Policy Brief

SENATE ECONOMIC PLANNING OFFICE

November 2024 PB-24-07

Capital Markets Reform: Enhancing Investment Through CMEPA

Capital markets drive economic growth by enabling capital formation, investment diversification, and financial inclusion. Modernizing the tax framework and streamlining regulations are essential to enhance market efficiency, attract investors, and sustain economic development.

Introduction. Capital markets are indispensable for driving long-term economic growth. They provide a mechanism for businesses to raise capital, enabling investment diversification and promoting financial inclusion. A robust capital market, alongside a strong banking system, forms the bedrock of a healthy financial system, crucial for achieving sustainable economic development (Tetangco, 2005).

Robust capital markets are essential for supporting the Marcos administration's ambitious PhP20.21 trillion Public Investment Program (PIP) for 2023-2028 and achieving the targeted annual economic growth rate of 6.5 to 8.0 percent. Capital markets, by enabling access to long-term financing instruments such as bonds and securities, can stimulate private sector involvement in public-private partnerships, alleviating the government's fiscal pressures. Moreover, well-developed capital markets can lower borrowing costs through innovative financial instruments like sustainability bonds. Enhanced liquidity and transparency will draw broader investor engagement, channeling domestic savings into critical investments.

However, despite marked improvements since the 1990s, the Philippine capital market remains relatively underdeveloped. According to the World Bank's 2021 Financial Development Index, the Philippines and Viet Nam both got a score of 0.38 which is slightly above Indonesia's 0.36. However, this is way behind its other ASEAN neighbors like Thailand (0.73), Malaysia (0.73), and Singapore (0.70). This underdevelopment is reflected in the country's low gross national savings rate, which, at 20.8 percent of GDP in 2023, falls below the global average of 23.9 percent. A 2019 IMF assessment identified the "onerous tax environment" as a major obstacle to capital market deepening in the Philippines. High transaction taxes on stock sales and passive income, coupled with unclear regulations for new financial products like derivatives, deter market participation, particularly among smaller investors.

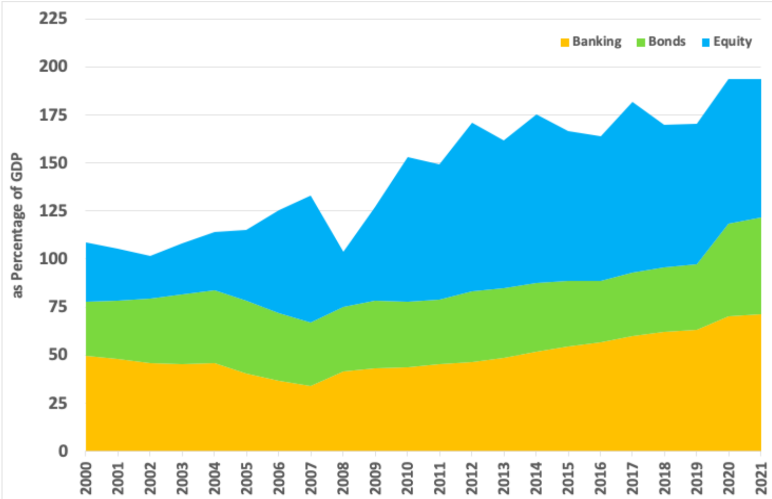
This policy brief aims to provide an assessment of the Philippine capital market by: (1) presenting an overview of its current state, highlighting key market trends and performance indicators; (2) identifying critical challenges, particularly in the equity and insurance market and; (3) examining the proposed legislative framework through an analysis of Senate Bill No. (SBN) 2865 and House Bill No. (HBN) 9277, collectively known as the Capital Markets Efficiency Promotion Act (CMEPA), outlining key provisions and intended reforms; (4) assessing the potential impacts of the proposed legislative amendments, including anticipated benefits, possible implementation challenges, and areas requiring further policy attention; and (5) offering policy recommendations aimed at enhancing regulatory frameworks, boosting market competitiveness, fostering investor confidence, and strengthening capital market infrastructure.

The SEPO Policy Brief, a publication of the Senate Economic Planning Office, provides analysis and discussion on important socio-economic issues as inputs to the work of Senators and Senate Officials. The SEPO Policy Brief is also available at *http://www.senate.gov.ph*.

I. Current State of the Philippine Financial Markets

Market Size and Growth Trends. For more than two decades, the Philippine financial sector has undergone significant changes, with the capital markets—equities and bonds playing an increasingly larger role. In 2000, banking dominated the financial system, with the amount of its resources equivalent to 49.3 percent of GDP, followed by equities (31.3%) and bonds (28.3%). By 2021, the value of equities had surpassed banking, reaching 72.4 percent and 71.0 percent of GDP, respectively, while bonds grew to 50.4 percent of GDP. The combined size of the financial sector has expanded from 108.8 percent of GDP in 2000 to 193.9 percent of GDP in 2021.

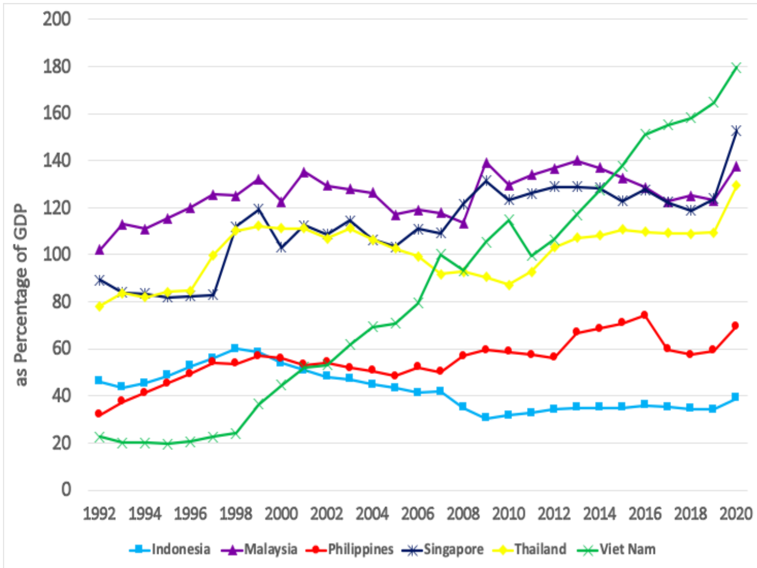
Figure 1. Size of the Philippine Financial Sector (as % of GDP), 2000 to 2021



Source: World Bank Global Financial Development database

Despite recent growth, the Philippines continues to trail its regional peers in financial depth, as reflected by the ratio of liquid liabilities (M3)[1] to GDP (Figure 2). In 2020, the country's liquid liabilities stood at 69.5 percent of GDP—higher than Indonesia's 38.9 percent but well below Thailand (129.5%), Malaysia (137.7%), Singapore (152.6%), and Viet Nam (179.6%). According to the World Bank, well-developed financial systems are closely associated with long-term economic growth and poverty reduction. The effectiveness of monetary policy in influencing the real economy also hinges on the maturity and diversification of the financial sector (Dakila, 2020). Following the Asian Financial Crisis, monetary authorities recognized the risks of an underdeveloped financial system overly reliant on the banking sector. To strengthen a country's resilience to external shocks, fostering robust capital markets should be a key government priority for achieving sustainable economic growth.

Figure 2. Financial Depth of ASEAN-6 Countries, 1992-2020



Source: US Federal Reserve Bank of St. Louis (US FRED) database

[1] A traditional indicator used to measure financial depth, liquid liabilities are also known as broad money, or M3. They are the sum of currency and deposits in the central bank (M0), plus transferable deposits and electronic currency (M1), plus time and savings deposits, foreign currency transferable deposits, certificates of deposit, and securities repurchase agreements (M2), plus travelers' checks, foreign currency time deposits, commercial paper, and shares of mutual funds or market funds held by residents.

Table 1 presents the composition of financial sector components across ASEAN-6 countries in 2020. In all surveyed economies, bond markets remain the smallest segment compared to the banking and equities sectors. The Philippine financial market trails its regional counterparts, primarily due to the underdevelopment of its pension, insurance, and mutual fund industries. These sectors, essential for capital mobilization, are notably underdeveloped in both Indonesia and the Philippines.

Table 1. Financial Sector Components as a Percentage of GDP in ASEAN-6, 2020

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Banking Sector	44.3	153.0	70.2	168.9	144.5	162.8
Bonds	29.2	119.1	47.9	104.6	88.9	47.8
Equity	46.8	129.4	75.4	186.7	108.5	76.1
Pension, Insurance, & Mutual Funds	10.3	119.2	15.6	1,104.2	62.0	8.0
Pension	1.9	61.2 (2019 data)	2.8 (2018 data)	42.1	8.1	No data
Insurance	4.6	22.2	10.7	63.7	23.7 (2018 data)	7.7 (2019 data)
Mutual Funds	3.7	35.8	2.0	998.3	30.2	0.3 (2007 data)

Notes: pension = pension fund assets to GDP; insurance = insurance firm assets to GDP; and mutual funds = mutual fund assets to GDP.; unless otherwise indicated, all are 2020 data
Source: World Bank Global Financial Development database; Asianbondsonline

Key Players and Instruments. Table 2 provides a brief overview of the key players and instruments that play an important role in the Philippine capital markets. Majority in the list are members of the Capital Market Development Council (CMDC) which is a public-private partnership that aims to formulate and recommend policies and regulations to the government to promote capital market deepening.

