



CHALLENGES AND OPPORTUNITIES IN THE PHILIPPINE CAPITAL MARKET

27 October 2011

I. Favorable Regulatory Environment

- A. Appropriate Monetary Policy
- B. Responsible Monetary Policy

II. Attractive Market

- A. High Yields
- B. Complete Tenor Spectrum

III. Mature Capital Market

- A. Wide Range of Financial Instruments
- B. Existing Infrastructure Support

IV. Ease of Entry and Exit

V. Challenges

VI. Summary

I. Favorable Regulatory Environment

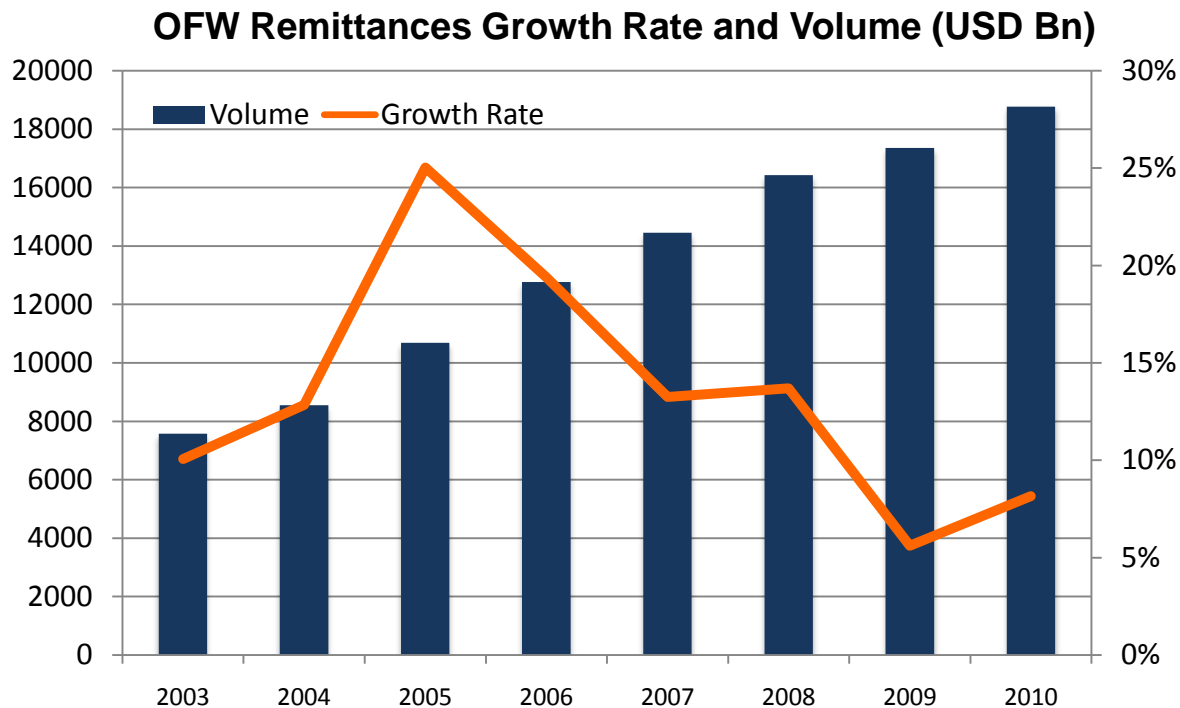
Appropriate Monetary Policy



Money Supply (M3) Growth

I. Favorable Regulatory Environment

Appropriate Monetary Policy

