NEWS RELEASE

Apr 18, 2022

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 has been demonstrating solid growth since the second quarter of 2021 despite the new wave of COVID-19 infections. The government debt ratio is expected to stabilize in the near-term in tandem with the country's economic recovery. While the current account deficit will likely stay slightly elevated, the country's dependence on external debt remains limited, backed by robust foreign direct investments. Moreover, the banking sector remains stable. Based on these factors, R&I has affirmed the Foreign Currency Issuer Rating at BBB+. With the presidential and general elections taking place in May 2022, a new president will assume office at the end of June and subsequently, a new policy framework is expected to be announced in around two months. R&I will keep an eye on the new administration's policies, particularly on continuing key infrastructure projects and structural reforms, which are deemed essential in attracting investments from both domestic and external sources.

In 2021, real gross domestic product (GDP) expanded 5.7%, dragged down by the further spread of COVID-19 in the first quarter. The second half of the year saw 7.4% growth, driven by successful efforts to sustain economic activities and to control infections with community quarantines. The government projects 7-9% growth for 2022. A surge in crude oil prices is anticipated to push inflation up, which is considered a short-term risk factor. Policy measures of the central bank of the Philippines (Bangko Sentral ng Pilipinas) toward the second half of the year will draw attention.

The current account surplus in 2020 turned into a deficit in 2021, and the deficit will likely widen transitorily due partly to soaring crude oil prices. Surpluses in remittances from overseas workers and other accounts have held steady. On the funding front as well, foreign direct investment inflows are solid. R&I will not take a negative view of the current account deficit, given that increased imports stemming from infrastructure investment will lead to economic growth in the future. Foreign currency reserves are in excess of external debt. The country's external liabilities exceed its external assets, but only slightly. R&I considers the risk associated with the external position to be limited.

The central government fiscal deficit widened to 7.6% of GDP in 2020 owing to the impact of the COVID-19 pandemic and policy actions. As a result of fiscal spending to shore up the still somewhat vulnerable economy, the year 2021 also saw a rise in the fiscal deficit to 8.6% of GDP. While the government intends to press ahead with fiscal consolidation from 2022, the year's budget projects a 7.7% deficit, almost the same level as the 2020 outturn. The government aims to improve the deficit gradually, not hastily, while continuing infrastructure investment with an eye on other fiscal indicators including the debt ratio. It expects the debt ratio to peak at slightly over 60% of GDP. R&I will observe whether a stable financing environment is maintained.

With per capita gross national income (GNI) rising at a steady pace, the Philippines is about to achieve an upper middle-income country status that it has been striving for. According to the International Monetary Fund's medium-term projections, however, the country's per capita GDP will still be low compared to other 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 government has been implementing reforms that will create a platform for future productivity enhancement, including the overhaul of the corporate tax system, competition-inducing regulatory amendments, and measures to

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promote agribusiness. Eyes are on whether the country will be able to enhance its 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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