Table 2. Key Players and Instruments in the Philippine Capital Markets

Category	Key Players	Instruments
Government entities	Bangko Sentral ng Pilipinas (BSP)	Sets monetary policy instruments; exercises authority over banks including their provision of unit investment trust funds (UITFs) which is a form of collective investment scheme (CIS) [2]
	Securities and Exchange Commission (SEC)	Implements securities regulations code; Exercises authority over companies providing mutual funds which is a form of CIS
	Insurance Commission (IC)	Implements the insurance code; Exercises authority over companies providing VUL insurance products which is a form of CIS
	Bureau of the Treasury	Issues government securities like treasury bonds, bills
Private entities	Philippine Dealing and Exchange Corporation	Focuses on the fixed income securities market; Trades government bonds, corporate bonds, and other fixed income securities
	Philippine Stock Exchange	Focuses on the equities market; Trades stocks, exchange-traded funds (ETFs), and other equity-related securities
	Philippine Depository and Trust Corporation	Ensures the safekeeping of securities and facilitates clearing and settlement of trades
Industry associations	Bankers Association of the Philippines	Represents banking industry; banks have affiliate arms that perform securities underwriting (help companies issue securities to the public), brokerage services (buying and selling of securities), offer investment products (VULs, UITFs)
	Investment House Association of the Philippines	Represent investment houses who help companies in the buying and selling of securities which include initial public offerings and corporate bonds; Offer investment products like mutual funds
	Philippine Life Insurance Association	Represents life insurance companies; offers VULs

[2] Under RA No. 8799 (Securities Regulation Code), collective investment scheme (CIS) shall refer to an arrangement whereby funds are solicited from the investing public for the purpose of investing, reinvesting and trading in securities or other assets allowed under the law.

	Philippine Federation of Pre-Need Companies	Represents the pre-need companies
	Philippine Insurers and Reinsurers Association	Represents non-life insurance companies in the companies

Source: *https://www.pds.com.ph/index.html%3Fpage_id=204.html*; *https://www.plia.org.ph/*; *https://www.pirainc.com/*; *https://www.ihap.org/*; *https://bap.org.ph/about/*; *https://corporate.pse.com.ph/about-pse/*; *https://www.insurance.gov.ph/about/*; *https://appointment.sec.gov.ph/about-us/mandate-mission-values-and-vision-2/*; *https://www.treasury.gov.ph/?page_id=33*;

Regulatory Environment. The SEC is the primary regulatory authority for the Philippine capital markets, responsible for overseeing corporations, market participants, and securities and investment instruments. Its core mandate, as outlined on the SEC website, is to protect the investing public. Under the Securities Regulation Code of 2000 (Republic Act No. 8799), the SEC is tasked with creating and enforcing the legal framework for the issuance and trading of securities, ensuring transparency, and promoting public confidence in the capital markets through effective regulation. While the SEC generally oversees companies offering CIS it coordinates with the BSP and the IC as these agencies regulate CIS products within their respective sectors. The BSP regulates UITFs offered by banks, while the IC supervises VUL insurance products offered by insurance companies.

The Philippine Stock Exchange (PSE) holds self-regulatory organization (SRO) status, allowing it to formulate its own rules and regulations for its members, provided these align with SEC guidelines. The PSE is supported by the Capital Market Integrity Corporation (CMIC), an independent entity responsible for auditing and market surveillance, ensuring public trust in the market.

Table 3. Financial Sector Regulatory Bodies for ASEAN-6 Countries

	Regulatory Agency	Sector Regulated
Indonesia	Bank Indonesia	Banking
	Financial Service Authority (Otoritas Jasa Keuangan - OJK)	Equities, bonds, mutual funds, insurance
	Jaminan Sosial Nasional (BPJS Ketenagakerjaan)	Pension
Malaysia	Bank Negara Malaysia	Banking and insurance
	Securities Commission Malaysia	Equities, bonds, mutual funds
	Employees Provident Fund	Pension
Philippines	Bangko Sentral ng Pilipinas	Banking, CIS product (UITF)
	Securities and Exchange Commission	Equities and bonds, CIS product (mutual funds)
	Insurance Commission	Insurance and CIS product (VUL insurance)
	Government Service Insurance System	Pension
	Social Security System	Pension
Singapore	Monetary Authority of Singapore	Banking, equities, bonds, mutual funds and insurance
	Central Provident Fund	Pension
Thailand	Bank of Thailand	Banking
	Securities and Exchange Commission	Equities, bonds and mutual funds
	Office of Insurance Commission	Insurance
	Social Security Office	Pension
	Government Pension Fund	Pension
Viet Nam	State Bank of Vietnam	Banking
	Ministry of Finance (MOF) – Insurance Supervisory Authority	Insurance
	MOF-State Securities Commission	Equities, mutual funds, bonds
	Vietnam Social Security	Pension

Source: Bakermckenzie https://resourcehub.bakermckenzie.com/en/resources/global-financial-services-regulatory-guide

Table 3 highlights the regulatory agencies responsible for overseeing various financial system sectors across ASEAN-6 countries. The Philippines stands out with one of the highest numbers of regulatory bodies involved in financial supervision. However, there is no legislative framework mandating these agencies to coordinate efforts and align policies across the financial sector. Currently, the Financial Sector Forum (FSF), chaired by the BSP and comprising the IC, PDIC, and SEC, serves as a platform for inter-agency cooperation. However, its recommendations are not legally binding, relying solely on voluntary collaboration among its members. Ideally, the FSF should function as a safeguard against regulatory arbitrage caused by policy inconsistencies across agencies. The administrative supervision of the IC and SEC by the DOF adds another layer of oversight, further complicating policy coordination.

II. Issues and challenges affecting the Philippine capital markets

There have been numerous studies which identified specific issues hindering further capital market deepening in the Philippines (Fox 1999; Abola 2016; McKinsey 2017; IMF 2019; ADB 2021). For instance, the IMF (2019) noted the impact of high transaction taxes and brokers' fees, slow roll-out of new financial products, and low financial literacy as the main hurdles slowing down the expansion of the country's equity market. The section below briefly discusses the key challenges affecting specifically the equity market and the insurance industry.

High Friction Costs. The Philippines' tax structure presents a significant impediment to the growth of its capital markets. Compared to its ASEAN-6 peers, the country levies some of the highest tax rates on dividend income, stock transactions, insurance premiums, and financial product documentation (Table 4). This creates a disincentive for foreign investors, hindering the inflow of crucial capital. For instance, the current 0.6 percent stock transaction tax (STT), calculated on the gross selling price, increases trading costs for all market participants, including retail investors. This ultimately affects the trading activity and liquidity in the stock market. While larger foreign investors can opt for nearby markets with lower STTs, local retail investors are left with the unappealing choice of absorbing this cost or reducing their investment activities. Moreover, the Philippines imposes a higher dividend tax rate on non-resident aliens (20-25%) compared to residents (10%), making it less attractive for foreign investors seeking dividend income. Furthermore, other neighboring countries, except for Indonesia, impose much lower dividend tax rates ranging from zero to 10%.

The 12.5 percent documentary stamp tax (DST) on non-life insurance products on top of the 12 percent value-added tax (VAT) also significantly add to the cost and make these financial products less accessible to consumers. In addition, the reduced demand for non-life insurance leads to higher premiums for those who do buy it, as the costs must be spread across a smaller pool of policyholders.

On the part of the private sector, the same Moini (2019) report mentioned that the Philippines has one of the region's highest brokers' fees in the stock market. Brokers fees can range between 0.25 percent to 1.25 percent of the gross trading amount and that overall friction costs — commissions, all related fees, and taxes -- in the PSE are at 77 basis points. In contrast, Singapore's friction costs were at 4.75 basis points while Thailand's friction costs were at 21 basis points.

Table 4. Comparative Table of Current Taxes Imposed on Passive Income Instruments, Financial Transactions, and on Financial Intermediaries across ASEAN-6 Countries

	Philippines	Indonesia	Malaysia	Singapore	Thailand	Viet Nam
Taxes on Passive Income						
Tax on Dividend Income	20% tax for non-resident aliens engaged in business or trade 25% tax for non-resident aliens not engaged in business or trade 10% for residents	20% (lower for treaty countries) for non-resident recipients	0% tax for residents and non-residents	0% tax for residents and non-residents	10% (lower for treaty countries) for non-residents	0% tax for dividends.
Stock Transaction Tax (STT)	0.6% of the gross selling price	0.1% of the gross selling price	Stamp duty of 1.00 Malaysian Rial (RM) for every 1,000 RM of the transaction value of the shares but capped at RM1,000 per transaction	No STT but frequent trading profits may be deemed part of taxable income	0.11% of the gross transaction value which includes the 0.1% Financial Transactions Tax (FTT) and 0.01% local tax	No separate STT
Taxes on Financial Transactions						
Policies of Insurance Upon Property, Fidelity Bonds and Other Insurance Policies	12.5% DST of the premium charged	Stamp duty is nominal and payable as a fixed amount of 10K rupiah on certain documents	Stamp duty exemption for non-life insurance products if annual premium does not exceed 150 riyal	No stamp duty on general insurance policies	No stamp duty	No stamp duty
Taxes on Financial Intermediaries						
Gross Receipts Tax on Banks and Non-Banks	7% tax on derivatives	No specific gross receipt tax on derivatives	No specific gross receipt tax on derivatives	No specific gross receipt tax on derivatives	No specific gross receipt tax on derivatives	No specific gross receipts tax on derivatives

