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 115.7 million in 2023, the second largest after Indonesia in Southeast Asia. Its nominal GDP stood at USD 437.1 billion in 2023, the sixth largest after Indonesia, Thailand, Singapore, Malaysia and Vietnam, 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 are 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

The political system is a republic based on a constitutional democracy with the president as the head of state. The president is directly elected by the people for a term of six years, and reelection is prohibited by the Constitution. The Congress is bicameral, with two houses, the Senate and the House of Representatives.

Ferdinand Romualdez Marcos, Jr. won the presidential election in May 2022 with the highest voting share in history and became the 17th President of the Republic on June 30, 2022. President Marcos is the eldest son of former President Ferdinand Edralin Marcos, who was president until 1986. The Vice President is Ms. Sara Duterte, daughter of former President Rodrigo Duterte. The electoral alliance of Marcos Jr. and Duterte holds more than 90% of the seats in the Senate and the House of Representatives. The approval rating of Marcos Jr. at 55% indicates its strong base of power.

In July 2022, the Marcos administration announced its 8-Point Socioeconomic Agenda to address both short-term issues such as high inflation, -socioeconomic scarring due to COVID-19 and tight fiscal space, and medium-term issues such as higher-quality job creation, infrastructure development and enhancement of bureaucratic efficiency. Based on this Agenda, the Philippine Development Plan (2023-2028) was formulated and released in December 2022. Inheriting the growth path promoted by former President Duterte, the plan aggressively promotes infrastructure development, deregulation and attraction of foreign investment. In particular, with regard to infrastructure development, the "Build, Better, More" program plans to realize an annual public infrastructure investment equal to 5%-6% of GDP. This will be complemented by private sector investment through the utilization of public-private partnerships (PPP). The ratio of public infrastructure investment to GDP is estimated to have reached 5.8% in 2023. The Marcos administration is also focusing on reducing the poverty rate to a single-digit levels by 2028. While introducing cash and food subsidy program and other initiatives in the short term, it is promoting infrastructure development, induction of foreign investment and improvement of worker skills in the long term with the aim of creating quality jobs.

In order to make regulations on foreign investment more flexible, President Marcos Jr. has floated the possibility of holding a constitutional referendum at the same time as the mid-term elections scheduled for 2025. However, as the Senate and former President Duterte are opposed to the idea, there are concerns that internal conflicts within the administration could surface.

Meanwhile, the Philippines has entered into a peace agreement with Islamic separatists. The Moro Islamic Liberation Front (MILF), the main Muslim separatist group, has been engaged in peace negotiations with the government since the Arroyo administration, reaching the "Comprehensive Agreement on the Bangsamoro" with the Aquino administration in 2014. This led to the process of establishing an autonomous government to replace the existing Autonomous Region of Muslim Mindanao (ARMM), and the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) was enacted in 2018, followed by the establishment of the Bangsamoro Transitional Authority (BTA) in 2019. Although postponed due to the pandemic crisis, elections are scheduled to be held in 2025 to inaugurate the autonomous region. The government is fast-tracking the implementation of its normalization program that seeks to transform former combatants and insurgents into peaceful and productive civilians. As of August 10, 2023, a total of 26,132 MILF combatants and 4,625 of their firearms have been successfully decommissioned since 2015.

Threats from terrorism, radicalization, and violent extremism in the Philippines have abated through counter-military and -non-military efforts and implementation of peace agreements. The past years have been marked by the surrender and retreat of terrorist elements. Military operations led to the death of terrorist leaders such as Abu Zacariah and Pasil Bayali in 2023. The government is addressing challenges in peace and security through development interventions and peacebuilding measures.

3. Economic base

The Philippines has the second-largest population in Southeast Asia after Indonesia. Particularly noteworthy is that it has a large young population in terms of demographics. According to the World Bank, the share of the country's productive age population (15-64 years old) was 64% in 2022. With the productive age population seen to increase in the foreseeable future, a stable medium- to long-term economic growth is expected to be achieved by boosting domestic demand from a demographic perspective and by supporting the potential growth rate through labor input. Although the country's GDP per capita stood relatively low at USD3,906 (at current prices) in 2023, it has been maintaining a high growth rate of around 6% in recent years on strong domestic demand, except in 2020 when it was affected by the pandemic -. The economy grew 5.5% in real GDP terms in 2023 on strong private consumption and growth of fixed capital formation amid the booming construction industry brought by infrastructure investment.

