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Interactions between Government Domestic Borrowing Needs and the Corporate Sector

by

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Presented by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Government Blazing the Trail
Interaction Between Government and Corporate
Borrowing Needs

8th International Debt Management Conference
United Nations Conference on Trade and Development (UNCTAD)
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Roberto Juanchito T. Dispo
President
First Metro Investment Corporation
Outline

- Overview of the Philippine Economic Environment
- Bond Market Review
- Philippine Financial Instruments
- Interaction Between Government and Corporate Borrowings
- World Association of Debt Management Offices (WADMO)
Regain Access to the Capital Markets

- The Philippines relied greatly on foreign funds in the 1970’s. Between 1973 and 1982, the country's indebtedness increased an average of 27% per year.

- In 1966, before the Marcos Administration foreign debt stood below USD 1 Bn. Total debt rose from USD 13 Bn in 1979 to USD 28 Bn in 1986, during the People Power Revolution.

- In 1983, the Philippine Government declared a debt moratorium on its payments.

- Government negotiators dealt mainly with three groups of creditors: the IMF, the Paris Club and the commercial bank creditors.


- In the 1990’s, the Philippines regained access to the Capital Markets particularly the Euro Bond Market.

The Library of Congress Country Studies, CIA World Factbook
Sustained Economic Growth

GDP Growth Rates

- Optimistic numbers compared to global economy
- Result: Improved Credit Rating to BB+ (Fitch Ratings)
- Gross International Reserves (GIR) at USD 76.0 Bn in Aug, 2011
- GIR is equivalent to 11.2x short-term external debt based on original maturity and 1.25x total foreign debt.
- Government buys back USD 1.5 Bn foreign bonds in Oct, 2011

Source: International Monetary Fund
Bangko Sentral ng Pilipinas

Philippines GDP Growth 7.6% in 2010

Developing Asia
Philippines
World

GDP Growth Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>World Bank</td>
<td>5.0</td>
<td>5.4</td>
</tr>
<tr>
<td>ADB</td>
<td>4.7</td>
<td>5.1</td>
</tr>
<tr>
<td>The Economist Poll</td>
<td>4.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Foreign Debt vs International Reserves (USD Mn)

Note: FX Exchange PHP 43 to USD 1
Inflation is within the 3-5% 2011-2014 target range stated by the Bangko Sentral ng Pilipinas.

Historical lows in interest rates across the benchmark board

Anemic world growth prospects = Downward trend in commodity prices

Source: Bangko Sentral ng Pilipinas, National Statistical Coordination Board
Raw data from Philippine Dealing Exchange
Excess Liquidity in the Economy

**Rate of Savings vs Investment**

- **2011**
  - Savings 50.5%
  - Investment 22.6%

- **Note:** FX Exchange PHP 43 to USD 1
  - Source: Raw data from the Bangko Sentral ng Pilipinas, NSCB and Department of Trade and Industry

- There is a potential to tap retail investors looking for outlets aside from their Current and Savings Accounts.
- Remittances totaled USD 18.8 Bn in 2010 while the BPO Industry totaled USD 8.9 Bn in industry size.

**OFTW Remittances Growth Rate and Volume**

- **Deployment**
  - 868 K

- **Volume**
  - 1,471 K

**Business Process Outsourcing Industry Size**

- **Full-time Employees**
  - 8.9
  - 530 K

- **USD Billions**
  - 3.2
  - 4.8% of GDP

Note: FX Exchange PHP 43 to USD 1
Source: Raw data from the Bangko Sentral ng Pilipinas, NSCB and Department of Trade and Industry
Special Deposit Accounts (SDA): Unique Measure to Mop Out Liquidity

- SDA Rate is pegged at 4.5%. T-Bill rate already dropped to less than 2%.
- SDA volumes are much higher than the Reverse Repurchase Agreements (RRP).
- SDA volumes amount to 88% of the National Budget proposed for 2012 (USD 42.7 Bn) and 82% of Outstanding Foreign Debt (USD 45.7 Bn)

Source: Raw data from the Bangko Sentral ng Pilipinas
FX Exchange is based on the average FX Yearend Rates
Data as of the end of September 2011
Deficits are manageable at USD 6.94 Bn in 2009 and USD 7.31 Bn in 2010.

