

# Philippines

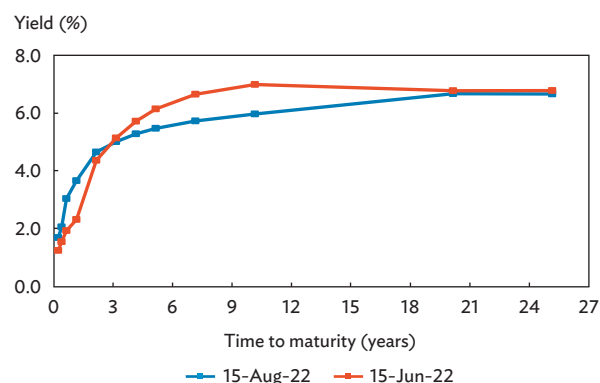
## Yield Movements

The local currency (LCY) government bond yield curve in the Philippines flattened between 15 June and 15 August, as yields for short-dated tenors rose, while those for longer-dated maturities declined (**Figure 1**). Yields rose an average of 74 basis points (bps) for maturities of 2 years or less, with the largest increase seen in the 1-year tenor at 134 bps, followed by the 6-month tenor at 111 bps. In contrast, bond yields for maturities of 3 years or longer declined by an average of 49 bps during the review period. Yields fell the most for the 10-year maturity, which shed 101 bps. As the yield curve flattened, the spread of the 10-year over the 2-year maturity fell from 262 bps on 15 June to 132 bps on 15 August, the largest decline among emerging East Asia's bond markets.

The rise in yields at the shorter-end of the curve was largely driven by the monetary policy tightening stance of the Bangko Sentral ng Pilipinas (BSP). After raising policy rates by 25 bps each in May and June, the BSP hiked its rates by 75 bps in an off-cycle meeting on 14 July, which was followed by another 50 bps increase on 18 August. The BSP has become the most aggressive central bank in the region, raising rates consecutively since May for a total of 175 bps. The moves were largely in response to rising inflationary pressure. Consumer price inflation has steadily climbed since March of this year, rising at its fastest pace in July of 6.4% year-on-year (y-o-y), up from 6.1% y-o-y in June. In August, consumer price inflation slightly eased to 6.3% y-o-y. The BSP's revised forecast for full-year 2022 inflation is 5.4%, which exceeds its 2.0%–4.0% inflation rate target for the year.

On the other hand, the decline in yields for maturities of 3 years or longer was largely influenced by market expectations that the United States (US) Federal Reserve would adjust its monetary policy tightening stance to be less aggressive, fueled by a decline in global oil prices as well as a decline in July's US consumer price inflation and a negative reading for month-on-month producer price inflation. This was despite a still strong second quarter (Q2) gross domestic product (GDP) growth rate in the Philippines of 7.4% y-o-y versus 8.2% y-o-y in the first quarter (Q1) of 2022. The Philippines, however, continues to suffer from negative investor sentiment,

**Figure 1: The Philippines' Benchmark Yield Curve—Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

having consistently recorded foreign investor outflows from its stock market each month from March to July. For the January–July period, the Philippines also recorded negative outflows from its government bond market, though positive inflows were noted in the months of May, June, and July. This led the Philippine peso to depreciate significantly versus the US dollar by 9.1% year-to-date through 24 August.

## Size and Composition

The size of the Philippines' LCY bond market reached PHP10,680.2 billion (USD194.3 billion) at the end of June, expanding at a modest pace of 2.4% quarter-on-quarter (q-o-q) in Q2 2022 versus 6.5% q-o-q in Q1 2022 (**Table 1**). The slowdown in the q-o-q growth was due to moderating growth in the government bond segment and a contraction in corporate bonds.

**Government bonds.** At the end of June, the outstanding amount of LCY government bonds climbed to PHP9,272.7 billion, with growth easing to 4.1% q-o-q in Q2 2022 from 6.5% q-o-q in the preceding quarter. The slower growth stemmed from a contraction in the stock of Treasury bills and a slower expansion in the stock of Treasury bonds. On the other hand, growth in the central bank bond stock moderated, while the stock of other government bonds posted strong growth during the review period.

