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Capacity Building Needs in Debt Management : *Philippines' Perspective*

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

Capacity Building Needs in Debt Management : Philippines' Perspective

A Presentation of



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Outline of Presentation



- Introduction
- Department of Finance (DOF)
 - Mandate
 - Attached Bureaus and Agencies
- Bureau of the Treasury (BTr)
 - Mission/Vision
 - Function
- National Government Debt Indicators
- Debt and Risk Management Practice
- Future Reform/Needs in Debt Management

Philippine Economic Managers



**Department
of Budget
and
Management**

Resource
allocation and
management
and
Budget
preparation and
formulation

*Department
of
Finance*

Resource
generation
and
debt management

**Department
of Trade
and
Industry**

Trade policy
and
management

**Bangko
Sentral
ng
Pilipinas**

Monetary
policy and
management

**National
Economic
Development
Authority**

Overall
economic
policy

Department of Finance



Mandate

- Formulate sound fiscal policies in order to maintain a stable macroeconomic environment conducive to strong and sustainable growth;
- Generate and manage the financial resources of government;

Department of Finance



Mandate...

- Supervise the revenue operations of all local government units;
- Assist in the rationalization, privatization and increase in public accountability of corporations and assets owned, controlled or acquired by the government.
- Manage all public sector debt, domestic or foreign

Attached Bureaus



Bureau of Internal Revenue (BIR)

Assessment and collection of all national internal revenue taxes, fees and charges

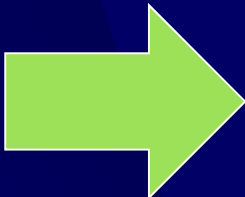
Bureau of Customs (BOC)

Enforce tariff and customs laws and Assess and collect lawful revenues

Bureau of Local Government Finance (BLGF)

Directly responsible over the fiscal and financial affairs of local government units

Bureau of the Treasury (BTr)



Bureau of the Treasury



MISSION STATEMENT

To efficiently and effectively manage the financial resources of the government by maximizing revenues from available funds and minimizing costs of financing whenever possible.

Bureau of the Treasury



VISION STATEMENT

To be a pro-active manager of the public funds characterized by active duration management, minimization of interest rate risks and hedging of financial risks.

Bureau of the Treasury



Functions:

- Contributes to the formulation of fiscal policies particularly on borrowing, investment and capital development
- Assist in the preparation of annual financing program of the national government

Bureau of the Treasury



Functions:

- Management of the cash resources of the government
- Control and management of the public debt
- Issue, service and redeem government securities.

Bureau of the Treasury



Functions:

- Manages the funds as well as the disbursement of the National Government
- Report to the public through the media on a regular basis the results of the cash operations of the national government as well as on the public debt

National Government Debt indicators

Outstanding Debt (In Billion US\$ Equivalent)

	Dec-99			Dec-04			Jun-09		
	Amount	%to Total	% to GDP	Amount	%to Total	% to GDP	Amount	%to Total	% to GDP
Domestic	24.31	55%	32%	35.58	52%	41%	49.19	56%	32%
Foreign	19.8	45%	24%	32.191	48%	37%	38.32	44%	25%
Total	44.11	100%	60%	67.77	100%	78%	87.52	100%	56%
US\$/PhP	40.25			56.25			48.30		

National Government Debt indicators

Outstanding Debt (In Billion US\$ Equivalent)

		Dec-99		Dec-04		Jun-09	
		Amount	%to Total	Amount	%to Total	Amount	%to Total
By Maturity							
	Short Term	11.55	26%	10.60	16%	14.08	16%
	Medium Term	6.89	16%	17.48	26%	14.87	17%
	Long Term	25.67	58%	39.69	59%	58.57	67%
	Total	44.11	100%	67.77	100%	87.52	100%
US\$/PhP		40.25		56.25		48.30	

National Government Debt indicators

Outstanding Foreign Debt (In Billion US\$ Equivalent)

		Dec-99		Dec-04		Jun-09	
		Amount	%to Total	Amount	%to Total	Amount	%to Total
By Creditor Type							
	Multilateral	4.47	23%	4.58	14%	6.09	16%
	Bilateral	9.06	46%	9.50	30%	9.49	25%
	Commercial	<u>6.28</u>	32%	<u>18.11</u>	56%	<u>22.74</u>	59%
	Loans	0.26		0.97		0.82	
	Securities*	6.02		17.14		21.92	
	Total	19.80	100%	32.19	100%	38.32	100%
*of which							
	Global Bonds	5.28		14.54		19.78	
	Euro Bonds	0.35		1.78		1.62	
	Yen Bonds	0.39		0.83		0.52	

National Government Debt indicators

Outstanding Foreign Debt (In Billion US\$ Equivalent)