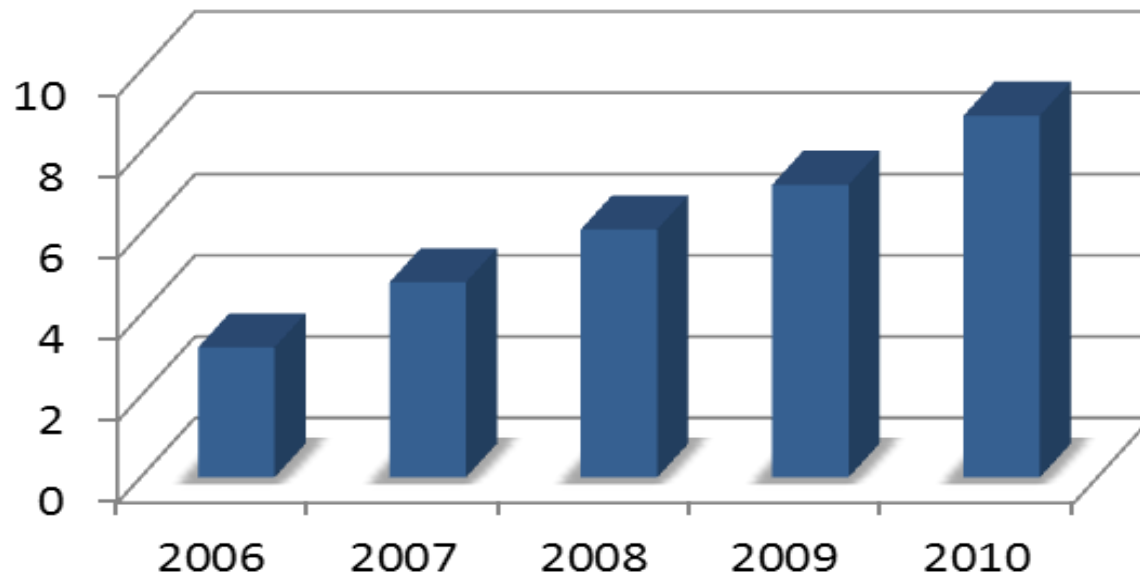


Ample Liquidity fueled by OFW Remittances

I. Favorable Regulatory Environment

Appropriate Monetary Policy

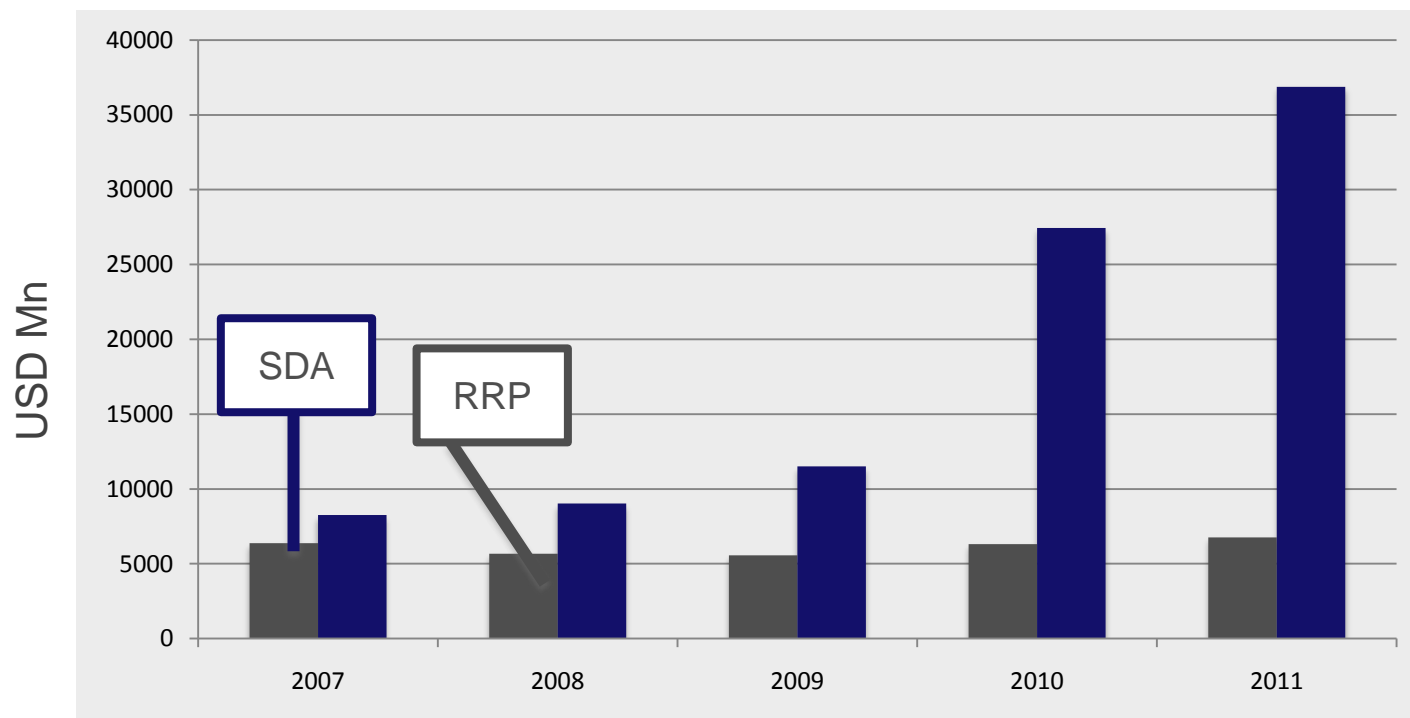
IT-BPO Industry Size (USD Bn)



Liquidity from IT-BPO Flows

I. Favorable Regulatory Environment

Appropriate Monetary Policy

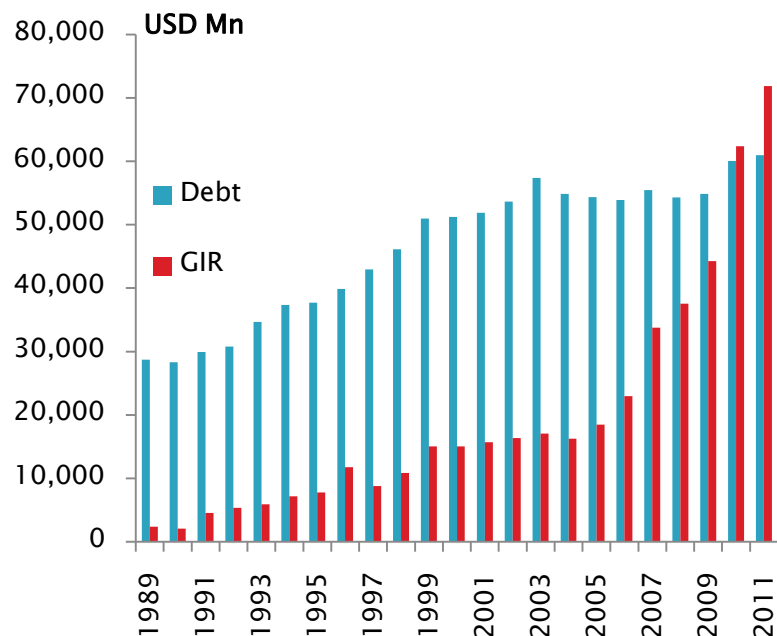


SDA: A Unique Liquidity Tool

I. Favorable Regulatory Environment

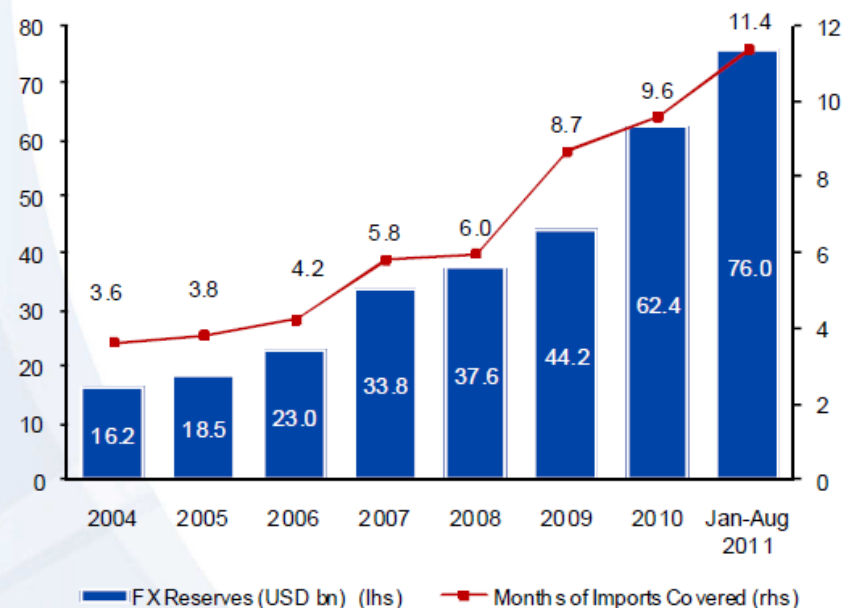
Appropriate Monetary Policy

Foreign Debt vs International Reserves



Soaring FX reserves have fortified the economy's buffers

Gross International Reserves (USD bn and Import Coverage)

