

■ Philippines

UOB Economics Projections	2006	2007	2008E	2009E
GDP	5.4	7.2	4.6	4.0
CPI (average, y/y)	6.3	2.8	9.8	7.0
Unemployment (yearly avg)	7.9	7.3	8.0	7.5
Current account (USD bn)	5.3	6.4	3.5	4.5
Fiscal balance (% of GDP)	-5.1	-0.7	-3.5	-1.0

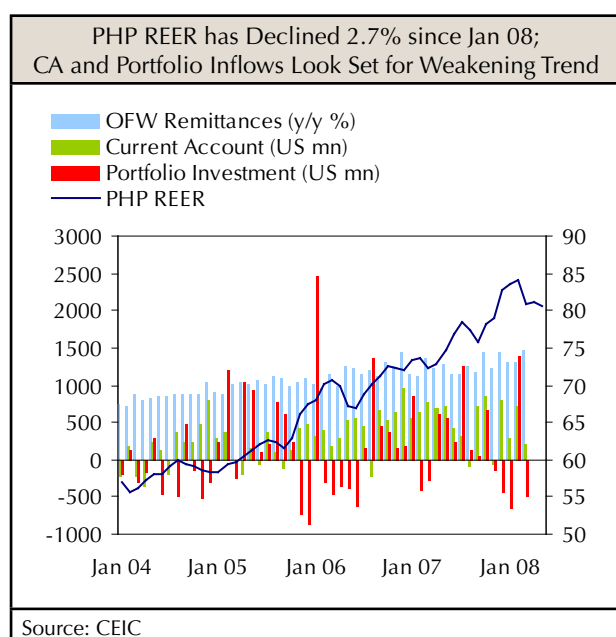
We have revised our USD/PHP forecast to 48.00/USD at end-2008. The PHP has touched lows of 47.20/USD in 3Q08, due to the global dollar resurgence. High oil and commodity prices in 1H08 had also induced a negative terms of trade shock and reduced the net oil importer's current account surplus.

The BSP hiked interest rates by 25bps, for the third straight time in 12 weeks on 28 August. This brings the overnight borrowing or reverse repo rate to 6% and 8% for the overnight lending rate. Previously, the BSP also hiked by 25bps on 5 June and a surprise 50bps on 17 July.

The Philippines has reported lower-than-expected 2Q GDP growth of 4.6% y/y, the slowest pace in 3 years. However on a s/adj basis, 2Q GDP grew a decent 2% m/m. Manila also revised 1Q GDP growth sharply downwards, from 5.2% y/y to 4.7% y/y. For the first half, GDP growth came in at 4.6% y/y, compared with 7.2% y/y in 2007.

Sharp Downward Revision to 1Q Growth

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The slowdown was due to higher inflation crimping consumer spending, which accounts for 70% of GDP. Consumer spending rose 3.4% y/y in 2Q08. Exports rose 7.7% y/y, with agricultural production climbing 4.9% y/y.

The main drivers of the economy are domestic demand and electronic and agricultural exports. However, exports are likely to be hurt by a sharper slowdown in the G7 economies in 2H08, while double-digit inflation is likely to take a deeper bite out of real wage growth and consumption.

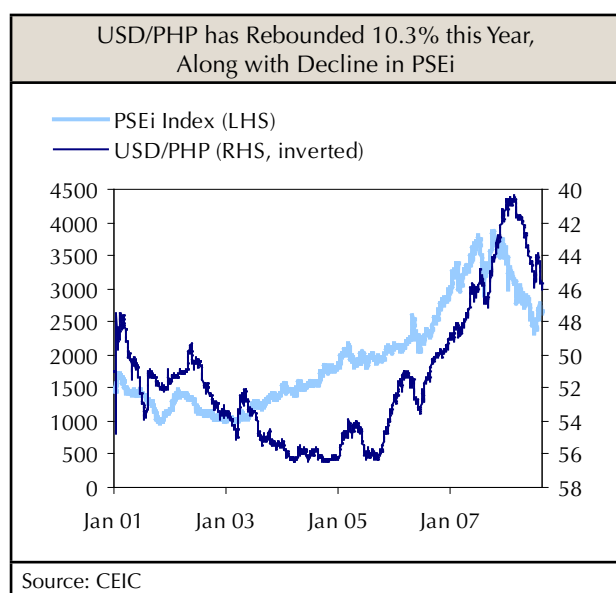
Still, remittances from the more than 8 million Filipinos abroad, or about a tenth of the population, have supported the \$118 billion economy this year as faltering exports hurt manufacturers and faster inflation eroded consumer spending.

