THE PHILIPPINES

- **1927** — Establishment of the Manila Stock Exchange (MSE)
- **1963** — Establishment of the Makati Stock Exchange (MkSE)
- **1992** — Consolidation of MSE and MkSE into the Philippine Stock Exchange (PSE)
- **1995** — Launch of an electronic auction system for bonds
- **1997** — Launch of scripless government securities
- **1998** — Launch of Small Investors Program for government bonds, which lowered the minimum denomination from PHP10 million to PHP25,000
- **2001** — The PSE transformed from a nonprofit, nonstock, member-governed organization into a shareholder-based, revenue-earning corporation; Government bonds were first listed and traded on the PSE
- **2003** — Incorporation of the Philippine Dealing & Exchange Corp. (PDEx); Listing of the PSE on the local stock exchange
- **2005** — Fixed Income Exchange first began to operate
- **2008** — PDEx granted authority to operate an over-the-counter market; Passage of the Personal Equity and Retirement Account (PERA) Act
- **2009** — Passage of the Real Estate Investment Trust (REIT) Act
- **2013** — Launch of the PSE's online service bureau, which allowed several stockbrokers to launch their own online trading facility

2019

The PSE launched the PSE Electronic Allocation System (PSE EASy) website and mobile application, allowing investors who want to take part in the local small investor (LSI) tranche of an IPO to subscribe online

2020

Listing of the first REIT on the PSE; Launch of mobile app, allowing small investors to purchase retail Treasury bonds for as low as PHP5,000; PERA launched in digital form

THE PHILIPPINES

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Equity Market Capitalization (USD)	**324.5** Bn
Equity Market Cap/GDP	88%
Equity Market Share Volume Traded	**95,975** Mn
Number of Listed Companies	274

178.4 Bn	Debt Market Capitalization (USD)
48%	Domestic Debt Market Cap/GDP
127,800 Mn	Debt Market Instrument Volume Traded (USD)
57	Number of Issuers (Bonds)

Note: All as of end of 2020

EQUITY MARKET

The Philippine Stock Exchange (PSE) was formed in December 1992 following the consolidation of the Manila Stock Exchange (MSE), which was established in August 1927, and the Makati Stock Exchange (MkSE), which was established in May 1963. The MSE and the MkSE traded the same stocks of the same companies, despite being separate exchanges.

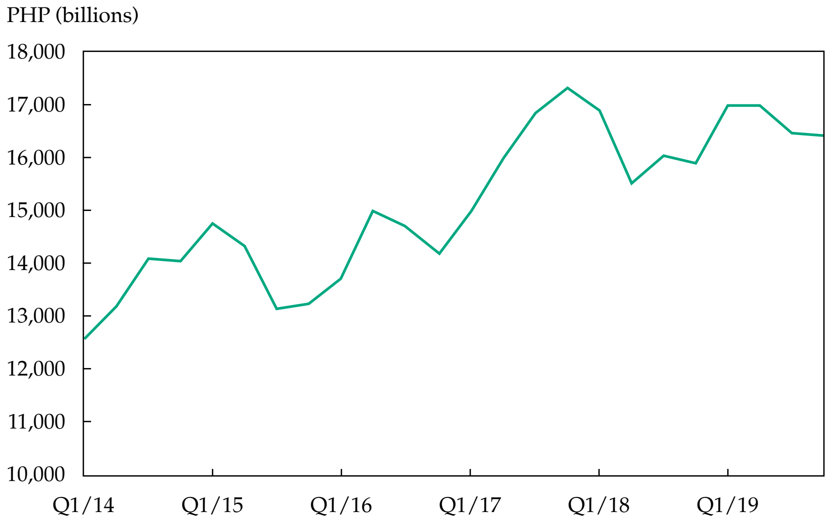
The PSE owns 20.98% of the Philippine Dealing System Holdings Corporation (PDS), which, in turn, owns the Philippine Dealing & Exchange Corp. (PDEx). Incorporated in 2003, PDEx provides the trading infrastructure and operates the organized secondary market for the trading of fixed-income securities, including both government and corporate securities.

