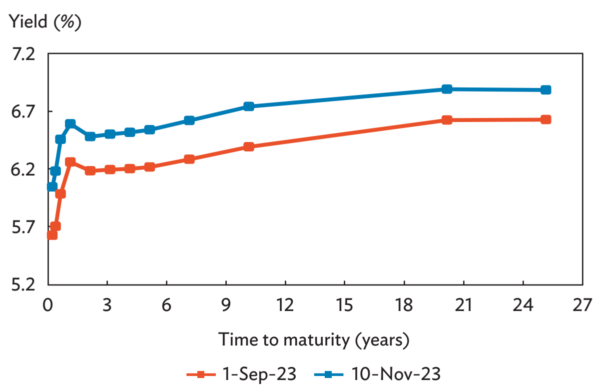
Philippines

Yield Movements

Between 1 September and 10 November, local currency (LCY) government bond yields in the Philippines rose for all maturities amid persistent elevated inflation (Figure 1). The increase in yields was driven by the Bangko Sentral ng Pilipinas' (BSP) hawkish monetary policy stance to bring inflation down within its target range of 2.0%–4.0%. Consumer price inflation accelerated in August to 5.3% year-on-year (y-o-y) from 4.7% y-o-y in July and further climbed to 6.1% y-o-y in September, driven by high food and energy prices. In an off-cycle meeting on 26 October, the BSP raised by 25 basis points the overnight reverse repurchase rate to 6.50%. The central bank is expected to keep its monetary tightening policy until inflation is brought down within the government's target even though inflation slowed to 4.9% y-o-y in October.

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

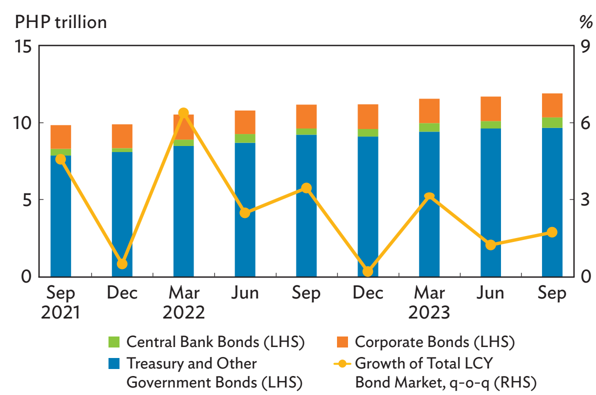


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

In the third quarter (Q3) of 2023, the Philippines' LCY bond market increased 1.8% quarter-on-quarter (q-o-q), driven by higher issuances from the government and central bank. Outstanding central bank securities grew 44.8% q-o-q as issuance increased during the quarter to mop up excess liquidity in the market brought about by the BSP's reduction of the reserve requirement ratio and the expiration of pandemic-related relief measures on 30 June (**Figure 2**). Treasury and other government bonds outstanding posted slower growth of 0.3% q-o-q versus 2.3% q-o-q in the previous quarter, as the government failed to meet its borrowing plan for the quarter due to investors' demand for higher yields. Meanwhile, the corporate bond stock contracted 2.4% q-o-q to a size of PHP1.6 trillion, driven by reduced issuance during the quarter. Total corporate bonds outstanding were dominated by the property sector with a 31.9% share of the total LCY corporate bonds outstanding in Q3 2023.

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.

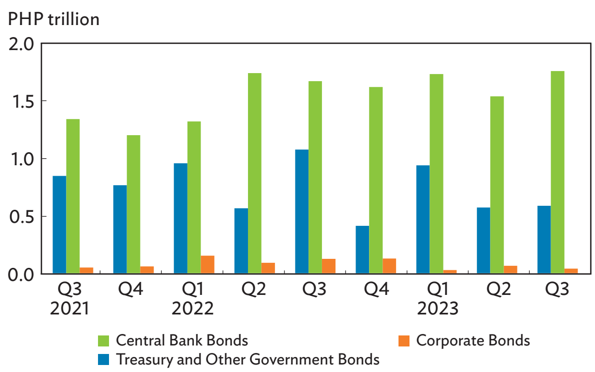
Sources: Bureau of the Treasury and Bloomberg LP.

LCY bond issuance grew 9.6% q-o-q on an expansion of government bonds and central bank securities (**Figure 3**). Growth of 14.3% q-o-q in the issuance of central bank securities was buoyed by the new 56-day BSP bill that was launched on 30 June as an additional tenor under the BSP Securities Facility to effectively manage changing liquidity conditions in the economy. Issuance of Treasury and other government bonds grew 2.5% q-o-q in Q3 2023 as the government increased its borrowing plan by 25% in August from PHP180.0 billion in July due to a large volume of government bond maturities in August 2023. Meanwhile, elevated borrowing costs pushed corporate bond issuance to contract 38.8% q-o-q, or 68.5% compared to the same period in the previous year. During the quarter, only three firms tapped the bond market for funding with the largest issuance coming from Security Bank with debt sales amounting to PHP18.5 billion.

Investor Profile

Banks and investment houses remained the largest investor group in the economy's LCY government bond market constituting 46.6% of the total in Q3 2023 (**Figure 4**). Among all other investor groups, only banks and investment houses posted an increase in their bond holdings at the end of September 2023, adding PHP400.7 billion worth of government bonds to their holdings from September 2022. Contractual savings institutions and tax-exempt institutions remained the second-largest investor group, with their holdings share dipping to 32.2% in September 2023 from 32.9% in the prior year. The holdings' share of all other investor groups stayed below 10%, while government-owned or -controlled corporations and local government units consistently held the smallest share of less than 1.0%.

Figure 3: Composition of Local Currency Bond Issuance in the Philippines

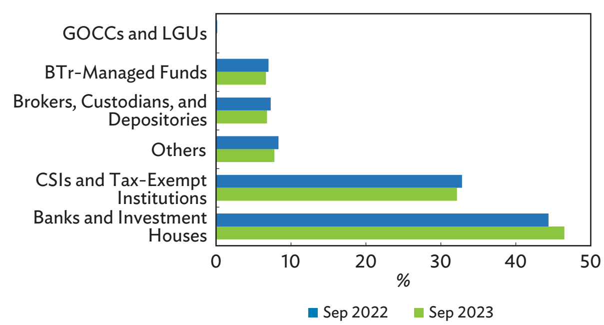


Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, PHP = Philippine peso.

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.

Sources: Bureau of the Treasury and Bloomberg LP.

Figure 4: 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.

Note: At the end of September 2023, government-owned or -controlled corporations and local government units' holdings share is 0.02% amounting to PHP2.4 billion.

Source: Bureau of the Treasury.