Best's Country Risk Report

Philippines
CRT-4
August 22, 2017

Region: Asia

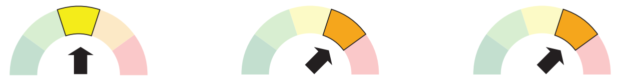
[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]

- The Country Risk Tier (CRT) reflects A.M. 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 6.8% in 2016, spurred by investment and domestic consumption. Future growth prospects are favorable, as real gross domestic product (GDP) growth is expected to reach 7% over the medium term. Ensuring this growth is inclusive will be important to long-term prospects.
- Inflation is expected to pick up, from 1.8% in 2016, averaging around 3% for the medium term.
- A.M. 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 2016		
Nominal GDP	USD bn	304.70
Population	mil	104.2
GDP Per Capita	USD	2,924
Real GDP Growth	%	6.8
Inflation Rate	%	1.8
United Nations Estimates		
Literacy Rate	%	97.0
Urbanization	%	44.4
Dependency Ratio	%	57.6
Life Expectancy	Years	68.3
Median Age	Years	24.2
Insurance Statistics		
Insurance Regulator	The Insurance Commission	
Premiums Written (Life)	USD mil	3,742
Premiums Written (Non-Life)	USD mil	1,665
Premiums Growth (2015 - 2016)	%	-0.4
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 (2015 figures), Swiss Re, Axco and A.M. 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

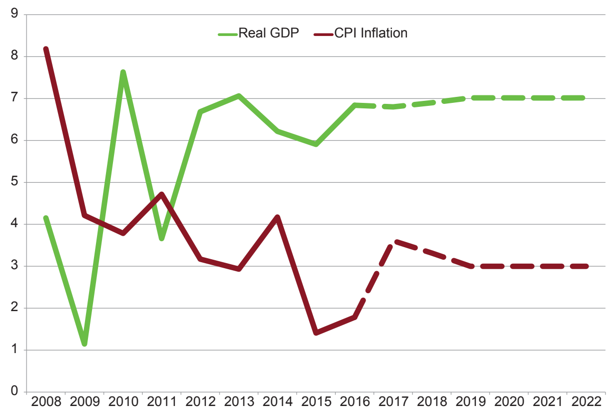
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- To boost economic growth, most of the region's countries are trying to implement structural changes to encourage inclusive and sustainable development. Priority areas for reforms include foreign direct investment growth; economic diversification; capital market development; improved competitiveness of small to medium-sized enterprises; build-up of additional infrastructure; and improvements to educational systems.
- Downside risks for the region include volatile capital inflows; tightening of global financial conditions; a potential China's slowdown; political uncertainty; the growing likelihood of terror attacks; persistently low commodity prices; exchange rate volatility; and the potential for trade protectionism in major trading partners.
- The U.S. withdrew from the Trans-Pacific Partnership agreement (TPP) signed by 12 countries in early 2017. The TPP agreement is intended to promote lower trade barriers and establish an impartial dispute settlement mechanism.

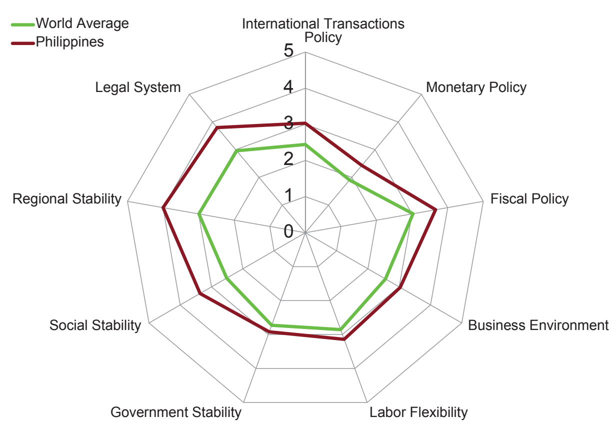
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

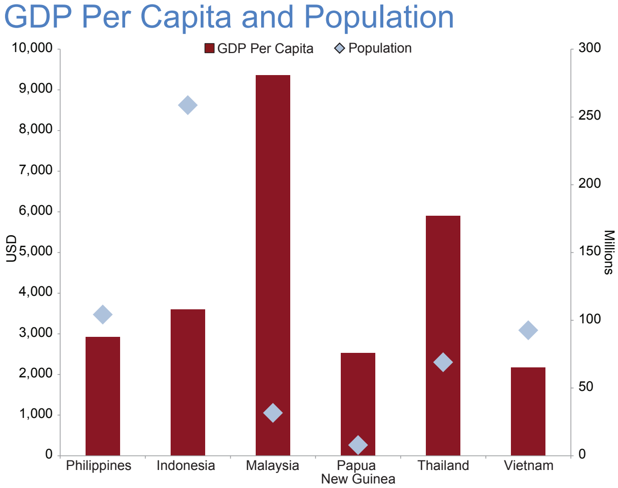
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- The Philippines' economy is relatively well diversified and resilient. Its recent and projected strong growth rates are underscored by robust consumption, remittances, and exports.
- External debt has been on the decline but is expected to rise slightly over the next five years due to greater social expenditures. Even with this modest increase in debt, the overall debt level is expected to remain low.
- Slow contract enforcement, impediments to credit access, and a weak and corrupt legal system impede the business environment.
- The Philippines ranked 99 out of 190 countries in the 2017 World Bank Ease of Doing Business Survey; starting a business, enforcing contracts, and protecting minority investors all remain difficult.

Political Risk: High

- President Rodrigo Duterte, elected in 2016, has garnered international criticism for his use of violence against suspected drug users and suppliers, but retains widespread support domestically. With popular support, Duterte can expect to retain a majority in the legislative branch.
- Duterte's policy initiatives have targeted infrastructure spending and attracting additional foreign direct investment as means to creating a more equitable society.
- High levels of poverty persist throughout the country, providing the potential for civil unrest. The IMF has stressed the need for additional social spending and more effective distribution of those funds.
- Security risks linked to terrorist groups and high levels of corruption will likely slow potential foreign direct investment growth. In Transparency International's 2017 Corruption Perceptions Index, the country was ranked low, 101 out of 176 countries, indicating high levels of corruption.
- Efforts to overhaul the tax system are in motion. The new reforms would target the tax system's effectiveness and alter tax rates on personal income, capital gains, and several other areas.

Financial System Risk: High

- The Philippine insurance sector is regulated by the Insurance Commission, which is under the Department of Finance, according to the provisions of the 1974 Insurance Code.
- The financial system remains shallow and non-inclusive, dampening potential growth. Efforts to deepen and diversify the system should be made.
- The central bank, Bangko Sentral ng Pilipinas (BSP), has successfully kept inflation low. Strengthening BSP's oversight of the financial sector would bolster financial system stability.