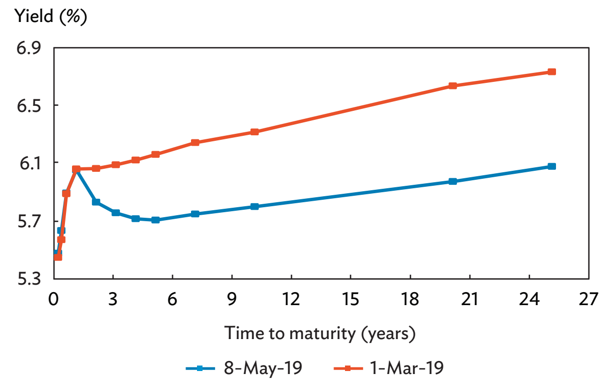
# Philippines

## Yield Movements

Between 1 March and 8 May, the yields of Philippine local currency (LCY) bonds for all tenors declined an average of 31 basis points (bps) (**Figure 1**). The 20-year maturity decreased the most (66 bps), followed by the 25-year maturity (65 bps). On the other hand, short-term maturities increased, with the 3-month tenor registering an increase of 6 bps. The yield spread between 2-year and 10-year government bonds contracted from 25 bps on 1 March to –3 bps on 8 May. At times over the course of the review period, the yield on the 2-year tenor was greater than that of the 10-year maturity, a situation that first arose in the latter part of March through early April, then again from the end of April into early May.

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




Source: Based on data from Bloomberg LP.

Interest rates fell as market participants expected lower inflation in 2019 due to an expected decline in global oil prices and as monetary and nonmonetary policies designed to rein in inflation took effect. Interest rate cuts from the Bangko Sentral ng Pilipinas (BSP), as well as the new BSP governor's hinting at expediting a cut to large banks' reserve requirement ratio this year, emboldened investors to take more risks. Yields also declined as Standard & Poor's (S&P) announced an upgrade in the credit rating of the Philippines.

In the first few months of 2019, average yields at Treasury bill auctions increased while the average yield of longer-tenor bonds declined. Toward the end of March through May, there were growing global concerns over a possible recession in the United States (US) due to the inversion of its yield curve for the first time since 2007. Investors viewed this as a possible sign of slowing global growth. Given these expectations, investors preferred to buy bonds in the belly of the curve.

After reaching a record high of 6.7% year-on-year (y-o-y) in October 2018, inflation in the Philippines began to decline in November 2018 and into 2019, averaging 3.8% y-o-y during the first quarter (Q1) of 2018. This was well within the full-year 2019 target range of 2.0%–4.0% set by the BSP.

The Philippines' gross domestic product expanded 5.6% y-o-y during Q1 2019, the slowest pace since Q1 2015 when the Philippine economy grew 5.1% y-o-y. Growth in Q1 2019 was down from the 6.5% y-o-y expansion recorded in Q1 2018. Economic managers attributed the slowdown to the budget impasse in Congress and reduced government expenditure. The government slashed its economic growth forecast for full-year 2019 to 6.0%–7.0% from 7.0%–8.0% due to the delay in the approval of the 2019 budget, the effects in the Philippines of a mild El Niño, and the trade tensions between the People's Republic of China and the US.

At a meeting on 21 March, the Monetary Board of the BSP decided to maintain its key policy rates. But on 9 May, the Monetary Board reduced its key policy rates by 25 bps. As a result, the overnight reverse repurchase rate stood at 4.50%. The decision was made amid the government's improved inflation outlook and slower domestic growth. Inflation in 2019 is expected to fall within the BSP's forecast of 2.0%–4.0% on lower food prices and better supply conditions. However, the central bank remains cautious of the risks to the economy brought about by the delay in the approval of the 2019 budget.