Source: https://www.berjayasompo.com.my/stamp-duty-exemption-orders; https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguide_gst_guide-for-the-insurance-industry-(fifth-edition)c87f527e-f5a9-4215-9c3b-088e68261654.pdf?sfvrsn=38871d2f_28

Low Domestic Savings Mobilization. The World Bank (2019) notes that a higher saving rate is crucial for economic growth as it fuels private investment and capital market development. In contrast, a low saving rate limits capital market growth, raises borrowing costs, and discourages investor participation due to reduced liquidity. This constrains innovation in financial products, limiting investment options for savers. Furthermore, low domestic savings heighten reliance on foreign capital, exposing the economy to global economic shocks such as interest rate changes and fluctuations in remittance inflows, which can threaten economic stability. The Philippines faces a persistently low gross domestic savings rate compared to its regional peers, underscoring challenges in mobilizing local savings (Table 5). In 2023, the country's savings rate stood at just 9.2 percent of GDP, far below Thailand (25.6%), Malaysia (27.5%), Viet Nam (36.3%), Indonesia (38.1%), and Singapore (58.4%). This significant gap underscores the Philippines' dependence on external financing sources to sustain its investment requirements, as reflected in its gross capital formation rate of 23.3 percent. Remittances from overseas Filipinos, foreign aid, and external borrowings remain critical in filling this savings-investment gap, pushing the country's gross national savings rate to a relatively higher 27.3 percent.

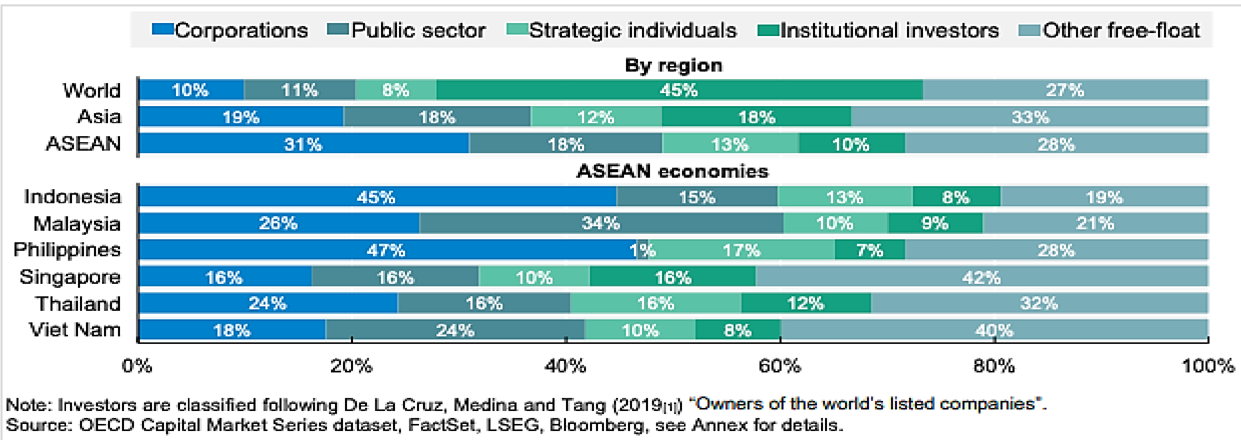
Table 5. Savings and Investment Performance of ASEAN-6 Countries (as % of GDP), 2023*

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
GDP per capita, (in US$)	4,940.5	11,648.7	3,725.6	84,734.3	7,171.8	4,346.8
% of population aged 15+ who own an account at financial institution or money service provider, 2021	51.7	88.3	51.3	97.5	95.5	56.2 (2022 data)
Gross Savings	35.9	23.8	27.3	40.8	25.2	32.7 (2022 data)
Gross Domestic Savings	38.1	27.5	9.2	58.4	25.6	36.3 (2022 data)
Gross Capital Formation	30.5	22.5	23.3	21.0	22.5	32.5 (2022 data)

Notes: * unless otherwise stated, all figures are computed as % of GDP and are in 2023 figures. Gross savings are calculated as gross national income less total consumption, plus net transfers. Gross domestic savings are computed as GDP less final consumption expenditure (total consumption). Gross capital formation (formerly gross domestic investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress."
Source: World Bank World Development Indicators; https://data.worldbank.org/indicator/FX.OWN.TOTL.ZS?locations=VN-PH-SG-TH-MY-ID

High Ownership Concentration in Listed Equities. The Philippines' equity market exhibits a high level of ownership concentration, even by regional standards. According to the Organization for Economic Cooperation and Development (OECD), 47 percent of listed equities in the Philippines are owned by corporations, while 17 percent are held by strategic individuals, often with cross-ownership ties to these corporations (Figure 3). Indonesia shares similar characteristics, with 45 percent of listed equities owned by corporations and 13 percent by strategic individuals. [3]

Figure 3. Investors' Holdings, as of end-2023

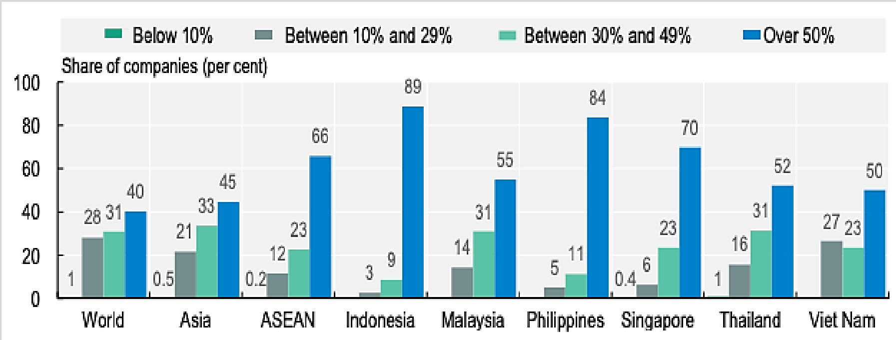


Source: Chapter 2 "Corporate Governance in ASEAN Economies" OECD (2024)

[3] Corporations include private corporations, holding companies, subsidiaries and joint ventures wherein companies may hold shares in affiliates or subsidiaries within the same group or conglomerate. Public sector covers ownership by state-owned enterprises, sovereign wealth funds, and public pension funds. Strategic individuals are typically the founders or family members with substantial shareholdings in companies who exercise significant control through their equity stakes and management roles. Institutional investors refer to banks, investment divisions, mutual fund managers, brokers, colleges and universities, pension funds and insurance companies. The other free float covers shares held by retail investors and other holders who do not have to disclose their ownership publicly. These shares are the part of equity freely available for trading, which influences market liquidity and foreign investor participation.

In addition, 84 percent of Philippine listed companies have over 50 percent of their shares controlled by the top three shareholders, slightly better than Indonesia's 89 percent (Figure 4). In Singapore, 70 percent of companies show similar ownership concentration, but this is offset by larger institutional investor holdings (16%) and a higher public float (42%). This concentrated ownership reduces market liquidity, limiting public trading and deterring broader participation, especially from small investors.__In markets with weak regulatory environments, this also discourages institutional investors, as minority shareholder rights and corporate governance standards are often less robust.

Figure 4. Ownership Concentration by the largest three shareholders, end of 2023



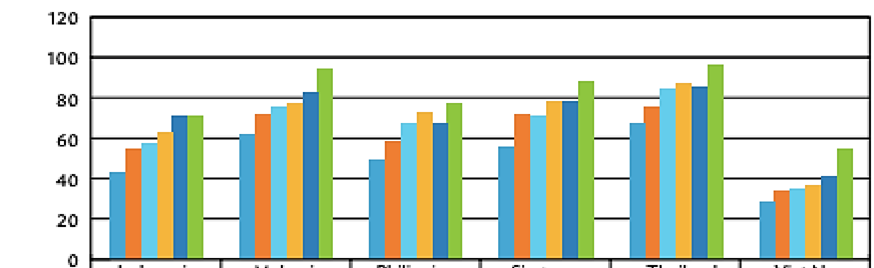
Note: Figure shows the share of companies with different levels of combined ownership for the three largest shareholders.
Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg, see Annex for details.

Source: Chapter 2 "Corporate Governance in ASEAN Economies" OECD (2024)

Gaps in corporate governance. According to the OECD, good corporate governance fosters trust, transparency, and accountability. This, in turn, promotes long-term capital and supports economic growth and financial stability. The 2019 ASEAN Corporate Governance Scorecard, published by ADB in 2021, highlights the Philippines' progress in improving corporate governance. The SEC's adoption of the ASEAN Corporate Governance Scorecard and its Code of Corporate Governance for Publicly Listed Companies were key milestones. However, as shown in Figure 5, the Philippines remains in the bottom half of ASEAN, alongside Indonesia and Vietnam.

The report notes that the Philippines still lags in ensuring shareholder rights and equitable treatment of all shareholders. Cayanan (2017, 2019, 2023) has extensively discussed this issue. Investor confidence in the stock market is weakened when the PSE and SEC fail to address actions by publicly traded companies that dilute minority shareholders' holdings. Cayanan pointed to private placements at a discount to favored parties, undervalued tender offers, issuance of voting preferred shares, and a lack of genuine independence among "independent" directors. Without stronger oversight from the PSE and SEC, the rights of minority shareholders will continue to be undermined, especially given the high concentration of control by majority stockholders.

