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## Republic of Philippines' rating reaffirmed at 'CareEdge BBB+ /Stable'

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Issuer rating (Long-Term Foreign Currency)

CareEdge BBB+/Stable (Unsolicited)

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CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for **Republic of Philippines** at '**CareEdge BBB+ /Stable**' (Unsolicited).

### Rationale

The rating reaffirmation reflects the Philippines' strong macroeconomic buffers, underpinned by a solid external position and resilient growth dynamics. However, below-average institutional quality and a moderate fiscal profile weigh on the sovereign's credit profile.

The economy benefits from favourable growth prospects and a supportive demographic structure, where a large working-age population drives domestic demand and medium-term expansion. Amid ongoing investigations into alleged governance issues linked to infrastructure and flood management projects, investor confidence has weakened and has weighed on economic growth in 2025. Therefore, near-term economic growth remains monitorable. Structural constraints, including low GDP per capita and persistent skill shortages, continue to limit productivity gains. In addition, high exposure to climate-related events contributes to output volatility and may generate episodic fiscal pressures.

Government debt is projected to stabilise at ~57.5% of GDP over the next five years, below the government's indicative ceiling of 60% and broadly manageable under our baseline. Authorities have revised their medium-term fiscal strategy, targeting to reduce the fiscal deficit to about 3.1% of GDP by 2030. However, post-pandemic efforts for fiscal consolidation have been more gradual than planned.

The external sector is supported by consistent remittance inflows, which mitigate the structural trade deficit and maintain a comfortable reserve position, alongside a moderately negative net international investment position. Nevertheless, risks from global economic uncertainties remain, although current tariff exposures are similar to regional peers.

Financial sector risks are contained, anchored by a well-capitalised banking system, ample liquidity, low non-performing loans, and adequate provisioning, which effectively shields the sovereign balance sheet from contingent liabilities. However, monitorable concerns of rapid credit growth and banks' exposure to real estate lending remain.

Below-average institutional quality continues to constrain the Philippines' credit profile. Recent infrastructure-related governance concerns have raised questions around policy credibility and

corruption control. In addition, persistent tensions in the South China Sea remain a key risk monitorable, as they could undermine given their potential implications for geopolitical stability and investor sentiment.

### **Outlook: Stable**

The Stable outlook reflects the Philippines' economic resilience, underpinned by robust domestic consumption, a diversified export base, and steady remittance inflows. These strengths provide a buffer for its external position against global headwinds. The credit profile is further supported by the government's commitment to fiscal consolidation, with the fiscal deficit projected to narrow to 3.1% of GDP by 2030, supported by sustained economic growth and gradual revenue mobilisation.

### **Upside Scenario**

We may revise the outlook upwards if fiscal consolidation progresses faster than expected, resulting in sustained reduction in fiscal deficit. A steady decline in the government debt-to-GDP ratio, bolstered by stronger and more stable revenue generation along with improved growth performance, would strengthen fiscal resilience and improve debt affordability. Further progress on structural reforms, particularly those targeting infrastructure gaps and skills shortage, would enhance medium-term growth prospects and provide upward momentum for the sovereign's credit profile.

### **Downside Scenario**

We may revise the outlook downwards if there is a deviation from the sovereign deviates from stated fiscal consolidation path, particularly if accompanied by weaker-than-expected growth. This could weaken debt affordability and increase the debt burden. A deterioration in external conditions, including a slowdown in key trading partners, could also weigh on export performance and growth prospects, reducing fiscal flexibility and exerting pressure on the overall credit profile.

### **Key Rating Drivers**

#### **Economic Structure & Resilience**

The Philippines' structural strengths are anchored in robust growth dynamics, with the economy growing at 5.8% over the past five years (2021-25), positioning it among the faster-growing economies in Southeast Asia. A favourable demographic structure, reflected in a low old-age dependency ratio with the population aged 65 and above accounting for only 5.7% of the total in 2025, supports labour supply and domestic demand. A diversified export basket and broad trading partner base enhance external resilience. However, structural constraints persist. GDP per capita, at about USD 11,080 in constant PPP terms in 2025, indicates that the economy remains within the middle-income cohort, highlighting productivity gaps. Gross fixed capital formation, at around 22.7% of GDP in 2025, is relatively modest. In addition, high exposure to climate-related hazards (typhoons, floods, cyclones) and other natural

disasters, induces output volatility.

Growth is expected to average 5.7% over 2026-2030, following a moderate 4.4% in 2025, which was due to production disruptions caused by Typhoons Fung Wong and Yagi. Furthermore, an infrastructure-related governance issue dampened business and consumer confidence and led to slower public disbursements, pushing investments into negative territory.