Table 1: Size and Composition of the Local Currency Bond Market in the Philippines

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2021		Q1 2022		Q2 2022		Q2 2021		Q2 2022	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>9,351</b>	<b>192</b>	<b>10,427</b>	<b>201</b>	<b>10,680</b>	<b>194</b>	<b>2.5</b>	<b>25.1</b>	<b>2.4</b>	<b>14.2</b>
Government	7,834	160	8,911	172	9,273	169	3.9	32.7	4.1	18.4
Treasury Bills	1,023	21	657	13	544	10	(2.5)	28.4	(17.1)	(46.8)
Treasury Bonds	6,351	130	7,803	151	8,108	147	3.6	25.3	3.9	27.7
Central Bank Securities	400	8	410	8	567	10	34.5	–	38.3	41.8
Others	60	1	42	1	54	1	(9.1)	50.2	28.8	(10.3)
Corporate	1,517	31	1,515	29	1,408	26	(3.9)	(3.6)	(7.1)	(7.2)

( ) = negative, – = not applicable, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Bloomberg end-of-period local currency-USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and the National Food Authority, among others.
4. Peso Global Bonds (PHP-denominated bonds payable in USD) are not included.

Sources: Bloomberg LP and Bureau of the Treasury.

The outstanding amount of Treasury bills dropped to PHP544.2 billion at the end of June, posting a contraction of 17.1% q-o-q and 46.8% y-o-y. The stock of Treasury bills declined as short-term interest rates continued to rise, stemming from the BSP's tightening monetary policy. Investors increasingly preferred longer maturities as yields continued to decline following the flattening of the Philippine yield curve. During the quarter, issuance of Treasury bills tallied PHP232.5 billion, up by 9.2% q-o-q. Despite increased issuance, the outstanding stock of Treasury bills declined due to a larger volume of maturities during the quarter.

On the other hand, Treasury bonds outstanding climbed to PHP8,107.7 billion, with growth easing to 3.9% q-o-q in Q2 2022 from 7.4% q-o-q in Q1 2022. Moderating growth in Treasury bonds was due to a relatively high base in the previous quarter as the Philippine government had issued Retail Treasury Bonds amounting to PHP457.8 billion in March, leading to a decline in government bond issuance in Q2 2022. During the quarter, issuance of Treasury bonds substantially declined by 55.8% q-o-q to PHP304.5 billion. Treasury bond and bill sales during the quarter fell below the Bureau of the Treasury's target of PHP650 billion.

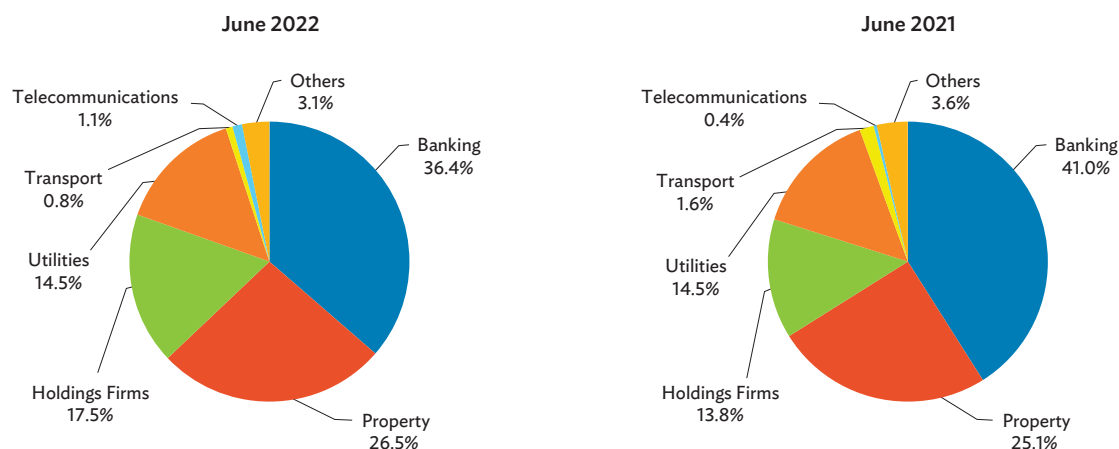
Meanwhile, the BSP continued to post strong growth in its securities to mop up excess liquidity in the market to help curb inflationary pressure. The outstanding stock of central bank securities rose to PHP567.2 billion,

on slower growth of 38.3% q-o-q in Q2 2022 from 57.7% q-o-q in the prior quarter. Issuance of central bank instruments totaled PHP1,740.9 billion in Q2 2022, representing 76.0% of total government bond issuance during the quarter.

