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The Successful Development of the
Philippine Treasury Bill Market

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The Successful Development of the Philippine Treasury Bill Market

For several years the Philippine Government has been interested in developing an active open market in treasury bills. Such a market would not only provide the central bank with an additional instrument of monetary policy by permitting open market operations, but would also give the Government a new, flexible source of funds. As a result of a series of actions taken early in 1966, the Government has been able to develop such a market, with fairly wide participation, and with the bills trading at market -- and hence realistic -- interest rates.

The Philippines has thus been one of the first of the less developed countries in the postwar period to develop an active open market in treasury bills. The Philippine success suggests that there may be considerable scope for the sale of short-term government securities to the public in developing countries, provided the steps necessary to make them attractive are taken.

Private and Public Sectors Work Jointly on the Undertaking

It is interesting to note that the private sector played a major role in the development of the market. Especially prominent was the Bancom Development Corporation, an investment company that began its operations only as recently as January 14, 1965. Bancom is a joint venture of Bankers International Financing Company, Incorporated, (a subsidiary of the Bankers Trust Company of New York), and the Commercial Bank and Trust Company of the Philippines. Philippine interests hold a majority of the shares in the Bancom Development Corporation.

The first move toward establishing the market was taken in July of 1965 when the Central Bank of the Philippines hired Bancom under a five-year consultant contract arrangement to devise a financial program for the Philippines. One of the firm's first tasks was to make a study of the possibilities and problems of developing a short-term money market in the Philippines. A vice-president from Bankers Trust in New York specializing in government securities operations was hired to serve as a consultant to Bancom on the project. In February of 1966 Bancom presented its report to the Central Bank, urging the development of a short-term money market based primarily on treasury bills. Bancom asserted that the prospects for developing such a market were quite good since the potential investors were available, the conditions for creating a dealer network were favorable, and both the Government and the private sectors were convinced of the need for such a market. Development of the market would permit the Central Bank to add open market operations to its arsenal of monetary weapons, thus supplementing reliance on changes in the discount rate, central bank credit quotas, and reserve requirements.

On the basis of Bancom's study and recommendations, the Central Bank began in March of 1966 to organize a new department in the bank to deal with the proposed issue of securities and subsequent open market operations. Mr. Spencer S. Marsh, Jr., an assistant vice-president from the Federal Reserve Bank of New York, was recruited to help administer the operation in its beginning stages, particularly the mechanics and techniques of offering and trading in the treasury bills.

On the dealer side, a new organization, the National Association of Government Securities Dealers, was created to handle the bill tenders and to create an active secondary market for the bills. When it first began its operations, the N.A.G.S.D. represented three local investment houses and five commercial banks. The participating investment houses were the Bancom Development Corporation, the C.C.P. Securities Corporation, and the House of Investments. The five commercial banks were the Bank of Asia, the Consolidated Bank and Trust Corporation, Equitable Banking Corporation, the Far East Bank and Trust Company, and Pacific Banking Corporation.

The Inauguration of the First Series of Issues

On May 6, 1966, the Secretary of Finance and the Governor of the Central Bank announced that on May 16 there would be an offering of ₱ 5 million in 91-day government treasury bills, the bills to be auctioned at discount and payable on maturity at face value. As bearer notes, the 91-day bills would be redeemable upon maturity without endorsement at the Central Bank or at any commercial bank. The bills would be auctioned by the Central Bank acting as fiscal agent for the government. The proceeds would be used for short-term government needs.

It was also announced that if the tenders were successful, further offerings of ₱ 5 million each would be made at two-week intervals. The Government stated that altogether it hoped to issue ₱ 65 million in treasury bills by eventually switching to a weekly offering after the first 91 days. If the public response were good, the Government indicated it might later issue other securities in larger amounts at maturities of 6 months to a year.

In a major shift in government policy, Secretary of Finance Romualdez stated that the Central Bank would refrain from supporting the price of these short-term government securities. Thus, this would be a first step in establishing a government securities market without Central Bank or government support. For the first five issues, however, it was quietly agreed that they would be supported, if necessary, by the dealers or through central bank financing. At the same time, the Secretary of Finance and the Governor of the Central Bank decided that once the issues had begun, the Government would no longer issue bonds subject to repurchase at the will of the holder. This would discourage the sale of old bonds for the purpose of using the proceeds to purchase the new treasury bills.