The Philippines has been slow to shift to export-oriented industries and the share of manufacturing sector has remained at below a quarter of GDP, 18.0% in 2023. On the other hand, the service sector has been gradually expanding its share, which rose to 62.3% in 2023, as the country undertakes a large amount of business process outsourcing deals supported by large talent pool of English-speaking professionals and as its tourism industry stays strong backed by its rich natural resources. The agriculture, forestry and fisheries industries are gradually declining, together accounting for only 8.6% of GDP in 2023. However, more than 20% of the employed population are still engaged in the three industries.

As previously mentioned, the Marcos Jr. administration has announced its 8-Point Socioeconomic Agenda consisting of (1) food security, (2) improved transportation, (3) affordable and clean energy, (4) health care, (5) education, (6) social services, (7) sound fiscal management and (8) bureaucratic efficiency. The Philippine Development Plan (2023-2028) based on this agenda is the second medium-term plan anchored on AmBisyon Natin 2040 - the long-term vision formulated in 2016, which envisions becoming an upper-middle-income country by 2040, achieve a stable, comfortable and secure life for its people, and realize a poverty-free society. The plan puts particular emphasis on digitalization and revitalization of the service sector. It is intended for further development of a competitive service sector.

In the Philippines, it is pointed out that the underdeveloped infrastructure, such as a weak transportation system and shortage of electricity and water, has slowed its economic development. To close the infrastructure gap, the Marcos Jr. administration has adopted the "Build, Better, More" program, continuing the "Build, Build, Build" program pursued by the previous administration. The policy calls for public infrastructure investment to reach 5-6% of GDP annually. This will be complemented by private sector investment through the utilization of public-private partnerships (PPP). The ratio of infrastructure investment to GDP is estimated to have reached 5.8% in 2023. The Philippines' first sovereign wealth fund is scheduled to start operations in 2024. It is expected to invest in infrastructure and other assets over the long term to support infrastructure development.

4. External position

The country's current account balance remained in surplus from 2003 to 2015 as a balance of services surplus, mainly stemming from revenues made by the business process outsourcing industry, and primary and secondary income surpluses, mainly stemming from solid remittances by migrant workers, offset the goods trade deficit. The current account balance slipped into deficit in 2016 as the goods trade deficit widened due mainly to increased capital goods imports amid the large-scale infrastructure development promoted by the Duterte administration, widening to 2.6% of GDP in 2018. However, the balance bounced back to surplus in 2020 as migrant worker remittances stayed strong while consumer goods imports fell due to action restrictions necessitated by the pandemic. It has been in deficit again since 2021, but the deficit improved to 2.6% of GDP in 2023 due mainly to a better trade balance. While imports of goods are expected to increase due to the promotion of infrastructure development, Bangko Sentral ng Pilipinas has estimated that the current account deficit is likely to stay narrow to around 1% of GDP over the medium term owing to the steady inflow of migrant worker remittances, the expansion of service exports mainly by the BPO industry and favorable outlook for the tourism industry.

In the financial account, the trend of FDI inflows and outflows was clearly different before and after the inauguration of the Duterte administration in 2016. An average annual net outflow equivalent to 0.2% of GDP in 2010-2015 turned into a net inflow of 1.6% in 2016-2023. A net inflow continued in 2023 although FDI contracted to 1.1% of GDP from 1.4% the previous year. The reason for the continued strong FDI inflows can be attributed to the government's sustained efforts to improve the investment environment since the Aquino administration and the large-scale infrastructure development and the economic reforms such as comprehensive tax reform program (CTRP) carried out under the Duterte and Marcos Jr. administrations, which have positively affected the sentiment of foreign investors. The current account deficit averaged 1.2% of GDP per year from 2016 to 2023, but the deficit was covered by the inflow of direct investment. Therefore, even if the current account deficit continues over the medium term due to infrastructure development, JCR believes that any serious concerns about financing the deficit are unlikely to arise as long as the government keeps the momentum of economic reforms.

Owing to the steady capital inflows and the issuance of global bonds, the country's foreign exchange reserves stayed high at around USD 100 billion, reaching USD 103.8 billion at the end of 2023. This was equivalent to six times the amount of its short-term external debt. Given its solid foreign currency liquidity position, JCR believes that the Philippines will stay highly resilient even in the event of a renewed global risk-off in the future.

