

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

## Republic of the Philippines (security code: -)

### < Rating Change >

Foreign Currency Long-term Issuer Rating:	from BBB+ to A-
Outlook:	from Positive to Stable
Local Currency Long-term Issuer Rating:	from BBB+ to A-
Outlook:	from Positive to Stable
Bonds:	from BBB+ to A-

### Rationale

- (1) The Republic of the Philippines is an archipelagic country with a population of approximately 108.0 million, the second-largest among the Southeast Asian countries. The ratings mainly reflect the country's high and sustainable economic growth performance underpinned by solid domestic demand, its resilience to external shocks supported by an external debt kept low relative to GDP and the accumulation of foreign exchange reserves, the government's solid fiscal position, and a highly sound banking sector. At the moment, the Philippines' economic growth is under downward pressure on the back of the impact of temporary reduction of economic activity due to the implementation of quarantine measures to contain the spread of COVID-19. However, JCR holds that a downturn will be limited given the country's strengthened economic base, resilient external position and the government's economic stimulus package totaling more than 9% of GDP. JCR also considers that the fiscal soundness will not be impaired because while the fiscal deficit may widen, the package at this time is justifiable and the government debt will remain comparatively subdued. The Duterte administration's centerpiece infrastructure development policy and Comprehensive Tax Reform Program (CTRP) aimed to secure part of the development costs have been steadily progressing since JCR's last rating review. The government is firmly committed to its infrastructure development policy as a means to promote economic recovery and increase growth potential while adjusting the scale of its budget spending. As to the tax reform, it is pushing ahead with the Package 2 bill, including a corporate tax cut in the belief that its prompt enactment is crucial from the viewpoint of supporting corporate enterprises adversely affected by the pandemic, and the rationalization of fiscal incentives to attract desirable investments. These indicate that the government by and large keeps the momentum for reforms. Based on the above, JCR has upgraded the ratings to "A-" with a Stable outlook.
- (2) While the country's per capita GDP still remained low at USD 3,512 in 2019, its economy has been growing faster than 6% per year in recent years backed by robust domestic demand. In 2019, public investment temporarily stagnated due to a delay in government budget approval. The annual growth rate in 2019 slowed, but still remained high at 6.0%. A large-scale infrastructure development plan has been progressing under the public investment program worked out by the Duterte administration. More than 70% of the total projects are to be funded by the government's budget. The annual infrastructure spending by the government had averaged around 3% of GDP between 2010 and 2016. However, under the current administration, the ratio increased to 4.2% in 2017 and 4.9% in 2018, reaching 5.4% in 2019. In 2020, the Philippines economy may moderately contract due to reduced economic activities caused by the COVID-19 pandemic. However, the government is aiming for an early recovery of the economy by continuing to put priority on the execution of infrastructure projects that will have particularly high economic impacts. JCR expects the economy to return to a high annual growth rate of around 6-7% in the medium term on enhancement of its economic base through the progress of infrastructure development.
- (3) The government has been pursuing a policy that targets a fiscal deficit equivalent to about 3% of GDP in order to expand its infrastructure spending. The central government's fiscal deficit widened to 3.4% in 2019. However, the general government debt was kept curbed at 35.4% at the end of 2019. The government revised its medium-term fiscal plan in May 2020, predicting that the fiscal deficit in the year will widen to 8.4% of GDP on its conservative assumption that the economy will contract 2.0-3.4% year-on-year. However, JCR holds that the general government debt will remain restrained at less than 50% of GDP despite the projected wider deficit. The government's CTRP,

consisting of six packages, is projected to generate some PHP552 billion in increased tax revenue by 2022 to cover around 11% of the total infrastructure spending. Three packages have so far been legislated, including Package 1A (TRAIN) already enacted at the end of 2017, which should account for about 99% of the tax revenue collection from the new measures. In order to alleviate the economic downturn caused by COVID-19, the government is working hard to accelerate the enactment of Package 2, Corporate Recovery and Tax Incentives for Enterprises Act or CREATE (renamed from CITIRA), which primarily calls for a reduction of the corporate tax rate from 30% to 25% immediately in 2020 and to 20% in 2027 in stages as well as the rationalization of corporate tax incentives. The country's banking sector may see its NPL ratio rise from the current 2% to about 5% amid the economic downturn in 2020. However, its capital adequacy ratio currently stays sufficiently thick at upper 15%.