Figure 5. Mean Scores in Corporate Governance by Country



	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
2012	43.26	62.29	48.90	55.67	67.66	28.42
2013	54.95	71.69	57.99	71.68	75.39	33.87
2014	57.27	75.22	67.02	70.72	84.53	35.14
2015	62.68	76.91	73.09	78.14	87.53	36.75
2017	70.59	82.40	67.61	78.45	85.73	41.30
2019	70.80	94.31	77.24	88.27	96.60	54.55

Source: ADB ASEAN Corporate Governance Scorecard 2019

III. Key Features of the CMEPA Bill

To address the abovementioned issues, Senate Bill No. (SBN) 2865 and House Bill No. (HBN) 9277 or the Capital Markets Efficiency Promotion Act (CMEPA) are now being deliberated in Congress. The CMEPA has now overtaken the earlier proposed Passive Income and Financial Intermediary Taxation Act (PIFITA) which is more comprehensive although similarly geared towards making the tax system on passive income simpler, fairer, and more efficient. PIFITA was proposed as the fourth package of the government's comprehensive tax reform program.

The CMEPA or SBN 2865 was introduced in the Senate plenary on November 5, 2024, commencing the period of interpellations. The counterpart measure in the Lower House, HBN 9277, was approved on third reading on March 4, 2024. The CMEPA bill seek to (1) modernize the National Internal Revenue Code (NIRC); (2) reduce the tax on financial transactions and passive income; (3) change and simplify tax rates on financial instruments and transactions; (3) adjust and simplify DST; (4) clarify and lower the tax treatment of assets held by non-residents. Table 6 compares the provisions of SBN 2865 and HBN 9277.

Table 6. Comparative Matrix of Major Amendments Being Proposed by HBN 9277 and SBN 2865

Tax Provision	HBN 9277	SBN 2865	Revenue Gain (Loss)
Objective number 1: Modernize the tax code			
Amends definition of "shares of stock"	New definition will cover all securities and investment products listed and traded in an exchange or organized marketplace. Examples are futures contracts, depositary receipts, commodities, exchange-traded funds (ETFs), derivatives, and transactions representing short-selling of securities Excludes employee stock option plans	New definition states that it shall refer to shares of stock of a corporation, warrants, options, whether to buy or sell securities as well as units of participation in a partnership (except general professional partnerships), joint stock companies, joint accounts, joint ventures taxable as corporations, associations, and recreation or amusement clubs and mutual fund certificates.	Not applicable (N/A)
Amends definition of "securities"	No amendment proposed	Expands coverage to cover shares, participation or interest in a profit-making venture which include investment contracts in a profit-sharing agreement, fractional undivided interest in mineral rights, certificates of assignments/participation, proprietary or non-proprietary membership certificates in corporations	N/A
Adds "collective investment schemes (CIS)" in definition of terms	Defines CIS as any arrangement whereby funds are solicited from the investing public and pooled together for the purpose of investing, reinvesting, or trading in securities or other assets	No amendment proposed	N/A
Adds "short selling" in definition of terms	Defines short selling as any sale or security which the seller does not own or any sale which is consummated by the delivery of a	No amendment proposed	N/A

<table>
<tr><td></td><td>security borrowed by, or for the account, of the seller.</td><td></td><td></td></tr>
<tr><td>Adds additional items to be excluded in the computation of gross income and exempt from taxation
(section 32 (B))</td><td>No amendment proposed</td><td>1. Interest income and gains from sale of bonds issued by the Republic of the Philippines or any of its instrumentalities to finance capital expenditures covered by the Philippine Development Plan
2. Gains from redemption of shares or units of participation in mutual funds and unit investment trust funds (UITFs)</td><td></td></tr>
<tr><td colspan="4">Objective number 2: Reduce the tax on financial transactions and on passive income</td></tr>
<tr><td>Tax on dividends received by non-resident aliens
(section 25)</td><td>Lowers the dividend tax received by non-resident aliens to 10% from the current 20% to 25% tax rate depending on whether the non-resident alien is engaged in trade/business</td><td>No amendment proposed</td><td>(PhP0.27 billion) for 2025 to 2028</td></tr>
<tr><td>Tax on gross receipts of banks and non-bank financial intermediaries
(section 121)</td><td>Removes derivatives from list of financial products subject to 7% tax</td><td>No amendment proposed</td><td>(PhP0.06 billion) for 2025 to 2028</td></tr>
<tr><td>Stock transaction tax (STT)
(section 127)</td><td>From the current 0.6% of the gross selling price, this will be cut to 0.1%</td><td>0.1% of the gross selling price of shares listed in both local and foreign stock exchange</td><td>(PhP30.03 billion) for 2025 to 2028</td></tr>
<tr><td colspan="4">Objective number 3: Change the DST on financial transactions</td></tr>
<tr><td>DST on original issue of shares of stock
(section 174)</td><td>No amendment proposed</td><td>Lowers the DST on original issue of shares from 1% to 0.75% of the par value of the shares of stock</td><td>(PhP13.1 billion) for 2025 to 2028</td></tr>
<tr><td>DST on bonds, debentures, certificates of stock or of indebtedness issued in foreign countries
(section 176)</td><td>No amendment proposed</td><td>Imposes a 0.75% DST on the value of the transaction on the sale/transfer of bonds, debentures, certificates of stock, or certificates of indebtedness</td><td>To be determined</td></tr>
<tr><td>DST on all debt instruments
(section 179)</td><td>No amendment proposed</td><td>Maintains the 0.75% DST on debt instruments of the issue price.</td><td>None</td></tr>
<tr><td>DST on property insurance (section 184) and fidelity bonds/other insurance policies
(section 185)</td><td>From 12.5% of the premium charged, the DST on non-life insurance products will be replaced by a tiered system based on the amount of insurance.
<table><tr><td><PhP100K</td><td>Zero</td></tr><tr><td>>PhP100K but <PhP300K</td><td>PhP50</td></tr><tr><td>>PhP300K but <PhP500K</td><td>PhP50</td></tr></table></td><td>No amendment proposed</td><td>(PhP71.62 billion) for 2025 to 2028</td></tr>
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<tr><td></td><td><table><tr><td>>PhP500K but <PhP750K</td><td>PhP100</td></tr><tr><td>>PhP750K but <PhP1-M</td><td>PhP150</td></tr><tr><td>>PhP1-M</td><td>PhP200</td></tr></table></td><td></td><td></td></tr>
<tr><td>DST on horse race and lotto tickets (section 190)</td><td>From 20% DST, this will be cut to 10% for horse race and PCSO lottery tickets</td><td>No amendment proposed</td><td>(PhP32.20 billion) for 2025-2028</td></tr>
<tr><td>DST exemption on original issuance, redemption and disposition of UITFs and mutual funds
(section 199)</td><td>No amendment proposed</td><td>Exempts mutual funds and UITFs from DST</td><td>To be determined</td></tr>
<tr><td colspan="4">Objective number 4: Removal of tax incentives for select government agencies and corporations</td></tr>
<tr><td>Removal of tax exemption on the issuance of bonds</td><td>No amendment proposed</td><td>1. Presidential Decree No. 1648 (Reorganizing the National Development Company)
2. Executive Order No. 603 (Creating the Light Rail Transit Authority)
3. RA No. 4850 (Creating the Laguna Lake Development Authority)
4. PD No. 696 (Revising the Charter of the Philippine Aerospace Development Corporation)
5. RA 85, as amended by RA No. 2081 (Creating the Rehabilitation Finance Corporation)
6. RA 3591, as amended by RA 9576 and RA 10846 (Philippine Deposit Insurance Corporation Charter)
7. EO No. 1037 (Philippine Retirement Park System)
8. RA No. 8763 (Home Guaranty Corporation)
9. PD No. 334, as amended by PD No. 572 (Creating the Philippine National Oil Company)</td><td>To be determined</td></tr>
<tr><td>Removal of the tax exemption on the DST on bonds</td><td>No amendment proposed</td><td>1. RA No. 3844 as amended by RA 6389 or the Agricultural Land Reform Code
2. RA No. 6395 (Revised Charter of the National Power Corporation)</td><td>To be determined</td></tr>
</table>

Source: DOF presentation on 07 October 2024 during the Senate Ways and Means Committee hearing on HBN 9277; DOF Presentation during Stakeholders' Briefing on Package 4 of the Comprehensive Tax Reform Program

Lower transaction taxes in stock market investing. Both SBN 2865 and HBN 9277 propose an immediate reduction in the securities transaction tax (STT) from the current 0.6% of the gross selling price to 0.1%, aiming to lower trading costs in the stock market. If enacted, this adjustment will align the country's STT with prevailing rates in other ASEAN-6 economies, enhancing the Philippines' competitiveness in the regional financial market.

Lower taxes on mutual funds and UITFs. VUL insurance products, mutual funds, and Unit Investment Trust Funds (UITFs) are the primary Collective Investment Schemes (CIS) in the Philippines. Although these products share similar investment structures, they are subject to different tax treatments (IMF, 2021). All three CIS products incur Documentary Stamp Tax (DST), but only VUL insurance products are exempt from the 6% estate tax, while mutual funds and UITFs are considered part of the taxable estate.

