



Debt Management Strategies of the Republic of the Philippines

Maria Elise Katrina S. Relucio

Capital Markets Strategy and Planning Division, Bureau of the Treasury

Workshop on Designing Government Debt Management Strategies

26 to 30 June 2023 | Joint Vienna Institute, Vienna

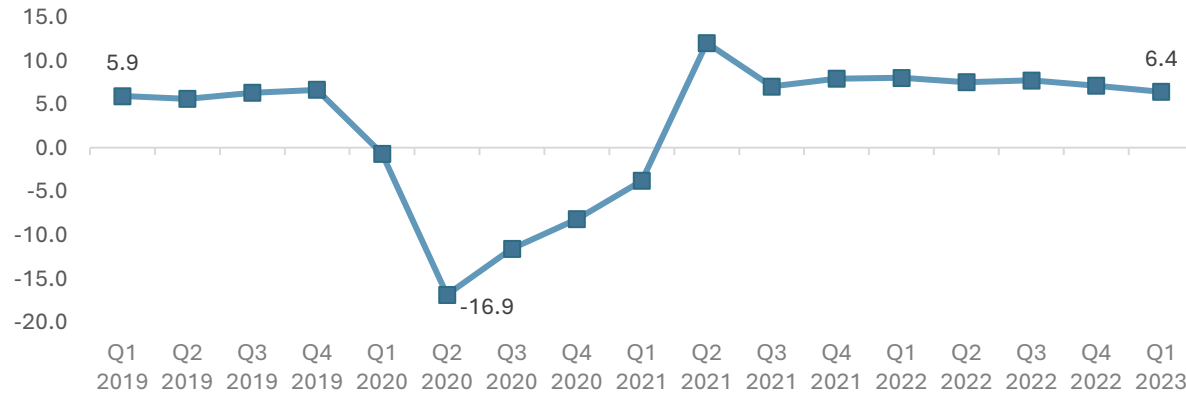


Philippine Economic Condition (1/2)

Resilient despite global and local headwinds

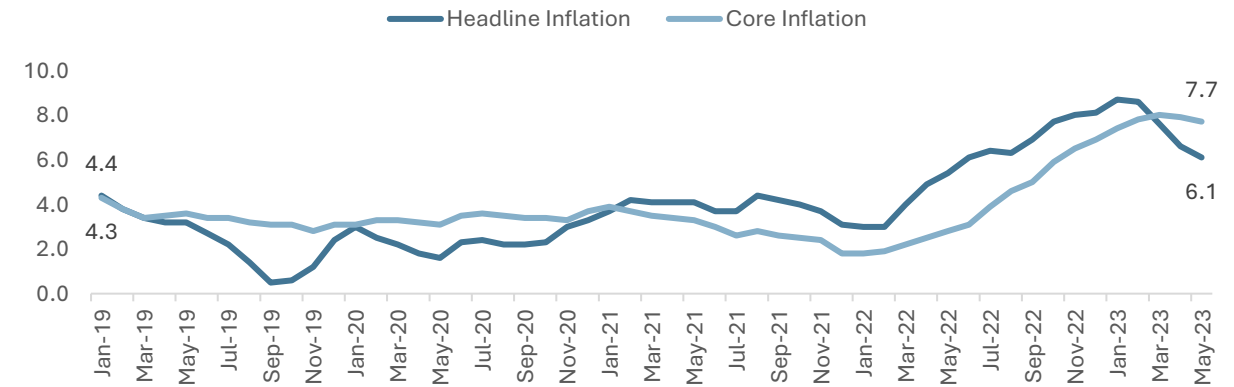


Economic Growth (%)



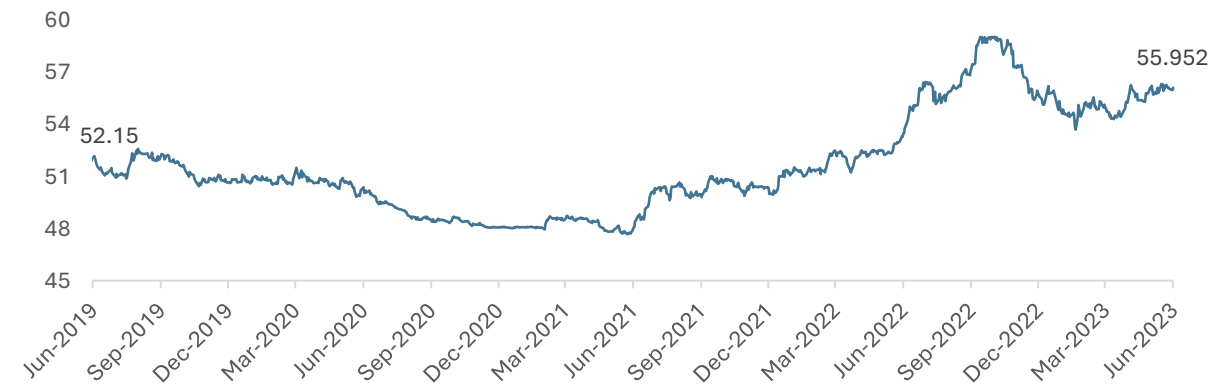
GDP growth of 6.4% YoY reflects strong domestic demand supported by sustained improvement in labor market conditions, tourism, investments, and construction.