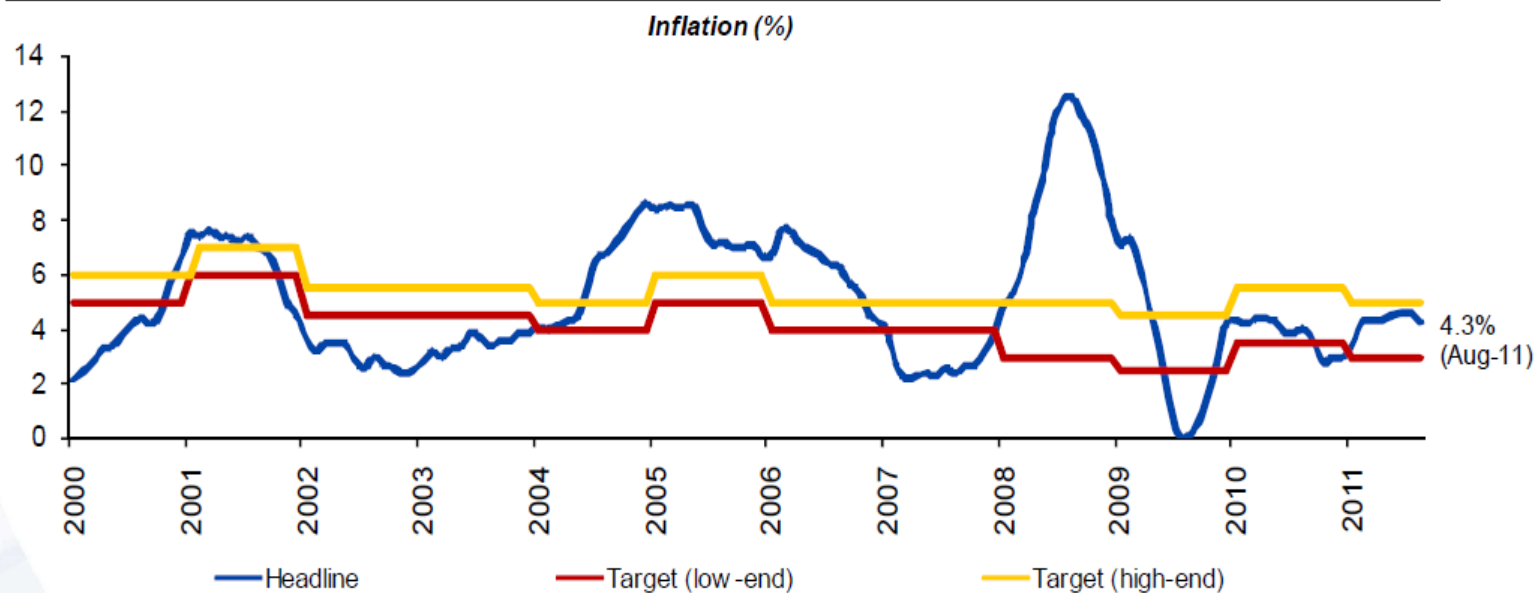


- Gross International Reserves at USD 76.0 Bn on August 2011.

