



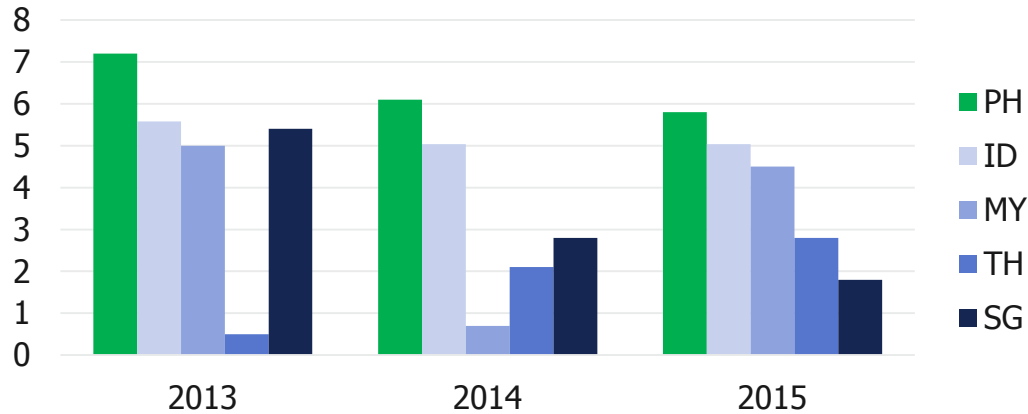
Bond Market Development: the Philippines

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Securities and Exchange Commission
Philippines



Favorable demographics drives growth

Real GDP Growth

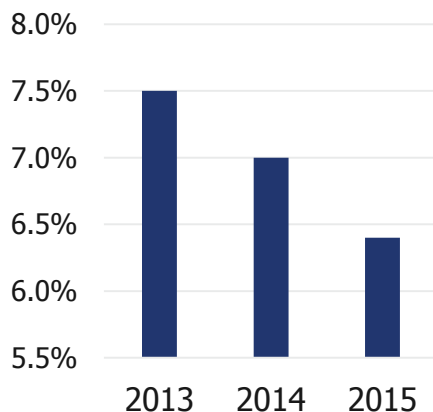


- Philippine GDP Growth has remained consistent and highest among the ASEAN-5

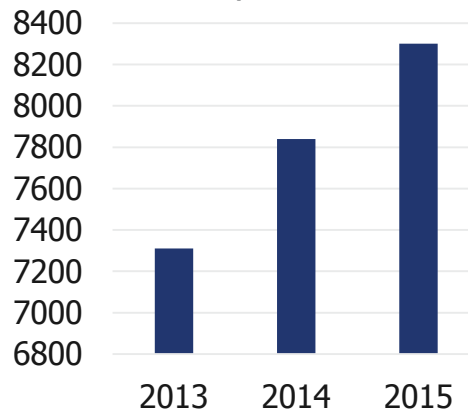
- Demographic sweet spot – majority of the country will be in working age for the next 40 years

- Philippines is the youngest country in Asia with a median age of 23

Unemployment rate



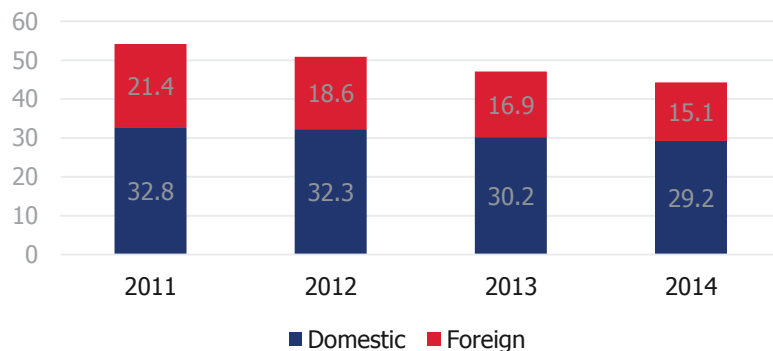
GNI/capita at PPP



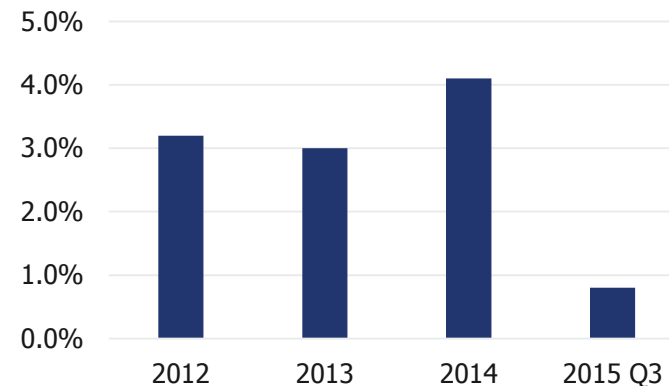
Credit fundamentals are sound

S&P
BBB
Stable
24 Apr 2015
Moody's
Baa2
Stable
14 Dec 2015
Fitch
BBB-
Positive
24 Sept 2015

