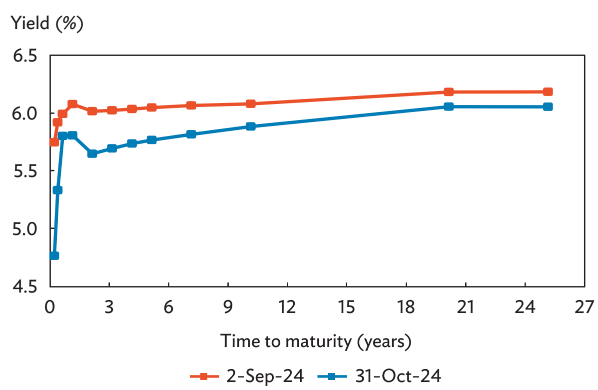
Philippines

Yield Movements

Local currency (LCY) government bond yields in the Philippines fell an average of 33 basis points across all tenors between 2 September and 31 October, driven by the Bangko Sentral ng Pilipinas' (BSP) dovish monetary policy stance (Figure 1). The BSP reduced its overnight reverse repurchase rate by 25 basis points on 15 August and again on 16 October, bringing the main policy rate down to 6.00% amid cooling domestic inflation. Year-on-year inflation slowed to 1.9% in September from 3.3% in August. While inflation rose to 2.3% year-on-year in October, it remained within the government's target range of 2.0%–4.0%.

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

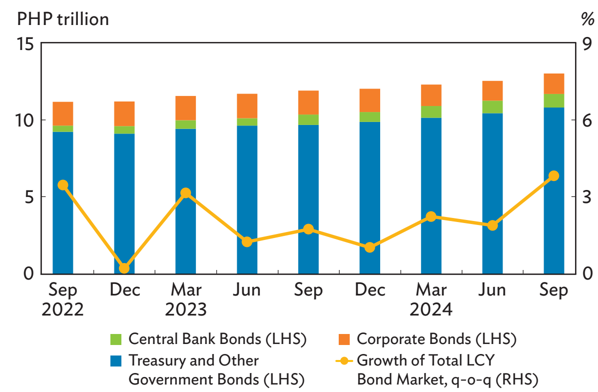


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Growth in the LCY bond market accelerated in the third quarter (Q3) of 2024 on robust expansion in all bond segments. Total LCY bonds outstanding reached PHP13.0 trillion at the end of September on accelerated growth of 3.8% quarter-on-quarter (q-o-q), up from 1.9% q-o-q in the second quarter (**Figure 2**). Treasury and other government bonds grew 3.6% q-o-q on increased borrowing amid a high volume of bond maturities during the quarter. The total corporate debt stock rebounded to expand 3.1% q-o-q in Q3 2024 from the previous quarter's 7.7% q-o-q contraction, as corporates increased their issuance after the BSP's policy easing in August.

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.

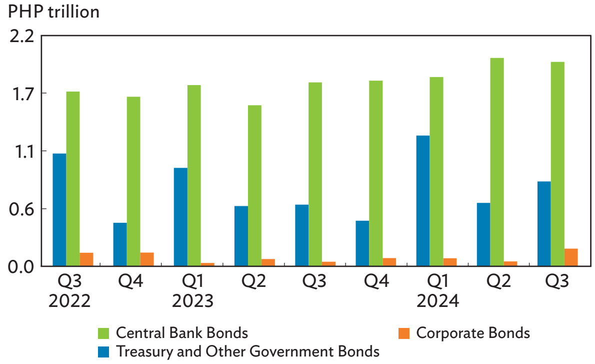
Note: Treasury and other government bonds comprise Treasury bonds, Treasury bills, and bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management and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

Sources: Bangko Sentral ng Pilipinas, Bureau of the Treasury, and Bloomberg LP.