In July, Manila said it expected 2008 GDP growth of 5.3-5.9% y/y, although the official growth target remains at 5.5-6.4% y/y. However, Socio-Economic Planning Secretary Ralph Recto said in August that full-year growth would likely come in below 5.2% y/y, and that it would be "difficult" for the economy to achieve its growth target this year. We maintain our growth forecast at 4.6% y/y in 2008, which is below the official target range.

Philippines

PHP Weakness

The peso has depreciated around 13% against the USD year-to-date, contrasting with its 19% surge in 2007. It has touched lows of 47.20/USD in 3Q08, due to the global dollar resurgence. High oil and commodity prices in 1H08 had also induced a negative terms of trade shock and reduced the net oil importer's current account surplus. Furthermore, inflation of nearly 10% y/y in 2Q08, coupled with a central bank that only started tightening in June, all contributed to the peso's decline.

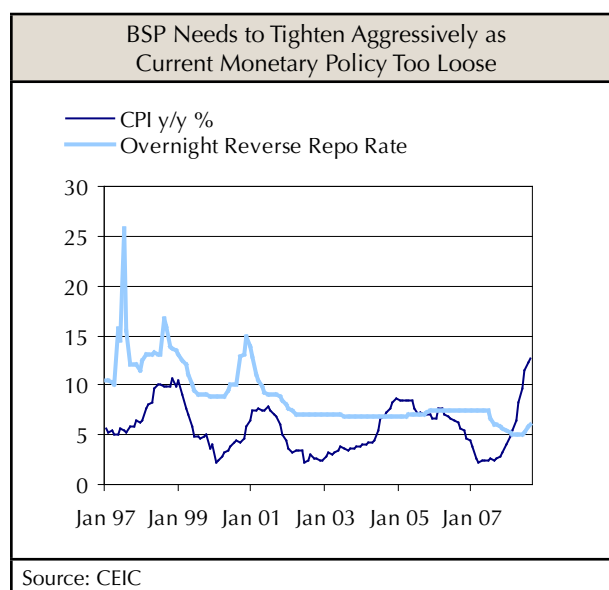


USD/PHP is set to continue its rebound as a result of the market uncertainty. We have revised upwards our USD/PHP forecast to 48.00 for year-end.

Inflation Not Out of the Woods Yet

Inflation in September moderated to 11.9% y/y from 17-year high of 12.5% in August.

The Bangko Sentral ng Pilipinas (BSP) said inflation is likely to remain in "double digits" through to 1Q09.



Looking forward, central bank governor Amando Tetangco has said that the onset of the typhoon season and the rising costs of raw materials are likely to raise inflation higher, although this could be balanced by lower rice and oil prices. The BSP has raised its 2008 inflation forecast to a range of 9-11%, from 7-9%. We retain our forecast of 9.8% y/y for 2008.

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With inflation likely on a downward trajectory from here, we expect that the BSP could start to cut rates as early as 1Q09, particularly since the domestic growth outlook has weakened.

We have factored in 75bps cut in the benchmark interest rates in 1Q09, barring sharp rebound in the oil and commodity prices.

GDP by Expenditure (y/y %)							
	2006	2007	2Q07	3Q07	4Q07	1Q08	2Q08
GDP	5.4	7.2	8.3	7.1	6.4	4.7	4.6
Private Consumption	5.5	5.8	5.6	5.7	6.2	5.1	3.4
Government Consumption	10.4	8.3	11.9	6.4	4.6	-1.0	-5.1
Gross Fixed Capital Formation	3.8	11.8	20.9	8.8	6.7	6.6	5.6
Exports	13.4	5.6	4.9	3.7	3.9	-11.1	7.7
Imports	1.9	-4.5	-10.5	-5.0	0.2	-6.6	-1.0

Source: CEIC