## Size and Composition

The Philippines' local currency (LCY) bond market expanded 8.0% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2019, compared with 2.1% q-o-q growth in Q1 2018 (**Table 1**). Total LCY bonds amounted to

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 2018 | | Q4 2018 | | Q1 2019 | | Q1 2018 | | Q1 2019 | |
| | PHP | USD | PHP | USD | PHP | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **5,593** | **107** | **6,098** | **116** | **6,588** | **125** | **2.1** | **13.1** | **8.0** | **17.8** |
| Government | 4,479 | 86 | 4,783 | 91 | 5,203 | 99 | 0.5 | 11.7 | 8.8 | 16.2 |
| Treasury Bills | 332 | 6 | 494 | 9 | 608 | 12 | 5.7 | 16.2 | 22.9 | 82.8 |
| Treasury Bonds | 4,106 | 79 | 4,255 | 81 | 4,562 | 87 | 0.1 | 12.3 | 7.2 | 11.1 |
| Others | 40 | 0.8 | 34 | 0.6 | 34 | 0.6 | (0.01) | (42.0) | (0.02) | (16.2) |
| Corporate | 1,114 | 21 | 1,315 | 25 | 1,385 | 26 | 9.2 | 19.5 | 5.4 | 24.4 |

( ) = negative, LCY = local currency, 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 LCY–USD 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) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

PHP6,588 billion (USD125 billion) at the end of March, up from PHP6,098 billion at the end of the fourth quarter (Q4) of 2018. The increase was supported by growth in both the government and corporate bond markets.

**Government bonds.** The amount of LCY government bonds outstanding stood at PHP5,203 billion at the end of March on growth of 8.8% q-o-q, supported by Treasury bills, which rose 22.9% q-o-q. Treasury bonds expanded as well, growing 7.2% q-o-q as the Bureau of the Treasury (BTr) issued Retail Treasury Bonds (RTBs) in March. Responding to high demand, the BTr utilized its tap facility in January to issue more than the programmed auction amounts for Treasury bills and bonds. Despite the surge in outstanding Treasury bills, they totaled PHP608 billion at the end of March, comprising about 12% of total outstanding government bonds. Treasury bonds amounting to PHP4,562 billion, or 88% of total government securities, continued to form the bulk of outstanding government bonds.

LCY government bonds worth PHP674.7 billion were issued in Q1 2019, up from PHP247.2 billion in Q4 2018. This corresponded to a nearly threefold increase on a q-o-q basis due to the issuance of PHP235.9 billion of 5-year RTBs in March. The RTBs have a coupon of 6.25%. Proceeds from the RTBs will be used to fund the government's health, education, and public infrastructure programs. The RTB issuance was also part of the government's plan to borrow PHP1.2 trillion in 2019 to support increased social services and infrastructure spending.

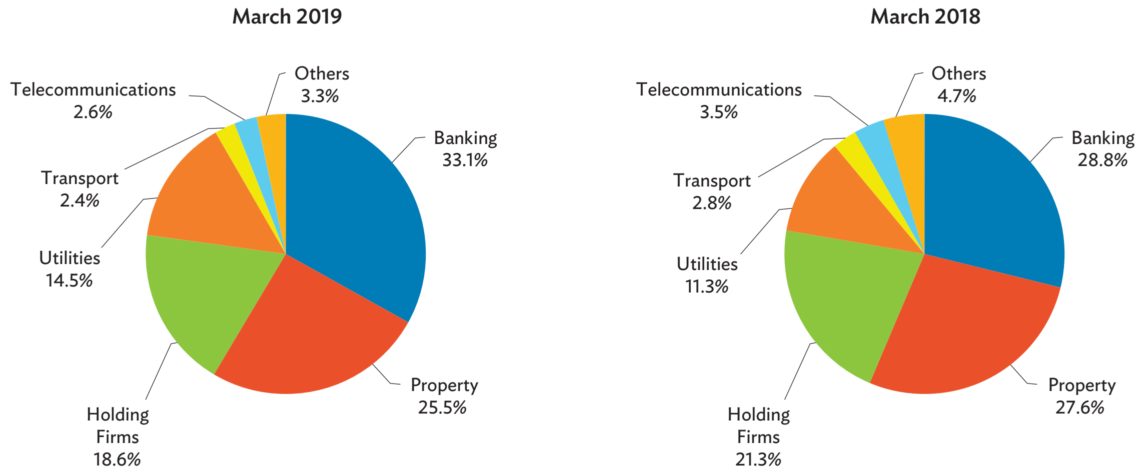
In the second quarter (Q2) of 2019, the BTr plans to continue the weekly auction of 91-day, 182-day, and 364-day Treasury bills totaling PHP195 billion, which is lower than the PHP240 billion in issuance programmed in Q1 2019. Together with Treasury bonds (PHP120 billion), the BTr plans to borrow PHP315 billion during Q2 2019, down from PHP360 billion in Q1 2019. The government is still flush with cash due to strong demand for RTBs in March and after it adjusted its borrowings, confident that it remains on track to meet all 2019 financing needs.

