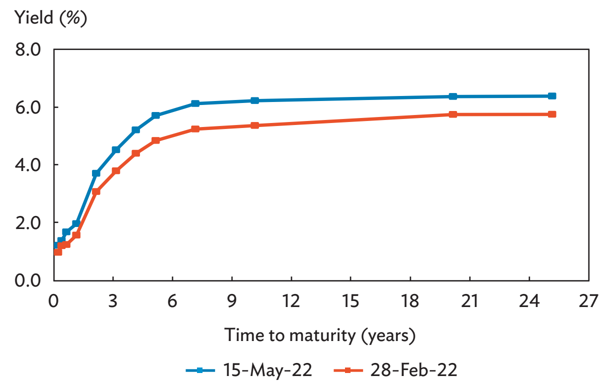
Philippines

Yield Movements

The Philippines' local currency (LCY) government bond yields increased across all tenors between 28 February and 15 May (**Figure 1**). On average, yields surged 61 basis points (bps) for all maturities. The yields on 3-year to 10-year bonds had the largest increases, ranging from 74 bps to 88 bps. Smaller yield increases were seen at the shorter-end of the curve (1-month to 1-year maturities), averaging 32 bps. Yield increases on bonds with 2-year, 20-year, and 25-year maturities averaged 63 bps. The movements caused the yield spread between the 2-year and 10-year tenors to widen during the review period from 229 bps to 253 bps.

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



Source: Based on data from Bloomberg LP.

The large yield increases reflect the defensive stance of investors toward government securities prompted by surging inflationary risks, the impending monetary tightening of the Bangko Sentral ng Pilipinas (BSP) during the review period, and policy uncertainty induced by the recently concluded national elections. On the international front, aggressive monetary policy normalization by the United States (US) Federal Reserve and the heightened global uncertainty caused by the Russian invasion of Ukraine also contributed to the yield hikes.

Yields on the shorter-end of the curve had relatively smaller increases as investor preferences were skewed toward these tenors because they serve as a vehicle for investors to park money while waiting for more clarity on the direction of the market. On the other hand, larger yield increases for bonds with longer maturities were due to investors seeking a higher risk premium amid expectations of continued high inflation and multiple interest rate hikes by the BSP and the Federal Reserve in coming months.

On 19 May, the BSP raised the benchmark policy rate by 25 bps to 2.25% after having kept the interest rate at a record low of 2.00% since November 2020. The decision was made to ease rising inflationary pressures and help prevent further second-round effects. The better-than-expected economic expansion in the first quarter (Q1) of 2022, which signaled the that the economic recovery is gaining traction, provided scope for the BSP to increase the rate and proceed with plans to gradually withdraw its extraordinary liquidity interventions and start the normalization of monetary policy settings. The central bank also stated that it would reconfigure its government securities purchasing window from a crisis intervention measure into a regular liquidity facility.

Consumer price inflation in the Philippines surged to a 42-month high of 5.4% year-on-year (y-o-y) in May from 4.9% y-o-y in April. The elevated inflation rate was mainly due to faster price increases for food and nonalcoholic beverages and transport as consequence of the Russian invasion of Ukraine and supply chain disruptions, which kept global commodity prices high. The year-to-date average inflation of 4.1% breached the government's annual target of 2.0%–4.0% for 2022. Along with the rate hike, the BSP raised its full-year 2022 inflation forecast to 4.6% from 4.3% due to expected sustained pressure from higher oil and commodity prices. The BSP forecasts inflation to decelerate to 3.9% in 2023, which is up from an earlier forecast of 3.6%.

The Philippine economy grew better than expected in Q1 2022 with gross domestic product (GDP) increasing 8.3% y-o-y, marking the fourth consecutive quarter of expansion. The growth was faster than the revised 7.8% y-o-y uptick in the fourth quarter (Q4) of 2021 and a strong reversal from the 3.8% y-o-y contraction in Q1 2021. On the expenditure side, all components posted growth, with household consumption, which accounts for about 75% of GDP, increasing 10.1% y-o-y. On the production side, major economic sectors—primary, industry, and services—all posted positive growth rates. The broad-based expansion in Q1 2022 was underpinned by the policy shift to fully open the economy that allowed businesses to operate at full capacity. The government is targeting strong full-year economic growth of 7%–8% in 2022.