To help assure the success of the issues, the Monetary Board of the Central Bank favored making the bills eligible to serve as official reserves against commercial bank deposit liabilities. The dealers objected to this, however, arguing that banks would be tempted to hold them and the objective of developing a secondary market in bills would be thwarted. The proposal was therefore abandoned.

The members of the National Association of Government Securities Dealers conducted an intensive informational and promotional campaign aimed at local banks and other potential buyers in order to interest them in the forthcoming issues. These efforts, which were deemed to be very important for the development of a genuine secondary market, proved to be quite successful.

The first tender on May 16 was oversubscribed by 121 per cent. Although only ₱ 5 million in bills were offered, total subscriptions were ₱ 11,026,000. The lowest price bid was ₱ 98.200 while the highest was ₱ 98.506. Yields thus ranged from 6.0 per cent to 7.251 per cent, with the average bid giving a yield of 6.911 per cent. The authorities were quite encouraged by the total amount bid, since this reflected a strong interest in the issue.

The second offering on May 30 also drew ₱ 11 million in bids, and the average yield of 6.919 per cent was very close to that for the first issue. The range of bids, however, was narrower which indicated a greater precision in bidding.

Subsequent issues were made successfully with the range of bids generally narrowing. Table 1 provides details on all of the offerings made during 1966 and the first part of 1967.

With the seventh offering of August 8, 1966, the first cycle of offerings was completed, since August 22 marked the maturing of the first issue of May 16. For the series of seven offerings as a whole, the average oversubscription was 180 per cent, indicating a good response from investors. The average price bid tended to rise, and the yield fell from about 6.9 per cent to 6.7 per cent. Dealers also reported that they had been able to dispose of their holdings in the secondary market more readily than they had expected.

Table 1. Philippine 91-Day Treasury Bill Auctions

Series	Date offered during 1966-1967	Total applications (1,000's of pesos)	Total awards[1/] (1,000's of pesos)	Non-competitive awards (1,000's of pesos)	Over subscription (per cent)	Lowest yield (per cent)	Highest yield (per cent)	Average yield (per cent)
1st	May 16	11,026	5,000	325	121	6.000	7.251	6.911
2nd	May 30	11,980	5,000	195	140	6.600 2/	7.100	6.919
3rd	June 14	15,415	5,003	132	208	6.437	6.997	6.866
4th	June 27	14,125	5,000	150	183	6.400	6.887	6.797
5th	July 12	16,150	5,004	150	223	6.400	6.719	6.645
6th	July 25	12,100	5,000	150	142	6.400	6.801	6.665
7th	Aug. 8	17,450	5,007	100	249	6.531	6.702	6.661
8th	Aug. 15	14,400	5,000	150	188	6.514	6.686	6.657
9th	Aug. 22	12,925	5,000	100	159	6.502	6.702	6.665
10th	Aug. 29	15,125	5,002	150	203	6.531	6.698	6.669
11th	Sept. 5	18,600	5,001	175	272	6.482	6.669	6.633
12th	Sept. 12	18,710	5,002	n.a.	274	6.522	6.641	6.617
13th	Sept. 19	23,310	5,003	155	366	6.502	6.600	6.592
14th	Sept. 26	19,555	5,004	155	291	6.498	6.502	6.502
15th	Oct. 3	34,300	5,005	n.a.	585	6.400	6.502	6.473
16th	Oct. 10	26,975	5,000	200	440	6.400	6.445	6.441
17th	Oct. 17	20,900	5,000	200	318	6.400	6.445	6.433
18th	Oct. 24	22,375	5,001	225	347	6.363	6.416	6.396
19th	Oct. 31	19,025	5,001	225	280	6.351	6.351	6.351
20th	Nov. 7	19,425	5,000	200	289	6.102	6.347	6.326
21st	Nov. 14	16,125	5,000	200	223	6.220	6.351	6.330
22nd	Nov. 21	15,200	5,000	200	204	6.302	6.396	6.375
23rd	Nov. 28	6,628	5,000	203	33	6.351	6.661	6.531
24th	Dec. 5	20,300	5,000	n.a.	306	6.302	6.396	6.375
25th	Dec. 12	13,050	5,000	200	161	6.302	6.608	6.522
26th	Dec. 19	22,430	5,003	205	348	6.404	6.543	6.510
27th	Dec. 26	15,790	5,002	175	216	6.310	6.527	6.457
28th	Jan. 2	14,725	5,002	175	194	6.339	6.502	6.420
29th	Jan. 9	27,400	5,000	n.a.	448	6.347	6.404	6.408
30th	Jan. 16	32,600	5,001	175	552	6.310	6.335	6.326
31st	Jan. 23	29,675	5,001	200	493	6.245	6.294	6.261
32nd	Jan. 30	27,525	5,001	175	450	6.155	6.220	6.200
33rd	Feb. 6	19,200	5,000	175	284	6.102	6.220	6.183
34th	Feb. 13	16,985	5,000	250	240	6.102	6.175	6.151
35th	Feb. 20	21,500	5,001	225	330	6.000	6.151	6.106

