

Eli M Remolona: Establishing a benchmark yield curve - why we need it and how can we do it?

Speech by Mr Eli M Remolona, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 40th Environmental Scanning Exercise, Manila, 7 June 2024.

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Members of the Monetary Board, BSP (Bangko Sentral ng Pilipinas) colleagues, esteemed guests, ladies and gentlemen, good morning.

Let me add my welcome to MBM (Monetary Board Member) Annie's (Anita Linda Aquino) welcome. Welcome to this 40th environmental scanning exercise (ESE). This year marks a milestone. We are celebrating the 20th anniversary of this exercise. For the past two decades, ESE has been fertile ground for policy discussions at the BSP.

Today our focus is on the topic, "Building a Benchmark Yield Curve using Interest Rate Swaps."

I have my own strong views on this topic, but because we have such an excellent line-up of presenters and discussions, I expect those views to change.

Allow me to share those views.

As many of you know, a benchmark yield curve is something we need to strengthen the transmission mechanism of our monetary policy.

It is also part and parcel of the goal of developing the country's capital markets.

A benchmark yield curve is one that serves to reconcile the diverse views of market participants. This makes it very useful for pricing other instruments including mortgages and corporate term loans.

At present, we rely on something called BVAL (Bloomberg Valuation Service) for our yield curve.

I have described this curve as a very choppy curve. That choppiness is an indication of a fragmented bond market with liquidity shifting from one maturity to another.

Perhaps, one way to fix this is to revive our interest rate swap market. I say revive because I was told we used to have such market and I do not understand why it died.

In the Eurozone, when that economy switched to a common currency in 2000, their bond market was also a fragmented one. The most active ones were the German bond market, the Italian bond market, and the French bond market, in that order in terms of turnover.

Then, an amazing thing happened out of nowhere. The euro interest rate swap market emerged.

By 2001, within one year, the turnover in the swap market had surpassed the turnover in those other three bond markets and it soon became the benchmark yield curve for all of the Eurozone.

Eventually, we hope to see a similar benchmark yield curve in the Philippines. One that can potentially be smoother than the BVAL curve.

We hope that we can get ideas from this discussion on how some curve-it does not have to be the swaps curve-could gain wide acceptance as a benchmark among market participants.

All of these may require some government initiative. It maybe that the regulators killed the interest rate swap market, but we want to understand what happened and what could happen after today.

So, I hope with today's ESE, an amazing thing will also happen, and I think this is a place where we can plant the usual seeds of collaboration to aid capital market development.

On that note, I encourage everyone's active participation. Let us have a very productive session.

Maraming salamat at mabuhay tayong lahat!