Inflation Level (%)



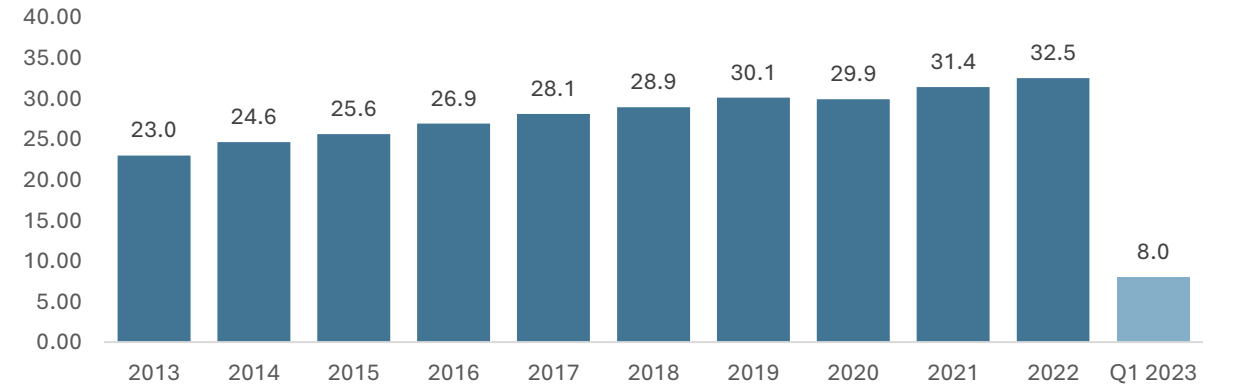
Inflation further eased to 6.1% YoY in May from 6.6% in April, consistent with the BSP's assessment that inflation will likely revert toward the target range by the end of 2023.

USD/PHP Currency Rate



With the BSP's normalization of monetary policy and expectations of higher tourism revenues and remittances, PHP will emerge stronger against USD this year, in the range of PHP 53-57.

Cash Remittances



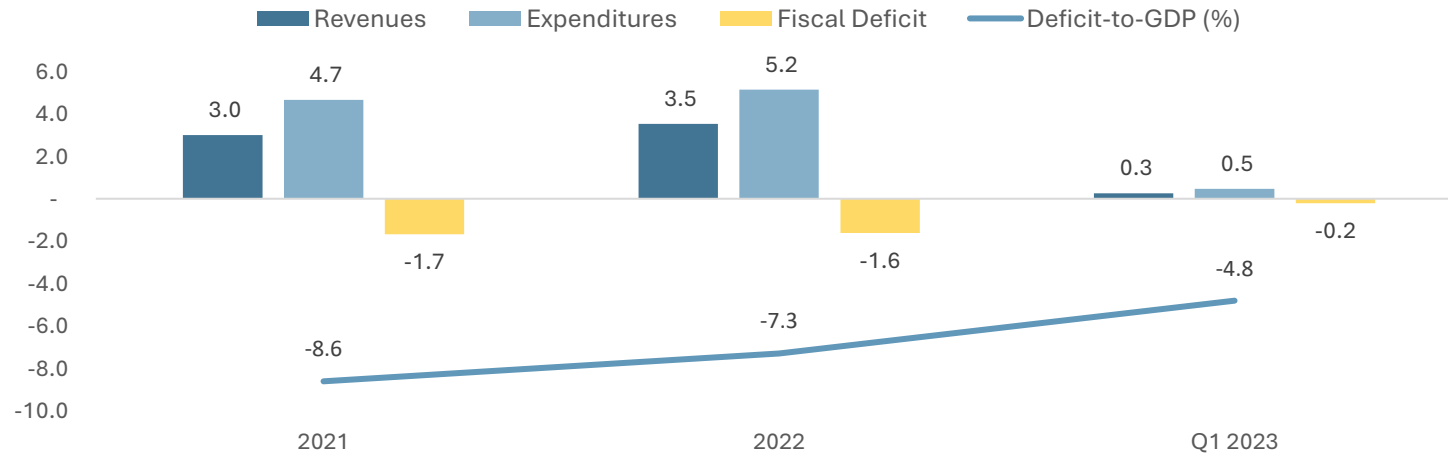
Remittances from Overseas Filipinos are one of the largest and most stable sources of foreign reserves. Q1 2023 remittances through banks grew to \$8.0 billion from \$7.7 billion in Q1 2022.