The Philippine peso weakened 2.9% from the start of the year through 15 May, when it traded at PHP52.5 per USD1.0. The Philippine peso lost ground against the US dollar as the BSP kept the benchmark rate at a record low during the review period, while developed economies such as the US were increasing the pace of monetary tightening and some emerging Asian economies began raising their policy rates. The widening trade deficit and uncertainty over the policies of the president-elect on key issues also contributed to downward pressure on the local currency.

Size and Composition

The Philippines' LCY bonds outstanding amounted to PHP10,426.7 billion (USD201.5 billion) in Q1 2022 on an expansion of 6.5% quarter-on-quarter (q-o-q), up from marginal growth of 0.3% q-o-q in Q4 2021. Both the government and corporate segments posted strong increases during the quarter (**Table 1**). On an annual basis, the LCY bond market expanded 14.3% y-o-y, which was almost unchanged from Q4 2021. Government bonds accounted for 85.5% of the total bond market at the end of March, while corporate bonds accounted for 14.5%.

Government bonds. Total outstanding LCY government bonds increased 6.5% q-o-q to PHP8,911.5 billion in Q1 2022, which was quicker than the growth of 0.5% q-o-q recorded in Q4 2021. The expansion was driven by Treasury bonds and the rebound in BSP bill issuance.

Treasury bonds outstanding expanded 7.4% q-o-q to reach PHP7,803.2 billion in Q1 2022, accelerating from 5.6% q-o-q growth in the previous quarter. The faster growth was due to the large sale of Retail Treasury Bonds (RTBs) during the quarter. On the other hand, Treasury bills outstanding amounted to PHP656.6 billion in Q1 2022 on a decline of 17.5% q-o-q, which followed a drop of 15.5% in Q4 2021.

BSP bills outstanding rebounded to expand 57.7% q-o-q in Q1 2022 from a decline of 40.9% q-o-q in the previous quarter. BSP bills outstanding reached PHP410.0 billion, adding to the size of the government bond market. Outstanding debt from government-related entities was unchanged during the quarter at PHP41.7 billion.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2021		Q4 2021		Q1 2022		Q1 2021		Q1 2022	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,122**	**188**	**9,787**	**192**	**10,427**	**201**	**6.5**	**28.4**	**6.5**	**14.3**
Government	7,543	155	8,365	164	8,911	172	8.4	36.5	6.5	18.1
Treasury Bills	1,049	22	796	16	657	13	10.5	88.5	(17.5)	(37.4)
Treasury Bonds	6,130	126	7,267	143	7,803	151	7.2	24.3	7.4	27.3
Central Bank Securities	297	6	260	5	410	8	35.2	–	57.7	37.8
Others	66	1	42	1	42	0.8	(0.01)	65.2	(0.01)	(36.7)
Corporate	1,579	33	1,421	28	1,515	29	(2.0)	0.01	6.6	(4.1)

( ) = negative, – = not applicable, 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. 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.

Total government issuance in Q1 2022 increased 14.5% q-o-q to PHP2,221.4 billion, driven by the issuance of Treasury bonds and BSP bills. The issuance of Treasury bonds in Q1 2022 amounted to PHP688.7 billion on growth of 37.8% q-o-q, mainly driven by the issuance of RTBs, which is a 10-year debt with a coupon rate of 4.88%. During the quarter, the Bureau of the Treasury's (BTr) bond issuance was below the level of planned sales, as three auctions had partial awards and two auctions had rejected bids due to higher rates being demanded by investors.

Treasury bill issuance amounted to PHP213.0 billion in Q1 2022, which was 11.2% lower compared to the issuance amount in Q4 2021. Even though planned issuance in Q1 2022 was higher than in Q4 2021, the unsuccessful auctions led to a decline in debt sales.

The unsuccessful auctions implied that investors were cautious about building major positions in the bond market on the back of elevated inflation and expectations of a rate hike by the BSP. The issuance of the PHP457.8 billion worth of RTBs and debt exchange in March more than offset the unsuccessful auctions, with the proceeds securing sufficient funding for the BTr. The RTB sales resulted in an overall increase in Treasury debt sales during the quarter.

The BSP issued PHP1,319.8 billion of 28-day bills in Q1 2022, climbing 10.0% q-o-q. The central bank increased its volume offer versus the previous quarter and all auctions were successful except for one where sales were below the offer amount. Nonetheless, strong demand for the securities reflected sustained high liquidity in the market. Government-related entities had no debt sales during Q1 2022.

