

The Republic of Philippines is selected as the International Award by the committee for the 8<sup>th</sup> Sustainable Finance Award in Japan. The Research Institute for Environmental Finance had an exclusive interview with Ms. Rosalia V. De Leon, Treasury of the Philippines.

**Q :** The Philippines has already issued a series of yen-denominated government bonds (so called Samurai Sovereign Bonds). Can you tell us main reason why did you issue this time sustainability labeled sovereign bond as it was Samurai bond funding.

**De Leon :** In November 2021, we already also issued our sustainability finance framework, in that we outlined in terms of how we were also going to use the proceeds from our sustainability, our ESG issuances. Of course, there is also the motivation for us to issue these ESG bonds because then it would allow us to diversify our investor base. There is now a growing investors' appetite in terms of being able to invest in the ESG space. So, with that framework, then we'll be able to tap into these different pockets of investors who are really catering in how they will be able to fund the ESG initiatives of the different countries.

So, particularly in the Samurai market, I think it's very rare opportunity to be able to open that kind of segment for issuance. Because also paving the way for us to be able to penetrate the 20-year maturity and with the ESG brand, we are also able to increase in terms of the book orders. So, with that higher book order, then we are able to compress the pricing of our issues.

**Q :** Before the issuing of this Samurai bond here in April last year, one month before you issued the same dollar-denominated sustainability sovereign bond.

**De Leon :** Yeah, just last January. Again, for that issuance, our 25-year has that ESG label, and even for that issuance, we were able to generate a book order of about 28 billion dollars. We were then initially contemplating of issuing only 2 billion dollars. So, that's about 14 times more over subscription. So, with the 28-billion-dollar issue book, then we were able to reduce the pricing. In fact, I think in terms of the new issuance premium, we did not pay anything. It was a negative five bps, meaning to say that we were able to reduce the new issue concession that the investors were asking for. So, with the very big order booked, and of course we want also to please our investors, we upsized the original issue amount from 2 billion to 3 billion dollars.

**Q :** You were getting so-called greenium from the issuance.

**De Leon :** Well, but of course we cannot directly that it is really greenium, but what we are saying because at first with the diversification, then we are able to increase the appetite of our investors, so there is also a larger investor base that we are able to tap now. So with that, we are able to increase the order book, the good order book, very strong order book, then we are able to reduce the pricing for the issuance.

**Q :** You look very keen to issue the sustainability bond in mainly foreign market, foreign capital market. How about in your domestic market? In case of Sustainability sovereign bond, are you focusing on foreign market rather than domestic one?

**De Leon :** Well in the domestic market, even before we, our government, issued our ESG bonds in the offshore markets, there were already a lot of our private sector, domestic firms, who have been issuing in the ESG space label. So, I think it is high time also now for the government to establish that benchmark in the offshore markets. That's why that's imperative for the government to be able to issue in the offshore market, particularly if we are able to issue in the long-term of 25 years. For the Philippines, we have the maximum maturity which is only 25 years by statutory, there's a statutory limitation. So, we cannot issue more than 25 years at this time.

In the local market, what we'd like to do is to be able to more concentrate in terms of our retail investors. In fact, when I say retail investors, the underlying investors are the individuals like you and me. So, like your pension fund, retirement funds, insurance companies...and in fact, just now, even right now, there is an ongoing issuance, we call it the retail treasury bonds. So, we have the local currency and we have also the dollar-denominated retail treasury bonds which we have issued twice.

**Q :** Back to the issuance of these sustainability Samurai bonds, you issued 4 types of bonds: 5 years, 7 years, and 10 years, and 20. What divided four types, and is it different of the use of the proceed in each bond between short-term bond to longer one.

**De Leon :** Because we also would like to establish liquidity in the different parts of the yield curve, so we issued in the 5, the 10, and 7, and then of course we are very pleased that we have even extended to 20 years the yield curve. Because obviously, there are different kinds of appetite for investors. Some want shorter tenure, but for institutional investors, they might want, like our insurance companies, the "lifers", they would really go for 20 years. So, we'd also like to cater to this different type of investor requirements.