Philippine Economic Condition (2/2)

Resilient despite global and local headwinds

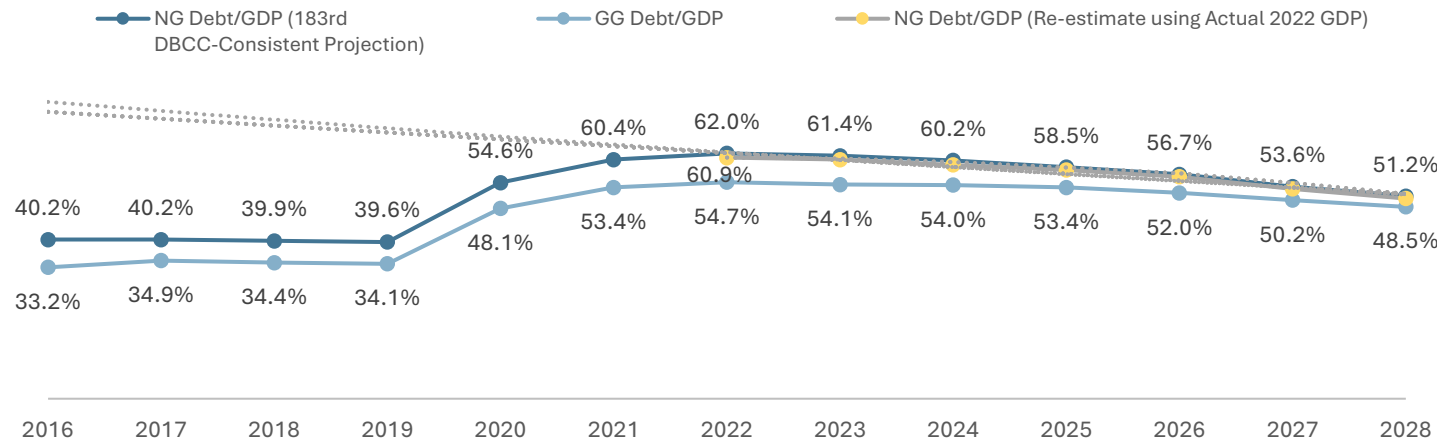


Fiscal Sustainability



- NG revenue collections increased by 4.4% YoY, 87.9% of which are from tax collections
- Government spending slightly dropped by 1.1% for Jan to Mar 2023 due to the decline of local government units' National Tax Allotment shares and interest payments.
- The resulting deficit for Q1 2023 amounting to PHP 270.9bn dropped by 14.5% or PHP46.0bn vs. the same period last year. Deficit-to-GDP for Q1 2023 is at 4.8%

