

MBC STATEMENT ON THE PHILIPPINES' IMPROVED CREDIT OUTLOOK AND SUCCESSFUL ISSUE OF 25-YEAR GLOBAL PESO BONDS

The latest revision by Moody's Investor Service of its credit outlook on Philippine foreign and local currency bonds to positive from stable and the recent successful issuance of 25-year global peso bonds worth an equivalent \$1.25 billion are, without doubt, manifestations of the international investment community's interest and confidence in the country and foreign investors' sign of faith in the Aquino administration's economic vision and fiscal program.

The Makati Business Club thus commends the government's economic managers for these accomplishments, with Moody's signaling the likelihood of a near-term ratings upgrade and the bond deal continuing the innovative success of last October's 10-year \$1-billion global peso bonds, the first of its kind in Asia.

The credit rater upgraded the country's credit rating last July to Ba3, "speculative" and "subject to substantial credit risk." An upgrade would boost the Philippines' credit score to the Baa level, "subject to moderate credit risk."

On the other hand, the long-term bonds, which are denominated in pesos but will be paid off in US dollars, are designed, in part, to deal with the issue of hot foreign money flowing into the country and presenting inflationary problems for monetary authorities.

MBC further cites the bond deal's manifold accomplishments. It took advantage of the favorable market conditions at the start of the year, when rates are relatively lower. The 25-year bond was priced to yield its coupon rate of 6.25%, which translates to a 0.23% decline from the current domestic 25-year benchmark, even after adjusting for the global bond's exemption from the local 20% withholding tax on interest income.

The global bond issue also helped lengthen the country's debt maturities, reduce exposure of the domestic economy to foreign exchange fluctuations, and develop the capital market for long-term financing in preparation for the government's plans to partner with private companies in building 11 priority infrastructure projects that include public roads, ports, and railways.

Moody's statement, meanwhile, cited the country's strong external payments position, which had reduced the country's vulnerability to external shocks, monetary policy successes, and economic policy reforms that were expected to positively affect state finances, investor sentiment, and the economy.

MBC is encouraged by these positive signs that the Aquino administration is on its way towards achieving sustained economic growth, fiscal consolidation, and further development of the domestic capital markets.

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