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BANGKO SENTRAL NG PILIPINAS
Manila, Philippines

CONTENTS

Foreword

The Philippine economy maintained its position of relative strength in 2014 amid a challenging external operating environment, aided by manageable inflation dynamics, a favorable external payments position, and a sound, stable, and liquid banking system. Global growth prospects have remained uneven, with economic momentum in the US taking root, while recovery in the euro area and Japan has struggled for traction. The divergent growth paths of major economies in the world fueled concerns that monetary authorities in these countries would pursue correspondingly asynchronous monetary policy paths. Economic activity in key emerging markets (EMs), including China and India, also appears to have softened owing in part to structural bottlenecks and relatively tight financial conditions. These developments, along with the steep decline in global oil prices, underpinned the shifts in market sentiment and risk aversion during the year, leading to capital flow volatility and financial market turbulence, particularly for EMs, including the Philippines.

The Philippines' current growth trajectory appears to be broad-based, providing the basis for a more durable and sustainable expansion over the medium term. Real GDP increased by 6.1 percent in 2014 from 7.2 percent in 2013, in line with the revised Development Budget Coordinating Committee (DBCC) target range of 6.0–7.0 percent. On the supply side, growth in 2014 was supported by services and industry, particularly manufacturing, reflecting the widening output base in the economy. On the demand side, economic activity was driven by private spending, given robust household consumption and strong fixed capital formation, amid generally low and stable inflation alongside gradual improvements in employment conditions. External trade likewise recovered, supported by the gradual strengthening of global demand alongside improvements in intra-regional trade in Asia. Over the coming months, domestic demand is likely to receive a further boost from the government's commitment to ramp up public spending as well as anticipated spending in preparation for the 2016 elections. Lower oil prices are likewise seen as a favorable factor for the country's growth prospects. The decline in oil prices could lessen production costs of firms, improving returns and inducing greater investment spending. Lower cost of fuel and other energy-related consumer items can also boost household real income, enhancing further domestic consumption.

Monetary policy adjustments were implemented to help safeguard the price and financial stability objectives of the BSP. The BSP increased the interest rates on its reverse repurchase facility (RRP) and special deposit accounts (SDA) by a total of 50 basis points (bps) in 2014 on the assessment that the 2015 inflation target could be at risk, with the projected inflation path and inflation expectations settling near the high end of the 2015 inflation target range, amid continued favorable prospects for domestic demand. The said policy actions were also deemed necessary to preempt the potential second-round effects of supply-side price pressures. In addition, the BSP raised the reserve requirements (RR) by two percentage points (ppts) to help guard against potential risks to financial stability that could arise from continued strong liquidity growth and rapid credit expansion. Consequently, headline inflation averaged 4.1 percent in 2014 from 3.0 percent in 2013, within the government's target range of 4.0 percent ± 1.0 ppt. This was the sixth consecutive year that the announced inflation target was achieved.

As with most EMs in Asia, the impact of uncertainty on the global front was evident in Philippine financial markets. On a year-to-date (ytd) basis, the peso weakened against the US dollar by 4.4 percent from the 2013 average of ₱42.45/US$1, while demand for Philippine debt papers declined on perception of heightened risk for EM debt instruments, including those of the

Philippines. Local stock trading however improved, fueled by the strong Q2 and Q3 2014 rally on the back of the robust Philippine economic performance, reports of strong local corporate earnings, and the continued affirmation of the country's investment grade status by major credit rating agencies, including Standard and Poor's (S&P), Japan's Rating and Investment Information Inc. (R&I), and Moody's.

Nonetheless, disciplined macroeconomic policies and previous investments on meaningful structural reforms aimed at enhancing the country's productive capacity, as well as narrowing imbalances in the economy allowed the Philippines to weather the volatility in cross-border flows. The country's external payments position continued to be healthy in 2014, supported by the sustained surplus in the country's current account, the comfortable level of international reserves, and the favorable external debt dynamics.

The current account remained in surplus, buoyed by sustained OF remittances, tourism receipts, and business process outsourcing (BPO) revenues. Nonetheless, the 2014 balance of payments (BOP) position was in deficit amounting to US$2.9 billion, due mainly to capital outflows recorded in Q1 2014 following the tapering of US Federal Reserve's (US Fed) bond purchases under its quantitative easing (QE) program. While foreign portfolio capital returned to the economy in Q2 2014, the inflows were not enough to offset the outflows seen in the early part of the year.

Consequently, the country's international reserves declined, but remained ample at US$79.5 billion as of end-2014. At this level, the gross international reserves (GIR) were enough to cover 10.4 months' worth of imports of goods and payments of services and income. This level of reserves was also sufficient to cover the country's short-term debt more than eight times over (if debt is reckoned on the basis of original maturity) and more than six times over (if debt is reckoned on the basis of residual maturity).

The country's external debt dynamics remained manageable, with the debt stock as a percentage of GDP at 27.3 percent in end-2014 based on the enhanced framework for reporting external debt statistics, compared to 28.8 percent a year ago. More importantly, the maturity profile of the country's external debt remained heavily biased towards medium- and long-term (MLT) accounts, thus limiting rollover and refinancing risk. Moreover, the cost of debt servicing (as a percentage of exports of goods and services) has remained low at 6.4 percent in December 2014, well below the international benchmark range of 20-25 percent, indicating that more resources are available to support domestic economic activity.

The Philippine banking system remained fundamentally resilient and able to intermediate funds to the productive sectors of the economy, while maintaining good credit standards. Philippine banks maintained their track record of stability despite the slower economic growth during the year. Healthy growth rates were seen in lending, deposits, and profitability, while the non-performing loans (NPL) ratio continued to improve and fall below pre-Asian crisis levels. Moreover, the system's capital adequacy ratio (CAR) of over 15.0 percent remained comfortably above the BSP's and the Bank for International Settlements' (BIS) prescribed levels. Lending activity was also robust, with the bulk of credit being directed toward production sectors with strong multiplier effects on the rest of the economy. Nonetheless, credit standards remained broadly unchanged, attesting to the prudent risk-taking of the banking system. The banking system was therefore well-placed to deploy the credit necessary to support the economy's growth momentum.

The BSP as the operator of the Philippine Payments and Settlements System (PhilPaSS) continued to provide safe, sound, and efficient payment and settlement of financial transactions in real time. The volume and value of transactions coursed through the PhilPaSS however decreased in 2014. This reflected lower Electronic Fund Transfer Instruction System (EFTIS) transactions, sales and purchases of government securities via delivery-versus-payment, and the maturity of RRP/SDA placements.

While the Philippine growth story remains fundamentally intact amid the challenging external operating environment, there are risks that could impact the country's growth prospects going forward. The likelihood of an extended period of monetary accommodation in Japan and the euro area could provide some counterbalance to the potential decline in global liquidity as a result of increased interest rates in the US. Nonetheless, EMs, including the Philippines, remain vulnerable to a potential tightening of external financing conditions as a result of surprises in the monetary policy paths of major central banks. The uncertainty in the future policy actions in advanced economies (AEs) will likely complicate the maintenance of macroeconomic stability. The challenge for the government is to enhance domestic sources of durable growth, while reinforcing policies that could help cushion the economy against potential capital flow reversals related with the normalization of accommodative monetary policies in AEs, particularly by the US Fed.

The decline in international oil prices on the whole is expected to support global growth prospects. Like most oil-importing countries, the Philippines stands to benefit from the significant decline in oil prices. As the country shifts to a lower inflation target band for 2015-2016, lower oil prices are deemed to be favorable for inflation as they are likely to dampen inflationary pressures. Nonetheless, monetary authorities cannot afford to be complacent. Despite the recent pullback in oil prices, there is still considerable uncertainty about the oil price path and the sustainability of the oil price decline. There is still the possibility that oil prices could rebound earlier or by more than expected if the supply response of oil revenue-dependent producers to lower prices proves to be stronger than expected.

At the same time, the continued robustness of the domestic economy suggests that disinflationary impulses coming from the demand side are limited. Moreover, existing wage rigidities, upside inflation risks from pending petitions for utility rate adjustments (electricity) and potential power shortages, in addition to well-anchored inflation expectations also support the assessment that the risk of deflation in the Philippines appears to be minimal.

The considerable progress thus far in reforming the economy has provided the economy with buffers and cushions against the challenges of the present global and domestic economic landscapes. The BSP, for its part, remains committed to maintaining the predictable macroeconomic environment and a stable banking system as well as a safe and effective payments system. Towards this end, safeguarding the price and financial stability objectives of the BSP will continue to be at the top of the BSP's policy priorities. The BSP's monetary policy remains focused on achieving the inflation target of 3.0 percent ± 1.0 ppt for 2015-2016. The BSP is also committed to provide timely and calibrated responses, using its enhanced tool set, to unfolding events in the external front to ensure that liquidity conditions do not become overly tight and interest rates do not get excessively volatile.

On the external front, the BSP will continue to adhere to a flexible exchange rate system, with scope for occasional presence to maintain orderly conditions in the foreign exchange market. It will continue to maintain an appropriate level of reserves to serve as a buffer against external shocks as well as promote external debt sustainability to help ensure that the economy is able to meet its external debt obligations.

In 2014, the BSP continued to pursue a broad set of reform initiatives aimed at promoting a financial system that is stable, efficient, resilient, and responsive to the needs of stakeholders. Policy and regulatory issuances for the year were geared toward aligning the BSP's domestic regulatory and supervisory frameworks with international reforms and global standards, fostering sound credit management practices, and strengthening prudential regulations. Going forward, the BSP remains committed to sustaining key reforms that will strengthen the regulatory and supervisory framework to guard against potential systemic risks and keep financial market exuberance at bay, further aligning regulations with current Basel requirements.

Beyond the preservation of monetary and financial stability, the BSP's reform agenda shall include the promotion of a more inclusive financial system that fosters broad-based growth, strengthen consumer protection, forestall emerging risks, and ensure financial stability at all times. The BSP's current consumer protection framework is underpinned by the fundamental tenets of consumer empowerment, market conduct, and collective responsibility. Looking ahead, the BSP will further ramp up its efforts to promote financial inclusion through well-targeted programs on microfinance, consumer protection, and financial education. The BSP will also fulfill its financial advocacies through strengthening policies on corporate governance.

The BSP will also continue to work toward the passage of the amendments to its Charter. The passage of these proposed amendments will strengthen the central bank's institutional framework in meeting its mandates and responsibilities, while ensuring its corporate viability. These enhancements are also expected to solidify the BSP's role as the guardian of price and financial stability, preserving and consolidating macroeconomic gains achieved thus far so that economic progress can be sustained and made more meaningful for every Filipino.

AMANDO M. TETANGCO, JR.
Governor

__ March 2015

INTRODUCTION

ABOUT THE BSP

"The Congress shall establish an independent central monetary authority… (which) shall provide policy direction in the areas of money, banking and credit. It shall have supervision over the operations of banks and exercise such regulatory powers as may be provided by law over the operations of finance companies and other institutions performing similar functions."

Section 20, Article XII, 1987 Philippine Constitution

"The State shall maintain a central monetary authority that shall function and operate as an independent and accountable body corporate in the discharge of its mandated responsibilities concerning money, banking and credit. In line with this policy, and considering its unique functions and responsibilities, the central monetary authority established under this Act, while being a government-owned corporation, shall enjoy fiscal and administrative autonomy.

Section 1, Article 1, Chapter 1
Republic Act No. 7653 (The New Central Bank Act)

The BSP's Legal Mandate

The BSP is the central bank of the Republic of the Philippines. It was established on 3 July 1993 as the country's independent central monetary authority, pursuant to the Constitution and the New Central Bank Act. The BSP replaced the old Central Bank of the Philippines, which was established on 3 January 1949, as the country's central monetary authority.

A government corporation with fiscal and administrative autonomy, the BSP is responsible, among other things, for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy;
- Formulating and implementing policy in the areas of money, banking and credit; and
- Supervising and regulating banks and quasi-banks, including their subsidiaries and affiliates engaged in allied activities.

Powers and Functions

The BSP's Charter also provides that, as the country's central monetary authority, the BSP performs the following functions:

- *Liquidity management*. The BSP formulates and implements monetary policy aimed at influencing money supply consistent with its primary objective of maintaining price stability.
- *Currency issue.* The BSP has the exclusive power to issue the national currency. All notes and coins issued by the BSP are fully guaranteed by the Government and are considered legal tender for all private and public debts.
- *Lender of last resort.* The BSP extends discounts, loans and advances to banking institutions for liquidity purposes.
- *Financial supervision.* The BSP supervises banks and exercises regulatory powers over non-bank institutions performing quasi-banking functions.
- *Management of foreign currency reserves*. The BSP seeks to maintain sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.
- *Determination of exchange rate policy.* The BSP determines the exchange rate policy of the Philippines. Currently, it adheres to a market-oriented foreign exchange rate policy such that its role is principally to ensure orderly conditions in the market.
- *Other activities.* The BSP functions as the banker, financial advisor and official depository of the Government, its political subdivisions and instrumentalities, and Government owned and controlled corporations.

The New Central Bank Act imposes limitations and other conditions on the exercise of such powers by the BSP. Among others, the Charter limits the circumstances under which the BSP may extend credit to the Government and prohibits it from engaging in development banking or financing.

Our Vision

The BSP aims to be a world-class monetary authority and a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos.

Our Mission

The BSP is committed to promote and maintain price stability and provide pro-active leadership in bringing about a strong financial system conducive to a balanced and sustainable growth of the economy. Towards this end, it shall conduct sound monetary policy and effective supervision over financial institutions under its jurisdiction.