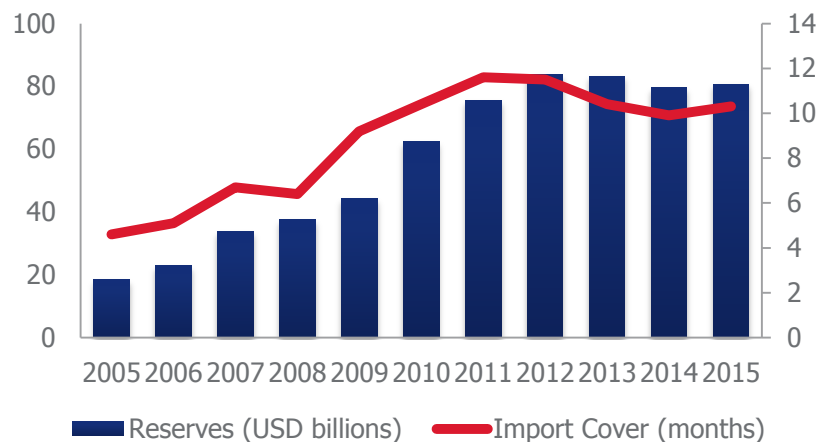
Total Debt to GDP (%)



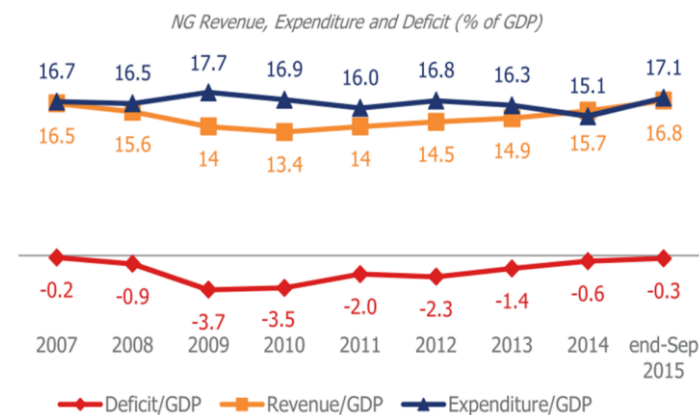
Inflation



Gross International Reserves

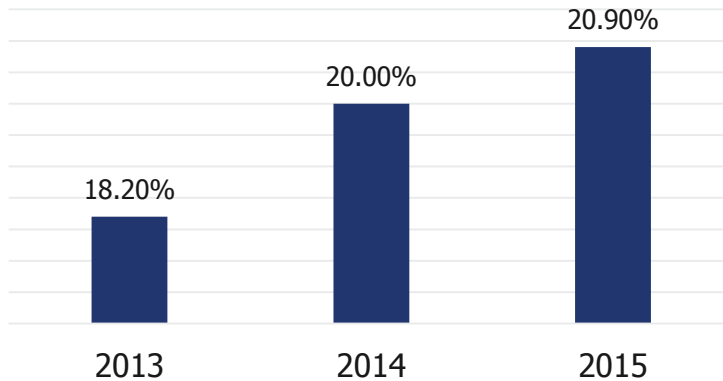


Manageable fiscal deficits

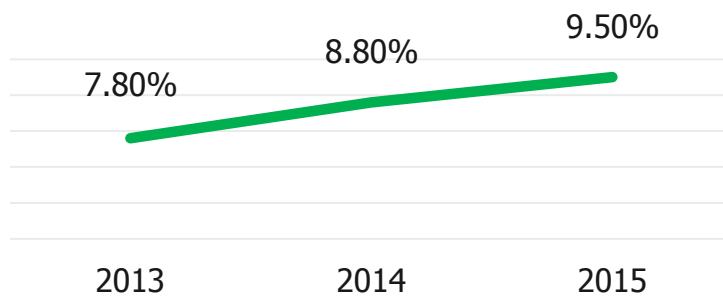


Manufacturing is growing

**Gross Domestic Capital Formation
% of GDP**



Exports Growth Rate



Automotive Manufacturing

