



Eighth UNCTAD Debt Management Conference

Geneva, 14 - 16 November 2011

Interactions between Government Domestic Borrowing Needs and the Corporate Sector

by

Mr. Roberto Juanchito T. Dispo

President / Director, First Metro Investment Corporation
Republic of the Philippines

Presented by

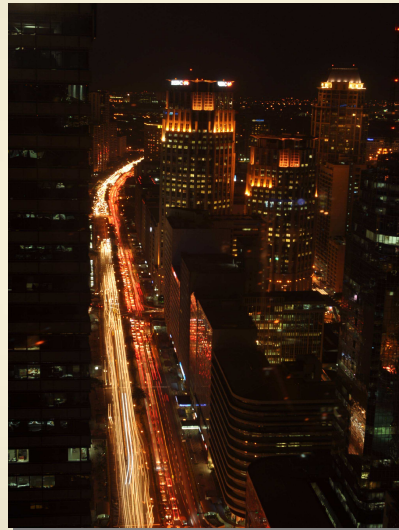
Mr. Roberto B. Tan

Treasurer, Bureau of the Treasury, Republic of the Philippines

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)
November 14-16, 2011 Geneva, Switzerland



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)

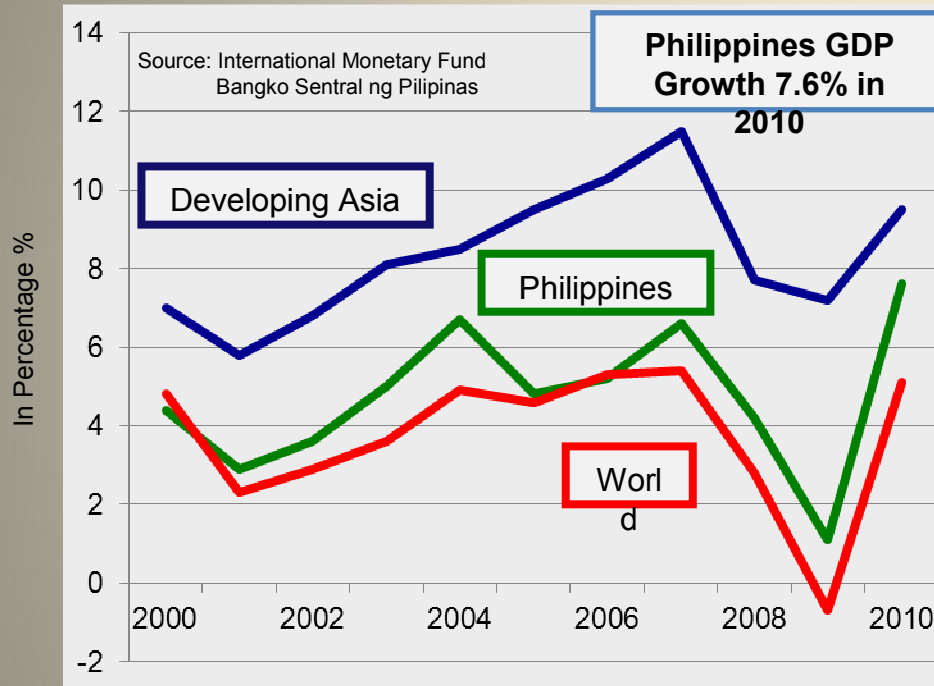
Regain Access to the Capital Markets



- 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.
- The Brady Plan, a “3-pronged program”, rescheduled debt due in 1990-1994.
- In the 1990's, the Philippines regained access to the Capital Markets particularly the Euro Bond Market.