Over the medium term, public infrastructure spending under the Build Better More programme, along with reforms such as amendments to the Foreign Investment Act and Public Service Act and the enactment of the PPP Code, are expected to support private and foreign investments and strengthen growth prospects.

The impact of climate change on growth, fiscal performance, and external metrics will be monitored closely.

### **Fiscal Strength**

The Philippines' fiscal position is characterised by strong fiscal consolidation though recent surge in debt levels, lower tax collections, and high expenditure demand due to infrastructure requirements. The share of government external debt is relatively high but is partially offset by relatively lower interest burden compared with BBB-rated peers.

Following sustained fiscal consolidation efforts prior to the pandemic, the Philippines' debt levels declined significantly; however, pandemic-related fiscal support reversed part of this progress. More recently, general government debt was 58.2% of GDP in 2025 and is projected to stabilise at about 57.5% over 2026–2030, remaining below the government's 60% indicative ceiling. The general government fiscal deficit, as defined by the Ministry of Finance, remains elevated at about 5.6% of GDP in FY2025 and has stayed above 5% of GDP since 2020. This indicates a gradual fiscal consolidation process under the Medium-Term Fiscal Framework (MTFF), which aims to reduce the fiscal deficit to 3.1% by 2030.

In 2025, interest payments stood at about 13.2% of revenue, lower than historical levels but rising in absolute terms due to higher borrowing and elevated rates. External debt accounts for roughly one-third of total debt, with about 42% owed to multilateral creditors, supporting a relatively concessional funding mix.

Defence expenditure has increased to ~6% of the budget in 2025 from 4% in 2024, reflecting higher security-related allocations. While the near-term impact on aggregate fiscal metrics appears manageable under our baseline, sustained increase in defence outlays could limit the pace of deficit reduction. Additionally, faster-than-expected rise in interest burden, if not offset by stronger revenue or expenditure restraint, could put upward pressure on the fiscal deficit and the debt-to-GDP ratio.

The adherence to revised MTF targets and the stabilisation of debt around current levels will be monitorable.

### External Position & Linkages

The Philippines' external position is resilient based on its status as a global hub for business process outsourcing (BPO) and a well-diversified export base. Personal remittances, accounting for ~7% of GDP in 2025, provide a stable source of foreign exchange, ensuring adequate reserves equivalent to 6.8 months of import cover as of December 2025. The current account deficit narrowed to -3.8% of GDP in 2025 from -4.0% in 2024 amid lower commodity prices.

Looking ahead, the current account balance is expected to narrow further to about -3.1% of GDP over 2026–2030. However, it will remain higher than the long-term average deficit of about -1.8% of GDP recorded during 2016-2025. Low external debt, averaging 28.9% of GDP between 2021 and 2025, limits vulnerability to exchange rate fluctuations. Furthermore, foreign direct investment (FDI) inflows, which averaged 2.2% of GDP over 2021-25, are expected to benefit from relevant policy reforms.

Notwithstanding these strengths, external risks remain. A slowdown in key trading partners, such as China and the US, along with rising protectionist measures in the US, could impact trade flows, albeit though the impact will be guarded by its external strengths.

### Monetary & Financial Stability

The Philippines maintains a floating exchange rate regime, with the central bank ensuring monetary and financial stability. A steady decline in inflation from early 2024, which has brought prices within the target range, has allowed for measured rate cuts. As a result, the policy rate was reduced from 6.5% in July 2024 to 4.25% in February 2026. Inflation moderated to 1.6% in 2025 from 3.2% in 2024, primarily driven by easing food price pressures, well within the central bank's target range of 2% ( $\pm 1\%$ ). Near-term inflation risks persist due to volatile commodity prices, potential supply shocks, rising protectionist trade policies, and extreme climate events.

The banking sector is well-capitalised, with credit growth sustaining a healthy ~11% in 2025 and non-performing loans (NPLs) remaining low at 3.1% of gross loans as of December 2025. However, financial sector risks stem from relatively low credit penetration, with loans and debt securities accounting for ~62% of the GDP in 2022.

A relatively high share of real estate lending in banks' portfolios, along with the rapid growth in credit driven by unsecured consumer loans, remains a key monitorable. Continued expansion in these segments could increase asset quality risks if not supported by income growth and prudent lending standards and require close regulatory oversight.

