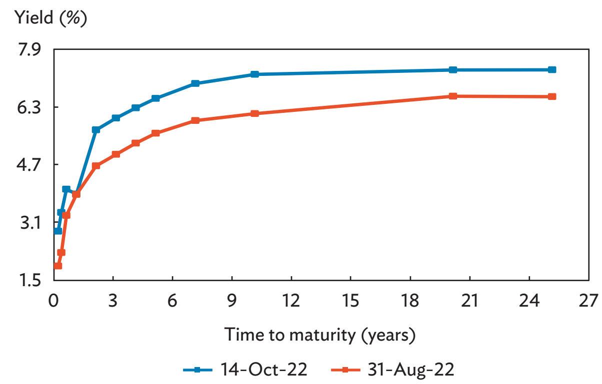
Philippines

Yield Movements

The Philippines' local currency (LCY) government bond yields rose across all tenors between 31 August and 14 October, gaining an average of 86 basis points (bps) (**Figure 1**). Yields on the shorter end of the curve (from 1-month to 6-month tenors) inched up an average of 94 bps, with the largest increase seen in the 3-month tenor at 112 bps. Yields for the 2-year through 10-year tenors climbed an average of 101 bps, while yields at the longer-end of the curve (from 20-year to 25-year tenors) increased an average of 74 bps. The smallest increase in yields was seen for the 1-year tenor at only 1 bp. The spread between the 10-year and 2-year maturities widened from 145 bps on 31 August to 154 bps on 14 October.

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



Source: Based on data from Bloomberg LP.

The large uptick in bond yields across the curve was propelled by the Bangko Sentral ng Pilipinas' (BSP) aggressive monetary tightening stance to ease rising inflationary pressure. The BSP raised its policy rates consecutively each month from May through September, followed by the recent hike of 75 bps in November, for a total of 300 bps, lifting the overnight reverse repurchase facility rate to 5.00% starting 18 November. The BSP has become the most aggressive central bank in the region in terms of tightening monetary policy this year through 18 November.

Consumer price inflation accelerated to 7.7% year-on-year (y-o-y) in October, marking its fastest pace in nearly 14 years and the highest rate among major emerging East Asian peers that have released October inflation data thus far. October inflation also exceeded the BSP's target of 4.0% y-o-y for the year. Amid persistent domestic inflation and the United States (US) Federal Reserve maintaining its aggressive monetary stance, the market expects further BSP rate hikes before the year ends.

Meanwhile, the Philippines' seasonally adjusted gross domestic product (GDP) grew 2.9% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2022. On a y-o-y basis, GDP growth slightly crept up to 7.6% from 7.5% in the second quarter (Q2) of 2022. Soaring inflation, particularly in those sectors impacted by fuel and food prices, mainly contributed to the GDP slowdown in Q3 2022. The Philippine economy continued to be dragged down by headwinds and uncertainties in the global and regional outlook. From March through October, the equity market consistently posted monthly net foreign investor outflows, reflecting investors' negative sentiment toward the stock market. The bond market, on the other hand, faced marginal foreign capital inflows during Q3 2022. During the review period of 31 August and 14 October, the Philippine peso weakened 4.7% against the US dollar.

Size and Composition

During Q3 2022, the Philippines' LCY bond market grew a modest 3.6% q-o-q, reaching a total size of PHP11,063.1 billion (USD188.6 billion) at the end of September and reflecting faster growth compared to the 2.4% q-o-q expansion in Q2 2022 (**Table 1**). The upswing in q-o-q growth was caused by a decent rise in Treasury bonds and slight growth in the corporate bond segment.

Government bonds. The outstanding amount of LCY government bonds inched up to PHP9,635.7 billion at the end of September, displaying growth of 3.9% q-o-q in Q3 2022 after a 4.1% q-o-q increase in the previous quarter. The marginal decline in the q-o-q growth was due to the declining stock of Treasury bills, central bank securities, and other government bonds. However, Treasury bonds continued to dominate the government bond segment and showed the largest growth during the quarter, offsetting the contraction of all three components of the government bond segment.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2021		Q2 2022		Q3 2022		Q3 2021		Q3 2022	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,762**	**191**	**10,680**	**194**	**11,063**	**189**	**4.4**	**20.0**	**3.6**	**13.3**
Government	8,322	163	9,273	169	9,636	164	6.2	28.0	3.9	15.8
Treasury Bills	943	18	544	10	509	9	(7.9)	7.5	(6.5)	(46.0)
Treasury Bonds	6,880	135	8,108	147	8,669	148	8.3	24.3	6.9	26.0
Central Bank Securities	440	9	567	10	410	7	10.0	780.0	(27.7)	(6.8)
Others	60	1	54	1	48	0.8	(0.01)	50.2	(10.5)	(19.7)
Corporate	1,440	28	1,408	26	1,427	24	(5.1)	(11.9)	1.4	(0.9)

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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.

