# Philippines

## Yield Movements

Between 1 June and 14 August, Philippine local currency (LCY) government bond yields fell for most tenors **(Figure 1)**. Yields for tenors of 2 years and below fell between 15 basis points (bps) and 40 bps. Yields for tenors of between 4 years and 20 years, with the exception of the 7-year maturity, fell between 6 bps and 30 bps. Yields fell amid easing inflation, giving room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. Moreover, the decrease in yields was most notable at the shorter-end of the curve as the market remained risk-averse in anticipation of an interest rate hike by the United States (US) Federal Reserve.

Inflation continued to decelerate in 2Q15 to 1.2% year-on-year (y-o-y) in June, and further to 0.8% y-o-y in July. A sufficient supply of food items, the downward adjustments in utility rates, and lower fuel prices contributed to lower inflation.

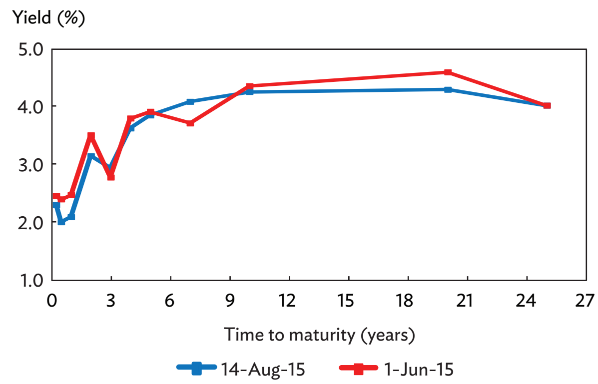
The BSP, at its 13 August monetary policy meeting, decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.00% and 6.00%, respectively. The BSP stated that benign inflation was a result of temporary favorable supply-side conditions, and that inflation is expected to rise gradually and settle within the lower end of the BSP target range of 2.0%–4.0%. The BSP will continue to monitor the upside risks to inflation along with both domestic and external developments.

Meanwhile, the Philippines' economic growth picked up in 2Q15 to 5.6% y-o-y from 5.0% y-o-y in 1Q15. The expansion in 2Q15 was supported by sustained growth in both private and public consumption, which increased 6.2% y-o-y and 3.9% y-o-y, respectively, as well as a boost in capital formation, which rose 17.4% y-o-y. For the first half of 2015, real GDP expanded 5.3% y-o-y, which was less than the 6.1% y-o-y growth posted in the same period in 2014.

## Size and Composition

The Philippine LCY bond market contracted 0.8% quarter on quarter (q-o-q) to PHP4,645 billion (US$103 billion) at end-June **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,896 billion, while corporate bonds summed to PHP749 billion. On a y-o-y basis, the LCY bond market grew 3.3% in 2Q15.

**Figure 1: Philippines' Benchmark Yield Curve—LCY Government Bonds**




LCY = local currency.
Source: Bloomberg LP.

**Government Bonds.** Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies declined 0.5% q-o-q to PHP3,896 billion at end-June. The decline was most notable among outstanding government-controlled issues, which fell 12.4% q-o-q due to the maturation of Power Sector Assets and Liabilities Management bonds worth PHP11.3 billion. A similar downtrend was noted for outstanding Treasury bills, which decreased 1.1% q-o-q to PHP275 billion, while outstanding Treasury bonds fell 0.2% q-o-q to PHP3,541 billion.

In terms of issuance, 2Q15 saw a lower volume of PHP90 billion compared with PHP135 billion in 1Q15 as the Bureau of Treasury (BTr) issued no special series bills in 2Q15. In terms of maturity profile, the BTr focused on the issuance of shorter tenors for Treasury bonds in 2Q15, with a 3-year and 5-year re-issue worth PHP25.0 billion and PHP22.4 billion, respectively, compared with a 6-year and an 18-year issuance in 1Q15.

