

## Latest rating action of Fitch vote of confidence in the Philippines' sound policy framework

- Fitch Ratings affirmed the Philippines' investment grade rating of 'BBB' and revised its outlook to 'Stable' from 'Negative,' citing its improved confidence that the Philippines is returning to strong medium-term growth post-COVID-19 pandemic.
- The revision also reflects the rating agency's assessment of the Bangko Sentral ng Pilipinas' (BSP) credible inflation-targeting and flexible exchange rate regime, as well as the Philippines' comfortable external payments position and gradual fiscal consolidation, among others.
- According to Fitch, ongoing reforms to the business environment and investment regulations create upside potential for growth.
- Fitch's findings mirror other analysts and economists' sentiment. In a recent webinar, Yeefern Phua, analyst and director at S&P Global Ratings said that the growth numbers of the Philippines are looking stronger compared to its peers. "We are seeing that the Philippines still continues to be a growth outlier among ASEAN peers," he said. In the medium term, S&P Asia Pacific economist Vincent Conti said, S&P sees "very favorable demographics with skilled labor" driving the country's long-term growth prospects. World Bank Philippines Country Director Ndiame Diop commented in April that "when it comes to growth, the Philippine economy is in Olympic shape".

## Pause in rate hikes amid easing inflation

- Inflation further decelerated in May to 6.1% from 6.6% in April. The BSP's latest baseline projections continue to suggest a gradual return of inflation to the target band over the policy horizon. For 2023, inflation is projected to settle lower at 5.4%, (previous forecast: 5.5%). For 2024, BSP forecasts inflation to settle at 2.9%, (previous forecast: 2.8%).
- Balance of risks to the inflation outlook continue to lean towards the upside due to the potential impact of additional transport fare increases and minimum wage adjustments, persistent supply constraints on key food items. Given these considerations, the BSP deemed it appropriate to maintain current monetary policy settings to allow the BSP to further assess how inflation and domestic demand have responded to tighter monetary conditions. However, lingering upside risks to the inflation outlook also warrant continued vigilance against potential second-round effects.

### Philippines' Credit Ratings As of 30 May 2023

Fitch	Affirmed at BBB/ Stable – May 2023
JCR	Affirmed at A-/Stable – Mar 2023
S&P	Affirmed at BBB+/Stable – Nov 2022
Moody's	Affirmed at Baa2/Stable – Sep 2022
R&I	Affirmed at BBB+/Stable – Apr 2022

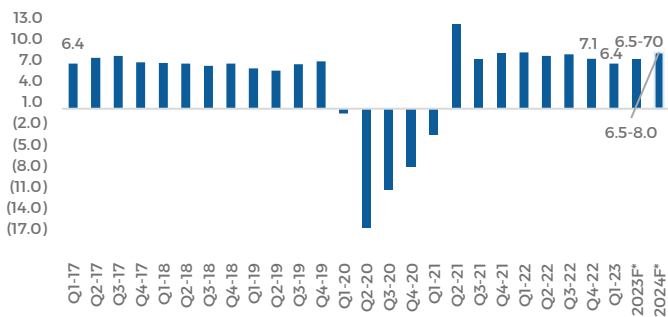
### Fitch's Analytical Pillars and Rating Commentary May 22, 2023

Structural Features	Public Finances
Sound policy framework stronger than implied by the World Bank's governance indicators (WGI)	The gradual pace of consolidation reflects the authorities' focus on fostering economic growth and development.
Macroeconomic Performance	External Finance
Fitch forecasts real GDP growth of above 6% over the medium term stronger than the 'BBB' median of 3%	Current account deficits will continue to be comfortably financed by long-term external borrowing and FDI.

## Commitment toward a sustained rapid, solid, and inclusive economy

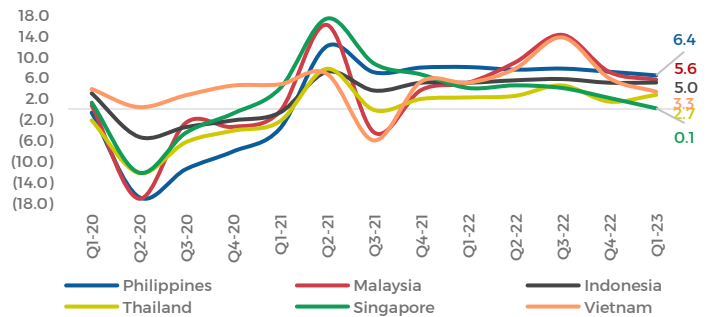
### Stronger growth rebound anchored on sound fundamentals