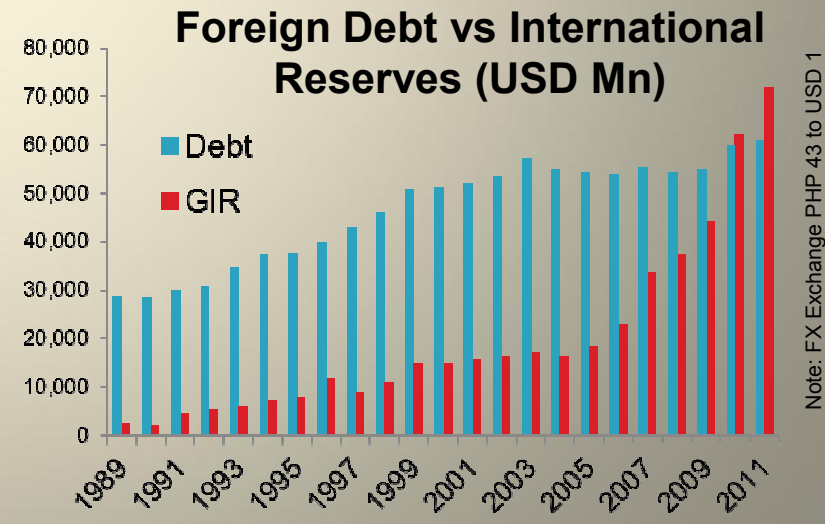
Sustained Economic Growth

GDP Growth Rates



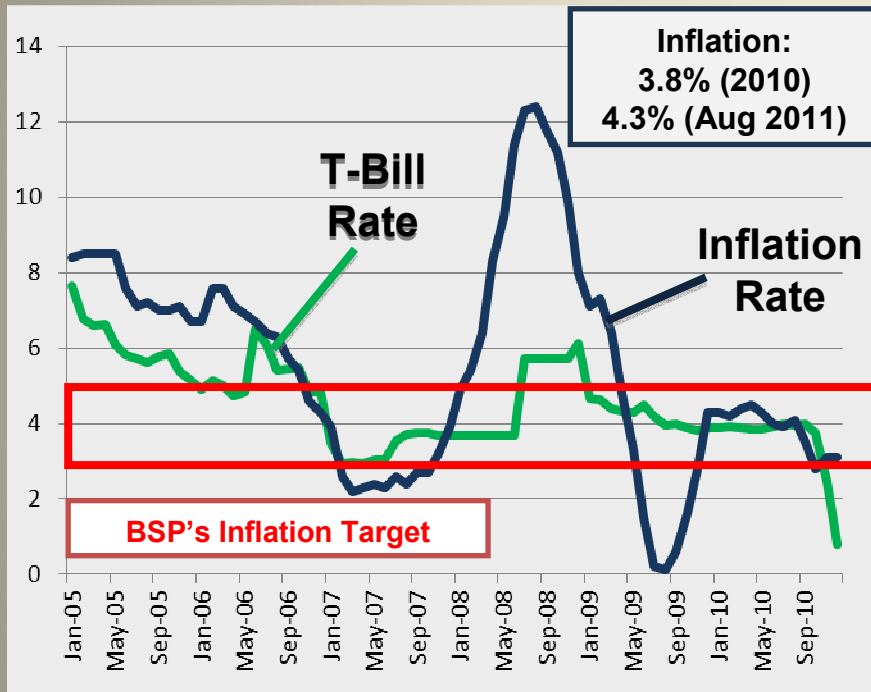
	2011	2012
Official Assumptions	4.5 - 5.5	5.0-6.0
IMF	4.7	4.9
World Bank	5.0	5.4
ADB	4.7	5.1
The Economist Poll	4.7	5.0

