MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2025-2028

Overview

The Philippines' **Medium-Term Debt Management Strategy (MTDS)** provides strategic guidelines for systematically overseeing, implementing, and evaluating initiatives to meet the National Government's (NG) financing objectives for 2025-2028.

Medium-Term Fiscal Framework (MTFF)

Medium-Term Debt Management Strategy

Medium-Term Macroeconomic Assumptions set by the Development Budget Coordination Committee (DBCC)

The MTDS is guided by the assumptions provided in the MTFF, with more specific direction from the latest available data from the DBCC.

Objectives and Scope

The implementation of the MTDS shall pursue following objectives:

Meet the NG's financing requirements at the **lowest possible cost**, consistent with a **prudent degree of risk**

Deepen the **local capital market**

The strategy will encompass all direct borrowings of the National Government, which includes:

Program and project loans from official creditors

Foreign currency debt securities

Local currency treasury bills and bonds

Note: *The distinction between domestic and external debt is based on the jurisdiction of the issuance. To measure foreign exchange risk, however, debt will be delineated according to the currency denomination.*

General Debt Principles

IMPROVE RESILIENCY OF PHILIPPINE DEBT

Heavy preference for domestic funding

- Limit exposure to adverse external shocks & retain benefits within economy
- Develop the local bond market as GS provide efficient pricing guidance for corporate issuances

Maintenance of medium to long liability portfolio
(Maintain 7- to 10-year average maturity target)

- Concentrate issuances of medium- to long-term securities to stretch debt maturities
- Conduct liability management transactions for near-maturing instruments

EXPAND & DIVERSIFY INVESTOR BASE

Diversification of external issuances
(USD, EUR, Samurai, Panda, Sukuk, etc.)

- Manage ROPs supply; avoid supply-side escalation in borrowing cost
- Enables ready access to multiple markets; provides options for cost-effective borrowing

Strengthening of retail outreach through financial literacy and broadened access

- Regular conduct of financial literacy sessions with retail investors (e.g., retirees, cooperatives, etc.)
- Making placements easier and more convenient for OFs with digital platforms, overseas mobile banking apps, and other Distributed Ledger Technology (DLT) apps

General Debt Principles

GOALS	STRATEGIES
Lower interest rate risk	Increase share of fixed-rate debt instruments over floating-rate debt instruments
Minimize foreign exchange (FX) rate risk	Prioritize domestic financing sources while enabling ready access to multiple markets
Reduce refinancing risk	Concentrate on issuing medium- to long-term securities and implement liability management transactions
Improve local debt capital market	Consolidate issuances for better price discovery and building of benchmark bonds

Strategic Plan

This strategy enables the Republic to:

reduce refinancing risk by:

- keeping the share of debt maturing in one year at a manageable level
- lengthening the maturity profile

lower interest rate risk by:

- bringing the implied interest rate at a reasonable figure
- maintaining the share of fixed rate debt instruments

