



BANGKO SENTRAL NG PILIPINAS



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

Debt watcher cites buffers against COVID-19 crisis, forecasts strong recovery in 2021

In recognition of the Philippines' sound macroeconomic fundamentals going into the COVID-19 pandemic and its perceived ability to bounce back from the crisis, international debt watcher S&P Global today upheld the country's "BBB+" rating with a "stable outlook."

The affirmation of the rating—which is a notch away from the minimum score within the "A" territory— and the stable outlook, at this time of crisis is a vote of confidence which comes amid a wave of credit rating downgrades and negative outlook revisions worldwide as the pandemic wreaks havoc on productivity of economies.

The Philippines is badly hit as well, with the country's gross domestic product (GDP) expected to contract this year after posting 84 consecutive quarters of growth. What goes well for the Philippines, however, are its sound fundamentals going into the crisis that allow it to implement massive relief response without fear of a debt blowout.

S&P said the affirmation of the Philippines' credit rating reflects its "expectations that the economy will continue to achieve above-average growth over the medium term, which will drive constructive development outcomes and underpin broader credit metrics."

The debt watcher forecasts the economy to contract by 0.2 percent this year and then strongly bounce back with a growth of 9.0 percent next year.

In response to S&P's decision, Finance Secretary Carlos Dominguez III said: "The affirmation of the 'BBB+' rating with 'stable' outlook is an unequivocal recognition by S&P of the resilience of the Philippine economy to regain its high-growth trajectory in the new normal. President Duterte's prudent approach to fiscal management coupled with the implementation of bold economic reforms since he took over in 2016 have kept the country's financial position strong and steady ahead of this corona virus pandemic that has wracked the global economy."

"We are confident that our government's four-pillar strategy to deal with the pandemic will see us through this global health emergency as we remain focused on saving lives and protecting communities while gradually lifting mobility restrictions to restart the economy and get people back to work," Dominguez said.

Dominguez said President Duterte's reform agenda continues amid the corona virus outbreak, particularly with this latest push in the Congress for the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) bill that will be the "largest economic stimulus ever for businesses in the country and a strong signal that the Philippines is back in the game despite the contagion."

Over the past four years, crucial reforms that improve the economy's ability to deal with crisis situations have been implemented, such as tax reforms, liberalization of rice imports, Universal Healthcare Act, National ID System, and amendments to the BSP charter, among others.

The government's 4-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.

For his part, Acting Secretary Karl Chua of the National Economic and Development Authority (NEDA) highlighted the government's economic recovery program, which entails helping small businesses to bounce back, such as through ample access to credit, supporting workers and their families through targeted wage subsidies, and cash-for-work programs.

It also entails fast-tracking of programs like the "Build, Build, Build" infrastructure drive and a contact tracing initiative that aims to hire 136,000 contact tracers to help mitigate the spread of COVID-19 and increase employment.

"No country has been spared from the economic effects of this global pandemic, but our strong economic fundamentals and inclusive recovery measures will power our return to growth," Chua said. "Thanks to our ample buffers and fiscal space, we can jumpstart domestic demand by investing more in healthcare, infrastructure, and the entire food value chain," Chua added.

Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno said there is room for the central bank to do more, even as it has already implemented a long list of COVID-19 response measures.

"Thanks to critical institutional reforms and sound policy management, we are in the advantageous position of having monetary space to carry out further easing, if necessary," said BSP Governor Benjamin E. Diokno. "While being mindful of our price and financial stability mandates, we are thinking outside the box to enact policies that ultimately help safeguard the lives and livelihoods of our people. Such is our solemn responsibility in this once-in-a-lifetime crisis, and I am confident that our approach will demonstrate the resilience of our country," Diokno said.

The BSP has taken decisive actions to complement the national government's relief efforts. Among the measures implemented by the BSP include the cuts in the policy rate and the reserve requirement ratio, the P300 billion worth of repurchase agreement with the National Government, the advance remittance of P20 billion worth of dividends to state coffers, and a wide range of regulatory relief measures that give banks and other supervised financial institutions the flexibility to extend loans to vulnerable sectors of the economy.

Meantime, S&P recognized favorable macroeconomic fundamentals of the Philippines going into the crisis, including improving per-capita income, low inflation, strong balance sheets of the corporate sector, stable financial system, and declining unemployment rate.

"The Philippine economy is among the fastest growing in the world on a 10-year weighted-average, per capita basis—a reflection of its supportive policy dynamics and improving investment climate. The country has a relatively diversified economy with an increasingly strong track record of high and stable growth," S&P said. It projects real GDP per capita growth to average approximately 4.2 percent per year over 2020-2023.

The debt watcher likewise cited the reforms in the fiscal front implemented under the Duterte administration, which helped boost the government's ability to respond to the crisis. "The government has enacted effective fiscal policies in recent years, marked by improvements to the quality of expenditures, manageable fiscal deficits, and low levels of general government indebtedness," it said.

Furthermore, S&P said the country's external position is a key strength, marked in part by rising foreign exchange reserves and comfortable external debt metrics.

S&P's latest rating decision on the Philippines came following the move of Fitch Ratings earlier this month to affirm its rating of "BBB" for the Philippines and to adjust the outlook on the said rating from "positive" to "stable."

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