Jyske Research

# The Philippines

## - Attractive prices for Philippine bonds

International Bonds - 12 October 2001
Tel.: +45 8922 4961
E-mail: msa@jyskebank.dk

**Economy**

Against heavy odds, the Philippines seems to come out of the economic slowdown characteristic of the region in fair shape.

The economic growth rate of the Philippines is estimated to be 2.4% for 2001 and 3.6% for 2002. For comparison, the economic growth rates for 2001 for Singapore and Taiwan are estimated to be negative. Generally those countries are regarded as economic flagships of the region.

Economic growth rates:

| | 2000 | 2001 est. | 2002 est. |
|---|---|---|---|
| GDP | 4% | 2.4% | 3.6% |
| Inflation | 4.4% | 6.5% | 6% |
| Curr.acc.,% of GDP | 12.5% | 11.9% | 12.3% |

Source CLSA

Since exports account for approximately 56% of GDP, the Philippine economy is naturally affected by the global economic slowdown. The major export article of the country is IT equipment, and the largest market by far is the US. Consequently, the contribution to the Philippine economy from net exports will be negative for 2001 and for 2002. The terrorist attacks on the US will merely strengthen this development.

Since imports are not expected to fall at the rate of exports, the country will record falling surpluses on the trade balance as well as on the current account.

After the deposition of Mr Estrada in the spring, the new Arroyo government seems to have brought much-needed political stability to the Philippines. This is favourable for private consumption which is expected to act as a locomotive for the economy this year and next. Also public consumption is expected to have a favourable effect on growth, but the heavy general-government budget deficits hamper the government's possibility of stimulating the economy at present.

Inflation seems to be under control, and although it is anticipated to rise to 6.5% this year from 4.0% last year, the inflation rate is expected to start falling again next year. For 2001 alone, the annualised growth rate for inflation has fallen from 6.9% in January to 6.1% in September. This means that - in spite of the need to attract foreign capital to finance the budget deficit - there seems to be scope for further interest-rate cuts in step with the cuts made by the US Federal Reserve Bank.

**Bonds**

Philippine debt denominated in foreign currencies has the following rating.

| Moody's | S&P | Fitch |
|---|---|---|
| Ba1 | BB+ | BB+ |

After the terrorist attacks on the US on 11 September 2001, many investors have turned to 'safe havens'. The tendency hit the Philippines, and the EMBI spread widened by 86 bp after 11 September, reaching a level not seen since January 2001. This trend is turning now.

One reason for the trend change is that investors shied away from the Philippines not because of specific problems in that country, but rather because of the general sentiment in the financial markets. As mentioned above, investors went for investments which were safe but did not yield returns to match those obtainable in the Philippines.

The Philippine government shows that it is determined to stabilise the economy. As mentioned above, we expect interest rates to be lowered further before the end of the year.

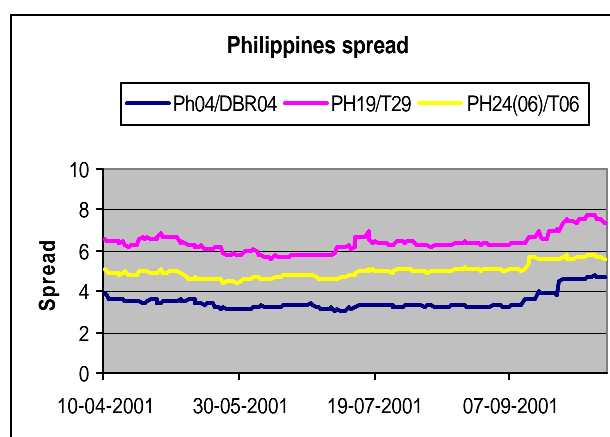
We therefore find the present time to be an obvious possibility for buying Philippine bonds at the current price level:

**We recommend the following bonds:**

| | | | | |
|---|---|---|---|---|
| B99089 | Philip 8% 17/09/ 04 | 100.10 | 7.95% | EUR |
| B88396 | Philip 9.5% 21/10/24(put06) | 99.40 | 9.56% | USD |
| **B93837** | **Philip 9.875% 15/01/19** | **79.50** | **12.87%** | **USD** |

The above table sets out the bonds that we find attractive at the current price level. Particularly the issue maturing in 2019 trading at a spread of 740 bp looks interesting.

Investors who are not willing to take on that kind of risk would find the Philip 9.5% maturing in 2024 to offer an impressive premium over the corresponding US T-bond. For investors who want an exposure in EUR, the Philip 8% maturing in 2004 is a good choice. The yield spread between that bond and a German government bond has also widened recently.




The above chart shows the yield spread between the bonds recommended above and the corresponding European and US government bonds, as the case may be.

*The analysis is based on information which Jyske Bank finds reliable, but Jyske Bank does not assume any responsibility for the correctness of the material nor for transactions made on the basis of the information or the estimates of the analysis. The estimates and recommendations of the analysis may be changed without notice. The analysis is for the personal use of Jyske Bank's customers and may not be copied.*

JYSKE BANK