At the end of September, the outstanding size of Treasury bills plunged to PHP509.1 billion, exhibiting a drop of 6.5% q-o-q and 46.0% y-o-y. Issuance of Treasury bills declined during the quarter as investors sought higher yields that the government was not willing to accept.

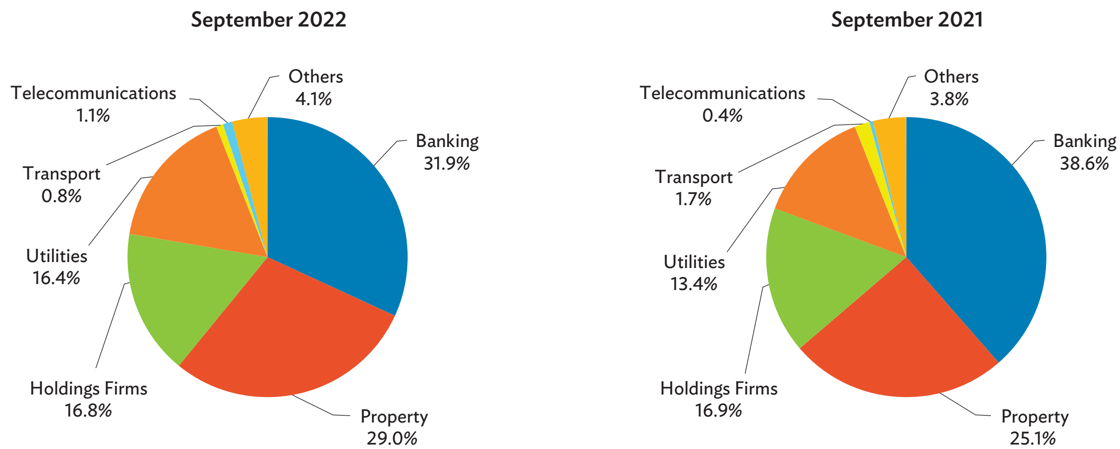
On the contrary, the outstanding amount of Treasury bonds rose to PHP8,668.6 billion at the end of September, posting a faster 6.9% q-o-q growth in Q3 2022 versus 3.9% q-o-q in Q2 2022. On a y-o-y basis, however, growth in outstanding Treasury bonds slipped to 26.0% in Q3 2022 from 27.7% in Q2 2022. Treasury bond issuance during the quarter rose 167.8% q-o-q, buoyed by the issuance of the 28th series of the Philippine government’s Retail Treasury Bonds (RTB-28) on 7 September amounting to PHP420.4 billion. The issuance also included PHP108.5 billion from a bond exchange offer embedded in the issued RTB-28, where holders of the two retail bonds and two fixed-rate bonds that are set to mature later this year and early next year can switch to RTB-28, which bears a longer tenor of 5.5 years and a higher coupon rate of 5.75%. The exchange offer is intended to reduce the refinancing risk in the government’s debt portfolio and the bond proceeds will be used to finance the government’s infrastructure projects and development programs that aim to build an inclusive, broad-based, and sustainable economy.

Central bank securities, on the other hand, decreased by 27.7% q-o-q compared with 38.3% q-o-q growth in Q2 2022. Issuance of central bank bills totaled PHP1,670.2 in Q3 2022, down 4.1% q-o-q. The BSP opted to raise rates actively to help contain inflationary pressure.

Corporate bonds. In Q3 2022, the corporate bond segment’s outstanding size grew to PHP1,427.4 billion, posting an increase of 1.4% q-o-q and a marginal decline of 0.9% y-o-y. Total corporate bond issuance during the quarter increased 37.7% q-o-q, reaching a total amount of PHP125.5 billion versus PHP91.2 billion in the previous quarter. Corporates rushed to sell bonds ahead of expected higher borrowing costs.