- CARS Program: P27B incentives
- 2015 Target: 215,000 cars



Semiconductors

- \$37B exports by 2016
- 72% foreign firms



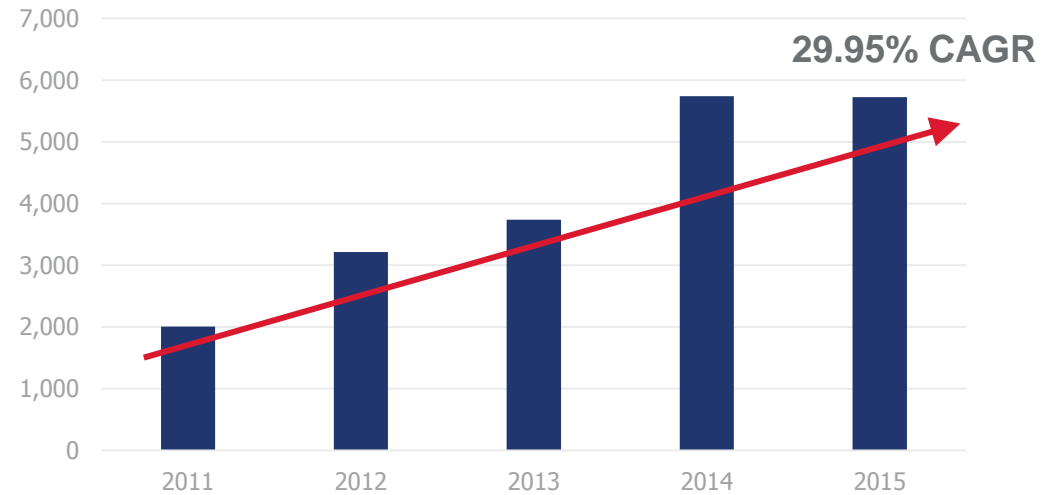
Shipbuilding

- Second largest archipelago
- Over 90,000 registered welders

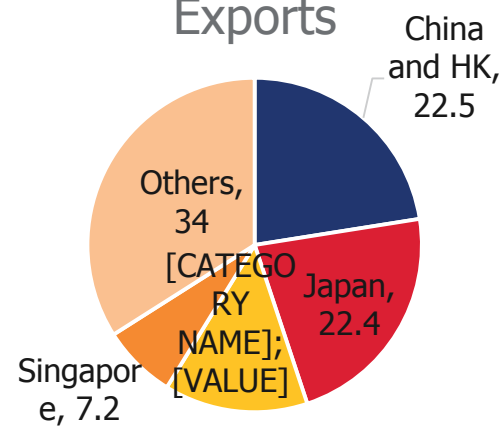
Companies are expanding across Asia



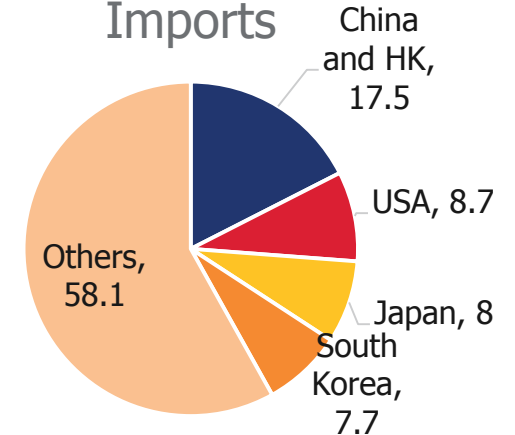
Foreign Direct Investment Flows (USD Million)