1/ Includes non-competitive awards.
2/ Excluding one bid for ₱ 1,000 at 4.845 per cent.

Delighted at the general success of the offerings, the Government on August 15 began to issue the treasury bills weekly on each Monday. As indicated in Table 1, this and all subsequent offerings were successfully placed. Proceeds from the August 15 issue were used to retire the maturing May 16 issue on August 22. Bids in subsequent auctions continued to fall within a narrow range, and the average yield eased further to 6.5 per cent on September 26. One indication of the strong demand for the bills was the oversubscription by 366 per cent for the September 19 issue. In part, this reflected an increased participation by non-dealers in the auctions.

By November 7, 1966, the Government had completed the second cycle (13 weeks) of bill offerings. With all offerings successfully placed, the total treasury bill debt outstanding rose to ₱ 65 million. This fulfilled the original goal announced in May.

Encouraged by its success with the 91-day treasury issues, the Government in early November of 1966 launced a new program. On November 7, 1966, the first of a weekly series of 182-day treasury bills was offered in the amount of ₱ 2.5 million, along with the 20th offering of 91-day bills. The issue was successful, being oversubscribed by 285 per cent. The average yield was 6.821 per cent, or about a half a percentage point higher than the average yield of 6.326 per cent on the same day for the 91-day bills.

Details on the first and subsequent issues of 182-day bills are provided in Table 2. For the first 6 weeks, average yields on the

Table 2. Philippine 182-Day Treasury Bill Auctions

Series	Date offered during 1966-1967	Total applications (1,000's of pesos)	Total awards[1/] (1,000 of pesos)	Non-competitive awards (1,000's of pesos)	Over subscription (per cent)	Lowest yield (per cent)	Highest yield (per cent)	Average yield (per cent)
1st	Nov. 7	9,625	2,502	125	285	6.790	6.801	6.801
2nd	Nov. 14	9,100	2,500	175	264	6.676	6.748	6.744
3rd	Nov. 21	9,175	2,500	200	267	6.649	6.723	6.706
4th	Nov. 28	6,782	2,500	232	171	6.676	6.771	6.706
5th	Dec. 5	8,200	2,500	225	228	6.649	6.723	6.699
6th	Dec. 12	8,525	2,500	125	241	6.651	6.714	6.683
7th	Dec. 19	8,200	2,500	150	228	6.676	6.716	6.702
8th	Dec. 26	5,880	2,502	130	135	6.651	6.714	6.683
9th	Jan. 2	8,425	2,500	175	237	6.655	6.699	6.678
10th	Jan. 9	8,925	2,500	n.a.	257	6.659	6.682	6.674
11th	Jan. 16	11,000	2,500	200	340	6.573	6.575	6.575
12th	Jan. 23	10,850	2,500	200	334	6.499	6.509	6.505
13th	Jan. 30	10,200	2,500	200	308	6.425	6.473	6.459
14th	Feb. 6	6,300	2,500	175	152	6.400	6.488	6.450
15th	Feb. 13	9,200	2,500	200	368	6.401	6.450	6.425
16th	Feb. 20	10,600	2,500	200	324	6.374	6.406	6.385

1/ Includes non-competitive awards.

182-day bills tended to decline. During the same period, however, yields on the 91-day bills generally increased. By February of 1967, average yields for both issues were down to new lows.

In a move to further development the Philippine money market, the Government offered on February 22, 1967, two issues of tax anticipation Bills totaling ₱ 40 million. One issue of 62-day bills totaling ₱ 25 million was offered, along with another issue of 152-day bills totaling ₱ 15 million. The 62-day bills run from March 1 to May 2, and the 152-day bills from March 1 to July 31.