- 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

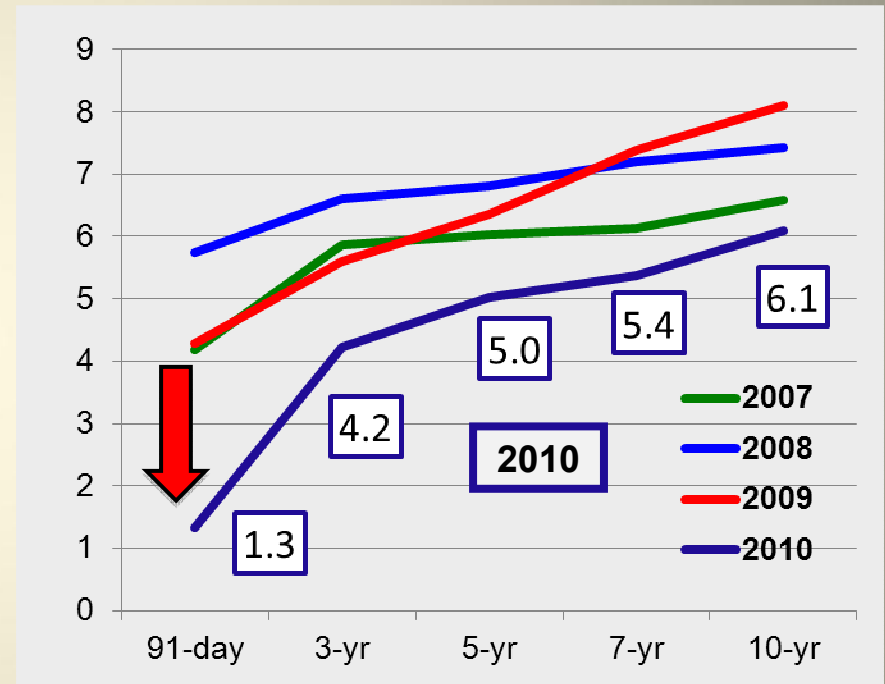


Declining Cost of Goods and Money

Inflation Rates



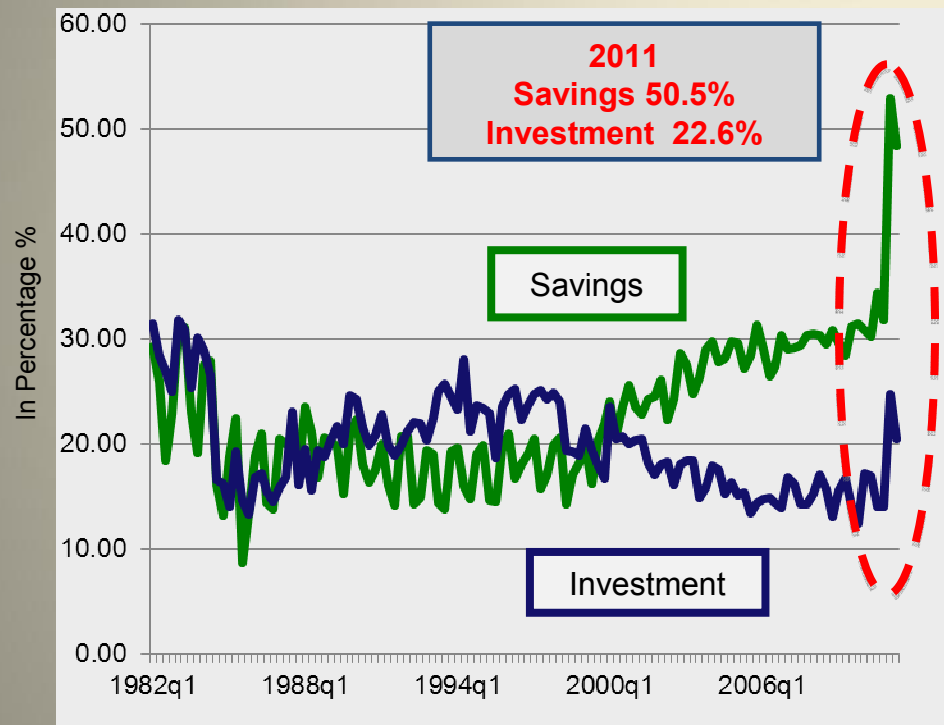
Interest Rates



- 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

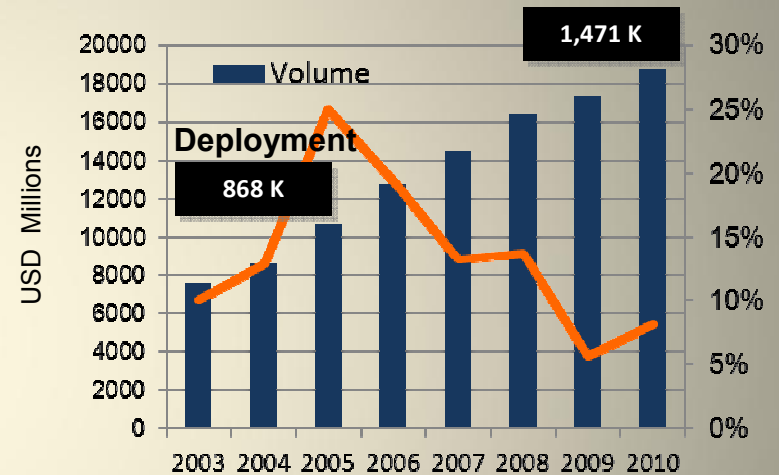
Excess Liquidity in the Economy

Rate of Savings vs Investment

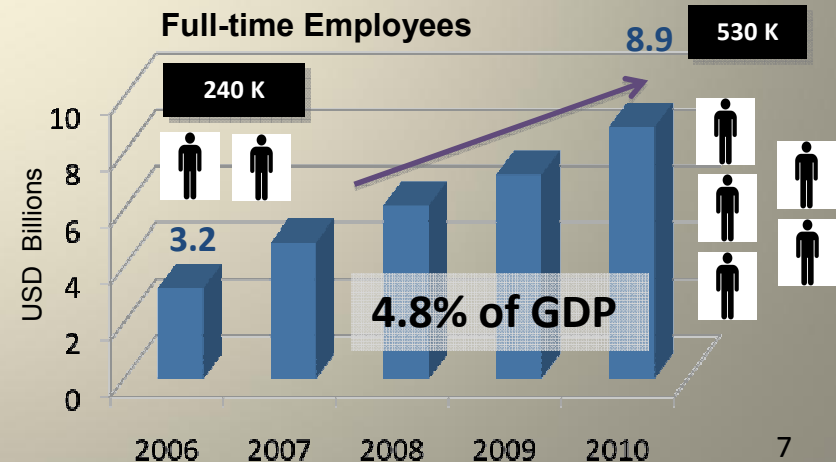


- There is a potential to tap retail investors looking for outlets aside from their Current and Savings Accounts.
- Remittances totaled USD 18.8 Bn in 2010 while the BPO Industry totaled USD 8.9 Bn in industry size.

