# Risk of complacency

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S&P Global Ratings, one of the three most influential global debt watchers together with Moody’s and Fitch Ratings, has just raised the Philippines’ credit rating outlook to “positive,” indicating a possible upgrade to an “A-” rating within 24 months. S&P pointed to the Philippines’ above-average growth potential, effective policymaking, fiscal reforms, improved infrastructure and policy environment, and solid external position as the key factors for the improved rating.

The aspiration of the country for the highly coveted “A” credit rating is more than just about good optics for the government. There are economic benefits attached to it. A sovereign credit rating is an assessment of the level of risk in lending to a particular country and rating firms consider various factors that include the political environment, economic status, and its creditworthiness. Usually done at the request of the government, a high credit rating makes it easier for a country to access funds from the international bond market at lower interest rates for issuers such as the government, which can then channel the interest savings to more productive spending such as social programs and infrastructure build-up. More than this, however, foreign investors also consider a country’s sovereign credit-rating in deciding whether or not to put their factories or cash there.

## Investment destination

On the economic front, there is no doubt that the Philippines has been making headway. In December 2023, the World Bank already noted how the Philippines in recent years has enacted several legislation designed to boost private investment and enhance the country’s attractiveness as an investment destination.

These reforms included amendments to the Public Services Act to allow full foreign ownership of businesses in airports, railways, expressways, and telecommunications; the Retail Trade Liberalization Act that lowers the capital requirement for foreign retail enterprises; the Foreign Investment Act that opens ownership of more domestic enterprises, including micro and small enterprises, and allowing foreign ownership of renewable energy projects. It also cited the enactment of the new Public-Private Partnership Code to encourage private sector participation in vital infrastructure projects, the passage of reforms aimed at enhancing government service delivery through digitalization.

## Tricky part

Last Nov. 11, President Marcos signed into law Republic Act No. 12066, or the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy Act to generate more jobs for Filipinos and spur economic growth by enhancing the ease of doing business in the country as it clarifies value-added tax rules and providing more attractive fiscal incentives, among others.

However, it is worth emphasizing that credit-rating agencies use both qualitative and quantitative techniques to determine the sovereign credit rating of a country. The economic numbers are easy to determine, but the political situation or condition is the tricky part.

And since the political situation is considered by debt watchers, the escalating discord between the President and Vice President Sara Duterte cannot simply be dismissed as “political noise” by Mr. Marcos’ economic managers. It should not, as they claim in their joint statement issued last Nov. 27, be “business as usual for the Philippine government,” justifying it by pointing out that the “Philippine economy has proven time and again its resilience against both domestic and external challenges, whether arising from natural disasters, geopolitical risks, election cycle tensions, global or regional financial crises, supply chain gaps abroad, cybercriminal activities, or other crises.”

## Political squabbling

Recent history has shown how risky it is to call such political squabbling as simple noise. Any escalation can cause nervousness in the business community that, in turn, can have repercussions on the economy and ultimately on how foreign investors view the country as a host for their money.

Last week, former senator Antonio Trillanes IV already cautioned the government against being complacent in dealing with the latest threats—former president Rodrigo Duterte’s call on the military to “correct” what he claimed was a “fractured” Marcos administration, and his daughter Sara’s handful of followers holding fort at the Edsa Shrine. “My advice to authorities is to refrain from being complacent. We need to ensure that the Dutertes would not attract officers, because that will be a big problem. That’s why we have to do continuous monitoring,” Trillanes said, noting that this has happened with the Second Edsa People Power Revolution in January 2001 that forced then President Joseph Estrada out of office.

The Marcos administration will benefit much from paying extra attention to the risks of recent developments on the political front. Complacency may be its biggest enemy that can douse cold water on its ambition for an “A” credit rating.