Republic of the Philippines
DEPARTMENT OF FINANCE
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PRESS RELEASE
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DOF Economic Bulletin on Credit Ratings, Economic Recovery, and Infrastructure Investment

- Fitch Ratings recently affirmed its 'BBB' rating on the Philippines and kept its Negative Outlook. Accordingly, the rating balances strong external front and growth against structural indicators such as per capita income. The Negative Outlook, meanwhile, reflects uncertainty about medium-term growth prospects as well as challenges in bringing down the debt-GDP ratio to lower levels. It may be recalled that the national government debt amounted to 60.5% of GDP by the end of 2021, largely on account of pandemic-related spending, up from its pre-pandemic ratio of 39.6%.

- S&P and Moody's reaffirmed the country investment grade rating and disagreed with Fitch by keeping the Stable Outlook. S&P noted that the Philippines "is likely unaffected by rising debt load" and expected growth to accelerate to 7% plus after the virus has been contained. Moody's noted the "stronger fiscal performance in recent years".

DOF View

- In the medium-term, there is a need to bring down the debt-GDP ratio through fiscal consolidation (narrowing the deficit) so that the Philippine economy can resume its vibrant growth. From 2016 to 2019, the economy has expanded by 6.6% annually, cutting the poverty rate from 18% in 2015 to 12% to 2018.
- The current medium-term fiscal program is calibrated such that the deficit gradually narrows down without sacrificing infrastructure spending. The 2021 deficit is estimated to be around 8.2% of GDP and is programmed to fall down to 5.1% by 2024. In contrast, infrastructure spending, in percent to GDP, could have reached as much as 5.6% last year, set to increase to 5.9% this year, and settle at 5.4% by 2024.
- CREATE (cutting corporate income taxes), economic liberalization (amendments to the RTLA, PSA, and FIA), and infrastructure investment should be seen as key ingredients in a cocktail of economic recovery package that is most potent when all ingredients are available.
- It is important that infrastructure investments be continued. Cutting infrastructure spending may narrow down the deficit momentarily but will

definitely be counter-productive in the long-run as far as economic recovery is concerned. While CREATE and liberalization definitely attract investor interest and enthusiasm, infrastructure projects that are left unfinished do not inspire investor confidence. Simply put, a half-finished bridge does not cut travel time even by a minute. Infrastructure projects have to be fully completed before they can increase the country's productive capacity and enhance its growth potential. Infrastructure are hard assets with which the economy can bootstrap itself into recovery, which, in turn, is hastened with the implementation of CREATE and the structural reforms on liberalization. This will have set in motion a higher growth rate in per capita income and a much more meaningful fiscal consolidation.

Table **1 Medium-Term Fiscal Program* (in % of GDP), 2021-2024**

		2021		Projections		
	2020	Program	Outlook	2022	2023	2024
Revenues	15.9	14.8	15.5	15.3	15.5	15.9
Disbursements	23.6	24.3	23.8	23.0	21.6	21.0
Deficit	**7.6**	**9.5**	**8.2**	**7.7**	**6.1**	**5.1**
Memo Item:						
Infrastructure Program	**4.8**	**5.2**	**5.6**	**5.9**	**5.5**	**5.4**

Note: * - Adopted during the 180th DBCC meeting, 14 December 2021
Source: DBCC

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