The Monetary Board

Amando M. Tetangco, Jr.
Chairman and Governor

Cesar V. Purisima
Member

Alfredo C. Antonio
Member

Felipe M. Medalla
Member

Armando L. Suratos
Member

Juan D. De Zuñiga, Jr.
Member

Valentin A. Araneta
Member

The Management Team

Amando M. Tetangco, Jr.
Governor

Executive Management

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Julia C. Bacay-Abad
Assistant Governor

Elmore O. Capule
General Counsel

Edna C. Villa
Managing Director

Resource Management Sector

Vicente S. Aquino
Deputy Governor

Willie S. Asto
Assistant Governor

Elvira E. Ditching-Lorico
Managing Director

Paterson L. Encabo
Managing Director

Silvina Q. Mamaril-Roxas
Managing Director

Security Plant Complex

Vicente S. Aquino
Deputy Governor

Dahlia D. Luna
Assistant Governor

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Ma. Cyd N. Tuaño-Amador
Assistant Governor

Gerardo S. Tison
Assistant Governor

Wilhelmina C. Mañalac
Managing Director

Augusto C. Lopez-Dee
Managing Director

Iluminada T. Sicat
Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Johnny Noe E. Ravalo
Assistant Governor

Leny I. Silvestre
Managing Director

Chuchi G. Fonacier
Managing Director

Restituto C. Cruz
Managing Director

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

AABs	Authorized Agent Banks
ABF	Asian Bond Fund
ABMI	Asian Bond Markets Initiative
ABPMs	Automated Banknote Processing Machines
AC	Advisory Committee
ACGM	ASEAN Central Bank Governors Meeting
ADB	Asian Development Bank
AE	Advanced Economies
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement in Services
AFI	Alliance for Financial Inclusion
AFIF	ASEAN Financial Integration Framework
AFIF	ASEAN Financial Integration Framework
AFMIS	ASEAN Finance Ministers' Investors Seminar
AFS	Appreciation of Financial Statements
AHFF	Agriculture, Hunting, Forestry and Fishing
AIMO	ASEAN Integration Monitoring Office
ALAC	Asia, Latin America and the Caribbean
ALs	Auto Loans
AMC	Asset Management Companies
AMRO	ASEAN+3 Macroeconomic Research Office
AOAMS	Acquired and Other Assets Management System
AONCR	Areas Outside National Capital Region
APEC	Asia-Pacific Economic Cooperation
ARRS	Anti-Money Laundering Risk Rating System
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus China, Japan and Korea
ASEC-ACMF	ASEAN Secretariat-ASEAN Capital Market Forum
BAP	Bankers Association of the Philippines
BAS	Bureau of Agricultural Statistics
BES	Business Expectations Survey
BID	Banknote Inspection Division
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BOC	Bureau of Customs
BOD	Board of Directors
BOE	Bank of England
BOG	Board of Governors
BOJ	Bank of Japan
BOP	Balance of Payments
BOR	Bank-wide Organizational Review
bp(s)	basis point(s)
BPM6	Balance of Payments Manual, Sixth Edition
BPO	Business Process Outsourcing
BSA	Bilateral Swap Arrangement

BSP	Bangko Sentral ng Pilipinas
BSPI	Bangko Sentral ng Pilipinas Institute
BTr	Bureau of the Treasury
BUDS	BSP Unified Directory System
CAM	Credit Appraisal Monitoring
CAMELS	Capital, Asset, Management, Earnings, Liquidity and Sensitivity to market risk
CAR	Capital Adequacy Ratio
CBTS	Cross-Border Transactions Survey
CCO	Chief Compliance Officer
CCRs	Credit Card Receivables
CCT	Conditional Cash Transfer
CDIS	Coordinated Direct Investment Survey
CDS	Credit Default Swap
CeMCoA	Center for Monetary Cooperation in Asia
CEMLA	Center for Latin American Monetary Studies
CES	Consumer Expectations Survey
CET1	Common Equity Tier 1
CFAS	Core Financial Accounting System
CFS	Consumer Finance Survey
CGAP	Consultative Group to Assist the Poor
CIIO	Currency Issue and Integrity Office
CMFP	Center for Monetary and Financial Policy
CMIM	Chiang Mai Initiative Multilateralization
CMO	Crisis Management Office
COA	Commission on Audit
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CPO	Corporate Planning Office
CRO	Chief Risk Officer
CSF	Credit Surety Fund
CSFP	Credit Surety Fund Program
CTB	Chamber of Thrifts Banks
CTRM	Committee on Tariff and Related Matters
CYFI	Child and Youth Finance International
DBCC	Development Budget Coordination Committee
DBCP	Departmental Business Continuity Plans
DBM	Department of Budget and Management
DepEd	Department of Education
DER	Department of Economic Research
DES	Department of Economic Statistics
DET	Data Entry Template
DFA	Department of Foreign Affairs
DLC	Department of Loans and Credit
DMFAS	Debt Management and Financial Analysis System
DOF	Department of Finance

DSB	Debt Service Burden
D-SIBs	Domestic-Systemically Important Banks
DSR	Debt Service Ratio
DTI	Department of Trade and Industry
DvP	Delivery versus Payment
DW	Data Warehouse
ECB	European Central Bank
eDvP	Expanded DvP
EDYRF	Exporters' Dollar and Yen Rediscount Facility
EFLCs	Economic and Financial Learning Centers
EFLP	Economic and Financial Learning Program
EFTIS	Electronic Fund Transfer Instruction System
e-G2P	Electronic Government-to-Persons
EIU	Economist Intelligence Unit
EMBI	Emerging Market Bond Index
EMEAP	Executives' Meeting of East Asia and Pacific
EMEs	Emerging Market Economies
EMP	Externally-Managed Portfolio
ePassport	Electronic Passport
ERDP	Economic Review and Policy Dialogue
eRediscounting	Electronic Rediscounting
ERM	Enterprise Risk Management
ESEs	Environmental Scanning Exercises
ETL	Extract, Transform and Load
EU	European Union
EWS	Early Warning System
EZ	Eurozone
FAD	Financial Accounting Department
FAEA	Federation of ASEAN Economic Association
FC	Financial Corporations
FCAG	Financial Consumer Affairs Group
FCDUs	Foreign Currency Deposit Units
FDI	Foreign Direct Investment
FGCE	Financial Computable General Equilibrium
FI	Financial Institutions
FIE	Fixed Income Exchange
FinLit	Financial Literacy
FLAReS	Foreign Loan Approval and Registration System
FOF	Flow of Funds
FRP	Financial Reporting Package
FRS	Fiscal Risks Statements
FSAM	Financial Sector Accounting Matrix
FSI	Financial Stability Institute
FSR	Financial Stability Report
FTP	Financial Transactions Plan
FX	Foreign Exchange

FXDs	Foreign Exchange Dealers
FXTNs	Foreign Exchange Treasury Notes
G20	Group of Twenty
GDBs	Good Delivery Bars
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GIR	Gross International Reserves
GNI	Gross National Income
GNPL	Gross Non-performing Loan
GOCCs	Government-Owned and Controlled Corporations
GPFI	Global Partnership for Financial Inclusion
GPNs	Global Peso Notes
GS	Government Securities
GSEDs	Government Securities Eligible Dealers
GSIS	Government Service Insurance System
G-SIFI	Global Systemically Important Financial Institutions
HPC	High Performance Culture
IAC	Inter-Agency Committee
IACFDIS	Inter-Agency Committee on Foreign Direct Investments Statistics
IACTS	Inter-Agency Committee on Trade Statistics
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBL	Interbank Loans
ICS	Integrated Correspondence System
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IIF	Institute for International Finance
IIP	International Investment Position
IMC	Investment Management Committee
IMF	International Monetary Fund
IMP	Internally-Managed Portfolio
IR	Incident-Reporting
IT-BPO	Information Technology-Business Process Outsourcing
ITSS	Information Technology Sub-Sector
LCY	Local Currency
LFPR	labor force participation rate
LGUs	Local Government Units
LTMM	Long-term Macroeconomic Model
LTNCTDs	Long-term Negotiable Certificates of Time Deposits
M3	Domestic Liquidity
MB	Monetary Board
MCs	Money Changers
MEM	Multi-equation Model
MFIs	Microfinance Institutions
MFSC	Monetary and Financial Stability Committee
MFSM	Monetary and Financial Statistics Manual

MiDaS	Microfinance Data Sharing System
MLT	Medium to Long-term
MMPH	Macroeconomic Model for the Philippines
Moody's	Moody’s Investors Service
MORB	Manual of Regulations for Banks
MORNBFI	Manual of Regulations for Non-Bank Financial Institutions
MOTY	Microentrepreneurship of the Year
MOU	Memorandum of Understanding
MPAA-IT	Macroeconomic Policy Analysis and Assessment under Inflation Targeting
MSMEs	Micro-, Small- and Medium-Scale Enterprises
MSS	Monetary Stability Sector
MTMM	Medium-term Macroeconometric Model
MTPs	Major Trading Partners
NAB	New Arrangement to Borrow
NBFI	Non-Bank Financial Institution
NCAHS	Non-Current Assets Held for Sale
NCR	National Capital Region
NDA	Net Domestic Assets
NDFs	Non-Deliverable Forwards
NEDA	National Economic and Development Authority
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NFIA	Net Factor Income From Abroad
NG	National Government
NGOs	Non-Governmental Organizations
NIR	Net International Reserves
NNPL	Net Non-performing Loan
NPCC	National Price Coordinating Council
NPL(s)	Non-Performing Loan(s)
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
OBUs	Offshore Banking Units
ODB	Onshore Dollar Bond
ODCs	Other Depository Corporations
OF	Overseas Filipino
OSPD	Office of the Supervisory Policy Development
P/E	Price-Earnings
PB	Participant Browser
PCA	Principal Component Analysis
PCFS	Philippine Consumer Finance Survey
PCHC	Philippine Clearing House Corporation
PD	Plate Making Division
PDIC	Philippine Deposit Insurance Corporation
PES	Philippine Economic Society
PFNA	Philippine Financial Network Analysis

PFRS	Philippine Financial Repository Standards
PFSI	Philippine Financial Stress Index
PhilPaSS	Philippine Payments and Settlements System
PIDS	Philippine Institute for Development Studies
PMEP	Project Management Excellence Program
PPI	Producers Price Index
ppt(s)	percentage point(s)
PriMS	Project Information Managements System
PSALM	Power Sector Assets and Liabilities Management
PSDP	Philippine Statistical Development Program
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PvP	Payment-versus-Payment
QE	Quantitative Easing
QMS	Quality Management Systems
QSS	Quantitative Support Staff
R&I	Rating and Investment Information, Inc.
RAs	Remittance Agents
RBAP	Rural Bankers' Association of the Philippines
RBB	Rafael B. Buenaventura
RBCAF	Risk-Based Capital Adequacy Framework
RBs	Rural Banks
RCOA	Retail Competition and Open Access
RDC	Regional Development Council
REER	Real Effective Exchange Rate
RELs	Real Estate Loans
ROP	Republic of the Philippines
ROs	Regional Offices
ROW	Rest of the world
RP	Repurchase
RRELs	Residential Real Estate Loans
RRP	Reverse Repurchase
RTBs	Retail Treasury Bonds
RWAs	Risk-Weighted Assets
S&P	Standard and Poor's Rating Services
SCCB	Steering Committee on Capacity Building
SDA(s)	Special Deposit Account(s)
SDC	Supervisory Data Center
SDR(s)	Special Drawing Right(s)
SEACEN	South East Asian Central Banks
SEANZA	South East Asia, New Zealand and Australia
SEM	Single Equation Model
SES	Supervision and Examination Sector
SIFI	Systemically Important Financial Institutions
SLC	Senior Level Committee

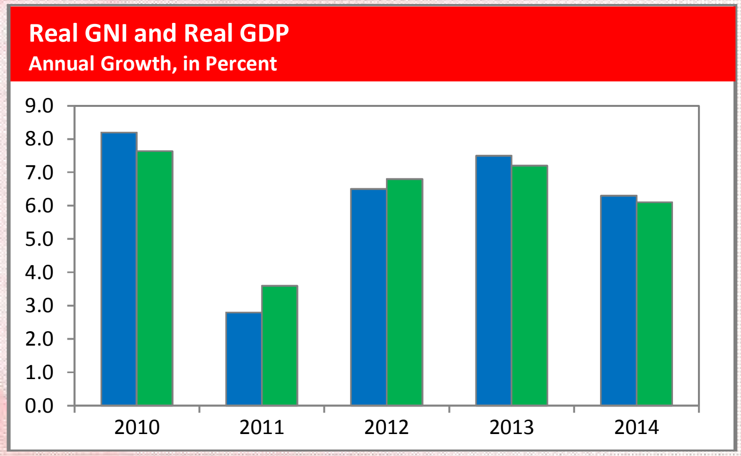
SME	Small and Medium Enterprises
SMP	Succession Management Program
SNA	System of National Accounts
SPC	Security Plant Complex
SPEI	Selected Philippine Economic Indicators
SPMS	Strategic Performance Management System
SRF	Standardized Reporting Format
SRTC	Statistical Research and Training Center
SSL	Salary Standardization Law
SSS	Social Security System
ST	Short-term
STPI	Strategic Third Party Investor
SVP	Senior Vice President
SWIFT	Society for Worldwide Interbank Financial Telecommunications
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TBs	Thrift Banks
TCPS	Technical Committee on Price Statistics
TCR	Total Credit Report
TF-ABIF	Task Force on Banking Integration Framework
TLP	Total Loans Portfolio
TLTRO	Targeted Long Term Refinancing Operation
TPI	Trading Partners Index
TPI-A	Trading Partners Index - Advanced Economies
TPI-D	Trading Partners Index - Developing Economies
TWGs	Technical Working Groups
U/KBs	Universal/Commercial Banks
UIT	Unit Investment Trust
UNCTAD	United Nations Conference on Trade and Development
UnSDs	Unsecured Subordinated Debts
US	United States
US Fed	US Federal Reserve
WB	World Bank
WC-CAL	Working Committee on Capital Account
WC-FSL	Working Committee on Financial Services Liberalization
WMP	Weight Management Program
WTO	World Trade Organization
XGSI	Exports of Goods and Receipts from Services and Income
y-o-y	year-on-year
ytd	Year-to-date
ZLB	Zero Lower Bound

PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

Philippine economy maintains growth momentum

The country's real gross domestic product (GDP) expanded by 6.1 percent in 2014, from 7.2 percent in 2013, surpassing market expectations of 5.8 percent.[1] On the expenditure side, strong household consumption along with the recovery in external trade contributed to output growth. On the production side, broad-based growth in all three major sectors—services, industry, and agriculture—helped drive the expansion. Construction and manufacturing in the industry sector posted notable increases along with real estate, renting, and business activities in the services sector. Meanwhile, growth in real gross national income (GNI) decelerated to 6.3 percent in 2014 from 7.5 percent in 2013, as net primary income growth slowed down to 7.3 percent from 9.0 percent in the previous year due to weaker increase in the compensation of overseas Filipino workers.