**Corporate bonds.** The corporate bond market's size reached PHP1,407.5 billion at the end of June on declines of 7.1% q-o-q and 7.2% y-o-y. Corporate bond issuance during the quarter declined 40.2% q-o-q, with total issuance reaching PHP91.2 billion due to higher borrowing costs. Uncertainties in the Philippine economic outlook and policy direction also dragged down issuance volume during the quarter.

By sectoral breakdown, corporate bonds outstanding largely comprised issuances from firms in the banking sector, with their share of the total dipping to 36.4% at the end of June from 41.0% a year earlier (**Figure 2**). Next were property firms, which saw their share inching up to 26.5% from 25.1% over the same period. Rising to the third spot were holdings firms, whose share climbed to 17.5% at the end of Q2 2022 from 13.8% a year earlier.

The 30 largest corporate bond issuers in the Philippines had an aggregate bond stock of PHP1,261.8 billion at the end of June, comprising 89.6% of the total corporate bond stock (**Table 2**). Compared with other markets, the Philippines' corporate bond market is relatively concentrated in a few large borrowers. Leading the list

**Figure 2: Local Currency Corporate Bonds Outstanding by Sector**

Source: Based on data from Bloomberg LP.

of top 30 was BDO Unibank with outstanding bonds of PHP126.6 billion and accounting for 9.0% of the corporate bond total. Next was SM Prime Holdings with bonds amounting to PHP119.6 billion and an 8.5% share of the corporate total. At the third spot was San Miguel with total bond size of PHP103.3 billion for a 7.3% share of the corporate total. Rounding out the fourth and fifth spots were Ayala Land and Metropolitan Bank, respectively, accounting for shares of 6.1% and 5.4% of the corporate bond market.

In Q2 2022, there were seven firms that tapped the Philippines' corporate bond market for funding. Total corporate bond issuance during the quarter comprised 13 new bond series. SM Prime Holdings had the largest aggregate issuance at PHP30.0 billion from the sale of 5-, 7-, and 10-year bonds in April (**Table 3**). Next was Ayala Corporation, which raised a total of PHP15.0 billion, followed by its sister company Ayala Land, which sold PHP12.0 billion worth of 6-year bonds. The shortest-dated bond issued during the quarter was a zero-coupon 6-month bond from Alsons Consolidated Resources. The longest-dated bond were 7-year issuances by both SM Prime Holdings and Ayala Corporation.

## Investor Profile

For Q2 2022, banks and investment houses remained the largest investor in government bonds at the end of June with their share rising to 44.4% from 37.9% a year earlier (**Figure 3**). The holdings share of all other investors declined from that of the previous year. Investments by contractual savings institutions and tax-exempt institutions remained substantial, but their holdings shares fell to 33.5% in Q2 2022 from 35.4% in Q2 2021. The most dramatic decline came from brokers, custodians, and depositors whose share fell to 6.9% from 9.6% during the review period, largely as falling bond prices and rising US interest rates made Philippine assets less attractive.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	BDO Unibank	126.6	2.3	No	Yes	Banking
2.	SM Prime Holdings	119.6	2.2	No	Yes	Holding Firms
3.	San Miguel	103.3	1.9	No	Yes	Holding Firms
4.	Ayala Land	85.3	1.6	No	Yes	Property
5.	Metropolitan Bank	76.3	1.4	No	Yes	Banking
6.	Rizal Commercial Banking Corporation	62.8	1.1	No	No	Electricity, Energy, and Power
7.	SMC Global Power	60.0	1.1	No	Yes	Banking
8.	Aboitiz Power	60.0	1.1	No	Yes	Banking
9.	China Bank	51.6	0.9	No	Yes	Banking
10.	Security Bank	48.3	0.9	No	Yes	Electricity, Energy, and Power
11.	Ayala Corporation	45.0	0.8	No	Yes	Banking
12.	Petron	45.0	0.8	No	Yes	Electricity, Energy, and Power
13.	Vista Land	42.7	0.8	No	Yes	Property
14.	Filinvest Land	42.4	0.8	No	Yes	Holding Firms
15.	SM Investments	32.7	0.6	No	Yes	Holding Firms
16.	Bank of the Philippine Islands	30.1	0.5	No	Yes	Banking
17.	Union Bank of the Philippines	29.8	0.5	No	Yes	Property
18.	Aboitiz Equity Ventures	27.6	0.5	No	Yes	Holding Firms
19.	Philippine National Bank	22.9	0.4	No	Yes	Banking
20.	Maynilad	18.5	0.3	No	No	Water
21.	East West Banking	16.2	0.3	No	Yes	Banking
22.	Doubledragon	15.0	0.3	No	Yes	Banking
23.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Property
24.	Robinsons Land	14.6	0.3	No	Yes	Food and Beverage
25.	Philippine Savings Bank	12.7	0.2	No	Yes	Property
26.	Bank of the Philippine Islands	12.2	0.2	No	Yes	Property
27.	Megaworld	12.0	0.2	No	Yes	Whole and Retail Trading
28.	Puregold	12.0	0.2	No	Yes	Holding Firms
29.	Metro Pacific Investments	11.4	0.2	No	Yes	Holding Firms
30.	GT Capital	10.1	0.2	No	No	Brewery
Total Top 30 LCY Corporate Issuers		1,261.8	23.0			
Total LCY Corporate Bonds		1,407.5	25.6			
Top 30 as % of Total LCY Corporate Bonds		89.6%	89.6%			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.