**Corporate Bonds.** Total outstanding LCY corporate bonds decreased 2.0% q-o-q to PHP749 billion. Only three

**Table 1: Size and Composition of the LCY Bond Market in the Philippines**

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2Q14 | | 1Q15 | | 2Q15 | | 2Q14 | | 2Q15 | |
| | PHP | US$ | PHP | US$ | PHP | US$ | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **4,497** | **103** | **4,681** | **105** | **4,645** | **103** | **1.4** | **8.9** | **(0.8)** | **3.3** |
| Government | 3,819 | 87 | 3,917 | 88 | 3,896 | 86 | 1.9 | 6.5 | (0.5) | 2.0 |
| Treasury Bills | 288 | 7 | 278 | 6 | 275 | 6 | (1.6) | (6.4) | (1.1) | (4.6) |
| Treasury Bonds | 3,415 | 78 | 3,547 | 79 | 3,541 | 79 | 2.2 | 7.9 | (0.2) | 3.7 |
| Others | 116 | 3 | 91 | 2 | 80 | 2 | – | 2.1 | (12.4) | (30.9) |
| Corporate | 678 | 16 | 765 | 17 | 749 | 17 | (1.0) | 25.4 | (2.0) | 10.5 |

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. "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 (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-June 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively.
Sources: Bloomberg LP and Bureau of the Treasury.

companies tapped the domestic bond market in 2Q15. BDO Unibank issued a 5-year Long-Term Negotiable Certificate of Deposit; South Luzon Tollway had a triple-tranche issue comprising a 5-, 7-, and 10-year bond; while Ayala Land issued a 7-year bond for an aggregate issuance worth PHP21.8 billion in 2Q15 **(Table 2)**.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of the total amount of LCY corporate bonds outstanding at end-June **(Table 3)**. Most of the companies are listed in the Philippine Stock Exchange, with eight firms having privately held shares. Real estate firm Ayala Land topped the list with total outstanding bonds worth PHP64.9 billion. Metrobank and holding company Ayala Corporation were second and third with outstanding amounts of PHP46.8 billion and PHP40.0 billion, respectively.

**Table 2: Notable LCY Corporate Bond Issuance in 2Q15**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (PHP billion) |
|---|---|---|
| BDO Unibank | | |
| 5-year LTNCD | 3.75 | 7.50 |
| South Luzon Tollway | | |
| 5-year bond | 4.99 | 2.40 |
| 7-year bond | 5.58 | 2.40 |
| 10-year bond | 6.49 | 2.50 |
| Ayala Land | | |
| 7-year bond | 4.50 | 7.00 |

LCY = local currency.
Source: Bloomberg LP.

Local corporate debt issuers came from a diverse industry mix in 2Q15. Banks and financial firms were the majority of issuers, increasing their collective share to 32.6% of the total at end-June 2015 from 25.7% at end-June 2014 **(Figure 2)**. Real estate firms and holding companies took the second and third spots in 2Q15, leaving the top three corporate bond-issuing industries the same as 2Q14. Issuers involved in electricity generation and distribution accounted for 5.9% of total bonds outstanding in 2Q15, 5.7% of the total came from issuers in the thoroughfares and tollways industry, 5.0% from the brewery and alcoholic beverages industry, and 4.3% from the telecommunications industry.

## Investor Profile

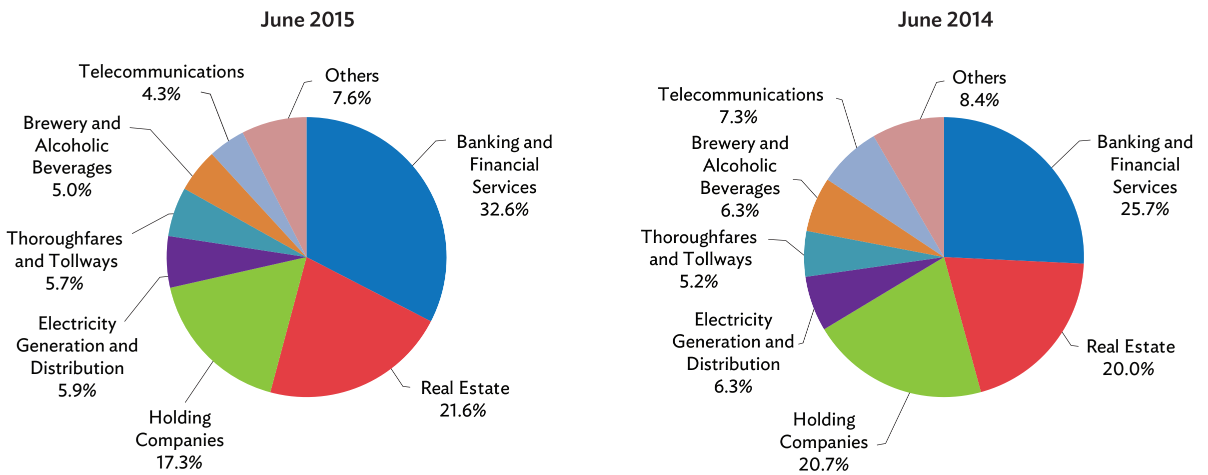
Banks and financial institutions remained the largest holder of government securities at end-June, with a share of the total that increased to 37.2% from 35.0% a year earlier **(Figure 3)**. The share of other investors was up slightly to 7.6% at end-June from 6.7% a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and tax exempt institutions—held 28.9% of total government bonds at end-June, similar to the group's share a year earlier. Meanwhile, holdings of government securities among custodians fell to 8.9% from 10.1%, and funds managed by the BTr slightly declined to 16.6% from 18.7% over the same period.

## Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

| | Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|---|---|---|---|---|---|---|
| | | LCY Bonds (PHP billion) | LCY Bonds (US$ billion) | | | |
| 1. | Ayala Land | 64.9 | 1.4 | No | Yes | Real Estate |
| 2. | Metrobank | 46.8 | 1.0 | No | Yes | Banking |
| 3. | Ayala Corporation | 40.0 | 0.9 | No | Yes | Diversified Operations |
| 4. | San Miguel Brewery | 37.8 | 0.8 | No | No | Brewery |
| 5. | BDO Unibank | 37.5 | 0.8 | No | Yes | Banking |
| 6. | Philippine National Bank | 34.6 | 0.8 | No | Yes | Banking |
| 7. | JG Summit Holdings | 30.0 | 0.7 | No | Yes | Diversified Operations |
| 8. | SM Investments | 28.3 | 0.6 | No | Yes | Diversified Operations |
| 9. | RCBC | 27.1 | 0.6 | No | Yes | Banking |
| 10. | SM Prime | 25.0 | 0.6 | No | Yes | Real Estate |
| 11. | Filinvest Land | 24.0 | 0.5 | No | Yes | Real Estate |
| 12. | Meralco | 23.5 | 0.5 | No | Yes | Electricity Distribution |
| 13. | Security Bank | 23.0 | 0.5 | No | Yes | Banking |
| 14. | GT Capital Holdings | 22.0 | 0.5 | No | Yes | Investment Companies |
| 15. | South Luzon Tollway | 18.3 | 0.4 | No | No | Transport Services |
| 16. | Globe Telecom | 17.0 | 0.4 | No | Yes | Telecommunications |
| 17. | East West Bank | 16.8 | 0.4 | No | Yes | Banking |
| 18. | Maynilad Water Services | 16.4 | 0.4 | No | No | Water |
| 19. | MCE Leisure Philippines | 15.0 | 0.3 | No | No | Casino Services |
| 20. | Philippine Long Distance Telephone | 15.0 | 0.3 | No | Yes | Telecommunications |
| 21. | Union Bank of the Philippines | 14.0 | 0.3 | No | Yes | Banking |
| 22. | Manila North Tollways | 13.0 | 0.3 | No | No | Transport Services |
| 23. | First Metro Investment | 12.0 | 0.3 | No | No | Investment Banking |
| 24. | Robinsons Land | 12.0 | 0.3 | No | Yes | Real Estate |
| 25. | MTD Manila Expressway | 11.5 | 0.3 | No | No | Transport Services |
| 26. | Aboitiz Power | 10.5 | 0.2 | No | Yes | Electricity Generation |
| 27. | Energy Development | 10.5 | 0.2 | No | Yes | Electricity Generation |
| 28. | United Coconut Planters Bank | 9.5 | 0.2 | No | No | Banking |
| 29. | Filinvest Development | 8.8 | 0.2 | No | Yes | Real Estate |
| 30 | Petron | 8.4 | 0.2 | No | Yes | Oil Refining and Marketing |
| **Total Top 30 LCY Corporate Issuers** | | **673.2** | **14.9** | | | |
| **Total LCY Corporate Bonds** | | **749.0** | **16.6** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **89.9%** | **89.9%** | | | |

