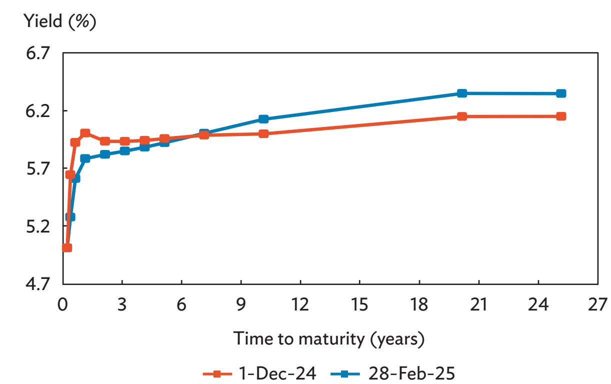
Philippines

Yield Movements

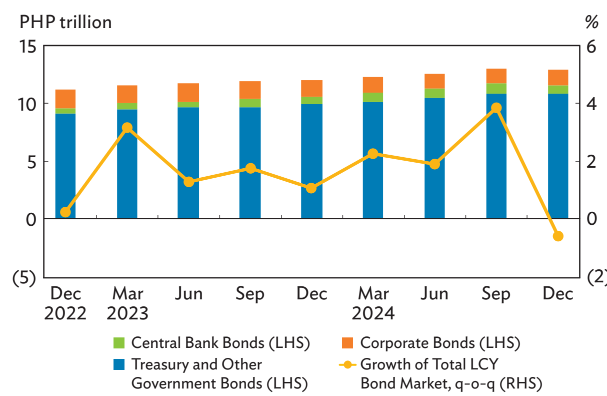
Between 1 December 2024 and 28 February 2025, local currency (LCY) sovereign bond yields in the Philippines rose for longer tenors (Figure 1). Yields for maturities of 7 years and longer rose an average of 13 basis points (bps), as the Bangko Sentral ng Pilipinas (BSP) held its overnight reverse repurchase rate steady at 5.75% on 13 February due to uncertainties over global economic policies and their potential impact on the domestic economy. The rise in yields was also influenced by expectations of fewer rate cuts this year. BSP Governor Eli M. Remolona Jr., on 1 February, signaled total rate cuts of 50 bps in 2025, which was less than the 100 bps previously signaled by the BSP in November. In contrast, yields for tenors of 5 years or less—except for the 1-month tenor—fell an average of 17 bps amid subdued inflation and slow economic growth. The Philippine economy grew 5.6% in full-year 2024, falling short of the government's target range of 6.0%–6.5% growth due to weather disruptions, weak consumption, and geopolitical tensions. Meanwhile, year-on-year inflation slowed to 2.1% in February from 2.9% in January, driven by slower increases in food and beverage prices.

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



( ) = negative, 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.

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

Local Currency Bond Market Size and Issuance

Contractions in the stock of government bonds and central bank securities dragged down the LCY bond market at the end of December. The total LCY debt stock contracted 0.6% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2024 to a size of PHP12.9 trillion (**Figure 2**). The decline was driven by reduced issuance from the government and the central bank during the quarter. Treasury and other government bonds recorded a slight dip of 0.1% q-o-q, while BSP securities were down 11.7% q-o-q. Conversely, despite a reduction in issuance, total corporate debt stock grew 2.6% q-o-q in Q4 2024 due to fewer maturities during the quarter.

LCY bond issuance contracted in Q4 2024 on reduced issuance for all bond segments. Total LCY bond issuance fell 19.2% q-o-q to PHP2.4 trillion in Q4 2024 (**Figure 3**). The issuance of Treasury and other government bonds declined 48.2% q-o-q due to the government's reduced borrowing after meeting its financing needs in the prior quarters. Similarly, total corporate bond issuance dropped 63.3% q-o-q in Q4 2024 largely due to the exceptionally high issuance volume in the previous quarter. The largest corporate bond issuance during the quarter came from SMC Tollways, with total debt sale of PHP35.0 billion, accounting for 57.7% of the Philippines' total LCY corporate bond issuance during the quarter. Additionally, in November, Ayala Land issued a 10-year sustainability-linked bond worth PHP8.0 billion.