Aggregate Output and Demand

Supply side

Industry sector is on the way to becoming a major growth engine

While the services sector continued to account for half of the country's output, the robust growth posted by the industry sector in recent quarters suggests its potential of becoming a major growth engine. Output in the industry sector, which accounted for 33.3 percent of the 2014 real GDP, registered the highest growth rate among the three major sectors at 7.5 percent, boosted by the notable 9.2-percent expansion in Q4 2014. The solid growth of the manufacturing and construction sub-sectors lifted the industry sector during the year. The manufacturing sub-sector increased by 8.1 percent in 2014 on the back of the continued expansion of the top five performing manufacturing industries, namely: food manufactures (which grew by 6.8 percent); radio, television and communication equipment and apparatus

[1] Statement of National Economic Development Authority (NEDA) Secretary Arsenio M. Balisacan during the Press Conference on the Q4 2014 and Annual Performance of the Philippine Economy, delivered on 29 January 2015. Available: http://www.neda.gov.ph/?p=4767

(5.3 percent); chemical and chemical products (3.3 percent); furniture and fixtures (24.8 percent); and beverage industries (25.1 percent). Meanwhile, the expansion in the construction of 8.5 percent was buoyed largely by the double-digit growth rates in private construction over the last three quarters of 2014 amid continued strong demand for office, retail, and residential spaces. Public construction likewise supported growth during the first and the last quarters of 2014, but it registered contractions in Q2 and Q3 2014 owing to bottlenecks in government spending.

The services sector, which accounted for 56.7 percent of the 2014 GDP, rose by 6.0 percent and contributed 3.4 ppts to the 2014 output growth. Providing stability to the services sector were the positive performance of its major sub-sectors, such as the trade and repair of motor vehicles, motorcycles, personal and household goods (which grew by 6.0 percent); real estate, renting, and business activities (8.1 percent); transport, storage and communication (6.6 percent); and financial intermediation (6.7 percent). The sector also received support from the generally bullish consumer and business sentiment during the year.

Meanwhile, output in the agriculture, hunting, forestry and fishing sector (AHFF) increased by 1.9 percent in 2014, faster from the year-ago growth of 1.1 percent. The sector, which represented 10.0 percent of real GDP in 2014, contributed 0.2 ppt to this year’s expansion. The higher agriculture sub-sector growth of 2.3 percent from 0.9 percent in 2013 underpinned the output expansion. This was largely on account of the increase in palay and corn production, which grew by 2.8 percent and 5.1 percent, respectively, owing to generally favorable weather conditions in Q4 2014 and increased utilization of high-yielding seed varieties.

Demand side

Household spending and external trade underpin expansion

On the demand side, the main drivers of the 2014 real GDP growth were the resilience of household spending and the recovery of external trade. The generally favorable inflation environment, particularly towards the latter part of the year, along with overall improvements in labor conditions supported the 5.4-percent growth in household consumption. These were reflected in the higher purchases recorded in major items such as food and non-alcoholic beverages (which expanded by 4.5 percent); housing, water, electricity, gas and other fuels (5.4 percent); health expenditure (10.5 percent); and transport-related expenditure (10.0 percent). Meanwhile, exports grew by 12.1 percent during the year, reversing the 1.1-percent contraction in 2013 on the back of improving external demand, specifically growing intra-regional trade among Asian economies. Meanwhile, higher government expenditure in Q4 2014 (increasing by 9.8 percent) pushed government consumption growth to 1.8 percent for 2014, making up for the slow pace of public spending during the first three quarters of the year.

Philippine economy is poised for higher growth

Moving forward, the Philippine economy is expected to continue to pursue a higher growth trajectory despite lingering domestic and global challenges. Domestic expansion is expected to capitalize on existing macroeconomic buffers that have been the source of resilience of the Philippine economy in the face of various crisis episodes in the past. The continued positive alignment of strong growth and inflation, well-anchored inflation expectations, firm domestic demand conditions supported by bullish consumer and investor sentiments, broadening growth drivers, higher budget allocation for infrastructure spending, and the improvements in the country's labor market condition coinciding with the country's entry to the demographic window, are expected to steer the economy to a higher growth potential. In addition, the country's sound and stable domestic financial system, ample liquidity, dynamic credit growth, robust external payments dynamics, ample fiscal space, significant strides in global competitiveness and governance rankings, and commitment toward sustaining structural reforms, are also anticipated to bolster further Philippine economic growth by providing it adequate cushion and room to deal with potential external shocks.

Labor, Employment, and Wages

Employment conditions improve but challenges remain

Notable gains in employment conditions were observed in 2014.[2] The unemployment rate declined to 6.8 percent in 2014 from 7.2 percent in the previous year, its lowest level since 2006, while the labor force participation rate (LFPR) increased to 64.4 percent from 63.9 percent in 2013.

Employment expanded by 2.8 percent to 37.3 million in 2014, with new employment generated exceeding 1.0 million. Employment grew fastest in the industry sector at 4.1 percent (equivalent to 237,000 employed persons) due to strong growth in construction and manufacturing. Employment in services increased by 3.1 percent (or by 603,000), with the biggest increment observed in wholesale and retail trade. Agriculture meanwhile posted a modest growth of 1.7 percent (184,000).

Despite said considerable gains in employment levels, quality remains a challenge. The increase occurred largely in self-employed persons (4.1 percent, or equivalent to 407,000 employed persons) and unpaid family workers (8.0 percent, or 292,000). The share of self-employed and unpaid family workers—collectively referred to as "vulnerable employment," a Millennium Development Goal indicator—to total employment increased to 38.6 percent from 37.8 percent. Meanwhile, the growth in wage and salary employment slowed to 1.5 percent (329,000) compared to the 3.0 percent growth (644,000) in 2013. Part-time employment surged by 9.1 percent to 13.6 million from 12.4 million, while persons in full-time employment decreased by 1.0 percent to 23.2 million from 23.5 million.

[2] Figures refer to the average of the four rounds (January, April, July and October) of the Labor Force Survey conducted by the Philippine Statistics Authority. The estimates exclude Region VIII (Eastern Visayas).

The underemployment rate fell slightly to 18.4 percent in 2014 from 19.0 percent a year ago, resulting in a decline of underemployed persons by 42,000 to 6.9 million. Of the total underemployed persons, the agriculture and services sectors accounted for 41.3 percent each, while the industry sector accounted for 17.4 percent.

Prices

Inflation for 2014 remains within target

Year-on-year (y-o-y) headline inflation averaged 4.1 percent in 2014, higher than the 3.0 percent average in the previous year and remained within the Government's 2014 inflation target range of 4.0 percent ± 1.0 ppt (Table 3) for the year. This was the sixth consecutive year that the average inflation rate was within the government target.

Food and non-food inflation increase

Inflation increased in 2014 due largely to higher food inflation. The average food inflation accelerated to 7.0 percent in 2014 from 2.8 percent in 2013 as all food items—particularly rice, meat, fish, and vegetables—posted higher prices owing to some tightness in domestic supply conditions due, in turn, to weather-related production disruptions, delays in supply-side responses (e.g., failed bidding in rice imports), and bottlenecks in the supply chain (e.g., port congestion and changing transportation policies) during the first three quarters of the year.

Similarly, non-food inflation rose slightly to 2.2 percent in 2014 from 2.1 percent in the previous year on higher inflation for housing, water, electricity, gas, and other fuels (2.3 percent in 2014 from 1.7 percent in 2013), transport (0.9 percent from 0.6 percent), health (3.3 percent from 3.0 percent), and education (4.9 percent from 4.5 percent). Higher prices of electricity, domestic petroleum products (e.g., diesel, gasoline, LGP, and kerosene), and hospital services, as well as tuition fee hikes for primary and secondary schools, contributed to the slight uptick in non-food inflation during the year.

Average inflation in the National Capital Region (NCR) and areas outside NCR (AONCR) also went up to 3.2 percent and 4.5 percent, respectively, in 2014 from year-ago rates of 1.6 percent and 3.3 percent.

Official core inflation rises slightly

Core inflation, which excludes some food and energy items to measure underlying price pressures, increased slightly to 3.0 percent in 2014 from 2.9 percent a year ago. Two out of three alternative measures of core inflation estimated by the BSP—the trimmed mean and weighted median measures—likewise edged higher relative to the rates registered in the preceding year.

Measures of Core Inflation Year-on-Year Change		
	2013	2014
Core Inflation	2.9	3.0
Trimmed Mean[1]	2.5	3.5
Weighted Median[2]	2.3	2.9
Net of Volatile Items[3]	3.1	2.7

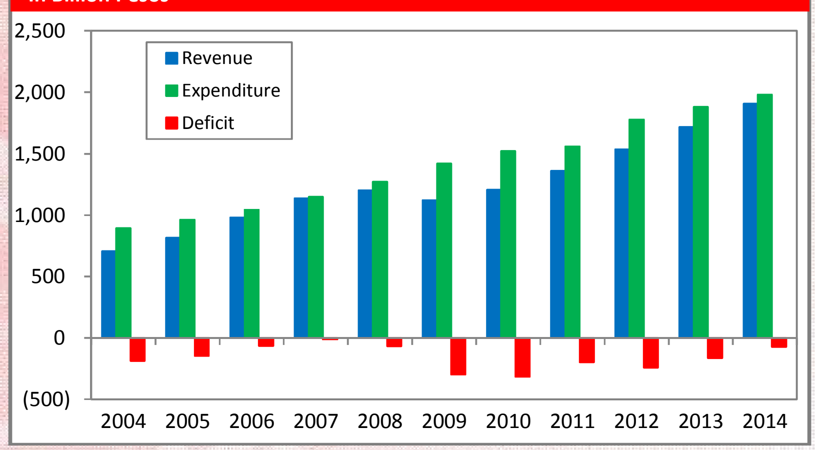
[1] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.
[2] The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year inflation rates.
[3] The net of volatile items method excludes the following items: bread and cereals, meat, fish, fruit, vegetables, gas, solid fuels, fuels and lubricants for personal transport equipment, and passenger transport by road, which represent 39.0 percent of all items.
Sources of Basic Data: PSA-NSO, BSP-DER

Operations of the National Government

NG's operations yield a lower deficit

The National Government's (NG) cash operations yielded a lower deficit of ₱73.1 billion in 2014 from ₱164.1 billion in 2013 (Table 4). The 2014 NG deficit, which represented 1.0 percent of GDP, was also lower by 72.5 percent than the ₱266.2 billion programmed deficit for the year. Revenues increased y-o-y by 11.2 percent to reach ₱1,908.5 billion, but fell short of the programmed level for 2014 by 5.4 percent. Expenditures likewise increased to ₱1,981.6 billion during the same period but fell below the programmed level by 13.3 percent. The primary balance recorded a surplus of ₱248.1 billion in 2014, higher than the ₱159.4 billion level a year ago.

Cash Operations of the National Government
In Billion Pesos



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and related offices increased by 12.0 percent to reach ₱1,720.1 billion in 2014. The total tax revenues collected during the review period constituted 91.5 percent of the 2014 programmed level of ₱1,879.9 billion. Meanwhile, non-tax revenues by the Bureau of the Treasury (BTr) increased by 15.3 percent to ₱93.4 billion during the review period. Total non-tax revenues reached ₱188.4 billion, which was above the programmed level by 36.4 percent for 2014. Moreover, tax effort improved to 13.6 percent during the review period from 13.3 percent in 2013.

Total NG expenditures increased by 5.4 percent y-o-y to reach ₱1,981.7 billion in 2014, although this was lower than the 2014 programmed level of ₱2,284.3 billion. Allotments to the local government units (LGUs) reached ₱344.2 billion, higher than the year-ago level by 8.5 percent. Meanwhile, interest payments for 2014 decreased by 0.7 percent to reach ₱321.2 billion, accounting for 91.1 percent of the programmed level of ₱352.7 billion.

The deficit was financed mainly from domestic sources, which covered 92.8 percent of the total financing requirement of the NG.

The NG will continue to pursue fiscal consolidation in the medium term by supporting legislative initiatives to raise revenues and widen the tax base. The NG has more resources that can be allocated to accelerate infrastructure spending. Greater fiscal space resulted from proactive liability management, enhanced implementation of tax administration measures, and legislative reforms (e.g., Sin Tax Reform law). The need to address infrastructure gaps is a top priority. There are plans to increase spending on infrastructure to 5 percent of GDP by 2016.

Monetary and Financial Conditions

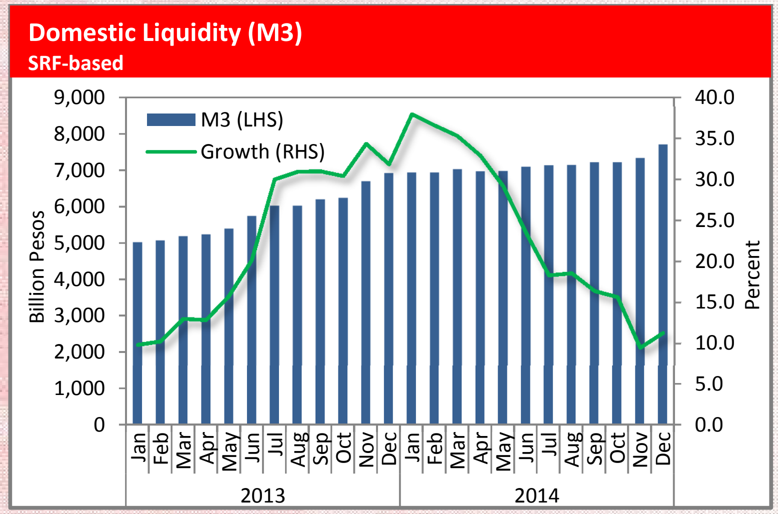
Monetary Conditions

Monetary Aggregates

Expansion in domestic liquidity decelerates but remains sufficient to support growth momentum

Domestic liquidity or M3 increased by 11.3 percent y-o-y in December 2014, significantly slower compared to the 31.8-percent expansion recorded at end-2013. The moderation in money supply growth partly reflected the statistical base effects associated with the considerable increase in M3 in 2013 following the operational adjustments involving the access of trust entities to the BSP's SDA facility, which were completed in November 2013. Nonetheless, M3 growth remained in line with the robust expansion in domestic demand, as full-year average M3 growth increased to 23.8 percent in 2014 from 22.6 percent in 2013.

