

## Philippines

### Yield Movements

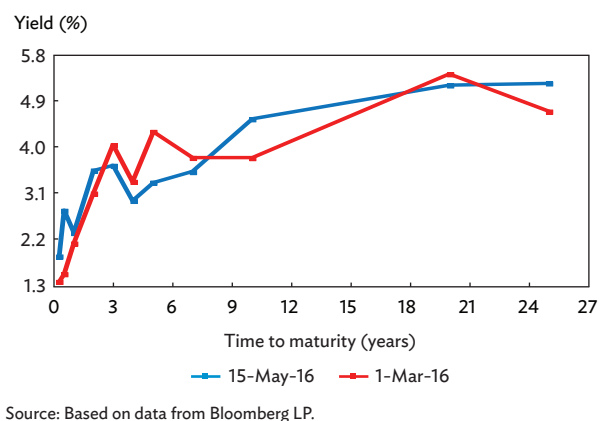
Between 1 March and 15 May, local currency (LCY) government bond yields in the Philippines rose for the 0.25-, 0.5-, 1-, 2-, 10-, and 25-year tenors; and fell for the 3-, 4-, 5-, 7-, and 20-year tenors (**Figure 1**). The biggest increase was reflected in the 0.5-year tenor, which gained 123 basis points (bps), and the largest drop was seen in the 5-year tenor, which declined 99 bps. The yield spread between the 2-year and 10-year tenors widened by 31 bps.

Policy interest rates in the Philippines remained unchanged in the first 5 months of 2016, with the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) deciding during its meetings on 11 February, 23 March, and 12 May to maintain the overnight borrowing (reverse repurchase) facility at 4.00% and the overnight lending (repurchase) facility at 6.00%.

Real gross domestic product in the Philippines grew 6.9% year-on-year (y-o-y) in the first quarter (Q1) of 2016, bolstered by relatively strong output growth in industry and services, as well as increased domestic and foreign demand.

Consumer price inflation in the Philippines stood at 1.1% y-o-y in April, which was unchanged from March. In

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



January and February, the y-o-y inflation rates were 1.3% and 0.9%, respectively. The BSP described Philippine headline inflation in Q1 2016 as being subdued, with the y-o-y inflation rate in the January–March period averaging 1.1%, which was below the government’s 2016 inflation target of 3.0% ±1.0 percentage point.

### Size and Composition

The amount of LCY bonds outstanding in the Philippines fell 1.1% quarter-on-quarter (q-o-q) in Q1 2016 but rose 0.5% y-o-y to reach PHP4,706 billion (USD102 billion) at

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>4,681</b>	<b>105</b>	<b>4,760</b>	<b>101</b>	<b>4,706</b>	<b>102</b>	<b>0.4</b>	<b>5.6</b>	<b>(1.1)</b>	<b>0.5</b>
Government	3,917	88	3,946	84	3,893	85	0.6	4.5	(1.3)	(0.6)
Treasury Bills	278	6	264	6	279	6	(1.2)	(5.1)	5.5	0.2
Treasury Bonds	3,547	79	3,596	77	3,539	77	1.1	6.2	(1.6)	(0.2)
Others	91	2	86	2	76	2	(11.6)	(21.1)	(12.2)	(17.3)
Corporate	765	17	814	17	813	18	(0.4)	11.6	(0.1)	6.3

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg end-of-period local currency–USD rates are used.
3. Growth rates are calculated from a local currency 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) are not included.

Sources: Bloomberg LP and Bureau of the Treasury.

the end of March (**Table 1**). The q-o-q contraction largely stemmed from decreases in the existing stock of LCY government bonds, particularly Treasury bonds and bonds issued by government-owned or -controlled corporations. The y-o-y uptick was driven by relatively buoyant y-o-y growth in LCY corporate bonds. At the end of March, the stocks of LCY government bonds and LCY corporate bonds constituted 83% and 17%, respectively, of total LCY bonds outstanding.

In the LCY corporate bond market, banks remained the largest issuer group, accounting for 28.2% of LCY corporate bonds outstanding at the end of March, followed by property firms with 23.6% (**Figure 2**). Compared with 12 months earlier, the share of banks fell while that of property firms rose.

The top 30 Philippine corporate bond issuers at the end of March had cumulative LCY bonds outstanding of PHP719.9 billion, which represented about 89% of the Philippines' LCY corporate bond market (**Table 2**).