Debt/GDP



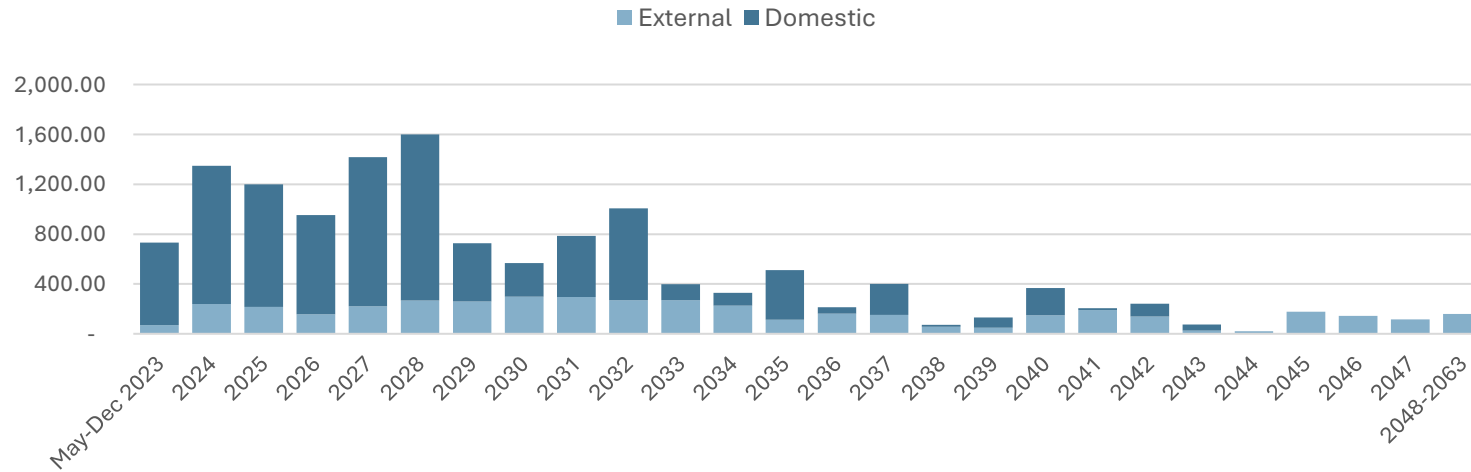
- Medium Term Financing Program aims to cut the deficit from 6.1% of GDP in 2023 to 3.0% of GDP in 2028, which will be funded by an average of 2.2 trillion pesos in gross borrowings.
- Additionally, NG aims to bring down the debt-to-GDP ratio below 60.0% in 2025.

Philippine Debt Structure (1/2)

Cost of debt still historically cheap, debt structure remains resilient

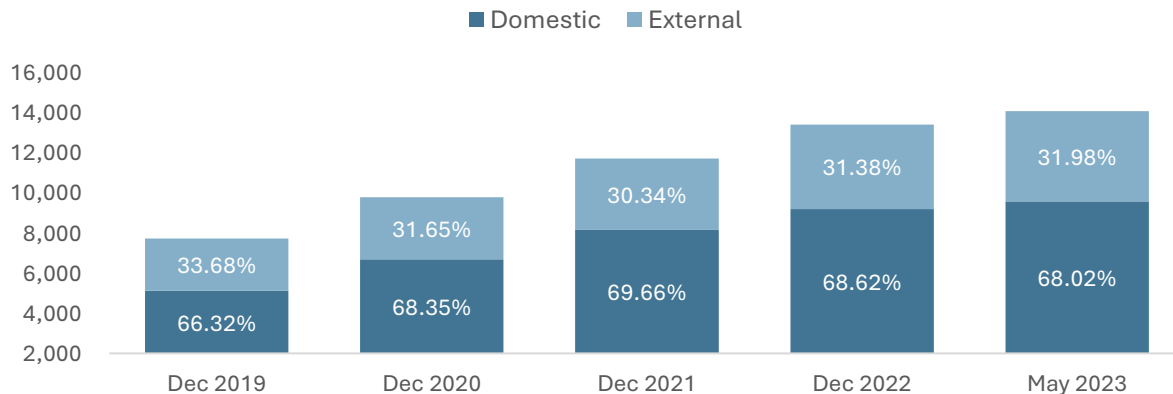


Debt Maturity Profile



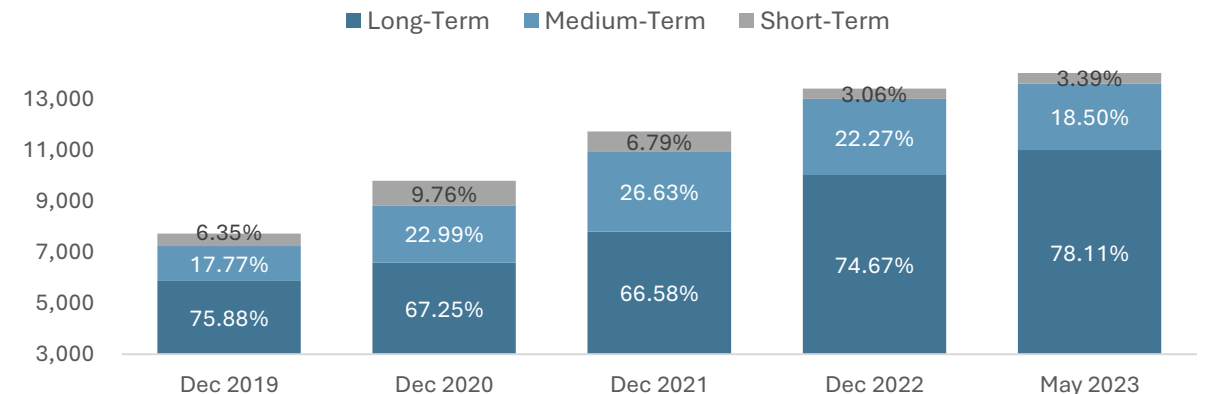
- Concentrate issuances on medium- to long-term securities to stretch debt maturities. Goal is to maintain 7- to 10-year average maturity target
- As of May 2023, domestic residual maturity is 5.56 years while external residual maturity is 12.22 years. Total residual maturity is at 7.69 years.

