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Moody's upbeat about Philippines' recovery prospects;
sees economy growing faster than most countries

Moody's Investors Service is upbeat about the Philippines' recovery prospects from the COVID-19 crisis, expecting the economy to outperform most of the sovereigns it rates in terms of average growth up to 2025.

In its latest credit analysis report on the Philippines, the international debt watcher cited its 10-year average growth projection for the Philippines for the period 2016 to 2025 at 4.8 percent—despite the sharp contraction last year resulting from the pandemic.

"Although this 10-year average includes the steep recession in 2020 associated with the global coronavirus pandemic, we expect the Philippines to grow faster than nearly 85 percent of rated sovereigns," Moody's said in the report released on 26 July 2021.

The debt watcher believes the recession in 2020 does not represent a material weakening of the Philippines' growth prospects.

For 2021 and 2022, the rating agency placed its growth forecasts for the Philippines at 5.8 percent and 6.5 percent, respectively. It expects the Philippines to restore full-year GDP growth to 2019 levels in 2022, ahead of rating peers like Panama, Uruguay, and Mauritius which are expected to revert to pre-pandemic growth levels only in 2023 or beyond.

Higher government spending, such as on infrastructure, will be among the growth drivers for the Philippines this year and next, it said. To accelerate economic recovery, Moody's highlighted the importance of restoring business confidence to revive private domestic investments.

The country also benefits from a growing working-age population, which significantly contributes to potential economic growth, Moody's said. The Philippines' median age is around 25 years old, compared with more than 30 years old in Malaysia and Vietnam, and nearly 40 years old in Thailand.

Moody's last formally affirmed the Philippines' "Baa2" rating and the stable outlook in July 2020. Following the review meetings conducted in June this year by its analysts with resource persons from the government and the private sector, Moody's regarded the Philippines' Baa2 rating and the stable outlook as well placed.

"The Philippines Baa2 rating and stable outlook remain intact.... We have already incorporated in our assessment many of the developments that transpired over the past year including the negative impact of the pandemic shock," said Christian de Guzman, Moody's Senior Vice President and lead sovereign analyst for the Philippines during the virtual briefing on the Philippines credit rating held last July 27.

Baa2 is one notch above the minimum investment grade. The "stable" outlook indicates that the upside and downside risks are balanced and that the rating is unlikely to change within the short term.

Reacting to the latest commentary from Moody's, Finance Secretary Carlos Dominguez III said: "Moody's has apparently recognized that ever since the pandemic broke out last year, the Philippines has endeavoured to strike a balance between accelerated spending on COVID-19 response by boosting healthcare capacity and aiding vulnerable sectors, on one hand, and observing fiscal discipline, on the other, so that the anticipated rise in state expenditure will not result to an unmanageable debt situation."

"The bold initiatives implemented by President Duterte since he assumed office, notably a prudent fiscal policy and tax reform, such as the Tax Reform for Acceleration and Inclusion (TRAIN) Law and sin tax measures have put the country in a strong financial position to ride out the unprecedented global health and financial crises spawned by COVID-19," Dominguez said.

He said, "Moody's seems as confident as us that the stimulus package and further reforms carried out by the President in response to the pandemic, including the Corporate Recovery and Tax Incentives for Enterprises (CREATE) and Financial Institutions Strategic Transfer (FIST) laws, as well as those still pending in the Congress, will ensure the Philippines' recovery from the COVID-19 contagion and its return soon to the path of strong and inclusive growth."

For his part, Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno said: "The Philippine economy came prepared for a crisis. Our long history of economic reforms strengthened the country's resources and capacity to absorb shocks.

"The country's strong external payments position—evidenced in part by our hefty gross international reserves—which provide adequate buffers against global risks and shocks has helped maintain relative stability despite uncertainty caused by the pandemic. BSP's implementation of extraordinary liquidity measures such as purchases of government securities in the secondary market, helped financial markets run smoothly despite the crisis. At the same time, the Philippine banking industry—aided in part by a sound regulatory environment—has kept the impact of the crisis manageable and continues to support economic recovery and growth through credit activities.

