

BEST'S COUNTRY RISK REPORT

Philippines CRT-4

August 22, 2018

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 grew 6.7% in 2017, spurred by investment and domestic consumption. Growth prospects are favorable, as real GDP is expected to reach 7% over the medium term. Ensuring this growth is inclusive will be important to the country's long-term prospects.
- Inflation rose in 2017 and is expected to pick up further, reaching 4.2% in 2018.
- 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.



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.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

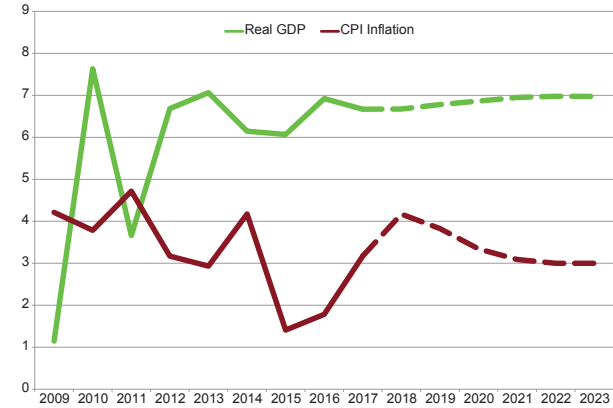
Vital Statistics 2017		
Nominal GDP	USD bn	313.42
Population	mil	105.3
GDP Per Capita	USD	2,976
Real GDP Growth	%	6.7
Inflation Rate	%	3.2
United Nations Estimates		
Literacy Rate	%	96.3
Urbanization	%	44.2
Dependency Ratio	%	58.2
Life Expectancy	Years	69.4
Median Age	Years	23.5
Insurance Statistics		
Insurance Regulator	The Insurance Commission	
Premiums Written (Life)	USD mil	3,885
Premiums Written (Non-Life)	USD mil	1,718
Premiums Growth (2016 - 2017)	%	8.4
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, Swiss Re, Axco and A.M. Best



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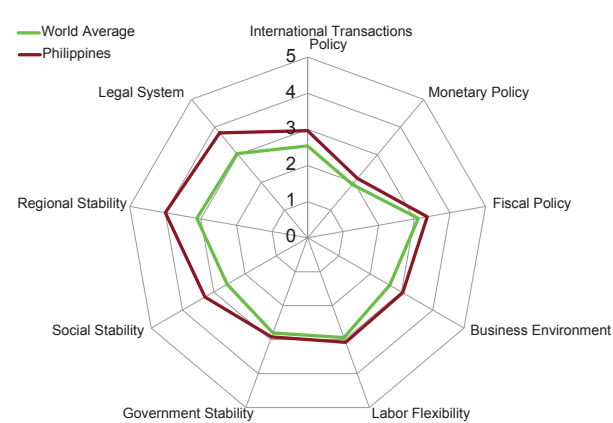
Economic Growth (%)



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

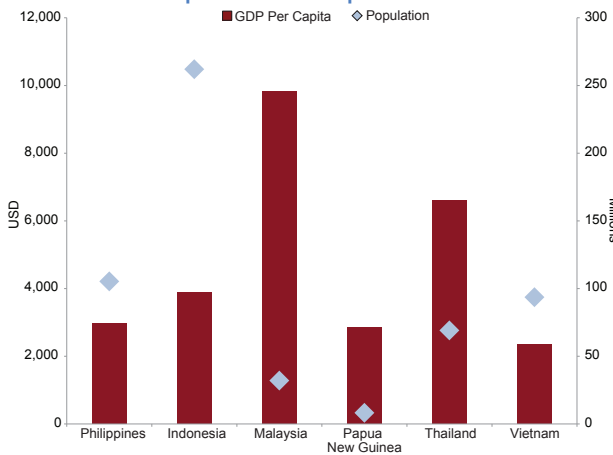
Political Risk Summary

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 economy of the Philippines is well diversified and resilient. The country has a lower dependence on exports than some regional neighbors.
- Economic growth has been consistently strong in recent years. Major sectors include electronics, software technology, energy, and financial services. Domestic consumption is strong, driving the robust expansion.
- The economy benefits from growing urbanization and a young population. The workforce is large and competitive.
- Rapid growth does not translate well into improved living standards, however. Income distribution is highly unequal, and more than 21% of the population lives in poverty, although these figures have seen improvements recently.
- The Philippines ranked 113 out of 190 countries in the World Bank Ease of Doing Business Survey.

Political Risk: High

- Politics generally lack stability in the Philippines. Historically, political institutions lack capacity, there have been coup attempts, and corruption is rampant.
- President Rodrigo Duterte was elected in 2016. He has been criticized internationally with regard to human rights but remains broadly popular in the Philippines. He enjoys strong support in the parliament and is not politically challenged.
- Duterte's policy initiatives have targeted infrastructure spending and attracting foreign direct investment as a means to creating a more equitable society.
- The government seeks to raise tax revenues by enhancing tax collection. The increase in tax collected is required to finance planned infrastructure projects.
- The judicial system is not independent; contract enforcement is poor and extremely time-consuming.
- Corruption is widespread, both in the bureaucracy and the legal system. The country ranks 111 out of 180 countries in the Corruption Perceptions Index.
- Protests are common and politically motivated, but they are mostly peaceful. The risk of terrorist attacks by extreme Islamist militants are high.

Financial System Risk: High

- The Philippine's insurance sector is regulated by the Insurance Commission, which is under the Department of Finance.
- Foreign exchange earnings are sound owing to solid remittance inflows.
- The financial system remains shallow and non-inclusive, dampening potential growth. Efforts to deepen and diversify the system should be made.
- The central bank has kept inflation low. Strengthening the central bank's oversight of the financial sector would bolster financial system stability.