RAM RATINGS

Media Release

RAM Ratings reaffirms the Philippines' ratings

RAM Ratings has reaffirmed the $_{g}BBB_{2}$(pi)/Stable and $_{sea}AA_{3}$(pi)/Stable ratings of the Philippines on the global and ASEAN scales, respectively, premised on the country's resilient domestic demand and strong external position as well as continuous progress in reforms. A lower unemployment rate, easing price pressures and aggressive tourism promotion continued to support local demand while the industrial production output contracted. The government had also sped up infrastructure spending in 3Q 2019 to make up for softer GDP growth in the first half of the year. "Although execution risks and capacity constraints remain key challenges to accelerating infrastructure activities, ongoing reforms have remarkably improved the country's ranking in the Ease of Doing Business Index while tax reforms gradually progress," highlights Esther Lai, RAM's Head of Sovereign Ratings.

Notwithstanding the government's full-year GDP forecast of 6.0% to 7.0%, we anticipate slower economic expansion of 5.8% for 2019. Investment activity stalled in 1H 2019, primarily due to the delayed passage of the 2019 national budget and a ban on public spending around the election period in May. Out of 75 flagship projects under the "Build, Build, Build" programme, only two have been completed while 44 others were at different stages of implementation as at 31 July 2019. Although faster expansion of the national road network and improvement in road quality have been observed, the authorities' target of completing 21 projects by 2022 seems ambitious. Private investments were also slow in 1H because of uncertainties surrounding tax reforms and the weak external environment. That said, an uptrend in consumer sentiment and FDI approved in September 2019 bode well for the domestic economy amid sluggish external demand.

Backed by sturdy remittance income (2018: 8.8% of GDP), the Philippines' robust external position remains its key rating strength despite a wider current account deficit (2018: -2.4% of GDP; 2017: -0.7% of GDP). In the absence of capital imports, the country's current account was essentially in a near-balance position in 1H 2019. The reopening of Boracay Island, a popular tourist destination, after six months of rehabilitation in 2018 had contributed to the largest uptick in tourist arrivals in the Philippines in 8M 2019. While external debt had increased, further accumulation of official reserve assets – up 14.2% to USD85.6 billion (24.5% of GDP) as at end-September 2019 – provides a cover of more than five times the country's short-term external debt, better compared to peers'.

The Philippines' ratings could be upgraded if reforms meaningfully contribute to more inclusive growth, especially by reducing poverty and underemployment rates in a sustainable manner. Smooth delivery of infrastructure projects with no significant cost overruns and the successful implementation of tax reform measures that lead to a continuous increase in government revenue will also provide upside potential. Conversely, substantial weakening of the country's external position would be viewed negatively, as would deterioration in price and financial stability or the reversal of growth enhancing strategies.

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