External vs Domestic Debt



External debt rose slightly from 30.3% to 31.4% due to peso depreciation from 51 in 2021 to 55.815 in 2022. Increase is partly tempered due to an increase in NG's domestic borrowings.

Maturity Composition



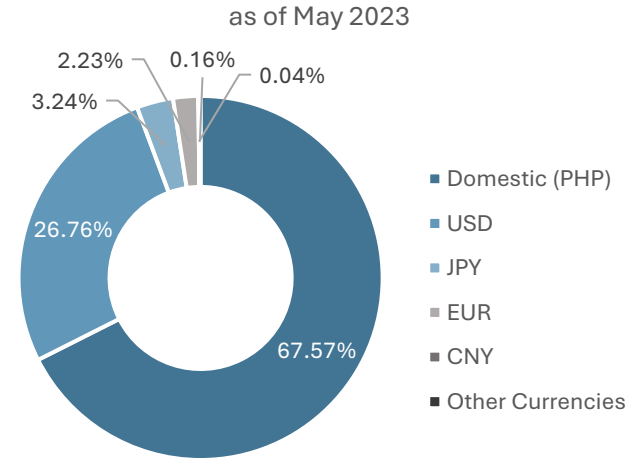
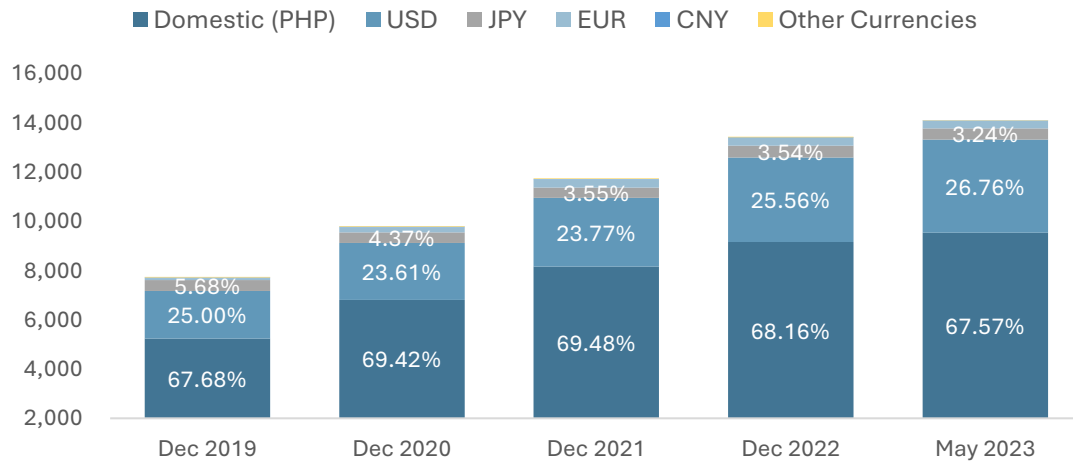
Progress in reprofiling debt from short to longer-tenors. Short-term debt was reduced from 6.8% in 2021 to 3.39% as of May 2023, reducing our refinancing risk.