I. Favorable Regulatory Environment

Appropriate Monetary Policy

Inflation remains well-contained within targets

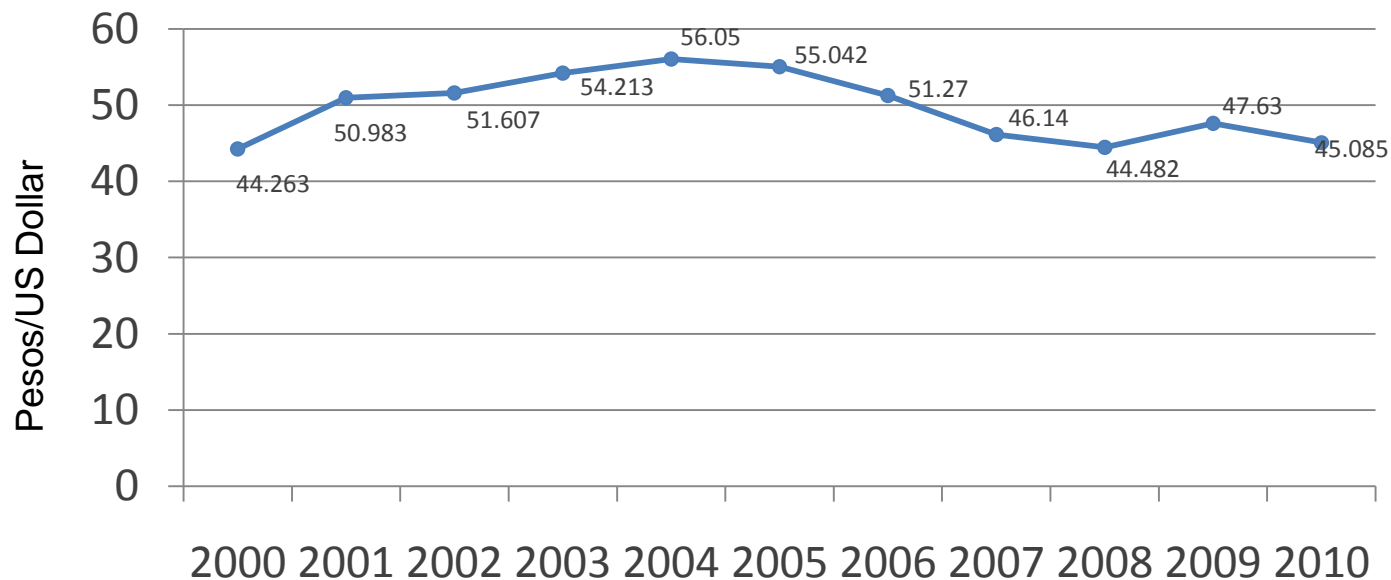


Inflation Targeting

I. Favorable Regulatory Environment

Appropriate Monetary Policy

Peso Dollar Exchange Rate

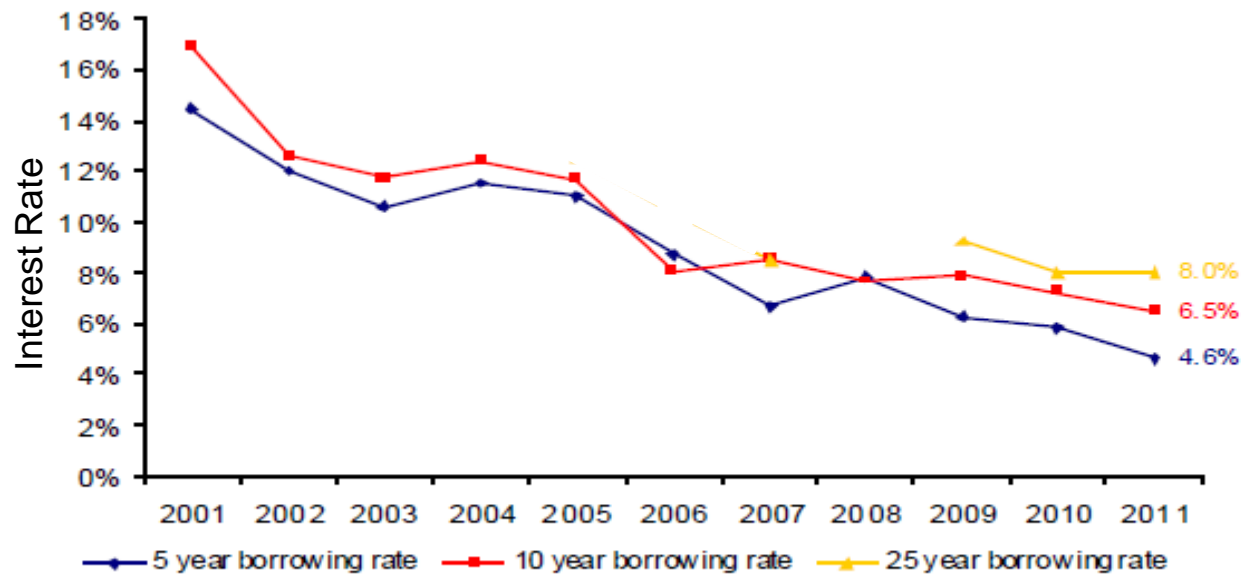


Stable Exchange Rate

I. Favorable Regulatory Environment

Appropriate Monetary Policy

Declining local borrowing rates



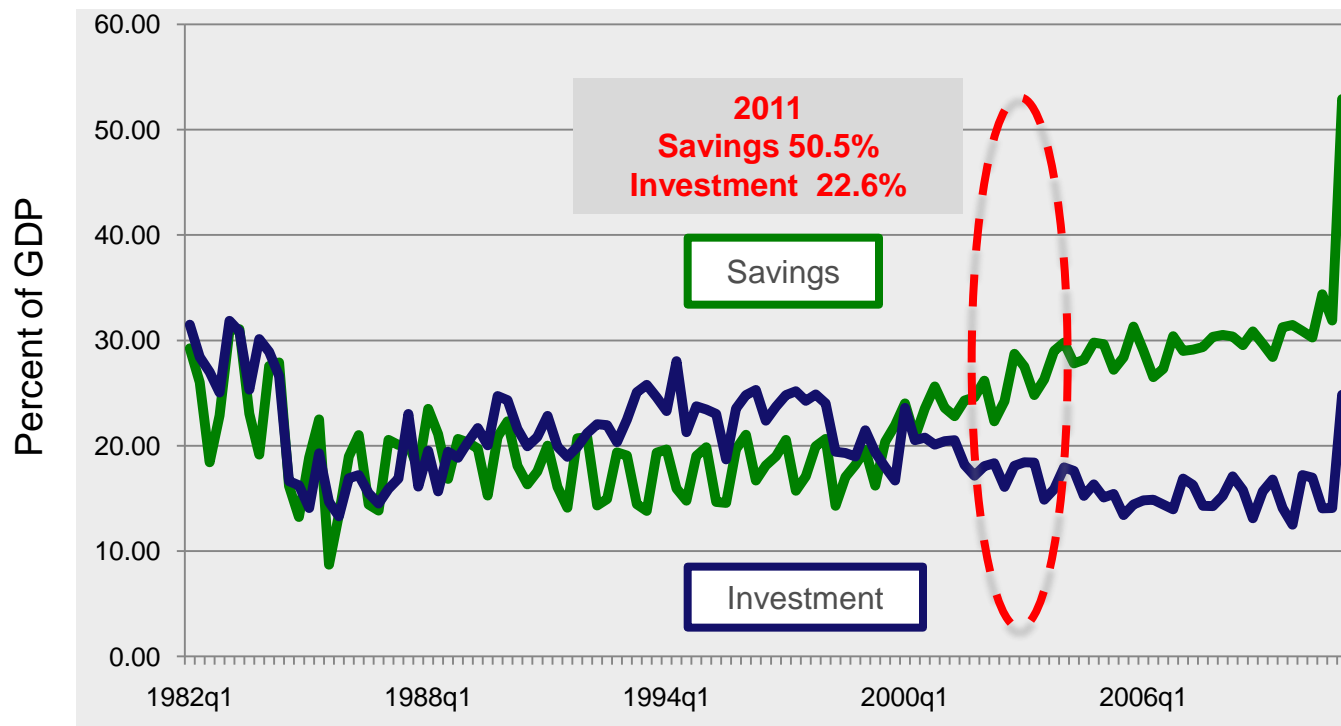
Note: Weighted average annual yields of Philippine government securities

