Media Release

RAM Ratings upgrades the Philippines' ratings

RAM Ratings has upgraded the Philippines' global and ASEAN-scale ratings to $_{g}BBB_{2}$(pi)/Stable/$_{g}P2$(pi) and $_{sea}AA_{3}$(pi)/Stable/$_{sea}P1$(pi) from $_{g}BBB_{3}$(pi)/Positive/$_{g}P3$(pi) and $_{sea}A_{1}$(pi)/Positive/$_{sea}P1$(pi), respectively. The upgrade is premised on sustained growth momentum, a persistent uptrend in FDI inflows and continuous progress in reforms. The stable outlook reflects the country's strong external position and economic resilience, balanced by the government's narrow revenue base and elevated underemployment and poverty rates. The government's ambitious "Build, Build, Build" programme has made some headway. Out of 75 flagship projects, 35 had been approved by the authority as at June 2018 compared to 18 a year ago. "While there are execution challenges to the infrastructure push, the shift in the government's budgeting framework from obligation-basis to cash-basis next year should help address underspending issues," highlights Esther Lai, RAM's Head of Sovereign Ratings.

Increased imports of capital goods to fulfil the country's vast infrastructure needs had led to a wider current account deficit (2017: 0.8% of GDP). "In the absence of capital imports, the Philippines' current account is basically still in a surplus position, emphasising its strong external position," adds Lai. Nonetheless, a more measured pace of expansion could space out capital imports, which may help contain inflationary pressure. Besides infrastructure investments, FDI rose 21.4% y-o-y to a record high of USD10 billion or 3.2% of GDP as at end-2017 (end-2012: USD3.2 billion or 1.3% of GDP), mainly investments in the manufacturing and utilities sectors. This reflects investor optimism over the country's growth potential as well as the continuous passage of business enhancing reforms. Pending greater clarity, plans to repeal 123 special laws on investment incentives and consolidate them into a single incentive legislative could hold back future investments.

Notwithstanding growth moderation and heightened inflationary pressure in 2Q 2018, we view these indicators to be manageable and transitory, given various reforms and policy measures aimed at strengthening government operations and more inclusive growth in the long term. As aggregate demand conditions are still resilient, anchored by the sustained inflow of remittances and robust expansion on the investment front, we envisage growth clocking in at around 6.5% in 2018.

Analytical contact
Lynette Lee
(603) 7628 1182
lynette@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

Date of release: 29 August 2018

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings' credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad