12006
Philippines

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Long-term Rating	A-
Outlook*	Stable
Short-term Rating	-

*Long-term Rating refers to Foreign Currency Long-term Issuer Rating in principle.

1. Overview

The Republic of the Philippines is an archipelagic state comprising more than 7,000 islands, which broadly form the Luzon region in the north, the Visayas region in the central and the Mindanao region in the south. Its land area is 299,000 square kilometers (about 80% of that of Japan). The country's population totaled 107.3 million in 2019, the second largest after Indonesia in Southeast Asia. Its nominal GDP stood at USD 376.8 billion in 2019, the sixth largest after Indonesia, Taiwan, Thailand, Malaysia and Singapore, making it one of the largest economies in Southeast Asia.

Currently, the Philippines is made up of more than 100 ethnic groups which include Tagalog, Cebuano, Tausug, among others. In addition, there are nationals of Chinese and Spanish ancestry. The native language is Filipino which is based on Tagalog. Both Filipino and English are the official languages. The Philippines is the only Christian nation in the ASEAN, and more than 80% of its population is Catholic. Muslims account for about 5%, many of them residing on the island of Mindanao in the southern part of the country.

2. Social and political bases

Rodrigo Duterte, who assumed the presidency on June 30, 2016 after serving as mayor of Davao for more than 20 years, has a track record of significantly improving the city's security situation. He has strongly pursued a campaign against illegal drugs since becoming president. Despite some criticisms in the international community regarding his campaign against illegal drugs, President Duterte and his proactive approach to the problem continue to receive strong public support.

President Duterte's economic team has been actively promoting deregulation to attract foreign investment by building on the gains of its predecessors to ensure continuity and consistency of policies, programs and projects to accelerate growth through macroeconomic stability and liberalization of industries to foreign capital. Against this backdrop, overseas investors' confidence toward the administration has been bolstered.

The president also gives strong policy consideration for low-income households with the aim of reducing poverty. The large-scale infrastructure development projects promoted by his administration are focused on improving the country's connectivity, e.g. enhance the linkage between the metropolitan centers and regional centers to equalize economic opportunities and access to social and welfare services.

A local social research institution Pulse Asia Research Inc. (Pulse Asia) had recently released the result of a nationwide public opinion survey on the approval and trust ratings for the president conducted in September 2020. President Duterte's approval and trust ratings solidified further despite the COVID-19 pandemic, getting his highest performance and trust ratings (both at 91%) to date.

Pulse Asia also conducted a survey on the National Administration and the President's handling of the COVID-19 pandemic. Results show that 92% of Filipinos believe the President has done well in terms of preventing the spread of COVID-19 in the country. Among the presidents (six in total) who took office after the country's democratization in 1986, Mr. Duterte's approval rating is outstanding.

The administration's political base is solid with more than 80% of the members of both the Senate and the House of Representatives belonging to the ruling coalition parties. Backed by President Duterte's strong leadership and high public support for his administration, the government is strongly promoting economic policies with large-scale infrastructure development and Comprehensive Tax Reform Program (CTRP) as the two wheels of a cart. The Philippine president's term of office is six years and re-election is prohibited by the Constitution.

Anti-government activities by Muslim forces who advocate separation and independence have long been continuing in the Philippines. Muslims account for about a quarter of Mindanao's population. Currently, major Islamic secessionist groups are the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF). Peace negotiations between the government and MILF have been progressing since the Arroyo administration. A Comprehensive Agreement on the Bangsamoro was finally reached in March 2014 under the Aquino administration. This started a process to establish an autonomous government to replace the Autonomous Region of Muslim Mindanao, and the "Organic Law for the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM)" was finally enacted in July 2018. An interim government, the Bangsamoro Transition Authority, is in place pending the elections of Bangsamoro government officials to be held in 2022.

Abu Sayyaf, designated by the Philippine government as a terrorist group, appears to be weakening in the process of its long-lasting armed conflict with the government. In recent years, the group has repeatedly committed criminal acts such as kidnapping and robbery in pursuit of pecuniary profit, and the successive administrations have declared they will not engage in any negotiations with terrorist organizations including Abu Sayyaf. A firefight erupted in Marawi, Mindanao, on May 23, 2017 between the Armed Forces of the Philippines, on one hand, and Abu Sayyaf and the Maute Group, another armed Islamic group, on the other, which prompted President Duterte to declare martial law on the island on the same day. The combat ended in October that year, and the martial law was lifted in December 2019.

Successive administrations have also pursued peace processes with anti-government communist forces, but such initiatives have made little headway in recent years. The Communist Party of the Philippines (CPP), a major communist force in the country, was organized in 1968 and its armed unit, the New People's Army (NPA), was formed soon afterward. The former Aquino administration initially announced a policy to seek peace with NPA but their negotiations hit a snag due to repeated NPA armed attacks. The Duterte administration also pressed ahead with peace negotiations with NPA but discontinued them in November 2017 as NPA kept on with its armed fighting. They remain in confrontation so far though this is confined in very remote areas of the country. Although JCR considers that the impact of these events on the investment climate in the Philippines will remain limited, it will continue to monitor future developments.

3. Economic base

The Philippines has the second-largest population in Southeast Asia after Indonesia. It is particularly noteworthy that it has a large young population in terms of demographics. According to the United Nations Population Prospects 2019, the share of the country's productive age population (15-64 years old) was 63% in 2015. The growth of the share is projected to continue through the 2050s, the longest period among the major sovereigns rated in the A range by JCR. This is expected to contribute to the country's medium- to long-term stable economic growth from a demographic perspective.

The Duterte administration launched the Philippine Development Plan (PDP) 2017-2022 in February 2017, defining its initiatives and strategies for the country to become an upper middle-income country by 2022. The plan is based on the administration's 0-10 point Socioeconomic Agenda, its strategy to spur growth and development on the basis of a safe, peaceful and orderly community. One of the policy reforms under the Agenda calls for implementing a large-scale infrastructure development program dubbed "Build, Build, Build" to upgrade the country's infrastructure network, which is one of the constraints on the country's economic growth. A total of approximately 5,586 projects costing around USD 130 billion have been in progress under the updated Public Investment Program (PIP, 2017-2022). The infrastructure plan is highly feasible from the perspective of financing. Public spending on infrastructure in the Philippines used to be around 3% of GDP on average from 2010 to 2016. The current administration has successfully increased infrastructure spending to 4.2% in 2017, 4.9% in 2018 and 5.4% in 2019.

The government designates high-priority projects under the entire infrastructure plan as "Infrastructure Flagship Projects (IFP)". Initially, 100 projects were identified as IFPs amounting to around USD 86 billion. However, the government has revised the list in light of the COVID-19 pandemic. The updated IFP now consists of 104 projects amounting to approximately USD 81 billion, taking into account reprioritization of some projects and replacement of some with health and information and communications technology-related projects. 42 out of the 104 projects are currently undergoing construction, while 4 projects have been completed. The government has positioned infrastructure development as a means to promote economic recovery and enhance growth potential even amid the pandemic. It firmly upholds a policy to push ahead with it while adjusting the scale of the budget. According to the government's projection announced in August, the infrastructure spending in 2020 has been adjusted to 4.2% of GDP from the initial pre-pandemic target of 5.1% of GD and lower than the 5.4% last year. However, it is expected to pick up to reach 5.4% of GDP in 2021.

The government has committed that all IFPs will start construction, while many of the projects will be either completed or partially operable, before the end of the term of the Duterte administration in June 2022. The massive infrastructure development program is expected to significantly improve the investment climate, a long-standing challenge for the Philippine economy, and underpin its sustainable growth.

On March 8, 2020, the government declared a state of emergency throughout the country in response to the threats posed by COVID-19. Subsequently, enhanced community (ECQ) quarantine was implemented throughout Luzon Island including the Metropolitan Manila area, as a timed measure from March 17 to April 13 which imposed stringent travel restrictions and limits on economic activities. The ECQs were then extended throughout the Philippines until the end of April and in the Manila metropolitan area until May 15. From mid-May, the government shifted to a policy of both ensuring public health and economic activities, and has been progressively relaxing quarantine measures in each region. Amid the resumption of economic activities and the expansion of testing capabilities, the number of new infections significantly increased from the beginning of August. The government decided to extend the state of calamity to September 2021 in view of the continuing spread of the infection. COVID-19 situation, however, remains manageable as latest data show that active cases significantly decreased to 34,058 or 8.4% of the total number of cases (404,713 as of November 13) leaving enough capacity for the healthcare system to effectively treat COVID-19 patients. Lately, the pace of increase in the number of new infections is somewhat slowing, but it is necessary to continue to pay attention to future trends.

The government has launched successive countermeasures in response to the pandemic. First, on March 24, it enacted the Bayanihan 1 Act (The Bayanihan to Heal as One Act or Republic Act No. 11469) which granted the president additional powers to deal with COVID-19, such as changes in the use of the budget. At the end of March, President Duterte decided, based on the law, to shift the unused portion of the 2019 and 2020 national budget amounting to PHP 386.1 billion (2% of GDP) to provide medical assistance to health workers and emergency subsidies to low-income households. . On May 14, the government announced a comprehensive economic reconstruction plan or the PH-Progreso. The plan consists of four pillars: (i) urgent support for the vulnerable, including special benefits to households; (ii) medical support; (iii) fiscal and monetary policy responses to finance emergency measures; and (iv) economic recovery for job creation and sustainable growth. It calls for expenditures totaling PHP 1.7 trillion (9.1% of GDP). Of these, the aforementioned Bayanihan Act provides budgetary support for the fiscal measures. Furthermore, the second Bayanihan Act (The Bayanihan to Recover as One Act or Republic Act No. 11494) was enacted on September 11. This calls for additional expenditures totaling PHP 165.5 billion (0.9% of GDP), which is used for capital injection into government-affiliated financial institutions and measures for economic recovery, including low-interest loans to SMEs. As of November9, total allotment releases amounted to PHP 82.49 billion under Bayanihan 2.

The central bank is also looking to recover the economy by way of monetary policy. The bank reduced the policy rate initially by 25 basis points in February, an additional 50 basis points each in March and April during the height of the pandemic, 50 basis points in June, and another 25 basis points in November. This brings the cumulative cuts since February to 200 basis point (from 4.0% to 2.0%). The bank also lowered its reserve requirement ratio by 200 basis points (from 14% to 12%) in late March. At the same time, it took steps to purchase government bonds. The central bank and the government entered into a PHP 300 billion (1.6% of GDP) repurchase agreement which had been fully paid back by the national government at the end of September. It also purchased from the secondary market bonds held by domestic banks to ensure liquidity. In addition, the BSP provided short-term provisional advances to the national government worth PHP 540 billion in early October 2020.

The use of the proceeds from the reverse repurchase agreement and provisional advances is limited to government expenditures aimed to contain COVID-19. Under Bayanihan 2, the central bank can extend an additional estimated PHP280 billion, equivalent to 10% of the government's last three years average revenues expanding the short-term provisional advances that the BSP can provide to the national government to PHP 820 billion (or 4.2% of GDP). Apart from these, the central bank has also remitted PHP20 billion in advance dividends to the national government to support COVID-19 response. As of end-October 2020, the central bank has injected into the economy approximately PHP1.9 trillion of liquidity support equivalent to 9.6% of GDP.

The country's real GDP contracted by 0.7% in the first quarter of 2020 and shrank 16.9% in the second quarter due to the strict lockdown for the worst contraction in current statistics. The government revised its economic outlook as the pandemic persisted in the first half of the year A revised medium-term economic and fiscal program announced by the Development Budget Coordination Commission (DBCC) on May 13 projected the economy would shrink 2-3.4% in real GDP terms and the fiscal deficit would expand to 8.1% of GDP in 2020. The government revised the program in July, lowering its growth estimate to minus 4.5-6.6% and raising the budget deficit to 9.6% of GDP. On the other hand, the economy has since shown signs of recovery with GDP posting a a slower contraction of 11.5% in the third quarter compared to the 16.9% contraction in the previous quarter with the gradual easing of restrictions imposed by the government to address public health concerns.

The second Bayanihan Act, enacted in September, may help alleviate the economic downturn. However, with the pandemic turning out to be more serious than the government's prediction in July, JCR holds that the GDP growth in 2020 may possibly prove even worse than the government's revised estimate. But JCR considers that the Philippine economy will swiftly recover in 2021, led mainly by domestic demand and government's infrastructure spending, on the assumption that the pandemic will head for an end within 2020. JCR also believes that the economy can return to a high growth trajectory of 6-7% in the medium term by upgrading its foundation through progress on infrastructure development.

4. External position

The country's current account balance was in constant surplus from 2003 to 2015 as chronic trade deficits were more than offset by service account surpluses backed by growing revenues in the business process outsourcing (BPO) industry and primary and secondary income balance surpluses stemming from steady remittances by overseas Filipinos (OFs). From 2016 onward, the trade deficit expanded due mainly to increased capital goods imports against the backdrop of large-scale infrastructure development by the Duterte administration. The current account balance slipped back into a deficit in 2016, with the deficit widening to 2.6% of GDP in 2018. In 2019, however, the current account deficit narrowed to 0.9 % of GDP as imports of goods declined due to delays in infrastructure development caused by delays in budget enactment. JCR sees the possibility of the current account turning into a surplus in 2020 due to a further fall of goods imports. After the end of the pandemic, the country's current account deficit may widen again due to economic recovery and progress on the infrastructure development plan. However, JCR holds that the deficit is likely to remain within the range of 2-3% of GDP in the medium term, based on the assumption that the inflow of OF remittances and the BPO industry's service exports will return to a stable expansion in the medium term.

On the financial balance side, the trend of direct investment flows clearly changed after the start of the Duterte administration in 2016. There was an annual average net outflow equivalent to 0.2% of GDP between 2010 and 2015, but it shifted to an average net inflow of 1.7% between 2016 and 2019. A net direct investment inflow remained firm in 2019 though it shrank to 2.0% of GDP compared to 2.6% of GDP in 2018. As factors behind the robust direct investment inflows, it can be inferred that the government's constant efforts to improve the investment climate continuing since the former Aquino administration and the economic reforms such as large-scale infrastructure development and CTRP pushed by the Duterte administration are positively acting on the sentiment of overseas investors. In addition, in the first eight months of 2020, net DI inflows reached USD 4.4 billion, growing for the fourth consecutive month on the back of renewed investors 'sentiment as the National Government's fiscal stimulus and the BSP's accommodative monetary stance to mitigate the impact of COVID-19 gained momentum along with the easing of quarantine measures in the country. In 2016-2019, the annual current account deficits averaged 1.2% of GDP, but the Philippines has already forged a structure whereby the deficits are largely covered by stable FDI inflows. For this reason, JCR holds that even if a current account deficit continues in the medium to long term, any serious concern over its financing is unlikely as long as the government keeps its momentum for economic reforms.

Looking at the trends of portfolio and other investments, nonresident investments in government bonds and corporate bonds issued by domestic financial institutions remained strong in 2019 in response to the increased funding demand associated with infrastructure development. In addition, investments in corporate bonds of domestic non-financial enterprises grew significantly. As a result, portfolio investments (net increase in external liabilities) registered an excess inflow (1.5% of GDP) for two consecutive years. As to other investments, the government's external borrowing has continued to be firm. Amid the growing international confidence in the Philippines, both the government and companies have secured good access to external financial and capital markets.

Despite the expansion of the current account deficit since 2016, the country's foreign exchange reserves (official reserve assets) have been kept high at around USD 80 billion thanks to robust capital inflows. The reserves have kept increasing since 2019 on reduced current account deficits and continuing capital inflows. Boosted especially by the issuance of USD 2.35 billion global bond in April 2020, reserves grew to USD103.8 billion at the end of October, which is equivalent to more than five times the outstanding balance of short-term external debt (on a remaining maturity basis). The foreign currency liquidity position stays firm and the country is expected to be highly resilient even in the event of a resurgence of global risk-offs following a resumed spread of the pandemic in the future.

The country's total external debt gradually decreased from 2012 through 2017 but began gradually increasing in 2018, reaching USD 87.5 billion at the end of June 2020 from USD 83.6 billion at the end of 2019. However, the debt has been constantly smaller than the foreign exchange reserves since 2012. In GDP terms, the debt has been on the decline since peaking in 2009, standing at 23.7% of GDP at the end of June 2020, which is quite low as compared to other countries in the A range. Due to the accumulation of the foreign reserves and the restraint on the external debt, the balance of net foreign assets and liabilities, excluding direct investment, turned into a surplus in 2019.

5. Financial system

The banking sector currently consists of universal banks, commercial banks, thrift banks, rural banks and cooperative banks. Of these, universal banks are authorized to engage in investment banking, such as securities business, in addition to general commercial banking. They account for approximately 85.3% of the total assets held by the banking sector excluding the central bank.

The annual growth of the loan balance registered by universal banks and commercial banks slowed to 10.4% in 2019, affected temporarily by the stagnation of public investment caused by a delayed enactment of the government budget bill. Bank lending further slowed down in 2020 amid the pandemic, with the growth rate falling to 5.6% at the end of August. Faced with the situation, the central bank has temporarily lowered the credit risk weight of loans to MSMEs, allowed as alternative reserves compliance loans to MSMEs and reduced the credit risk weight of loans guaranteed by government agencies to zero in a bid to promote lending to MSMEs.

The banking sector balance of nonperforming loans (NPLs) has been expanding at a rapid annual pace exceeding 30% since the turn of 2020 due to the impact of the pandemic. Accordingly, the NPL ratio has been rising drastically. However, as it had been kept very low at 2.0% on a gross basis before the pandemic at the end of 2019, the latest ratio remained relatively low at 2.8% at the end of August, which was up 0.8ppt compared to the end of 2019. The NPL coverage ratio dropped from 110% to less than 100% in 2019. But it recovered to 107% at the end of August 2020 as banks urgently built up their loan-loss provisions in keeping with the increase of NPLs caused by COVID-19. As a result, net NPL ratio came to 1.3%, which was low though higher as compared to those in the past years. The central bank has allowed banks to exclude loans of affected borrowers from past due and non-performing classification as NPLs starting March 8 until the end of 2021. The government has also mandated banks in accordance with the “Bayanihan to Heal as One Act” and “Bayanihan to Recover as One Act” to provide a 30-day grace period on all loans during the ECQ period, and a 60-day grace period on all loans falling due on or before 31 December 2020, respectively.. Furthermore, the government is moving toward enactment of its “Financial Institutions Strategic Transfer (FIST)” bill, which allows NPLs held by financial institutions to be transferred to third-party asset management companies, with the aim of sustaining the stability of the financial system by containing the growth of NPLs.

The consolidated capital adequacy ratio of universal banks and commercial banks stood at 16.0% as of the end of December 2019, well above the 10% floor defined by the central bank. The capital adequacy ratio of the banking system stood at 15.3% on solo basis as of end-March 2020. In order to strengthen the ability of banks to continue operating and servicing the financing requirements of the general public, the central bank granted prudential accounting relief measures to reduce the impact of mark-to-market (MTM) losses on the financial condition of banks. In particular, it relaxed its regulations on the asset coverage ratio for foreign currency deposit units (FCDUs) which requires them to hold a certain amount of foreign currency-denominated assets against their foreign currency-denominated liabilities by allowing banks to add back to its asset cover its net unrealized losses arising from the change in the fair value of FCDU securities. Moreover, the central bank also allowed the reclassification of debt securities from categories measured at fair value to the amortized cost category, subject to certain conditions. In this case, a bank will be able to reverse unrealized losses from the change in fair value of its reclassified debt securities in its books.

The Philippine authorities provide no statistics on the debt owed by each economic entity such as households and enterprises. The household debt can be estimated from the balance of consumer loans. It was about 10% of GDP in recent years. IIF Global Debt Monitor, which periodically publishes the estimates of such debt in various countries, put the household debt in the Philippines at about 17% of GDP. Both rates are considerably low compared to those in other countries. IIF estimated the debt owed by non-financial Philippine enterprises at around 30% of GDP, which is also relatively low as compared to the countries rated in the A range by JCR.

The country's balance of real estate loans grew more than 20% year-on-year in 2014 and 2015. However, the growth rate has stayed lower than 20% since 2016 due to the impact of the base effect and the adoption of more cautious lending standards by banks to curb the NPL ratio. The banking sector's total lending slowed in 2020 due to the impact of the pandemic. Real estate loans were also affected, but they grew 8% by the end of August. As to real estate prices, only housing prices are available from government statistics. They rose 10% year-on-year in the last quarter of 2019. The prices have gone up 27% mainly in the metropolitan area in the second quarter of 2020 for a record growth in the present statistics. This seemed to be attributable to the fact that demand for high-priced condominiums remained high even amid the pandemic and that the central bank temporarily relaxed restrictions on real estate loans as part of its measures to promote lending in the wake of the pandemic. Real estate prices have been rising faster than the growth of nominal GDP. In our view, the real estate market is becoming partly overheated and future trends need to be carefully watched.

The Philippines annually receives a large amount of OF remittances, which totaled about USD 30 billion (8.0% of GDP) in 2019. In 2020, the amount fell far short of the previous year's levels from March through May due to the pandemic, but it resumed growing 7% or so in June and July. The FCDUs in the Philippines are allowed to deal in foreign currency-denominated deposits and loans by virtue of their solid performance in the past. The balance of such deposits held by them reached USD 46.8 billion at the end of July 2020, much bigger than the USD 16.9 billion external debt owed by the domestic banking sector at the end of June 2020.

6. Fiscal Position

The government’s financial position worsened in the Philippines after the Asian currency crisis in 1997 just like many of its neighboring countries. The central government budget deficit expanded to 4.8% of GDP in 2002, with the national government debt-GDP ratio soaring to 71.6% in 2004. However, the situation improved markedly thanks to the persistent efforts made by the Arroyo and Aquino administrations for fiscal consolidation. The fiscal deficit was dramatically slashed to 0.6% of GDP in 2014 under the Aquino Administration, with the national government debt reduced to 43.4% of GDP at the end of the year. The efforts by the past administrations for fiscal consolidation have enabled the Duterte administration to adopt a policy to accommodate a budget deficit up to around 3% of GDP and expand spending on infrastructure and social services. Since the inauguration of the Duterte administration, the fiscal deficit has been increasing year by year. The deficit of the central government reached 3.4% of GDP in 2019. On the other hand, the central government's debt fell moderately, standing at 39.6% of GDP at the end of the year. The government has a bond sinking fund (BSF), which was equivalent to 2.9% of GDP at the end of 2019. Besides, the debt owed by the local governments has been kept less than 1% of GDP. For these reasons, the ratio of the consolidated general government debt stood at 34.1% as of 2019, lower than that of the central government debt.

In May 2020, the Duterte administration revised its medium-term fiscal plan in response to the pandemic, projectingthat the budget deficit will widen to 8.4% of GDP in the year on the assumption that the economy will contract 2-3.4% in real GDP terms. It revised the plan again in August, based on the latest situation, lowering the growth forecast to minus 4.5-6.6% and updating the budget deficit estimate to 9.6%. It expects the economy to return to a high 6.5-7.5% growth rate in 2021 and 2022, but added that the budget deficit will fall only moderately to 8.5% in 2021 and 7.2% in 2022. The administration is now pushing plans for the issuance of more bonds (domestic issuance), acceptance of loans from international development banks and issuance of global bonds to finance the growing fiscal deficit in 2020. The central bank may also provide liquidity support, if deemed necessary, through the purchase in the secondary market of government bonds held by private banks. JCR estimates that the general government debt-to-GDP ratio will rise to around 50% by 2022. However, even at this level, there will be not much difference as compared to other countries rated in the A range by JCR. JCR sees it less likely for the country's fiscal soundness to be seriously impaired. The ongoing bond purchases by the central bank are aimed to help the government smoothly finance its widening budget deficit in an emergency. JCR holds that such step can be fully justified because it comes when prices stay low and stable, the use of the proceeds is limited to expenditures to fight the pandemic and the time limit is clearly defined as a temporary measure. But JCR will closely monitor future progress on the central bank's bond purchase program and its possible impact on the entire economy.