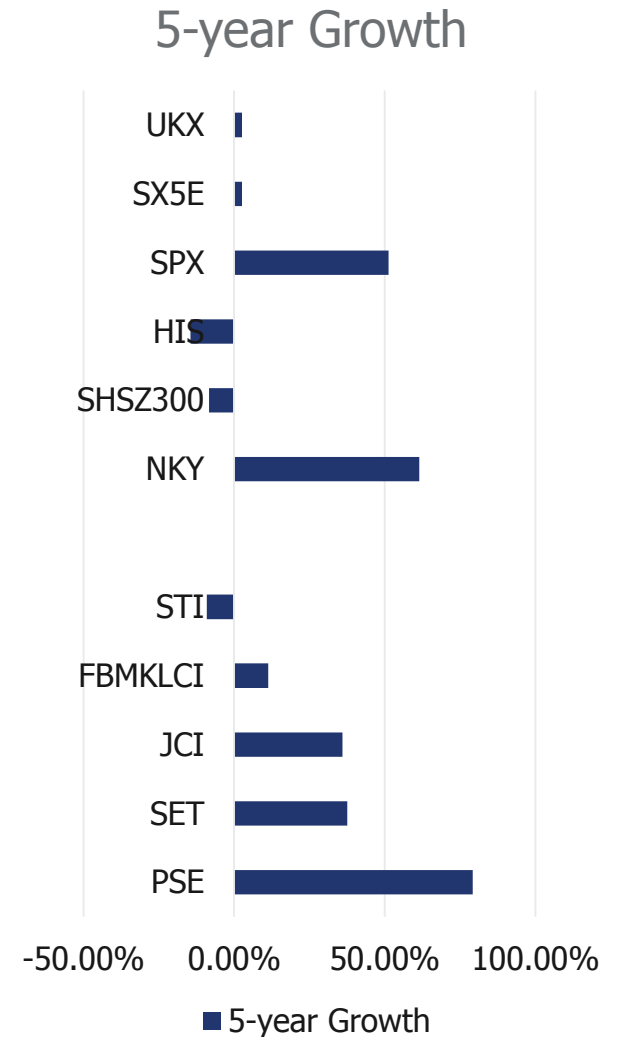
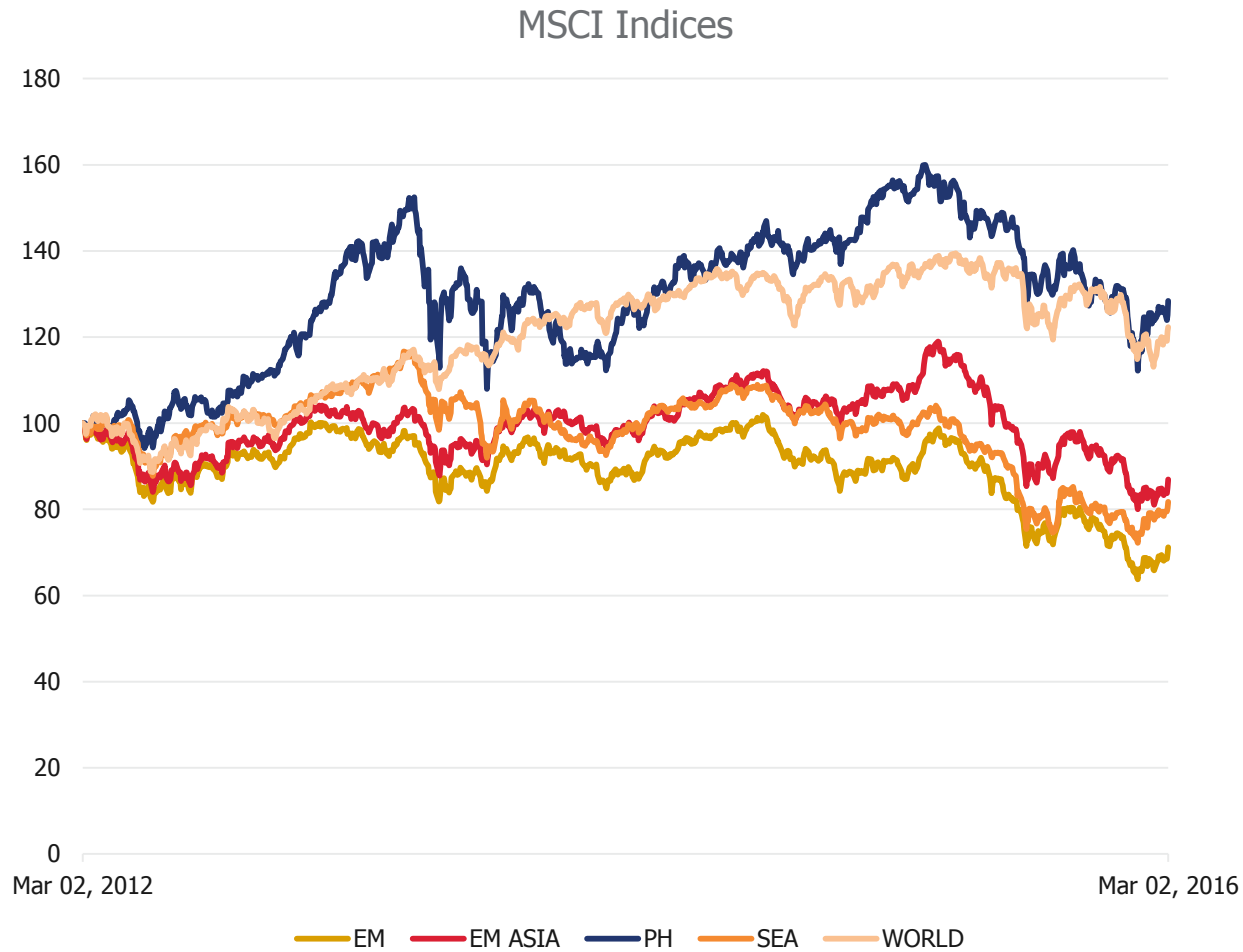
Exports