The sustained growth in domestic liquidity was due mainly to the continued expansion in credits to the domestic economy. Domestic claims rose by 17.8 percent y-o-y, buoyed by the continued increase in claims on the private sector (by 19.6 percent), reflecting the steady growth in bank lending. Net claims on the NG were similarly higher relative to its level a year ago.

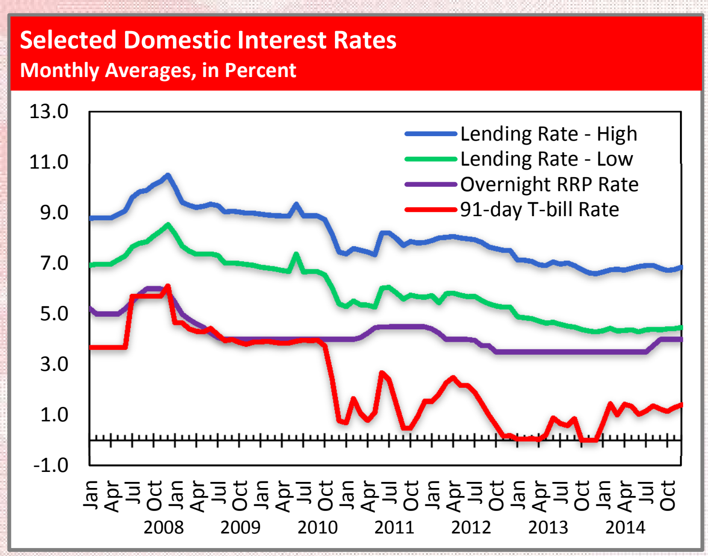


Net foreign assets (NFA) also expanded by 5.0 percent in 2014. The NFA of other depository corporations (ODCs) increased during the year as banks' foreign assets grew at a faster pace relative to that of their foreign liabilities. The expansion in ODCs' foreign assets was due mainly to the growth in foreign loans and receivables, investments in marketable debt securities, and deposits with other banks, while their foreign liabilities increased on account of higher deposits of foreign residents. However, the BSP's NFA position contracted relative to its level a year ago, reflecting the decline in gross international reserves.

Interest Rates

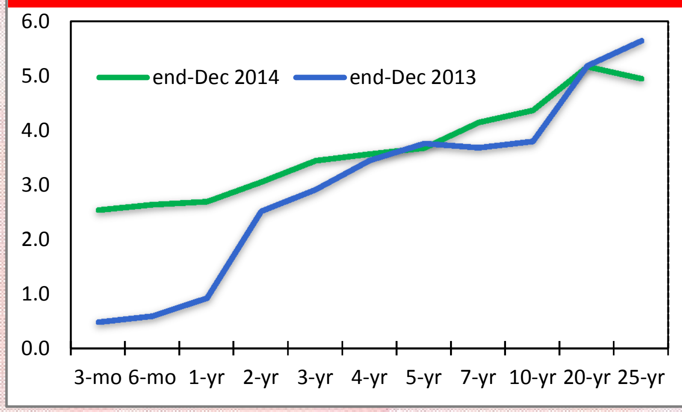
Domestic interest rates in the primary and secondary market rise

Domestic interest rates in the primary market increased to 1.495 percent in 2014 after a significant decline in 2013 amid expectations of an increase in interest rates in the US, resulting mainly from the winding down of the monthly bond-buying program of the US Fed in the first half of 2014. The US Fed concluded its asset purchases in October 2014.



Similarly, the yields of government securities (GS) in the secondary market rose generally, except for those with maturities of 5 years, 20 years, and 25 years, owing mainly to expectations of a possible increase in US interest rates and a tighter domestic monetary policy stance given elevated inflation pressures earlier in the year.

Secondary Market Yield Curve
In Percent



Borrowing and lending rates decline

Lending rates for all maturities, as well as interest rates on savings and time deposits, declined in 2014 from their levels in 2013, while interbank call loans rate increased slightly. The general drop in borrowing and lending rates reflected ample domestic liquidity and the strong fiscal performance of the NG in 2014. Real interest rates likewise decreased relative to their 2013 levels as inflation rose in 2014.

Real Lending Rates
Average Bank Lending Rate less CPI Inflation, in Percent

The Monetary Board raises the BSP's policy rates

The Monetary Board (MB) increased the BSP's key policy rate for both the overnight or reverse repurchase (RRP) facility and the overnight lending or repurchase (RP) facility by 25 bps each in the July and September 2014 policy meetings. As of end-December 2014, the RRP rate stood at 4.0 percent, while the RP rate was at 6.0 percent. In its policy meeting on June and September 2014, the MB raised the interest rate on the SDA facility by 25 bps each from 2.0 percent to 2.50 percent across all tenors.

The differential between domestic and foreign interest rates increases

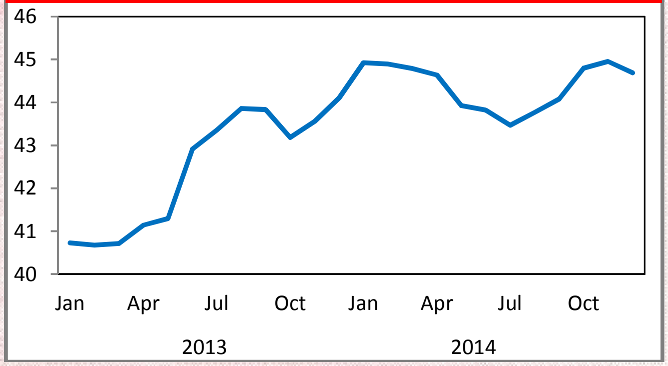
The differential between the BSP's policy rate and the US fed funds target rate increased from an average of 325 bps in 2013 to 346 bps in 2014. Adjusted for the risk premium—measured as the differential between the 10-year ROP note and the 10-year US Treasury note—the average risk-adjusted differential between the BSP's policy rate and the US fed funds target rate likewise rose from the 2013 average of 216 bps to an average of 243 bps in 2014.

Exchange Rates

Peso weakens amid diverging global growth prospects

The peso averaged ₱44.40/US$1 for the period 2 January - 29 December 2014, depreciating by 4.4 percent from the ₱42.45/US$1 average in 2013 (Table 7).[3] The peso weakened amid diverging global growth prospects and monetary policies as well as increased geopolitical tensions. Likewise, the peso depreciated by 0.5 percent to ₱44.62/US$1 at end-December 2014, from ₱44.41/US$1 a year ago.

Average Peso-Dollar Rate
2013-2014



Developments in the global economy affected the direction and magnitude of foreign exchange flows in 2014. The peso started weak in January 2014 as positive data suggesting the strong recovery of the US economy and concerns that the US Fed will pare its monetary stimulus fueled the sell-off in EM currencies.

Thereafter, volatilities across major asset classes fell to unusually low levels. The peso subsequently strengthened from February to July 2014 owing to a number of external and domestic factors, including the US Fed's clarification of its forward guidance (which helped restore stability in the market);[4] the release of positive Philippine exports data; and the credit rating upgrades by Standard & Poor's Ratings Services (S&P) and the Japan Credit Rating Agency.

[3] Dollar rates or the reciprocal of the peso-dollar rates (based on reference rates data) were used to compute for the percentage change.
[4] On 19 March 2014, the US Fed affirmed that, despite improving unemployment figures, a broader set of indicators (other than the unemployment threshold) will be taken into consideration with regard to the pace of tapering and the eventual tightening of monetary policy. Source: www.federalreserve.gov

However, from August to November 2014, the peso exhibited a generally weakening trend on concerns about the monetary policy path of the US Fed and its impact on global liquidity. EM currencies, including the peso, weakened against the US dollar on the back of the US Fed's decision to end its asset-purchase program in October 2014. The peso also weakened after the World Bank downgraded its 2014 growth forecast for the Philippines, citing weaker government spending, tighter monetary policy, and higher inflation. Concerns over potential spillovers of the normalization of US monetary policy likewise dampened demand for the peso.[5]

Towards the end of the year, the peso weakened against the US dollar on concerns that the impending increase in US interest rates would spur capital outflows from EMs, including the Philippines, and on apprehension that Japan's recession might spill over to the domestic economy. Moreover, the dollar's yield advantage due to the strengthening of the US economy—on account of positive industrial, manufacturing, and employment data—contributed to the depreciation of the peso.

On a year-to-date (ytd) basis, the peso depreciated against the US dollar by 0.7 percent on 29 December 2014 as it closed at ₱44.72/US$1, moving in tandem with most Asian currencies.[6]

Selected Asian Currencies	Appr/Depr (-) 29 Dec 2014 vs 27 Dec 2013
Japanese Yen	(12.5)
Malaysian Ringgit	(6.3)
New Taiwan Dollar	(6.2)
Singaporean Dollar	(4.5)
South Korean Won	(4.3)
Indian Rupee	(2.9)
Chinese Yuan	(2.7)
Indonesian Rupiah	(2.1)
Philippine Peso	**(0.7)**
Thai Baht	(0.7)

Source: Bloomberg (last done deal transaction as of 4:00 PM, Manila time)

Nonetheless, despite the depreciation pressures on the peso in 2014, the country's robust inflows of foreign exchange from overseas Filipino remittances, BPO and tourism receipts, foreign portfolio and direct investments, and the ample level of international reserves provided support to the peso.[7]

[5] On 17 September 2014, US Fed officials raised their median estimate for the federal funds rate by 25 bps to 1.375 percent by the end of 2015. (Source: Chair's FOMC Press Conference Projection Materials: 17 September 2014. Retrieved from http://www.federalreserve.gov/monetarypolicy/fomcpresconf 20140917.htm)

[6] Based on the last done deal transaction in the afternoon of 29 December 2014.

[7] Gross International reserves stood at US$79.5 billion as of end-December 2014.

Meanwhile, the volatility of the peso (as measured by the coefficient of variation) stood at 1.27 percent as of 29 December 2014 (ytd), lower compared with the volatility of other currencies in the region such as the Korean won (2.79 percent), Indonesian rupiah (2.78 percent), and Malaysian ringgit (2.55 percent).[8]

On a real trade-weighted basis, the peso gained external price competitiveness against the basket of currencies of all trading partners (TPI) and trading partners in developing countries (TPI-D) in 2014. The real effective exchange rate (REER)[9] index of the peso decreased (y-o-y) by 0.3 percent and 1.3 percent, vis-à-vis the currencies in the TPI and TPI-D, respectively. This developed as the nominal depreciation of the peso more than offset the impact of positive inflation differential against these currency baskets.[10]

Meanwhile, the peso lost external price competitiveness against the basket of currencies of trading partners in advanced countries (TPI-A) as the nominal depreciation of the peso failed to neutralize the impact of widening inflation differential which resulted in the real appreciation of the peso by 1.0 percent.

COEFFICIENT OF VARIATION OF SELECTED CURRENCIES
In Percent

	PHP	JPY	CNY	MYR	SGD	KRW	IDR	THB
2006	2.27	1.78	0.93	1.41	1.74	1.75	1.84	2.89
2007	4.70	3.17	1.72	1.72	2.15	1.08	1.87	1.92
2008	6.54	5.23	2.01	4.44	3.56	14.96	9.27	3.66
2009	1.52	3.79	0.08	2.59	3.24	7.84	8.19	2.50
2010	2.47	4.63	1.07	3.29	3.05	3.01	1.53	3.67
2011	1.22	3.11	1.36	2.17	2.48	3.07	2.36	1.44
2012	1.95	2.60	0.72	1.68	1.71	2.36	2.45	1.35
2013	3.25	3.99	0.84	2.83	1.19	2.58	8.11	3.37
2014	1.27	5.54	0.97	2.55	1.66	2.79	2.78	0.96

Source: Bloomberg (last price and PDS closing rate as of 29 December 2014, 4:00 PM)

[8] The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.

[9] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

[10] The TPI measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines which includes US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand. The TPI-A measures the effective exchange rates of the peso across currencies of trading partners in advanced countries comprising of the US, Japan, Euro Area and Australia. The TPI-D measures the effective exchange rates of the peso across 10 currencies of partner developing countries which includes China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand.

Financial Conditions

Performance of the Banking System

The Philippine banking system remains sound and stable amid tighter capital requirements and slower GDP growth

The Philippine banking system remained fundamentally resilient and able to intermediate funds to the productive sectors of the economy amid a more challenging external operating environment. Healthy growth rates were seen in lending, deposits, and profitability, while NPL ratio continued to improve and fall below pre-Asian crisis levels. Moreover, the system's CAR of over 15.0 percent remained comfortably above the BSP's and the BIS' prescribed levels.