- Government balances have improved with manageable deficits and now run a primary surplus.
- Debt composition continues to be rebalanced towards domestic sources to avoid currency risks and fluctuations in the global economy.

Source: Department of Finance, Philippines
Note: FX Exchange of PHP 43 to USD 1
Debt Ratios are on a steep and steady downward pace. External debt service is manageable and has been cut by half in six years.

Landmark liability management transactions has caused a shift to long-term debt maturities and lowered costs.
Philippine Bond Market Size and Dynamics

SECTION: BOND MARKET REVIEW

Note: FX Exchange of PHP 43 to USD 1
Source: Raw data from ADB

- Bond market size as % of GDP is still at 55% for 2010.
- Less dependence on offshore bonds, increasing corporate issuances and developing aggregate bond market

Source: Raw data from ADB
Overwhelming Demand for Government and Corporate Peso Bond Issuances

<table>
<thead>
<tr>
<th>Oversubscription</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>2.06x</td>
<td>2.49x</td>
</tr>
<tr>
<td>Corporate (Major Issuers)</td>
<td>2.4-4.0x</td>
<td>2.0-7.4x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarterly Turnover Ratio</th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>0.31</td>
<td>0.64</td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>0.12</td>
</tr>
</tbody>
</table>

- Oversubscription was computed using the volume tendered over volume offered for the government and corporate bond issuances.
- To analyze the depth of the market, the turnover ratio was used and is derived by the total volume over the outstanding supply of bond issuances.
- Second to China in terms of the quarterly turnover ratio

Source: Raw data from ADB
Over the years, the government continues to diversify into a wide array of products which:
- Address financing requirements
- Mitigate currency risk
- Develop onshore markets
- Expand to new markets aside from the USD dependence

Source: Bureau of Treasury, Philippines
## Mature Capital Market

### Wide Range of Financial Instruments

<table>
<thead>
<tr>
<th>Government</th>
<th>Philippine Peso</th>
<th>Foreign Currency Denominated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Rate Treasury Notes</strong></td>
<td>Treasury Bills</td>
<td>Global Bonds</td>
</tr>
<tr>
<td><strong>Fixed Rate Promissory Notes</strong></td>
<td>Benchmark Bonds</td>
<td>Republic of the Philippines Bonds (ROPs)</td>
</tr>
<tr>
<td><strong>Retail Treasury Bonds</strong></td>
<td>Zero-Coupon Bonds</td>
<td>Multi-Currency Retail Treasury Bonds</td>
</tr>
<tr>
<td><strong>Global Peso Bonds</strong></td>
<td>Progress Bonds</td>
<td></td>
</tr>
</tbody>
</table>

### Government-Owned & Controlled Corporations (GOCC) Bonds & Notes

<table>
<thead>
<tr>
<th>GOCC</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Home Development Mutual Fund</td>
<td>Development Bank of the Philippines</td>
<td></td>
</tr>
<tr>
<td>Home Guaranty Corporation</td>
<td>Land Bank of the Philippines</td>
<td></td>
</tr>
<tr>
<td>National Development Corporation</td>
<td>National Home Mortgage and Finance Corporation</td>
<td></td>
</tr>
<tr>
<td>National Food Authority</td>
<td>Philippine Ports Authority</td>
<td></td>
</tr>
<tr>
<td>National Power Corporation</td>
<td>Power Sector Assets and Liabilities Management</td>
<td></td>
</tr>
</tbody>
</table>
Mature Capital Market

Wide Range of Financial Instruments

<table>
<thead>
<tr>
<th>Corporate</th>
<th>Retail Bonds</th>
<th>Tier 2 Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>Retail Bonds</td>
<td>Tier 2 Notes</td>
</tr>
<tr>
<td>BEACON</td>
<td>energy</td>
<td>DBP</td>
</tr>
<tr>
<td>Meralco</td>
<td>Filinvest</td>
<td>Landbank</td>
</tr>
<tr>
<td>Petron</td>
<td>Ayala</td>
<td>PNB</td>
</tr>
<tr>
<td>SM Prime Holdings</td>
<td>Pancake House</td>
<td>RCBC A YGC Member</td>
</tr>
<tr>
<td>UCPB</td>
<td>PNB</td>
<td></td>
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</tbody>
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Long-Term Negotiable Certificate of Deposits

