Republic of the Philippines Completes Largest Bond Exchange Program and First-ever Swap for Longest Tenor 25-year Benchmark Bonds

Treasurer of the Philippines Roberto Tan today announced that the Republic of the Philippines will issue approximately P33 billion worth of 10-year Treasury bonds due 2020 and P166 billion worth of 25-year Treasury bonds due 2035 on Thursday, December 16, 2010. These bonds will be issued in exchange for close to P173 billion of bonds accepted by the Republic from the exchange offer, cash tender offer and subscription offer. This is the first time that the Philippines has offered a bond exchange into new 25-year bonds.

The offer period ended last Friday, December 10. A total of P51 billion and P181 billion in bonds were offered by investors for exchange into the new 10-year and 25-year bonds, respectively, close to P24 billion in new money was offered for the issue of new 25-year bonds, and around P35 billion of bonds were tendered for cash. These volumes far surpassed the minimum issue size announced by the Republic of P30 billion each for the 10- and 25-year bonds.

A total of around P199 billion of new 10- and 25-year benchmark bonds will be issued, the largest bond swap to date, exceeding the gross amount of P144.5 billion of bonds issued during the previous bond exchange in January 2009.

The Republic set coupon rates for the 10-year and 25-year bonds at 5.875% and 8.125%, respectively. These rates will now effectively serve as the new benchmarks for long term financing in line with government initiatives to promote public-private partnerships (“PPP”) in infrastructure projects.

The issuance of 25-year benchmark bonds via an exchange was undertaken under the initiative of Finance Secretary Cesar V. Purisima. The objectives of the program are to establish a benchmark for the longest end of the yield curve, to support the PPP by mobilizing long-term private capital, to lengthen and smoothen the Republic’s debt profile, and to reduce the overall borrowing costs by taking advantage of the prevailing low interest rate environment.

The bond swap effectively extended the average maturity of the targeted bonds by 28.6% to approximately 7.3 years, while average maturity of the accepted bonds increased from around 6.7 years to 22.5 years. Average coupon of the accepted bonds decreased by 0.47%, thereby reducing the Republic’s overall funding cost. One estimation indicates present value savings realized from the debt consolidation exercise of around P6 billion.

Secretary Purisima hailed the success of the transaction, saying “This bond exchange is a landmark transaction in every sense of the word. The Republic successfully established a very liquid long-term benchmark, thus greatly contributing to the development of the domestic capital market. The transaction is also a significant achievement of the Aquino administration as this clearly signals investor confidence in the country’s long-term prospects.”

Joint Deal Managers for the bond exchange are BPI Capital Corporation, First Metro Investment Corporation, The Hongkong and Shanghai Banking Corporation Limited, and the Land Bank of the Philippines.