minimize the FX risk

- maintaining the share of FX debt

shrink the debt-to-GDP level

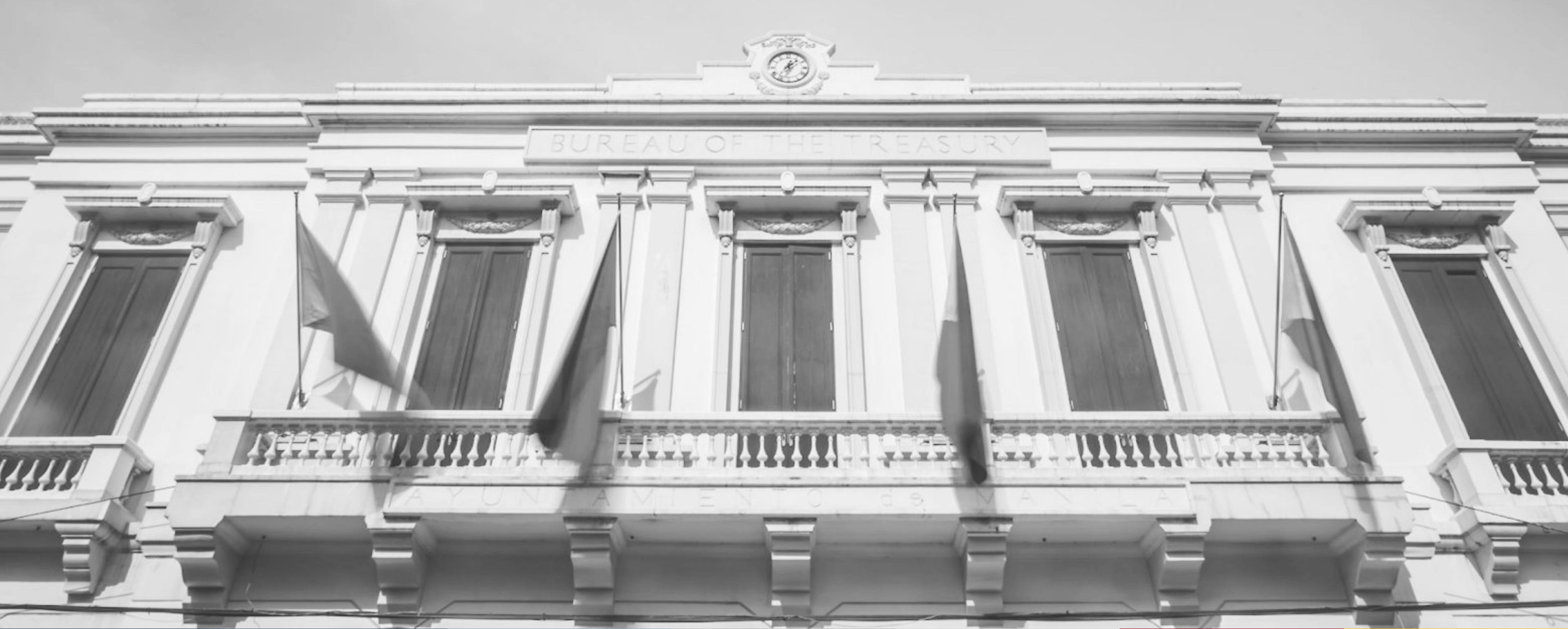
Strategic Plan

Financing Mix	**80% Domestic** **20% External**	• Manages FX risk • Considers the absorptive capacity of the local debt market along with its further development and deepening
External: Share of Concessional vs Commercial	**60% loans** **40% bonds**	• Can still leverage access to Official Development Assistance (ODAs) Loans
External: Currency Mix (USD vs EUR vs JPY)	**Mostly USD**	• Balanced approach to minimize PHP fluctuation vs other currencies • USD and EUR markets hinting dovish sentiments resulting to potentially cheaper external borrowing costs
Domestic: Tenor Mix (Short vs Belly vs Long)	**Belly to Long**	• Leverage lowering borrowing costs and early locking-in of rates • Extends debt maturity profile and prevents bulking of debt maturity towers in the medium-term

Targets

Aligned with the NG's objectives, the MTDS targets are as follows:

Risk Indicator Targets			
Type of Risk	**Indicators**	**Actual as of end-2024**	**Target by end-2028**
Refinancing Risk	Debt maturing in 1 year as percent of total	12.22%	Maximum 15.0%
	Average time to maturity	7.43 years	7 - 10 Years
Interest Rate Risk	Fixed rate debt as percent of total	91.67%	Minimum 90.00%
	Average time to re-fixing	6.6 years	Minimum 6.5 years
Foreign Exchange Risk	FX debt as percent of total	31.90%	Maximum 35.00%



Medium-Term Debt Management Strategy

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BAGONG PILIPINAS

Macroeconomic Assumptions

For this iteration of the MTDS, the macroeconomic parameters were lifted from the **189th DBCC meeting** on 02 December 2024.

Real GDP Growth

The DBCC projects Real GDP to consistently grow between 6.0 percent to 6.5 percent in 2024, 6.0 percent to 8.0 percent in 2025 and hover **around 6.0 percent to 8.0 percent in 2026 to 2028.**

Fiscal Balance

Sustained tapering of the fiscal deficit to 6.2 percent in 2023 from 7.3 percent in 2022, downwards to full-year outlook of 5.7 percent in 2024, and **3.7 percent by 2028** demonstrates the NG's commitment of gradual fiscal consolidation as outlined in the MTFF.

Inflation

Prices are viewed to be relatively stable over the medium term with inflation targets ranging from 3.1 percent to 3.3 percent in 2024, and **2.0 to 4.0 percent from 2025 to 2028.**

External Position

The Overall Balance of Payments position **improved to USD 3.7 billion in surplus for full-year 2023** from the USD 7.3 billion deficit in the previous year. Such surplus was mainly due to the reduction in the current account deficit and the increase in net inflows under the financial account.