



Retail Treasury Bonds, Investing in the Philippines



Banking

With all the hoopla concerning the European debt crisis, a few of the governments within the Euro area find it tough to have their finances in order. If you reside in these countries, it could be risky to lend your money towards the government because default is definitely a chance. But also for us Filipinos, lending money for the government is a great opportunity to earn some interest income.

One way to lend money to the government is thru buying Retail Treasury Bonds (RTB) from the Bureau from the Treasury. RTB's are government securities that are considered unconditional obligations from the sovereign state. It's backed by the full taxing power of the us government. Therefore, government securities are practically clear of default. Put simply, there is hardly any risk in purchasing these securities.

Retail Treasury Bonds can be bought from banks including the Development Bank from the Philippines (DBP). The minimum investment is generally 5000 pesos or maybe more. Interest rates for these bonds vary depending on the term. For instance, the coupon interest about the 3-year bond is 8.50% per year as well as the 5-year bond, 9.0%. Interests are usually paid on the quarterly basis at the mercy of a withholding tax of 20%.

As a result of 20% withholding tax, the 8.5% interest gives a net return of 6.8% while a 9%

interest will yield a 7.2% return. These interest earnings, however, are paid immediately for the coupon holder. Hence they do not become part of an investment principal and would not have a compounding effect. Still they are good returns considering how almost risk-free the securities are.

There are many comparative advantages on Retail Treasury Bonds being an investment instrument.

1. Low Risk - Unless the government defaults on its debt, which rarely happens, the investor won't lose his money. The interest rate will not change even if the market collapses.
2. Liquidity - If you'd like the money invested, there is a secondary market to sell your RTB's before maturity.
3. Investment Amount - the minimum quantity of investment can go as low as 5000 pesos. This will make the securities inside reach of many middle-class Filipinos.
4. Quarterly income - the fixed income debts are paid over a quarterly basis rather than 12 months which makes the first 3 payments worth even more than the stated rate of interest due to the added opportunity to invest the earnings.

Government borrowings is an indication that projects is going to be underway that needs financing. Hopefully, the cash goes to projects that make people's lives better.

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