Selected Banking Indicators

	2014p/	2013	Growth Rate (%)
Deposits (₱ Billion)	6,681.5	6,053.2	10.4
Resources (₱ Billion)	11,523.5	10,311.8	11.8
Loans Outstanding - Universal and Commercial Banks (₱ Billion, Gross of RRPs)	4,822.3	4,048.1	19.1
Number of Banking Institutions (Head offices)*	652	676	-3.6
GNPL to Total Loans (%)	2.3	2.8	
NNPL to Total Loans (%)	0.6	0.6	
Capital Adequacy Ratio (%)**	16.7	19.2	

p/ Preliminary
* as of end-September 2014
** as of end- June 2014

Deposit Generation

Savings and time deposits remain banks' primary sources of funds

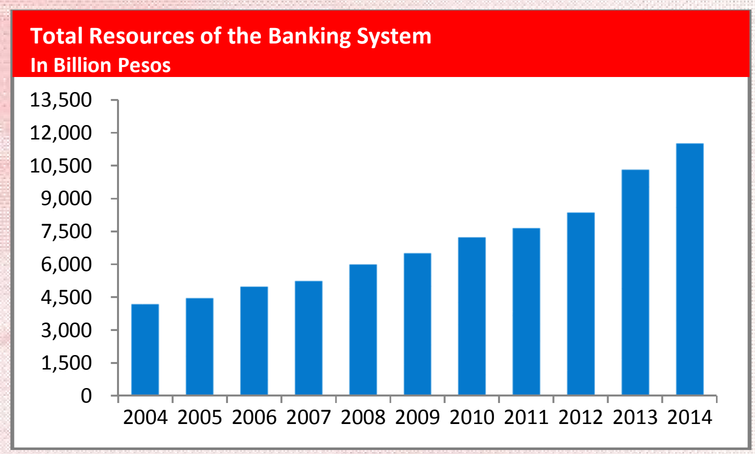
The banking system's total deposits[11] as of end-December 2014 increased by 10.4 percent y-o-y to ₱6.7 trillion from ₱6.1 trillion during the same period in 2013 (Table 8). Savings and time deposits remained the banks' primary sources of funds. The modest growth could be attributed in part to the observed return of investors' funds to the BSP SDA facility following the fine-tuning measures in the access of trust entities to the BSP window.[12] Savings deposits registered a y-o-y growth of 10.4 percent and continued to account for nearly half of the funding base. Similarly, demand deposits and time deposits grew by 14.3 percent and 7.3 percent y-o-y, respectively. Meanwhile, foreign currency deposits (FCD) owned by residents grew by 19.3 percent to P1.3 trillion as of end-December 2014 relative to the level posted last quarter.[13]

[11] This refers to the total peso-denominated deposits of the banking system.
[12] Interest rate on special deposit accounts was raised twice by 25 basis points in 2014 (June and September).
[13] M4 is the sum of M3 and FCD-Residents.

Resources

Total resources of the banking system rise

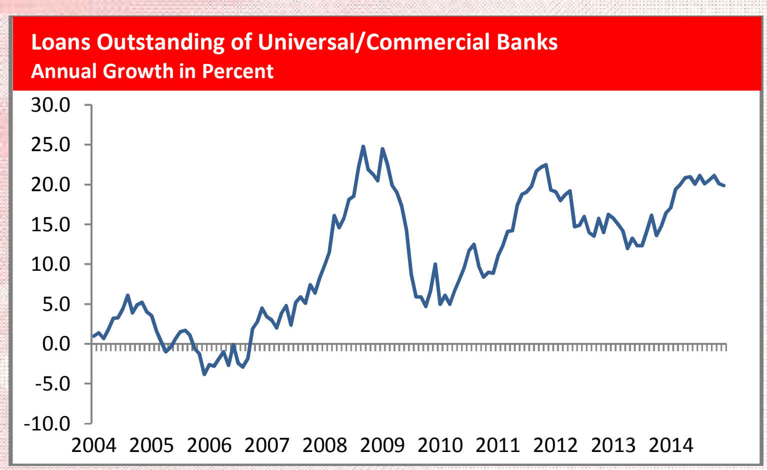
The total resources of the banking system grew by 11.8 percent y-o-y to reach ₱11.5 trillion as of end-December 2014. This was slower than the 23.4 percent expansion in the previous year. The increase could be traced to the growth in loans, financial assets, and equity investments. Universal/Commercial Banks (U/KBs) accounted for more than 90 percent of the total resources of the banking system.



Lending Operations

Bank lending sustains double-digit growth

Outstanding loans of commercial banks, net of banks' RRP placements with the BSP, continued to expand, posting a 19.9 percent y-o-y growth as of end-2014, higher than the 16.4 percent registered last year. The growth of commercial banks' loans was at double-digit rates since January 2011. Bank lending, including RRPs, likewise expanded by 19.1 percent, higher compared to the 16.3 percent growth posted at the end of 2013. Preliminary data showed that both production and consumption loans grew by 18.7 percent and 21.1 percent, respectively. The continued broad-based growth in bank lending supported the sustained expansion of the productive sectors of the economy in 2014.



Loans for production activities - which comprised about four-fifths of banks' aggregate loan portfolio - expanded by 18.7 percent in December 2014, higher than the 15.3 percent registered in the previous year. The rise in production loans was driven primarily by increased lending to the following sectors: real estate, renting, and business services (15.0 percent); electricity, gas and water (25.3 percent); wholesale and retail trade (17.5 percent); financial intermediation (21.3 percent); manufacturing (11.4 percent); and, transportation, storage and communication (24.2 percent). Bank lending to other sectors also rose in December 2014 except for public administration and defense, which declined by 3.4 percent. Loans for household consumption grew by 21.1 percent due to the sustained growth in auto loans and other types of loans (i.e., salary loans and personal loans), which offset the slowdown in credit card loans.

Household investments continue to boost the country's residential real estate market

As of end-September 2014, the combined residential real estate loans (RRELs) of U/KBs and thrift banks (TBs) rose to ₱382.2 billion, 24.8 percent higher than the previous year's ₱306.4 billion. The sustained investments of households in residential properties, the slow rise in the cost of construction materials, the increase in the number of projects unveiled by real estate developers as well as banks' intensified promotional campaigns in terms of offering lower interest rates supported the growth in real estate purchases during the review period. The ratio of RRELs to TLP was at 7.5 percent, higher than the 7.2 percent posted a year ago. By industry, U/KBs held a bigger slice of the total residential real estate exposure at 58.7 percent (₱224.5 billion), while TBs accounted for the remaining 41.3 percent (₱157.7 billion). In terms of loan quality, the ratio of non-performing RRELs to total RRELs of U/KBs and TBs improved to 3.0 percent from the previous year's 3.2 percent.

Non-performing credit card receivables decline

The combined credit card receivables (CCRs) of U/KBs and TBs as of end-September 2014, inclusive of credit card subsidiaries, rose by 3.1 percent to ₱156.5 billion relative to last year's level, helping boost the growth in household consumption. Meanwhile, the ratio of CCRs to the total loan portfolio (TLP) was at 3.1 as of end-September 2014, lower than the 3.6 percent registered as of end-September 2013. The non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries, decreased by 22.0 percent to ₱13.8 billion as of end-September 2014, from the ₱17.6 billion posted a year ago. As a result, the ratio of non-performing CCRs to total CCRs improved to 8.8 percent from the 11.6 percent posted at end- September 2013, notwithstanding the modest increase in the level of CCRs.

Auto loans increase further on strong demand for passenger cars and commercial vehicles, as well as aggressive sales strategies

The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries, increased by 20 percent to ₱217.4 billion as of end-September 2014 from the ₱181.1 billion posted a year ago. Consumers' strong demand for passenger cars (particularly, those falling under the small car category) and commercial vehicles, the introduction of new and improved models, as well as the aggressive marketing strategies of banks and other car financing firms on the back of an expanding economy helped sustain the rise in vehicle purchases. The share of total

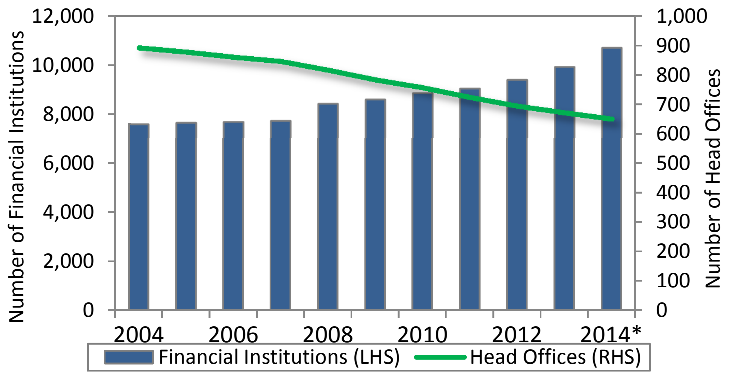
ALs to TLP, exclusive of interbank loans (IBL), was broadly steady at 4.3 percent relative to its end-September 2013 level. In terms of loan quality, the ratio of non-performing ALs to TLP likewise remained unchanged at 0.2 percent.

Institutional Developments

Consolidation in the banking industry continues

The number of banking institutions (head offices) fell further to 652 as of end-September 2014 from the year-ago level of 676, indicating the continued consolidation of banks as well as the exit of weaker players in the banking system. By banking classification, banks (head offices) consisted of 36 U/KBs, 69 TBs, and 547 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 10,207 as of end-September 2014 from 9,720 during the same period in 2013 due mainly to the increase in the branches/agencies of U/KBs (Table 9a).

Number of Financial Institutions



**September*

Asset quality continues to improve

The Philippine banking system's gross non-performing loan (GNPL) ratio improved to 2.3 percent as of end-December 2014[14] from 2.8 percent as of end-December 2013.[15] Banks' initiatives to improve their asset quality along with prudent lending regulations helped bring the NPL ratio to below its pre-Asian crisis level of around 3.5 percent. The lower end-2014 GNPL ratio reflected the combined favorable effect of the GNPL contraction of 0.6 percent or ₱0.84 billion, from ₱135.5 billion to ₱134.7 billion, and the banking system's TLP expansion of 19.0 percent or ₱930.2 billion, from ₱4.9 trillion to ₱5.8 trillion. By contrast, the net non-performing loan (NNPL) ratio was unchanged at 0.60 percent relative to end-December 2013. In computing for the NNPLs, specific allowances for credit losses[16] on TLP are deducted from the GNPLs. The

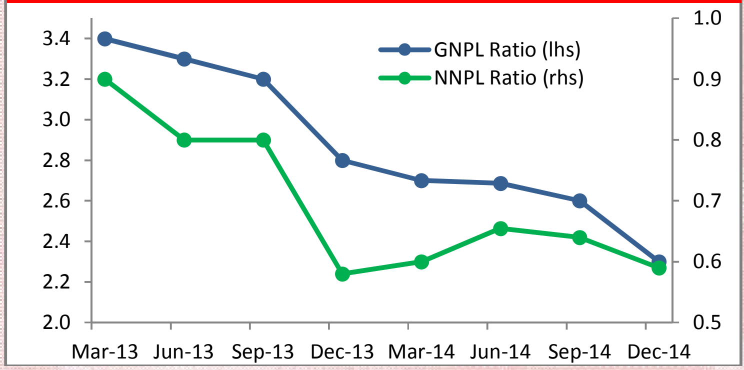
[14] On 16 October 2012, the BSP amended banks' reporting standard for NPLs. Beginning with the January 2013 reports, banks have been required to report their "gross" NPLs and their "net" NPLs. Gross NPLs represent the actual level of NPL without any adjustment for loans treated as "loss" and fully provisioned. Net NPLs is just the gross NPLs less specific allowance for credit losses on TLP (Circular No. 772, series of 2012). The new reporting standard was driven by the BSP's intent to be more transparent as it gives a fuller picture of the gross amount of NPLs and the full extent of allowances for probable losses. Under the previous framework, NPLs were reported net of loans considered as "loss" but fully provisioned for.

[15] For comparative purposes, computations for periods prior to January 2013 are aligned with Circular No. 772. Certain ratios were rounded-off to the nearest hundredths to show marginal movements.

[16] This type of provisioning applies to loan accounts classified under loans especially mentioned (LEM), substandard-secured loans, substandard-unsecured loans, doubtful accounts and loans considered as loss accounts.

said allowances decreased to ₱99.9 billion in end-2014 from the ₱107.0 billion posted a year ago.

Ratio of GNPLs and NNPLs to Total Loans of the Banking System
End-of-period, in percent



The Philippine banking system's GNPL ratio of 2.3 percent was at par with Indonesia (2.3 percent) but higher relative to South Korea (1.5 percent), Malaysia (1.2 percent), and Thailand (2.2 percent).[17]

The loan exposures of banks remained adequately covered as the banking system's NPL coverage ratio improved to 120.2 percent as of end-December 2014 from 118.7 percent in end-December 2013. The ratio was indicative of banks' continued compliance with the loan-loss provisioning requirements of the BSP to ensure adequate buffers against potential credit losses.

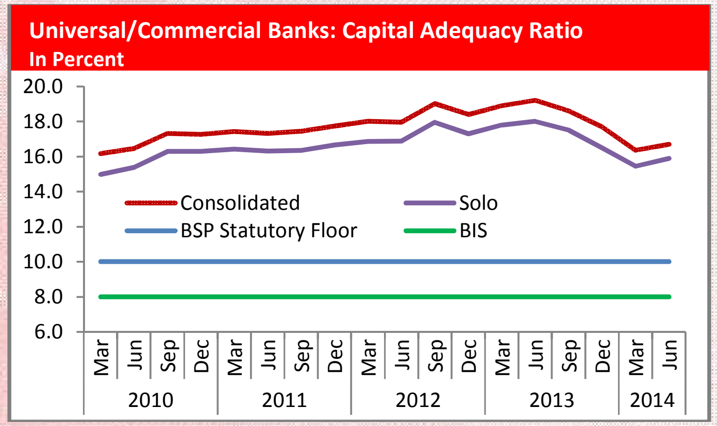
Compliance with the BSP capital framework for U/KBs under the Basel III framework[18] took effect in 1 January 2014. The new Basel III regime incorporates adjustments to the treatment of bank capital in ways that enhance the use of the CAR as a prudential measure.

Banks remain adequately capitalized amid tighter capital requirements

The CAR of U/KBs under the Basel III Framework stood at 15.9 percent on solo basis and 16.7 percent on consolidated basis at the end of Q2 2014. The latest CAR figures of the industry are lower than the end-June 2013 ratios of 18.0 percent (solo basis) and 19.2 percent (consolidated basis).

[17] Sources: Various central bank websites, IMF and financial stability reports, Indonesia (commercial banks, Q3 2014); Malaysia (banking system [impaired loans/net loans], Q4 2014); Thailand (commercial banks, Q4 2014); and South Korea (domestic banks, Q4 2014).

[18] Basel III no longer counts towards "bank capital" those Basel II-compliant capital instruments that do not have the feature of loss absorbency. Loss absorbency refers to the ability of bank-eligible capital instruments other than common equity to behave and act in the same way as common equity shares at the point where the bank takes losses and becomes non-viable. In addition, Basel III now deducts from capital the investments of banks in non-allied undertakings, defined benefit pension fund assets, goodwill and other intangible assets.