OFW Remittances Growth Rate and Volume



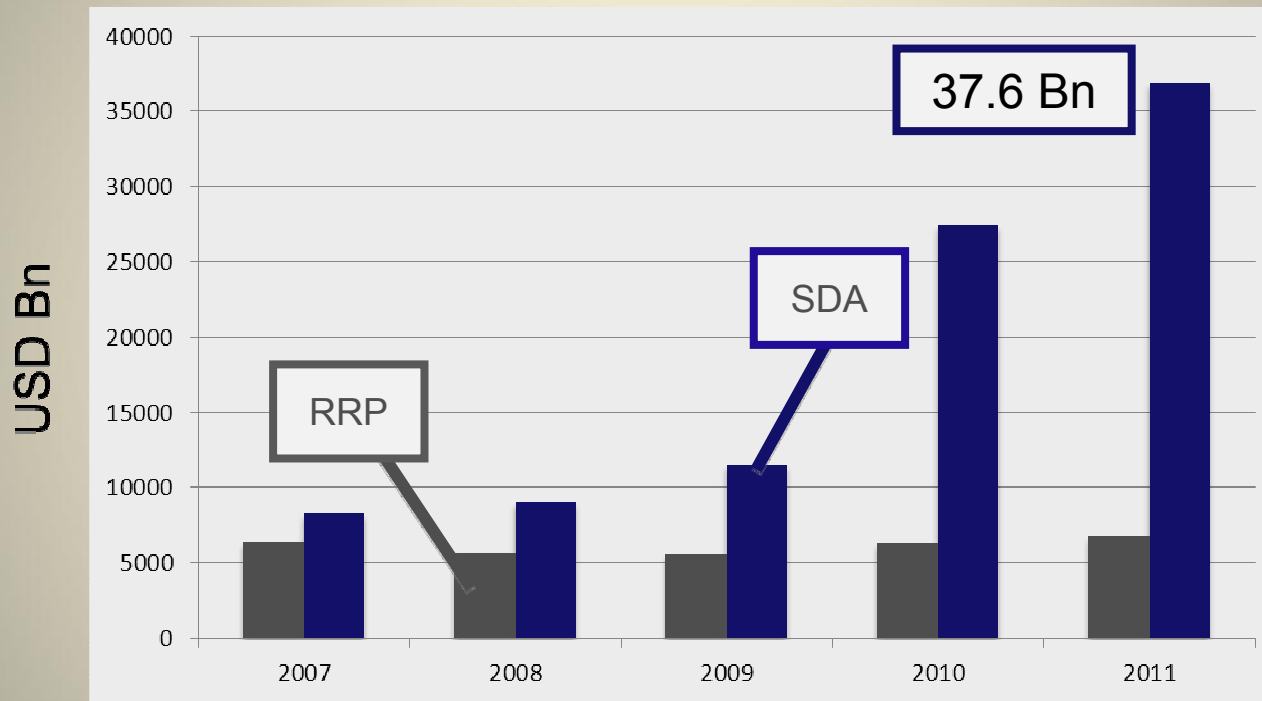
Business Process Outsourcing Industry Size



Note: FX Exchange PHP 43 to USD 1

Source: Raw data from the Bangko Sentral ng Pilipinas, NSCB and Department of Trade and Industry

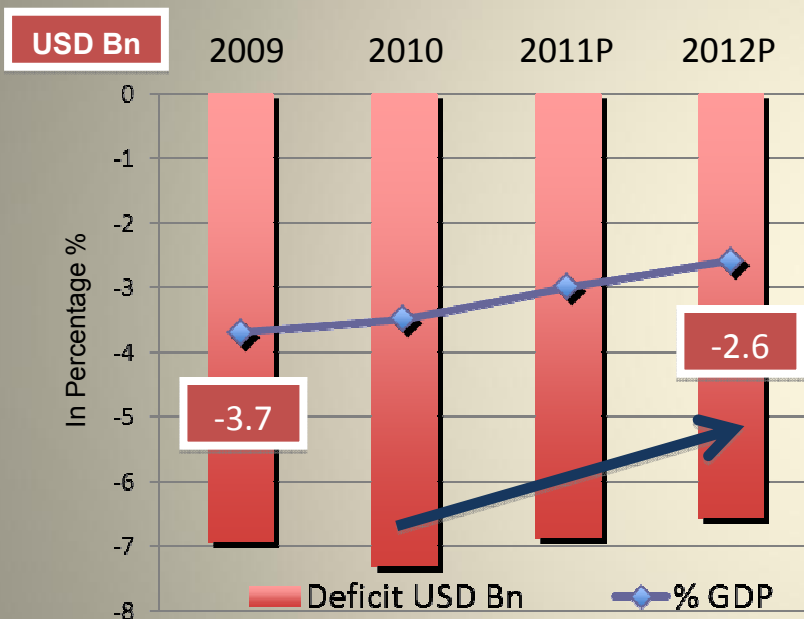
Special Deposit Accounts (SDA): Unique Measure to Mop Out Liquidity



- **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)