**Corporate bonds.** LCY corporate bonds grew 5.4% q-o-q during Q1 2019, with total corporate bonds outstanding increasing to PHP1,385 billion from PHP1,315 billion in the previous quarter.

At the end of March 2019, the top three sectors in terms of LCY corporate bonds outstanding were banking (PHP458.3 billion or 33.1% of the total), property (PHP352.8 billion or 25.5%), and holding firms (PHP257.6 billion or 18.6%) (**Figure 2**). These same sectors dominated the amount of LCY corporate bonds outstanding in March 2018 as well. During the review period, the sectoral shares of banking and utilities increased, while the sectoral shares of holding firms, property, telecommunications, and transport decreased.

Property developer Ayala Land continued to lead the top 30 issuers in terms of outstanding LCY corporate bonds at the end of March with PHP109.6 billion (**Table 2**). BDO, the Philippines' largest bank, and SM Prime Holdings, another property developer, followed

Figure 2: Local Currency Corporate Bonds Outstanding by Sector




Source: Based on data from Bloomberg LP.

with PHP94.0 billion and PHP93.7 billion, respectively. Companies in the banking sector continued to dominate the top of the list, comprising 36.2% of the outstanding issues of the largest corporate issuers. This was followed by the property sector with 23.4% and holding firms with 19.3%. Altogether, the top 30 issuers of LCY corporate bonds accounted for PHP1,217.2 billion, or 87.9% of all outstanding corporate issuances at the end of March.

In Q1 2019, PHP59.0 billion worth of LCY corporate bonds were issued, which represented a decline of 54.9% q-o-q from the PHP130.9 billion issued in Q4 2018. Uncertainties in local and international financial markets continued to affect market sentiments, leading to only a few companies issuing LCY corporate bonds during the quarter.

One of the notable corporate issuances in Q1 2019 was BDO's PHP35.0 billion 1-year bond with a 6.42% coupon (**Table 3**). The largest bank in the Philippines issued the bond under a PHP100 billion bond program. Proceeds from the 1-year bond will be used to expand funding sources and support business expansion. Another bank, RCBC, issued a PHP15.0 billion 1-year green bond with a coupon rate of 6.7315%. The proceeds from the issuance will be used to support environmentally friendly projects and other activities that promote resiliency to climate change. Finally, PNB, another bank, issued an PHP8.2 billion 6-year bond with a coupon of 5.75% in order to manage its debts and offer more loans.

**Foreign currency bonds.** In January, the Philippines raised USD1.5 billion from the sale of 10-year global bonds priced at 110 bps above benchmark US Treasuries. The issuance was strategically announced on the back of positive market sentiments driven by strong US employment data released on 4 January. With the issuance, the Philippines became the first emerging market to offer offshore dollar bonds in 2019. In terms of distribution, 37% of the offering was allocated to investors in Asia, while investors from the US and Europe were allocated 28% and 35%, respectively. By investor type, the global bonds were allocated to asset managers (52%); banks (22%); sovereign wealth funds, pension funds, and insurance firms (14%); and private banks and other investors (12%). Proceeds from the bond issue will be used for general purposes and budgetary support.

## Investor Profile

Banks and investment houses dominated the LCY government bond investor base at the end of March, accounting for a 42.4% share of all investors (**Figure 3**). They comprised the largest group of investors in March 2018 as well. Contractual savings and tax-exempt institutions followed with a 23.7% share, down from a 30.8% share in March 2018. Brokers, custodians, and depositories increased their share to 12.7% from 6.8% a year earlier. The share of BTr-managed funds decreased to 9.5% at the end of March from 10.4% in March 2018. Investors from government-owned or -controlled

