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S&P affirms Philippines' 'BBB+' rating, 'stable' outlook

Debt watcher cites firm economic recovery prospects

International debt watcher S&P Global has affirmed the Philippines' investment grade credit rating of "BBB+" with a "stable" outlook, in a vote of confidence that the country continues to enjoy favorable medium-term growth prospects despite challenges posed by COVID-19.

With this development, the Philippines continues to defy the wave of credit rating downgrades and negative outlook revisions across the globe, with the economic toll of the pandemic dampening the credit profiles of many other countries.

The Philippines' "BBB+" rating with S&P is the highest among its ratings with international debt watchers *(the Philippines is rated one notch lower at "BBB" by Fitch Ratings and its equivalent Baa2 by Moody's Investors Service)*. It is also a step away from the minimum rating within the stellar "A" territory. The "stable" outlook indicates the absence of factors that could trigger an upward or downward adjustment in the rating over the short term.

"[W]e believe the Philippines will continue to have good economic recovery prospects once the COVID-19 pandemic is contained, and that the government's fiscal performance will strengthen accordingly," S&P said in report released Thursday.

S&P forecasts that the Philippine economy will grow by 7.9 percent this year, which marks a solid rebound from last year's contraction and is higher than the government's own projection of 6.0 to 7.0 percent.

"Despite the unprecedented economic shock, the Philippine economy remains among the fastest growing in the world on a 10-year weighted average per capita basis. The country has a relatively diversified economy with a strong track record of high and stable growth—a reflection of its supportive policy dynamics and improving investment climate," S&P said.

Welcoming the rating affirmation by S&P, Finance Secretary Carlos Dominguez III said: "The Philippines, along with the rest of the world, has suffered from the shocks of the pandemic-driven health and economic crises. But solid financial buffers and prudent fiscal management have placed the Philippines in a relatively strong position to generate the needed funds for COVID-19 response without touching off a worrisome debt situation down the road."

"Even as we significantly increase public spending to contain the spread of the virus, save lives, and induce economic recovery, we have managed to keep our debt metrics within manageable levels. S&P's affirmation of its 'BBB+' rating supports our optimism that once this health emergency is contained, we will be able to bring back our deficit and debt ratios as well as our growth momentum to pre-pandemic levels," he added.

From 34.1 percent in 2019, the Philippines' general government debt as a percent of GDP, per S&P's estimates, increased to 48.8 percent in 2020. This is much lower than S&P's estimate for Malaysia's (A-) at 74.6 percent, and comparable with Thailand's (BBB+) 48.1 percent and Indonesia's (BBB) 38.6 percent.

"Moreover, our continued implementation of game-changing reforms while our hands are full with COVID response measures speaks well of our government's resolve to achieve President Duterte's goal of a stronger and more inclusive economy in the post-pandemic era. For instance, the recently signed Corporate Recovery and Tax Incentives for Enterprises (CREATE) law, which cuts the corporate income tax (CIT) rate to a level that is competitive regionally and that rationalizes the fiscal incentives regime, will provide succor to businesses reeling from the COVID-19 crisis. This would help attract more foreign and domestic investments that would, in turn, create more jobs and boost incomes of Filipinos," Dominguez said.

"We are also actively pushing the passage of other important economic bills that will further open the economy to investments and accelerate economic recovery. In particular, we are keen to see the passage of the proposed investor-friendly amendments to the Foreign Investments Act (FIA), Public Service Act (PSA), and the Retail Trade Liberalization Act (RTLA)," he added.

Also responding to S&P's favorable opinion of the Philippines, Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno said: "The move of S&P to keep the country's BBB+ credit rating echoes our view that the impact of the COVID-19 crisis on the economy will be transitory and that the Philippines continues to enjoy bright medium-term growth prospects."

"Prior to the pandemic, the Philippines was already on the verge of becoming an upper middle-income economy and had already posted significant strides in poverty reduction. We expect to go back to that trajectory soon, as vaccination rollout continues and as we push for vital economic reforms.

"On the part of the BSP, we will continue to promote financial digitalization, which will aid faster economic recovery and growth, and which will onboard more Filipinos to the formal sector thereby boosting incomes. We will likewise continue to promote Islamic banking for a more inclusive financial system.

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"We will also remain steadfast in our commitment to price stability, prudent supervision of financial institutions under our remit, stability of the financial system, and efficient payments and settlements system—all of which help provide an enabling environment for faster and more inclusive growth."

S&P acknowledged that the Philippines entered the pandemic in a position of strength, owing in part to its sound fiscal situation. "The Philippines government has generally enacted effective fiscal policies over the past decade, marked by improvements to the quality of expenditure, manageable fiscal deficits, and low levels of general government indebtedness. This track record of sustainable public finances helped the government accumulate fiscal space to respond to the pandemic," it said.

Despite the disruptions to business activities caused by the pandemic, S&P noted the manageable impact on corporate balance sheets and cited the country's healthy financial sector.

"The Philippine economy's constructive medium-term trajectory is underpinned by solid household and company balance sheets, sizable inward remittance flows, and an adequately performing financial system. Prior to the outbreak of COVID-19, the country's unemployment rate had been declining for a few years, signaling strengthening labor market even as the working-age population continued to grow," it said.

S&P also recognized the strength of the country's external payments position, as evidenced in part by its hefty gross international reserves (GIR), which amounted to about USD110 billion as of end-2020.

"A key rating strength for the Philippines is the country's external position; the peso's strength and the Philippines' rising foreign exchange reserves in the current economic and health crisis are testaments to its external resilience," S&P said.

The debt watcher also credited the Philippines for its strong financial sector oversight. "Philippine banks benefit from being mainly deposit-funded, with high liquidity and limited linkages to global markets. The strengthened oversight of the financial sector by Bangko Sentral ng Pilipinas, combined with modest growth in private sector debt and real estate prices, has also contributed to improved system stability in recent years," it said.

The debt watcher also cited the government's reform agenda, as backed by various laws signed and bills pushed, and the continued drive for infrastructure development under the "Build, Build, Build" program. Both are seen to support robust economic growth of the Philippines over the medium to long term.