

The Philippines

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most countries remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent), whilst Japan is still at the bottom this year with a balance of -49 per cent.

Optimism amongst businesses in East Asia² is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their country's economy compared to a balance of +54 per cent in 2007. However, East Asia continues to present a very mixed picture with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

The Philippine economy

Growth of 7.2 per cent in 2007 was the Philippine economy's best performance for around 30 years, significantly higher than the 5.2 per cent average growth rate of the previous five years. Private consumption grew by 6.3 per cent, supported by the \$14.5 billion that the eight million Philippines working abroad sent home in remittances.

The services sector, which accounts for more than half of GDP, grew by 8.7 per cent whilst 19.5 per cent growth in construction was tempered by modest 3.3 per cent growth in manufacturing. Following recent sluggish growth investment grew by 9.3 per cent in 2007, largely the result of increased government capital outlays and a surge of private sector real estate development.

Exports boosted GDP in the first nine months of 2007 but their influence waned as the peso appreciated and weakening global demand hit exports of electronics, which account for over 60 per cent of total merchandise exports. Inflation slowed to 2.8 per cent in 2007, its lowest level since 1986.



The Grant Thornton IBR representative for The Philippines is:

Punongbayan & Araullo
Greg Navarro
T +63 (2) 886 5511



¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by our survey – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Business expectations/revenue

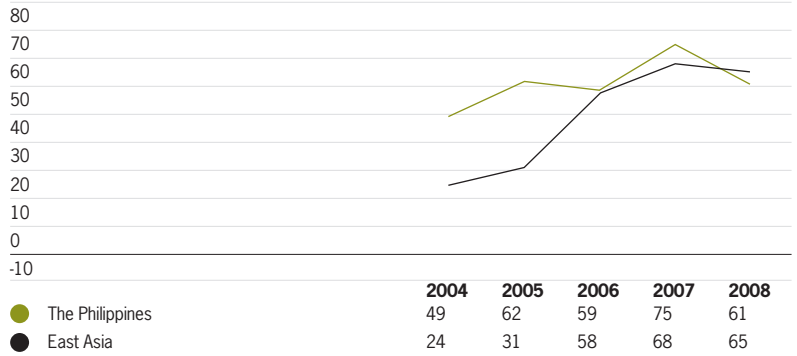
- PHBs in the Philippines are less optimistic about turnover prospects (+61 per cent) compared to 2007 (+75 per cent).
- Their levels of optimism regarding turnover performance have fallen below both the East Asian regional average (+65 per cent) and the global average (+63 per cent).
- Levels of optimism regarding profitability (+67 per cent) are higher than the East Asia (33 per cent) and global (41 per cent) averages.

Employment

- Expected employment growth in the Philippines has fallen slightly from +70 per cent in 2007 to +67 per cent in 2008.
- Businesses in East Asia as a whole are much less optimistic (+20 per cent) with regard to employment growth than PHBs in the Philippines.
- Actual reported employment growth in the Philippines (+65 per cent) was slightly lower than expected in 2007.

Figure 1: Revenue expectations for the Philippines and the East Asian average 2003-2008

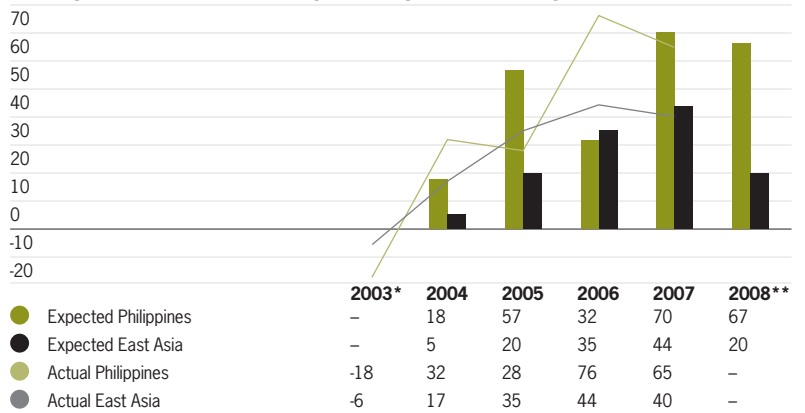
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

Figure 2: Employment history of the Philippines and the East Asian average 2002-2008