5. Financial system

The country’s 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 securities business including investment banking in addition to general commercial banking. They account for approximately 93.9% of the total assets held by the banking sector excluding the central bank. The annual growth of the loan portfolio registered by universal banks and commercial banks rose to 8.9% in 2023 due to increased lending to key industries such as real estate and wholesale and retail trade, etc. The banking sector’s nonperforming loan ratio stood at 3.2% at the end of December 2023, down from 4.0% at end of December 2021 when it rose due to the impact of the pandemic. The capital adequacy ratio of universal and commercial banks stood at 16.9%, well above the 10% floor set by the central bank and 8% international standards.

The balance of loans made to the real estate industry grew more than 20% year-on-year in 2014 and 2015. However, the growth rate has gradually declined since 2016, falling to around 5.8% in December 2023 due mainly to the adoption of more cautious lending standards by banks to curb the NPL ratio. Housing prices rose about 10% year-on-year in 2023, but there was no feeling of overheating in comparison to the nominal GDP growth rate.

Migrant worker remittances have been flowing in steadily, increasing by 2.9% year-on-year to reach USD33.5 billion (7.7% of GDP) in 2023. Against this backdrop, foreign currency deposits held by Foreign Currency Deposit Units (FCDUs), which are authorized to conduct foreign currency denominated deposit and lending in the Philippines, grew to reach USD58.1 billion at the end of March 2024. This is much larger than USD48.8 billion worth of securities investment bond balance in the country's external debt at the end of 2023.

6. Fiscal Position

The government's financial position worsened in the Philippines after the Asian currency crisis in 1997 as in many of its neighboring countries. The central government budget deficit widened to 4.8% of GDP in 2002, with the government debt-GDP ratio soaring to 87.3% in 2004. However, the situation improved markedly owing to the persistent efforts for fiscal consolidation made by the Arroyo and Aquino administrations. The Duterte administration, which promoted infrastructure investment, also worked to contain the budget deficit to around 3% of GDP, improving the debt-GDP ratio to 39.6% at the end of 2019. However, the budget deficit widened after 2020 due to an increased spending to combat the pandemic and the central government debt-GDP ratio deteriorated to 60.9% at the end of 2022. In its medium-term fiscal framework, the Marcos administration set out a policy to reduce the debt-GDP ratio to below 60% by 2025 and the budget deficit-GDP ratio to 3.7% by 2028 through effective and efficient public spending. Despite higher interest payments due to rising interest rates, the increase of spending has been kept limited, with the fiscal deficit contained at 6.2% of GDP in 2023. With the growth of nominal GDP, the central government debt-GDP ratio slightly fell to 60.1% of GDP at the end of 2023. The Philippines owns a portion of its debt through its bond sinking fund (BSF) equivalent to 3.2% of GDP at the end of 2022, and the local government debt is contained to less than 1% of GDP. Therefore, the general government debt was lower than the central government debt at 54.2% of GDP at the end of 2022, as of latest data available.

The Marcos Administration continues to pursue the remaining Comprehensive Tax Reform Program (CTRP) packages initiated by the previous administration. i.e., Package 3 or the real property valuation reform and Package 4 or the passive income and financial intermediary tax reform. CTRP Package 1, which introduced individual income tax cuts and expanded the scope of value-added tax or the TRAIN law, and Package 2, which cut the corporate income tax (CIT) rate or the CREATE law, have already been implemented. CREATE, in particular, is aimed to encourage investments by reducing the CIT rate from 30% to 25% and introduced a reduced rate of 20% for specific companies (i.e., with net taxable income not exceeding PHP 5 million and totals assets not exceeding PHP 100 million, excluding the value of land on which the particular business entity's office, plant, and equipment are situated). In 2023, the Marcos Jr. administration resolved the issue on value-added tax zero-rating by streamlining the procedures for registered exporters in Special Economic Zones. It is expected to continue to push reforms strongly by simplifying the passive income and financial intermediation tax, streamlining the tax regime for the mining sector, introducing a value-added tax on digital service providers, imposing excise taxes on single-use plastics and updating of road users' tax in 2024.