SBN 2865 introduces two significant amendments aimed at reducing the investment costs associated with mutual funds and UITFs. The first amendment, outlined in Section 4, exempts gains from the redemption of mutual fund shares or UITF participation units from gross income computation, making such gains tax-exempt. The second amendment, specified in Section 13, exempts the original issuance, redemption, or disposition of mutual fund shares or UITF units from DST, further lowering transaction costs and promoting investment in these funds.

Lower cost of buying non-life insurance products. Sections 6 and 7 of HBN 9277, which have no corresponding provisions in SBN 2865, propose reducing the current 12.5% Documentary Stamp Tax (DST) on non-life insurance products to a graduated, fixed rate ranging from zero to a maximum of PhP200. This structure mirrors the existing DST system for life insurance products, where policies valued below PhP100,000 are exempt from DST, while a flat rate of PhP200 applies to policies exceeding PhP1 million. Additionally, non-life insurance policies are subject to a 12% Value-Added Tax (VAT), whereas life insurance policies pay a 2% premium tax in lieu of VAT.

Notably, while the House version of the bill proposes amendments to reduce the dividend tax for non-resident aliens, impose DST on non-life insurance, and introduce taxes on horse racing, lotto tickets, and PCSO/lotto winnings, the Senate version (SBN 2865) retains these provisions. Furthermore, the Senate version repeals the tax-exempt status on bond issuances and DST exemptions currently granted to select government entities. Consequently, the Senate version mitigates the bill's potential negative revenue impact, reducing estimated revenue losses by approximately PhP110.09 billion from 2025 to 2028.

IV. Potential Impacts of Proposed Amendments

Impact on the country's fiscal position. Both the House and Senate versions of the bill are expected to negatively impact the fiscal deficit. HBN 9277 is projected to cost the government approximately PhP140.11 billion from 2025 to 2028, while SBN 2865 is estimated to reduce this negative revenue impact by PhP100 billion compared to the House version. The IMF (2024) has already highlighted slower-than-expected progress in the country's fiscal consolidation efforts, driven by higher interest payments and one-off revenue shortfalls. Compounding these concerns, several Senate bills currently pending second-reading approval have been flagged in the 2024 Fiscal Risk Statement due to their potential adverse effects on the fiscal sector.[4] The government's projected deficit-to-GDP ratio for 2028 is expected to reach 3.7 percent, significantly surpassing the 3.0 percent target set under the 2022–2028 Medium-Term Fiscal Framework (MTFF). This deviation underscores the urgent need for the Philippines to reinforce its commitment to fiscal discipline, particularly given anticipated shifts in U.S. policy (e.g., a stronger U.S. dollar, imposition of import tariffs), which could amplify global economic uncertainties and expose emerging markets like the Philippines to external shocks.

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[4] These include proposals to (1) lower the optional retirement age for government workers; (2) provide additional benefits to barangay health workers; and (3) enhance the current retirement and disability benefits of retired personnel of the Department of Foreign Affairs.

Equity concerns over tax cuts. The proposed tax cuts could lead to inequitable benefits due to the nature of ownership in the country's stock market. Based on the PSE's 2023 Stock Market Investor Profile, of the 1.9 million stock market accounts, 98.4 percent are overwhelmingly owned by retail investors while the rest are owned by institutional investors. Among retail investors, 70.9 percent earn less than PhP500,000 annually, 14.4 percent earn between PhP500,000 to PhP1 million, and only 14.7 percent earn above PhP1 million. This means that lower-income retail investors who largely constitute the market participants are incapable of engaging in heavy volume trading of stock and may not significantly benefit from the reduced friction costs. The proposed tax cut will likely benefit primarily the higher-income shareholders. Moreover, in exchange for higher market liquidity, the government will incur revenue losses, and this necessitates alternative revenue streams to sustain its expenditure program.[5]

The case of Indonesia is noteworthy as it already imposes a 0.1 percent STT and yet remains the poorest performing stock market among the ASEAN-6 economies in terms of stock market capitalization as percentage of GDP and in terms of turnover ratio of traded domestic shares (Table 3 of Annex 1). Similar to the Philippines, strategic individuals and corporations account for more than 50 percent of investors holdings of listed companies in Indonesia. [6] While the reduction in friction costs will undeniably boost liquidity in the country's stock exchange — other reforms such as the reduction in minimum board lots, allowing short-selling for all stocks in the PSE, and the lowering of brokers' fees, could play a bigger role in boosting market participation.[7]

Uneven tax treatment for CIS products. The exclusion of VUL insurance products from the proposed DST exemption may contravene the principle of neutrality in taxation, which posits that all forms of business activity should be treated equitably. In this regard, the bill should aim to establish a level playing field among all investment products within the same sector. Such parity would simplify decision-making for potential investors and foster greater confidence in the market. Furthermore, the exclusion appears misaligned with the proposed CIS Law, a long-standing legislative priority for the CMDC since the 2000s. The CIS Law is a key initiative under the SEC's SuperVISION Map 2023–2028, which seeks to align the Philippine regulatory framework with international standards set by the International Organization of Securities Commissions. It aims to establish a unified legal framework governing all CIS in the Philippines, including the tax treatment and regulatory structure. Currently, oversight of UITFs is assigned to the BSP, VUL insurance products to the IC, and mutual funds to the SEC. This unwieldy structure creates uneven regulation and potential inefficiencies.[8]

Administrative complexities of a tiered tax system. HBN 9277 introduces a tiered system for non-life insurance products that may complicate tax administration. The current 12.5% tax on premiums would be

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[5] If the SEC and the PSE are keen on raising retail investor participation in the stock market, then they should prioritize the full implementation of the PERA Law as it included "shares of stock and other securities listed and traded in a local exchange" as one of the PERA Investment Product where investors may receive up to 5% tax credit for investing up to a maximum PhP200,000 per year.
[6] In contrast, Viet Nam with its better performing stock market, measured in terms of turnover ratio, has 40% of the holdings in listed companies being attributed to the "other free float", signifying a smaller role played by corporations and strategic individuals in driving market activity.
[7] A board lot refers to the minimum number of shares an investor can buy or sell in a single transaction. Its a standardized unit set by the stock exchange. While Indonesia, Malaysia, Thailand and Singapore have set 100 shares as minimum board lots in their stock exchanges, the Philippines still imposes system where the board lot may vary from 5; 10; 100; 1,000; 10,000; 100,000; and 1 million, depending on the price range of the stock.
[8] Back in August 2021, it was reported that the IC wrote to the DOF insisting that VUL products be excluded from coverage of the proposed CIS Law, stating that these products provide "insurance benefits with an investment component". However, in the event that VUL products will still be classified as CIS, the IC would follow the DOF's recommendation that it continue to administer, supervise and regulate VUL products under the Insurance Code.

replaced with a structure with tax ranging from zero (for policies up to PhP100,000) to a flat PhP200 (for policies above PhP1 million). Apart from being administratively burdensome, it may also result in significant revenue losses, estimated at PhP65.62 billion, compared to the DOF's alternative proposal of a 10% flat rate, which would cost the government PhP13.15 billion.

Inappropriate inclusion of proposed provisions on lotto and horse racing. While HBN 9277 lowers the DST on horse race tickets and lotto and clarifies the guidelines related to tax on prizes and winnings, clarity is sought as to how such proposed amendments promote capital market efficiency.

V. Policy Recommendations

Specific amendments to the CMEPA bill

1. *Consider a gradual reduction in stock transaction taxes to manage revenue losses*. It would be prudent for SBN 2865 to incorporate the provision from HBN 4339 (PIFITA bill), which proposes a gradual reduction in the stock transaction tax (STT), starting with a 10-basis point reduction in 2024 and lowering the rate from 0.5% to 0.1% by 2028. While the DOF has expressed support for an immediate reduction to 0.1 percent, the phased approach under PIFITA would mitigate revenue losses, reducing the projected impact from PhP30.03 billion under HBN 9277 to PhP15.05 billion between 2025 and 2028.

   Notably, of the seven-priority revenue-generating measures identified in the 2025 Budget of Expenditures and Sources of Financing, only the VAT on Digital Service Providers has been enacted thus far.[9] With mounting fiscal pressures and the government exploring alternative funding sources, including tapping funds from government-owned and controlled corporations, adopting a more cautious approach toward revenue-eroding measures remains essential.

2. *Adopt a uniform tax treatment for all CIS products*. It is recommended that the proposed DST exemption for mutual funds and UITFs be extended to VUL insurance products to ensure a level playing field among all types of Collective Investment Schemes (CIS). This extension would broaden the tax relief's reach, enabling a larger pool of investors to benefit from reduced investment costs.

3. *Consider the imposition of a flat tax rate instead of adopting a tiered structure*. To simplify tax administration, a gradual reduction of the DST on non-life insurance products by 10 basis points annually from the current 12.5% to 7.5% by 2028, as proposed under HBN 4339 (PIFITA bill), may be more practical. This phased approach is projected to cost the government approximately PhP13.36 billion from 2025 to 2028. However, in its latest proposal during the Senate hearing, the DOF recommended an immediate DST reduction to 10%, which is estimated to result in a slightly lower revenue loss of PhP13.15 billion.