		Dec-99		Dec-04		Jun-09	
		Amount	%to Total	Amount	%to Total	Amount	%to Total
By Currency							
	US Dollar	9.80	49%	19.36	60%	25.29	66%
	Japanese Yen	8.40	42%	9.51	30%	9.62	25%
	EURO	0.36	2%	1.74	5%	1.87	5%
	Other Currencies	1.24	6%	1.59	5%	1.54	4%
	Total	19.80	100%	32.19	100%	38.32	100%

National Government Debt indicators

Contingent Obligations (In Billions)

	In PhP	In US\$ Equivalent
Dec-99	366.86	9.11
Dec-04	833.71	14.82
Jun-09	580.51	12.02

- *Includes NG direct guarantee and NG assumed GFI guarantee only, excludes obligations arising from BOT, IPPs and equivalent projects.*

Debt and Risk Management Practice



- Maintain prudent debt structure via rebalancing of domestic and foreign borrowing
- Lengthen average maturity profile
- Even out spread of maturities
- Pursue advantageous debt structure
- Diversify investor base

Debt and Risk Management Practice



- Undertake regular reopening of outstanding bonds
- Issue innovative debt instruments
- Develop the retail investor base

Debt and Risk Management Practice



Prepayment of Brady Bonds

- US\$702.285 million reduction in external indebtedness
- Free-up corresponding principal and interest collaterals
- US\$46.0 million savings in debt service

Debt and Risk Management Practice



Prepayment of some ADB Loans amounting to US\$70. million in November 2006

- Reduction in the government's external indebtedness
- US\$5.4 million savings in debt service

Debt and Risk Management Practice

Domestic Bond Exchange Program

Executed several Domestic Bond Exchanges (DEX) in three (3) phases.

- DEX I – February 2006 – 3 yr
March 2006 – 5 yr and 7 yr
- DEX Ia – September 2006 – 10 yr
- DEX II – February 2007 – 3 yr and 5 yr
- DEX III – January 2009 – 5 yr and 7 yr

Debt and Risk Management Practice

Domestic Bond Exchange Program

	DEX I			DEX Ia	DEX II		DEX III	
	Feb-06	Mar-06		Sep-06	Feb-07		Jan-09	
	3 yr	5 yr	7 yr	10 yr	3 yr	5 yr	5 yr	7 yr
(Amount in Billions, except%)								
Eligible Bonds	490	293	92	872	639	861	1,025	120
Eligible Bonds Submitted	77	34	20	59	47	42	63	74
Participation Rate	16%	12%	22%	6%	7%	5%	6%	62%
Eligible Bonds Accepted	66	30	15	54	47	42	63	74
Acceptance Rate	85%	88%	75%	91%	100%	100%	100%	100%
Benchmark Bonds Issued	71	33	17	58	51	47	67	78

Debt and Risk Management Practice

Domestic Bond Exchange Program

Benefits to the Philippines

- Development of the Domestic Government Bond Market
- Enhancing of Domestic Corporate Bond Market
- Reduce Government Funding Cost

Debt and Risk Management Practice

Domestic Bond Exchange Program

Impact on Philippine Capital

- Promote a stable and increasingly sophisticated domestic capital market
- Foster increase confidence in the Philippine domestic bond market

Debt and Risk Management Practice



International Bond Exchange Program

- To consolidate its US\$ curve into a few large benchmarks
- Eliminate trading inefficiencies of its existing bonds
- To extend duration.
 - exchanged \$661 million bonds due 2007-2019 and \$355 million bonds due 2024-2025 for \$ 1.2bn of new Global bonds.
 - issued \$764 million of new amortizing bonds due 2024 and \$435 million reopened bonds due 2031, creating a new liquid benchmark and establishing an improved yield curve.
 - Duration was extended by 3.4 and 1.9 for the new bonds due 2024 and 2031 respectively.

Debt and Risk Management Practice



ROP Debt Exchange Warrants

- Give holders the right to exchange Foreign Currency RoP debt into Philippine Peso debt in the event of a Philippine international debt default
- Allows Philippine domestic banks to maintain a 0% risk weighting on any foreign currency government debt paired with warrants – for up to 50% of the banks' regulatory capital

Future Reform Efforts / Needs in Debt Management



- **Strengthen the risk management system within the Bureau**
 - Develop modern and secure debt management system to cover existing debt obligations as well as contingent liabilities (CLs)
 - Pursue legal and accounting reforms to enable application of modern debt/risk management practices
 - Develop a more sophisticated risk management policies and operations for CLs

Future Reform Efforts / Needs in Debt Management



- **Align capital market conventions with international best practices**
 - Unify tax and non-tax securities market
 - Develop organized trading of securities for greater transparency
 - Separate broker/dealer roles and functions for best pricing

Future Reform Efforts / Needs in Debt Management



- Support market making activities to deepen liquidity and reduce bid/offer quote spread for more efficient pricing
- Improve proactive investment relations through stronger engagement with rating agencies and investor research organizations as well as regular interactions with investors (non-deal road shows) and international underwriters/intermediaries

The End



Thank you