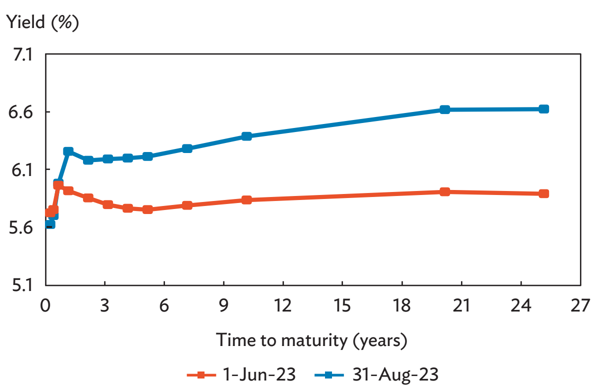
Philippines

Yield Movements

Local currency (LCY) government bond yields in the Philippines increased for most tenors between 1 June and 31 August (Figure 1). Only the 1-month and 3-month tenors posted declines during the review period. The increase in yields was influenced by the Bangko Sentral ng Pilipinas' hawkish tone amid persistent elevated inflation despite a continued decline since February. Consumer price inflation steadily eased to 4.7% y-o-y in July from a peak of 8.7% y-o-y in January but remains above the government's target range of 2.0%–4.0%, leading to the monetary board's decision to keep the main policy rate at 6.25% at its past three policy meetings on 18 May, 22 June, and 17 August. In addition, an increase in yields was also influenced by dampened investor sentiment due to the economy's slower-than-expected growth of 4.3% year-on-year (y-o-y) in the second quarter (Q2) of 2023, down from 6.4% y-o-y in the previous quarter.

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

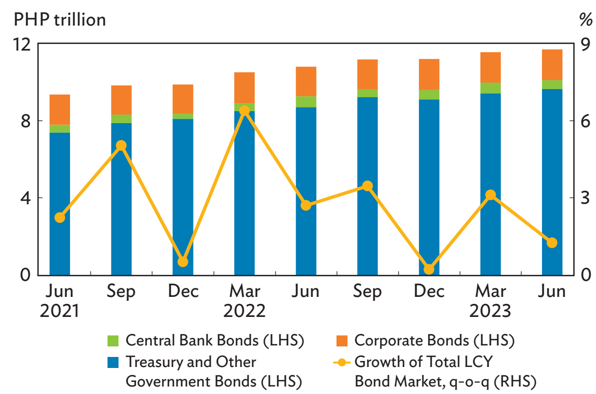


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

In Q2 2023, total LCY bonds outstanding increased on expansions in both the corporate and government bond markets. Total LCY bonds outstanding reached PHP11.7 trillion at the end of June on growth of 1.3% quarter-on-quarter (q-o-q). Treasury and other government bonds, which account for 82.4% of the total debt stock, grew 2.3% q-o-q in Q2 2023 as issuances exceeded maturities, while central bank securities contracted 15.8% q-o-q due to a decline in issuance in Q2 2023 amid easing inflation (**Figure 2**). The corporate bond market, which accounts for 13.6% of the total debt stock, rebounded 1.2% q-o-q in Q2 2023 due to the large volume of issuances during the quarter, a reversal from the 2.2% q-o-q contraction in the first quarter of 2023. The Philippine corporate bond market remained dominated by the property, banking, and holding firms sectors, which accounted for a collective share of 81.0% of total corporate bonds outstanding at the end of Q2 2023 (**Figure 3**).

Figure 2: Composition of Local Currency Bonds Outstanding in the Philippines

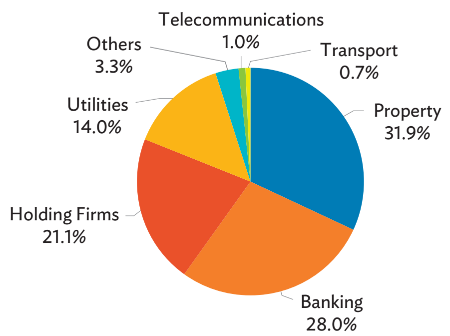


LCY = local currency, LHS = left-hand side, PHP = Philippine peso, q-o-q = quarter-on-quarter, RHS = right-hand side.

Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and 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.

Sources: Bureau of the Treasury and Bloomberg LP.

Figure 3: Local Currency Corporate Bonds Outstanding by Sector



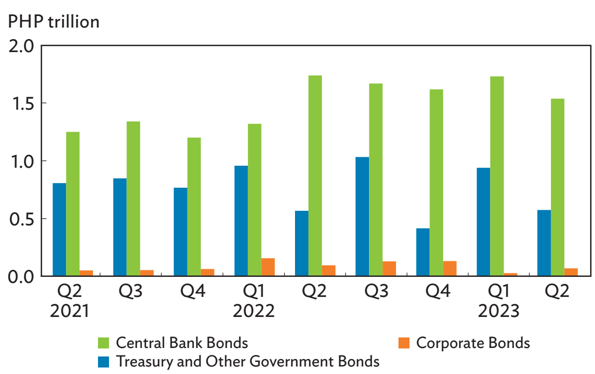
Source: Bureau of the Treasury.

Total LCY bond issuance contracted 19.2% q-o-q in Q2 2023 on reduced issuance from the government. During the quarter, a contraction of 39.0% q-o-q in the issuance of Treasury and other government bonds was mainly driven by a relatively high base in the preceding quarter brought about by the Government of the Philippines' issuance of Retail Treasury Bonds in February amounting to PHP283.7 billion (**Figure 4**). Issuance of central bank securities, which comprised 70.7% of total issuance in Q2 2023, contracted 11.2% q-o-q as inflation continued a downtrend for six consecutive months. After a contraction of 81.7% q-o-q in the first quarter of 2023, corporate bond issuance rebounded in Q2 2023 with an expansion of 117.6% q-o-q due to a relatively low base in the previous quarter.

Investor Profile

In June 2023, the investor landscape for LCY government bonds in the Philippines was relatively the same from a year earlier as banks and investment houses continued to hold nearly half of the total LCY government debt stock. Banks and investment houses' market share climbed to 46.7% in June 2023 from 44.4% in the same period of the previous year. Contractual savings institutions and tax-exempt institutions remained the second-largest investor group in the economy's LCY government bond market, with shareholdings that decreased to 31.8% in June from 33.5% a year earlier. All other investor holdings shares remained below 10% and showed a downward trend from their previous investment percentage shares a year earlier, except for Bureau of the Treasury-managed funds, whose holdings share remained constant at around 7.0% in Q2 2023 (**Figure 5**).

Figure 4: Composition of Local Currency Bond Issuance in the Philippines

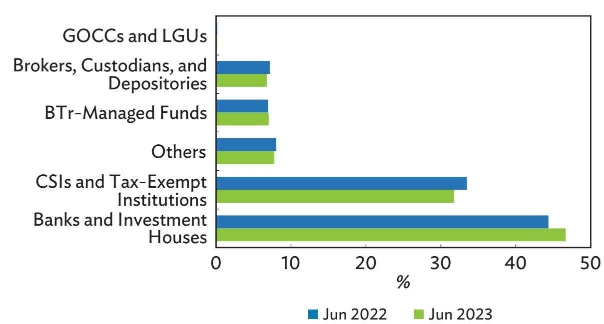


Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, PHP = Philippine peso.

Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and 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.

Sources: Bureau of the Treasury and Bloomberg LP.

Figure 5: Investor Profile of Local Currency Government Bonds



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

Source: Bureau of the Treasury.