While expanding its infrastructure expenditures, the Duterte administration has been vigorously pushing ahead with its CTRP as part of initiatives to fund the infrastructure expenditures in an effort to keep the momentum for fiscal consolidation. The CTRP bill broadly consists of six packages. The estimated revenues under CTRP have been revised downward in light of the impact of the pandemic on tax revenues, but the administration still expects a total revenue collection of PHP 171 billion in 2020-2022, which should cover about 8% of the total infrastructure spending in the same period.

Of the six packages, Package 1A, commonly known as TRAIN (Tax Reform for Acceleration and Inclusion), which was implemented in January 2018, is expected to contribute PHP 160 billion in additional tax revenues in 2022. Three packages including 1A have so far been enacted. Package 1A stipulates a reduction of the personal income tax rate, an increase of the excise tax rates on automobiles, petroleum and tobacco products, an expansion of the value-added tax base, introduction of the excise tax to sugar-sweetened beverages and cosmetic, and simplification of estate and donor's taxes. It was passed in December 2017 and implemented in January 2018. Package 1B, which contains amnesty for tax delinquency and inheritance tax, was enacted in February 2019 and enforced in April 2019. In addition, Package 2 Plus, which stipulates higher tax rates on cigarettes, was enacted in January 2020.

Of the remaining packages, Package 2 or CREATE (Corporate Recovery and Tax Incentives for Enterprises Act), previously known as CITIRA (Corporate Income Tax and Incentives Reform Act), focused on a reduction of the corporate income tax rate and rationalization of corporate tax incentives. The government is moving toward for an early enactment of the package in order to alleviate the impact on enterprises including SMEs caused by the pandemic. It plans to immediately lower the corporate tax rate from 30% to 25% in 2020 and then gradually to 20% by 2027.

The government also aims to enact the second half of Package 2 Plus that provides for a higher excise tax rate on alcoholic beverages, Package 3 that stipulates a revision of real estate valuation, and Package 4 commonly called PIFITA (Passive Income Tax and Financial Intermediary Tax) that stipulates rationalization of the asset taxation system within 2020.

7. Conclusion and Rating Outlook

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 country's economic growth is under downward pressure amid the temporary slowdown of economic activity stemming from the implementation of quarantine measures to contain the pandemic. However, JCR holds that the downturn will be limited given the country's strengthened economic base, resilient external position and the government's 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, it comes from a proper management of the fiscal policy and the government debt will remain under control. The Duterte administration's centerpiece infrastructure development policy and 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 its Package 2 bill, which includes a corporate tax cut and rationalization of corporate tax incentives aimed to attract desirable investment, in the belief that its prompt enactment is crucial from the viewpoint of supporting the companies hard hit by the pandemic. These indicate that the government by and large keeps the momentum for reforms. Based on the above, JCR upgraded the ratings to "A-" with a Stable outlook.

In the short term, JCR will closely monitor whether COVID-19 will head toward an end within 2020. If the pandemic persists contrary to JCR's assumption, the impact on the economy and public finance will be assessed carefully and reflected on the ratings as necessary. In the medium term, JCR will pay its special attention to whether the government's efforts to restore fiscal discipline after the deterioration caused by the pandemic, and the infrastructure development and tax reforms which it is vigorously pushing, will proceed as planned by end June 2022 when the current administration's term of office finishes.

