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Fitch keeps country's 'BBB' rating with 'stable' outlook

International debt watcher Fitch Ratings has kept the Philippines' investment grade credit rating of "BBB" with a "stable" outlook, citing the manageable fiscal situation despite the COVID-19 crisis and favorable growth prospects amid a declining number of daily confirmed COVID-19 cases.

"BBB" is one step above the minimum investment grade, while a "stable" outlook indicates absence of factors that could trigger adjustment in the rating within the short term.

By keeping its credit rating, the Philippines continues to stand out in the international financial community amid a wave of negative credit rating actions, which resulted from adverse impacts of the pandemic on the performance and credit profiles of many economies.

In 2020, Fitch implemented 51 credit rating downgrades affecting 33 sovereigns (some sovereigns were downgraded more than once). These include countries that previously had the same rating as the Philippines, such as Mexico, Colombia, and Italy—whose ratings were downgraded by a notch to the minimum investment grade of "BBB-".

In a report released on Monday, Fitch noted that the Philippines has "modest government debt levels relative to peers, robust external buffers, and still-strong medium-term growth prospects." Fitch also said it expects economic recovery in the coming quarters for the Philippines, placing its gross domestic product (GDP) growth projection at 6.9 percent for this year and 8.0 percent for next year.

Reacting to Fitch's decision, two of the Philippines' top economic officials welcomed the affirmation of the Philippines' credit rating, which is a recognition of the soundness of the COVID response measures in the country, as well as the Philippines' strong fundamentals going into the pandemic and robust medium-term growth trajectory.

Finance Secretary Carlos G. Dominguez said: "The affirmation of the Philippines' "BBB" rating with a "stable" outlook shows that the country has remained credit and investment worthy throughout the global COVID-19 crisis."

He added: "This is because, first, our strong economy on the Duterte watch gave us enough fiscal space to deal with the unprecedented health and economic crises. Second, there is a whole-of-government approach in saving lives, protecting communities and livelihoods, and providing relief to the hardest hit families, workers, and businesses. Third, we continued our commitment to prudent fiscal and debt management even as we start spending big on COVID-19 response measures to revive the economy and restore both business and consumer confidence."

"As soon as the pandemic struck in early 2020, the Duterte administration came up with and shepherded the swift congressional passage of twin legislation (Bayanihan 1 and 2) designed to beef up our healthcare infrastructure, extend the biggest emergency subsidies ever to poor families and dislocated workers, and provide relief to businesses, especially micro, small, and medium-sized enterprises (MSMEs)," Dominguez said.

"Moreover, the government is also working with the Congress on the quick passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. This, and the Financial Institutions Strategic Transfer (FIST) bill, which has been passed by Congress, are meant to stimulate economic activity and speed up the country's recovery from the pandemic-driven global growth slump," he added.

He said that pending the implementation of a mass vaccination program, the government has started relaxing mobility restrictions to further open up the economy on a calibrated basis, hence allowing businesses to resume or expand operations and boosting consumer spending.

Bangko Sentral ng Pilipinas (BSP) Governor Benjamin E. Diokno said: "We appreciate Fitch's understanding of the Philippines' credit and macroeconomic direction amid the global pandemic we are all facing. For our part, the BSP was among the first central banks in the world to respond to the crisis with a policy rate cut as early as February last year. We deemed it important to signal to the market that we were ready to act swiftly and decisively to buoy market confidence, as well as to ensure sufficient liquidity and efficient functioning of the financial system."

"We implemented a long list of response measures, including unprecedented ones—such as counting of loans to micro, small, and medium enterprises (MSMEs) as part of compliance with the reserve requirement—in a manner that was prompt and decisive. Given that the BSP, along with the rest of government, did its homework last year, we can see better days ahead as we look forward to the distribution of anti-COVID vaccines in the country," the central bank chief said.

Based on latest government projections, the Philippine economy will swing from recession in 2020 to growth of 6.5 and 7.5 percent this year and between 8 and 10 percent next year. Growth will be supported by government spending, with an approved National Budget of P4.506 trillion, which is 10 percent higher than last year's and equivalent to 21.8 percent of GDP.

As of end-December 2020, released allotments for Bayanihan I and II, which provide financial support to health system improvements and vulnerable sectors, such as frontliners and MSMEs (micro, small and medium enterprises), amounted to P500.7 billion.

The CREATE bill, which will be the country's largest stimulus package for businesses on record, will mandate corporate income tax cuts and the rationalization of the country's fiscal incentives system. It is already up for bicameral deliberations by Congress following separate moves of the Lower House and the Senate to approve their own version of the bill.

The FIST bill, which has been passed by both houses of Congress and is currently being reviewed by the Office of the President before the signing of President Rodrigo Duterte, will help banks unload souring assets. This will help ensure that the banking system will remain healthy despite a potential rise in non-performing loans, which in turn could result from the adverse impact of the crisis on the ability of some borrowers to pay debts on time.

Meantime, measures to contain the spread of the virus and enhance the capacity of the healthcare system have shown positive results. As of January 10, the Department of Health reported that the Philippines' active COVID cases had dropped to 20,038 which is the lowest in six months and a death rate of 1.93 percent (significantly lower than global average). Also, weekly data from the World Health Organization (WHO) show that confirmed daily COVID cases and deaths in the Philippines have been on a downward trend since September 2020.

"New daily recorded COVID-19 cases have been declining in recent months, reflecting an effective government response to the crisis and reducing the risk of renewed lockdowns. The authorities have also engaged in multilateral initiatives and with several pharmaceutical companies to secure vaccines, with a rollout anticipated starting in May 2021," Fitch noted.

Fitch likewise recognized that "the Philippines external finances remain a credit strength," citing gross international reserves that are expected to remain equivalent to 9 or 10 months of imports and other external payments this year and next year. This compares with international standards, which suggest that GIR worth at least three months of import cover is sufficient.

The debt watcher also expects the Philippine banking system to remain stable, with sufficient provisioning of banks that allow them to absorb any potential credit losses arising from the crisis.

The affirmation of the Philippines' credit ratings by various debt watchers since last year has been beneficial, especially in relation to its efforts to fund COVID recovery measures. Favorable credit ratings help a sovereign (or any borrowing institution) access financing at lower cost.

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