CareEdge Global assigns 'Stable' outlook to the rating of Republic of the Philippines

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BBB+' (Unsolicited)

Issuer rating	CareEdge BBB+/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of Republic of the Philippines (Philippines) while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB+ (Unsolicited)'.

The Philippines' credit profile is supported by its strong external position and healthy growth prospects, aided by favorable demographics. The country has been consistent in its efforts to reduce general government debt, except for the spike during the pandemic, which augers well for its fiscal pillar. We anticipate that debt levels will remain manageable at 57.3% for the next five years, which is below the debt ceiling of 60%. The banking sector remains well-capitalized with low non-performing loans.

However, these strengths are partly offset by the country's high susceptibility to climate-related risks, which contributes to GDP volatility. Furthermore, the Philippines' low GDP per capita and skill shortages impose constraints on its medium-term growth prospects. The country's below-average institutional quality remains a concern, though the associated risks are manageable.

Outlook: Stable

The stable outlook reflects our expectation that the Philippines will be able to sustain strong economic growth prospects driven by robust domestic consumption, a well-diversified export base, and strong external remittances. This will help buffer the external position for the Philippines in case of any trade protectionist measures by the United States. CareEdge expects the government's sustained institutional efforts for fiscal consolidation, with a reduction in fiscal deficit to 3.7% by 2028, supported by steady economic growth, to aid its fiscal profile.

Upside Scenario

A sustained fiscal consolidation strategy, accompanied by a steady reduction in the general government's debt-to-GDP ratio and the materialization of policy initiatives into higher revenues, would be credit-positive. Additionally, effective structural reforms to address infrastructure deficits and bridge the skills gap could improve medium-term economic prospects and support a positive outlook.

Downside Scenario

Significant deviation from the country's fiscal consolidation path, particularly its Medium-Term Fiscal Framework (MTFF), could undermine debt sustainability. A key downside risk to the country's rating is policy uncertainty if a weaker majority emerges in the mid-term elections, raising concerns about governance issues, geopolitical alignment, and the sustainability of the growth trajectory. Additionally, external risks, such as a slowdown in key trading partners, could weaken economic stability and hamper export performance.

Key Rating Drivers

Economic Structure & Resilience

The Philippines is poised for strong economic growth, projected to be the fastest-growing economy in Southeast Asia, with an average annual expansion of 6.2% over the next five years. Public infrastructure spending under the Build Better More program is expected to bridge infrastructure gaps and offset weaker gross capital formation serving as a key driver of growth.

Structural reforms, including amendments to the Foreign Investment Act and Public Service Act, along with the newly enacted Public-Private Partnership (PPP) Code, are set to enhance private and foreign investment inflows over the medium term. Additionally, the country benefits from a favorable demographic profile, with the elderly population (65 and above) accounting for just 5.6% of the total population as of 2023.

However, Philippines' low GDP per capita (USD 10,165 in constant PPP terms in 2023) and high vulnerability to climate risks remain challenges, weighing on its overall credit profile.

Fiscal Strength

The Philippines' general government debt saw a significant decline from approximately 71% of GDP in 2003 to 37% in 2019. However, the pandemic-driven fiscal response reversed much of this progress, resulting in general government debt to increase by 20 pp between 2019 and 2022. Despite this increase, general government debt remained moderate at approximately 56.5% of the GDP in 2023 and is projected to remain around 57.3% for the next five years (2024-2028), below the debt ceiling of 60% specified by the government.

Interest payments have also decreased significantly over the past two decades, from approximately 40% of revenue in 2003 to around 16.4% in 2023. Furthermore, external general government (GG) debt accounted for approximately one-third of gross GG debt, with 42% of this being held by multilateral creditors, which provided more concessionary financing compared to private lenders.

The fiscal deficit is expected to narrow further to 5.3% of the GDP in FY2025, although it has remained above 5% since 2020. The government's Medium-Term Fiscal Framework (MTFF) observed revisions in fiscal consolidation targets for 2024, with higher spending driven by increased interest payments and capital expenditures. Initially, the government aimed to reduce the national deficit to 3% of the GDP by 2028, despite a pre-pandemic level of 3.4% in 2019, down from 7.3% in 2022. However, the revised target is now 3.7% by 2028.

Additionally, the government has increased its commitment to defense spending in FY 2025 by 6.4%, in addition to the 4% of total expenditure already allocated in the budget for the same fiscal year, amid the escalated tensions in South China Sea.

Going forward, the government is expected to follow a path of fiscal consolidation, as outlined by the MTFF, supported by a planned reduction in current spending, along with higher resource mobilization through expanded tax bases and improved collection efficiency.

External Position & Linkages

The Philippines' external position remains resilient, supported by its status as a global hub for business process outsourcing (BPO) and a well-diversified export base. Personal remittances, accounting for approximately 9% of GDP in 2023, have provided a stable source of foreign exchange, ensuring adequate reserves equivalent to seven months of import cover as of December 2024. However, after narrowing to 2.6% of GDP in 2023 from 4.5% in 2022, the current account deficit widened in Q3 and Q4 of 2024 due to a slowdown in the export of goods.