The government returned to the international bond market in March, successfully raising a total of USD2.25 billion in USD-denominated debt even with a volatile market caused by the unwinding of expansionary monetary tools, particularly in the US, and the ongoing Russian invasion of Ukraine. The triple-tranche issuance comprised USD0.5 billion in 5-year bonds, USD0.75 billion in 10.5-year bonds, and USD1.0 billion in 25-year green bonds. The green bond was the maiden sustainability issuance from the Philippines, with proceeds to be used for the government's sustainable finance framework program. The triple issuance was the first and largest international sovereign bond offering in Southeast Asia in 2022.

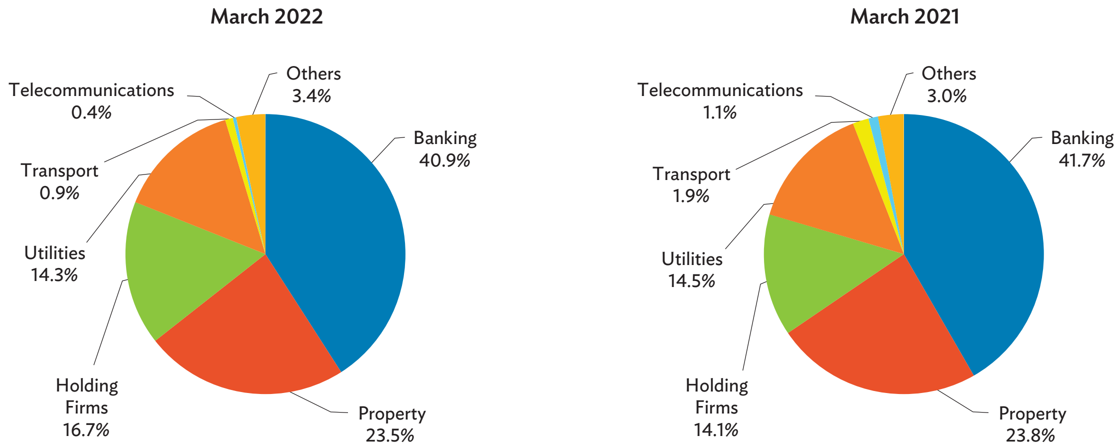
The government plans to borrow PHP2.2 trillion in 2022, with PHP1.7 trillion to be sourced domestically and rest from foreign investors. The bulk of the financing requirements is preferred to be sourced locally to alleviate foreign exchange risks at a time when domestic market liquidity is high. In Q1 2022, the Philippines' debt reached a record high of PHP12.7 trillion, equivalent to 63.5% of GDP, exceeding the 60.0% threshold considered by multilateral lenders to be manageable for developing economies.

Corporate bonds. Outstanding corporate debt increased 6.6% q-o-q in Q1 2022 to PHP1,515.2 billion after dropping 1.3% q-o-q in Q4 2021. The reversal was underpinned by high debt sales from the corporate sector during the quarter.

The largest share of corporate bonds outstanding belonged to the banking sector with 40.9% at the end of March (**Figure 2**). However, this share was lower compared to 41.7% at the end of March 2021. The property sector, which ranked second, had a share of 23.5%, down slightly from 23.8% a year earlier. Holding firms overtook the utilities sector for third place at the end of March, with shares of 16.7% and 14.3%, respectively. The rankings of the transport, telecommunications, and "other" sectors were all unchanged, but the shares of the transport and telecommunications sectors were down, while that of the "other" sector was up, in March 2022 versus a year earlier.

The top 30 corporate issuers had aggregate bonds outstanding of PHP1,377.3 billion at the end of March, comprising 90.9% of the total corporate bond market (**Table 2**). The banking sector had outstanding bonds amounting to PHP598.0 billion (43.4%); followed by holdings firms with PHP334.8 billion (24.3%); property firms with PHP210.6 billion (15.3%); and electricity, energy, and power with PHP178.8 billion (13.0%). The remaining sectors comprised 4.0% of the total. BDO Unibank and San Miguel were the largest issuers at the end of March with outstanding debt of PHP162.6 billion and PHP113.3 billion, respectively.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

Corporate bond issuance was strong in Q1 2022 as the economy reopened amid declining coronavirus disease (COVID-19) cases. Debt sales during the quarter increased almost three-fold to PHP152.5 billion from PHP58.5 billion in Q4 2021. Firms issued bonds to fund their operations amid growing demand and, to an extent, to secure lower interest rates as the BSP and other central banks were expected to aggressively unwind their accommodative monetary policy stances to combat inflation. BDO Unibank had the single-largest bond issuance in Q1 2022 amounting to PHP52.7 billion, followed by Bank of the Philippine Islands with a PHP27.0 billion debt sale (**Table 3**).