The PSE is a self-regulatory organization (SRO), which means it can implement its own rules and establish penalties for trading participants (TPs) and listed companies that violate its rules. In 2001, the PSE transformed from a nonprofit, nonstock, member-governed organization into a shareholder-based, revenue-earning corporation. In 2003, it listed on the local stock exchange.

The main index for PSE is the PSE Composite Index (PSEi). It is a free-float-adjusted, market-capitalization-weighted index composed of 30 listed companies. The members of the index and their index weights are adjusted every six months according to a specific set of public float, liquidity, and market-capitalization criteria.

Despite the Philippines having one of the oldest stock exchanges in Asia, it has the lowest

FIGURE 1. PSE ALL SHARE INDEX TOTAL MARKET CAPITALIZATION (IN BILLIONS OF PHILIPPINE PESOS), 2014–2019



Source: Bloomberg.

number of listed companies. As of the end of 2019, the PSE had 267 listed companies, hardly changed from the total of 261 at the end of 2014. Consequently, the market capitalization of Philippine listed stocks was only PHP16.43 trillion, or USD324.38 billion, as of the end of 2019 (see **Figure 1**), equivalent to only 84% of GDP, making it one of the smallest equity markets in Asia.

As **Figure 2** shows, the average daily value turnover in the Philippine Stock Exchange is shrinking; it fell to only PHP6.25 billion (USD125 million) in 2019, which is a seven-year low. This drop occurred despite the high level of foreign investor participation, which averaged around 53% during the past five years.

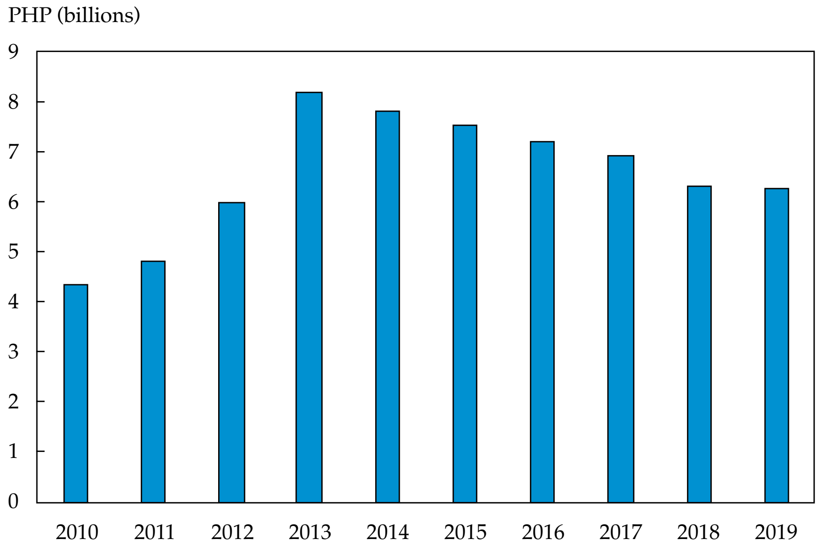
The PSE also has a small number of investors buying and selling stocks. As of the end of 2019, the number of investor accounts reached 1,228,038, which is equivalent to only 1.1% of the country's population.

BOND MARKET

The Philippine bond market has long been present in the country's history but managed to gain wider traction starting in 1995. In that year, the Bureau of Treasury launched an electronic auction system, which was followed by the introduction of scripless government securities in 1997. These developments paved the way for a more transparent trading environment for the local bond market. In 1998, government securities were also democratized with the launch of the Small Investors Program, which lowered the minimum denomination of such investments from PHP10 million to as low as PHP25,000.