Source: Bureau of the Treasury

Low and Stable Interest Rates

I. Favorable Regulatory Environment

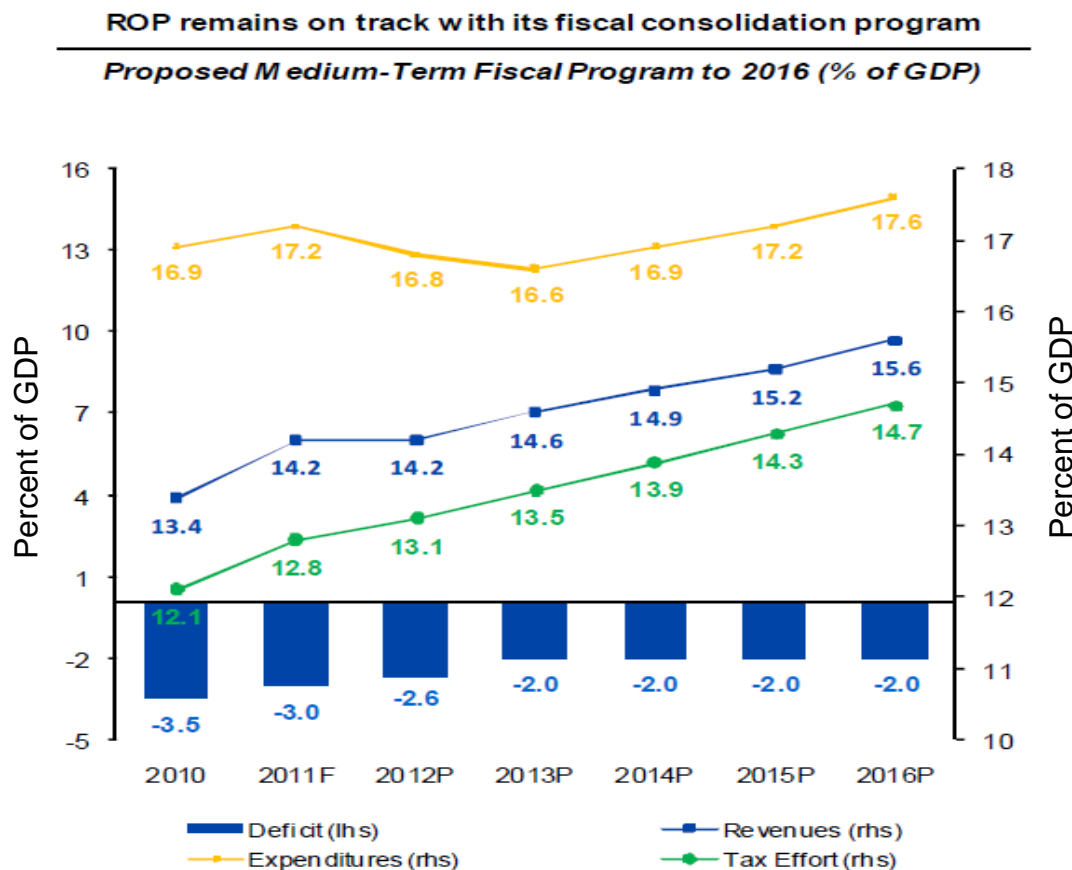
Appropriate Monetary Policy



Rate of Savings Versus Investment

I. Favorable Regulatory Environment

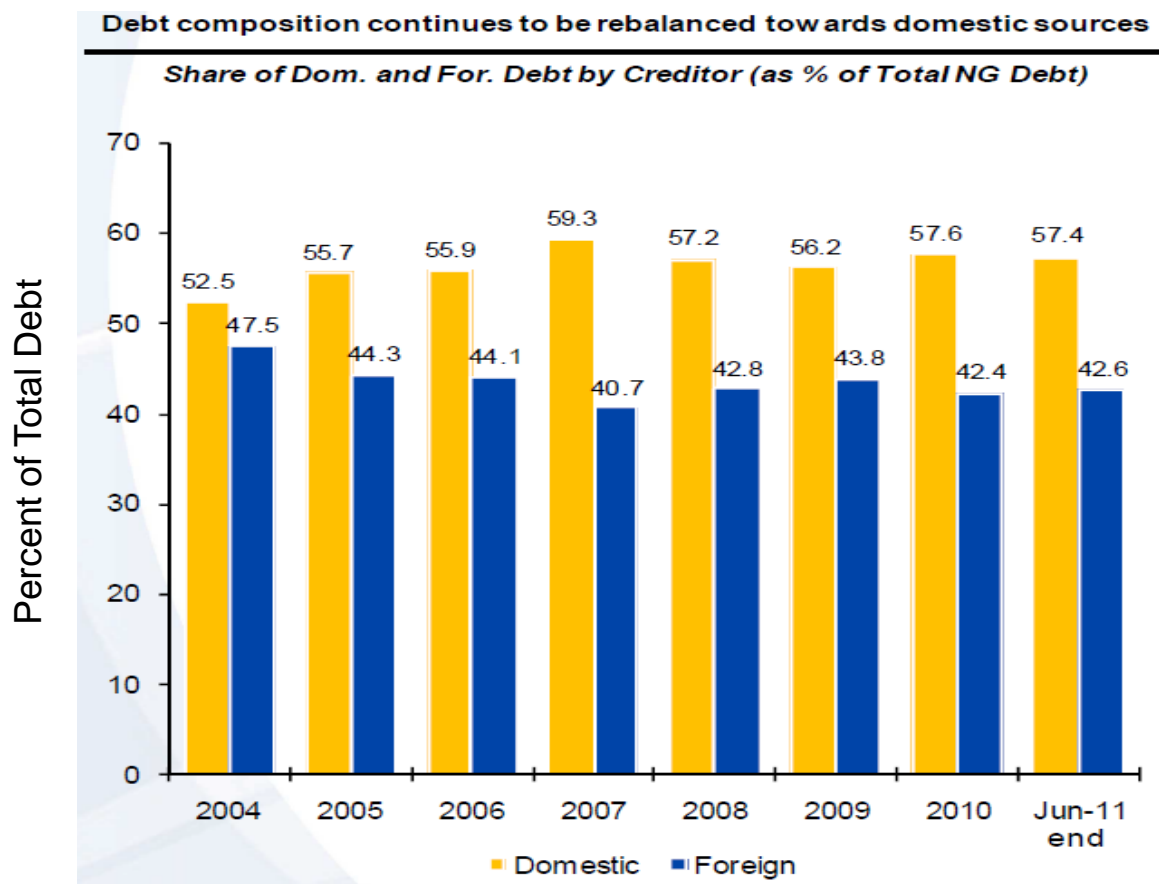
Responsible Fiscal Policy



Manageable Deficit and Improving Tax Collection

