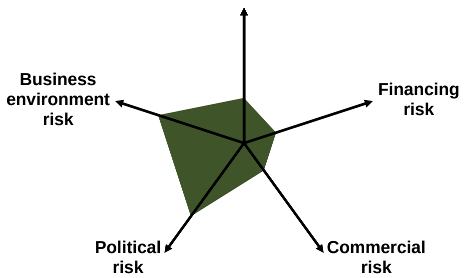
- Robust GDP growth since 2002 and resilience to external headwinds
- Solid monetary and fiscal policies
- Current account surpluses since 2003
- Relatively low external debt
- Ample foreign exchange reserves
- Strong remittances inflows

Weaknesses

- History of political turmoil and ongoing security issues pose a risk to political stability
- Strong income disparities
- High dependency on electronic and electrical exports and tourism
- Weak business environment

Country Rating

B1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Japan	21%	1	19%	China
United States	15%	2	12%	Japan
China, Hong Kong SAR	12%	3	9%	United States
China	11%	4	8%	Thailand
Singapore	7%	5	7%	Korea, Republic of

By product (% of total)

Exports		Rank		Imports
Electrical machinery, apparatus and appliances	42%	1	20%	Electrical machinery, apparatus and appliances
Office machines, automatic data processing machines	12%	2	9%	Road vehicles
Cork and wood manufactures (excluding furniture)	5%	3	8%	Petroleum and related materials
Vegetables and fruits	3%	4	5%	Office machines, automatic data processing machines
Other transport equipment	3%	5	4%	Iron and steel

EULER HERMES
Our knowledge serving your success

Defying expectations

The economy is performing well despite investor's worries following Rodrigo Duterte's election. The Philippines will rank among the top performers in the region in 2017. Strong growth - above +6% - is buoyed by solid domestic demand and an improvement in exports.

Moderate inflation, robust remittances inflows and solid job creation support a rise in private consumption. Private investment benefits from robust growth in credit and a rise in new orders. Public expenditures growth remains strong albeit at a slower pace due to base effects related to the 2016 election. Exports are improving due to higher demand from major economies.

In the longer term, GDP growth should remain strong. A weak Philippine Peso and improved global demand will contribute to steady exports performance. Domestic demand growth will remain firm on the back of supportive monetary and fiscal policies. Investment growth will remain the main driver, followed by private consumption.

Risks relate to domestic political developments. Further controversial statements and actions by President Rodrigo Duterte could hinder investor's sentiment. At the same time, slower growth in global demand could halt current exports improvement.

Solid macroeconomic buffers allow for considerable support

Public finances have improved to a large extent over the past seven years. National government debt has decreased to 42% of GDP in 2016 (down from 54.8% in 2009). It should remain broadly stable over 2017-2018 thanks to solid nominal GDP growth.

Looking ahead, the authorities intend to use available fiscal means to make growth more inclusive with an increase in infrastructure investment and higher social expenditures. The national government deficit ceiling has been increased to -3% GDP (up from -2.0% in the previous administration).

The monetary policy stance is prudent and supportive. Inflation is under control, in the mid-point of the Central Bank's target range (3% ± 1pp). Policy rate is at a low level at 3%. Yet, downward pressures on the peso and a double digit rise in credit suggest a more hawkish stance going forward.

On the external front, the Philippines has enjoyed a structural current account surplus from 2003 to 2016 with strong worker remittances and robust exports of services.

In the short run, the current account balance is expected to decrease as rising infrastructure investment boosts imports. A gradual improvement is expected going forward with improved prices competiveness and sustained growth in global demand. The external debt is at an acceptable level. Foreign exchange reserves are significant, covering close to 8 months of imports of goods and services.

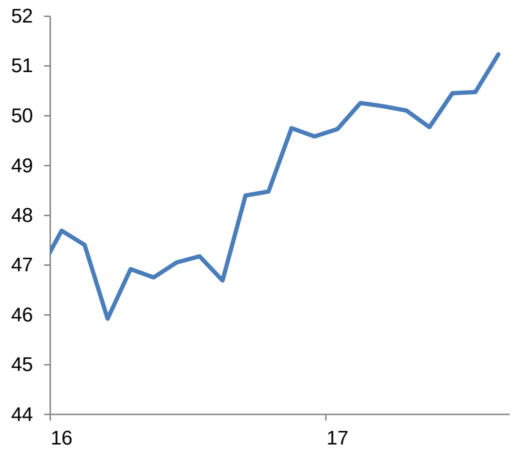
Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	6.1	6.9	6.3	6.4
Inflation (%, year average)	1.4	1.8	2.9	3.0
Fiscal balance (% of GDP)*	-0.9	-2.4	-3.0	-3.0
Public debt (% of GDP)*	44.7	42.1	40.9	40.1
Current account (% of GDP)	2.5	0.2	0.1	0.5
External debt (% of GDP)	26.5	24.6	24.0	24.0

** National government balance and debt*

Sources: IIF, Euler Hermes

PHP per USD



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 2017 Euler Hermes. All rights reserved.

View all Euler Hermes Economic Research online
http://www.eulerhermes.com

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2017-09-13
Country Risk Analyst:
Mahamoud Islam
Mahamoud.ISLAM@eulerhermes.com