

Philippines: S&P upgrades outlook to positive

The upgrade reflects the relatively strong external payments position and reforms in the financial and fiscal sectors that enhance the country's strong growth path



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The likelihood of an upgrade to BBB+ in 12 to 24 months is high

S&P last night upgraded the Philippines sovereign credit outlook to positive while affirming its BBB rating. This was due to a relatively strong external payments position and policies that enhance the country's fiscal sector and prospects for balanced and strong growth. S&P recognises that the current account will be in a slight deficit through 2021. The market expects a current account of -0.7% of GDP this year before receding to -0.1% of GDP by 2020. We are less optimistic and expect the widening trade gap in the next five years to lead to an average current account of -1.2% of GDP (with an average GDP growth of 6.8%). Investors would likely regard the expansion of the country's domestic capacity and potential output as outweighing a moderate deterioration of the current account.

The outlook upgrade recognises a more important development; that the monetary and fiscal policy environment has improved. Financial and fiscal reforms are positive strides toward a higher

growth path and a more sustainable fiscal sector. Notwithstanding the inflation pain that the recent tax reform temporarily inflicted on the economy, the reform measure has enhanced revenues, allowing the government to pursue accelerated infrastructure spending and enhanced fiscal stimulus. A more solid execution of the infrastructure programme would be favourable. Monetary policy reforms also cut intermediation costs and enhance financial stability. We believe that the continued pursuit of such reforms would be successful and avoid downside risks to the country's credit rating.

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