Nonetheless, the capital ratios of banks continue to surpass the BSP's thresholds of 6.0 percent (Common Equity Tier 1, or CET1), 7.5 percent (Tier 1), and 10.0 percent (CAR). The CET1 ratio of U/KBs at 13.7 percent on solo basis (and 14.5 percent on consolidated basis) is well above the 6.0 percent regulatory minimum and the 2.5 percent capital conservation buffer that can be met only by CET1 capital. The strengthening of the industry's capital base remains driven by CET1, which represents the highest quality of bank capital. The banks' Tier 1 ratios, which are composed of common equity and qualified capital instruments, stood at 14.0 percent and 14.7 percent on solo and consolidated bases, respectively.

The CAR of U/KBs on a consolidated basis at 16.7 percent was higher than those of South Korea (13.9 percent), Malaysia (15.2 percent), and Thailand (16.5 percent), but lower compared to that of Indonesia (19.5 percent).[19]

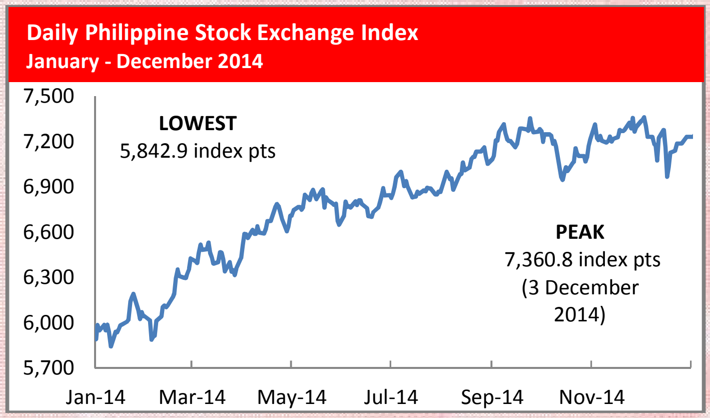
Stock Market Developments

Local stock trading rallies on positive domestic developments

During the period January to December 2014, the Philippine Stock Exchange index (PSEi) increased by 5.0 percent to average 6,793.3 index points from 6,471.3 index points in the preceding year (Table 10). At the start of the year, the market took its cue from the disappointing economic developments abroad and the US Fed signals of continuing tapering of its QE measures (that ended in October). However, the market rallied in the second and third quarters of 2014 on the back of the strong Q1 and Q2 2014 GDP growth, robust local corporate earnings, and the continued affirmation of the country's investment grade status by Fitch Ratings, Japan Credit Rating Agency, and Standard and Poor's. However, reports of subdued growth in Europe, China and Japan along with heightened tensions in the Middle East and Ukraine partly tempered the uptick. In last three months of 2014, the index was boosted by news of fresh economic stimulus from Japan and China and continued improvements in the US jobs market. Easing domestic inflationary concerns, Moody's rating upgrade in December, and year-

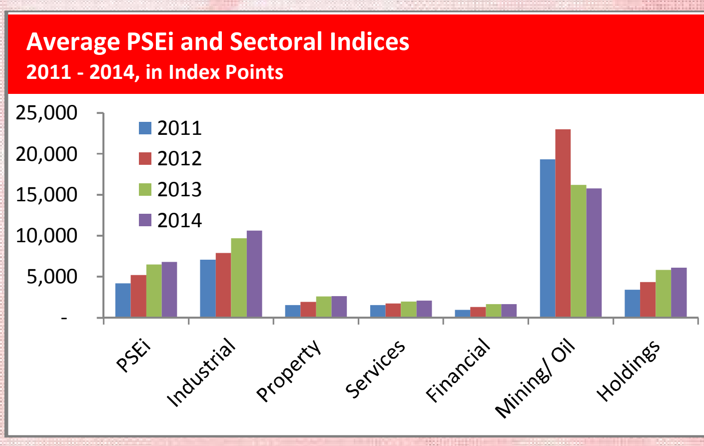
[19] Sources: Various central bank websites, IMF and financial stability reports, Indonesia (commercial banks, Q3 2014); Thailand (commercial banks, Q4 2014); Malaysia (banking system, Q4 2014); and Korea (bank holding companies, Q3 2014).

end window dressing also helped offset the adverse impact of the weaker-than-expected Q3 2014 Philippine GDP growth and the onslaught of tropical storm Ruby on market sentiment. The local bourse closed 22.8 percent higher ytd at 7,230.6 index points in end-December 2014.



Sub-sector indices increase generally

Similar to the uptick in the benchmark index, most sub-sector indices outperformed their 2013 levels in during the year. The industrial index,[20] led the rally as it increased by 9.5 percent to average 10,633.9 index points. This was followed by the holdings firms index,[21] which rose by 5.1 percent. Meanwhile, the services index[22] expanded by 4.7 percent, and the property index[23] went up by 2.2 percent. By contrast, the mining and oil index[24] dipped by 2.4 percent as global oil prices retreated, while the financials index[25] declined by 0.9 percent.



[20] The industrial sector consists of companies active in electricity, energy, power & water; food, beverage & tobacco; construction, infrastructure & allied services; chemicals; and diversified industrials.

[21] The holding firms sector includes diversified companies engaged in three or more businesses classified in different industries, any of which does not dominate revenue.

[22] The Services sector includes companies involved in media, telecommunications, information technology, transportation services, hotel & leisure, education, and diversified services.

[23] Companies engaged in land and property development are classified under the property sector.

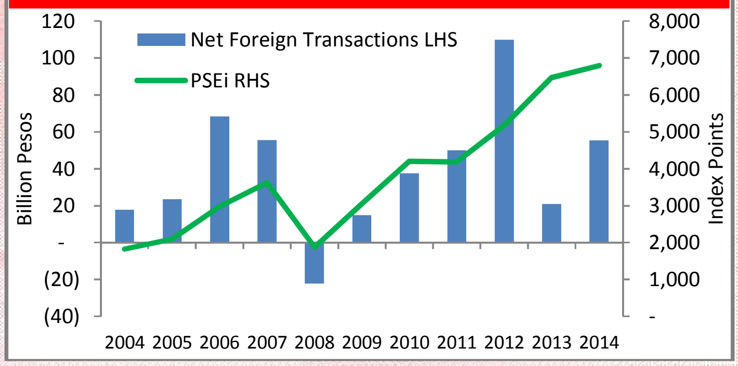
[24] The mining & oil sector includes companies engaged in mineral extraction and in oil exploration, extraction and production.

[25] The financials sector consist of ccompanies engaged in banking, investments, and finance.

Foreign investors remain net buyers of local shares

Owing to the country's strong output performance in the first two quarters of 2014 and the affirmation of its investment grade status, foreign investors remained net purchasers of ₱55.4 billion worth of stocks in 2014. This was more than double ₱20.9 billion net purchases posted a year ago. Foreign transactions as a proportion of total value traded reached 49.4 percent during the year in review, slightly lower than the 51.6 percent recorded in 2013, highlighting the significant role played by domestic investors in the movement of the local benchmark.

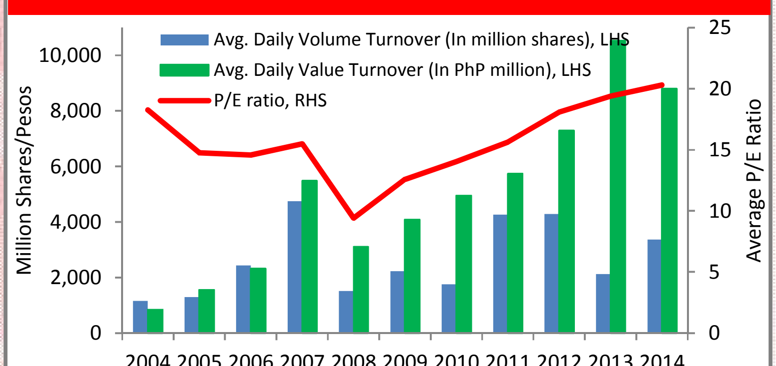
Net Foreign Transactions and PSEi
2004 - 2014



Other stock market indicators broadly mirror the strength of the local bourse

Total stock market capitalization reflected the trend of the benchmark stock index, ending the year at an all-time high of ₱14.25 trillion in December 2014, higher by 19.4 percent relative to year-ago levels.[26] However, the average daily value turnover fell by 16.3 percent y-o-y to ₱8.8 billion. Meanwhile, the price-earnings (P/E) ratio increased to average 20.3 times in 2014 from 19.4 times in the previous year.[27] Philippine stocks were the second most expensive stock in Southeast Asia after Indonesia (21.9 times).

Market Turnover and P/E Ratio
2004 - 2014

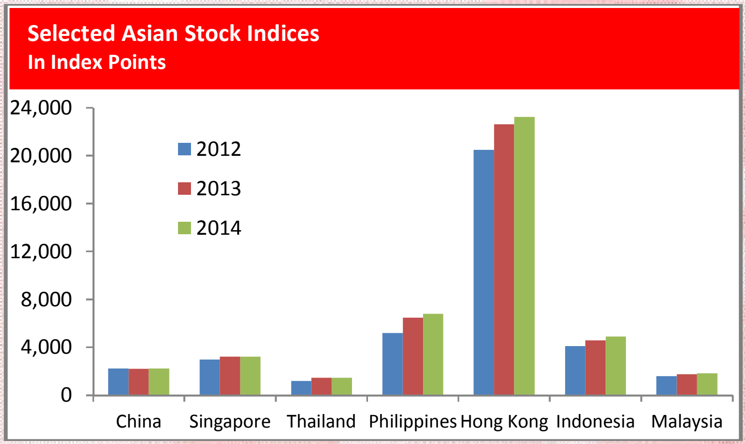


[26] Total market capitalization measures the aggregate value of the issued shares of listed firms in the Philippine Stock Exchange.

[27] The P/E ratio looks at the relationship between the stock price and the company's earnings. It is computed as the ratio of market capitalization over the last four quarters' net income. Essentially, it gives an idea of what investors are willing to pay for the company's earnings. A higher P/E ratio is taken as an indication that the investors have high hopes for the future and have bid up the price of stocks in expectation of receiving higher future earnings. Conversely, a lower P/E ratio may indicate a "vote of no confidence" by investors or it could mean that investors have overlooked or have yet to act on the market's true worth. Source: Bloomberg

Asian stock indices rally

Most stock indices in Asia rebounded in 2014 as news of solidifying recovery in the US helped prop up market sentiment in the region. Of the seven benchmark indices monitored in the Asia Pacific region, six indices rose relative to year-ago levels. The rally was led by the Indonesian bourse, which rose by 6.9 percent, followed by Malaysia (5.4 percent), the Philippines (5.0 percent), Hong Kong (2.7 percent), China (1.7 percent) and Singapore (0.4 percent). By contrast, Thailand's stock market retreated by 0.1 percent on concerns over long-term stability following the May military coup d'état.[28]



Debt Securities Market Developments

Size and Composition[29]

Government and private sector continues to tap local funding markets

Local currency (LCY) bonds issued by both public and private sectors increased by 67.0 percent to ₱1,360 billion in 2014. Both sectors' issuances rose by 58.0 and 120 percent to ₱1,100 billion and ₱259.4 billion, respectively, taking advantage of the ample liquidity in the financial market and the strong investor demand for the country's debt papers following the series of credit rating upgrades received during the year.

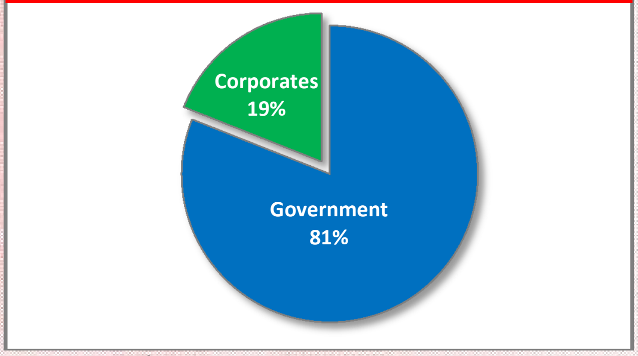
The rise in public sector issuances was accounted for by National Government's (NG) special issuances of 10-year benchmark bonds via over-the-counter trade which amounted to ₱622.6 billion in 2014. The issuance of benchmark bonds during the year was in line with of the government's domestic liability management exercise to foster efficient pricing and enhance market trades of government-issued debt instruments. Further, the NG issued Treasury Bills (T-bills) and Treasury bonds (T-bonds) with maturities ranging from 2 to 19 years as part of its regular issuances. Fixed rate T-bonds stood at ₱286.1 billion and T-bills at ₱184.7 billion, both down by around 12.0 and 11.0 percent, respectively. Government owned and controled corporations (GOCCs)

[28] Source: Bloomberg, Staff Computation

[29] This refers to the peso-denominated bond issuances by both public and private sectors. Public sector issuances of LCY bonds include issuances in the primary market and rollovers of maturing series which were issued by the BTr and by agencies owned and controlled by the government. This excludes issuances by the central bank.

likewise tapped the domestic market in sourcing funds by issuing ₽7.0 billion worth of bonds and notes in 2014, lower than the previous year's level of ₽15.0 billion.

Domestic Debt Securities Issuances, by Issuer
As of end-December 2014



Source: Bureau of the Treasury

In terms of market share, public sector issuances continued to dominate the domestic bond market, comprising 81.0 percent of total bond issuances. Accounting for the bulk of total public LCY bonds are the Bureau of the Treasury's (BTr) benchmark bonds, fixed rate T-bonds and T-bills, at 57.0 percent, 26.0 percent and 17.0 percent, respectively.

Meanwhile, private sector bond issuances accounted for 19.0 percent of total bond issuances and consisted largely of bonds, notes, and certificate of deposits. During the year, private issuances of LCY bonds were mostly from the real estate and financial sector, particularly from banks, real estate, power, and holding firms.