Government Borrowings

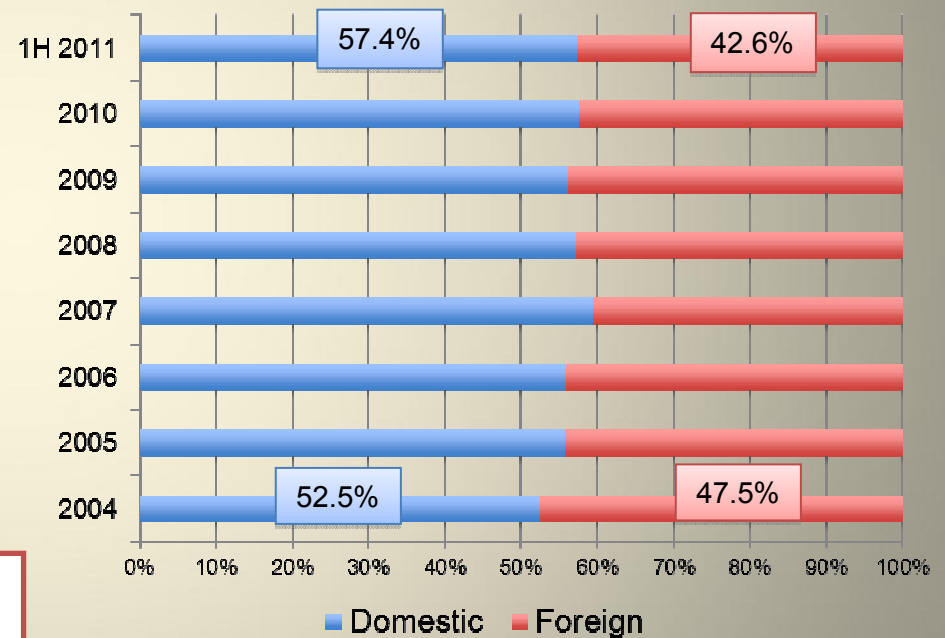
Government Deficit



Deficits are manageable at USD 6.94 Bn in 2009 and USD 7.31 Bn in 2010.

Share of Debt

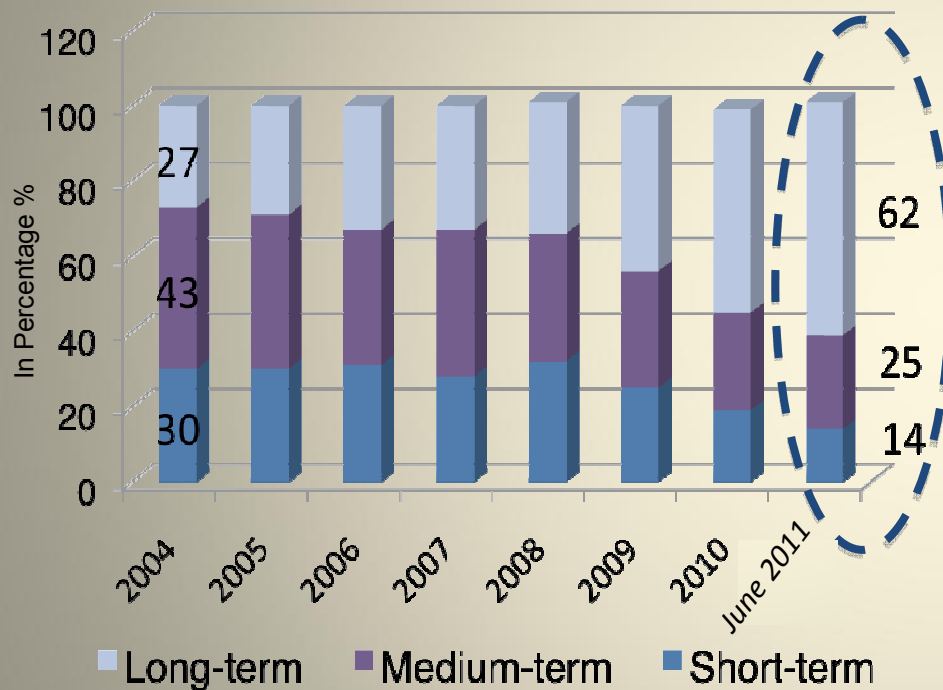
As % of Total National Government Debt



- 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.

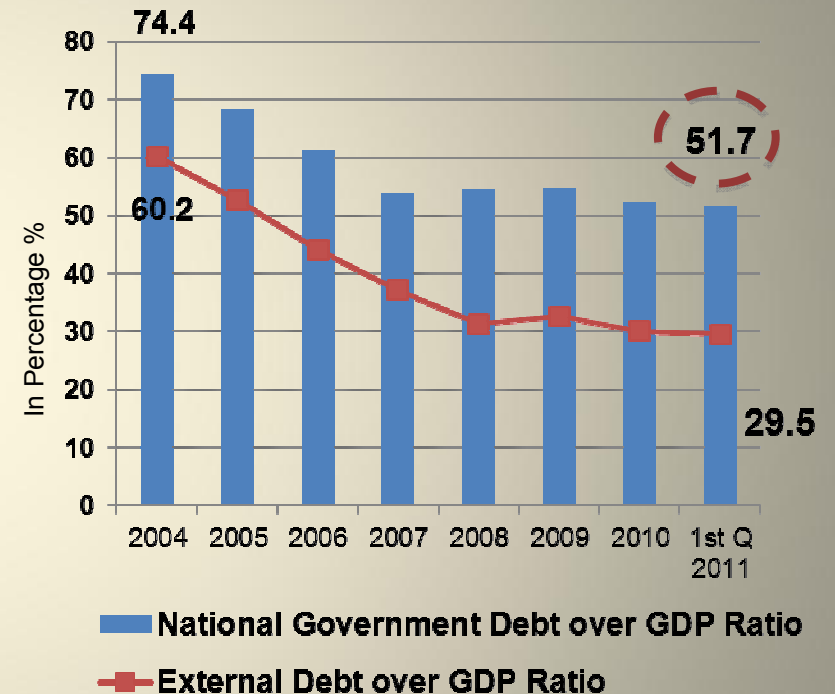
Government Borrowings

Domestic Debt Maturities



Landmark liability management transactions has caused a shift to long-term debt maturities and lowered costs.

