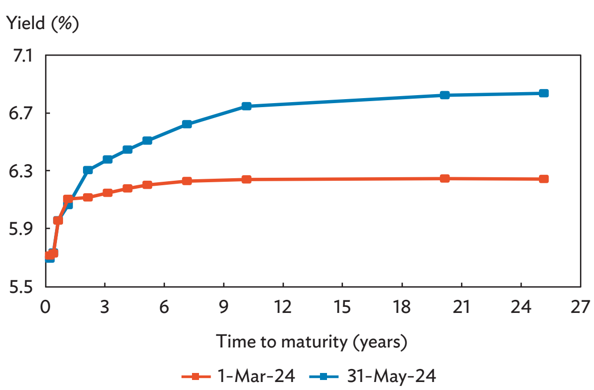
Philippines

Yield Movements

Local currency (LCY) government bond yields in the Philippines rose for most tenors between 1 March and 31 May, influenced by higher-for-longer interest rates—due to the United States Federal Reserve delaying its rate cut—and an uptick in domestic inflation (Figure 1). Year-on-year inflation continued to rise from 3.7% in March to 3.8% in April and 3.9% in May. While inflation had settled within the government's target range of 2%–4% for 6 consecutive months, the Bangko Sentral ng Pilipinas (BSP), in its 16 May policy meeting, opted to keep its overnight reverse repurchase rate steady at a 17-year high of 6.50%. The central bank's decision aims to firmly anchor inflation expectations within the target range amid persistent potential price pressures linked to higher costs of transportation, food, and energy, as well as rising global oil prices. In a press event on 16 May, BSP Governor Eli M. Remolona Jr. hinted at a possible rate cut in August.

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

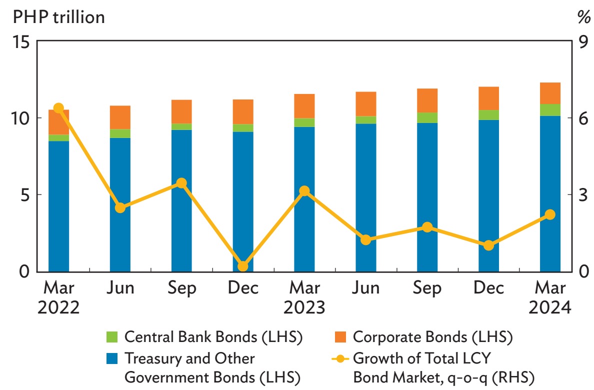


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Growth in the Philippines' LCY bond market picked up in the first quarter (Q1) of 2024, with bonds outstanding reaching a size of PHP12.3 trillion at the end of March. Overall growth climbed 2.2% quarter-on-quarter (q-o-q) in Q1 2024 from 1.0% q-o-q in the fourth quarter of 2023 due to increased issuance from the government and the BSP (**Figure 2**). Treasury and other government bonds outstanding posted growth of 2.7% q-o-q and the stock of central bank securities rose 20.2% q-o-q in Q1 2024. However, corporate bonds outstanding continued to decline in Q1 2024 at a pace of 8.2% q-o-q due to a large number of maturities and a low volume of issuance during the quarter.

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.

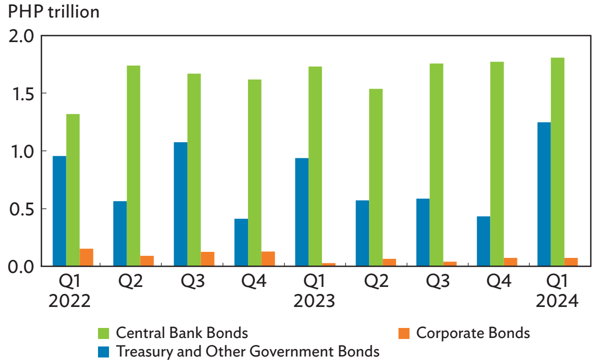
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and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

Sources: Bureau of the Treasury and Bloomberg LP.

