Hall, Laine

From: Leung, Angelina
Sent: Thursday, April 22, 2021 11:30 PM
To: Leung, Angelina
Subject: [Press Release] R&I affirms Philippines' BBB+ rating, 'stable' outlook
Attachments: R&I affirms Philippines' BBB+ rating, 'stable' outlook.pdf

Dear all,

Japanese debt watcher Rating and Investment Information Inc. (R&I) has kept the Philippines' investment grade credit rating of BBB+ with a "stable" outlook, affirming the Philippines' economic recovery and growth prospects from the pandemic. For more details, please refer to the release below and attached.

If you require further commentary, do let us know and we can coordinate with the BSP.

Thanks,
Angelina

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Press Release
23 April 2021

R&I affirms Philippines' BBB+ rating, 'stable' outlook
Japanese debt watcher cites economy's favorable post-COVID growth prospects

In a vote of confidence on the Philippine economy's COVID-19 recovery and growth prospects over the medium term, Japanese debt watcher Rating and Investment Information Inc. (R&I) has kept the Philippines' investment grade credit rating of BBB+ with a "stable" outlook.

In a statement released Thursday, R&I recognized the role of fiscal and monetary actions in providing a favorable outlook for the Philippines in the post-COVID period.

"The Philippines' economy suffered a severe contraction due to the COVID-19 pandemic in 2020 but is expected to recover primarily through aggressive public investment, which had driven the economy in the past several years. Fiscal and monetary policies will boost growth for some time," R&I said.

BBB+ is a notch away from the minimum rating within the A-territory ratings, while a "stable" outlook indicates absence of factors that may cause the rating to change over the short term.

In response to the latest rating decision by R&I on the Philippines, Department of Finance (DOF) Secretary Carlos G. Dominguez said that in keeping its "BBB+" credit rating with a "stable" outlook for the Philippines, R&I has "apparently taken notice that although the global fight against the pandemic has proven to be a costly one, the country's strong macroeconomic fundamentals ahead of the pandemic have enabled the government to accelerate spending on urgent and necessary programs to save lives and keep the economy afloat.

"With a manageable debt profile, a steady revenue stream brought about by tax reform, and the continued practice of fiscal prudence, the government is confident it will not run out of resources in waging the protracted battle against the COVID-19 crisis."

He said that as R&I itself has acknowledged, the government is committed to pursue the remaining reforms in its socioeconomic agenda even if it remains preoccupied with the challenges of the pandemic—and this resolve will let the Philippines return soon enough to its pre-pandemic path of high and inclusive growth.

For Dominguez, the Duterte administration's commitment to economic reform and recovery has been proven by, among others, the enactment of stimulus measures like CREATE (Corporate Recovery and Tax Incentives for Enterprises) and FIST (Financial Institutions Strategic Transfer), as well as its push for investor-friendly bills pending in the Congress, such as the proposed amendments to the Public Service Act (PSA), Retail Trade Liberalization Act (RTLA), and Foreign Investments Act (FIA).

Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno also welcomed the rating decision by R&I, saying: "The Philippines once again earned an important vote of confidence on its ability to bounce back from the COVID-19 crisis, with R&I's affirmation of the country's BBB+ rating with a 'stable' outlook.

"With the recent surge in COVID-19 cases, the tail-end of the crisis is proving to be extra challenging. Nevertheless, we do not see a permanent dent on our macroeconomic fundamentals, and we can head back to our growth path post-COVID.

"Inflation, although seen to slightly breach the target range this year, will ease to within the 2.0 to 4.0 target band next year. Moreover, the banking sector, although not totally unscathed, has kept the impact of the crisis manageable and remains well capable of helping support economic recovery and growth through credit.

"The favorable inflation outlook and stable banking system, plus the speed of financial digitalization happening in the economy, are good reasons to be confident about the Philippines' medium and long-term growth prospects."

R&I positively viewed the increase in government spending and budget deficit in light of the COVID-19 pandemic, noting that the country's fiscal situation remains manageable.

Compared with the pre-pandemic fiscal program of a 3-percent budget deficit-to-GDP ratio, the budget gap of the National Government widened to 7.6 percent of GDP last year amid the government's funding of COVID-response measures. Moreover, the government's debt is estimated to rise to 57 percent of GDP this year, up from 39 percent in 2019.

"R&I does not view this as a major issue at this juncture, because of a comfortable funding condition backed by ample domestic liquidity and the prospect of peaking-out of the debt ratio within one to two years," R&I said.

Earlier, the DOF Secretary said the government is keen to keep the debt ratio below 60 percent, thereby striking the right balance between supporting economic growth and maintaining fiscal discipline.

R&I also recognized strength of the country's external accounts, which serve as buffers against external shocks.

"The overall balance of payments is positive and foreign reserves are greater than external debt," it said. "R&I therefore considers the risk associated with the external position to be limited," it added.

The debt watcher lauded the Philippines' reform agenda. It cited the enactment of vital laws, which are seen to aid recovery and provide long-term benefits for the economy, and the push for bills seeking to liberalize many business sectors of the country.

President Duterte last month signed into law CREATE, a landmark measure that cuts corporate income tax by as much as 10 percent and rationalizes the fiscal incentives system. It is meant to help enterprises recover from the impact of the pandemic and to boost the country's attractiveness as an investment destination.

Earlier this year, the President also signed into law the FIST bill, which will help banks dispose of bad assets via asset management companies and help ensure maintenance of banking system stability.

With R&I's latest rating decision on the Philippines, the country has so far been able to maintain all of its investment grade credit ratings with regional and international debt watchers—despite a wave of negative credit rating actions globally in light of the pandemic.

The favorable assessment from R&I and other credit rating agencies bodes well for the Philippines' ability to continue accessing financing at affordable cost. This is important more so at this time of crisis, as the government is able to raise funds for its COVID response programs at relatively low interest rates.

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