LCY bond issuance rebounded in Q3 2024, propelled by lowered interest rates. Total LCY bond issuance grew 11.0% q-o-q to PHP2.9 trillion in Q3 2024, a reversal from the previous quarter's 15.7% q-o-q contraction (**Figure 3**). Due to the government's increased borrowing amid a large amount of maturities during the quarter, the issuance of Treasury and other government bonds increased 34.0% q-o-q in Q3 2024. Similarly, corporate bond issuance increased more than three-fold to PHP165.4 billion, from PHP43.1 billion in the previous quarter, amid declining borrowing costs. The largest corporate bond issuances during the quarter came from BDO Unibank, which issued a 1.5-year sustainability bond worth PHP55.7 billion, and Bank of the Philippine Islands, which also issued a 1.5-year sustainability bond worth PHP33.7 billion. These issuances represented 33.7% and 20.4% of the Philippines' total corporate issuance in Q3 2024, respectively.

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: Bangko Sentral ng Pilipinas, Bureau of the Treasury, and Bloomberg LP.

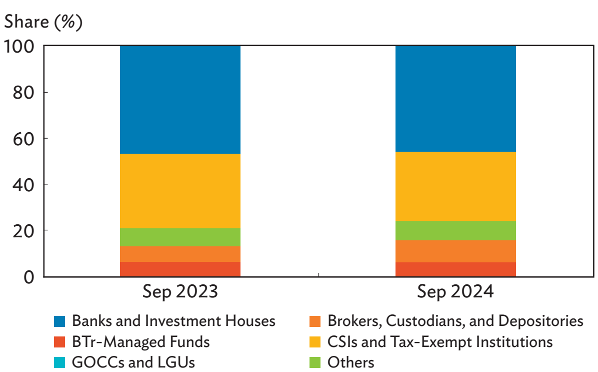
Investor Profile

Banks and investment houses remained the largest investor group in the Philippines' LCY bond market at the end of September. This investor group's holdings share dipped to 45.7% at the end of Q3 2024 from 46.6% a year earlier (**Figure 4**). Contractual savings institutions and tax-exempt institutions remained the Philippines LCY bond market's second-largest investor group, with its investment holdings share dipping to 30.0% from 32.2% during the same period. The economy's investor profile for LCY government bonds at the end of September 2024 was largely consistent from a year earlier as it remained dominated by these two investor groups.

Sustainable Bond Market

At the end of September, the Philippines' sustainable bond market mainly comprised foreign-currency-denominated sustainability bond instruments. Sustainability bonds accounted for 83.8% of the economy's total sustainable bonds outstanding at the end of Q3 2024 (**Figure 5**). Due to increased issuance by corporates during the quarter, sustainable bonds outstanding grew 20.3% q-o-q to USD10.9 billion at the end of September, about 66.0% of which were foreign-currency denominated. The government and corporate segments each comprised a roughly equal share of the market. The government sector typically issues longer-term sustainable bonds that are denominated in foreign currencies, whereas the private sector prefers issuing sustainable bonds with maturities under 10 years and in local currency. At the end of September, the size-weighted average tenor in the Philippines' sustainable bond market was 12.9 years.

Figure 4: Investor Profile of Local Currency Government Bonds

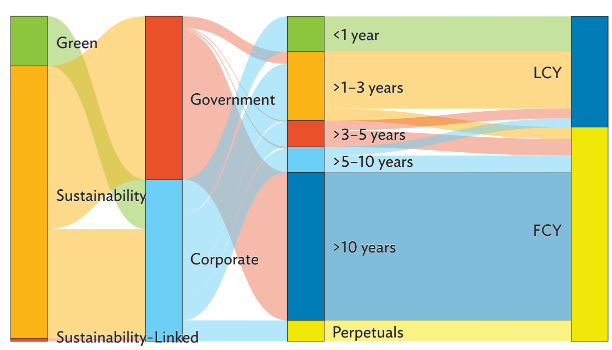


BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit.

Note: At the end of September, the aggregate holdings share for government-owned or -controlled corporations and local government units was 0.02%, amounting to PHP1.7 billion.

Source: Bureau of the Treasury.

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



FCY = foreign currency, LCY = local currency.

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