7. Conclusion and Rating Outlook

The ratings mainly reflect the country's high and sustainable economic growth supported by solid domestic demand, its low-level external debt, its resilience to external shocks supported by accumulated foreign exchange reserves and its solid fiscal base. However, reducing income disparity through rural development and infrastructure development remain important tasks to be addressed. The economy has kept a high growth on solid private consumption and fixed capital formation and is expected to maintain the high growth over the medium term. The current account deficit is covered by direct investment and the foreign exchange reserves remain high, making the economy highly resilient to external shocks. The fiscal consolidation being promoted by the Marcos Jr. administration under its Medium-Term Fiscal Framework has been successful, and JCR holds that the country's fiscal soundness is expected to be maintained.

The Marcos Jr. administration has taken over and promoted the policies of the previous administration, including infrastructure development and CTRP. Important in future rating is whether the government can retain high economic growth by promoting fiscal consolidation and infrastructure development and by addressing income disparity.

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Consolidated Financial Summary

		2019	2020	2021	2022	2023
Nominal GDP per capita	USD	3,512	3,313	3,580	3,645	3,906
Real GDP growth	%	6.1	-9.5	5.7	7.6	5.5
CPI inflation (annual average)	%	2.4	2.4	3.9	5.8	6.0
Central government primary balance to GDP	%	-1.5	-5.5	-6.4	-5.0	-4.2
Central government fiscal balance to GDP	%	-3.4	-7.6	-8.6	-7.3	-6.2
Central government debt to GDP	%	39.6	54.6	60.4	60.9	60.1
General government debt to GDP	%	34.1	48.1	53.4	54.2	-
Current account balance to GDP	%	-0.8	3.2	-1.5	-2.5	-3.2
Trade balance to GDP	%	-13.1	-9.3	-13.4	-14.0	-13.8
Financial account balance to GDP	%	-2.1	-1.9	-1.6	-3.4	-3.5
Official reserve assets	bn USD	87.8	110.1	108.8	96.1	103.8
Official reserve assets to imports of goods and services	months	7.6	12.3	9.7	7.2	7.8
Official reserve assets to short-term external debt	x	5.1	7.8	7.2	5.8	6.1
External debt to GDP	%	22.2	27.2	27.0	27.5	28.7
Foreign exchange rate (annual average)	PHP/USD	51.8	49.6	49.3	54.5	55.6
Capital adequacy ratio of Universal and Commercial Banks	%	16.0	17.1	17.1	16.1	16.9
Nonperforming loan ratio of Universal and Commercial Banks	%	1.6	3.1	3.6	2.9	3.0
Domestic claims to GDP	%	68.2	77.7	77.7	77.3	76.5

* 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
Local Currency Long-term Issuer Rating	A-	Stable	-	-	-	-	-	2024.03.06
Foreign Currency Long-term Issuer Rating	A-	Stable	-	-	-	-	-	2024.03.06
JAPANESE YEN BONDS-THIRTEENTH SERIES(2019)	A-	-	21,000	JPY	0.28	2019.08.15	2024.08.15	2024.03.06
JAPANESE YEN BONDS-FOURTEENTH SERIES(2019)	A-	-	17,900	JPY	0.43	2019.08.15	2026.08.14	2024.03.06
JAPANESE YEN BONDS-FIRST SERIES(2022)(SUSTAINABILITY BONDS)	A-	-	52,000	JPY	0.76	2022.04.22	2027.04.22	2024.03.06
JAPANESE YEN BONDS-ELEVENTH SERIES(2018)	A-	-	40,800	JPY	0.99	2018.08.15	2028.08.15	2024.03.06
JAPANESE YEN BONDS-SECOND SERIES(2022)(SUSTAINABILITY BONDS)	A-	-	5,000	JPY	0.95	2022.04.22	2029.04.20	2024.03.06
JAPANESE YEN BONDS-FIFTEENTH SERIES(2019)	A-	-	22,700	JPY	0.59	2019.08.15	2029.08.15	2024.03.06
JAPANESE YEN BONDS-THIRD SERIES(2022)(SUSTAINABILITY BONDS)	A-	-	7,100	JPY	1.22	2022.04.22	2032.04.22	2024.03.06

	Rating	Outlook*	Amount (millions)	Currency	Rate (%)	Issue Date	Maturity Date	Release
JAPANESE YEN BONDS-FOURTH SERIES(2022)(SUSTAINABILITY BONDS)	A-	-	6,000	JPY	1.83	2022.04.22	2042.04.22	2024.03.06

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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