Philippine Debt Structure (2/2)

Cost of debt still historically cheap, debt structure remains resilient

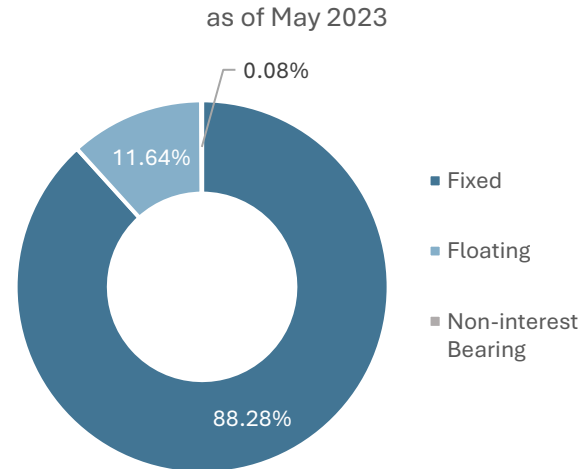
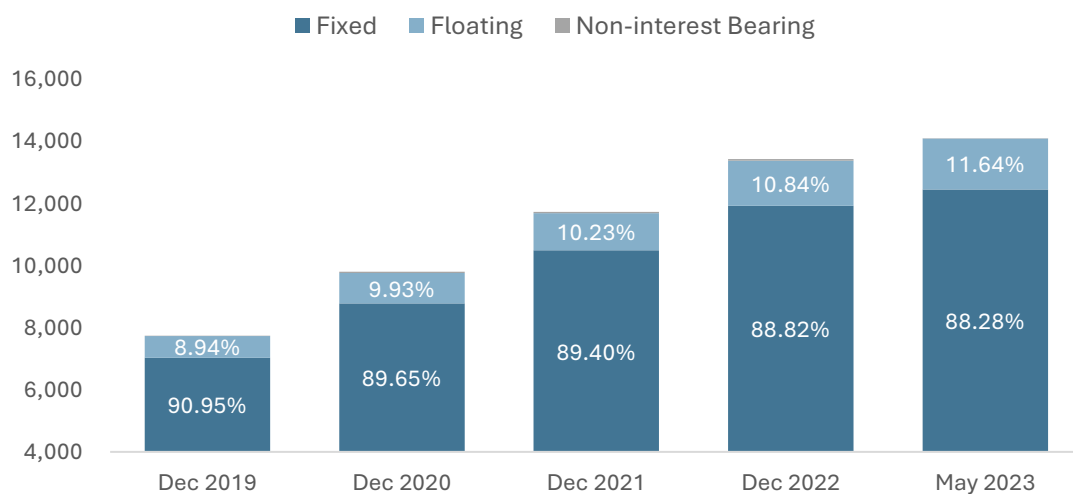


Currency Composition



- Composition of debt portfolio has become increasingly domestically oriented, minimizing our risk exposure to adverse foreign exchange swings.

Interest Rate Composition



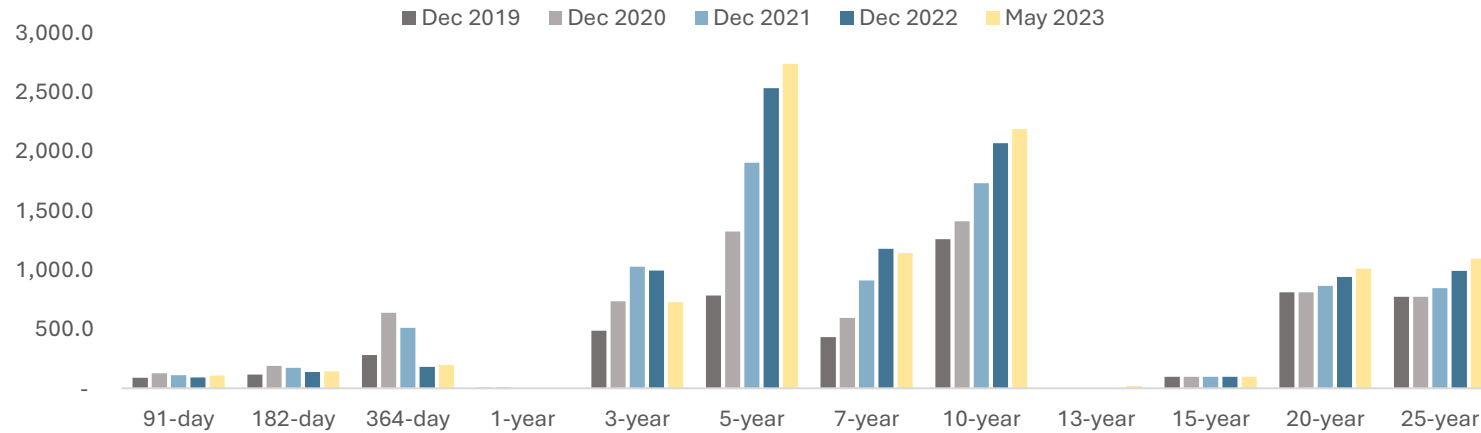
- Due to peso depreciation, debt on variable rate terms marginally increased from 10.2% in 2021 to 11.64% as of May 2023.
- Floating rate debt comes from external loans from official lending institutions.