Imports

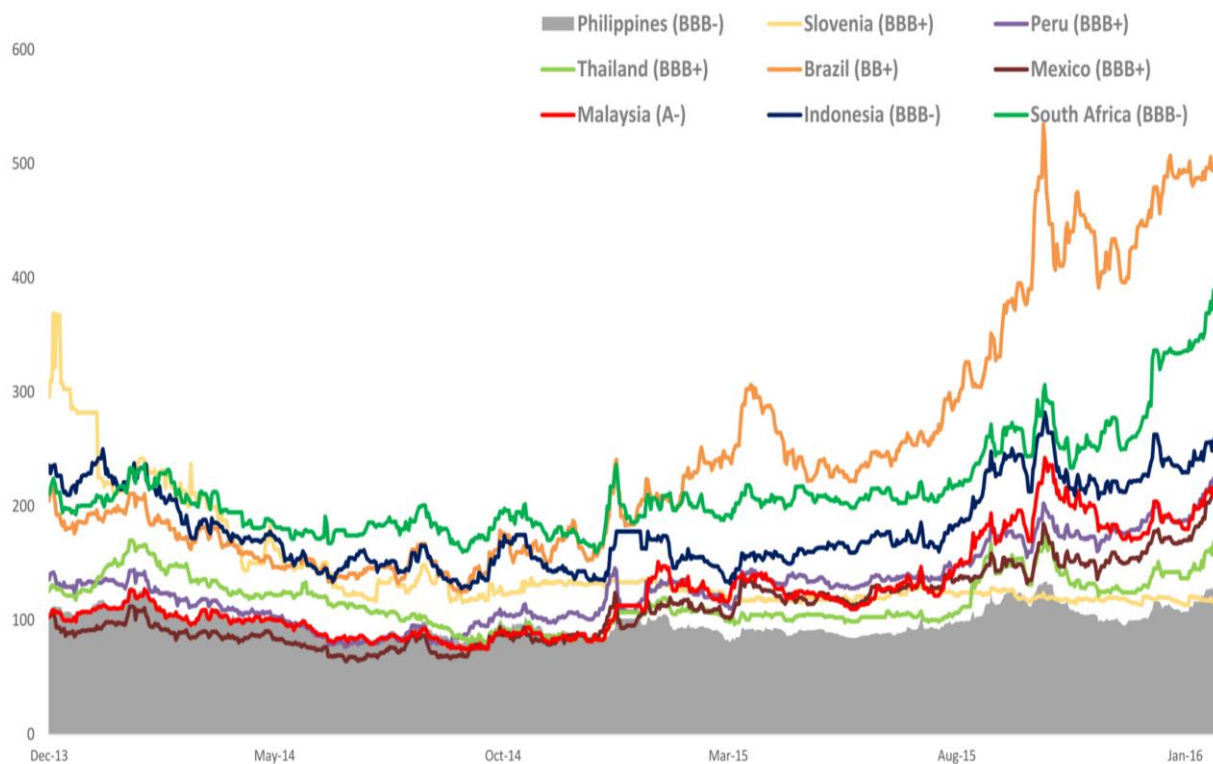


Growth is strong compared to advanced and emerging economies

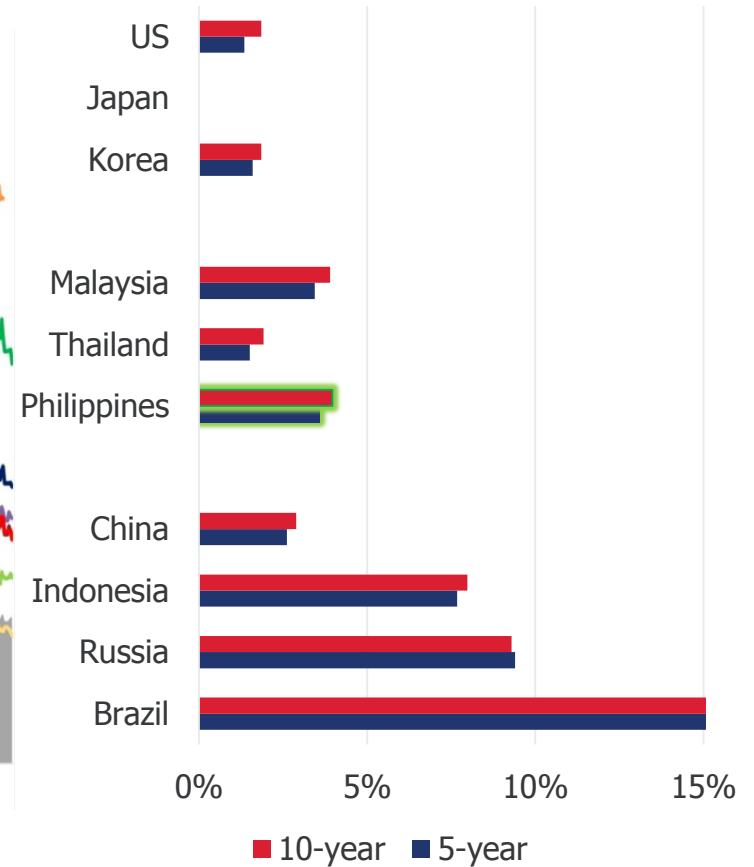


Credit strengths are recognized/appreciated by investors

5-year sovereign CDS spreads (basis points)