"The BSP has done quite a lot of interventions since the onset of the pandemic, having lowered the key policy rate to a historic low and having injected around PhP2.2 trillion to the financial system. Our monetary policy will remain supportive of the economy as needed, until solid evidence of recovery is achieved," Diokno said.

Moody's looks at several factors in assessing a rating, including economic strength, institutions and governance strength, fiscal strength, and susceptibility to event risks. It does not look at any specific number at a particular point in time, for example a quarterly GDP growth figure, to determine whether a rating should move, but rates through the cycle to see whether there are lasting changes or trends to those numbers.

Sustained Macroeconomic and Financial Stability Reflects an Effective Bureaucracy

Moody's also highlighted the manageability of the Philippines' fiscal situation despite the huge cost of pandemic relief measures, as well as the sustained pursuit of economic reforms, its robust external payments position, and stable banking system.

The agency said in its commentary that the Philippines' "sustained macroeconomic and financial stability through the pandemic reflects an effective bureaucracy."

Moody’s noted the government’s ability to pursue economic and fiscal reforms amid the pandemic. It cited the passage of the Ease of Doing Business and Efficient Government Service Delivery Act” in 2018, the subsequent establishment of an Anti-Red Tape Authority, and efforts to amend the Foreign Investments Act, the Public Service Act and the Retail Trade Liberalization Act to open the country’s gates to more foreign investors.

Moody’s also noted the stability of the country’s banking system, driven in part by BSP’s supervision: “The country's banking system as a whole is well capitalized, profitable and competently managed, thus posing limited contingent risks to the government. In addition, stringent oversight by BSP supports financial stability, as illustrated by the adoption of international regulatory standards and preemptive macroprudential measures.”

Fiscal Metrics Stronger Than Peers

Moody’s noted the Philippines’ fiscal policy effectiveness which is reflected in the country’s track record over the last decade of rising revenue collection, debt consolidation and improving debt affordability.

It said that the Philippines was the only Baa2-rated country that lowered its interest payment/revenue ratio between 2014 and 2019.

The pandemic shock has, however, partly reversed these trends in view of increased spending on measures to address challenges from the health crisis.

Moody’s said it expects the Philippines’ general government’s (GG) budget deficit to widen to around 7 percent of GDP this year (compared with pre-pandemic level of around 3 percent) before going back to the path of fiscal consolidation starting 2022, assuming containment of the virus by then.

The wider deficit is consistent with the trend among Baa-rated countries, according to Moody’s.

It projects the Philippines’ general government debt to peak at 51.2 percent of GDP in 2021 from about 48.4 percent in 2020 and 34.1 percent in 2019, and to stabilize thereafter. This is also broadly in line with the trend among countries with a Baa2 rating, Moody’s said.

The rise in Philippine government debt, however, only has a limited impact on GG debt affordability. GG interest payments as a share of GG revenue rose to 9.3 percent in 2020 from a historic low of 8.2 percent in 2019, but remains lower than all other Baa2-rated sovereigns

Moody’s also said it expects the Philippines’ government’s debt burden to remain manageable, citing past reforms such as the TRAIN and sin tax measures that helped improve revenue generation capacity over the years.

“…tax reform has provided the space to ramp up spending, especially on infrastructure and buffer the expected deterioration from the coronavirus shock,” Moody’s said.

Since the start of the COVID 19 health crisis early in 2020, 36 sovereigns have been downgraded by Moody’s while 47 have a “negative” outlook on their ratings as of 16 July 2021.

Neighboring and rating peer countries of the Philippines that were either downgraded or assigned a negative outlook by Moody's include: Mexico (Baa1), India (Baa3), Mauritius (Baa2), Panama (Baa2) were downgraded while Colombia (Baa2), Romania (Baa3), Bahamas (Baa3) RUR, Sint Maarten (Baa3) RUR were assigned a negative outlook or a rating under review for a possible downgrade.

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