Looking ahead, the Current Account deficit is expected to further narrow to 1.65% of GDP over the next five years, from 2024 to 2028. Low external debt, averaging 26.5% of GDP between 2019 and 2023, limits vulnerability to exchange rate fluctuations. Furthermore, foreign direct investment (FDI), which saw average net inflows of 2.3% of GDP over the same period, is expected to benefit from recent policy reforms aimed at attracting foreign investors.

Despite these strengths, external risks remain. A slowdown in key trading partners, such as China and the U.S., along with rising protectionist measures in the U.S., could impact trade flows, though the impact will be guarded by its external strengths.

Monetary & Financial Stability

The Philippines maintains a floating exchange rate regime, with the central bank ensuring monetary and financial stability. A steady decline in inflation from early 2024, which has brought prices within the target range, has allowed for measured rate cuts. As a result, the policy rate was reduced by a total of 75 basis points—from 6.5% to 5.75%—by December 2024.

However, near-term inflation risks persist due to commodity price volatility, potential supply shocks, rising protectionist trade policies, and extreme climate events. Thus, the Central Bank's monetary policy stance is expected to be cautious, depending on domestic inflation trends, policy shifts in advanced economies, and currency movements.

The banking sector remains well-capitalized, with credit growth sustaining a healthy 9–10% in 2024 and non-performing loans (NPLs) remaining low at 3.1% of gross loans as of December 2024. However, financial sector risks stem from relatively low credit penetration, with loans and debt securities accounting for approximately 62% of the GDP in 2022.

Institutions & Quality of Governance

The Philippines' performance across the Worldwide Governance Indicators is mixed. While the country excels in government effectiveness and regulatory quality, its performance is weaker in other dimensions, viz., voice and accountability, control of corruption, rule of law, and political stability, as well as the absence of violence and terrorism.

Persistent tensions in the South China Sea continue to be a significant concern. The current administration has focused on strengthening bilateral relations and enhancing military cooperation with global partners, including EU & Japan. However, the development of ties with the U.S. will be critical as the country deepens military collaboration to strengthen national security.

The 2025 midterm elections remain monitorable as they play a pivotal role in shaping the political landscape for the 2028 presidential elections. Political consensus remains fragmented on key issues, such as governance, geopolitical alignment, and economic growth—factors essential for maintaining investor confidence.

Philippines– Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	347	377	362	394	404	437	470	508
GDP Per Capita (Constant-PPP)	USD	9332	9762	8678	9101	9715	10165	10630	11161
Real GDP Growth	%	6.3	6.1	-9.5	5.7	7.6	5.5	5.8	6.1
GFCF/GDP	%	27.3	27.2	21.3	22.3	23.3	23.6	-	-
Gross Domestic Savings/GDP	%	15.4	14.3	9.7	9.2	9.0	9.2	-	-
Exports (G&S)/GDP	%	30.2	28.4	25.2	25.8	28.4	26.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	63.5	63.7	63.8	64.0	64.2	64.4	64.5	64.7
Old-Age (65+) Population (% Share in Total)	%	4.9	5.1	5.2	5.3	5.4	5.6	5.8	6.0
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-1.5	-1.5	-5.5	-6.2	-5.5	-4.4	-3.9	-3.9
Revenue/GDP	%	19.4	20.2	20.4	21.0	20.4	20.3	20.5	20.2
Expenditure/GDP	%	20.9	21.7	25.9	27.2	25.9	24.7	24.3	24.1
GG Gross Debt/GDP	%	37.1	37.0	51.6	57.0	57.4	56.5	57.6	58.2
GG External Debt (by Creditor)/GG Gross Debt	%	25.9	25.8	27.8	24.7	25.8	28.7	-	-
Interest/Revenue	%	12.3	11.5	13.3	14.3	14.2	16.4	-	-
External Indicators									
Current Account Balance/GDP	%	-2.6	-0.8	3.2	-1.5	-4.5	-2.6	-2.2	-1.8
FDI, Net Inflows/GDP	%	2.9	2.3	1.9	3.0	2.3	2.1	-	-
Outstanding FII Liabilities/GDP	%	25.3	22.3	24.6	23.3	20.4	19.6	-	-
NIIP/GDP	%	-14.0	-10.3	-5.9	-7.2	-10.1	-11.4	-	-
Foreign Exchange Reserves	USD Billions	79.2	87.8	110.1	108.8	96.1	103.7	106.3	-
Import Cover	Months	7.3	8.0	13.2	10.3	7.6	8.2	7.9	-
External Debt/GDP	%	22.8	22.2	27.2	27.0	27.5	28.7	-	-
Monetary and Financial Indicators									
CPI Inflation	%	5.3	2.4	2.4	3.9	5.8	6.0	3.3	3.0
Exchange Rate (Average)	LC per USD	52.7	51.8	49.6	49.3	54.5	55.6	57.3	-
Non-Performing Loans/Total Gross Loans	%	1.3	1.6	3.1	3.6	2.9	3.0	3.1	-
Private debt, loans and debt securities/GDP	%	57.8	57.5	64.7	62.4	61.6	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	April 02, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+	October 03, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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