Philippines

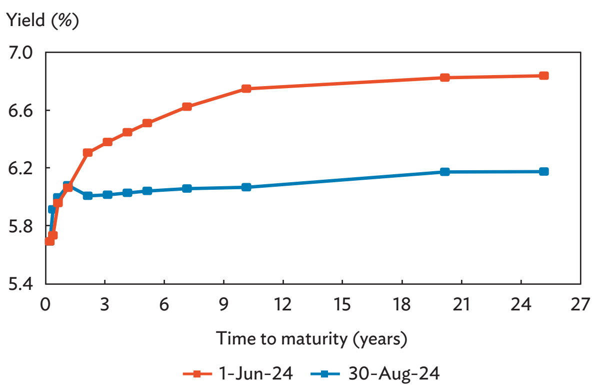
Yield Movements

Between 1 June and 30 August, local currency (LCY) government bond yields in the Philippines declined across most tenors. Yields fell by an average of 52 basis points for tenors of 2 years and longer, largely driven by the Bangko Sentral ng Pilipinas' (BSP) monetary policy easing (**Figure 1**). On 15 August, the BSP reduced its overnight reverse repurchase rate by 25 basis points to 6.25%, citing that inflation was consistent with its target path and is expected to trend downward for the rest of 2024. Year-on-year inflation slowed to 3.3% in August from 4.4% in July, settling within the government's target range of 2.0%–4.0%. Rising expectations of a policy rate cut by the United States Federal Reserve also contributed to the fall in domestic yields during the review period.

Local Currency Bond Market Size and Issuance

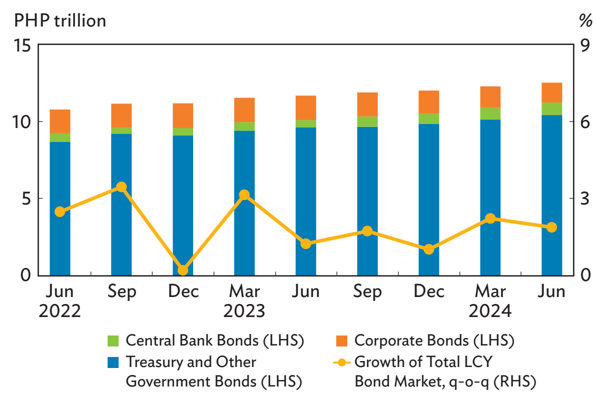
In the second quarter (Q2) of 2024, LCY bond market growth moderated on reduced issuance from both the corporate and government segments. Total LCY bonds outstanding reached PHP12.5 trillion at the end of June, with growth moderating to 1.9% quarter-on-quarter (q-o-q) from 2.2% q-o-q in the previous quarter (**Figure 2**). Treasury and other government bonds increased 2.8% q-o-q due to a lower volume of bond maturities during the quarter. Conversely, the total corporate debt stock contracted 7.7% q-o-q in Q2 2024, following the previous quarter's 8.2% q-o-q decline.

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



Source: Based on data from Bloomberg LP.

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.

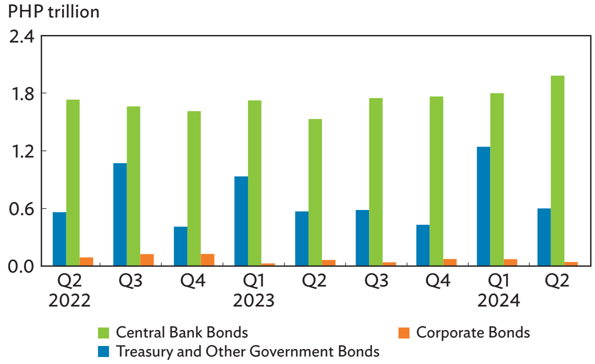
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and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

Bond issuances contracted in Q2 2024 amid high interest rates. Total LCY bond issuance contracted 15.7% q-o-q to PHP2.6 trillion in Q2 2024, a reversal from the previous quarter's 37.3% q-o-q expansion (**Figure 3**). Issuance of Treasury and other government bonds declined 51.7% q-o-q in Q2 2024 mainly due to the exceptionally high issuance volume in the previous quarter, driven by the sale of Retail Treasury bonds in February. Similarly, corporate bond issuance fell 41.2% q-o-q amid persistently elevated interest rates as corporates postponed bond issuances in anticipation of an interest rate cut from the BSP in August. The largest corporate bond issuances during the quarter came from SM Prime Holdings and Energy Development Corporation, which accounted for 58.0% and 23.2%, respectively, of the Q2 2024 corporate issuance total.

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.

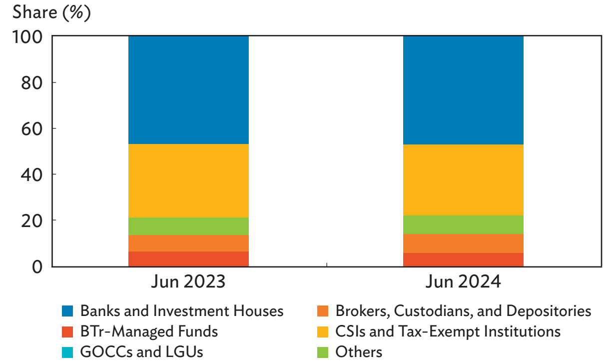
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and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

Sources: Bureau of the Treasury and Bloomberg LP.

Investor Profile

The investor landscape of the LCY government bond market at the end of June was largely unchanged from a year earlier. Banks and investment houses continued to be the largest investor group, holding nearly 50% of the total LCY government debt stock at the end of June (**Figure 4**). This was followed by contractual savings institutions and tax-exempt institutions with investment holdings dipping to 30.9% from 31.8% from the previous 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.

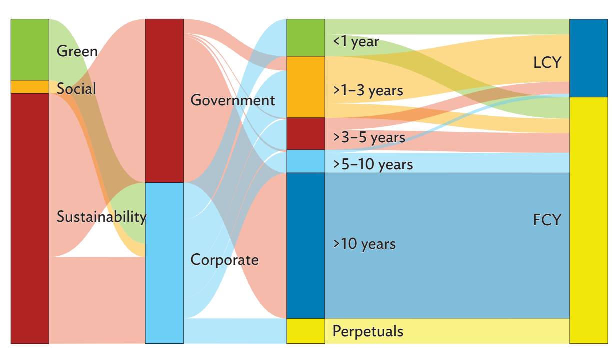
Note: At the end of June, the aggregate holdings share for government-owned or -controlled corporations and local government units was 0.02%, amounting to PHP2.2 billion.

Source: Bureau of the Treasury.

Sustainable Bond Market

At the end of June, foreign-currency-denominated sustainability bond instruments dominated the sustainable bond market in the Philippines. Sustainability bond instruments comprised 77.0% of the total sustainable bonds at the end of June (**Figure 5**). The total size of sustainable bond market reached USD9.0 billion in Q2 2024, with the government and corporate segments each comprising a roughly equal share of the market. The government sector tends to issue longer tenors that are denominated in foreign currencies, while the private sector is inclined to issue sustainable bonds with tenors of less than 10 years. At the end of June, the size-weighted average tenor in the Philippines' sustainable bond market was 12.7 years.

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



FCY = foreign currency, LCY = local currency.

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