

Philippines

Yield Movements

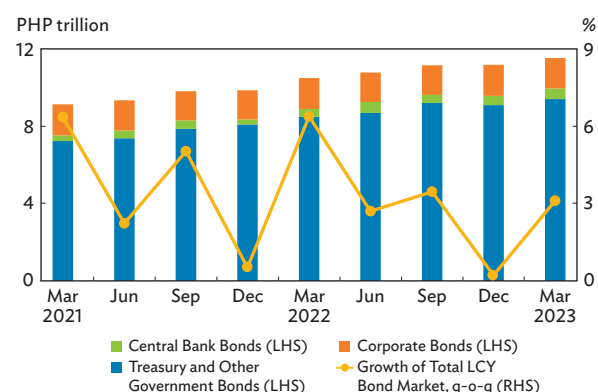
The local currency (LCY) government bond yield curve of the Philippines rose for shorter tenors and shifted downward for longer tenors between 1 March and 2 June (Figure 1). The increase in yields at the short-end of the curve was in line with the Bangko Sentral ng Pilipinas' (BSP) monetary tightening, with a total increase of 425 basis points (bps) from nine rate hikes between May 2022 and March 2023. On the other hand, the decline in yields at the longer end was influenced by expectations of a slowdown in domestic inflation. This allowed the BSP to moderate the pace of its rate hike by 25 bps in its 23 March policy meeting before holding rates steady at 6.25% on 18 May. On a year-on-year basis, consumer price inflation eased further to 6.1% in May from 6.6% in April, 7.6% in March, and 8.6% in February. In addition, the falling yields at the longer end were influenced by market expectations of the United States Federal Reserve's rate-hike cycle nearing its end.

Local Currency Bond Market Size and Issuance

The outstanding amount of LCY bonds in the Philippines grew 3.1% quarter-on-quarter (q-o-q) to PHP11.5 trillion (USD212.4 billion) in the first quarter (Q1) of 2023. The LCY q-o-q growth was driven by an expansion of government bonds amid increased issuances driven by the government's frontloading policy. On the

other hand, corporate bonds contracted 2.2% q-o-q as maturities exceeded issuances in Q1 2023. Treasury and other government bonds remained dominant in the Philippines' LCY bond market, accounting for 81.6% of the total debt stock at the end of March, while corporate bonds and central bank securities accounted for 13.6% and 4.8%, respectively (Figure 2). Banking, property, and holding firms were the three sectors that dominated the Philippine corporate bond market, accounting for a collective share of 80.6% of total corporate bonds outstanding at the end of March 2023 (Figure 3).

Figure 2: Composition of Local Currency Bonds Outstanding in the Philippines

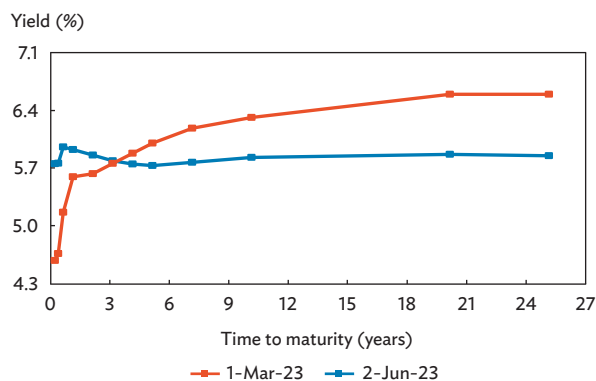


LCY = local currency, LHS = left-hand side, PHP = Philippine peso, q-o-q = quarter-on-quarter, RHS = right-hand side.

Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and 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.

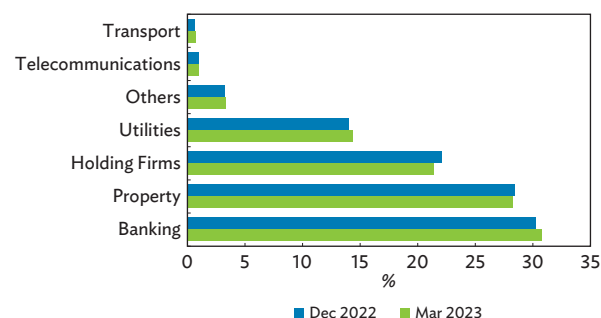
Source: Bureau of the Treasury and Bloomberg LP.