Banking and property institutions largely dominate the corporate bond market in the Philippines (**Figure 2**). Collectively, their outstanding bond stock accounted for 60.9% of the outstanding corporate total at the end of September. The banking sector remained the largest issuer of LCY corporate bonds with 31.9% of all outstanding debt in Q3 2022, reflecting a decline of 6.7 percentage points from Q3 2021, which was the most significant drop among all corporate bond sectors during the review period. On the other hand, property institutions’ share in the corporate bond market increased to 29.0% from 25.1% in the previous year, while holding firms remained the third-largest issuer with outstanding debt slightly dipping to 16.8% at the end of September from 16.9% in the prior year.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

At the end of September, 80% of the top 30 corporate bond issuers in the Philippines comprised banks, holding firms, and property institutions. The top 30 firms had aggregate debt of PHP1,278.3 billion at the end of Q3 2022, which corresponded to 89.6% of the total corporate bond stock (**Table 2**). At the end of the quarter, the top issuer was a holding firm, SM Prime Holdings, with outstanding debt of PHP119.6 billion, or 8.4% of the total Philippine corporate bond stock. The second-largest corporate bond issuer was a property firm, Ayala Land, with bonds amounting to PHP118.3 billion, which corresponded to 8.3% of the total corporate bond stock at the end of September.

In Q3 2022, seven companies turned to the LCY corporate bond market for funding (**Table 3**). These companies were from the banking, property, and utility industries with total corporate bond issuance amounting to PHP125.5 billion and comprising 13 new bond series. During the quarter, SMC Global Power posted the largest aggregate issuance at PHP40.0 billion from the sale of its 3-, 5.8-, and 10-year bonds. The second-largest aggregate issuance came from Ayala Land, which raised a total of PHP33.0 billion from multiple tranches. Meanwhile, Security Bank issued the shortest-dated bond with a tenor of 1.5 years, and the longest-dated bond was issued by SMC Global Power with a tenor of 10 years.

Investor Profile

A majority of LCY government bonds were still held by banks and investment houses, whose holdings moderately increased to 44.5% at the end of September 2022 from 39.4% in the previous year (**Figure 3**). Others' investment share also posted a marginal increase to 8.3% from 8.1% during the review period. Contractual savings institutions and tax-exempt institutions remained the second-largest investor in the government bond segment; however, their investment share decreased to 32.9% in September 2022 from 35.1% in September 2021. Government-owned or -controlled corporations and local government units' investment share remained constant, while all other investors' holdings showed a downward trend from their previous investment percentage shares a year earlier.

Ratings Update

On 27 October, Fitch Ratings affirmed the Philippines' long-term foreign-currency debt rating at BBB with a negative outlook. The investment-grade credit rating reflects the sovereign's strong economic growth, sound external finances, and credible economic policy framework amid monetary tightening and domestic inflationary pressures. However, the rating agency maintained the negative outlook, citing risk from headwinds and uncertainties in the global economy—particularly higher interest rates, soaring commodity prices, and weaker external demand—that could affect the Philippines' medium-term growth prospects, fiscal adjustment path, and external buffers.

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.	SM Prime Holdings	119.6	2.0	No	Yes	Holding Firms
2.	Ayala Land	118.3	2.0	No	Yes	Property
3.	San Miguel	103.3	1.8	No	Yes	Holding Firms
4.	SMC Global Power	100.0	1.7	No	No	Electricity, Energy, and Power
5.	BDO Unibank	86.5	1.5	No	Yes	Banking
6.	Metropolitan Bank	76.3	1.3	No	Yes	Banking
7.	China Bank	51.6	0.9	No	Yes	Banking
8.	Aboitiz Power	51.0	0.9	No	Yes	Electricity, Energy, and Power
9.	Security Bank	50.8	0.9	No	Yes	Banking
10.	Rizal Commercial Banking Corporation	46.2	0.8	No	Yes	Banking
11.	Ayala Corporation	45.0	0.8	No	Yes	Holding Firms
12.	Petron	45.0	0.8	No	Yes	Electricity, Energy, and Power
13.	Vista Land	42.7	0.7	No	Yes	Property
14.	Bank of the Philippine Islands	42.4	0.7	No	Yes	Banking
15.	Filinvest Land	35.4	0.6	No	Yes	Property
16.	Union Bank of the Philippines	29.8	0.5	No	Yes	Banking
17.	Robinsons Land	29.6	0.5	No	Yes	Property
18.	Aboitiz Equity Ventures	27.6	0.5	No	Yes	Holding Firms
19.	SM Investments	25.0	0.4	No	Yes	Holding Firms
20.	Philippine National Bank	22.9	0.4	No	Yes	Banking
21.	Maynilad	18.5	0.3	No	No	Water
22.	Doubledragon	15.0	0.3	No	Yes	Property
23.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
24.	Philippine Savings Bank	12.7	0.2	No	Yes	Banking
25.	Bank of Commerce	12.5	0.2	No	Yes	Banking
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.	ACEN Corp	10.0	0.2	No	Yes	Electric
Total Top 30 LCY Corporate Issuers		**1,278.3**	**21.8**			
Total LCY Corporate Bonds		**1,427.4**	**24.3**			
Top 30 as % of Total LCY Corporate Bonds		**89.6%**	**89.6%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 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 Third Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SMC Global Power		
3-year bond	5.91	5.00
5.8-year bond	7.11	25.00
10-year bond	8.03	10.00
Ayala Land Inc.		
2-year bond	4.40	12.00
5-year bond	6.21	7.00
7-year bond	6.80	14.00
Security Bank		
1.5-year bond	3.74	16.00
Robinsons Land		
3-year bond	5.38	6.00
5-year bond	5.94	9.00
Bank of Commerce		
2-year bond	5.03	7.50
Megawide Construction		
3.5-year bond	6.95	1.60
5-year bond	7.97	2.40
ACEN Corp		
5-year bond	6.05	10.00