Philippine Domestic Market Development

Building a more robust domestic market

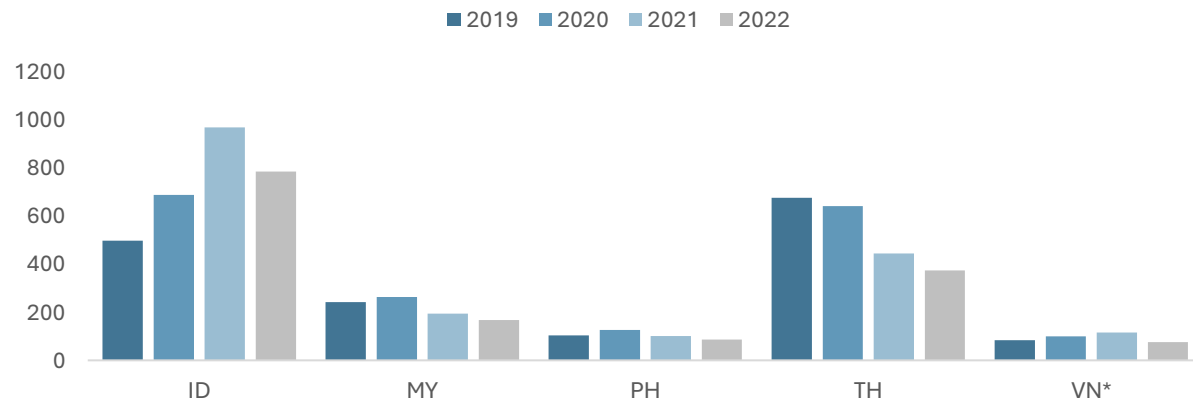


Outstanding Government Securities Issued (by Tenor)

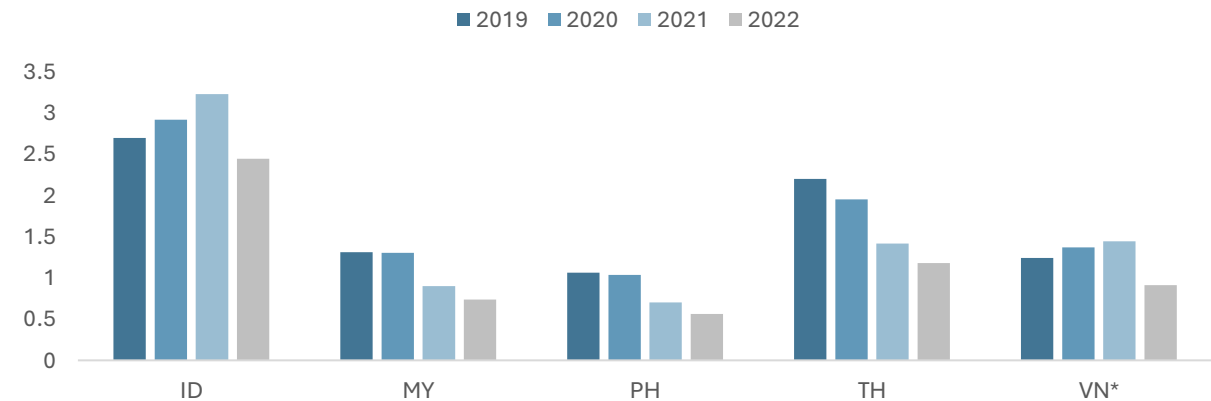


- As of end-April 2023, outstanding debt is comprised of 68% domestic debt and 32% external debt
- Selling mechanism for T-bills, new issuances, re-issuances, and special bond issuances via English Auction.
- Selling mechanism for T-bonds is via Dutch Auction.

Trading Volume in Secondary Market (in USD billions)



Turnover Ratio



- Throughout the years, the Philippines' bond market liquidity has lagged behind its Southeastern counterparts. The low turnover ratio being experienced by the domestic bond market is evident in the relatively low trading volume. The high withholding tax rate of 20% on interest income continues to be the biggest barrier to entry for investors. The National Government, however, is consistently pushing market players to take part in its efforts for developing a more robust domestic market.