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



Source: Based on data from Bloomberg LP.

Figure 3: Local Currency Corporate Bonds Outstanding by Sector

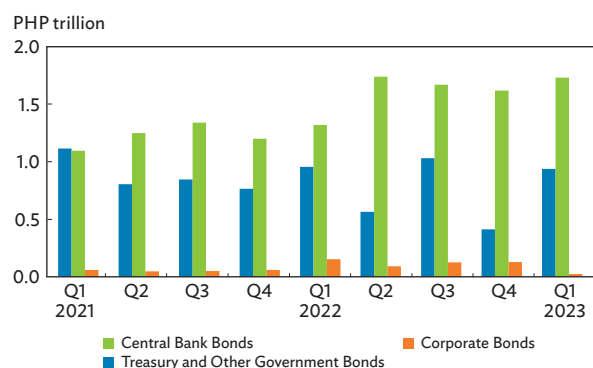


Source: Bureau of the Treasury.

Among corporate issuers, only property firms and holding firms posted a q-o-q decline in their respective market shares during the quarter. The transport and telecommunications sectors remained the smallest issuers of corporate bonds with marginal market shares of less than 1.0% each at the end of Q1 2023.

The Philippines' total LCY bond issuance in Q1 2023 expanded 24.7% q-o-q to reach PHP2.7 trillion, buoyed by the government's issuance of Retail Treasury Bonds (RTBs) in February. RTBs were issued by the Government of the Philippines carrying a tenor of 5.5 years and a 6.125% coupon rate (with exchange offer). Through this offering, the government raised PHP283.7 billion, of which PHP162.2 billion was awarded at the rate-setting auction and an additional PHP121.5 billion was raised during the 1-week offer period (PHP89.9 billion via new money and PHP31.7 billion through a bond exchange). Treasury and other government bonds accounted for 34.8% of all LCY bonds issued during the quarter. In contrast, corporate bond issuance contracted 81.7% q-o-q in Q1 2023 amid higher interest rates (**Figure 4**). Corporate bond issuance reached PHP23.3 billion during the quarter and comprised a 0.9% share of the issuance total. Central bank securities comprised the largest share of fixed-income securities issuance in the Philippine LCY bond market in Q1 2023, accounting for 64.3% of the total quarterly issuance volume.

Figure 4: Composition of Local Currency Bond Issuance in the Philippines



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, PHP = Philippine peso.

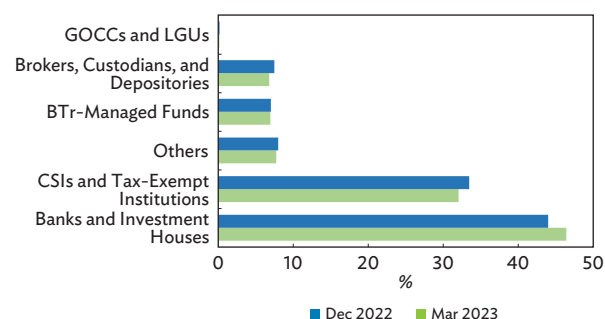
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Sources: Bureau of the Treasury and Bloomberg LP.

Investor Profile

Nearly half of the total LCY government debt stock was held by banks and investment houses at the end of March (Figure 5). Banks and investment houses comprise the only investor group that posted a q-o-q increase in its holdings share in Q1 2023, rising to 46.4% from 44.0% in the previous quarter. The holdings share of contractual savings institutions and tax-exempt institutions, the second-largest investor group in the Philippine LCY government bond market, slightly decreased to 32.0% in Q1 2023 from 33.5% in the previous quarter. Government-owned or -controlled corporations remained the smallest investor group with a holdings share of less than 1.0% at the end of March.

Figure 5: Investor Profile of Local Currency Government Bonds



BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit. Source: Bureau of the Treasury.