### 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 | 109.6 | 2.1 | No | Yes | Property |
| 2. | BDO Unibank | 94.0 | 1.8 | No | Yes | Banking |
| 3. | SM Prime Holdings | 93.7 | 1.8 | No | Yes | Property |
| 4. | Metrobank | 90.3 | 1.7 | No | Yes | Banking |
| 5. | San Miguel | 60.0 | 1.1 | No | Yes | Holding Firms |
| 6. | SM Investments | 51.4 | 1.0 | No | Yes | Holding Firms |
| 7. | SMC Global Power | 50.0 | 1.0 | No | No | Electricity, Energy, and Power |
| 8. | Philippine National Bank | 44.7 | 0.9 | No | Yes | Banking |
| 9. | Petron | 42.9 | 0.8 | No | Yes | Electricity, Energy, and Power |
| 10. | Rizal Commercial Banking Corporation | 42.2 | 0.8 | No | Yes | Banking |
| 11. | Ayala Corporation | 40.0 | 0.8 | No | Yes | Holding Firms |
| 12. | Vista Land | 38.0 | 0.7 | No | Yes | Property |
| 13. | Bank of the Philippine Islands | 37.2 | 0.7 | No | Yes | Banking |
| 14. | San Miguel Brewery | 34.8 | 0.7 | No | No | Brewery |
| 15. | East West Banking | 33.8 | 0.6 | No | Yes | Banking |
| 16. | Maynilad | 33.3 | 0.6 | No | No | Water |
| 17. | Aboitiz Equity Ventures | 32.0 | 0.6 | No | Yes | Holding Firms |
| 18. | JG Summit | 30.0 | 0.6 | No | Yes | Holding Firms |
| 19. | Security Bank | 29.4 | 0.6 | No | Yes | Banking |
| 20. | Filinvest Land | 29.0 | 0.6 | No | Yes | Property |
| 21. | Union Bank | 28.0 | 0.5 | No | Yes | Banking |
| 22. | Meralco | 27.8 | 0.5 | No | Yes | Electricity, Energy, and Power |
| 23. | China Bank | 26.2 | 0.5 | No | Yes | Banking |
| 24. | Aboitiz Power | 23.2 | 0.4 | No | Yes | Electricity, Energy, and Power |
| 25. | GT Capital | 22.0 | 0.4 | No | Yes | Holding Firms |
| 26. | PLDT | 17.8 | 0.3 | No | Yes | Telecommunications |
| 27. | Doubledragon | 15.0 | 0.3 | No | Yes | Property |
| 28. | Philippine Savings Bank | 14.5 | 0.3 | No | Yes | Banking |
| 29. | NLEX Corporation | 13.9 | 0.3 | No | No | Transport |
| 30. | Globe Telecom | 12 .5 | 0.2 | No | Yes | Telecommunications |
| **Total Top 30 LCY Corporate Issuers** | | **1,217.2** | **23.2** | | | |
| **Total LCY Corporate Bonds** | | **1,385.1** | **26.4** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **87.9%** | **87.9%** | | | |

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 Issuance in the First Quarter of 2019**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (PHP billion) |
|---|---|---|
| BDO Unibank | | |
| 1-year bond | 6.42 | 35.0 |
| Rizal Commercial Banking Corporation | | |
| 1-year bond | 6.73 | 15.0 |
| Philippine National Bank | | |
| 6-year bond | 5.75 | 8.2 |
| Alsons Consolidated Resources | | |
| 1-year bond | 0.00 | 0.098 |

PHP = Philippine peso.
Source: Bloomberg LP.

corporations and local government units had a smaller share of the total in March, accounting for only 0.3% compared with 0.5% a year earlier.

