

Focus on: the Philippines

International Business Report 2010 – Country focus series

The recovery

The economy of the Philippines weathered the storm better than most of its neighbours during the downturn due to lower dependence on exports. Growth in remittances from an estimated five million Filipino workers, which slowed in 2009 due to the severity of the recession in countries such as the United States, the United Kingdom and Japan, has picked up again.

The key indicators¹ are highlighted below:

- the economy grew a stronger than expected 7.9 per cent year-on-year in Q2 2010, 1.3 per cent on the previous quarter
- merchandise exports improved substantially, growing 30.2 per cent in real terms
- whilst the export of services grew by 17.2 per cent
- the unemployment fell by 0.7 per cent year-on-year, to 6.9 per cent.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on the Philippines, the experiences and attitudes of its businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in the Philippines are more optimistic as regards the outlook for the economy over the next 12 months this year, and two-thirds expected to see an upturn in the global economy by the end of 2010. Business expectations for revenue and profitability are even more optimistic than last year, but bureaucracy remains a major constraint on potential expansion.



¹ source: International Monetary Fund, The Economist and Experian.

Looking ahead

Having posted mild growth in 2009, the Philippine's economy is forecast to accelerate to 3.5 percent this year. This is likely to be underpinned by continued growth in remittances, which are forecast to grow by around 11 per cent across the year, fuelling domestic consumption. Government spending is also expected to remain high; P330 billion in stimulus spending has been set aside for infrastructure and helping the poorest, including Filipino workers, repatriated during the crisis.

Risks to this outlook remain due to the ever-increasing reliance on remittances, and their vulnerability to further shocks in the developed world. Exports – which have started 2010 strongly on the back of increased shipments of electronics – remain relatively under-diversified.

As the economy exits recession, all businesses will face new challenges and will need to take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for businesses

Philippines compared to the global average	2008 Phil	2009 Phil	2010 Phil	2010 Asia Pacific
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+95%	+63%	+68%	+33%
Change in employment levels				
Balance of businesses expecting an increase over those expecting a reduction	+67%	+18%	+40%	+33%
Constraints on expansion				
Regulations/red tape	49%	52%	45%	29%
Shortage of orders/reduced demand	46%	60%	32%	44%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in the Philippines are slightly more optimistic about prospects for 2010; their optimism/pessimism balance² has risen by five percentage points from +63 per cent in 2009 to +68 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

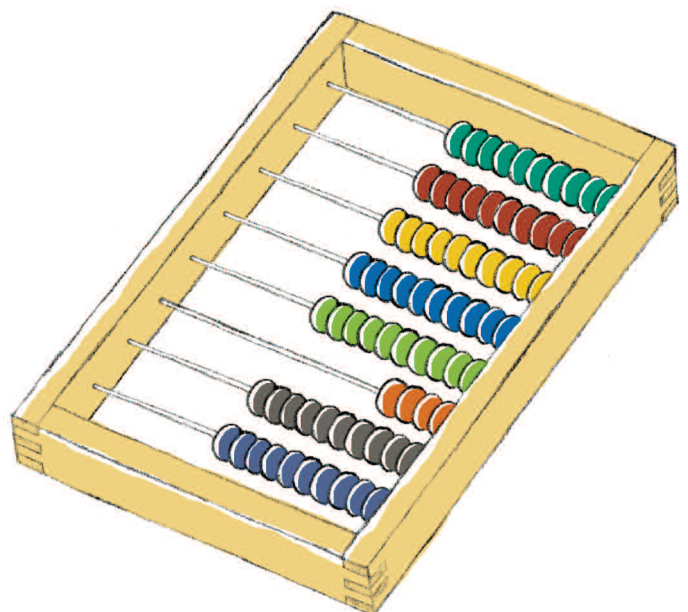
- businesses in the Philippines are slightly more optimistic about their economy this year (+68 per cent) compared with 2009 (+63 per cent)
- this is double the Asia Pacific³ average of +33 per cent
- optimism amongst businesses in the Asia Pacific region has risen by 31 percentage points this year, from just +2 per cent in 2009 to +33 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2004-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

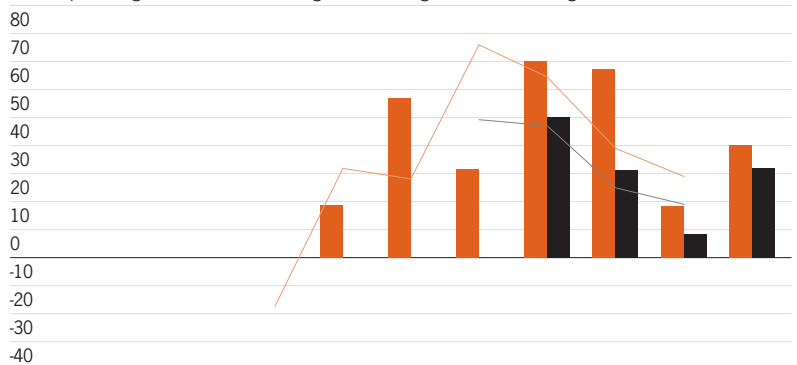
³ for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +40 per cent of businesses in the Philippines expect employment to grow in 2010, compared with +33 per cent of businesses across the Asia Pacific region
- this continues the trend observed in previous years of businesses in the Philippines being more optimistic about employment expectations than the average across the Asia Pacific region
- actual employment growth reported by businesses in the Philippines for 2009 (+29 per cent) was higher than expected 12 months previously (+18 per cent).