I. Favorable Regulatory Environment

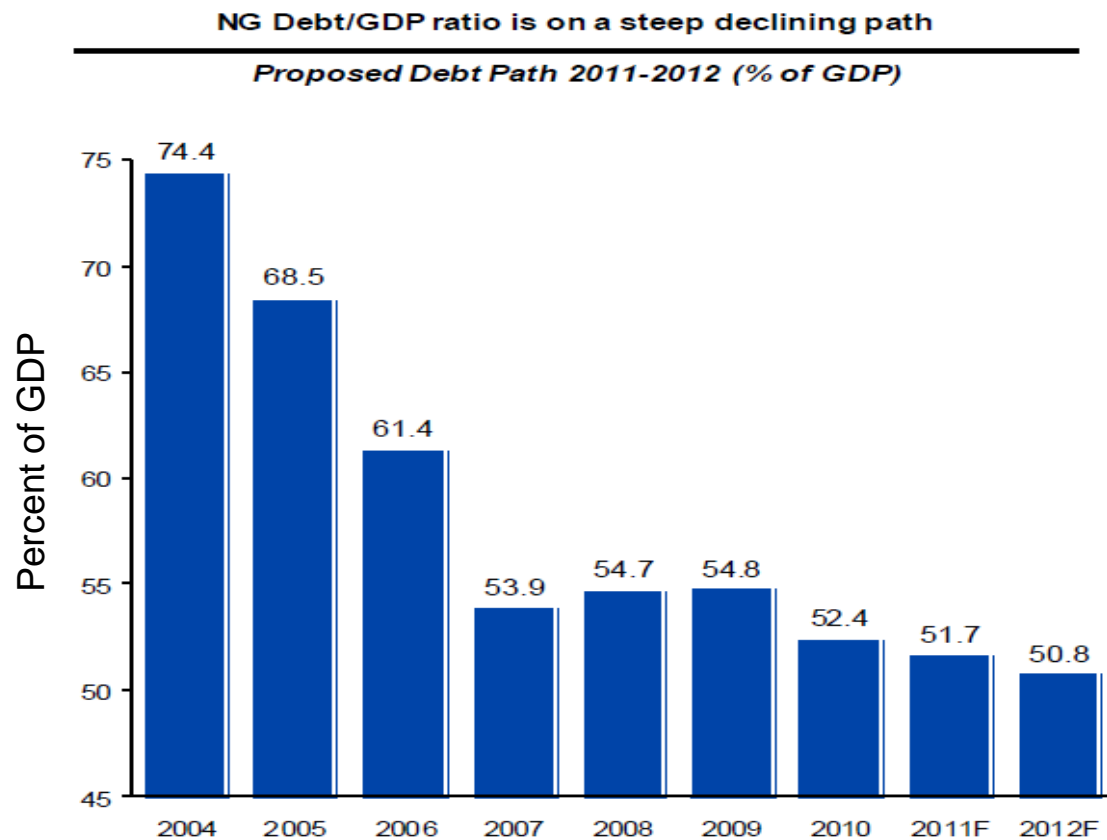
Responsible Fiscal Policy



Balanced Debt Sourcing

I. Favorable Regulatory Environment

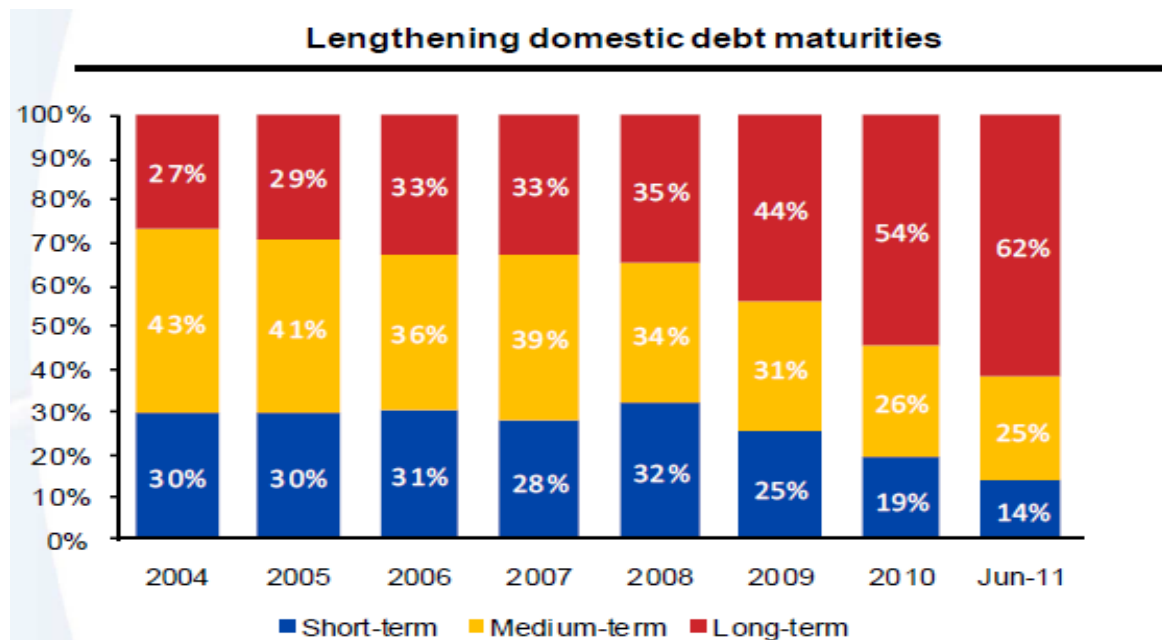
Responsible Fiscal Policy



Declining Level of Debt

I. Favorable Regulatory Environment

Responsible Fiscal Policy