<table>
<thead>
<tr>
<th>Tier 1 Notes</th>
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</thead>
<tbody>
<tr>
<td>Royal Capital BV</td>
</tr>
</tbody>
</table>

Term Loan

<table>
<thead>
<tr>
<th>Perpetual Shares</th>
<th>Preferred Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Globe</td>
<td>First Gen</td>
</tr>
<tr>
<td>San Miguel Pure Foods</td>
<td></td>
</tr>
</tbody>
</table>
The Role of the Government is to \textit{“Trailblaze”} the Capital Markets, Setting the Precedent for Subsequent Corporate Issuances in Terms of Currency, Liability Management and Structure.
### Onshore Peso Fund Raising

#### Government
- **Inception:** 2001

Note: FX Exchange of PHP 43 to USD 1

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#### Peso Retail Treasury Bonds (rTB)
- **Denomination:** PHP 5,000 (USD 116)
- **At least 55% to Retail Investors**
- **Cumulative PHP Raised:** PHP 875 Bn (USD 20.3 Bn) from 2001 to 2011

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#### Retail Bonds
- **Retail Sales Obligation**
- **Diversification of Investor Base**
- **Listed in the Philippine Dealing Exchange Corporation (PDEX)**

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#### Corporate Retail Bonds
- **Denomination:** PHP 50,000 (USD 1,163)

1. **Ayala Corporation**
   - PHP 10 Bn (USD 233 Mn) Multiple Put Bonds
   - At least 93% to Retail Investors

2. **San Miguel Brewery, Inc.**
   - PHP 38.8 Bn (USD 902 Mn) Retail Bond
   - Largest corporate bond issue
   - Enjoys active secondary trading

3. **Energy Development Corporation of the Lopez Group**
   - PHP 12 Bn (USD 279 Mn) Retail Bond
   - Tapped the local debt market to retire Yen and US debt to mitigate FX risks
**SECTION: INTERACTION BETWEEN GOVERNMENT AND CORPORATE BORROWINGS**

**Government**
Inception: 2006

*Note: FX Exchange of PHP 43 to USD 1*

**Corporate**
SM: October 13, 2010
Ayala: January 19, 2011

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**Debt Exchange**
- Maturity extension
- Liability management
- Redirect short-term debt payments towards priority projects
- Reduction of short-term refinancing risk

**SM Investments Corporation Bond Exchange**
First Corporate Bond Exchange done offshore

- **BONDS**
  - USD 196.6 Mn 2013
  - USD 500 Mn 2014

**Ayala Land, Inc. Note Exchange**

- **PHP 1.8 Bn (USD 42 Mn)**
  - Existing Corporate Note issued on Sept 20, 2006

**New Notes**
Part of the PHP 10 Bn (USD 233 Mn) Note Facility with tenors of 5, 7 and 15 Years

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**6th Debt Consolidation Program (Domestic Bond Exchange)**

July 2011, Largest Bond Exchange by the Republic

- ~ PHP 946 or USD 22 Bn issued since 2006

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**Offshore/Onshore Fund Raising**
### Offshore Fund Raising

#### Asia’s 1st Global Local Currency Debt Issue
- **1st Global Peso Bond** (USD 1 Bn)
  - 10-year bond
  - 13x Oversubscribed
  - Priced at a 23% discount to local benchmark, reducing borrowing cost
- **2nd Global Peso Bond** (USD 1.25 Bn)
  - 25-year bond
  - Asia (21%), US (46%), Europe (33%)
- **Global Bond** (USD 1.5 Bn)
  - 15-year Republic of the Philippines Bonds (US SEC-Registered)
  - Asia (40%), US (30%), Europe (30%)

#### Global Bonds
- Natural hedge
- Outlook, stronger Philippine Peso, renewed confidence in emerging markets
- Oversubscription demonstrated strong global appetite
- Greater participation by offshore investors