4. *Introduce an amendment reducing the tax on savings deposit to benefit the majority of low-income savers*. If the House of Representatives insists on reducing the dividend tax for non-resident aliens to 10% under HBN 9277, it would be prudent to revisit the proposed amendment in the PIFITA bill, which seeks to lower the tax on investment income from savings accounts—currently set at 20%. To ensure broader public benefit, reducing this tax alongside the dividend tax cut would create a more equitable

[9] The other revenue positive priority measures are the ff: excise tax on single use plastics, rationalization of mining fiscal regime, excise tax on pick ups, and motor vehicles' road users tax. The revenue negative measures are Package 4 and CREATE MORE.

tax structure. The original PIFITA bill recommended reducing the savings account tax to 15%, aligning it with a proposed increase in the dividend tax from 10% to 15%, thereby balancing the tax burden between lower-income savers and higher-income investors who gain more from dividend income. However, with HBN 9277 retaining the 10% dividend tax for non-resident aliens, the proposed increase has seemingly been abandoned, leaving millions of bank depositors still subject to the 20% tax on savings interest.

Lowering the tax on savings account interest would provide relief to the majority of depositors, particularly those with smaller balances who primarily engage with the financial system through basic savings accounts.[10] This adjustment would support financial inclusion and ensure that tax reforms do not disproportionately benefit wealthier investors while neglecting lower-income savers.

5. *Inclusion of provision on beneficial ownership transparency*. Given the high concentration of ownership in the Philippines—whether through corporate entities or major individual shareholders—public disclosure of actual ownership and control structures is essential to mitigate risks of unfair trading practices such as insider trading, market manipulation, and other fraudulent activities. These malpractices disproportionately affect retail and institutional investors, including pension funds that may be exposed through equity investments. Enhanced transparency in ownership will level the playing field and safeguard vulnerable investors from unethical market behavior.

   To strengthen transparency and improve corporate governance, prompt disclosure of beneficial ownership should be prioritized. The SEC should be empowered to share ownership information with the BIR for tax compliance and investigations into financial crimes, as supported by the Anti-Money Laundering Council. While adhering to the Data Privacy Act, requiring full disclosure of beneficial ownership in PSE-listed companies will promote greater accountability, reduce information asymmetry, and bolster investor confidence in market integrity.

Other reforms to complement CMEPA to promote capital market development

1. *Require the BSP, IC, and SEC to give a specific timeline for full implementation of PERA Law*. The PERA Law was introduced to strengthen capital markets by encouraging investments of up to PhP200,000 across various asset classes, including stocks, government securities, and pension products, while offering tax benefits to investors. However, its full potential remains largely unrealized. Current PERA participants face limited investment options, restricted to just 17 Unit Investment Trust Funds (UITFs), which charge higher management fees (0.5% to 1.25%) compared to non-PERA UITFs—undermining the law's intent to supplement the country's existing pension system.

   Additionally, the absence of a clear timeline for launching other PERA-compliant investment products beyond UITFs has further dampened public participation. As of September 2024, only 5,774 individuals have contributed a combined total of PhP470.63 million, averaging PhP81,508.86 per person—well below the annual maximum contribution limit. Despite substantial tax incentives, including exemptions

[10] As of the third quarter of 2023, BSP Financial Inclusion data showed that the number of bank depositors reached 108.3 million with deposit accounts reaching 117.8 million. This includes the 23.6 million basic deposit accounts which were designed to promote financial inclusion among the poor. Another BSP report on the deposit liabilities of the banking system revealed stark disparities: as of August 2024, there were 98.89 million bank accounts (holding PhP5,000 or less in deposits per account) with total deposits of PhP45.06 billion, while at the other end, 495,420 accounts (exceeding PhP5 million in deposits per account) hold a combined deposit of PhP13.71 trillion.

on investment and reinvestment income, investor interest remains low due to the limited range of suitable investment options.

Table 7. Performance of PERA Investment Program

	Number of PERA Contributors			Amount of PERA Contributions (in PhP Millions)			Average Investment/ PERA Contributor (in PhP)
	Employee and Self-employed	OFW	Total	Employee and Self-employed	OFW	Total	
2017	510	73	583	30.55	6.59	37.14	63,715.31
2019	1,149	239	1,388	90.44	24.57	115.01	82,867.08
2021	3,754	628	4,382	206.24	47.10	253.34	57,815.32
2023	4,780	775	5,555	327.15	69.15	396.30	71,342.80
2024 (Sept)	4,990	784	5,774	390.33	80.3	470.63	81,508.86

Source: BSP

2. *Initiate stakeholder consultations on the proposed Capital Market Development Act.* The Philippines has one of the lowest levels of pension fund assets in the region, amounting to just 2.8 percent of its GDP in 2018. This constrains the country's capacity to mobilize funds for investment, limiting its potential for capital market development (Annex 3). Among ASEAN-6 economies, the Philippines ranks in the lower half regarding the percentage of employee compensation required to be contributed to the pension system. To address this gap, the Capital Market Development Act bill was endorsed by the previous administration for urgent passage during the 18th Congress. The proposed legislation seeks to strengthen capital markets by promoting increased savings through a mandatory contribution scheme for private-sector employees and voluntary members, supplementing the Social Security System.[11] The ADB (2021) identified this initiative as "the most important and most difficult capital market reform remaining to be addressed" to "build a domestic pool of long-term savings."

3. *Improve corporate governance and strengthen protection for minority shareholders*. To improve corporate governance and strengthen minority shareholder protection, Cayanan (2017, 2019, 2023) proposed several key reforms for adoption by the PSE and SEC. First, he recommended raising the minimum public float to 33.33%, ensuring that all voting shares are included in the calculation. This would close regulatory loopholes where voting preferred stocks issued through private placements bypass minority shareholders. To promote inclusivity, he suggested requiring private placements to be offered at a premium or conducted through stock rights offerings, allowing minority shareholders to participate equitably. Cayanan also proposed stricter guidelines for selecting independent directors, recommending that they be chosen from minority shareholders with no prior affiliations to major shareholders to ensure genuine independence. Additionally, he advocated for tighter oversight of tender offer prices by requiring independent valuation firms to provide fairness opinions, with findings disclosed publicly. Companies delisting under unfavorable terms would face a longer waiting period before relisting. Lastly, he emphasized the need for enhanced monitoring of related-party transactions to prevent conflicts of interest that could harm minority shareholders. Collectively, these reforms aim to

[11] Contributions would be capped at 5% of salary (4% employee-funded, 1% employer-funded) with an annual ceiling of PhP 160,000 to be adjusted to inflation every three years. By supplementing existing pension schemes like the SSS, it strives to enhance long-term savings and strengthen the foundation for sustainable economic growth.

strengthen transparency, accountability, and fairness in the capital markets, fostering a more equitable investment environment.

4. *Efforts must be made to ensure a strong and continuous investor education.* Authorities must also promote institutional investor penetration and increase sophistication. Based on the 2021 BSP Financial Inclusion Survey, only two percent (2%) of Filipino adults correctly answered all the six (6) basic financial literacy questions. Majority or 69% of adults managed to answer correctly at least half of the financial literacy questions (Cacnio and Romarate 2024).

Conclusion

Given the persistent challenges in securing the passage of the PIFITA bill, the CMEPA bill presents a more focused and feasible approach to amending the NIRC and enhancing capital market efficiency. By prioritizing reductions in stock market transaction taxes and the DST on non-life insurance products, CMEPA has the potential to lower friction costs, increase market participation, and improve access to mutual funds, UITFs, and insurance products—depending on the final provisions approved.

However, in light of the country's fiscal constraints, a carefully calibrated approach is essential to balance the expected revenue trade-offs with potential long-term economic gains. To maximize CMEPA's impact, its implementation should be complemented by parallel reforms, including the proposed Capital Market Development Act, full enforcement of the PERA Law, and strengthened corporate governance measures. Together, these reforms can create a more transparent, inclusive, and resilient capital market, fostering sustainable economic growth and boosting investor confidence in the Philippines.

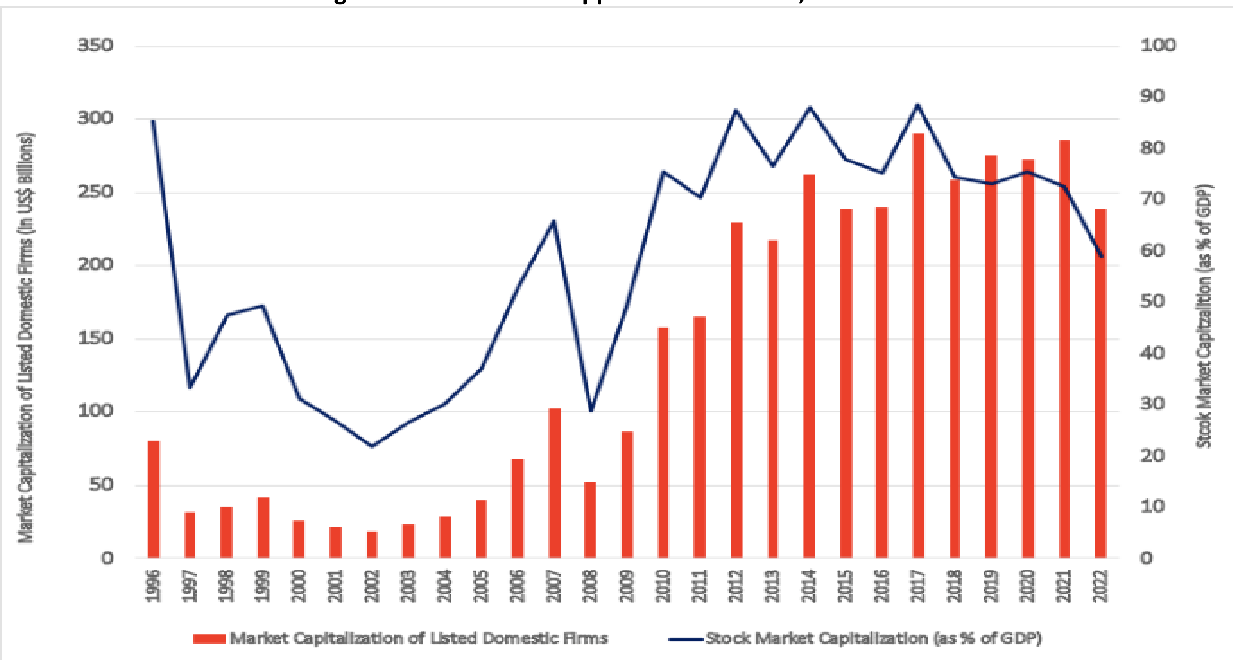
This Policy Brief was prepared by Brian Benson M. See with inputs from the Macroeconomics Sector Head Maria Kathreena D. Tan, under the supervision of the SEPO Directors and the overall guidance of its Director General. The views and opinions expressed herein are those of SEPO and do not necessarily reflect those of the Senate, of its leadership, or of its individual members. For comments and suggestions, please email us at sepo@senate.gov.ph.