Liability Management Program

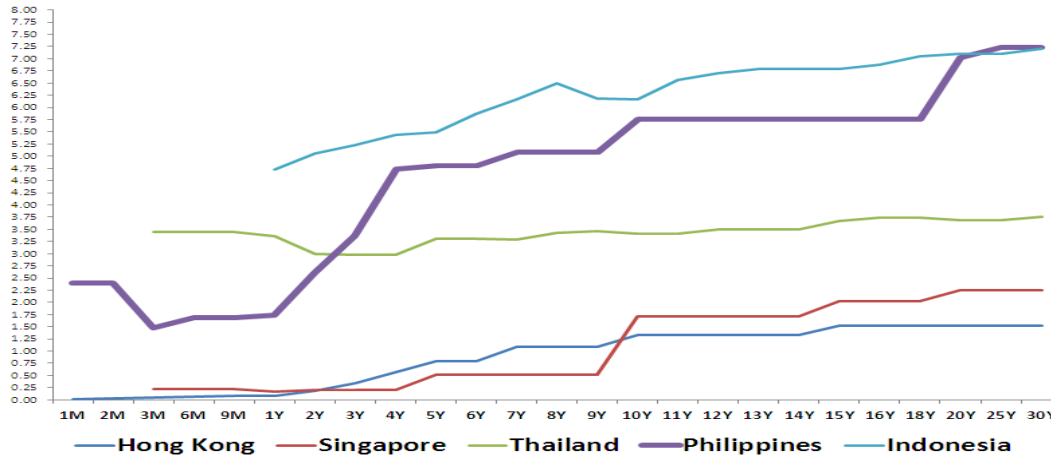
Issuance of 25-year Global Peso Notes

Bond Exchange

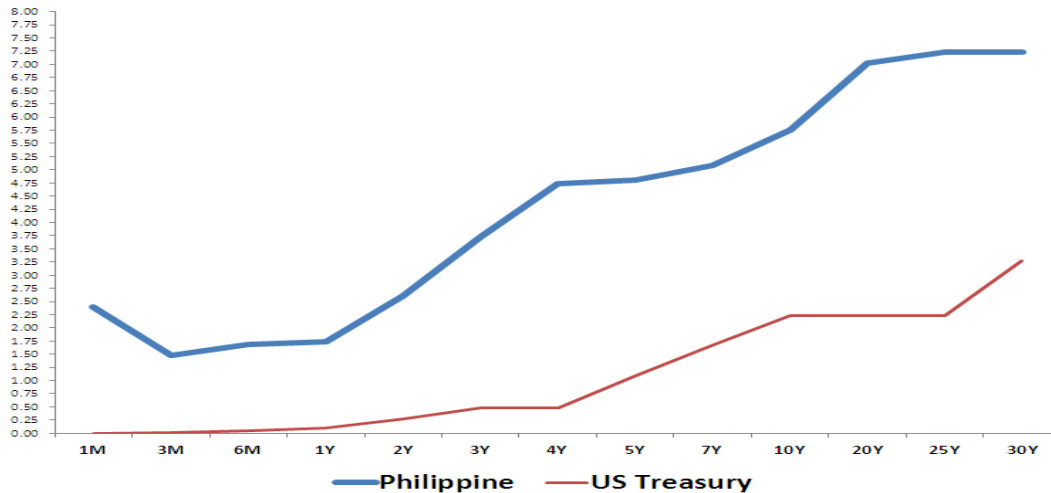
Issuance of 15-year \$1.5B bond

II. Attractive Market

High Yields



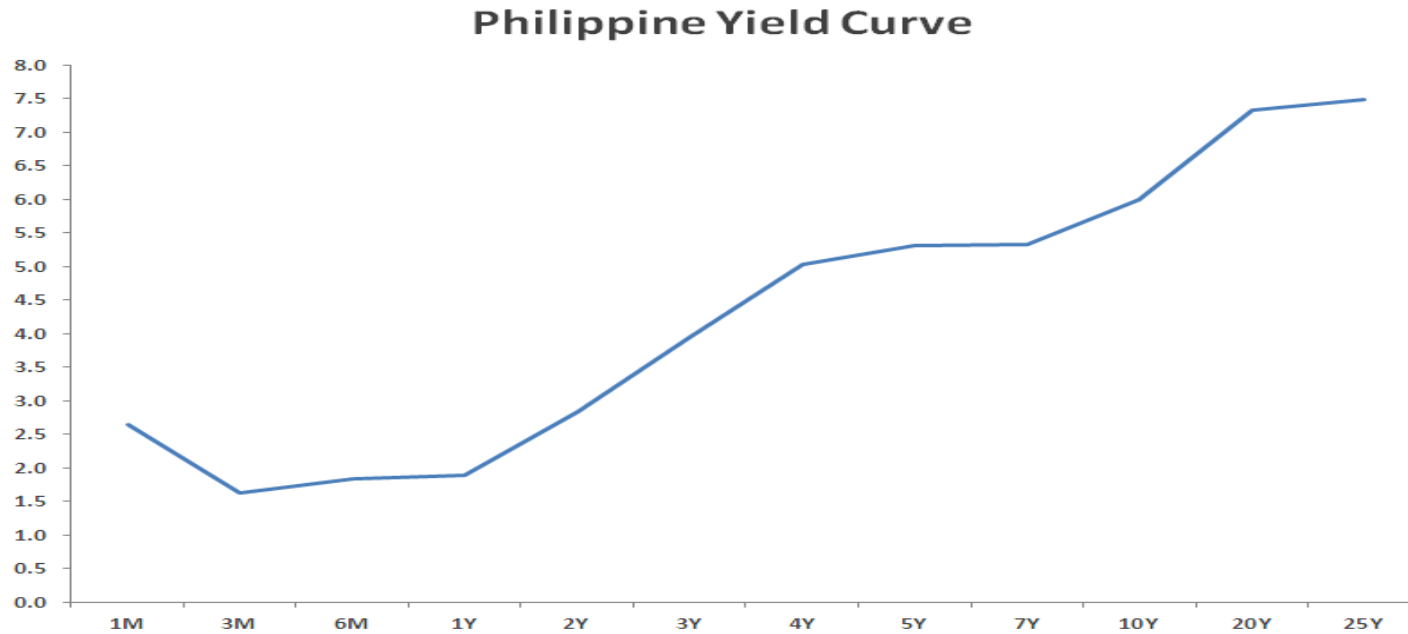
Philippine Yields are among the richest in the region...



