



## Media Release

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### **RAM Ratings has positive outlook on Philippines' ratings**

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RAM Ratings has revised from stable to positive the outlook on the Philippines' respective  ${}_{9}BBB_{3}(pi)$  and  ${}_{sea}A_{1}(pi)$  global and ASEAN-scale ratings. "The positive outlook reflects the country's stronger-than-expected GDP performance in 2016 and growing FDI despite a change in administration, which provides comfort on policy continuity," highlights Esther Lai, RAM's Head of Sovereign Ratings. Continuous efforts to reduce red tape, simplify regulations and streamline business processes bode well for investors, having led to improved competitiveness and ease of doing business rankings. Pending the Senate's approval, the first package of tax reforms could boost national government revenue by 1% of GDP upon implementation in 2018. That said, structural issues such as elevated underemployment and poverty rates remain long-term constraints.

"The pace of infrastructure spending is anticipated to be faster than the previous administration's even if actual spending falls short of the current government's ambitious targets," adds Lai. While capital outlays came in at 2.2% of GDP in 1H 2017, infrastructure spending is budgeted at 5.3% of GDP this year, a significant rise compared to previous years. Notwithstanding massive on-balance sheet expenditure for infrastructure projects, the government expects its national debt-to-GDP ratio to decline to 35.4% by 2022 (1H 2017: 42.5%). This can only happen if GDP expands by more than 7.0% y-o-y over the medium term and liability management remains prudent. While the government has developed a 3-year rolling infrastructure programme that prioritises public projects, downside risks could arise from delays in implementation or cost overruns.

Besides infrastructure development, domestic growth fundamentals stayed firm, as seen in GDP growth of 6.4% in 1H 2017. Sustained by remittance inflows, private consumption was steady at 5.8% y-o-y while the manufacturing sector continued to expand. The rebound in the external sector is feeding into domestic manufacturing, evident in rising industrial production and higher capacity utilisation rates of manufacturing enterprises. We expect GDP growth to be maintained at 6.7% in 2017, on the lower end of the government's 6.5%-7.5% forecast.

Although merchandise exports increased 13.6% in 1H 2017 – boosted by electronics exports – incremental capital imports are envisaged to keep the Philippines' current account in deficit in the coming years. The country's balance of payment clocked in a

deficit of US\$705.7 million in 1H 2017 (2016: US\$420.1 million deficit), which is expected to be sustained by rising FDI inflows and official development assistance from abroad over the medium term. The country's official reserve assets are sufficient to cover at least 9 months of imports and more than 5 times its short-term external debt, greater than that of peers.

The Philippines' ratings could be upgraded if current improvements are maintained and the country's growth momentum continues with an increased share of domestic investments and FDI. The successful implementation of tax reforms and coordinated rollout of the government's ambitious infrastructure projects will also be positive rating triggers. Conversely, the weakening of government finances and the country's external position beyond our expectations, deterioration in domestic financial stability, and the reversal of investment initiatives and growth-enhancing strategies, though unlikely, could exert downward pressure on the ratings.

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