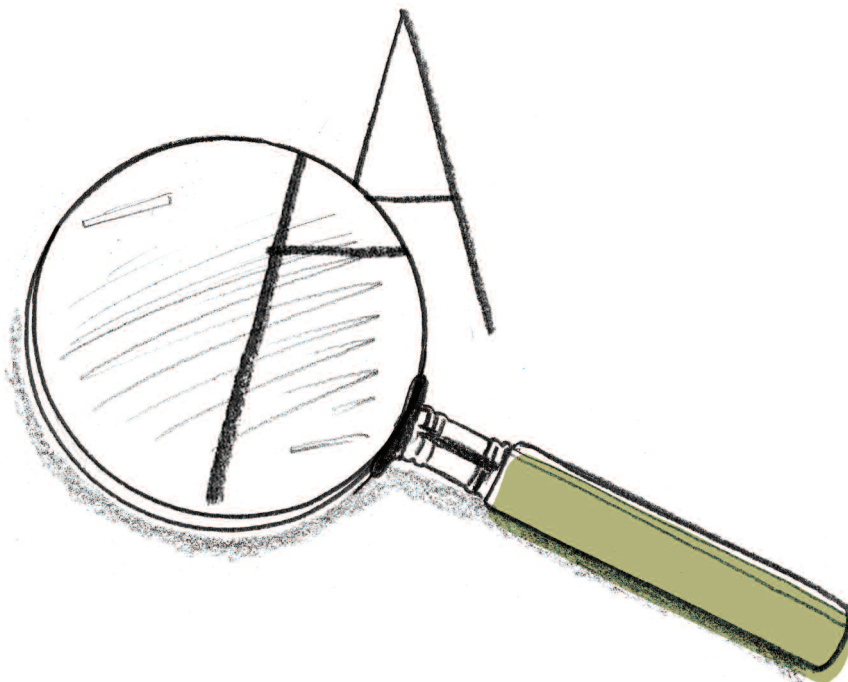
Percentage balance of businesses indicating optimism against those indicating pessimism



*data not available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

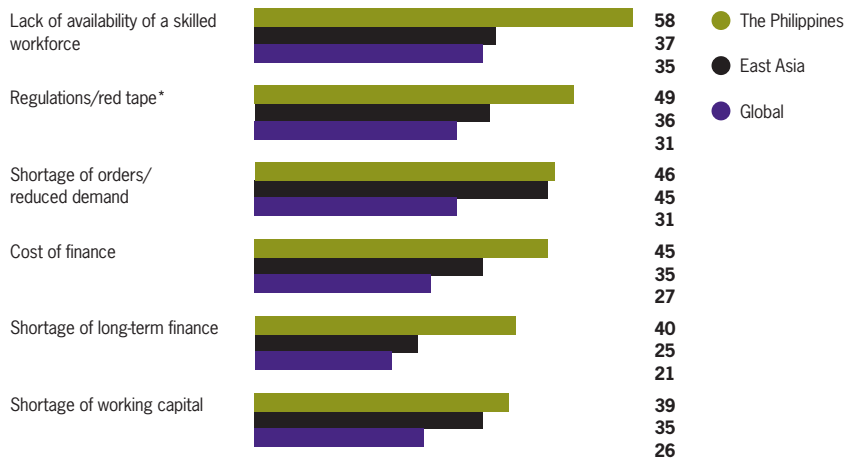
- A lack of availability of a skilled workforce is the constraint restricting expansion cited most frequently by businesses in the Philippines (58 per cent).
- Regulations/red tape is cited by almost half of PHBs in the Philippines compared around a third of all businesses in East Asia.
- PHBs in the Philippines cite every constraint below the East Asian and the global average.

Emerging markets

- The most important factor to PHBs in the Philippines, when determining whether to invest internationally, is market size and growth potential (66 per cent), as is true of businesses globally.
- The number of businesses in the Philippines which export (40 per cent) is up by 13 per cent from 2007.
- 71 per cent of PHBs in the Philippines import, which is more than double the East Asian average (32 per cent).
- Around one half of PHBs in the Philippines see their main competition being local, as opposed to just over a third of all businesses.

Figure 3: Largest constraints on growth for Philippine businesses compared to the East Asian and the global average