. and versus US Treasuries

II. Attractive Market

Complete Tenor Spectrum



III. Mature Capital Market

Wide Range of Financial Instruments

Government			
Peso		Foreign Currency Denominated	
Fixed Rate Treasury Notes	Treasury Bills	Global Bonds – Republic of the Philippines Bonds (ROPs)	Samurai Bonds
Fixed Rate Promissory Notes	Benchmark Bonds		US\$ Treasury Bills
Retail Treasury Bonds	Zero-Coupon Bonds	Multi-Currency Retail Treasury Bonds	Dollar-Linked Peso Notes
Global Peso Bonds	Progress Bonds		

Government-Owned & Controlled Corporations (GOCC) Bonds/Notes

Home Development Mutual Fund	Development Bank of the Philippines
Home Guaranty Corp.	Land Bank of the Philippines
National Development Corp.	National Home Mortgage & Finance Corporation
National Food Authority	Philippine Ports Authority
National Power Corporation	Power Sector Assets and Liabilities Management

III. Mature Capital Market



Wide Range of Financial Instruments

Corporate		
Notes	Bonds	Tier 2 Notes
Ayala Land, Inc.	Ayala Corp. Multiple Put Bonds	Banco de Oro
Beacon Electric Asset Holdings, Inc.	Filinvest Land, Inc.	Development Bank of the Philippines
Manila Water Co. Inc.	San Miguel Brewery	Land Bank of the Philippines
Manila Electric Co.		Philippine National Bank
Pancake House, Inc.		
Petron Corp.		
SM Investment Corp.		
SM Prime Holdings		
	Long-Term Negotiable Certificate Of Deposits	Tier 1 Notes
	Philippine National Bank	Rizal Commercial Banking Corp.
	United Coconut Planters Bank	
Term Loan	Perpetual Shares	Preferred Shares
Globe Telecom, Inc.	Royal Capital BV	First Gen Corp. San Miguel Purefoods

III. Mature Capital Market

Existing Infrastructure Support

SRO

- PSE
- PDEx

Trading Platform

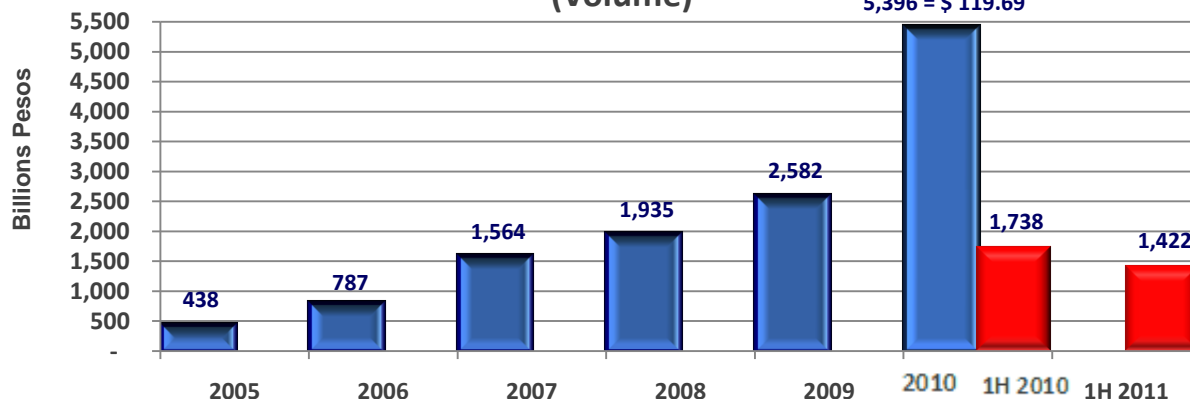
- PSE
- PDEx

Custodian Services

- PDTTC
- ROSS
- Private Custodian Banks
- Cedel
- Euroclear

IV. Ease of Entry and Exit

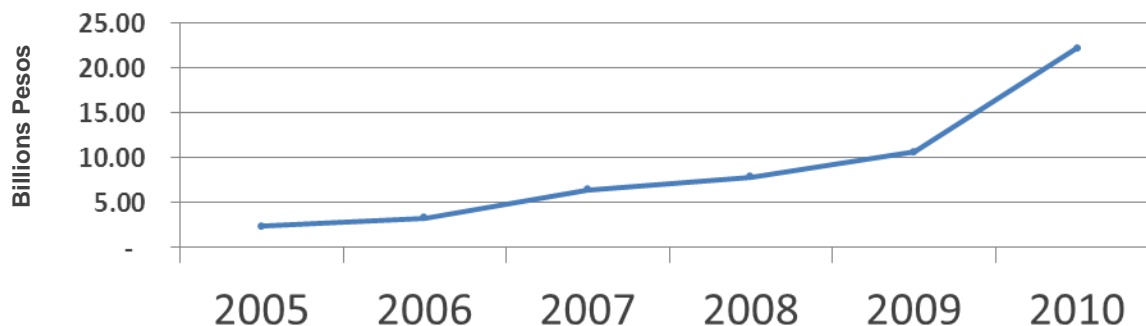
**Market Depth
(Volume)**



PDEX

- Dealer Participants 45
- GSEDs 43

**Average Daily Turnover
(Volume)**



Quarterly Turnover Ratio*	2008	2010
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Government	0.31	0.64
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Corporate	-	0.12
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* Total volume traded over outstanding supply

- 2nd only to China

V. Challenges

Need to Rationalize Varying Tax Treatments

Income Tax

- Regular Corporate Income Tax (RCIT): 30% of net taxable income
- Minimum Corporate Income Tax (MCIT): 2% of the gross income

Final Withholding Tax

- 20% of interest from deposits and yield

Gross Receipts Tax

- 1% of interest income from instruments with remaining term of more than 5 years
- 5% of interest income from instruments with remaining term of 5 years or less
- 7% of other income except income derived from the sale of exempt securities

Documentary Stamps Tax

- P1.00 for every P200.00 or 0.5% of face value of documents.

Capital Gains Tax

- 6% of gains presumed to have been realized from sale,
- sale transaction tax equivalent to ½ of 1% of the selling price of stock traded in the stock exchange
- on capital gains for shares of stock not traded in the stock exchange:

Not over P100,000	-	5%
Any amount in excess of P100,000	-	10%

Other Taxes

- IMA
- Long Term Notes
- Private Placements

Need to Upgrade Ratings Standards

Adaption of international rating standards.

Need to Harmonize Capital Market Regulations

- IC
- SEC
- BSP
- SRO

VI. Summary

- Regulatory Environment is Supportive of Capital Market Development
- The Philippine Capital Market has Depth and Maturity
- Challenges exist in the areas of Taxation and Ratings Standards



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