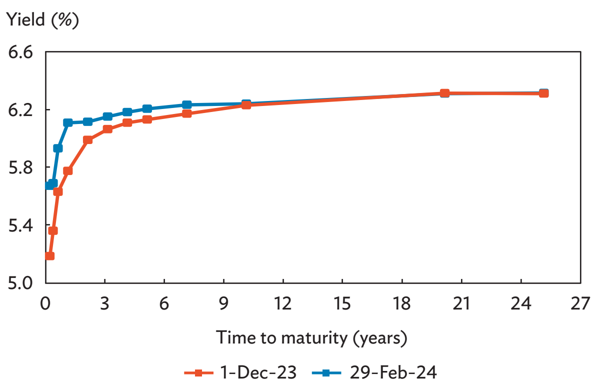
Philippines

Yield Movements

Local currency (LCY) government bond yields in the Philippines rose for nearly all tenors between 1 December 2023 and 29 February 2024 as the Bangko Sentral ng Pilipinas held its policy rate near a 17-year high (Figure 1). Despite improvements in domestic inflation conditions, the Bangko Sentral ng Pilipinas, in its 14 February policy meeting, kept its overnight reverse repurchase rate steady at 6.50% to firmly anchor inflation expectations within the target range amid risks brought about by elevated fuel prices and the "El Niño" climate phenomenon's impact on food prices. The increase in yields was also influenced by the government's retail bond offering during 13–23 February amid upward market adjustments based on the Retail Treasury Bond rate.

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

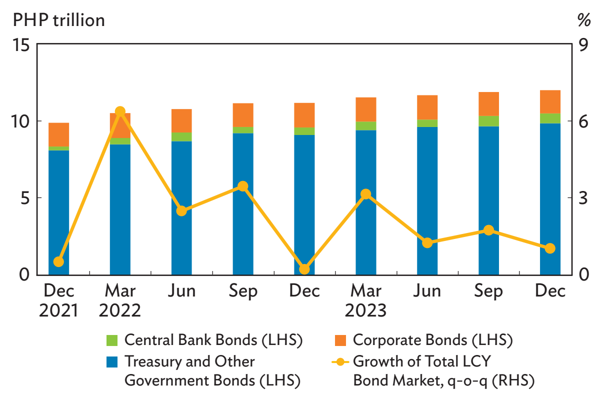


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The Philippines' LCY bond market expanded 1.0% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2023, driven by growth in government bonds (Figure 2). Treasury and other government bonds outstanding, which accounted for 82.1% of the total LCY debt stock at the end of December, grew 2.1% q-o-q in Q4 2023, up from 0.3% q-o-q in the previous quarter. Despite a contraction in issuance, government bonds grew due to a low volume of maturities during the quarter. On the other hand, outstanding central bank securities contracted 6.2% q-o-q due to a large volume of maturities in Q4 2023 that exceeded total issuance. The LCY corporate bond stock contracted 2.6% q-o-q, falling to PHP1.5 trillion at the end of December, driven by a large number of bond maturities during the quarter. Corporate bonds accounted for 12.6% of the total LCY debt stock at the end of December, with the largest share coming from the property sector accounting for 31.6% of this total.

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.

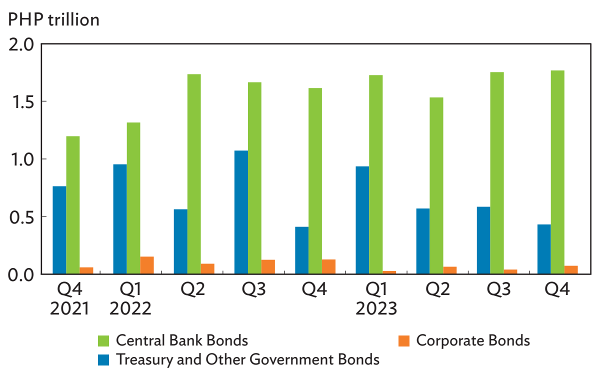
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and the National Food Authority, among others.

Sources: Bureau of the Treasury and Bloomberg LP.

This market summary was written by Jeremy Grace Ilustrisimo, consultant, Economic Research and Development Impact Department, ADB, Manila.

A decline in government bond issuance drove the market's LCY bond issuance to contract 4.4% q-o-q in Q4 2023 (Figure 3). Issuance of Treasury and other government bonds contracted 26.2% q-o-q in Q4 2023, as the government reduced borrowing by 73% to PHP60.0 billion in December amid a shrinking budget deficit that eased pressure on the government's debt financing. In addition, the Bureau of the Treasury met its domestic funding requirements for 2023 at its 5 December auction, resulting in the cancellation of the year's remaining auction scheduled on 11 December. Meanwhile, central bank securities issuance grew 0.9% q-o-q in Q4 2023 as the government mopped up excess liquidity in the economy to control inflation. Corporate bond issuance grew 85.5% q-o-q in Q4 2023 from a relatively low base in the previous quarter. However, total LCY corporate bond issuance in 2023 only reached PHP205.5 billion, which was 58.6% lower than in 2022 amid the uncertain environment triggered by the aggressive rate hikes of the Bangko Sentral ng Pilipinas beginning in May 2022. Consequently, only five firms tapped the bond market for funding during the quarter, with the largest issuance coming from the Bank of the Philippine Islands whose debt sales amounted to PHP36.6 billion.

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



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

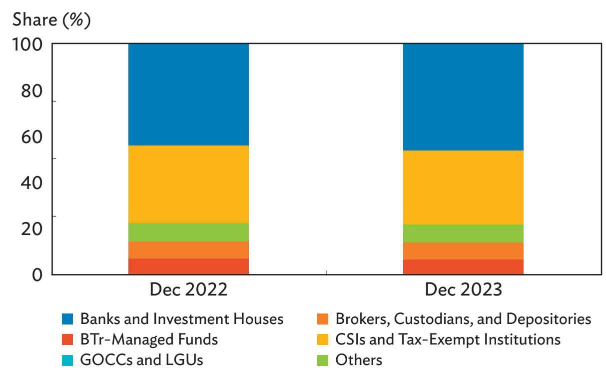
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and the National Food Authority, among others.

Sources: Bureau of the Treasury and Bloomberg LP.

Investor Profile

The investor landscape in the Philippines' LCY government bond market remained mostly unchanged in 2023 (Figure 4). The Philippines' LCY government bond market remains consistently dominated by two investor groups: (i) banks and investment houses, and (ii) contractual savings institutions and tax-exempt institutions. These two investor groups comprised a combined bond holdings equivalent to 78.1% of total LCY government bonds outstanding at the end of December 2023. Banks and investment houses remained the single-largest investor group, constituting 46.2% of total LCY bonds outstanding. Among all other investor groups, only banks and investment houses posted an increase (2.2%) in their bond holdings share in 2023. Contractual savings institutions and tax-exempt institutions remained the second-largest investor group, with their holdings share edging down to 31.9% in December 2023 from 33.5% in the prior year.

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 December 2023, government-owned or -controlled corporations and local government units' holdings share was 0.02%, amounting to PHP2.4 billion.

Source: Bureau of the Treasury.