Figure 3: Employment history: 2003-2010

Balance percentage of businesses indicating an increase against those indicating a decrease



Expected Philippines	-	18	57	32	70	67	18	40
Expected Asia Pacific	-	-	-	-	50	31	8	33
Actual Philippines	-18	32	28	76	65	39	29	-
Actual Asia Pacific	-	-	-	49	47	25	19	-

*actual 2010 data will be documented in IBR 2011

Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have doubled to +74 per cent this year, from +37 per cent in 2009
- this is considerably more optimistic than the Asia Pacific average of +45 per cent
- the Asia Pacific average has also risen by 29 per cent, from +16 per cent last year to +45 per cent this year.

Figure 4: Revenue expectations: 2004-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



Philippines	49	62	59	75	61	37	74
Asia Pacific average	-	-	-	73	68	16	45

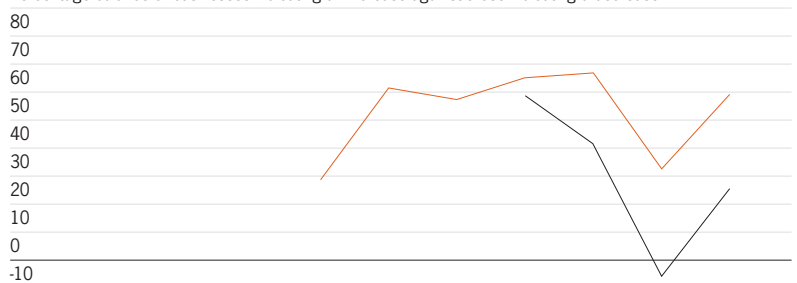
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses expecting to increase profits in the Philippines has also risen this year by 26 percentage points to 59 per cent in 2010 (+33 per cent in 2009)
- again this is considerably higher than the Asia Pacific average (+26 per cent)
- the Asia Pacific average has risen by 32 percentage points to +26 per cent.

Figure 5: Profitability expectations: 2004-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



Philippines	28	62	57	65	67	33	59
Asia Pacific average	-	-	-	58	42	-6	26

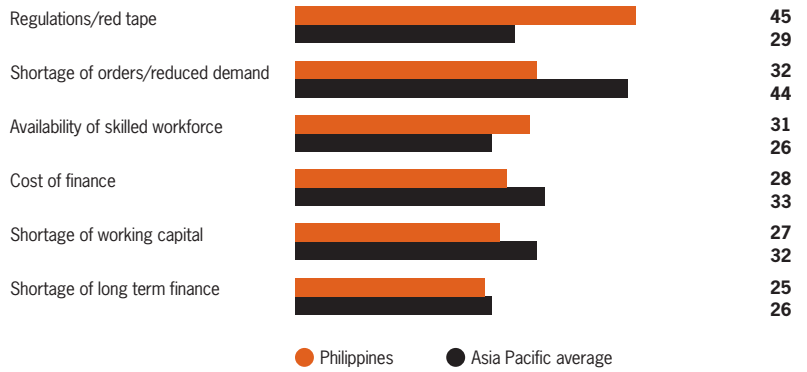
Source: Grant Thornton IBR 2010

Constraints

- regulations/red tape (45 per cent) is cited as the most pressing constraint on expansion by businesses in the Philippines this year, higher than the Asia Pacific average (29 per cent)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses in the Asia Pacific region as a whole, at 44 per cent compared to 32 per cent in the Philippines
- financial constraints (cost of finance and shortage of long term finance) are less of a concern in the Philippines, compared to the Asia Pacific region as a whole.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



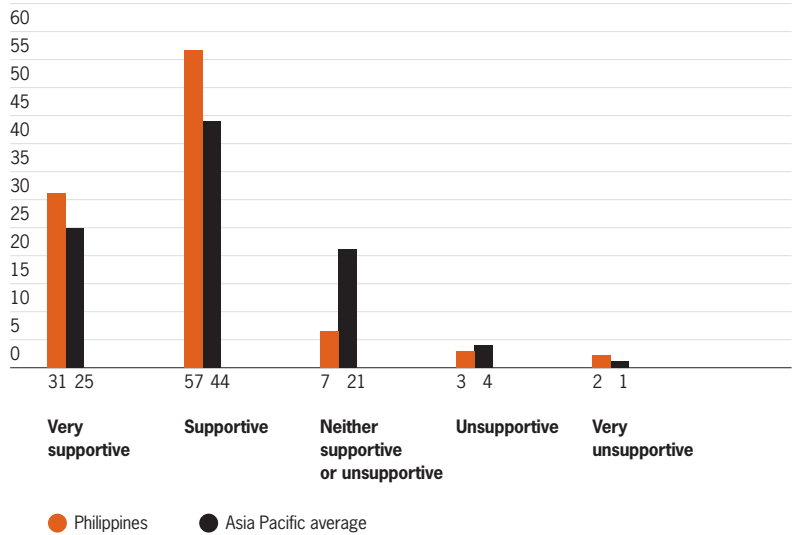
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in the Philippines are happy with the level of support provided by lenders; 88 per cent class lenders as supportive or very supportive towards their business
- this compares with just 69 per cent of businesses in the Asia Pacific region as a whole
- just five per cent of businesses in the Philippines, and across Asia Pacific as a whole, believe that lenders are unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