In the ESG, we even went all the way to 20 years. So, that is even longer. So, what we're saying is that we're able to penetrate that segment, like lifers, insurance companies, and also with the ESG brand. So, it's not just ordinary Samurai bond, but it's Samurai ESG bond.

**Q :** According to your announcement of the issuance, you are going to provide the proceeds to various fields in environment and social matters. Of course, all the fields are very important, but in this time, which part of the field are you focusing on providing the finance in case of environmental issue and also social issue? Which one is most emphasized for you providing proceeds of the bonds. You mentioned such as renewable energy field or energy improving, people's lives or something like that.

**De Leon :** Our issuance was also during the pandemic, so I think more of the proceeds are going for the social, particularly the healthcare and our response to the COVID pandemic. And also, there are a lot of the proceeds that we are earmarking for education because we are also making sure that we are responding to the requirements during the time of the pandemic, when there's a lot of schoolchildren would have to be studying from home, and also improving the conditions of our educational sector, particularly our teachers and the curriculum for our schoolchildren. So, the primary focus of the issuance was really more towards the social sector. But obviously also, there's a lot of the proceeds that we are earmarking because there is a growing number of projects that we

are now earmarking for the green initiatives. So, we are moving towards the transition to renewable energy. So, some of the proceeds are also being earmarked for the renewable energy projects.

**Q :** How did you get investors' response to your issuance in the Japanese market? You already mentioned that some insurance companies or other long-term institutional investors, they're usually looking for getting opportunities of long-term investments. How about the response from those investors to your issuance?

**De Leon :** Well, first of all we're very happy because again, we are able to capture a new investor base. So, it's not just first time for us to issue bonds in Japanese market, we've been issuing in the Samurai market already for quite some time. In fact, at that time, we have already issued 5 times Samurai bonds before ESG issuance.

So, with this new ESG label, that means there's a new investor base that we have been able to capture in our presence in the Samurai market. So, it's not just the traditional Samurai bond investors, but this time more of the particular segment of those who are investing heavily in the ESG initiatives. So, we are very happy getting diversification of investors. And it is also pleasing to know that there is a growing interest of Japanese Samurai investors who are now also looking into the ESG bond market.

**Q :** Are you going to issue again the Samurai sustainability bond this year or next year?

**De Leon :** Just to explain, for this year, we are again, the same requirements as we've had in the previous years. That's about 2.2 trillion pesos to finance our requirements: our deficit, our amortization payments, and 25% of that would be from our issuances offshore. So, meaning to say, in the foreign capital markets. This year, we have already issued about 3 billion dollars in the US dollar market, so that leaves us still for about 2 billion dollars in the commercial offshore market. And obviously the Samurai market is one of our options in terms of our foreign financing. So, we are looking closely into the developments in the market. In order to be able to update our Japanese investors on what's the recent developments and the policies of the government, of this Marcos administration, so that they will know already what are the plans, particularly we have our medium-term fiscal framework, on how we would be going about in terms of being able to reduce our deficit and our debt in the medium-term, and of course our policies in terms of further liberalizing the economy and attracting more foreign direct investments particularly for infrastructure.

**Q :** You have already said under the COVID-19 situation, the proceeds of this bonds were gone to supporting for people's demands like healthcare. In that context, what area of the environmental and social fields that your government is currently strengthening and improving?

**De Leon :** Healthcare, yes. And of course to ensure recovery, and at the same time also, we are making sure that we will be able to provide quick responses in terms of whenever there will be...because this is a learning lesson for us in terms of the COVID, and so we see that there's a lot of things that we need to do to be able to improve our healthcare, and of course also, we are putting, in terms of monitoring more, our climate response action program. There is now a tracking in the budget because we'd like to make sure that we are climate proofing the economy. And the other

thing that we are also working, in terms of our transition for our energy sector, from coal to more renewable energy...Because the Philippines, we are very much rich in terms of hydro power generation. So, we are now very much into solar and wind projects. And of course, gas, because we have natural gas resources.

**Q :** I know there are many Japanese companies want to invest in your country in both transitional projects or green ones.

**De Leon :** Yes. In fact, in the Philippines, there is also growing investments opportunities now in electric vehicles. So, I think a Japanese financial institution is also working with our private sector in terms of adopting the technology in terms of our transport system.