LCY bond issuance rebounded with growth of 37.3% q-o-q in Q1 2024 for a total of PHP3.1 trillion, reversing a contraction of 4.4% q-o-q in the fourth quarter of 2023. The increase in overall issuance was largely driven by Treasury and other government bonds, whose issuance expanded almost threefold to PHP1.2 trillion from the previous quarter's PHP0.4 trillion, as the government frontloaded its issuance for the year (**Figure 3**). Issuance of government bonds in Q1 2024 was further buoyed by the sale of Retail Treasury Bonds in February amounting to PHP584.9 billion. On the other hand, due to the elevated interest rate environment, corporate bond issuance dipped 0.1% q-o-q during the quarter, with only two firms tapping the bond market: BDO Unibank (PHP63.3 billion) and Filinvest Development Corporation (PHP10.0 billion).

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

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.

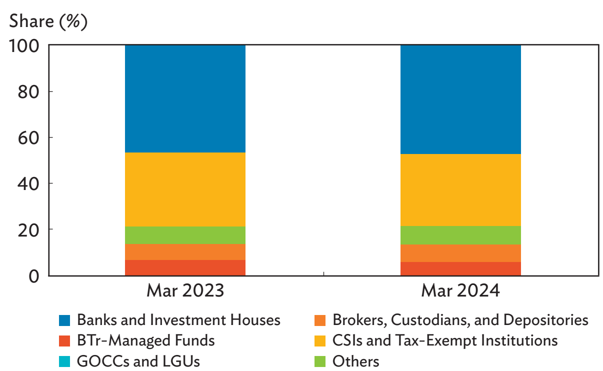
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and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

Sources: Bureau of the Treasury and Bloomberg LP.

Investor Profile

Banks and investment houses, as well as contractual savings institutions and tax-exempt institutions, remained the primary holders of LCY government bonds at the end of March 2024. Their combined bond holdings comprised about 80% of the market's total LCY government debt stock (**Figure 4**). Banks and investment houses remained the single-largest investor group, with investment holdings inching up to a share of 47.0% from 46.4% in March 2023, followed by contractual savings institutions (31.4%). Overall, the investor landscape in the Philippines' LCY government bond market at the end of March 2024 was largely unchanged from a year earlier.

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.

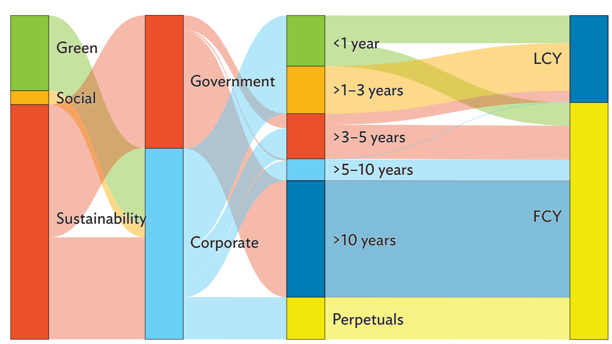
Note: At the end of March 2024, government-owned or -controlled corporations and local government units' holdings share was 0.02%, amounting to PHP2.2 billion.

Source: Bureau of the Treasury.

Sustainable Bond Market

Sustainable bonds in the Philippines are mainly sustainability bond instruments issued by the government and corporates (**Figure 5**)**.** Sustainability bonds accounted for 72.5% of the economy's total sustainable bonds at the end of March, with most denominated in foreign currency and carrying a tenor of over 5 years. Due to the resumption of issuance by corporates, the amount of sustainable bonds outstanding grew 2.0% q-o-q in Q1 2024 to USD8.5 billion, more than half of which came from the corporate sector. About 89.1% of sustainable bonds from the government carried maturities of over 5 years, while the corporate sector's corresponding share was only 32.6%, resulting in a size-weighted average tenor of 11.1 years.

Figure 5: Market Profile of Outstanding Sustainable Bonds in the Philippines at the End of March 2024



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.