- (4) The country's current account deficit had been widening since 2016 due mainly to increased imports of capital goods necessitated by infrastructure development projects. However, the deficit narrowed to 0.1% of GDP in 2019 mainly on reduced goods imports. The current account balance is likely to turn positive in 2020 on a further decline in goods imports. The financial account has continued to benefit from a steady inflow of foreign direct investment (FDI). The external debt balance was kept at lower 20% of GDP while the foreign currency reserves were around 5 times as much as the short-term external debt at the end of March 2020. In addition, the balance of net external assets and liabilities, excluding direct investment, turned around into net assets in 2019. These demonstrate the robustness of the country's foreign currency liquidity position. Therefore, JCR holds that the country will show its high resilience even when global risk-off moves would be triggered again by a second wave of COVID-19 pandemic.

Atsushi Masuda, Shinichi Endo

### Rating

Issuer: Republic of the Philippines

< Rating Change >

Foreign Currency Long-term Issuer Rating: A- Outlook: Stable

Local Currency Long-term Issuer Rating: A- Outlook: Stable

Issues	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Japanese Yen Bonds - Eighth Series (2018)	JPY 107.2	August 15, 2018	August 13, 2021	0.38%	A-
Japanese Yen Bonds - Ninth Series (2018)	JPY 6.2	August 15, 2018	August 15, 2023	0.54%	A-
Japanese Yen Bonds - Eleventh Series (2018)	JPY 40.8	August 15, 2018	August 15, 2028	0.99%	A-
Japanese Yen Bonds - Twelfth Series (2019)	JPY 30.4	August 15, 2019	August 15, 2022	0.18%	A-
Japanese Yen Bonds - Thirteenth Series (2019)	JPY 21.0	August 15, 2019	August 15, 2024	0.28%	A-
Japanese Yen Bonds - Fourteenth Series (2019)	JPY 17.9	August 15, 2019	August 14, 2026	0.43%	A-
Japanese Yen Bonds - Fifteenth Series (2019)	JPY 22.7	August 15, 2019	August 15, 2029	0.59%	A-

Rating Assignment Date: June 8, 2020

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).



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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

## Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Republic of the Philippines
Rating Publication Date:	June 11, 2020

**1** The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

**2** The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

**3** The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

**A) Economic Base**

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

**B) Fiscal Base**

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

**C) External Positions**

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

**D) Social and Political Bases and Economic Policy**

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

## 4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

## 5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

## 6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

## 7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

## 8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

#### E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

#### G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

#### H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

#### A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

#### B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

#### C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Philippines (Republic of)	Issuer(Long-term)(LC)	August 8, 2018	BBB+	Stable
Philippines (Republic of)	Issuer(Long-term)(LC)	April 19, 2019	BBB+	Positive
Philippines (Republic of)	Issuer(Long-term)(FC)	August 8, 2018	BBB+	Stable
Philippines (Republic of)	Issuer(Long-term)(FC)	April 19, 2019	BBB+	Positive
Philippines (Republic of)	Japanese Yen Bonds 8th Series	August 8, 2018	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 8th Series	April 19, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 9th Series	August 8, 2018	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 9th Series	April 19, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 11th Series	August 8, 2018	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 11th Series	April 19, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 12th Series	August 2, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 13th Series	August 2, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 14th Series	August 2, 2019	BBB+	
Philippines (Republic of)	Japanese Yen Bonds 15th Series	August 2, 2019	BBB+	

## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Toshihiko Naito, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Toshihiko Naito  
General Manager of International Rating Department

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