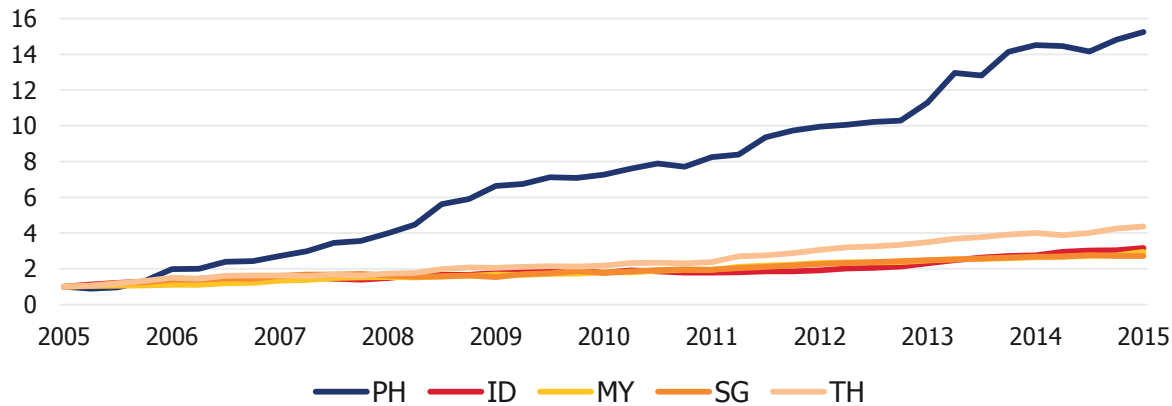


Sovereign Bond Yields



Domestic bond market has grown rapidly over the past 10 years

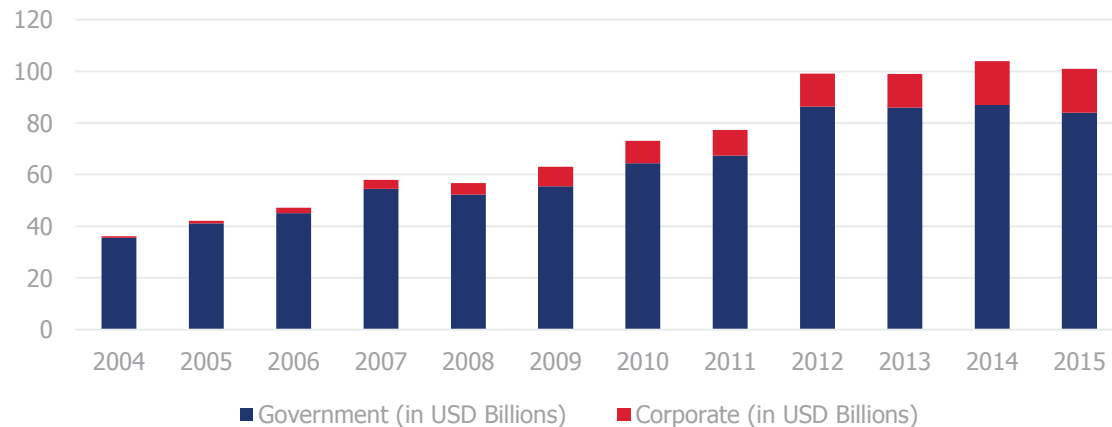
ASEAN-5 Bond Market Growth



- Philippine bond market still remains smaller than other ASEAN markets but has grown rapidly over the past 10 years

- Huge room for growth in Philippine corporate issuances – accounts for only 17% of total outstanding PH bonds

Chart Title



PH Corporate issuances growing in size and tenor



Aboitiz Equity Ventures

Number of bonds outstanding: 5

Total amount outstanding: PHP 32.1 billion
(USD 692 million)

Tenors: 5, 7, 10, 12



SM Investments

Number of bonds outstanding: 5

Total amount outstanding: PHP 31 billion
(USD 669 million)

Tenors: 7, 10



Ayala Land, Inc.

Number of bonds outstanding: 7

Total amount outstanding: PHP 51.8 billion
(USD 1.1 billion)

Tenors: 7, 10, 10.5, 11, 20



JG Summit Holdings, Inc.

Number of bonds outstanding: 3

Total amount outstanding: PHP 29.9 billion
(USD 645 million)

Tenors: 5.5, 7, 10



San Miguel Brewery

Number of bonds outstanding: 6

Total amount outstanding: PHP 37.8 billion
(USD 815 million)

Tenors: 5, 7, 10



GT Capital






Number of bonds outstanding: 5

Total amount outstanding: PHP 22 billion
(USD 475 million)

Tenors: 5, 7, 10

The Philippines is committed to investing in infrastructure through its robust PPP program

Some of the awarded PPP projects

				
Daang-Hari Link	School Infra Project	Automatic Fare Collection System	Mactan-Cebu Airport	Light-Rail Transit Extension
Started operation on 24 July 2015	As of 15 Dec 2015: 9,296 classrooms (100%) completed and delivered	Full System Acceptance on 16 December 2015	As of 30 November 2015: 8.43% completed. Projected to be completed by Feb 2018	Handover of O&M to Light Rail Manila Corporation held on 12 Sept 2015; & Ongoing pre-construction activities for extension

- The PH Government has awarded a total of 12 projects for a cost of **USD 4.46 billion**