Percentage of businesses



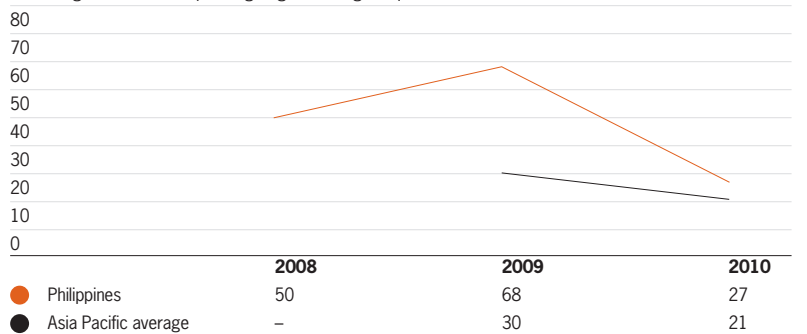
Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in the Philippines planning to grow through acquisition this year has more than halved, from 68 per cent in 2009 to just 27 per cent; this follows an increase of 18 per cent observed the previous year
- the Asia Pacific average also dropped this year, from 30 per cent in 2009 to 21 per cent.

Figure 8: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition

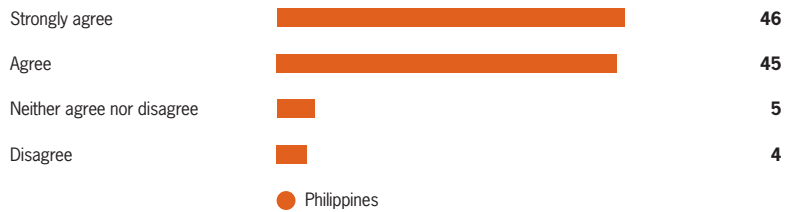


Source: Grant Thornton IBR 2010

Infrastructure development

- 91 per cent of businesses in the Philippines agree or strongly agree that infrastructure development in the Philippines helps to improve the revenues/profits of businesses
- just four per cent disagree with the statement, and five per cent are undecided.

Figure 9: Infrastructure development in the Philippines helps improve the revenues/profits of privately held businesses
Percentage of businesses

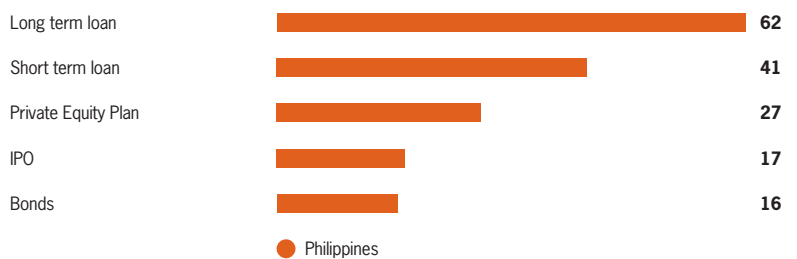


Source: Grant Thornton IBR 2010

Raising funds

- the majority of businesses in the Philippines (62 per cent) intend to raise funds through long term loans
- two-fifths (41 per cent) cited short term loans and 27 per cent private equity plans
- IPOs and bonds were cited by one-sixth of businesses in the Philippines.

Figure 10: How do you intend to raise funds for expansion and other business needs?
Percentage of businesses



Source: Grant Thornton IBR 2010

Government incentives

- half of all businesses in the Philippines class both fiscal and non-fiscal Government incentives as equally important when making investment decisions
- just below one-third (29 per cent) rate fiscal incentives as the most important
- whilst 18 per cent cite that Government incentives are not important to their decision making process
- just three per cent rate non-fiscal incentives as the most important.

Figure 11: What incentives offered by the Government are most important to you when making investment decisions?
Percentage of businesses



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the Philippines 150 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 100 and 499.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

- | | |
|----------------|----------------|
| Argentina | Japan |
| Armenia | Malaysia |
| Australia | Mexico |
| Belgium | Netherlands |
| Botswana | New Zealand |
| Brazil | Philippines |
| Canada | Poland |
| Chile | Russia |
| Mainland China | Singapore |
| Denmark | South Africa |
| Finland | Spain |
| France | Sweden |
| Germany | Taiwan |
| Greece | Thailand |
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