Primary Market[30]

Demand for GS in the primary market remains substantial

The demand for sovereign debt instruments in 2014 remained robust with investors tendering more than twice the NG programmed borrowings for both short- and long-dated securities. Amount of tenders reached ₽1,172 billion against NG's offerings of ₽540.0 billion. The NG accepted ₽454.1 billion worth of T-bills and T-bonds, while rejecting ₽717.9 billion bids.

[30] The discussion includes primary market for government issuances only.

Results of the GS Auctions, 2014
In Billion Pesos

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	**240**	**541.9**	**184.7**	**357.2**
Q1	60	86.9	25.0	61.9
Q2	60	133.9	48.0	85.9
Q3	60	166.7	51.7	115.0
Q4	60	154.3	60.0	94.3
T-bonds	**300**	**630.2**	**269.4**	**360.8**
Q1	75	142.4	59.6	82.8
Q2	75	186.9	68.8	118.1
Q3	75	119.8	66.0	53.9
Q4	75	181.0	75.0	106.0
Total	**540**	**1171.9**	**454.1**	**717.9**

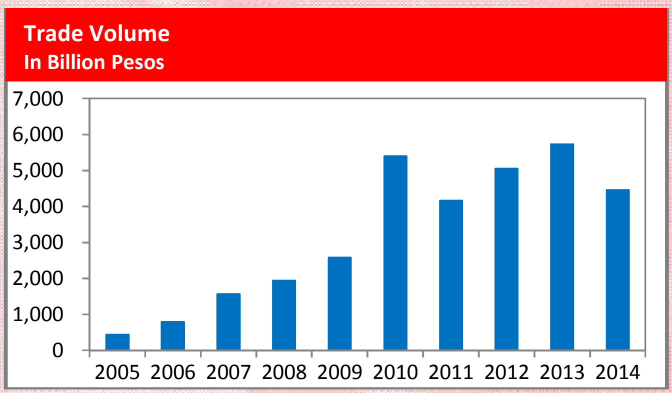
The NG rejects tenders due to yield considerations

However, the NG did not award in full its programmed borrowings for the year, accepting about 84.1 percent or ₽454.1 billion of the offered amount. In the first three quarters of the year, the BTr rejected some of the bids for the 182-day and 364-day T-bills and awarded less than its targeted amount in other auctions as investors sought higher yields following BSP tightening measures in July and September to help cool inflation pressures, reign in inflation expectations, and contain liquidity growth. Investors were seen preferring shorter-dated NG debt papers given the reluctance to be locked into longer-dated instruments amid expectations of further tightening in monetary policy. It was only in the fourth quarter that the NG was able to award in full its programmed borrowings given strong demand for NG debt papers that pushed yields to decline to levels lower than the bonds' coupon rates (for 5-year bonds in particular). Easing inflation and ample liquidity in the financial system likewise helped keeping interest rates low during this quarter.

Secondary Market

Credit rating upgrade supports trading at the secondary market

Trading of both government and corporate bonds at the Fixed Income Exchange (FIE) dropped in 2014. The total volume of transactions stood at ₽4,449 billion, 22.4 percent lower than the previous year's level.



Source: Philippine Dealing and Exchange Corp.

The lower y-o-y trading, particularly in the first three quarters of 2014, reflected investors' "wait-and-see" attitude given lingering uncertainties in the global economy and expectations of higher interest rates in the market. However, the country's strong macroeconomic fundamentals supported trading at the fixed income exchange, tempering selling pressures at the secondary market. Trading picked up in the fourth quarter on renewed investors' appetite for local bonds due to easing inflation concerns coupled with the country's credit rating upgrade from Moody's in December 2014. Trading was dominated mostly by FX treasury notes (FXTNs), accounting for about 79.4 percent of total trade volumes. Meanwhile, the share of corporate bonds traded at the FIE remained marginal at 1.0 percent.

The overall decline in secondary market transactions was also reflected in the drop, albeit marginally, in the government bond turnover ratio to 1.19 times in 2014 from 1.67 times in the previous year.[31] On a monthly basis, activity in the secondary market was volatile showing increased activity in the months of March, May, July, and October. Monthly turnover remained below levels seen in 2012 and in early 2013.

Government Bond Turnover Ratio

Source: Philippine Dealing and Exchange Corp., Bureau of the Treasury and BSP staff calculation

International Bond Market

Both NG and private corporations maintain limited borrowing offshore

The NG started the year by borrowing US$1.5 billion worth of 10-year dollar-denominated global bonds in the international debt market, taking advantage of the country's investment grade credit rating and tighter spreads compared to neighboring economies in Asia. The offshore borrowing of NG was in line with the NG's borrowing mix of 86.0 percent domestic and 14.0 percent foreign in 2014 compared with the 85-15 borrowing mix in 2013.

The private sector likewise borrowed funds from the foreign currency bond market, issuing in 2014 perpetual and 10-year corporate bonds amounting to US$650 million. The issuances from the private sector,

[31] The ratio covers only turnover for government bonds. This excludes corporate bonds due to lack of available data on outstanding corporate bonds. The bond turnover ratio is computed as the ratio of the volume of sales of T-bonds over the average 2-month/year outstanding.

largely from power and investment corporations, were oversubscribed on positive market sentiment following the sovereign rating upgrade by S&P in Q2 2014. Proceeds from the bond floatation were intended to refinance existing debt as well as fund working capital expenditures.

The limited borrowings in the international market by both the NG and private corporations reflected their preference to rely more on domestic sources than on foreign creditors to limit exposure to foreign exchange risks. For the private sector, firms took advantage of the ample domestic liquidity, sourcing most of their financing needs from the local capital market.

Credit Risk Assessment

Major credit rating agencies remain optimistic on Philippine growth potential

On 8 May 2014, Standard and Poor's Ratings Services (S&P) raised its long-term sovereign credit ratings on the Republic of the Philippines to 'BBB' from BBB-' and its short-term rating to 'A2' from 'A3'. The outlook is maintained at stable.

Philippine Sovereign Credit Ratings
As of December 2014

Rating Agency	Local Currency (LT/ST)	Foreign Currency (LT/ST)	Outlook
S&P	BBB/A2	BBB/A2	Stable
Moody's	Baa2/n.a.	Baa2/n.a.	Stable
Fitch	BBB/n.a.	BBB-/F3	Stable

The S&P credit rating upgrade was based on the following: improvements in structural, administrative, institutional, and governance reforms in the country; the continued strong external liquidity and internal investment positions; combined with an effective monetary policy framework relative to the country's income level; and the sustained low inflation and interest rates.

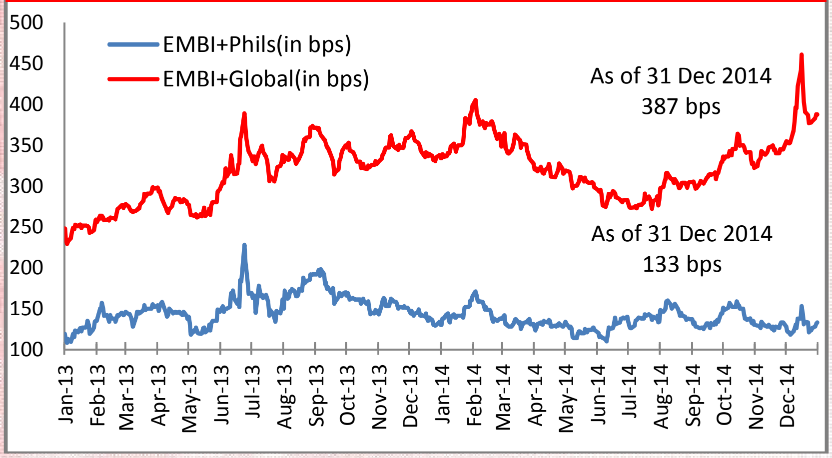
The S&P upgrade was followed by another upgrade on 9 July 2014 from Japan's Rating and Investment Information Inc. (R&I) which raised the country's long-term foreign currency rating a notch higher from a minimum investment grade of BBB- to BBB with a stable outlook. The R&I also maintained the country's short-term debt rating at A-2, indicating a high probability of servicing short term debt. The upgrade by R&I was in recognition of the country's strong growth momentum on the back of brisk investment and robust private consumption, that is supported by ample remittances from abroad; improvements in the country's management of government debt and tax collection, which resulted in a healthy fiscal position as well as the within-target inflation rate; and the enhanced infrastructure and industrial developments that were seen to contribute significantly to increasing growth and raising per capita income levels in the future.

On 11 December 2014, the Moody's Investors Service (Moody's) likewise raised its long-term sovereign credit ratings on the Republic of the Philippines to Baa2 from Baa3. This is a notch above the minimum investment grade rating. Moody's cited three main factors for the upgrade in the sovereign rating. The first driver of the upgrade is the decline in the Philippines' debt burden, which has coincided with structural improvements in fiscal management. Administrative reforms in the key revenue-collecting agencies—most recently in the Bureau of Customs—have led to revenue growth in excess of nominal GDP growth for a fourth consecutive year. The second driver is the continued favorable growth prospects relative to peers. The third driver of the rating upgrade reflects the Philippines' limited vulnerability to common risks faced by a number of emerging market rating peers.

Spread on Philippine sovereign bonds narrowed to historic lows

In line with the country's series of credit rating upgrades to at least a notch higher from the minimum investment grade status, investors placed a lower premium in holding Philippine debt papers as debt spreads generally declined in 2014. On the average, the JP Morgan EMBI+ Philippine spreads, or the extra yield investors demand to hold Philippine debt securities over US Treasuries stood at 135.3 basis points (bps) during the year, down from the previous year's average of 150.8 bps.[32] Meanwhile, the Philippine credit default swap (CDS) spreads, or the cost of insuring the country's 5-year sovereign bonds against default, traded below 100 bps to its historic low of 78.7 bps on 5 September. Against neighboring economies, the Philippine CDS averaged 95.6 bps during the year, narrower than Indonesia's 165.6 bps and Thailand's 112.7 but close to Malaysia's 93.8 bps.[33]

EMBI+Global and EMBI+Philippines Spreads
In Basis Points, as of 31 December 2014



Source: Bloomberg

[32] Emerging Market Bond Index Plus (EMBI+) Global, as calculated by JPMorgan, tracks total returns for traded external debt instruments in the emerging markets. The index comprises a set of broker-traded debt instruments widely followed and quoted by several market makers. Instruments in the EMBI+ must have a minimum face value outstanding of $500 million and must meet strict criteria for secondary market trading liquidity. Source: Bloomberg

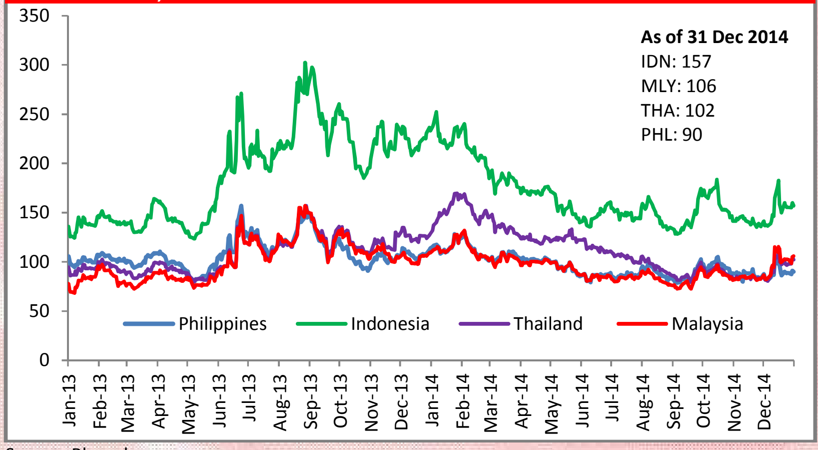
[33] A credit default swap (CDS) is an insurance-like contract that protects against default or restructuring. For instance, it costs an average of US$142,000 to protect holdings of US$10.0 million of Philippine sovereign debt from default. The buyer of a CDS will be paid with the face value or the cash equivalent in exchange of the underlying securities should a company/government fail to adhere to its debt obligations. An increase indicates deterioration in the perception of credit quality.

The credit rating upgrades from S&P, Moody's, and Japan-based R&I increased demand for Philippine bonds and prodded yields and premiums to go down and debt spreads to narrow to historic lows and to levels lower than those of the pre-global financial crisis period. Spreads narrowed the most in the first week of September following reports on Philippine economy growing faster than expected in the first half of 2014. Strong corporate earnings report in the Philippines likewise boosted demand for debt papers.

The continued improvement in the country's macroeconomic fundamentals kept debt spreads generally tight

On the other hand, the divergence in global growth prospects (with the US remaining strong in contrast with the weakening economies of Europe and Japan), created volatility in financial markets worldwide which tempered bond spreads from narrowing further. Premiums climbed in mid-September to October as the market anticipated higher interest rates on the back of the US ending its QE3 measures in October. During this period, demand for US Treasuries increased, lowering US bond yields while widening yield differential against emerging market bonds. On the domestic front, acceleration of headline inflation in the third quarter also added pressure for debt spreads to widen.

5-Year CDS Spreads of Selected ASEAN Countries
In Basis Points, as of 31 December 2014



Source: Bloomberg

Box Article 1:

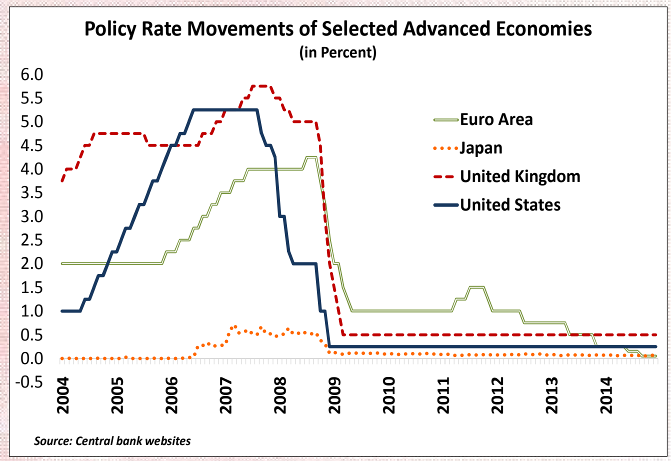
Implications of Asynchronous Monetary Policies in Advanced Economies for Emerging Markets

Monetary policy divergence among major advanced economies (AEs)[34] has been a key concern among emerging economies (EMs) in recent months. The US Fed and the Bank of England (BOE) have been taking gradual steps toward monetary policy normalization. By contrast, the European Central Bank (ECB) and the Bank of Japan (BOJ) are expected to continue, and possibly accelerate, their unconventional monetary stimulus measures to help address weak economic growth and potential deflationary risk. An extended period of monetary accommodation in the latter economies could provide some counterbalance to the potential decline in global liquidity and increase in interest rates resulting from tighter monetary policy in the US. However, this could also be a cause for concern as divergent monetary policies among AEs could also imply increased volatility in financial markets, particularly in EMs.