Investor Profile

Banks and investment houses, and contractual savings and tax-exempt institutions were the largest investor groups in Philippine LCY government bonds at the end of March (**Figure 3**). The market share of banks and investment houses climbed to 43.6% from 37.5% in March 2021, while that of contractual savings and tax-exempt institutions declined to 33.5% from 35.7% over the same period. The "others" investors group (8.1%) was the third-largest investor group at the end of March, overtaking brokers, custodians, and depositories (7.5%), and BTr-managed funds (7.3%). Government-owned or -controlled corporations and local government units remained the investor group with the smallest holdings of government bonds at 0.1%. Among all investor groups, only the share of banks and investment houses posted an increase between March 2021 and March 2022, while the share of the rest declined during the review period.

Ratings Update

On 17 February, Fitch Ratings (Fitch) affirmed the Philippines' sovereign credit rating at BBB with a negative outlook. Fitch cited the balance of strong external buffers against lagging per capita income and governance indicators as the basis for maintaining the credit rating. However, Fitch's decision to also keep the negative outlook was due to uncertainty about medium-term growth prospects and challenges ahead for the government in unwinding its policy response to the COVID-19 crisis and bringing government debt onto a firm downward path.

On 18 April, Rating and Investment Information, Inc. affirmed the Philippines' sovereign credit rating at BBB with a stable outlook as the economy continued to post strong growth despite a new wave of COVID-19 infections. The rating agency also cited the economy's strong external position and stable banking sector as grounds for the keeping the credit rating.

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

	Issuers	Outstanding Amount				
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	BDO Unibank	162.6	3.1	No	Yes	Banking
2.	San Miguel	113.3	2.2	No	Yes	Holding Firms
3.	SM Prime Holdings	99.6	1.9	No	Yes	Holding Firms
4.	Ayala Land	95.9	1.9	No	Yes	Property
5.	Metropolitan Bank	93.8	1.8	No	Yes	Banking
6.	SMC Global Power	73.8	1.4	No	No	Electricity, Energy, and Power
7.	Bank of the Philippine Islands	73.5	1.4	No	Yes	Banking
8.	Rizal Commercial Banking Corporation	69.9	1.4	No	Yes	Banking
9.	China Bank	61.2	1.2	No	Yes	Banking
10.	Aboitiz Power	60.0	1.2	No	Yes	Electricity, Energy, and Power
11.	Security Bank	48.3	0.9	No	Yes	Banking
12.	Petron	45.0	0.9	No	Yes	Electricity, Energy, and Power
13.	Vista Land	42.7	0.8	No	Yes	Property
14.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
15.	SM Investments	32.7	0.6	No	Yes	Holding Firms
16.	Philippine National Bank	31.8	0.6	No	Yes	Banking
17.	Filinvest Land	30.5	0.6	No	Yes	Property
18.	Aboitiz Equity Ventures	27.6	0.5	No	Yes	Holding Firms
19.	Union Bank of the Philippines	24.6	0.5	No	Yes	Banking
20.	Maynilad	18.5	0.4	No	No	Water
21.	East West Banking	16.2	0.3	No	Yes	Banking
22.	Philippine Savings Bank	16.1	0.3	No	Yes	Banking
23.	Doubledragon	15.0	0.3	No	Yes	Property
24.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
25.	Robinsons Land	14.6	0.3	No	Yes	Property
26.	Megaworld	12.0	0.2	No	Yes	Property
27.	Puregold	12.0	0.2	No	Yes	Whole and Retail Trading
28.	Metro Pacific Investments	11.4	0.2	No	Yes	Holding Firms
29.	GT Capital	10.1	0.2	No	Yes	Holding Firms
30.	San Miguel Brewery	9.5	0.2	No	No	Brewery
Total Top 30 LCY Corporate Issuers		**1,377.3**	**26.6**			
Total LCY Corporate Bonds		**1,515.2**	**29.3**			
Top 30 as % of Total LCY Corporate Bonds		**90.9%**	**90.9%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 31 March 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 First Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
BDO Unibank		
2-year bond	2.90	52.70
Bank of the Philippine Islands		
2-year bond	2.81	27.00
San Miguel Corporation		
5-year bond	5.27	17.44
7-year bond	5.84	12.56
Rizal Commercial Banking Corporation		
2-year bond	3.00	14.76
SM Investments		
3-year bond	3.59	7.50
5-year bond	4.77	7.50
Aboitiz Power		
5-year bond	5.31	3.00
7-year bond	5.74	7.00
Century Properties		
5-year bond	5.75	3.00