IMPROVE RESILIENCY OF PHILIPPINE DEBT

Heavy preference for domestic funding (75%-80% of gross borrowing)

- Prioritize domestic sources of financing to limit exposure to adverse external shocks & retain benefits within economy
- Aid the development of the local bond market as GS provide efficient pricing guidance for corporate issuances

Maintenance of medium to long liability portfolio (Maintain 7- to 10-year average maturity target)

- Concentrate issuances on medium- to long-term securities to stretch debt maturities
- Conduct liability management transactions (e.g., bond exchange) for near-maturing instruments

EXPAND & DIVERSIFY INVESTOR BASE

Diversification of external issuances (USD, EUR, Samurai, Panda, Sukuk, etc.)

- Maintain relative scarcity of ROPs; avoid supply-side escalation in borrowing cost
- Enables ready access to multiple markets; provides options for cost-effective borrowing

Strengthening of retail outreach through financial literacy and broadened access

- Regular conduct of financial literacy sessions with retail investors (e.g., retirees, cooperatives, etc.)
- Making placements easier and more convenient for OFs with digital platforms, overseas mobile banking apps, and other Distributed Ledger Technology (DLT) apps

Decision-Making Process and Accountability Framework



- The **Development Budget Coordination Committee (DBCC)** is mandated to recommend for Presidential approval the level of the annual government expenditure program and the ceiling of government spending for economic and social development, national defense, general government and debt service
- The DBCC sets macroeconomic parameters that guide the NG’s borrowing strategy and the Bureau of the Treasury’s funding requirements for the year.

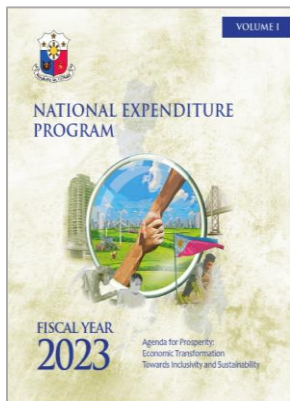


Table 0-1
NATIONAL GOVERNMENT FINANCING 2022-2023
(in Billions of Pesos)

Particulars	2022 ^a	2023	2023 ^b
GRAND EXTERNAL BORROWING	368,000	361,432	352,200
Program Loans	386,200	380,500	370,200
Project Loans	122,200	120,000 ^c	118,200 ^c
Bonds and Other Issues	263,200	260,500 ^d	252,000 ^d
Less: Amortization	(217,900 ^e)	(219,200 ^e)	(218,000 ^e)
NET EXTERNAL BORROWING	150,100	141,232	134,200
GRAND DOMESTIC BORROWING	1,492,000	1,490,000	1,492,000
Treasury Bills	(1,000,000)	(1,000,000)	(1,000,000)
Other Treasury	1,330,000	1,330,000	1,330,000
Reserves	1,100,000	1,100,000	1,100,000
Fixed Rate Treasury Bonds	1,100,000	1,100,000	1,100,000
Less: Net Amortization	(80,000 ^f)	(2,200 ^f)	(2,200 ^f)
Amortization	(80,000 ^f)	(2,200 ^f)	(2,200 ^f)
Less: Serviced to the BSP	400,000	400,000	400,000
NET DOMESTIC BORROWING	1,370,000	1,387,800	1,389,800
NET FINANCING	1,738,100	1,629,032	1,524,000
Less: TOTAL NET FINANCING REQUIREMENT (DEFICIT)	1,470,100	1,400,000	1,402,000
BUDGETARY CHANGE IN CASH	268,000	229,032	122,000

Notes:
^a Based on actual data reported in the regular version of Cash Operations Report.
^b Based on DBM estimate of government financing.
^c Based on actual data provided by fiscal units and DTI estimates of borrowing required for 2023.
^d Includes other debt issued by the DTI under the Subsidized Loan Agreement.
^e Includes amortization paid through cash advance transactions and scheduled debt service under loan account.
^f Includes provision of contributions to BSP.

Sources: Bureau of the Treasury.

- The budget documents of the DBCC are publicly available online (www.dbm.gov.ph). Included here is the Treasury’s Financing Program for the year.
- To maintain flexibility and the capacity to easily adapt to changing market conditions, the Treasury does not set hard targets for its debt management strategies. Its debt metrics and updates on financing, however, are publicly available online (www.treasury.gov.ph)



Thank you for your attention!

For further information, please contact us:

Capital Markets Strategy and Planning Division
Bureau of the Treasury

Ayuntamiento Building, Cabildo St. cor. A. Soriano Avenue

Phone: (+63) 2 8524 7039

Website: www.treasury.gov.ph

Email: cmspd@treasury.gov.ph