## Ratings Update

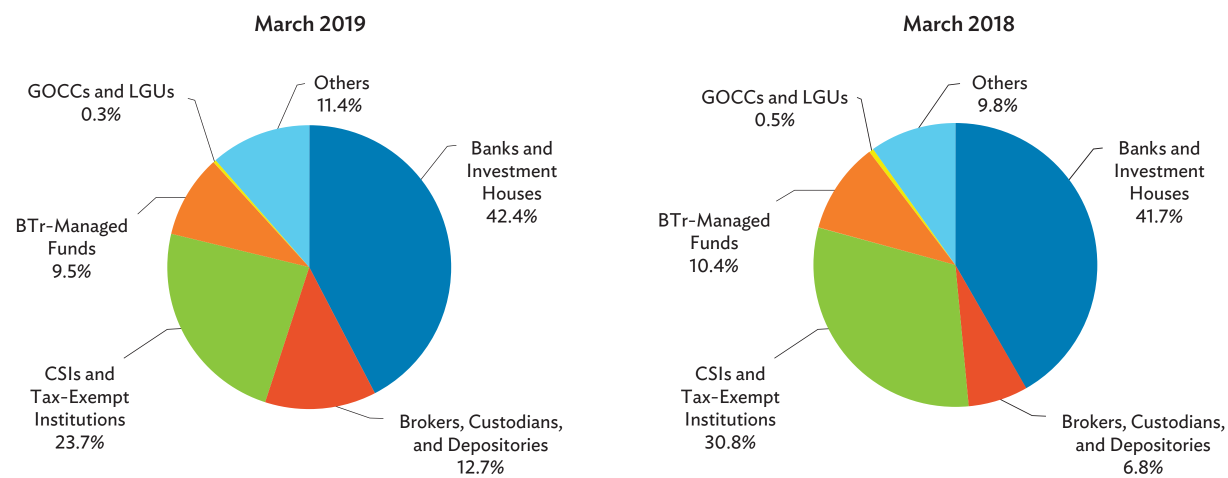
On 30 April 2019, S&P raised the Philippines' credit rating by one notch to BBB+ with a stable outlook. The outlook implies that the credit rating agency expects the economy to sustain its strong economic growth and external and fiscal positions over the next 6 months to 2 years. The growth is supported by the government's strong fiscal position, low public financial obligations, and strong remittances and services exports. Furthermore, S&P noted the economy's supporting policies fostering a healthy investment environment. Also, it views the government's tax reform program to be supportive of infrastructure spending.

## Policy, Institutional, and Regulatory Developments

### BSP Loosens Restrictions on Foreign Exchange Transactions

On 10 January, the BSP liberalized its rules governing the foreign exchange regulatory framework in order to encourage development and innovation in the country's capital market. Concerning investments in foreign currencies, the BSP allowed banks to register beyond the prescribed period. It also streamlined its requirements and expanded the number of banks eligible to register for investing in foreign currencies. If a bank desires to purchase foreign currencies beyond its threshold amount, it does not need prior approval from the central bank. It just needs to notify the BSP about its activities. Lastly, the liberalized framework allows banks to submit supporting documents electronically.

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




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

## BSP Champions Green Finance with British Embassy Manila

On 17–18 January, the BSP hosted a Green Finance Forum and Roundtable at its head office. The event, organized in partnership with various government agencies and the British Embassy Manila, was attended by representatives from the government, financial institutions, civic organizations, and academe. The BSP aims to promote the use of green financing by explaining its objectives, requirements, and uses. Working in partnership with the British Embassy, the central bank envisions sustainable green financing in the Philippines.

## BSP Eases Financial Services Licensing Requirements

On 22 February, the BSP relaxed its rules governing BSP-supervised financial institutions wanting to offer electronic payment and financial services. A financial institution simply needs to notify the BSP within 30 days of its launch of financial activities. However, services allowing clients to transfer funds and initiate other financial transactions require prior BSP approval. Furthermore, institutions with services with fund transfer capability must participate in automated clearing houses. The streamlined process for acquiring electronic payment and a financial services license is as follows: the financial institution conducts a self-assessment of its capabilities to offer such services; the BSP evaluates the institutions and provides a certificate of compliance; finally, the central bank issues the license to the financial institution. The licensed financial institution is required to provide periodic reports to the BSP. The new rules aim to promote digital innovation and efficiency in payments and remittances, paving the way for the smoother flow of funds in the Philippine financial system. They also promote interoperability between financial institutions.

## BSP Reduces Reserve Requirement Ratio of Big Banks

On 16 May, the BSP announced that it will cut the reserve requirement ratio of universal and commercial banks from 18% to 16%. The decrease will come in three phases: 100 bps will be cut on 31 May, 50 bps on 28 June, and 50 bps on 26 July. The decision was made amid the Philippines' low inflation environment and lower-than-expected economic growth. Every 1 percentage point decrease in the reserve requirement ratio is expected to release about PHP90 billion–PHP100 billion into the economy. The announced cut was timely as the Philippine economy is experiencing tightening liquidity conditions, as evidenced by single-digit money supply growth, and high time-deposit rates. A decision on the reserve requirement ratio of smaller banks is subject to discussion during the next monetary board meeting. The BSP plans to gradually decrease the reserve requirement ratio for big banks to the single-digit level by 2023.