BEST'S COUNTRY RISK REPORT

Philippines

CRT-4

August 22, 2019

Region: Asia

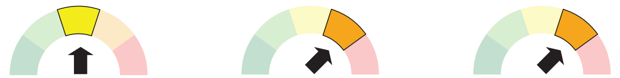
[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]

- The Country Risk Tier (CRT) reflects AM Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- The Philippines is a CRT-4 country with a moderate level of economic risk and high levels of political and financial system risk. The economy expanded by 6.2% in 2018 and is expected to grow 6% in 2019.
- Demand and supply-side pressures, including rising food prices linked to a rice shortage, drove inflation higher in 2018. Action by the central bank, along with the government's decision to replace rice import quotas with tariffs, has eased inflationary pressure. Inflation in 2019 is projected at 3.1%.
- AM Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4, or CRT-5. A notable exception is Singapore, a CRT-1 country.

Vital Statistics 2018		
Nominal GDP	USD bn	330.85
Population	mil	106.6
GDP Per Capita	USD	3,104
Real GDP Growth	%	6.2
Inflation Rate	%	5.2
United Nations Estimates		
Literacy Rate	%	96.4
Urbanization	%	46.7
Dependency Ratio	%	57.6
Life Expectancy	Years	69.2
Median Age	Years	24.1
Insurance Statistics		
Insurance Regulator	The Insurance Commission under the Department of Finance	
Premiums Written (Life)	USD mil	3,871
Premiums Written (Non-Life)	USD mil	1,732
Premiums Growth	%	3.6
Regional Comparison		
	Country Risk Tier	
Philippines	CRT-4	
Indonesia	CRT-4	
Malaysia	CRT-3	
Papua New Guinea	CRT-5	
Thailand	CRT-3	
Vietnam	CRT-4	

Source: IMF, UN, Swiss Re, Axco and AM Best



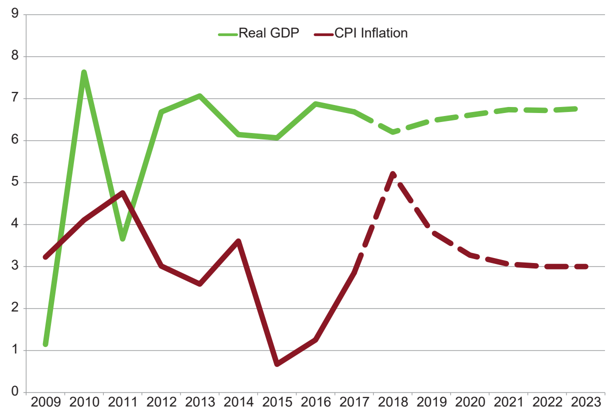
Economic Risk Political Risk Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Southeast Asia

- Southeast Asia includes countries spanning the development continuum, from Singapore with a per capita GDP around USD65000, to Papua New Guinea, with a per capita GDP of approximately USD2500, according to the latest IMF figures. The region's geographic spread includes countries located north of Australia, west of New Guinea, east of India, and south of China.
- Growth in the region has been relatively robust, supported by strong domestic demand, government-led infrastructure spending, and increased foreign direct investment. However, growth is expected to moderate with downside risks including the negative impact of geopolitical tensions on trade, declining export-driven demand, energy price volatility, and potential exchange rate volatility.
- Three of region's countries—Thailand, Indonesia, and the Philippines—had elections in 2019, the results of which signal policy continuity.
- After moves to normalize monetary policy (following rate increases by the US Federal Reserve), most of the region's central banks are now expected to ease in light of the US Federal Reserve's more dovish stance.

