Capital Market Reforms to Help Fund Philippines’ Infrastructure Ambition

Philippine reforms aim to increase interest and participation in the domestic capital market to mobilize funds for infrastructure investment.

As the administration of Philippine President Rodrigo Duterte embarks on an ambitious infrastructure development program to boost economic growth, a key question is how to fund the massive investment required.

The “Build, Build, Build” (BBB) program anticipates $180 billion in total investment from 2017 to 2022, with public spending on infrastructure hitting 7.4% of gross domestic product (GDP) by 2022, up from the current 5.1%.

The government intends to fund the program from a variety of sources, including public financing, private capital through public-private partnerships (PPP), and official development assistance.

Reforms to broaden, deepen domestic capital market

To mobilize the required funds, the government will need to further develop the domestic capital market. This will include measures to broaden and deepen the market for both government and private debt.

The Bureau of the Treasury, the Bangko Sentral ng Pilipinas, and the Securities and Exchange Commission today announced a series of reforms designed to ensure the domestic capital market can meet this challenge.

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Rosalia de Leon
The reforms aim to increase interest and participation in the domestic capital market by better integrating the Philippines into global capital markets, helping agencies adopt international best practices, and increasing the availability of funding for infrastructure.

Government committed to capital market reform

“The government is committed to further reforms in the capital markets to provide a stable and reliable yield curve, and increase long-term savings and finance, and diversity in domestic bond market participants,” said National Treasurer Rosalia de Leon.

The new reforms include:

- The launch of the Expanded Primary Dealer System, which, in parallel with a reduction in the number of government debt issues outstanding to 85 from 201 two years ago, will reduce the cost of debt through competition.

- Re-introduction of a repurchase market in the Philippines based on the international standard Global Master Repurchase Agreement. This instrument will link the financing activities of domestic and global banks operating in and outside the Philippines and allow banks to make active 2-way quotes as market-makers. This is a prerequisite for the eventual introduction of bond futures. With these instruments, market participants can hedge the risk of holding long-term fixed-rate investments.

- Improvements in the operation of the over-the-counter government bond market to make sure it is at par with major Southeast Asian economies. Industry self-regulatory structures will be approved and the government will announce measures to improve bond pricing and transparency.

These initiatives come on top of a larger, already completed package of complementary reforms. The earlier reforms include legislative and regulatory changes to encourage the contractual savings sector to purchase longer-term maturity investments and infrastructure bonds, and new listing rules to allow PPP projects to raise capital through the stock market.

The reforms have created additional vehicles for investors to purchase bonds, such as the newly launched Personal Equity and Retirement Account, or PERA, a tax-deferred personal retirement savings account that encourages long-term savings. The savings rate in the Philippines, at 15.4% of GDP, is the lowest in Southeast Asia.

The government has also opened the finance sector to foreign competition. This provides additional capital and lendable funds, introduces varied business models such as investment banking, and introduces new areas of technical capacity such as project finance. Concurrent reforms have strengthened corporate governance to provide a level playing field based on international standards and best practices.

Stephen Schuster, Principal Financial Sector Specialist for Southeast Asia at the Asian Development Bank (ADB), said the initiatives are part of 21 specific reform actions supported by an ADB policy-based project approved in 2013.

Improving capital market supervision

The Encouraging Investment through Capital Markets Reform Program encourages the government to meet its targets for capital market reform initiatives by providing incentives and capacity development. ADB recently approved a $300-million loan to support the program's second phase.

Further reforms are needed to ensure the domestic bond market functions as planned and capital-market investments are more attractive to investors. The government will pursue these reforms under a post-program partnership framework supported by ADB through a $500,000 technical assistance.

“ADB will continue to assist the government through dialogue and capacity development as it seeks to improve the quality of capital market supervision and risk management systems and expands its domestic market base,” Schuster said. “The ultimate goal is for capital market policies to address financial inclusion, particularly of the poorer segments of the economy.”

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