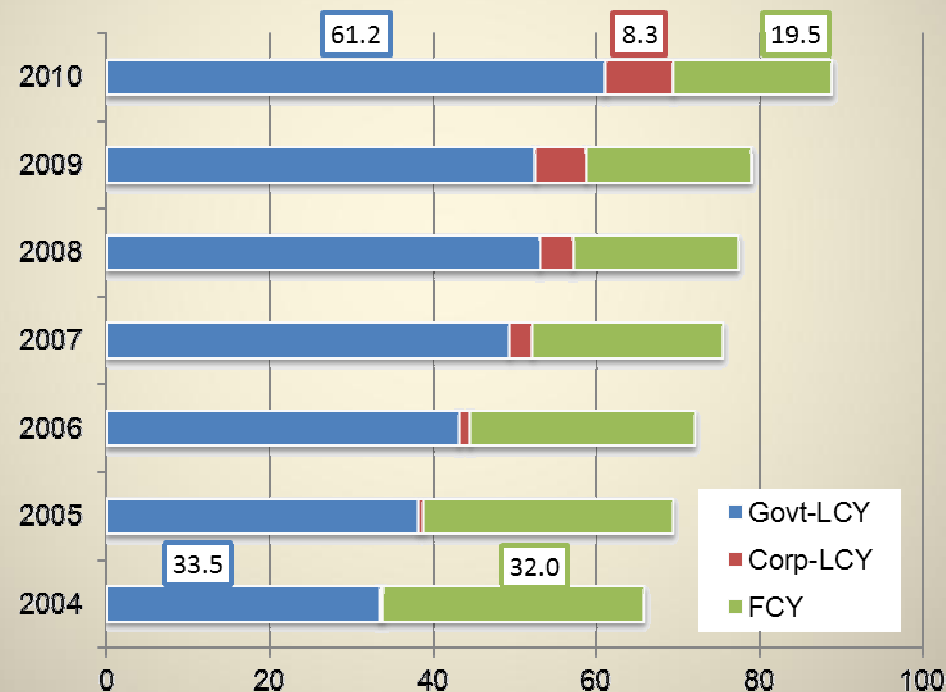
Government Debt on GDP



- Debt Ratios are on a steep and steady downward pace.
- External debt service is manageable and has been cut by half in six years.

Philippine Bond Market Size and Dynamics

Bond Market Size (USD Mn)



- 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

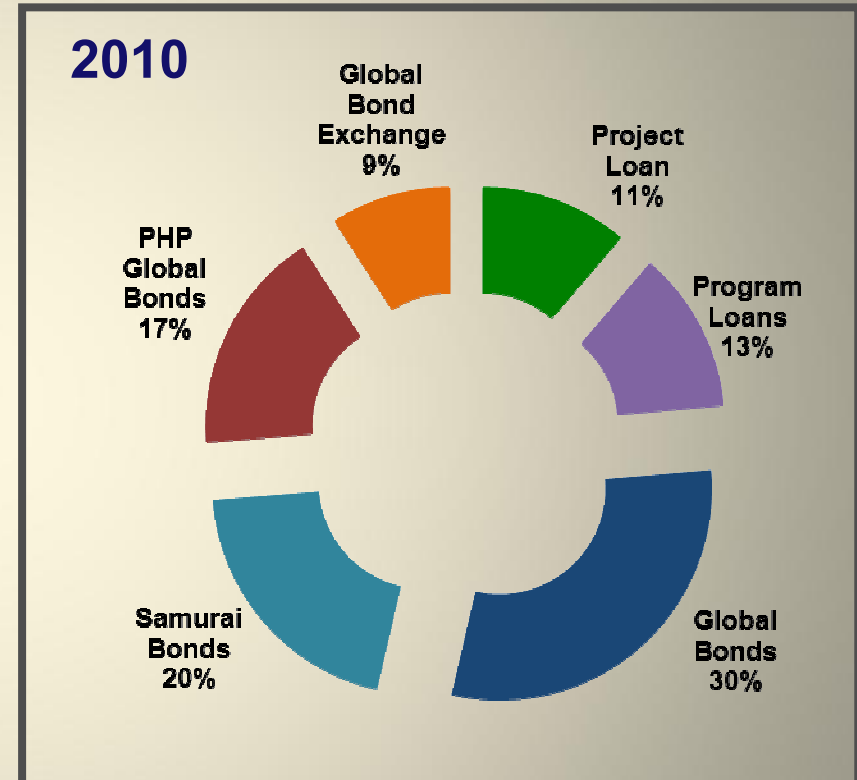
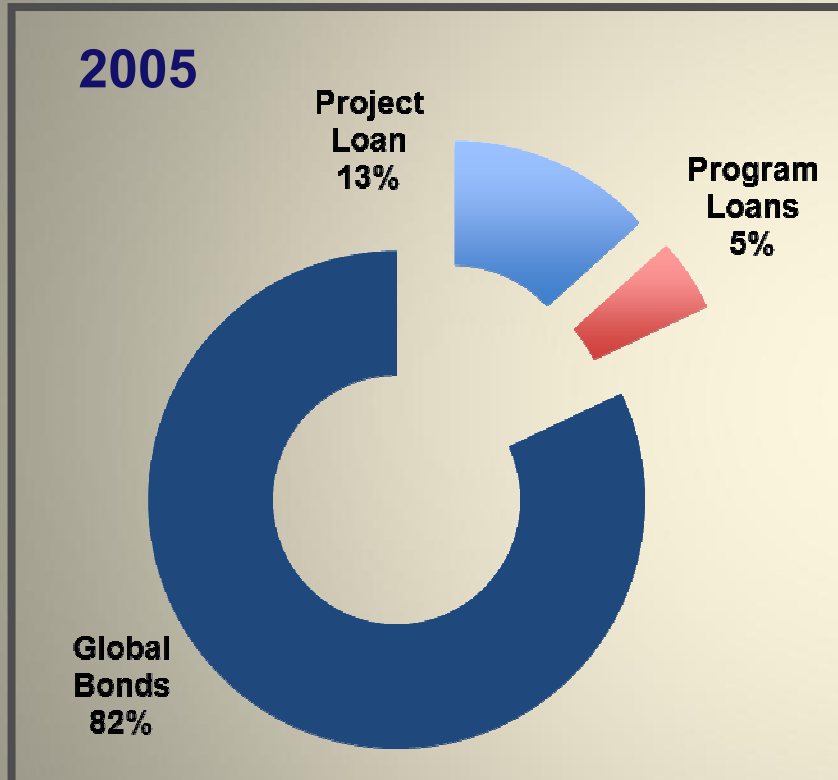
Overwhelming Demand for Government and Corporate Peso Bond Issuances