In 2001, the first listing and trading of government bonds happened at the PSE, but it was not until March 2005 that the Fixed Income Exchange started to operate, albeit on an exclusive interdealer platform at that time. The creation of the exchange was spearheaded by the Bankers Association of the Philippines (BAP),

FIGURE 2. AVERAGE DAILY VALUE TURNOVER (IN BILLIONS OF PHILIPPINE PESOS), 2010–2019



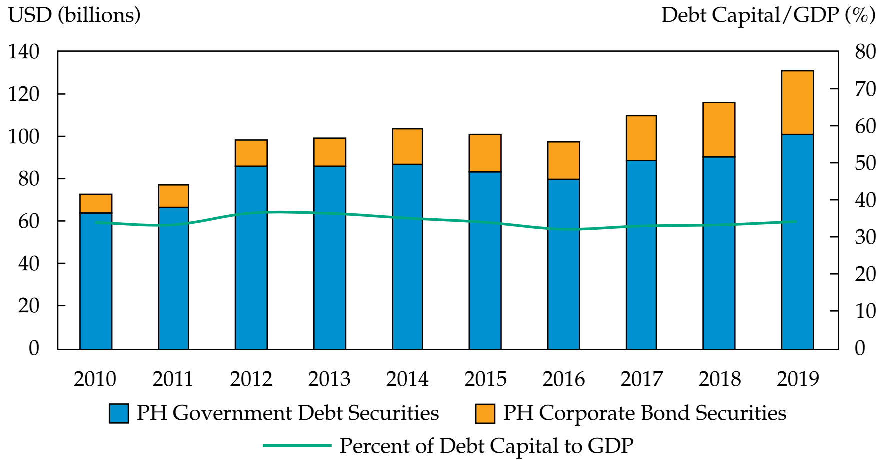
Source: Bloomberg.

which is owned and managed by the Philippine Dealing System Holdings Corporation (PDS), together with its three subsidiaries: the Philippine Dealing & Exchange Corp. (PDEx), the Philippine Securities Settlement Corp. (PSSC), and the Philippine Depository & Trust Corp. (PDTC). In 2008, the Securities and Exchange Commission (SEC) granted PDEx the authority to operate an over-the-counter (OTC) market and at the same time function as a self-regulatory organization consistent with its OTC rules. PDEx was also licensed by the SEC as an exchange under the Securities Regulation Code. This allowed PDEx to open its doors as the trading platform for fixed income, where broker participants can transact with one another.

In terms of size, the Philippine debt capital market stood at PHP6.6 trillion (USD131.2 billion) as of year-end 2019 (see **Figure 3**). This is equivalent to just 34% of the country's GDP over the same period, underscoring the overall credit health in the economy and the potential for debt capital markets to expand. Recent regulatory efforts have laid the groundwork for this expansion; for example, the Securities Regulation Code was amended in 2015 to align the local bond market with global and regional best practices in terms of an enhanced shelf registration process and longer issuance periods, among other things. The country has also taken part in regional partnerships to deepen the local bond market through the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF).

Regarding the breakdown of the Philippine bond market, of the total outstanding figure as of year-end 2019, PHP5.1 trillion (USD101.5 billion) is from government securities, representing 77.4% of the total market. Of the total outstanding government debt paper, roughly 80% is denominated in Philippine pesos, and the maturity profile is a barbell, with more than 60% being payable either less than 3 years or more than

FIGURE 3. SIZE OF THE PHILIPPINE DEBT CAPITAL MARKET, 2010–2019



Sources: AsianBondsOnline; Bureau of the Treasury PH; Philippine Statistics Authority.

10 years. Meanwhile, corporate paper stood at PHP1.5 trillion (USD29.7 billion), or 22.6% of the market, but unlike government securities, 60% of this figure is denominated in foreign currency.

On the new issuance side, a total of PHP1.5 trillion (USD29.2 billion) of government securities was raised in 2019, while only PHP366.6 billion (USD7.1 billion) was raised by corporates. Although corporate bonds have increased in size recently, the growth is still concentrated around the usual issuers in the country, which are also the companies with the largest publicly listed stocks. The entire outstanding corporate bond market can be traced back to only 50+ issuers. Clearly, the Philippine debt market is heavily skewed toward government paper.