Notes:

1. Data as of 30 June 2022.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2022**

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SM Prime Holdings		
5-year bond	5.61	10.92
7-year bond	6.12	13.03
10-year bond	6.54	6.05
Ayala Corporation		
3-year bond	4.45	5.00
5-year bond	5.62	7.50
7-year bond	6.14	2.50
Ayala Land		
6-year bond	5.81	12.00
Filinvest Land		
3-year bond	5.35	8.93
5-year bond	6.41	2.98
Union Bank of the Philippines		
1.5-year bond	3.25	11.00
Converge ICT Solutions		
5-year bond	5.59	10.00
Alsons Consolidated Resources		
0.5-year bond	0.00	0.27
1-year bond	0.00	1.00

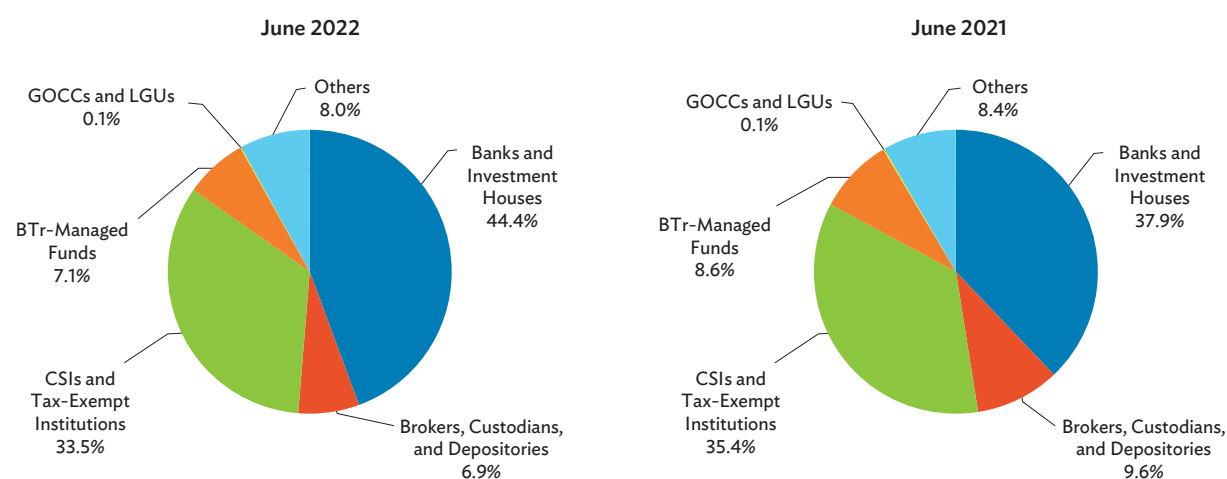
PHP = Philippine peso.

Source: Based on data from Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### Bureau of the Treasury Releases Its July–August Borrowing Plan

The Bureau of the Treasury released its borrowing plan for July and August. The government planned to borrow PHP200 billion for the month of July, comprising PHP60 billion worth of Treasury bills and PHP140 billion worth of Treasury bonds with tenors ranging between 7 years and 14 years. For the month of August, the borrowing target was set at PHP215 billion: PHP75 billion in Treasury bills and PHP140 billion in Treasury bonds with tenors ranging from 3.5 years to 10 years.

**Figure 3: Local Currency Government Bonds Investor Profile**

BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit.  
Source: Bureau of the Treasury.