**Q :** How do you expect to combine with the domestic peso market and foreign capital market to collect money from overseas' institutional investors and provide your government's needs? In other words, how are you going to combine the domestic market policy and the foreign market policy to maximize those impacts? what is the basic principle of those combination?

**De Leon :** As much as possible, we also would like to minimize our foreign exchange risk. So, in our financing, we only allocate 25% for our foreign-denominated funding, which includes of course the yen, both our concessional financing from your government, the ODA part, and then of course our commercial offshore borrowings through the Samurai market. At the same time, we also see our overseas Filipinos here in Japan is a growing. And their remittances backing to the country. So, I think 5% of the total remittances are coming from our Filipinos working here in Japan.

**Q :** 5% of total global remittances from Japan?

**De Leon :** Yes, very huge, very enormous amount that we are also getting from our Filipinos working here in Japan. So, together with our financing, our continuous presence in the Samurai market, in the Japanese market, and of course the remittances, that provides a hedge for us to be able to service our obligations in yen. So, what we're saying is that the inflows and outflows of foreign money will be able to match, so that we'll be able to service our obligations in yen. So that's why we continue to have that presence in the Samurai market because that would also provide the yen, the currency that we need to be able to service both the principal and our interest obligations.

**Q :** Japan has now focused on the transition matters which means economic transition, including energy transition, to be more green or more resilient society. To accelerate such economic transition toward net zero society, the Minister of Finance in Japan considers issuing the so-called transition sovereign bond (GX government bond) maybe in next year. Currently, we don't know the details of it. Are you interested in accelerating economic transition in your country toward net zero society as well as Japan? If so, are you going to issue the so-called transition bond as one of ESG sovereign bond in a near future like Japan? Transition sovereign bond may be a kind of the ESG bond but a little bit different from the current sustainability bond. Because the use of the proceeds of the bonds should be provided to fossil related industries such as steel, cement, chemical and electric industry in order to reform their business model toward less and zero emission processes. Discussions on

energy transition from fossil one to clean one have raised not only Japan but other countries in both major developed and developing countries. What about your country's position on this matter?

**De Leon :** I think what we are getting is some support, like the Asian Development Bank, which are also providing some financing for Indonesia and Philippines, to transition from coal to renewable energy. In terms of the transition bonds, maybe that's something that we can explore after the experience of Japan. So, we'll have to see in terms of investors' appetite, and of course in terms of, if there's also good pricing that we'll be able to avail them, if we can issue this type of bonds in the Samurai market. So maybe we can try to follow and see how developments in the transition bonds that your government is thinking of.

**Q :** Yes, Samurai transition bond is good idea.

**De Leon :** We'll await first the results of the Japanese government issuance. Again, if there's investor appetite for that. And at the same time, because I think this is dedicated; it's earmarked funds for transition projects. So, if, like in the case of the Philippines, if we do not have big projects of this kind yet, so maybe we don't have the size, the liquidity for this. So maybe we should first focus on our ESG financing for our budget, and when the time comes that there would be more of this kind of projects in the pipeline, then maybe that's the right, appropriate timing for us to go into this transition bonds. But of course, we are very much interested in what happens when your government issues.

**Q :** Yeah, of course. I think it's a different situation your country and ours. Because in Philippine or other emerging countries should be focusing on the green project. It's easy to reduce the total amount of GHG emissions in domestic society.

**De Leon :** But you know, countries like the Philippines, we're not the big emitters. So, it would be very expensive for us, but it would not really make a very huge dent, a significant impact, if the Philippines, countries like the Philippines would already be doing this.

**Q :** You should learn from Japanese experience which will start soon maybe from 2023. It is a trial and experience matter for the societal and economic transition toward net-zero. It is very important and very challenging issue for not only Japan, but also other developed countries including USA and European countries.

**De Leon :** Thank you very much for providing International Award of the Sustainable Finance Awards and this opportunity for us. Thank you so much for this award, for this recognition. We are very much all the more encouraged to do more and to be able to again continue to have our presence in the Samurai market, and hopefully with more creative and innovative structures that hopefully will also again be recognized.