In fact, in 2019, a total of PHP5.3 trillion of fixed-income securities changed hands, and of this figure, 98.7% was attributable to government securities. This also is related to the structure of market participants in the Philippine debt capital market. Absent an official database, it is common knowledge in the industry that fixed-income volumes are largely attributable to banks, investment houses, asset managers, and insurance companies; in short, the market is mainly driven by institutions. Retail investor participation is still low because of the dearth of options to directly access bonds and the larger amounts often required by intermediaries to allow them to invest in such securities. Usually, the participation of most individual investors is even limited to just short-term instruments, such as Treasury bills.

Foreigners are also largely absent, likely owing to the high tax rates on interest income and trading gains as well as poor liquidity.

CHALLENGES AND OPPORTUNITIES

The Philippine equity and bond markets face numerous challenges, the most significant of which are poor liquidity and low retail participation.

For the equity market, poor liquidity is largely a function of the limited number of listed companies. For the bond market, poor liquidity is also a result of the absence of large foreign investors and dealers, aside from having only a limited number of issues available. Nevertheless, recent developments could help boost market liquidity for both the equity and bond markets.

In 2020, the PSE listed its first real estate investment trust (REIT) after regulators amended the implementing rules and regulations of the REIT Act earlier in the year, making it more attractive for companies to list REITs.

During the same year, the PSE also disclosed plans to relax listing rules by removing the PHP500 million (USD10 million) minimum market-capitalization requirement for a company to be listed on the main board. The PSE also plans to remove the requirement that companies must generate a positive EBITDA in at least two of the last three fiscal years, reduce the required operating history from three years to two years, and replace the PHP100 million (USD2 million) minimum authorized capital stock requirement with PHP25 million (USD500,000) paid-up capital to qualify for listing on the SME (small and medium-size enterprise) board.

Meanwhile, to boost liquidity for the bond market, the Philippines has taken part in regional partnerships to deepen the local bond market through the implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework.

The government also plans to gradually reduce taxes on bonds, which are currently among the highest in the region. The government plans to reduce the tax on interest income from 20% to 15% and reduce the tax on trading gains slowly from as much as 30% to 20%.

In addition, there are various initiatives to boost retail participation in both the stock and bond markets.

Aside from regularly conducting free basic stock market seminars and road shows around the country, the PSE in 2009 signed a memorandum of agreement with the Department of Education for the integration of a capital market segment in the high school curriculum in the senior year economics subject.

In 2013, the PSE launched its online service bureau, which allowed several stockbrokers to launch their own online trading facility by simply using the stock exchange's online trading platform.

In 2019, the PSE launched the PSE Electronic Allocation System (PSE EASy) website and mobile application, allowing investors who want to take part in the Local Small Investor (LSI) tranche of an IPO to subscribe online. Prior to the launch of PSE EASy, retail investors who wanted to subscribe to the LSI tranche of an IPO had to go to designated IPO kiosks in selected malls to secure and fill out a form, bring this form to their stockbroker's office for acknowledgement, and then bring the same form back to the kiosk to make payments. Because of the cumbersome process, the take-up of the LSI tranche of IPOs has never exceeded 2%, even though the LSI tranche is at least 10% of the offering.

To encourage more retail participation in the bond market, the Bureau of Treasury, together with a private bank, launched in July 2020 the first mobile app in the country that allows small investors to purchase retail Treasury bonds for as low as PHP5,000 (USD100). Some online brokers have also started exploring the distribution of fixed-income instruments through their platform.

One major development that could significantly boost both market liquidity and investor participation in the future is the digitization of Personal Equity and Retirement Account products. The Personal Equity and Retirement Account (PERA) Act is an initiative that aims to promote a voluntary retirement savings account for working Filipinos by providing annual tax incentives. Although the act was passed in 2008, only a few Filipinos have participated because of a lack of awareness and financial literacy, as well as the difficulty of accessing this scheme through traditional bank branches.

Nevertheless, investor participation could finally pick up because PERA was recently relaunched by the Bangko Sentral ng Pilipinas, the central bank, in digital form, allowing Filipinos to open an account and make their contributions online. The central bank has a target of at least 5 million of these accounts over the next five years. Aside from increasing investor participation, this development would boost demand for stocks and bonds, leading to greater market liquidity, to the benefit of the local capital market.