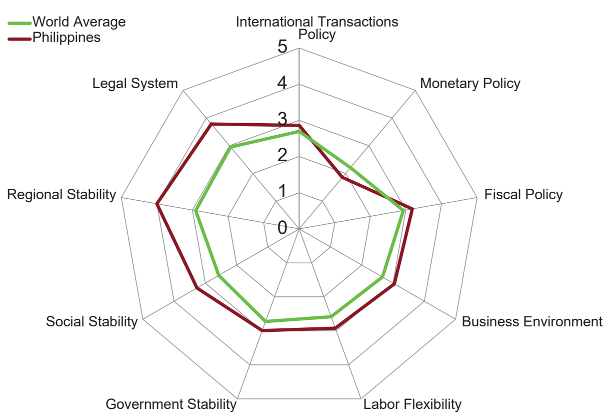
Economic Growth (%)



Source: IMF World Economic Outlook and AM Best

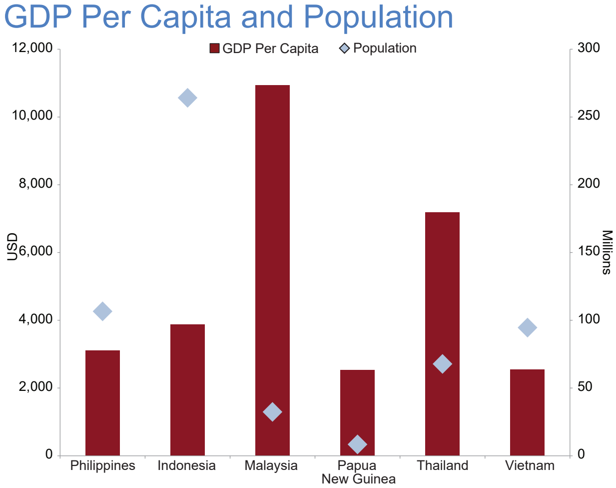
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: AM Best

GDP Per Capita and Population



Source: IMF and AM Best

Economic Risk: Moderate

- Well diversified and under sound macroeconomic management, the economy of the Philippines has been one of the region's top performers in recent years. Services, which accounts for 57.8% of the economy, and industry, which accounts for 34.1%, are the fastest-growing sectors. Domestic consumption is strong, driving the expansion.
- The government has implemented a "Build, Build, Build" program, a USD180 billion development plan that includes a variety of infrastructure projects. Government spending and construction activity related to these projects is expected to drive growth in the coming year.
- With increased growth, poverty has been on the decline to 21% in 2018 down from 27.6% in 2015.
- The country has a high corporate tax rate of 30%. The government has initiated a comprehensive tax reform package that would lower the rate to 21%. The World Bank ranks the Philippines 94 out of 190 countries in terms of paying taxes.

Political Risk: High

- President Rodrigo Duterte was elected for a six-year term in 2016. Although criticized internationally on his human rights track record, a sweeping win by Duterte-aligned candidates in the 2019 Senate elections demonstrate strong domestic support.
- Despite the strong domestic support for Duterte, politics in the Philippines is not without turbulence, as demonstrated by the congressional delay in passing the 2019 budget. The delay has negatively impacted the country's growth outlook.
- The enforcement of legal rights remains an issue, with the country scoring 151 out of 190 countries in the World Bank's enforcing contracts indicator. Corruption is widespread, although the country's ranking did improve in the latest Corruption Perceptions Index, rising to 99 out of 180 countries.
- The risk of terrorist attacks by Islamist militants remains high, following IED attacks in January 2019.

Financial System Risk: High

- The Philippine's insurance sector is regulated by the Insurance Commission, which is under the Department of Finance.
- In February 2019, the Philippines passed an amendment to the New Central Bank Act. This amendment expanded the capitalization of Bangko Sentral ng Pilipinas (BSP), giving the bank more maneuverability. The amendment also extended the bank's supervisory powers and granted it the ability to impose a form of sanctions and to issue debt. The IMF has viewed these amendments favorably.
- Although the banking sector is well capitalized, the IMF has warned against the risk posed to financial stability by the rapid increase in credit growth, which is currently outpacing economic growth gains.