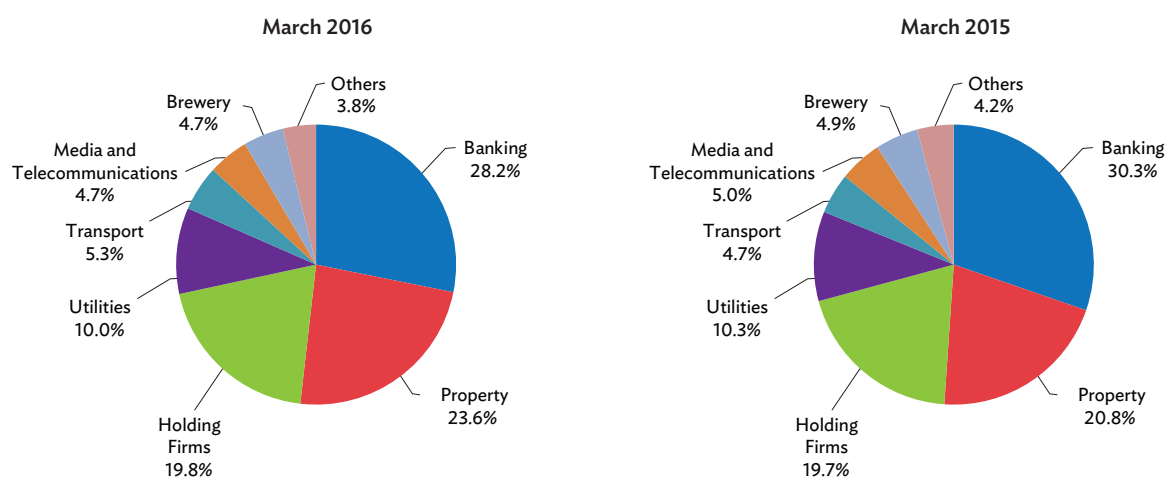
Philippine LCY bond issuance in Q1 2016 totaled PHP189.7 billion, up 13.6% q-o-q and 29.0% y-o-y. LCY government bond issuance in Q1 2016 comprised Treasury bills and bonds worth PHP177.2 billion, up 28.4% q-o-q and 31.2% y-o-y.

LCY corporate bond issuance in Q1 2016 reached PHP12.5 billion, which was down 56.9% q-o-q and up 4.2% y-o-y. Three Philippine companies tapped the corporate bond market for funding purposes in Q1 2016: (i) Ayala Land, which issued a PHP8.0 billion 10-year bond at a 4.85% coupon in March; (ii) Phoenix Petroleum, which raised PHP3.5 billion from a triple-tranche commercial paper sale in January; and (iii) SL Agritech, which raised PHP1.0 billion from a triple-tranche commercial paper sale in January (**Table 3**).

## Investor Profile

Banks and investment houses were the largest investor group in LCY government securities in the Philippines at the end of March, accounting for 37.1% of the total market. This was followed by contractual savings institutions and tax-exempt institutions, which held 29.8% of LCY government bonds outstanding (**Figure 3**). In the 12-month period through the end of March 2016, banks and investment houses, contractual savings institutions and tax-exempt institutions, and other government securities holders recorded y-o-y increases in their shares of LCY government bond holdings. Brokers, custodians, and depositories; funds managed by the Bureau of the Treasury; and government-owned or -controlled corporations and local government units experienced y-o-y declines.

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



Source: Based on data from Bloomberg LP.

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.	Ayala Land	66.2	1.4	No	Yes	Property
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	SM Prime	45.0	1.0	No	Yes	Property
4.	Ayala Corporation	40.0	0.9	No	Yes	Holding Firms
5.	San Miguel Brewery	37.8	0.8	No	No	Brewing
6.	BDO Unibank	37.5	0.8	No	Yes	Banking
7.	Philippine National Bank	34.6	0.8	No	Yes	Banking
8.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Holding Firms
9.	Filinvest Land	32.0	0.7	No	Yes	Property
10.	JG Summit	30.0	0.7	No	Yes	Holding Firms
11.	SM Investments	28.3	0.6	No	Yes	Holding Firms
12.	Meralco	23.5	0.5	No	Yes	Electricity, Energy, and Power
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	Rizal Commercial Banking Corporation	22.1	0.5	No	Yes	Banking
15.	GT Capital	22.0	0.5	No	Yes	Holding Firms
16.	South Luzon Tollway	18.3	0.4	No	No	Transport
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.4	No	Yes	Banking
19.	Maynilad Water Services	16.3	0.4	No	No	Water and Wastewater Services
20.	MCE Leisure (Philippines)	15.0	0.3	No	No	Casinos and Gaming
21.	Philippine Long Distance Telephone Company	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	Manila North Tollways	12.9	0.3	No	No	Transport
24.	First Metro Investment	12.0	0.3	No	No	Banking
25.	Robinsons Land	12.0	0.3	No	Yes	Property
26.	MTD Manila Expressway	11.5	0.3	No	No	Transport
27.	Energy Development Corporation	10.5	0.2	No	Yes	Electricity, Energy, and Power
28.	Aboitiz Power	10.0	0.2	No	Yes	Electricity, Energy, and Power
29.	8990 Holdings	9.0	0.2	No	Yes	Property
30.	Filinvest Development	8.8	0.2	No	Yes	Holding Firms
<b>Total Top 30 LCY Corporate Issuers</b>		<b>719.9</b>	<b>15.7</b>			
<b>Total LCY Corporate Bonds</b>		<b>812.9</b>	<b>17.7</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>88.6%</b>	<b>88.6%</b>			

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

Notes:

1. Data as of end-March 2016.

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 data.

**Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016**

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Ayala Land		
10-year bond	4.85	8.00
Phoenix Petroleum		
0.25-year bond	3.80	1.11
0.5-year bond	4.17	1.12
1-year bond	4.17	1.27
SL Agritech		
0.25-year bond	4.50	0.35
0.5-year bond	4.75	0.08
1-year bond	5.25	0.57

PHP = Philippine peso, Q1= first quarter.

Note: Coupon rates for 0.25-year, 0.5-year, and 1-year bonds of SL Agritech are yields at issue.

Source: Bloomberg LP.

## Ratings Update

Fitch Ratings (Fitch) reported in April that it had affirmed the Philippines' long-term foreign currency (FCY) issuer default rating at BBB- and long-term LCY issuer default rating at BBB, and maintained a positive outlook for both ratings. In addition, Fitch affirmed the Philippines' FCY and LCY bond ratings at BBB- and BBB, respectively, the country ceiling at BBB, and the short-term FCY issuer default rating at F3. According to Fitch, its affirmation of the Philippines' sovereign ratings represented the economy's favorable growth performance, a strong external finance position, declining government debt and

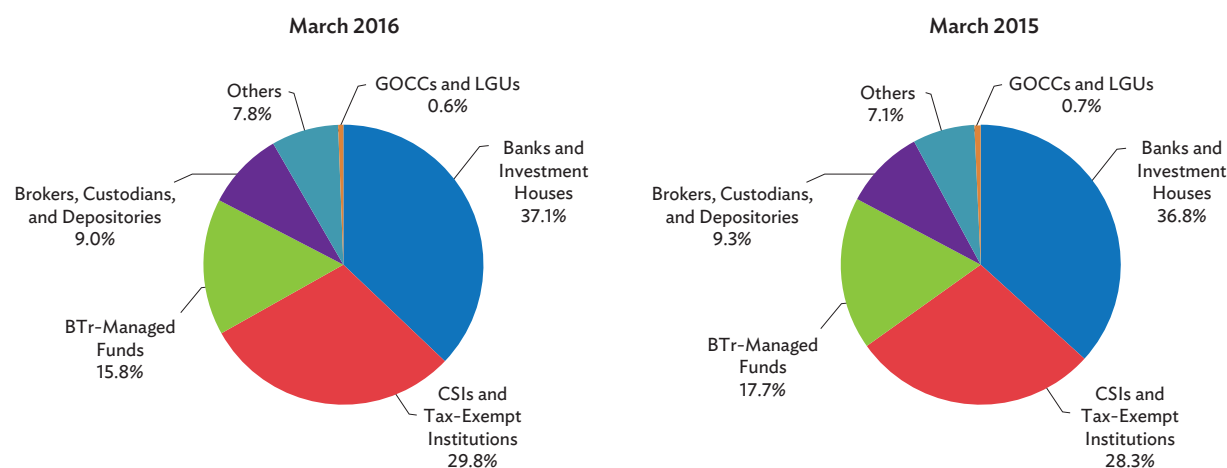
deficit levels, improving governance standards, ample liquidity in the banking system, and relatively low levels of development and per capita income.

S&P Global Ratings announced in April that it had affirmed its sovereign credit ratings for the Philippines. Its long-term and short-term ratings were maintained at BBB and A-2, respectively, with the outlook kept stable for both. The rating agency stated that the ratings affirmation resulted from its assessment of the economy having a strong external position, which was counterbalanced by the economy's "low-income" status and vulnerabilities in its institutional and governance framework. It also stated that the stable outlook was based on its expectation of continued improvements in the Philippines' key economic fiscal, external, and monetary credit measures.

## Policy, Institutional, and Regulatory Developments

### The Philippines and Malaysia Sign Bilateral Agreement under the Association of Southeast Asian Nations Banking Integration Framework

In March, the BSP and Bank Negara Malaysia signed a bilateral agreement under the Association of Southeast Asian Nations (ASEAN) Banking Integration Framework that provides guidelines for the entry of Qualified ASEAN Banks into the Philippine and Malaysian markets.

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

BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned and controlled corporations, LGUs = local government units.  
Source: Bureau of the Treasury.

### Bangko Sentral ng Pilipinas Adopts Basel III Liquidity Coverage Framework

In March, the BSP's Monetary Board approved the liquidity coverage ratio framework developed under Basel III, which requires Philippine universal and commercial banks, as well as foreign bank branches in the Philippines, to hold a sufficient stock of high-quality liquid assets in order to enhance their liquidity positions.

### Bangko Sentral ng Pilipinas Implements Interest Rate Corridor System

In May, the BSP announced that it will formally implement an interest rate corridor system starting 3 June. The BSP stated that this shift in its monetary operations was made to improve the transmission of monetary policy. Through this system, short-term interest rates will be guided toward the overnight reverse repurchase rate, which is the BSP's policy interest rate.