Annex 1. Current Status of Philippine Equities Market

In the aftermath of the Asian Financial Crisis and for much of the 2000s, the Philippines stock market was largely in the doldrums due to a bad combination of political instability, poor fiscal sector and the onset of the Global Financial Crisis in 2008. Being from a small-sized economy, the country's equities market will continue to be driven in large part by external factors such as the movement of US global interest rates which heavily influences the direction of foreign portfolio investments especially in emerging markets. It was in 2017 that the stock market reached its peak size both in terms of market capitalization of its listed domestic companies—at US$290.40 billion, and in terms of GDP—at 88.4% (Figure 1).

Unfortunately, in terms of size of GDP, the stock market has been in a slow decline hitting 59.0% in 2022 equivalent to US$238.58 billion in actual levels.

Figure 1. Growth in Philippine Stock Market, 1996 to 2022



Source: WB

As Table 1 shows, both in terms of market size and liquidity, the Philippine stock market performs poorly relative to Singapore, Thailand, and Malaysia. Singapore's stock exchange continues to be a behemoth both in market capitalization both in terms of actual levels and as percentage of its economy. In 2022, its market capitalization was at US$639.9 billion, equal to 124.3% of its GDP. While Indonesia's market capitalization was second to Singapore, at US$610.2 billion, this is still an well below potential given that its only 46.3% of its GDP.

Market activity in the stock market may be measured either through the total value of stocks traded (in terms of GDP) or through the turnover ratio of domestic shares that are traded (in %). In the first measure, the Philippines saw the lowest movement as its the total value of its stocks traded was only 6.4% in 2022. This was way below the next poorest performer which was Indonesia at 14.8%.

Table 1. Performance Indicators of Stock Markets in ASEAN-6 Countries, Select Years

	Market Capitalization of Listed Domestic Firms							
	Levels in US$ Billions				as % of GDP			
	1995	2005	2015	2022	1995	2005	2015	2022
Indonesia	66.5	81.4	353.2	610.2	32.9	28.5	41.0	46.3
Malaysia	213.7	180.5	382.9	381.2	241.0	125.8	127.1	93.7
Philippines*	80.65*	39.8	238.8	238.5	85.2*	37.0	77.9	59.0
Singapore	148.0	257.3	639.9	619.3	168.5	201.3	207.8	124.3
Thailand	140.2	123.8	348.8	604.3	82.9	65.4	86.9	121.9
Viet Nam	No data	No data	58.7	170.1	No data	No data	24.5	41.5

Notes: * - uses 1996 data for the PHL; https://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS?locations=VN

Table 2. Total Value of Stocks Traded in Levels and as % of GDP in ASEAN-6 Countries, Select Years

	Total Value of Stocks Traded							
	Levels (in US$ Billions)				As % of GDP			
	1995	2005	2015	2022	1995	2005	2015	2022
Indonesia	14.3	27.8	75.0	194.8	7.1	9.7	8.7	14.8
Malaysia	60.1	44.6	111.4	110.4	67.8	31.1	37.0	27.1
Philippines	14.6	5.3	38.4	26.0	17.3	5.0	12.5	6.4
Singapore	63.9	116.6	198.0	No data	72.8	91.2	64.3	No data
Thailand	58.9	89.8	271.3	478.2	34.8	47.4	67.6	96.5
Viet Nam	No data	No data	23.7	162.0	No data	No data	9.9	39.5

Source: World Bank World Development Indicators https://databank.worldbank.org/source/world-development-indicators/Series/CM.MKT.TRNR#

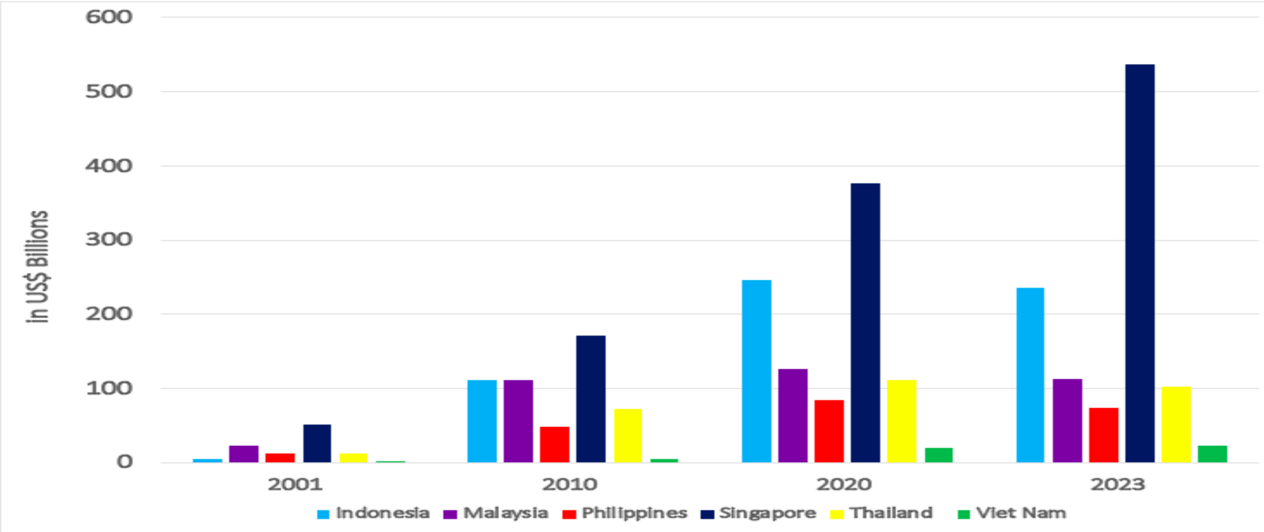
Table 3. Total Number of Listed Domestic and Turnover Ratio of Domestic Shares that are Traded

	Total Number of Listed Domestic Companies				Turnover Ratio of Domestic Shares that are Traded (in %)			
	1995	2005	2015	2022	1995	2005	2015	2022
Indonesia	237	336	521	825	21.6	34.2	21.2	31.9
Malaysia	523	1,015	892	963	28.1	24.7	29.1	29.0
Philippines	205	235	262	283	31.6*	13.5	16.1	10.9
Singapore	250	564	483	425	43.2	45.3	30.9	No data
Thailand	416	504	639	810	42.0	72.5	77.8	79.1
Viet Nam	No data	No data	684	402	No data	No data	40.4	95.3

Source: World Bank World Development Indicators

Low Foreign Investor Interest in Philippine Capital Markets. Figure 2 presents the total foreign portfolio investments received by ASEAN-6 countries in 2001, 2010, 2020, and 2023, based on the IMF's Consolidated Portfolio Investment Survey (CPIS). These figures cover investments in (1) equity and investment fund shares and (2) total debt securities.