Oversubscription	2009	2010	Quarterly Turnover Ratio	2008	2010
Government	2.06x	2.49x	Government	0.31	0.64
Corporate (Major Issuers)	2.4-4.0x	2.0-7.4x	Corporate	-	0.12

- 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

External Government Financing



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

Mature Capital Market

Wide Range of Financial Instruments

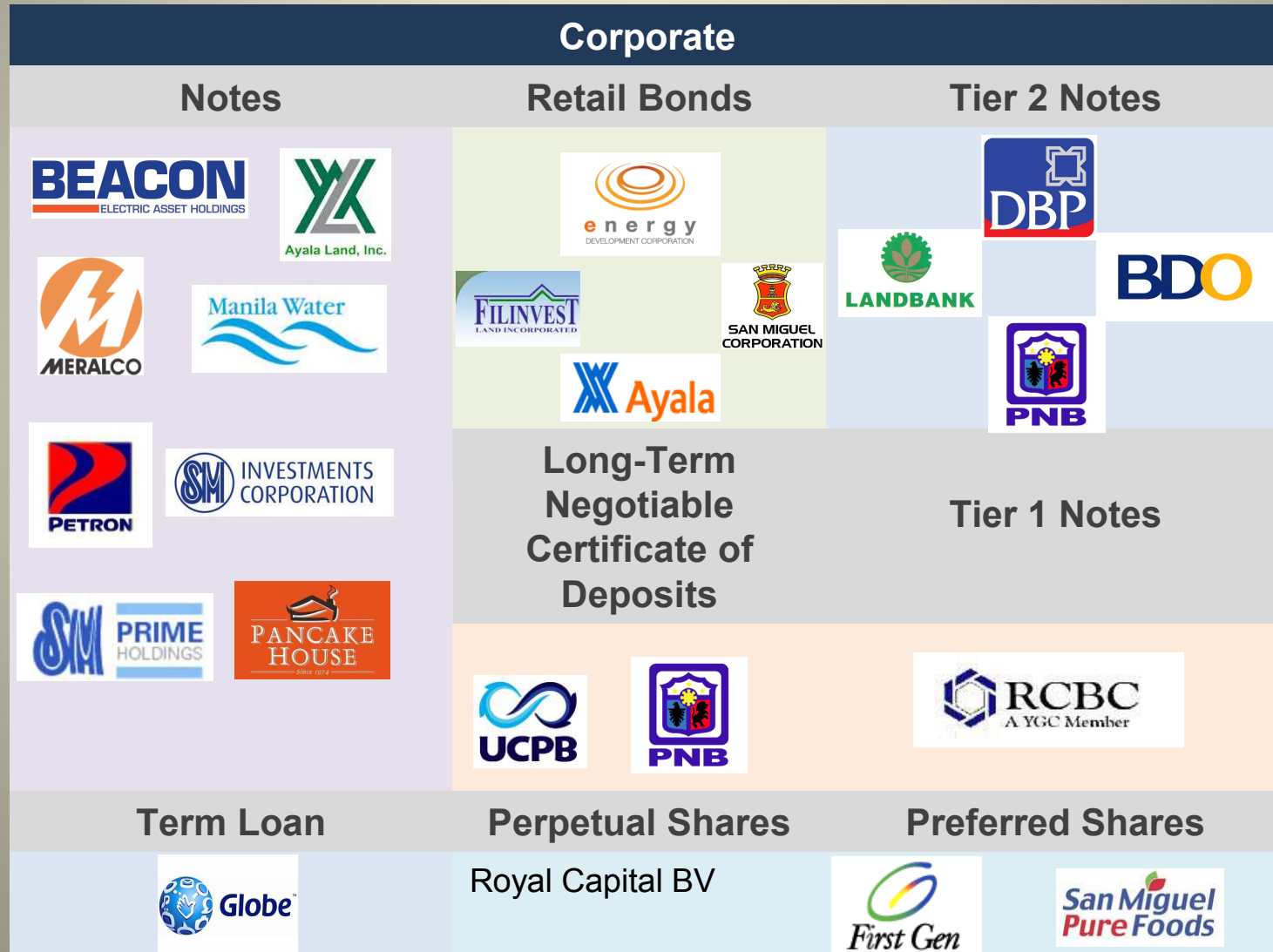
Government			
Philippine Peso		Foreign Currency Denominated	
Fixed Rate Treasury Notes	Treasury Bills	Global Bonds Republic of the Philippines Bonds (ROPs)	Samurai Bonds
Fixed Rate Promissory Notes	Benchmark Bonds	Multi-Currency Retail Treasury Bonds	USD Treasury Bills
Retail Treasury Bonds	Zero-Coupon Bonds		Dollar-Linked Peso Notes
Global Peso Bonds	Progress Bonds		