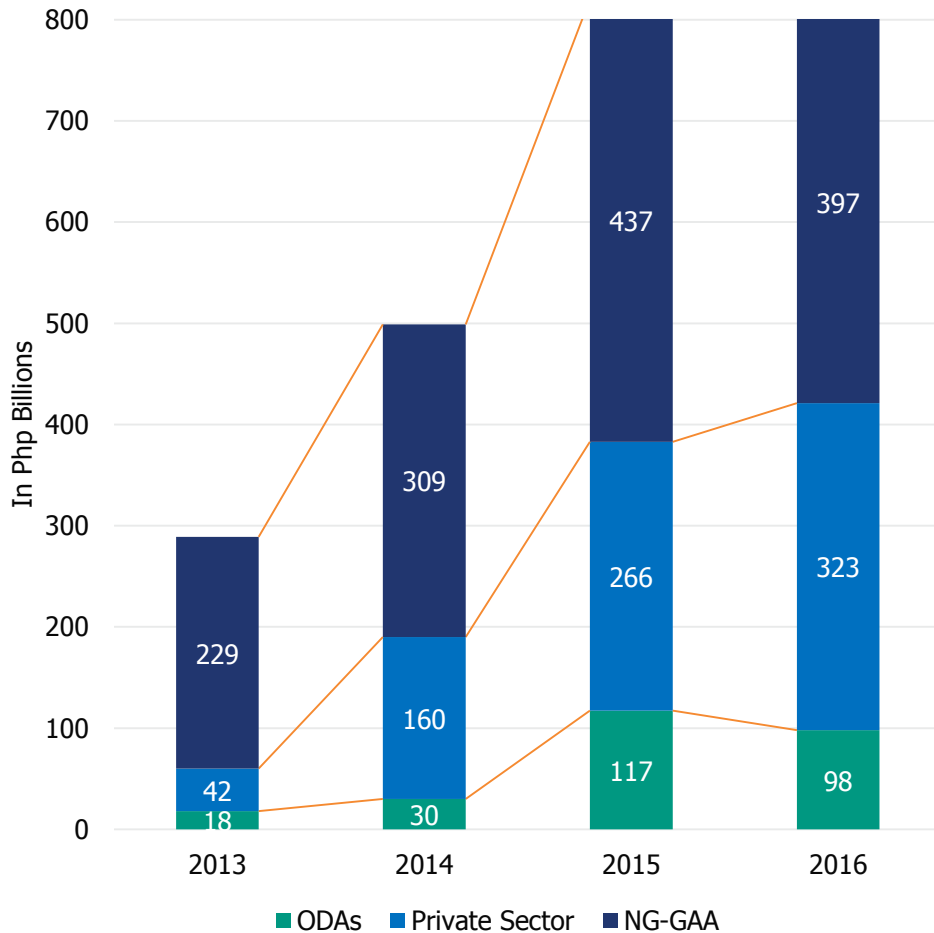
Still in the PPP Pipeline

				
Laguna Lakeshore	North-South Rail	Regional Prison Facility	Davao Sasa Port	Iloilo Airport

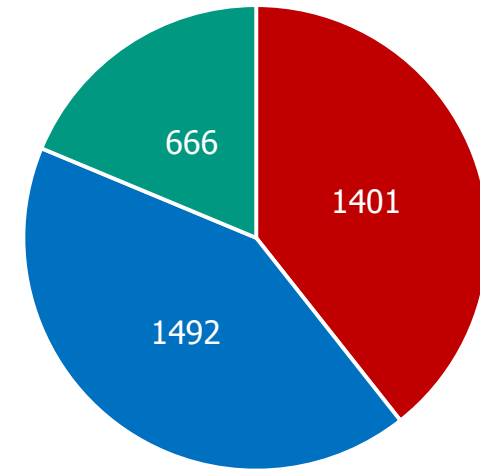
- Huge projects are still lined up for procurement for a total cost of **USD 12.37 billion**

Healthy infrastructure pipeline

Investment Targets by Funding Sources



2017++

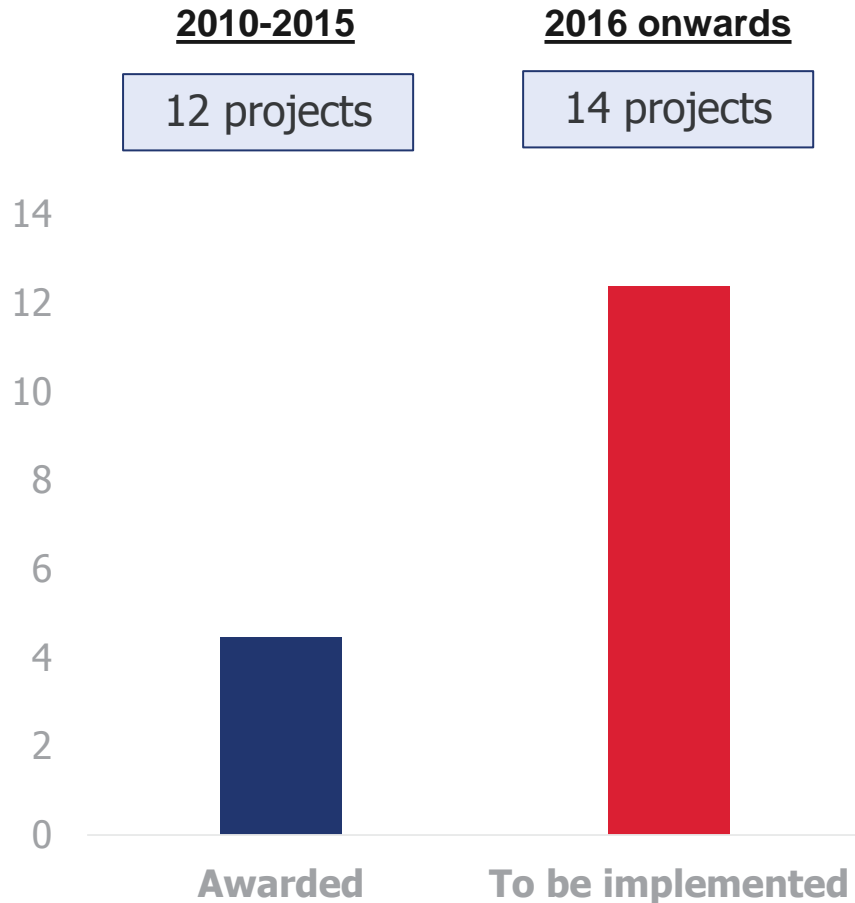


■ NG-GAA ■ Private Sector ■ ODA

Over the next few years, according to NEDA, Government's programmed infrastructure projects alone will require over USD 43 Billion in private financing