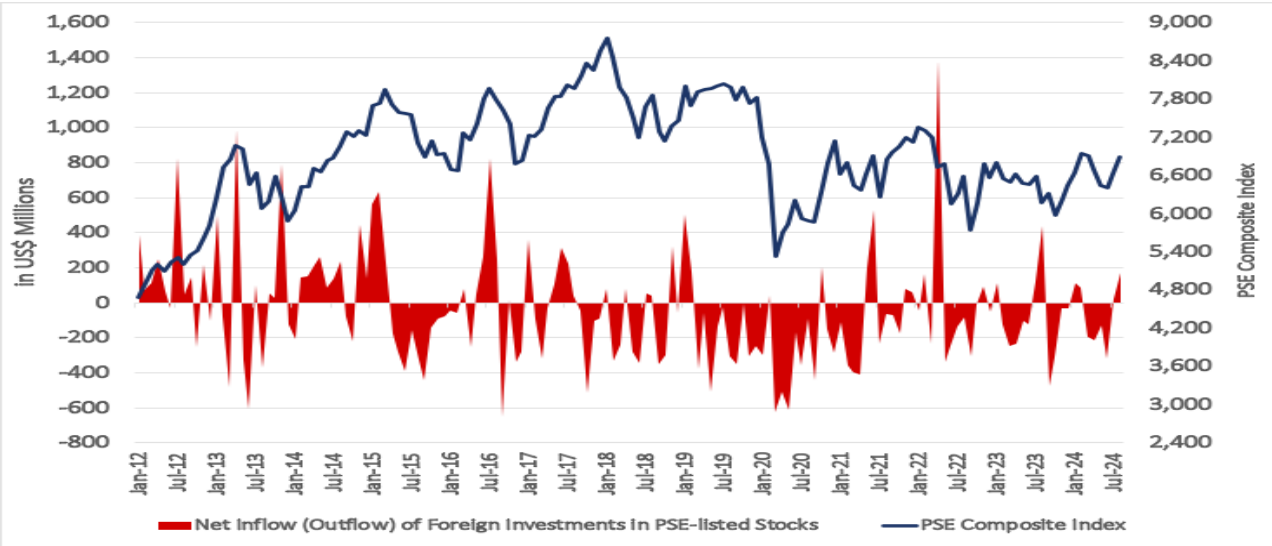
Figure 2. Foreign Portfolio Investments Received in ASEAN-6 Countries (in US$ Billions)



Source: IMF CPIS database https://data.imf.org/regular.aspx?key=60587820

While portfolio investments in the Philippines expanded significantly from US$12.94 billion in 2001 to US$73.37 billion in 2023, the investment inflows are significantly smaller compared to the country's regional peers, highlighting a persistent gap in attracting foreign capital.

Figure 3. Foreign Portfolio Investments in PSE-listed securities and PSE Composite Index



Source: BSP

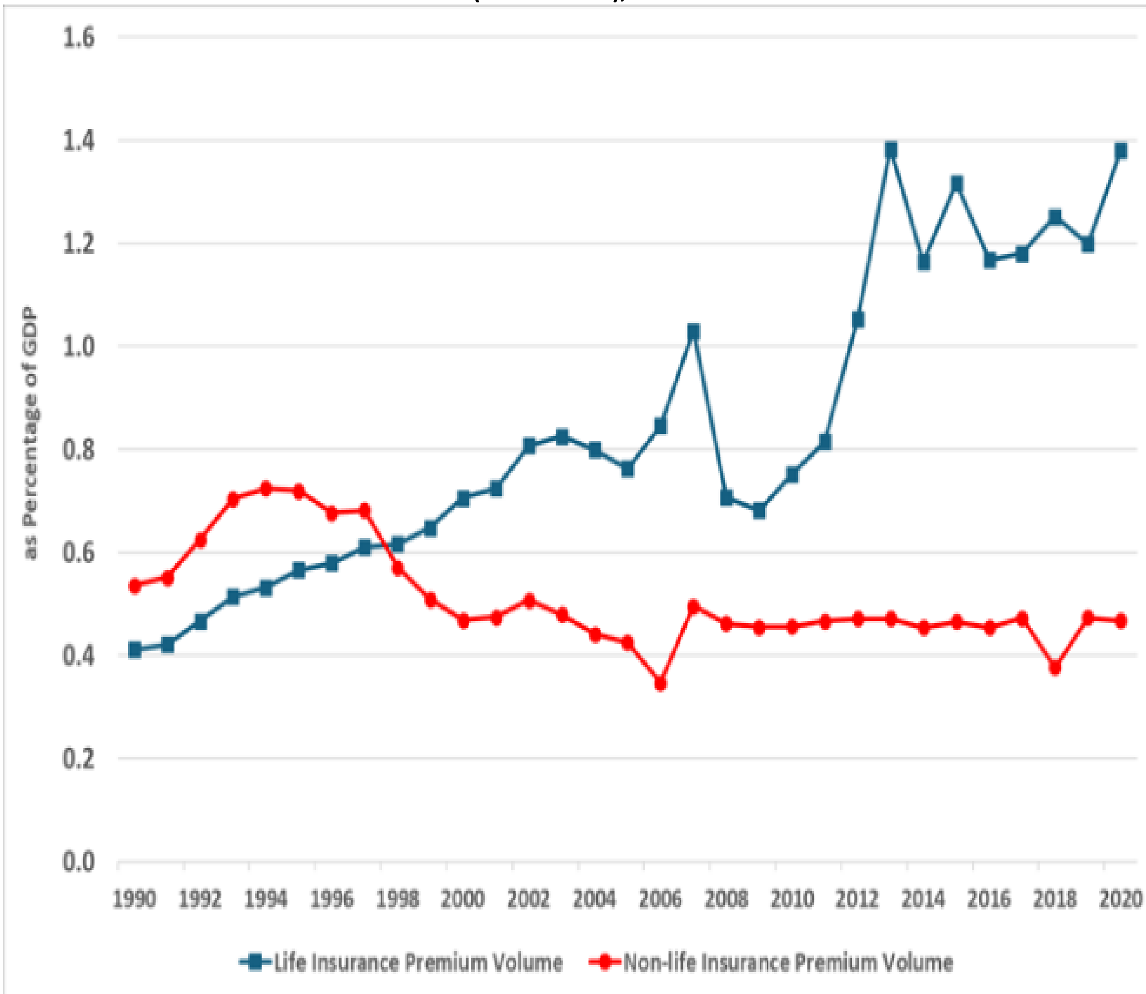
In addition, the Philippines received more portfolio investments in debt securities (US$37.32 billion) than in equities and investment fund shares (US$31.67 billion). Thailand, with a higher turnover ratio indicating greater market liquidity, received US$69.59 billion in equities and investment fund shares, and US$32.66 billion in debt securities. Singapore remains the largest recipient of foreign portfolio investments in the region, with US$536.96 billion in 2023—more than twice Indonesia's US$235.35 billion. Malaysia followed with US$113.14 billion.

The inflow and outflow of foreign portfolio investments significantly affect the performance of the Philippine equities market due to its relatively small size. As shown in Figure 4, there is a strong correlation between net inflows (or outflows) of foreign investments and the direction of the PSE Composite Index. For instance, after peaking at 8,746.01 in January 2018, the index dropped to 7,193.68 in June 2018, driven by a US$1.03 billion net outflow from PSE-listed securities during the period. This underscores the critical role that foreign portfolio investments play in overall market performance.

Annex 2. Current Status of the Insurance Sector

The insurance penetration rate in the country remains significantly low, especially when compared to Singapore, Malaysia, and Thailand. In 2021, its life insurance premium volume to GDP stood at 1.38% while the non-life insurance premium volume to GDP was at even lower 0.46% of GDP. In the case of life insurance penetration rate, the latest data is already the second highest rate of penetration since 1990 when the rate hit 1.382% in 2013. Meanwhile, patronage of non-life insurance products among the public remains low. Its peak penetration rate was way back in 1994 when it reached 0.72%.

Figure 1. Life Insurance and Non-life Insurance Premium Volumes (as % of GDP), 1990 to 2021



Source: US FRED

Annex 3. Pension Fund Assets (as % of GDP) and Pension Contribution System of ASEAN-6 Countries

	Pension Fund Assets (as % of GDP)	Name of Pension System	Social Security Contribution
Indonesia	1.9 (as of 2020)	Jaminan Sosial Nasional (BPJS Ketenagakerjaan)	Maximum salary base of 12 million/per month Indonesian rupiah beginning 1 January 2020 and is updated annually 2% to be paid by employer and 1% by the employee
Malaysia	61.2 (as of 2019)	Employees' Provident Fund	Mandatory minimum contribution from citizens and permanent residents (PRs) If below age of 60 **Income above 5K ringgit** – 12% of wages to be paid by employer; 11% of wages by employee **Income below or equal to 5K ringgit** – 13% of wages by employer; 11% by employee If aged 60 and above **Income above 5K ringgit** – 4% (for citizens) or 6% (for PRs) paid by employer; 0% (for residents) or 5.5% (for permanent residents) by employee **Income below or equal to 5K ringgit** - 4% (for citizens) or 6.5% (for PRs) by employer; 0% (for residents) or 5.5% (for PRs) by employee
Philippines	2.8 (as of 2018)	Social Security System	Maximum salary credit of PhP 20K, 9.5% to be paid by employers and another 4.5% to be paid by employees
Singapore	42.1 (as of 2020)	Central Provident Fund	Mandatory contributions from citizens and PRs For those aged 55 and below, at income ceiling of SG $6,800 in monthly wages, 17% of to be paid by employers and 20% to be paid by employees. Income ceiling to be raised to SG$ 7,400 in 1 January 2025 and to SG$8,000 in 1 January 2026
		Supplementary Retirement Scheme	Voluntary scheme for citizens and PRs Subject to contribution rate cap of 15% of income cap of SG$102,000 or SG$15,300 for citizens and PRs
Thailand	8.1 (as of 2020)	Social Security Fund	Employees are required to contribute to a social security fund equal to 5% of their salary up to maximum contribution of 750 Thai Baht. Employers and the government are required to contribute the same amount.
Viet Nam	No available data	Social Security	Contributions are to be paid by citizens and foreign individuals working in the country holding a work permit and employed under a labor contract with either an indefinite term or a definite term of one year or more. Social insurance contribution rates are as follows: 17.5% is the employer rate and 8.0% is the employee rate. Income subject to SI contributions includes salary, certain allowances, and other regular payments, but this is capped at 20 times the basic salary for SI contributions.

Source: PWC Worldwide Tax Summaries Guide; US FRED

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