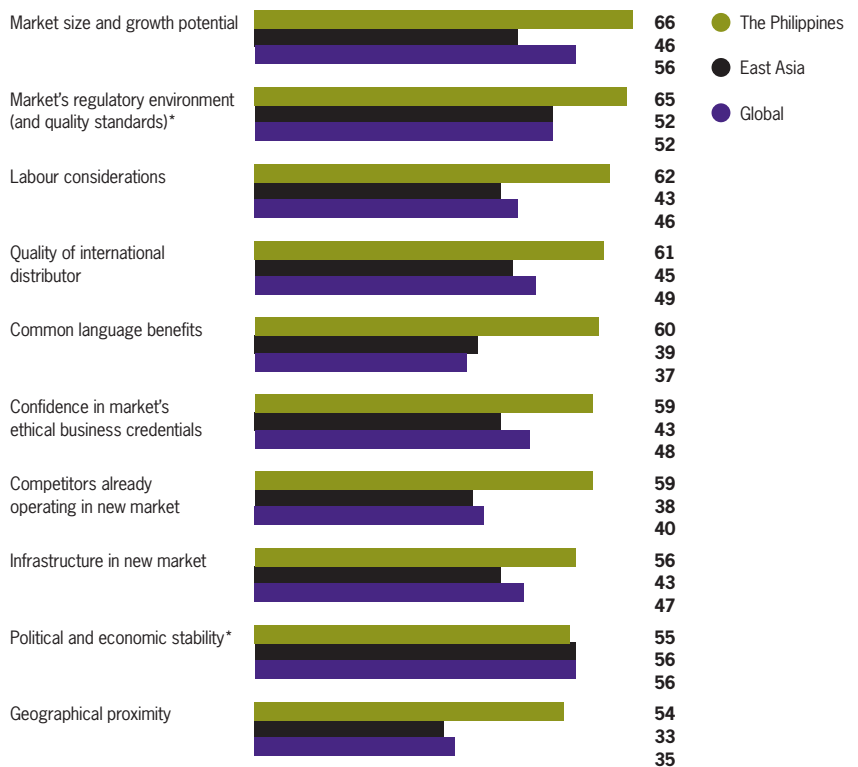
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



*excluding mainland China
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



*excluding mainland China
Source: Grant Thornton IBR 2008

Competitiveness

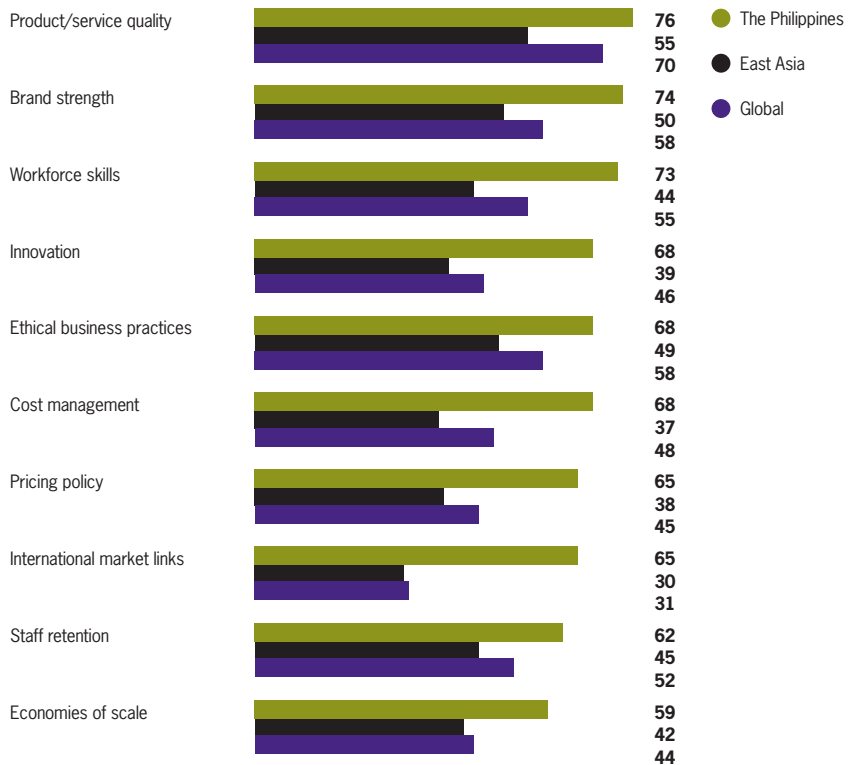
- PHBs in the Philippines see their greatest source of competitive advantage as product service quality (76 per cent), as is true of businesses globally.
- 74 per cent of Philippine businesses see brand strength as a source of competitive advantage, compared to 50 per cent of all East Asian businesses.
- International market links are cited by 65 per cent of businesses in the Philippines compared to 31 per cent of all East Asian businesses.

Corporate social responsibility (CSR)

- Cost management is viewed as the biggest driver towards more ethical practices by Philippine businesses (78 per cent). This is higher than the East Asia (59 per cent) and global (63 per cent) averages.
- Just 19 per cent of PHBs in the Philippines improved energy efficiency in the past year, compared to 57 per cent of all businesses.
- Similar to all businesses in East Asia, 59 per cent of PHBs in the Philippines have incorporated their policies in to a written CSR document.

