

# Philippines Business Forecast Report Q3 2014

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## Abstracts

### Core Views

We forecast real GDP growth of 6.3% for the Philippines in 2014, as we expect domestic demand to remain strong and export sector growth to see a modest rebound this year.

We believe the Bangko Sentral ng Pilipinas (BSP) will raise its benchmark reverse repo rate by 50 basis points to 4.00% by end-2014, as the continued strong domestic liquidity growth, growing demand-side pressures and interest rate normalisation in the US that we expect to occur in 2015, have further narrowed the scope for continued accommodative monetary policy in the Philippines.

We are cautiously optimistic that the mild revival in the semiconductor sector and the rapidly growing business process outsourcing (BPO) industry will lead a modest rebound in the Philippine export sector, and we are therefore forecasting a modest 5.0-5.5% expansion in real terms for exports in 2014.

Ongoing fiscal reform efforts have so far paid off, as tax revenues as a share of GDP have risen, while government expenditure as a share of GDP has declined. We forecast the fiscal deficit to come in at 1.4% of GDP in 2014, and public debt as a share of GDP to decline to an estimated 46.9% in the same year, from 49.2% in 2013.

### Major Forecast Changes

Our in-house valuation model indicates that the peso is currently trading at or below its fair valuation. In combination with the still positive economic growth outlook, strong current account surplus and large reserves, we expect the Philippine peso will strengthen towards PHP43.50/USD over the next three to six months, and will average

PHP44.00/USD in 2014.

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### CHAPTER 1: POLITICAL OUTLOOK

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#### Sustained Momentum For Peace And Growth In Mindanao

We remain optimistic about the peace process in Mindanao, as it is gaining momentum with the ongoing formulation of the Bangsamoro Development Plan (BDP). However, as the peace process is still in the nascent stages, we maintain our short-term political risk rating for the Philippines at 71.2. That said, we may look to upgrade the rating in the future should further positive developments be forthcoming.

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The Philippines faces a number of political challenges over the coming years that, if handled successfully, could improve governance. However, given low income levels and high levels of inequality, we expect the political scene to remain vulnerable to intermittent instances of turmoil.

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We are forecasting real GDP growth of 6.3% for the Philippines in 2014, as we expect domestic demand to remain strong and export sector growth to see a modest rebound this year. While we are optimistic about its growth prospect, we remain wary of any renewed global volatility that will pose downside risks to our growth forecast.

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Ongoing fiscal reform efforts have so far paid off, as tax revenues as a share of GDP have risen, while government expenditure as a share of GDP has declined. We are forecasting the fiscal deficit to come in at 1.4 % of GDP in 2014, and public debt as a share of GDP to decline to an estimated 46.9% in the same year, from 49.2% in 2013.

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We forecast the Bangko Sentral ng Pilipinas (BSP) will raise its benchmark reverse repo rate by 50 basis points to 4.00% by end-2014, as the continued strong domestic liquidity growth, growing demand-side pressures and interest rate normalisation in the US that we have projected to occur in 2015, have further narrowed the scope for continued accommodative monetary policy in the Philippines.

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We are cautiously optimistic that the mild revival in the semiconductor sector and the rapidly growing business process outsourcing (BPO) industry will lead a modest rebound in the Philippine export sector, and we are therefore forecasting a modest 5.0-5.5 %expansion in real terms for exports in 2014. Alongside a likely recovery in exports, the continued strength of remittance inflows will provide further support to the current account picture, while at the same time bolstering our view of a strengthening peso over the next three-to-six months.

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