### **Institutions & Quality of Governance**

The Philippines' performance across the Worldwide Governance Indicators remains mixed, reflecting enduring institutional and governance challenges. While it scores relatively well on government effectiveness and regulatory quality, it underperforms on voice and accountability, control of corruption, rule of law, and political stability and absence of violence and terrorism.

Persistent geopolitical tensions in the South China Sea continue to shape strategic priorities and security planning. Philippines has strengthened defence cooperation with key partners. It has held joint military exercises with the US, Australia and Canada, and continues to deepen interoperability with Japan to reinforce maritime security and deterrence in a contested security environment.

The 2025 midterm elections highlighted increasing divisions among major political groups, reflecting a more fragmented political landscape ahead of the 2028 presidential elections. Looking ahead, the 2028 presidential election will be a pivotal milestone that will shape the trajectory of public policy, institutional reform, and geopolitical orientation. The evolving balance of power among political factions, without heightened volatility, will shape investor confidence and governance continuity.

Philippines – Select Indicators									
	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	362	394	404	437	462	494	536	582
GDP Per Capita (Constant-PPP)	USD	8,678	9,101	9,715	10,162	10,621	11,080	11,592	12,158
Real GDP Growth	%	-9.5	5.7	7.6	5.5	5.7	4.4	5.2	5.5
GFCF/GDP	%	21.3	22.3	23.3	23.6	23.6	22.7	-	-
Gross Domestic Savings/GDP	%	9.7	9.2	9.0	9.3	9.3	-	-	-
Exports (G&S)/GDP	%	25.2	25.8	28.4	26.6	25.8	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	64.6	65.1	65.6	66.1	66.6	67.1	67.6	68.1
Old-Age (65+) Population (% Share in Total)	%	4.7	4.9	5.0	5.3	5.5	5.7	6.0	6.2
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-5.5	-6.2	-5.4	-4.4	-3.7	-3.6	-3.1	-2.7
Revenue/GDP	%	20.4	21.0	20.4	20.3	21.2	20.4	20.5	20.4
Expenditure/GDP	%	25.9	27.2	25.9	24.7	24.9	24.0	23.6	23.1
GG Gross Debt/GDP	%	51.6	57.0	57.4	56.5	56.6	58.2	58.6	58.4
GG External Debt (by Creditor)/GG Gross Debt	%	27.8	24.7	25.8	28.7	-	-	-	-
Interest/Revenue	%	13.3	8.6	9.8	11.3	12.3	13.2	13.7	13.7
<b>External Indicators</b>									
Current Account Balance/GDP	%	3.2	-1.5	-4.5	-2.8	-4.0	-3.8	-3.5	-3.2
FDI, Net Inflows/GDP	%	1.9	3.0	2.3	2.1	2.0	1.4	-	-
Outstanding FII Liabilities/GDP	%	24.6	23.3	20.4	19.6	20.9	19.0	-	-
NIIP/GDP	%	-5.9	-7.2	-10.1	-11.4	-14.2	-11.8	-	-
Foreign Exchange Reserves	USD Billions	110.1	108.8	96.1	103.7	106.3	110.8	-	-
Import Cover	Months	13.2	10.3	7.6	8.2	7.9	6.8	-	-
External Debt/GDP	%	27.2	27.0	27.5	28.7	29.8	31.9	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	2.4	3.9	5.8	6.0	3.2	1.6	2.6	2.8
Exchange Rate (Average)	LC per USD	49.6	49.3	54.5	55.6	57.3	57.5	-	-
Non-Performing Loans/Total Gross Loans	%	3.1	3.6	2.9	3.0	3.1	3.1	-	-
Private debt, loans and debt securities/GDP	%	64.7	62.4	61.6	-	-	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2025

## Solicitation Status

The rating is unsolicited

## Rating History

Instrument	Type	Rating	Date
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	March 11, 2026
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	April 02, 2025
<b>Issuer Rating</b>	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+	October 03, 2024

## Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

## Analytical Contacts

Kiran Kavala

[kiran.kavala@careedgeglobal.com](mailto:kiran.kavala@careedgeglobal.com)

Annie Mahajan

[annie.mahajan@careedgeglobal.com](mailto:annie.mahajan@careedgeglobal.com)

Hemasree Tummaluru

[hemasree.tummaluru@careedgeglobal.com](mailto:hemasree.tummaluru@careedgeglobal.com)

## Media Contact

Mradul Mishra

[mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

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CareEdge Global IFSC Limited  
(A subsidiary of CARE Ratings Ltd.)  
501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 | [www.careedgeglobal.com](http://www.careedgeglobal.com)  
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