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

Home Development Mutual Fund	Development Bank of the Philippines
Home Guaranty Corporation	Land Bank of the Philippines
National Development Corporation	National Home Mortgage and Finance Corporation
National Food Authority	Philippine Ports Authority
National Power Corporation	Power Sector Assets and Liabilities Management

Mature Capital Market

Wide Range of Financial Instruments





**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.**



Onshore Peso Fund Raising

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



Retail Bonds

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

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



Government
Inception: 2001

Corporate

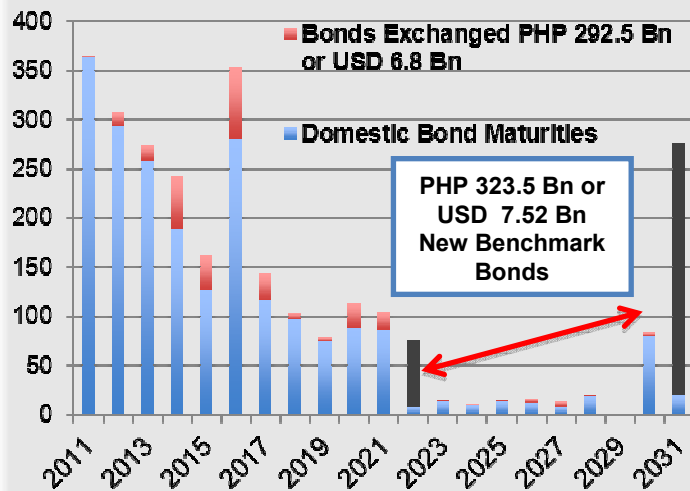
Ayala: May 12, 2011
San Miguel: April 3, 2009
EDC: December 4, 2009



Offshore/Onshore Fund Raising



6th Debt Consolidation Program (Domestic Bond Exchange)



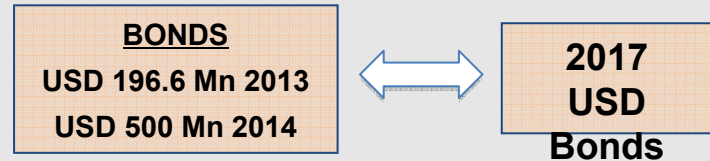
July 2011, Largest Bond Exchange by the Republic
 ~ PHP 946 or USD 22 Bn issued since 2006

Debt Exchange

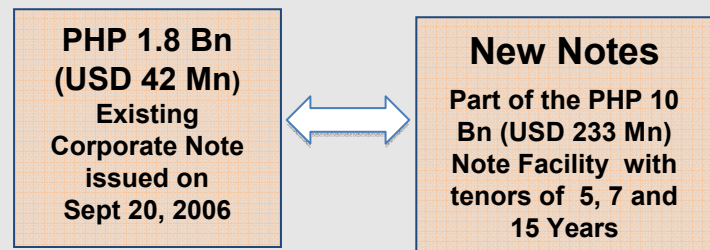
- Maturity extension
- Liability management
- Redirect short-term debt payments towards priority projects
- Reduction of short-term refinancing risk

SM Investments Corporation Bond Exchange

First Corporate Bond Exchange done offshore



Ayala Land, Inc. Note Exchange



Government
 Inception: 2006

Corporate

SM: October 13, 2010
 Ayala: January 19, 2011 18

Note: FX Exchange of PHP 43 to USD 1



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



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



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")

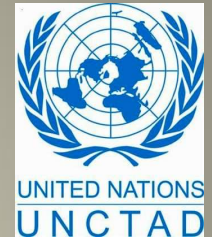


- Main objective of WADMO: Offer debt management professionals a forum to discuss technical matters of common interest at the international level.
- Goals of WADMO shall be accomplished through meetings, seminars and congresses, a publication of regular periodicals and special reports etc.
- During the 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.



FIRST METRO
INVESTMENT CORPORATION

Metrobank Group

www.firstmetro.com.ph

Roberto Juanchito T. Dispo

President

Tel: +63 (0)2 858 7900

jojo.dispo@firstmetro.com.ph