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Japan Credit Rating Agency upgrades Philippines' rating to A-

Debt watcher cites country's resilience amid pandemic

Japan Credit Rating Agency (JCR) upgraded the Philippines' credit rating by a notch from BBB+ to A-, citing the country's resilience amid a pandemic that has slowed down growth, impaired fiscal positions and hurt credit ratings of economies across the globe.

JCR assigned a "stable" outlook on the new rating, which indicates that the "A-" will be maintained over the near term.

In a report released Thursday, JCR said its decision to raise the Philippines' credit rating came on the back of its assessment that the impact of the COVID-19 crisis on the domestic economy and the government's fiscal standing will be temporary, given the country's strong fundamentals going into the crisis, the massive relief measures, as well as the pursuit of important legislation, such as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) under the Comprehensive Tax Reform Program (CTRP).

"JCR holds that a downturn will be limited given the country's strengthened economic base, resilient external position, and the government's economic stimulus package totaling more than 9 percent of GDP. JCR also considers that the fiscal soundness will not be impaired because while the fiscal deficit may widen, the package at this time is justifiable and the government debt will remain comparatively subdued," JCR said.

In response to JCR's rating decision, Finance Secretary Carlos Dominguez III said: "The A- rating upgrade from JCR, which comes at a time when economies across the world are reeling from what could likely become the worst global downturn in nearly a century, is a solid recognition of the Philippines' capability to stage a quick and strong recovery from this health crisis."

"Sweeping initiatives, such as tax reform that President Duterte carried out since he took over in 2016, have placed the Philippines in a strong fiscal position to deal with—and overcome—the financial shocks unleashed by the coronavirus disease 2019 (COVID-19) pandemic," Dominguez said. "Our government's proactive response to the crisis, as embodied in its Four-Pillar Socioeconomic Strategy against COVID-19, will clear the way to an economic bounce-back that is strong, sustainable, and resilient."

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"We thank JCR for its trust and confidence in the ability of the Philippine government to steer the economy back to its high-growth trajectory in due time," Dominguez added.

The government's Four-Pillar Socioeconomic Strategy against COVID-19 includes the following: (i) emergency support for vulnerable groups and individuals; (ii) marshalling of resources to fight COVID-19; (iii) fiscal and monetary actions to finance emergency initiatives and keep the economy afloat; and (iv) an economic recovery program focused on getting businesses back on their feet to sustain and create jobs. The strategy has a combined value of Php1.74 trillion or 9.1 percent of GDP.

Dominguez said the economic reform agenda of President Duterte continues as the government deals with the COVID-19 crisis. In particular, the Department of Finance (DOF) is pushing the swift congressional passage of the proposed CREATE bill, which promises to be the biggest economic stimulus for businesses in the country's history.

For his part, Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno said: "JCR's assignment of an A- rating to the Philippines is encouraging news at this challenging time. The agency's decision reflects its confidence that the Philippines is pursuing appropriate policies that will help Filipino individuals, businesses, and the economy at large to recover from this unprecedented crisis. On the part of the BSP, we have already implemented a long list of extraordinary relief measures, and we stand ready to do more if needed."

"While we have temporarily veered our attention away from the 'Road to A' agenda because our focus at the moment is on saving lives, jobs, and livelihoods, we welcome positive assessments from international observers like JCR. We hope this helps to uplift the Filipino spirit at this trying time and to inspire us to work harder together to emerge stronger after the pandemic," Diokno added.

Meanwhile, Acting Secretary Karl Kendrick T. Chua of the National Economic and Development Authority (NEDA) said: "The Philippines had continued to strengthen its macroeconomic fundamentals prior to the COVID-19 pandemic. As a result, we have sufficient fiscal space and economic resiliency to address the pandemic. We are currently working with Congress to enact a recovery program. JCR's latest credit action in the Philippines is an affirmation of the economy's resilience."

Looking ahead, JCR expects the Philippine economy to bounce back with a growth anywhere between 6 and 7 percent in the medium term following an anticipated contraction this year due to the effects of COVID-19.

The debt watcher likewise recognized the stability of the banking sector, noting that the average capital adequacy ratio of banks in the country stand at a comfortable 15 percent.

It also cited the country's manageable external debt balance (which was kept low at 22.2 percent of GDP as of end-2019) and the robust foreign currency reserves.

"JCR holds that the country will show its high resilience even when global risk-off moves would be triggered again by a second wave of COVID-19 pandemic," it said.

The credit rating upgrade from JCR bodes well for the Philippine government's fund-raising activities, which in recent years have included regular issuance of Samurai bonds. The investment guidelines of many Japanese institutional investors allow them to invest if JCR assigns an A- rating or higher.

Improvements in the Philippines' investment grade ratings help the Government to easily access funding at favorable costs and help boost overall investor perception on the Philippines. The savings generated from cheaper borrowings will allow the government to spend more of its resources for much needed social services, such as health care and education as well as in job-generating infrastructure projects.

The rating upgrade from JCR came following the decision of Fitch to affirm the "BBB" rating it assigns to the Philippines, and the move of S&P Global to affirm the country's "BBB+". Both investment grade ratings have a "stable" outlook.

The latest favorable rating actions on the Philippines by various credit rating agencies come amid a wave of credit rating downgrades and negative outlook revisions globally, as the COVID-19 pandemic take its toll not only on lives and livelihoods, but also on creditworthiness of many sovereigns.

The rating peers of the Philippines (sovereigns with ratings of BBB+ to A) with JCR include the following: Malaysia, Italy, Poland, and Portugal (all of which are rated A); Thailand, Mexico, Hungary, and Peru (all of which are rated A-); and India and Indonesia (which is rated BBB+).

Out of the 14 credit rating actions that JCR have done since the start of the year, only three involved credit rating upgrades while the rest of the actions were either rating downgrades, negative outlook revisions, or rating affirmation.

On the other hand, Fitch, S&P, and Moody's Investors Service have implemented a total of 37 sovereign credit rating downgrades and 84 negative outlook revisions during the first five months of this year.

ABOUT Japan Credit Rating Agency (JCR)

JCR is a leading credit rating agency in Japan. Its ratings services cover over 60 percent of the estimated 1,000 publicly traded issuers in Japan and over 200 foreign issuers, including 36 sovereigns.

JCR is the only Japanese rating agency that is also officially registered in the US and certified in the EU.

JCR, through its International Department Head, Mr. Atsushi Masuda, serves as Chair of the Association of Credit Rating Agencies in Asia (ACRAA), the caucus of credit rating agencies in the region.

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