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

Policy, Institutional, and Regulatory Developments

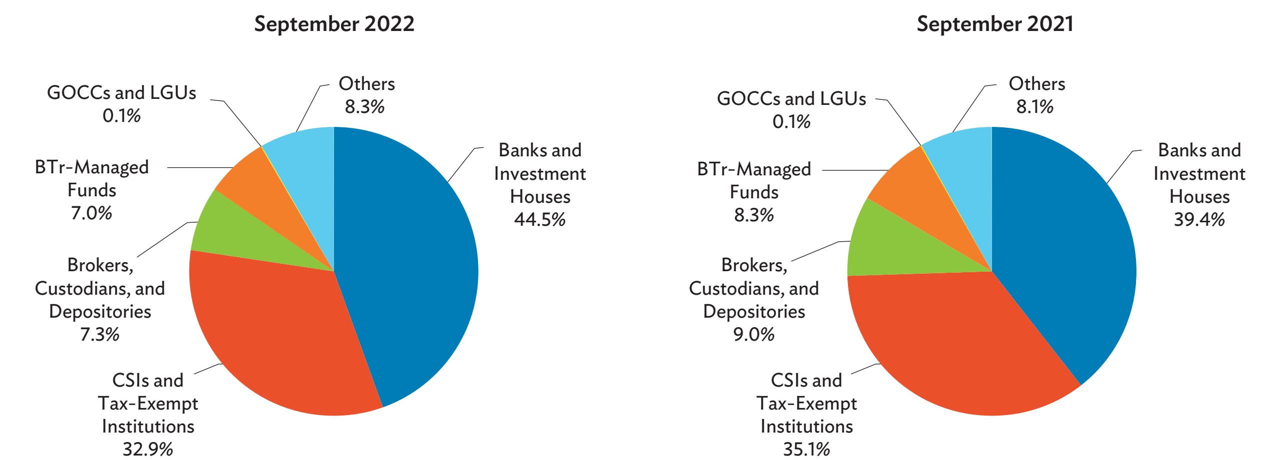
Bureau of the Treasury Releases Borrowing Program for October 2022

The Bureau of the Treasury intends to borrow PHP200 billion from local creditors in October by offering PHP60 billion worth of Treasury bills and PHP140 billion worth of Treasury bonds with tenors of 3, 6, 10, and 13 years. The borrowing program for October is the same as September's planned borrowing, which the Bureau of the Treasury failed to meet due to investors' demand for higher yield in anticipation of a continued rise in interest rates. However, the government remains confident that funding requirements for its various programs remain adequate against current market circumstances.

Government of the Philippines Taps the Global Bond Market a Third Time in 2022, Sells 25-Year Sustainable Bonds

In October, the Government of the Philippines tapped the global bond market for the third time this year, successfully raising a total of USD2 billion from a

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.

triple-tranche bond deal comprising a USD500 million 5-year bond, USD750 million 10.5-year bond, and USD750 million 25-year green bond. The total amount raised was a little less than the USD2.3 billion collected in the previous issuance in March, but the bonds carry higher interest rates. The new 5- and 10.5-year tranches were priced at 5.170% and 5.609%, respectively, and proceeds will be used for the government's budget financing. The 25-year tranche was priced at 6.10%, bearing a coupon of 5.95%, and was issued under the Sustainable Finance Framework of the Philippines, which marked the economy's third environmental, social, and governance G3 currency bond offering.