Real GDP Growth (yoy, %)



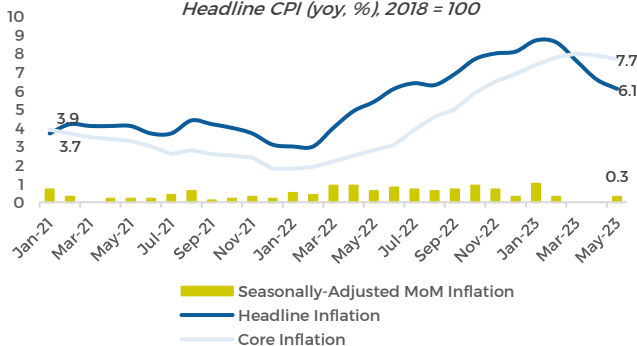
### Philippines is one of the fastest growing economies in Southeast Asia

Real GDP Growth (yoy, %)

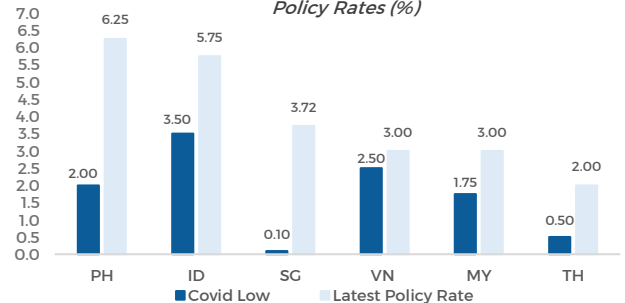


## Prudent pause while responding to upside risks to inflation<sup>1/</sup>

Headline CPI (yoy, %), 2018 = 100



Policy Rates (%)

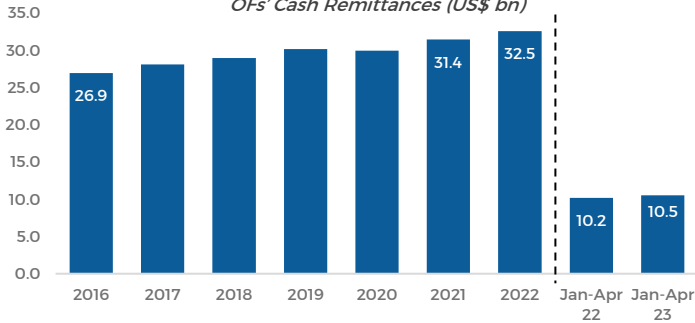


<sup>1/</sup> Since May 2022, the BSP has increased its policy rate by 425 bps.

On 28 May 2023, President Ferdinand R. Marcos Jr. signed Executive Order (EO No.) 28 creating the Inter-Agency Committee on Inflation and Market Outlook (IAC-IMO) to beef up the government's efforts to ease inflation and improve the Philippine Economy.

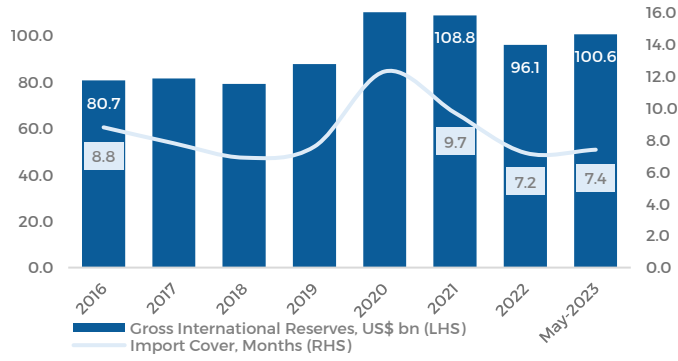
### Remittances are a strong source of growth and stability for the Peso

OFs' Cash Remittances (US\$ bn)



### More than adequate reserves support solid external position

Gross International Reserves (US\$ bn); Import Cover (months)