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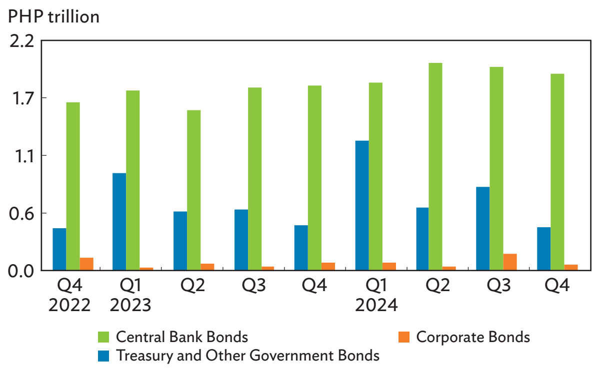
Figure 3: Composition of Local Currency Bond Issuance in the Philippines

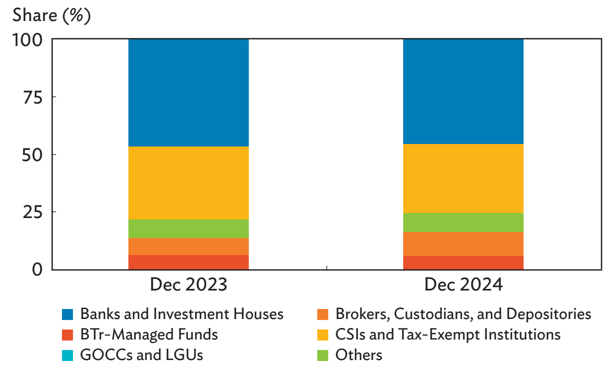


PHP = Philippine peso, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

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.

Sources: Bangko Sentral ng Pilipinas, 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.

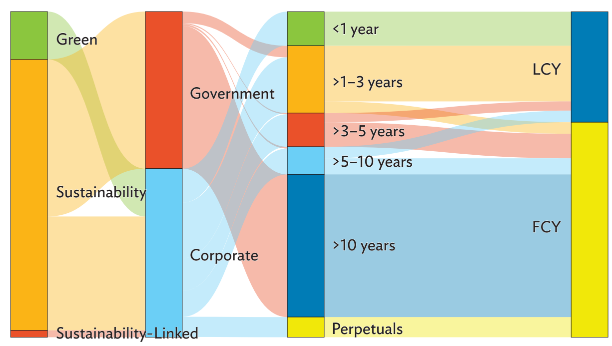
Note: At the end of December, the aggregate holdings share for government-owned or -controlled corporations and local government units was 0.01%, amounting to PHP1.1 billion.

Source: Bureau of the Treasury.

Investor Profile

At the end of December, the investor base of the Philippines' LCY government bond market was among the least diverse in emerging East Asia.[20] The Philippines had the third-highest Herfindahl–Hirschman Index score in the region at the end of December.[21] This was because over 70.0% of the economy's LCY government debt stock was held by only two dominant investor groups: (i) banks and investment houses, and (ii) contractual savings institutions and tax-exempt institutions (**Figure 4**). Collectively, their holdings share accounted for 75.2% at the end of December, down from 78.1% a year earlier.

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



FCY = foreign currency, LCY = local currency.

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

Sustainable Bond Market

Foreign-currency-denominated sustainability bond instruments remained prevalent in the Philippines' sustainable bond market in Q4 2024. By the end of December, sustainability bonds accounted for 83.2% of the market's total sustainable debt stock, approximately 71.0% of which were denominated in a foreign currency (**Figure 5**). At the end of Q4 2024, total outstanding sustainable bonds grew 4.0% q-o-q to USD11.3 billion, with the public and private sectors each contributing a roughly equal share of the market. Over 90.0% of the public sector's sustainable bonds carried tenors of over 5 years, while the private sector's corresponding share was only 27.4%. Consequently, the size-weighted average tenor of the Philippines' sustainable bond market stood at 12.4 years at the end of December versus a size-weighted average of 4.5 years for ASEAN+3 economies.[22]

[20] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

[21] The Herfindahl–Hirschman Index is a common measure of market concentration. The index is used to measure the investor profile diversification of the local currency bond market by summing the squared share of each investor group in the bond market.

[22] ASEAN+3 is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.