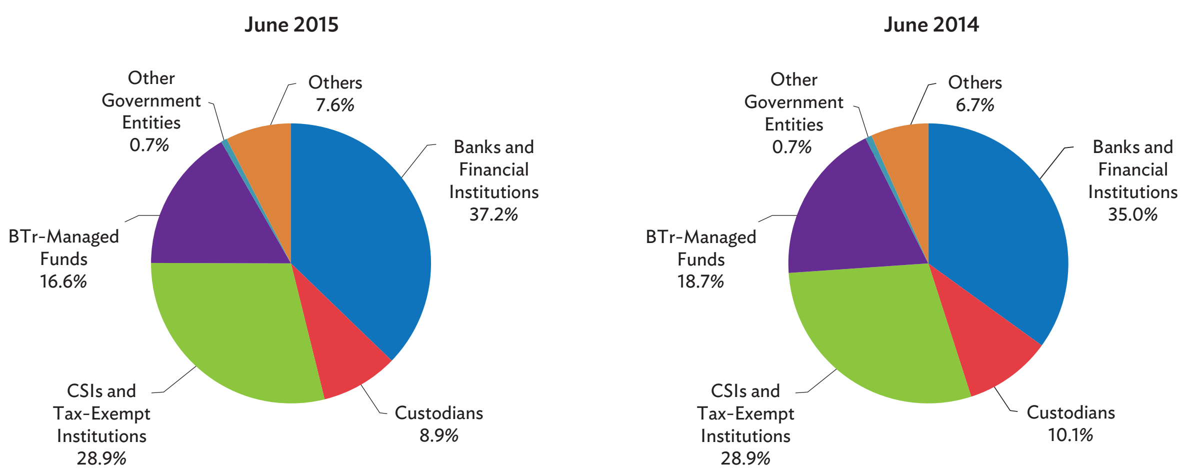
LCY = local currency.
Notes:
1. Data as of end-June 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

**Figure 2: LCY Corporate Bond Issuers by Industry**




LCY = local currency.
Source: Bloomberg LP.

**Figure 3: LCY Government Bonds Investor Profile**




BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: BTr.

## Ratings Update

In April, Standard and Poor's (S&P) affirmed the Philippines' long-term foreign currency rating of BBB, along with a stable outlook. The ratings agency cited the country's robust external position due to rising foreign exchange reserves and low external debt. In maintaining its stance, S&P mentioned factors such as the Philippines' stable financial system, prudent fiscal management, within-range inflation, young labor market, and strong domestic consumption.

In July, Japanese ratings agency Rating and Investment (R&I) maintained its BBB foreign currency rating of the Philippine sovereign credit, along with a stable outlook. R&I took note of the country's sustained economic growth, robust private consumption, and declining debt-to-GDP ratio in affirming the credit grade. Furthermore, R&I is confident that the Philippines will be able to withstand economic shocks, given the continuous inflow of remittances from overseas Filipino workers and a current account surplus.

## Policy, Institutional, and Regulatory Developments

### Department of Finance Issues Guidelines on Government Depository Banks

Consistent with its mandate to ensure effective management of government resources, on 4 July, the Department of Finance issued revised guidelines on the application of the Treasury Single Account, which involves the automation and integration of the government's Public Financial Management System. The Treasury Single Account, which consolidates all government bank accounts, allows the National Treasury to determine its available resources in a speedy manner, reducing costs in the process. The new set of guidelines also highlight the roles of government offices and agencies in prudent fiscal management.

### BSP Issues Segregation Guidelines on Client Assets

In August, the BSP approved a new set of guidelines for banks on the segregation of deposit funds from money received in a securities brokering agreement. Securities brokering is distinguished from deposit taking, wherein the bank acts as an agent of the customer in the buying and selling of securities. Previously, banks would book money received from customers for the purchase of securities as deposits. Under the new guidelines, the BSP introduced a new account in the bank books, referred to as broker customer account, to distinguish money received from customers for securities brokering purposes. The broker customer account will be exempt from reserve requirements and will not be covered by the Philippine Deposit Insurance Corporation. Consistent with the aim to segregate banking activities from other business activities, the BSP amended the Financial Reporting Package to include reports on securities brokering transactions of its supervised financial institutions. Included in the new guidelines is the monthly report indicating the weekly balances of securities and cash received from customers. The guidelines are consistent with the BSP's move to align with international standards of reporting and to protect customer welfare.