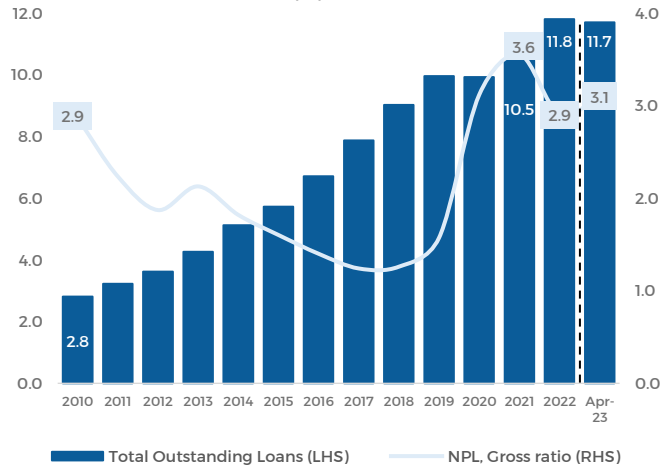


### Strong loan expansion led by household consumption

Sectors	April 2023 (PHP bn)	Share to Total (Net of RRP, %)	Growth (%)
<b>Loans to Productive Sector</b>	<b>9471.3</b>	<b>87.2</b>	<b>8.3</b>
Real Estate Activities	2200.7	20.3	4.5
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	1251.6	11.5	10.3
Manufacturing	1205.0	11.1	9.4
Electricity, Gas, Steam and Air-Conditioning Supply	1192.1	11.0	12.4
Financial and Insurance Activities	1001.6	9.2	7.7
Construction	431.0	4.0	10.8
Information and Communication	601.9	5.5	19.0
Transportation and Storage	358.9	3.3	9.3
Agriculture, Forestry and Fishing	203.9	1.9	4.5
Others	1024.8	9.4	4.1
<b>Loans to Household Consumption</b>	<b>1075.8</b>	<b>9.9</b>	<b>22.3</b>
Loans to Residents (Res), net of RRP Agreements	10547.2	97.1	9.6
Loans to Non-Residents (Non-Res)	319.3	2.9	12.2
<b>Total Loans to Res and Non-Res, net of RRP</b>	<b>10866.5</b>	<b>100.0</b>	<b>9.7</b>

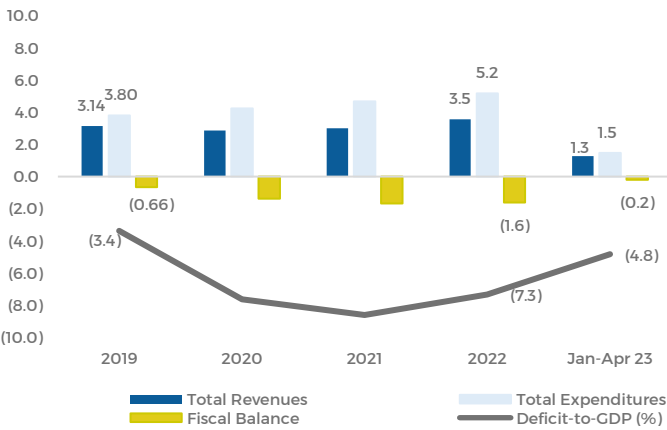
### Improving loan demand on better paying capacity

U/KBs Outstanding Loans (PHP tn) and Non-Performing Loans (NPL) Ratio (%)



### Efficient mobilization and utilization of resources to help achieve fiscal sustainability

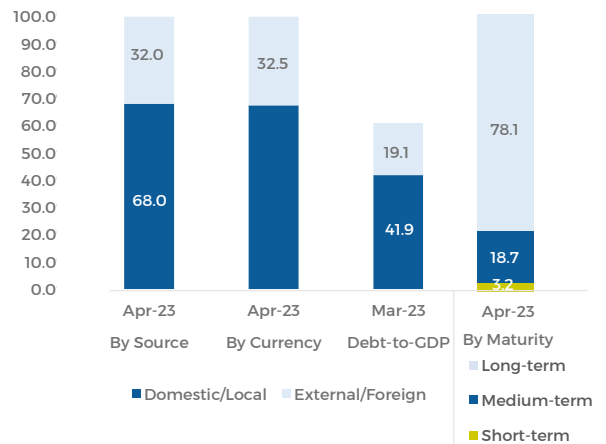
National Government (NG) Expenditure, Revenue, and Deficit (PHP tn)



Note: Deficit-to-GDP is as of Q1 2023

### Debt structure remains resilient; on track with fiscal consolidation goal

National Government Outstanding Debt (% share)



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