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Consolidated Financial Summary

		2015	2016	2017	2018	2019
Nominal GDP per capita	USD	2,883	2,953	2,989	3,104	3,319
Real GDP growth	%	6.1	6.9	6.7	6.2	5.9
CPI inflation (annual average)	%	0.7	1.3	2.9	5.2	2.5
Central government primary balance to GDP	%	1.4	-0.3	-0.3	-1.2	-1.6
Central government fiscal balance to GDP	%	-0.9	-2.4	-2.2	-3.2	-3.5
Central government debt to GDP	%	44.7	42.1	42.1	41.8	41.5
General government debt to GDP	%	36.2	34.6	36.6	36.0	35.4
Current account balance to GDP	%	2.5	-0.4	-0.7	-2.7	-0.9
Trade balance to GDP	%	-8.0	-11.7	-12.8	-15.4	-13.7
Financial account balance to GDP	%	0.8	0.1	-0.9	-2.8	-2.0
Official reserve assets	bn USD	80.7	80.7	81.6	79.2	87.8
Official reserve assets to imports of goods and services	months	10.7	9.5	8.3	7.3	8.1
Official reserve assets to short-term external debt	x	5.3	5.6	5.7	4.9	5.1
External debt to GDP	%	26.5	24.5	23.3	23.9	23.3
Foreign exchange rate (annual average)	PHP/USD	45.5	47.5	50.4	52.7	51.8
Capital adequacy ratio of Universal and Commercial Banks	%	15.8	15.1	15.0	15.4	16.0
Nonperforming loan ratio of Universal and Commercial Banks	%	1.6	1.4	1.2	1.3	1.6
Domestic claims to GDP	%	59.0	63.5	66.3	69.1	71.5

* Figures for the most recent period could be indicators based on preliminary figures.
Source: Philippines Statistics Authority, Central Bank, Department of Finance, Bureau of Treasury, IMF and CEIC

Ratings

	Rating	Outlook*	Amount (millions)	Currency	Rate (%)	Issue Date	Maturity Date	Release
Foreign Currency Long-term Issuer Rating	A-	Stable	-	-	-	-	-	2020.06.11
Local Currency Long-term Issuer Rating	A-	Stable	-	-	-	-	-	2020.06.11
Japanese Yen Bonds 8th Series (2018)	A-	-	107,200	JPY	0.38	2018.08.15	2021.08.13	2020.06.11
Japanese Yen Bonds 12th Series (2019)	A-	-	30,400	JPY	0.18	2019.08.15	2022.08.15	2020.06.11
Japanese Yen Bonds 9th Series (2018)	A-	-	6,200	JPY	0.54	2018.08.15	2023.08.15	2020.06.11
Japanese Yen Bonds 13th Series (2019)	A-	-	21,000	JPY	0.28	2019.08.15	2024.08.15	2020.06.11
Japanese Yen Bonds 14th Series (2019)	A-	-	17,900	JPY	0.43	2019.08.15	2026.08.14	2020.06.11
Japanese Yen Bonds 11th Series (2018)	A-	-	40,800	JPY	0.99	2018.08.15	2028.08.15	2020.06.11
Japanese Yen Bonds 15th Series (2019)	A-	-	22,700	JPY	0.59	2019.08.15	2029.08.15	2020.06.11

History of Long-term Issuer Rating (Foreign Currency Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
1996.07.29	BBB-	-	Philippines
1997.06.13	BBB	-	Philippines
2001.06.12	BBB	Stable	Philippines
2002.12.27	BBB	Negative	Philippines
2005.04.15	BBB-	Stable	Philippines
2005.07.15	BBB-	Negative	Philippines
2006.04.24	BBB-	Stable	Philippines
2007.07.06	BBB-	Positive	Philippines
2009.03.04	BBB-	Stable	Philippines
2011.04.28	BBB-	Positive	Philippines
2013.05.07	BBB	Stable	Philippines
2015.07.06	BBB+	Stable	Philippines
2019.04.19	BBB+	Positive	Philippines
2020.06.11	A-	Stable	Philippines

*Outlook for Foreign Currency long-term issuer rating, or direction in case of Credit Monitor

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