Figure 5: Main sources of competitive advantage for Philippine businesses compared to the East Asian and the global average

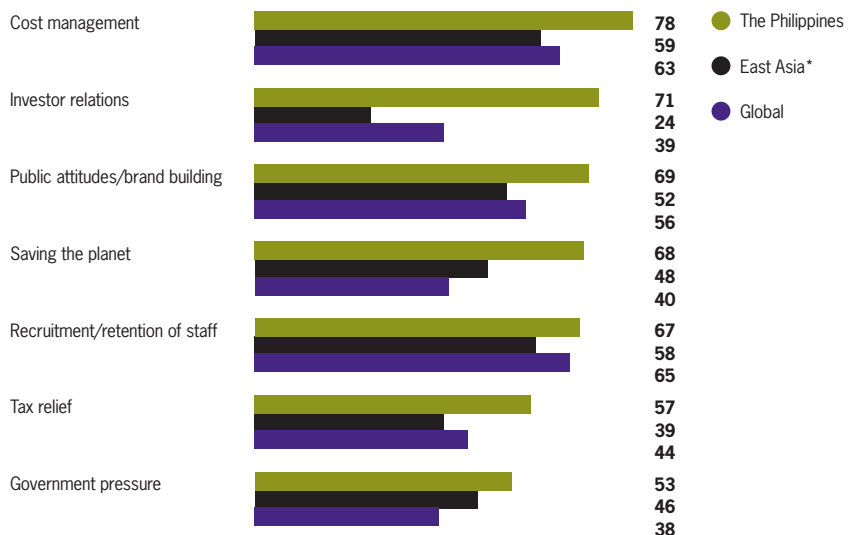
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Philippine businesses compared to the East Asian and the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



*excluding mainland China

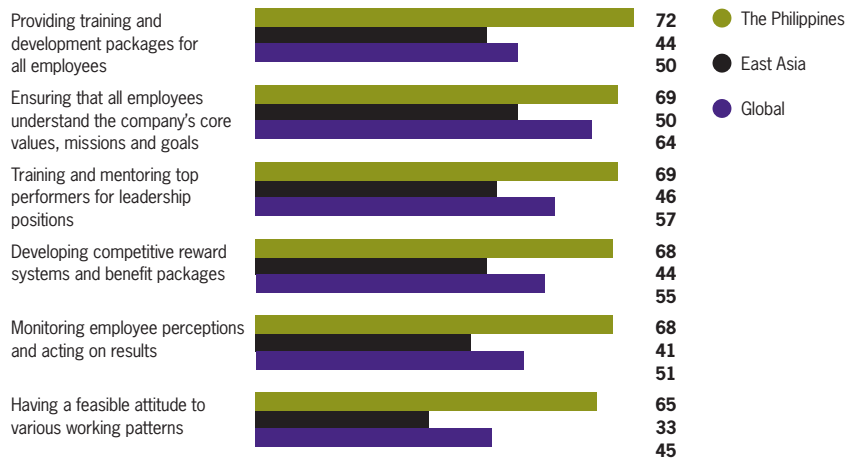
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of businesses in the Philippines more focused on retention than they were one year ago is 79 per cent. This is well above the East Asia average (58 per cent).
- 72 per cent of PHBs in the Philippines provide training and development packages for all employees to aid recruitment/retention.
- The loss of business or orders to competitors is viewed as the major problem staff retention issues have caused for PHBs in the Philippines (43 per cent).
- Similarly to businesses in East Asia as a whole, it is costing 68 per cent of PHBs in the Philippines significantly more to pay their staff than it was 12 months ago.

Figure 7: Usage of recruitment and retention tools for Philippine businesses compared to the East Asian and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Philippine economy

Strong domestic consumption will be tempered slightly by higher fuel and food prices – which will in turn see net exports contract – but GDP is still forecast to grow at around six per cent in 2008/09. The current account surplus is projected to stay over four per cent in 2008/09, underpinned by remittances – which are forecast to grow at around half the 13.2 per cent 2007 rate. Inflation is forecast at 6.8 per cent in 2008.

Investment is expected to expand in 2008. The government's \$44 billion infrastructure program continues until 2010, whilst in the private sector, the reductions in interest rates and an enhanced willingness of domestic banks to lend due to strengthened balance sheets will support investment. The services sector growth is expected to slow by a little over one percentage point to 7.5 per cent in 2008 as retailing and finance growth slip, whilst slower exports will see growth in manufacturing contract to around three per cent.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating countries, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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