NEWS RELEASE

Apr 22, 2021

R&I Affirms BBB+/a-2, Stable: Republic of the Philippines

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Republic of the Philippines**

Foreign Currency Issuer Rating: BBB+, Affirmed
Rating Outlook: Stable

Foreign Currency Short-term Debts: a-2, Affirmed

RATIONALE:

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 both boost growth for some time. With the government committed to maintaining fiscal discipline, the debt ratio will be back on a downward trajectory in the near future, in R&I's view. In parallel with crisis responses, the government has steadily accomplished comprehensive tax reforms and various regulatory reforms. The current account balance has returned to a surplus, and the risk associated with the external position is limited. Moreover, the banking sector maintains stability. In consideration of these factors, R&I has affirmed the Foreign Currency Issuer Rating at BBB+.

On the back of aggressive infrastructure investment under the Duterte administration, not only private consumption but investment has increased its contribution to economic growth. Enhanced productivity will also help bolster growth potential in the medium to long term. In 2020, the Philippines' real gross domestic product (GDP) contracted most severely among major countries in Southeast Asia partly because of the strict quarantine measures against the spread of the coronavirus with priority in saving lives and strengthening the healthcare system. It has been on a recovery path since Q3, and the government projects 6.5-7.5% growth for 2021. Attention should be given to downside risk to the economy, however, as new coronavirus cases resurged in Q1.

The current account balance returned to a surplus in 2020 thanks to a narrower trade deficit stemming from a sharp slowdown in economic activity. Surpluses in remittances from overseas workers and other accounts have held steady. Although the current account balance can move into a deficit again in tandem with economic recovery, R&I will not take a negative view of this as long as increased imports of capital and intermediate goods are the primary cause. Foreign direct investment inflows are relatively solid, and the government also actively seeks bilateral official development assistance and loans from multilateral development banks. The overall balance of payments is positive, and foreign reserves are greater than external debt. The country's external liabilities exceed its external assets, but only slightly. R&I therefore considers the risk associated with the external position to be limited.

A successful reduction of the government debt ratio provided the country with fiscal space to tackle the COVID-19 pandemic. The central government fiscal deficit widened to 7.6% of GDP in 2020 and is projected to remain high at 8.9% in 2021. The government intends to embark on fiscal consolidation from 2022. Outstanding government debt is expected to rise to 57.0% toward 2021. Even so, 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.

With per capita gross national income (GNI) rising at a steady pace, the Philippines is about to achieve an upper middle-income country status, which it has been striving for. According to medium-term projections by the International Monetary Fund, however, the country's per capita GDP will still be low compared to other major ASEAN nations. This appears to reflect a small share of the manufacturing sector in employment and low productivity of the agricultural sector, among other factors. The Philippines' medium-term development plan recognizes these two issues as policy agenda and calls for

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countermeasures. Reforms that will create a platform for future productivity enhancement have been enacted, including the overhaul of the corporate tax system and the liberalization of rice imports. In addition, the government is working on more competition-inducing amendments of key legislations such as the Foreign Investments Act, Retail Trade Liberalization Law and Public Service Act. Eyes are on whether the country will be able to enhance resource allocation efficiency and productivity in the medium to long term by capitalizing on these reforms.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Republic of the Philippines**
	Foreign Currency Issuer Rating
RATING:	**BBB+, Affirmed**
RATING OUTLOOK:	**Stable**
	Foreign Currency Short-term Debts
RATING:	**a-2, Affirmed**

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