No.77

2016.12.16

(Efforts to Foster) Bond Markets in the Philippines

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1. Current situation

The local currency bond market outstanding in the Philippines expanded its share against the GDP up to 40% in the middle of the 2000s but since then it has remained stagnant only to account for 34% at the end-September 2016 (Chart 1). Government bonds accounted for 28% and corporate bonds for 6% of this total.

At the end of September 2016, the outstanding value of government bonds was comprised of short-term bills, regular fixed rate bonds, retail bonds[1], and benchmark bonds with a corresponding share of 8%, 47%, 21% and 23% respectively (Chart 2). Retail bonds are issued with the aim to making government securities available to retail investors and promoting investment-consciousness among the citizens. Benchmark bonds have been issued since 2006 in order to establish a benchmark (basic information for price formation), and they have had a high trading volume.

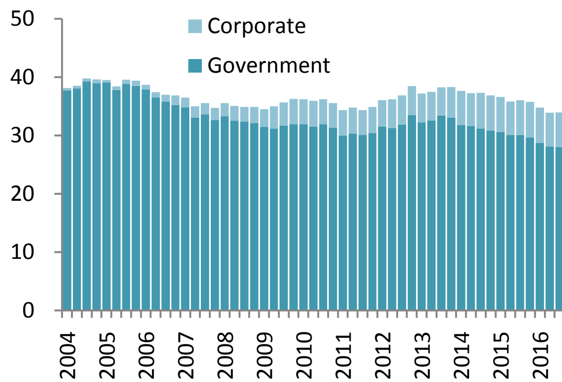
The maturities of long-term government bonds currently issued have been extended to the maximum of 25 years. As the Chart 3 shows, in response to a market environment of low interest rate, the Philippine authorities have since 2010 increased the issuance of government bonds with maturities longer than 10 years, achieving long-term low-interest rate financing as well as reducing the risks for refinancing by diversifying the maturity structure of the government bond outstanding. As a result, the share of the government bonds with maturities longer than 10 years expanded from around 10% at the end of December 2009 to more than 40% at the end of March 2012 before it leveled off since (Chart 4).

The number of issues of government bonds once exceeded 200 but the number has been reduced to around 100 at present so that the liquidity of each issue would be enhanced by the expanded volume per issue.

The outstanding value of corporate bonds, although still small, has steadily increased to almost double in the past decade. A small number of issuers continue to take larger shares. According to the Asia Bonds Online, the top 30 issuers that include financial institutions, real estate companies, conglomerates account for 89% of the market at the end of September 2016, generally having almost the same share (94%) since the start of publication of the relevant data at the end of December 2010.

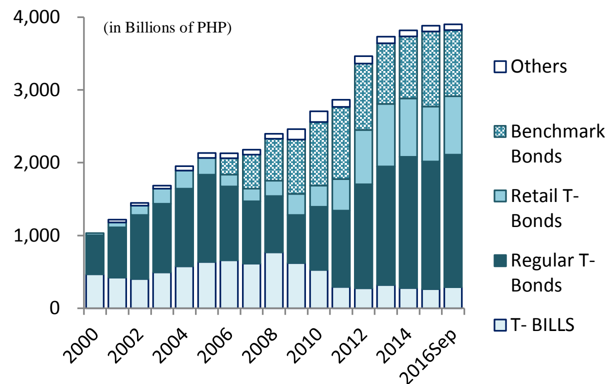
[1] Minimum denomination is set at low so that retail investors can easily buy. Interest is paid at every quarter. The dealers and selling agents are required to sell to retail investors more than half of their allocated volumes.

Chart 1: Local Currency Bond Market in % of GDP



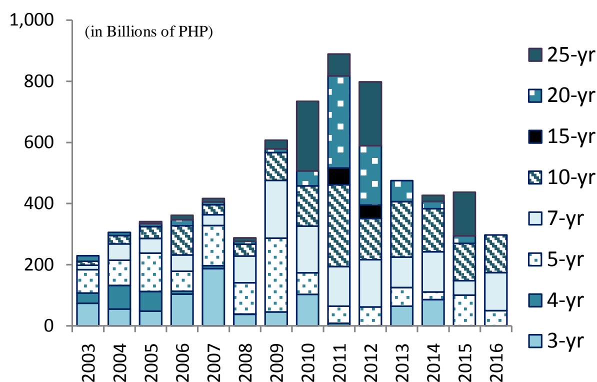
(Source) Asia Bonds Online

Chart 2: Government Bonds Outstanding (YE) by Types of Security



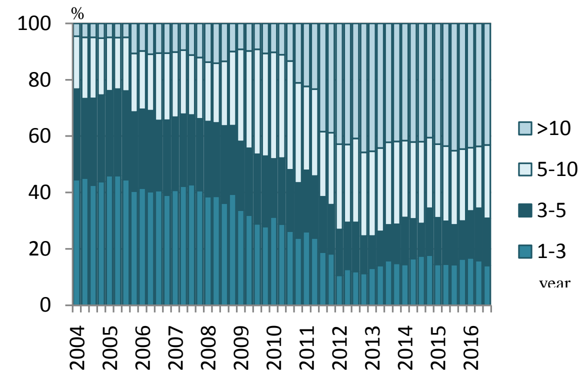
(Source) Philippines Bureau of the Treasury
Note 1) Data disrupted between 2008 and 2009.
Note 2) Guaranteed Corp. Issues omitted (33Bio PHP at Sep 2016)

Chart 3: Government Securities Issuances/Sales by Maturity



(Source) Philippines Bureau of the Treasury
Note1) Aggregates of regular, retail, and benchmark bonds.
Note 2) Total of January-September for 2016

Chart 4: Breakdown of Government Bonds by Term to Maturity



(Source) Asia Bonds Online

2. Government Efforts for Further Development

Considering the bond market as an important means for taking in private funds necessary for expanded infrastructure investment[2] as well as for securing long-term money, the government has been making efforts to foster the bond market while receiving international assistance. In the near future, it will reinforce the primary dealer system by clarifying obligations and granting privileges to primary dealers and introduce a new repo market where market participants are assumedly limited to dealers. These efforts are expected to enhance the credibility of yield curves and make the issuance of corporate bonds and project bonds (those targeted for project financing) easier.

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[2] The current administration has declared its policy to raise the GDP ratio of infrastructure investment up to 5.8% by 2018 from 3.3% in 2015.