#### Petron Corporation Global Peso Bond or Reg S Peso Eurobonds
- 1st corporate to sell peso-denominated bonds in the international debt capital markets
  - PHP 20 Bn (USD 465 Mn)
  - 7-year Reg-S bonds
  - Asia (48%), Europe (24%), Philippines (28%)

### Government
- September 10, 2010 (1st Global Peso)
- January 5, 2011 (2nd Global Peso)
- March 22, 2011 (Global Bond)

### Corporate
- November 10, 2010

Note: FX Exchange of PHP 43 to USD 1
Onshore Fund Raising

**Fixed Rate Multi-Currency Retail Treasury Bonds (MrTB)**
- Denomination USD 100 or EUR 100
- Issue Size: USD 400 Mn and EUR 75 Mn
- At least 20% for Retail Investors
- Targeted to Overseas Filipino Workers (OFWs) in the US, Europe, Asia and Middle East
- 20% Tax Exemption on the Withholding Tax on Interest Income for OFWs

**Multi-Currency Retail Bonds**
- Retail Sales Obligation
- To help mop up excess USD liquidity of the Republic of the Philippines Banking System

**Potential Opportunity**
- Large food conglomerates as candidates for possible dollar onshore public issuances
- Targets Philippine companies with FX requirements.

Government
April 29, 2010

Corporate
Target: 2012

Note: FX Exchange of PHP 43 to USD 1
Offshore Fund Raising

Potential Opportunity for the Government and Corporate Sector

Offshore RMB Bond Offering

- To be issued in Hong Kong either through dimsum bonds or synthetic bonds
- Ideal for Philippine corporations with China operations
World Association of Debt Management Offices ("WADMO")

- **Main objective of WADMO**: Offer debt management professionals a forum to discuss technical matters of common interest at the international level.

- Goals of WADMO shall be accomplished through meetings, seminars and congresses, a publication of regular periodicals and special reports etc.

- During the 1st Conference on Debt Management organized by UNCTAD in December 1997, representatives of the Bureau of the Treasury of the Philippines tabled a proposal for the creation of a professional association of debt managers.

- UNCTAD helped establish the World Association of Debt Management Offices (WADMO)

- First general assembly was on 6 April 2000, wherein the Treasurer of the Philippines was elected President. Currently, Mr. Omar T. Cruz assumes the functions of Treasurer of the Philippines and President of WADMO.
WADMO Objectives and Membership

WADMO is an autonomous and non-profit making organization dedicated to the support and advancement of the following purposes:

- to promote and develop understanding and cooperation amongst Debt Management Offices;
- to strengthen information gathering systems and information exchange amongst Debt Management Offices;
- to share country and regional experiences in effective debt management;
- to assist Debt Management Offices to gain access to technical assistance and training through referrals to relevant agencies;
- to facilitate access to funding and other assistance, through referrals to relevant bilateral and multilateral agencies, for the development and implementation of effective debt management programmes; and,
- to assist Debt Management Offices in advising their respective governments in the formulation of appropriate debt policies and strategies.

Membership of WADMO shall be open to all offices whose prime function is to manage a country's public debt.

Membership is also open to all associations sharing similar objectives. Individuals whose major professional interest lies in the area of public debt management may become 'friends' of the association.
Conclusion

• The Philippine economy has sustained its growth and expands at a healthy pace. The country is virtually unscathed by the global crisis due to strong remittances and expanding business process outsourcing activities.

• There is a rapidly developing bond market due to dropping interest rates, excess liquidity and high savings rates.

• The Philippine Government and the corporate sector produce a wide range of financial instruments to diversify and develop the capital markets.

• The role of the Government is to “trailblaze” the capital markets, setting the precedent for subsequent corporate issuances in terms of currency, liability management and structure.

• **WADMO** is an autonomous and non-profit making organization which aims to offer debt management professionals a forum to discuss technical matters of common interest at the international level.

• **First Metro Investment Corporation** under the Metrobank Group, is the first and only listed investment bank in the Philippine Stock Exchange. It remains a prime mover in the domestic capital markets with more than 70% market share in 2011. First Metro’s commitment to the development of the capital markets is supported by its programs to help build capital awareness and its innovative products and opportunities for both the government and corporate sector.