CareEdge Global assigns Long Term Foreign Currency Rating of BBB+ (Unsolicited) to Republic of the Philippines

Credit Profile

The Philippines' credit profile reflects its strong external position and healthy growth prospects. The general government debt level is low, although it has increased substantially due to pandemic related support. The banking sector has low non-performing loans and is well-capitalized. However, these strengths are partly offset by the Philippines' low GDP per capita, weak institutional quality, and high susceptibility to climate risks.

Strengths

- Strong external position
- Healthy growth prospects
- Favourable demographics
- Low general government debt level
- Low non-performing loans

Weaknesses

- Low GDP per capita
- Weak institutional quality
- Low credit penetration
- High susceptibility to climate risks

Key Monitorables

- Potential slowdown in key trading partners like China and US and its impact on the Philippines' external position
- Midterm elections in 2025

Key Rating Drivers

Economic Structure & Resilience

The Philippines has an economic size of USD 437 billion (2023), with the services sector contributing to 62% of its GDP, followed by industry (29%) and agriculture (9%). Over the years, it has emerged as a prominent Business Process Outsourcing (BPO) hub due to its cost effectiveness and a large pool of English-speaking professionals.

The Philippines is one of the fastest growing Asian countries. The economy grew at a stable rate, averaging 6.5% between 2015 and 2019. However, the pandemic resulted in a deep contraction of 9.5% in 2020. The economy rebounded with a growth rate of 5.7% in 2021 followed by 7.6% in 2022. However, growth slowed to 5.6% in 2023, mainly due to tight monetary policy and reduced global demand. Going ahead, economic growth is projected to average 6.2% between 2024 and 2028, driven by public spending on infrastructure as the government aims to address existing infrastructure gaps with an annual investment of 5-6% of GDP between 2022 and 2028. Amendments to the Foreign Investment Act and Public Service Act, along with the recently enacted Public-Private Partnership (PPP) Code, should also help attract private and foreign investments.

However, these strengths are partly offset by the Philippines' low per capita income at USD 9274 in 2023 (in constant PPP). The country also has a concentrated export product mix, with electrical machinery and electronics making up around 50% of exports, exposing the Philippines to cyclical fluctuations in this sector. While the share of the working age population is expected to remain steady around 64-66% for the next two decades, further investments in human capital are needed for the Philippines to reap the demographic dividend. Additionally, the Philippines is highly exposed to climate risks, making climate risk mitigation a key focus.

Fiscal Strength

The Philippines' gross general government (GG) debt reduced significantly to ~37% of GDP in 2019 from ~71% in 2003. However, this progress was largely reversed when the pandemic called for government support and the GG debt increased subsequently by a sharp ~20 percentage points between 2019 and 2022. Still, the Philippines' GG debt at around ~57% of GDP in 2023 remains relatively low and is projected to decline slightly by 2028, supported by the medium-term fiscal framework (MTFF) which focuses on fiscal consolidation at the national government level. However, in a recent review, the fiscal consolidation targets under MTFF were slightly scaled back. Initially, the target was to reduce the national government deficit to 3% of GDP by 2028 (i.e. below pre-Covid level of 3.4% in 2019) from 6.2% in 2023 and 7.3% in 2022. Whereas the new target is 3.7% of GDP by 2028.

Higher debt levels and interest rates compared to pre-pandemic levels have led to a significant increase in the national government's interest expenses to ~16% of government revenues in 2023 from ~12% in 2019.

External government debt by creditors accounts for ~29% of total government debt (2023), however a sizeable portion is owed to multilateral creditors such as the Asian Development Bank (ADB) and International Bank for Reconstruction and Development (IBRD), which offer more favourable funding terms than private creditors.

External Position & Linkages

The Philippines' current account deficit widened to 4.5% of GDP in 2022 from 1.5% in 2021, mainly due to higher commodity prices because of the Russia-Ukraine conflict. However, it has narrowed since then to 2.6% of GDP in 2023 due to correction in commodity prices. Going ahead, the current account deficit is projected to narrow further, averaging 1.5% of GDP between 2024 and 2028.

The Philippines' external position benefits from its role as a global BPO hub and significant personal remittance inflows (~9% of GDP between 2019 and 2023), which provide a steady source of foreign exchange earnings. As of August 2024, foreign exchange reserves stood at ~USD 108 billion, sufficient to cover about 8 months of imports. Moreover, the country's low external debt, averaging ~27% of GDP between 2019 and 2023, reduces its vulnerability to exchange rate fluctuations. However, the Philippines is a net external debtor nation, with a negative net international investment position of ~12% of GDP as of 2023.

Foreign direct investment (FDI) net inflows averaged 2.3% of GDP between 2019 and 2023. Recent reforms aimed at attracting foreign investors should support more FDI going forward. However, a potential slowdown in key trading partners, such as China and the US, could pose near-term risks to the Philippines' external profile.

Monetary & Financial Stability

The Philippines' de facto exchange rate arrangement is floating. The central bank has maintained monetary and financial stability. In an unexpected move, it reduced the policy rate by 25bps to 6.25% in August 2024, marking the first reduction since it started raising rates in 2022. This decision was based on its projection that inflation will continue to decline in 2024 and 2025, staying within the target range of 2-4%.

The banking system is well-capitalized, with low non-performing loans at 3.3% of gross loans (July 2024), although they have doubled from pre-Covid levels. Credit penetration (loans and debt securities) is low at ~62% of GDP in 2022.

Institutions & Quality of Governance

The Philippines' performance across the Worldwide Governance Indicators is mixed. While it performs well in the government effectiveness and regulatory quality dimensions, its performance is weak in the other dimensions, namely, voice and accountability, control of corruption, rule of law, political stability and absence of violence/terrorism.

Geopolitical tensions with China persist over the South China Sea territories. President Marcos Jr. has taken a more assertive stance on the dispute than his predecessor and has sought to strengthen ties with the US and Japan to counterbalance China's influence in the region.

Looking ahead, the upcoming midterm elections in 2025 will be crucial as they will act as a referendum on President Marcos Jr.'s administration and its policies, influencing the 2028 presidential elections.

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	472	509
GDP Per Capita (Constant-PPP)	USD	8588	8983	8018	8366	8889	9274	9736	10229
Real GDP Growth	%	6.3	6.1	-9.5	5.7	7.6	5.6	6.2	6.2
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	-5.1	-4.1	-3.6
Revenue/GDP	%	19.4	20.2	20.4	21.0	20.4	20.1	20.7	21.3
Expenditure/GDP	%	20.9	21.7	25.9	27.2	25.9	25.2	24.8	24.8
GG Gross Debt/GDP	%	37.1	37.0	51.6	57.0	57.4	56.6	56.9	56.7
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	-1.6
FDI, Net Inflows/GDP	%	2.9	2.3	1.9	3.0	2.3	2.0	-	-
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	-11.8	-	-
Foreign Exchange Reserves	USD Billion	79.2	87.8	110.1	108.8	96.1	103.7	-	-
Import Cover	Months	7.3	8.0	13.2	10.3	7.6	8.3	-	-
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	3.6	3.0
Exchange Rate (Average)	LC per USD	52.7	51.8	49.6	49.3	54.5	55.6	-	-
Non-Performing Loans/Total Gross Loans	%	1.3	1.6	3.1	3.6	2.9	3.0	-	-
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

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BBB+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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