Financing options have to adapt to increasing infrastructure demand

PPP Project Pipeline (USD billion)



Limitations to Bank Financing

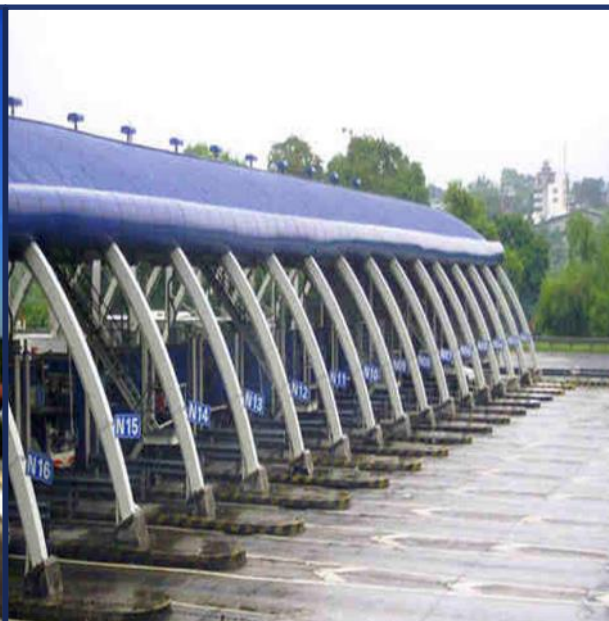
- Single-Borrower's Limit caps bank lending to a single entity to 25% of the bank's equity capital
 - BSP extension of additional 25% SBL limit for PPP projects (for a total of 50%) is set to expire in 2016
 - The 20% loan portfolio limitation on real estate loans for banks is an additional obstacle for projects such as the Laguna-Lakeshore project
- Higher capital requirements from Basel III limit the availability of bank financing

Recent debt issuances on infrastructure projects



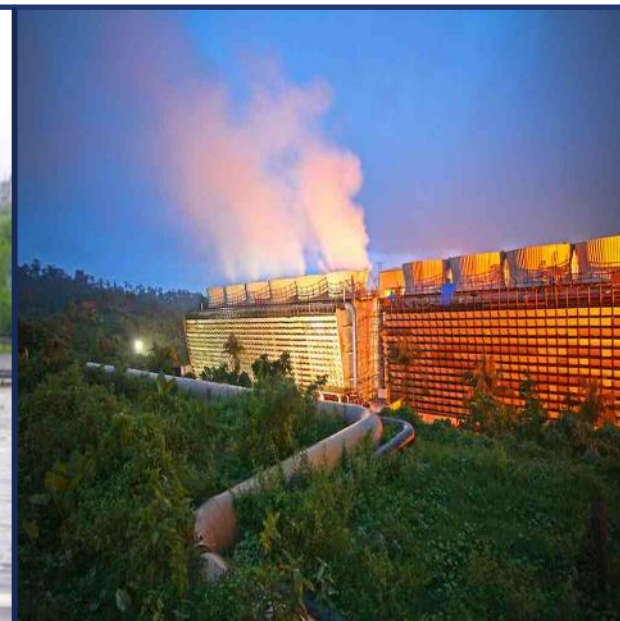
South Luzon Tollways

- Amount: PHP 7.3 billion (USD 157 million)
- Maturity: 5, 7, 10 years
- Coupon: 5% - 6.5%
- Used to refinance existing debt



Manila North Tollways

- Amount: PHP 7 billion (USD 151 million)
- Maturity: 7, 10 years
- Coupon: 5% - 5.5%
- Used to fund expansion of tollways



Aboitiz Power Tiwi-Makban

- Amount: PHP 10.7 billion (USD 230 million)
- Maturity: 10 years
- 75% guaranteed by ADB
- Used to restructure the firm's capital

Challenges and Opportunities

1. Credit Ratings

- Local ratings agencies lack experience in rating more sophisticated products
- Currently no presence of international ratings agencies
- Reluctance of local market to accept ratings other than Aaa
- ✓ Technical assistance from JICA and JCR



Japan Credit Rating Agency, Ltd.



2. Regulations on Insurance companies

- Current insurance investment regulations make cash flow based investments very costly due to high capital charges
- ✓ Need for capacity building for the insurance industry

Challenges and Opportunities

3. Tax regulations

- Tax breaks which were initially placed to incentivize long-term lending when the capital market was thin is now an impediment to development
 - ✓ Opportunity for comprehensive tax reform in the next administration

4. Information Consolidation and Digitization

- Information, especially for private corporations, are not in a digital database
 - ✓ Technical assistance from JICA on acquiring new systems



5. Benchmark Rate Construction Issues

- Illiquid securities present problems for pricing bonds
 - ✓ Regulators firming up rules on interest rate products



**Thank you and
Mabuhay!**