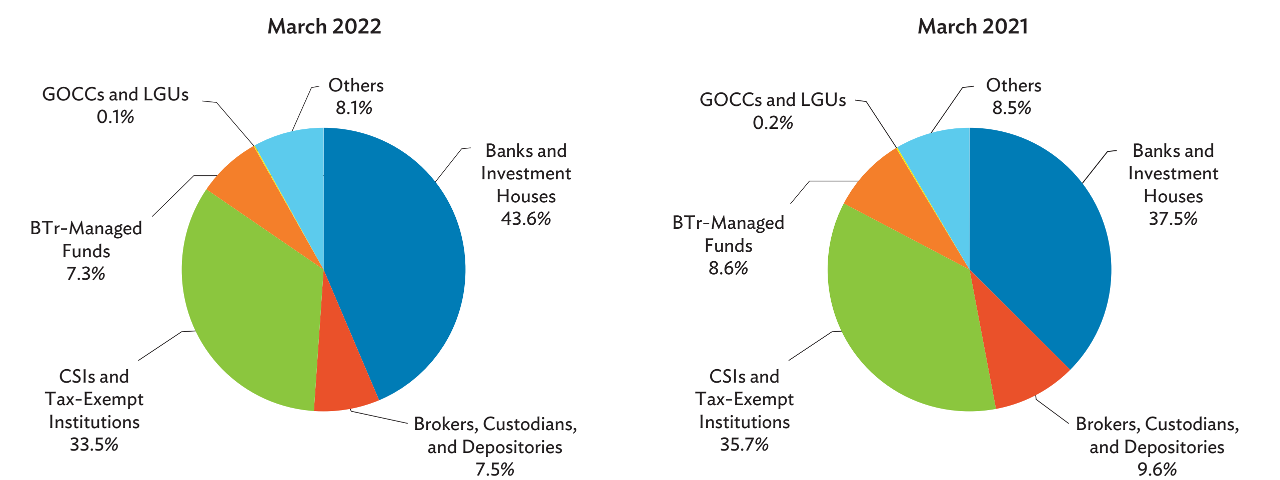
PHP = Philippine peso.
Source: Based on data from Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Bureau of the Treasury Issues the Philippines' First Sustainability Samurai Bond

In April, the BTr issued the Philippines' first sustainability samurai bond in Japan. The issuance was part of the government's sustainability strategy to capture new accounts and mobilize capital from environmental, social, and governance-conscious investors, with the objective to transition to a more sustainable and climate-resilient economy. It also highlighted the government's commitment to climate change mitigation and adaptation and to deepening its domestic sustainable finance market. The JPY70.1 billion multi-tranche debt sale comprised 5-year bonds (JPY52.0 billion), 7-year bonds (JPY5.0 billion), 10-year bonds (JPY7.1 billion), and 20-year bonds (JPY6.0 billion).

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.

Bureau of the Treasury Plans to Borrow PHP650.0 billion in Q2 2022

The BTr is set to borrow PHP200.0 billion per month from the domestic debt market in April and May. The amount of monthly borrowing is lower compared to March (PHP250.0 billion). In June, the BTr is set to borrow PHP250.0 billion again as it has calibrated the volume based on domestic requirements and past rejections. In the months of April and May, the planned monthly Treasury bill offerings were PHP60.0 billion and Treasury bond offerings were PHP140.0 billion. In June, the Treasury bill and Treasury bond offerings were PHP75.0 billion and PHP175.0 billion, respectively.