

## Solid growth and firm policy buffers

### General Information



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



### Strengths

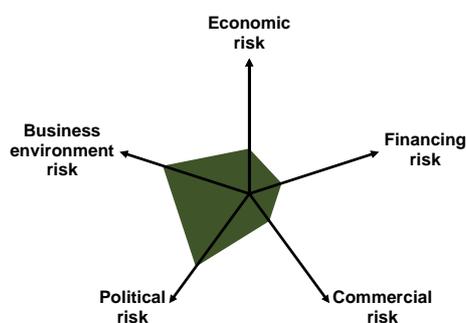
- Robust GDP growth since 2002 and resilience to external headwinds
- Solid monetary and fiscal policies
- Current account surpluses since 2003
- Relatively low external debt
- Ample foreign exchange reserves
- Strong remittances inflows

### 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                                      |



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### 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 competitiveness 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.

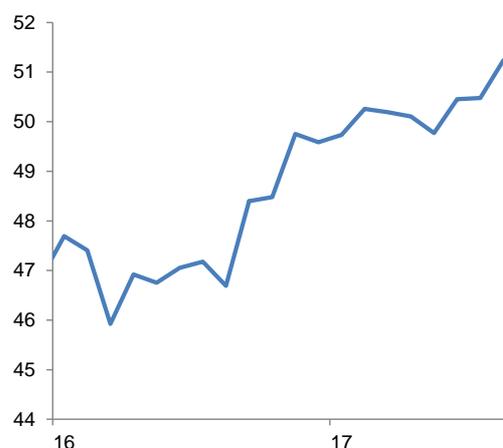
### Key economic forecasts

|                              | 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

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