The bills were offered on a discount basis and issued in bearer form. The denominations offered ranged from ₱ 1,000 to ₱ 100,000. They were especially tailored for firms and individuals with income tax obligations. The holder of the bill, if he so desires can convert the bill into the equivalent of a check drawn in favor of the Commission of Internal Revenue for the payment of income taxes simply by filling in the blanks provided on the back of the bill.

The first offering on February 22 met with a good response, and the issue was oversubscribed by 141 per cent for the 62-day bills and 261 per cent for the 152-day bills. As indicated in Table 3, the average yield on the shorter bills was 4.464 per cent and 5.523 per cent on the 152-day bills. There was some concern on the part of the authorities that this offering might depress the prices offered for the regular 91-day and 182-day bill offerings, but these fears proved unfounded.

Table 3. Philippine Tax Anticipation Bill Auctions

Series	Date offered during 1966-1967	Total applications (1,000's of pesos)	Total awards[1/] (1,000 of pesos)	Non-competitive awards (1,000's of pesos)	Over subscription (per cent)	Lowest yield (per cent)	Highest yield (per cent)	Average yield (per cent)
	(62-Day Bills: March 1 to May 2)							
1st	Feb. 22	60,240	25,000	239	141	4.093	4.624	4.464
	(152-Day Bills: March 1 to July 31)							
1st	Feb. 22	54,241	15,000	191	261	5.251	5.705	5.523

1/ Includes non-competitive awards.

In addition to the above developments in the short-term market, a large long-term bond was successfully issued by the government-owned Development Bank of the Philippines in November-Decemb... It represented the first massive securities marketing program of its kind to be undertaken in the Philippines.

On November 3, 1966, the D.B.P. offered to the general public ₱ 100 million in 10-year, 7 per cent Progress Bonds. Proceeds from the issue will be used to meet the financing needs of local industries, including the improvement and expansion of either new or existing industrial projects. The bonds are exempt from taxation, both as to principal and interest, and are guaranteed unconditionally by the Philippine Government.

Issued in convenient denominations of ₱ 100, ₱ 1,000 and ₱ 10,000 the bonds are highly liquid since they are convertible into cash anytime at any Development Bank of the Philippines office or authorized service agency. The bonds can also be exchanged for preferred shares which in turn can beconverted into the common stock of selected private corporations available from the portfolio of the Development Bank of the Philippines to be offered from time to time within the lifespan of the bonds.

Although the D.B.P. allowed 12 months for the sale of ₱ 100 million of the Progress Bonds, the goal was reached by the end of December 1966. About one-fourth was purchased by the general public, and the balance by commercial banks and other financial institutions.

In early March 1967, the D.B.P. reported that a brisk secondary market was developing in bonds and that ₱ 15 million originally purchased by banks and underwriters had been re-sold to clients and third parties.

Some General Conclusions

A sufficient number of treasury bill offerings have now been made to permit the drawing of some general conclusions regarding the Philippine experience.

It is clear that the offerings have been very successful, particularly since most offerings have been substantially oversubscribed. The underwriters have even indicated that the response from buyers exceeded their original expectations.

Also encouraging was the participation by non-dealers in the auctions, bidding on their own account. In general, the non-dealers in government securities accounted for about a third of the bills purchased during the initial offering.

The range of bids narrowed as the series progressed, and the average rate of yield tended to decline. Yields on bills with a short period to maturity have also been lower than bills with a longer period to maturity. The narrowing in the range of bids indicates an increased precision on the part of the market in the bidding operation. The decline in yields reflects in part an increased confidence in the soundness and stability of this new type of asset.

Information available also indicates that a substantial secondary market for the bills has developed. Some of the original holders of earlier issues have sold their bills to dealers, who in turn have resold the bills to other investors, both bank and non-bank. The majority of the investors, however, have been financial institutions, principally commercial banks. They have found the bills an acceptable and suitable medium for maintaining secondary reserves.

In conclusion, it is evident that the successful development of the treasury bill market has benefited the Philippines. The Government now has a new source of financing, the money market has a new instrument suitable for investing and trading, investors and financiers have a new, sensitive indicator for measuring the cost and availability of money, and the Central Bank has an instrument that can be used for engaging in open market operations in the pursuit of monetary stability.