Convergence

After the global financial crisis (GFC),[35] central banks in major AEs adopted both conventional and unconventional monetary tools to help boost credit growth and prop up domestic demand.

Major central banks implemented conventional monetary policy primarily by reducing their policy rates to historically low levels. In the US, the federal funds target rate was cut by 500 bps to reach the zero lower bound (ZLB) between September 2007 and December 2008. Similarly, the ECB lowered its main refinancing rate by 325 bps to 1.0 percent during the period October 2008 - May 2009.[36] Other AEs have likewise followed an accommodative policy stance by aggressively lowering policy interest rates from 2007 to 2009.



With key policy rates approaching the ZLB after the GFC, monetary authorities in AEs had very little room to provide further stimulus when domestic demand remained subdued. AE central banks started experimenting with the use of unconventional monetary policy instruments in 2008 with the aim of restoring financial market intermediation and providing support to economic activity at the ZLB. For instance, the US Fed announced its first large-scale asset purchase program in 25 November 2008.

Non-standard policy measures among AE central banks came mainly in the form of asset purchases and forward guidance. Large-scale asset purchases were deployed by the US Fed, BOE,

[34] The AEs covered in this article are the United States, United Kingdom, Euro area and Japan.

[35] The onset of the GFC in this article refers to the period Q3 2007 to mid-September 2008 timeline, referred to as Phase 1 used by the BIS. Meanwhile, Phase 2 of the GFC covers mid-September 2008 to late 2008 and Phase 3 spans from late 2008 to Q1 2009.

[36] The ECB's Response to the Financial Crisis, ECB Monthly Bulletin, October 2010

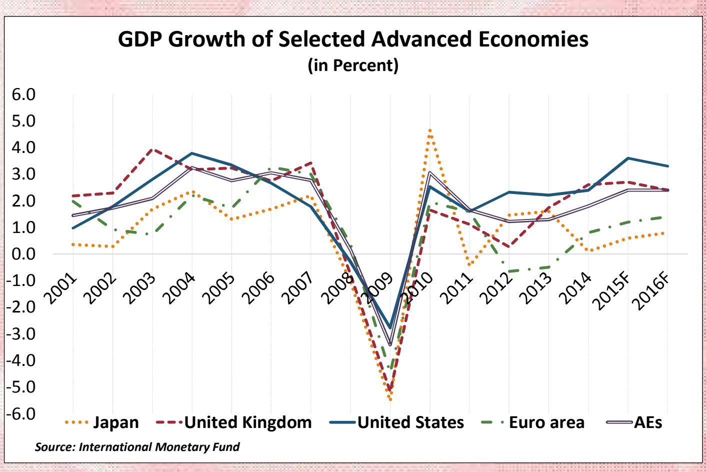
and BOJ, seeking to increase the supply of credit, thus injecting money into the economy to boost spending and investment. In particular, the US Fed purchased sovereign bonds and mortgage-backed securities, while the BOJ bought a wider array of debt instruments, including Treasury discount bills, corporate bonds, exchange-traded funds, and Japan real estate investment trusts. The BOE's asset purchases meanwhile consisted mainly of medium- to long-term government bonds.[37]

Aside from quantitative easing measures, central banks in major AEs strengthened their forward guidance to provide information to the public about the future path of monetary policy as a means of reducing uncertainty and market volatility. The US Fed, ECB, and BOE sought to convey to financial markets how long authorities intended to keep policy rates at low levels. In the case of the BOJ, the forward guidance focused on the pace of the growth of its monetary base, which in turn would determine the approximate increase in Japanese government bond purchases in the months ahead.[38]

Divergence

Global economic growth has remained uneven more than five years after the GFC. GDP growth of AEs slipped to 1.8 percent in 2014 from an average of 3.0 percent a few years preceding the GFC (2004-2006). More recently, the recovery in the US appears to be gaining traction, while the momentum in the euro area and Japan continues to be subdued. Global inflation pressures also remain broadly benign although deflation has increasingly become a concern particularly in the euro area and Japan.

Following a period of unprecedented monetary policy easing, the US Fed concluded its QE program in October 2014 on the basis of observed steady improvements in labor market conditions and the overall economic outlook amid low inflation readings. Furthermore, the US Fed is now expected to begin the normalization of its policy rates by mid-2015 pending further encouraging developments on growth, inflation and employment.



Meanwhile, the ECB and the BOJ amplified their unconventional monetary easing measures primarily to help ward off the risk of deflation and decelerating economic growth in the euro area and Japan. In June 2014, the ECB brought the interest rate on its deposit facility to negative territory[39] and launched a targeted long-term refinancing operation (TLTRO) to inject more liquidity and encourage banks to lend to real economy. Subsequently, the ECB announced in January 2015 its plan to purchase every month €60 billion-worth of assets starting March 2015 until September 2016. BOJ similarly has further strengthened its QE program in October 2014, increasing its asset purchases to ¥80 trillion a year from ¥60-70 trillion in April 2013.

[37] Quantitative Easing and Other Unconventional Monetary Policies, BOE Conference Summary, Q1 2012

[38] Recent Monetary Policy Trends in Advance Economies and the Asia-Pacific Region, BOJ, June 2014

[39] The ECB decided to reduce the interest rate on its deposit facility by 10 bps to -0.10 percent in June 2014 and by another 10 bps to -0.20 percent in September 2014. The ECB also conducted a series of TLTROs, with an initial entitlement amount of €400 billion. All TLTROs are scheduled to mature in September 2018.

Outlook and Implications for EMs

The disparity in the monetary policy direction of AE central banks may serve to benefit EMs to the extent that the expansionary policies of ECB and BOJ provide a counterbalance to the impact on global liquidity of rising interest rates in the US. The normalization of the monetary policy stance in the US could meanwhile contribute to tighter financing conditions for EMs, including the Philippines, to the extent that portfolio capital flows could reverse course in search of higher yields. By contrast, expanding asset purchases in Japan and the euro area could offset the potential tightness in global liquidity conditions should the US Fed start to raise its policy rates. The question is whether the expansionary monetary policy stance in Japan and euro area will be sufficient to counter the potential contractionary impact on global liquidity conditions of the imminent normalization of the US Fed monetary policy stance. However, as market participants appear to have already priced in the risks associated with the US Fed policy normalization, capital flow volatility could occur within a limited amplitude.

Nonetheless, the Institute for International Finance (IIF) has noted that the divergence in the monetary policy actions of AEs has already heightened uncertainty and volatility across global financial markets.[40] The seemingly opposing monetary policy actions of major central banks have caused sharp movements in exchange rates of EM currencies as of late.[41] For instance, the coefficient of variation of the Korean won and Thai baht rose to 1.9 percent and 0.6 percent, respectively in Q4 2014 from 1.1 percent and 0.5 percent in Q2 2014, while that of the Malaysian ringgit and Singaporean dollar increased to 2.7 percent and 1.4 percent in Q4 2014, respectively, from just 0.7 percent and 0.3 percent. The entry of foreign portfolio investments to EMs has likewise been fickle in recent months reflecting the sensitivity of investors' behavior in response to monetary policy movements in AEs.

The impact of the steep decline in world oil prices on growth and inflation prospects also complicates the outlook on the future monetary policy path of major central banks. Lower oil prices are seen to increase the risk of deflation in the euro area and Japan, potentially extending further the need for accommodative monetary policies in these economies. The decline in oil prices could also potentially defer the US Fed's decision to hike its policy rates by mid-2015 or at the very least, diminish the magnitude of US monetary tightening amid a low-inflation environment. For oil-importing EMs meanwhile, lower oil prices represent decreased inflation pressures, while providing support to domestic demand as household incomes rise and firms' cost of production declines. The monetary policy response of EM central banks will likely be influenced by the strength of the deflationary impulses in the said economies amid the positive boost of lower oil prices to economic activity.

The uncertainty in the future policy actions in AEs will likely complicate monetary policy formulation in EMs. The challenge for monetary authorities therefore is to maintain good surveillance and reinforce appropriate policies to address potential capital flow reversals that may be associated with an exit from highly accommodative monetary policies in AEs. Enhancing internal sources of economic growth while addressing economic and financial fragilities as well as developing well-functioning capital markets can mitigate the adverse impact of volatile capital flows. In managing the risks posed by divergent AE monetary policies, EM authorities will need to rely on the full range of policy instruments: fiscal and monetary policies; foreign exchange reserve management; prudential regulation, and in some cases, capital flow management.

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[40] IIF Capital Markets Monitor, February 2015

[41] BIS Quarterly Review, December 2014

To preserve market confidence amid lingering uncertainty in the monetary policy path of AE central banks, EM central banks must be able to provide liquidity support to their respective economies to ensure that liquidity conditions remain ample to support economic activity and that interest rates do not get excessively volatile. At the same time, it remains important to ensure that corporates and households will not be unduly affected by tighter liquidity conditions with the eventual unwinding of the accommodative monetary stance in the US.

The Philippines is considered to be well-positioned to weather the challenges that could arise from the divergent monetary policies in AEs. The BSP has a wide array of macroprudential measures that complement its monetary policy measures to better respond to challenges of maintaining financial stability amid a volatile external operating environment. At the same time, the BSP can utilize its policy instruments (e.g., dollar and peso liquidity-provision measures, time-bound regulatory forbearance measures to reduce mark-to-market pressures in the event of excessive capital outflows, and clear and timely communication program for financial institutions and market participants), similar to those adopted during the intensification of the GFC, to ensure sufficient liquidity in domestic financial markets. The BSP will also continue to adhere to a flexible exchange rate system to enable the exchange rate to serve as a shock absorber to shifts in external financial flows. Lastly, the BSP is also actively pursuing various amendments to its Charter to enhance its capacity and ability to promote price and financial stability. Proposed changes that are aimed at strengthening the BSP's monetary stability function include: increase in capitalization; restoration of authority to issue debt certificates/securities; granting of authority to obtain pertinent data from the market; and, formal recognition of financial stability in the BSP mandate.

External Sector

Balance of Payments

Full-year 2014 BOP position reverses to a deficit

The BOP position for full-year 2014 recorded a deficit of US$2.9 billion, a reversal of the US$5.1 billion surplus recorded in 2013. The deficit resulted from the marked increase in net outflows in the financial account despite the continued improvement in the current account surplus. The net outflows in the financial account stemmed from the increased net outflows in other investments and the reversal of portfolio and direct investments from net inflows to net outflows. The current account continued to perform favorably on the back of the lower trade-in-goods deficit and higher net receipts in the primary and secondary income accounts.

Balance of Payments **In Million US Dollars**		
Accounts	**2014**	**2013**
Current Account	12,650	11,384
Capital Account	101	134
Financial Account	10,084	2,230
Net Unclassified Items	-5,525	-4,202
Overall BOP	**-2,828**	**5,085**

The current account surplus improves

The current account yielded a higher surplus of US$12.6 billion in 2014 from US$11.4 billion in 2013. This was mainly due to the narrowing of the trade-in-goods deficit and to gains in the primary and secondary income accounts. The trade-in-goods deficit narrowed by 10.3 percent to US$15.9 billion from US$17.7 billion as the expansion in goods exports of 7.3 percent exceeded the 2.3 percent growth in goods imports.

Exports of goods totaled US$47.8 billion as all major commodity groups posted increases except petroleum and sugar products. Growth in total exports was boosted largely by higher shipments of manufactured products, which rose by 6.7 percent to reach US$38.3 billion. Exports of machinery and transport equipment rose by 44.9 percent while garments expanded by 19.2 percent. Considerable gains were also registered in exports of mineral products (by 17.6 percent), coconut products (by 21.4 percent), fruits and vegetable (by 16 percent), and other agro-based products (by 19.6 percent).

Goods imports amounted to US$63.6 billion, attributed to increments in purchases of: a) consumer goods (14.4 percent), notably durable goods such as passenger cars & motorized cycle and miscellaneous manufactures, as well as non-durable goods, mostly food and live animals chiefly for food; and b) raw materials and intermediate goods (by 3.9 percent), particularly semi-processed raw materials and manufactured goods. Meanwhile, imports of materials/accessories for the manufacture of non-consigned electronics exports declined by 6.6 percent. A slight decrease in imports of capital goods, owing to lower purchases of aircraft, ships & boats, and office & EDP machines, were likewise recorded during the period.

Net receipts in trade-in-services dropped by 30.5 percent to US$4.9 billion in 2014 from US$7 billion in 2013. The decline resulted largely from increased net payments for travel and transport services by 63.9 percent and 8 percent, respectively, combined with decreased net receipts from technical, trade-related and other business services (by 2.1 percent). Meanwhile, net receipts from computer services increased by 12.3 percent to US$2.9 billion in 2014. Export revenues in business process outsourcing (BPO) services—which are lodged under technical, trade-related and other business, and computer services—totaled US$15.6 billion in 2014, reflecting a growth of 10.1 percent from the US$14.2 billion receipts in 2013.

Net receipts in the primary income account reached US$1.1 billion in 2014, higher by 11.9 percent than the US$957 million last year. This was attributable to the 7.4 percent expansion in receipts from compensation of resident OF workers to US$7.4 billion. However, the increase in net payments of investment income (by 6.7 percent), mostly for dividends to foreign direct and portfolio investors, partially negated these gains.

Net receipts in the secondary income account went up by 7 percent to US$22.6 billion, buoyed by non-resident workers' remittances which aggregated $20.4 billion in 2014.

Capital account records lower net receipts

The capital account recorded net receipts of US$101 million in 2014, 24.1 percent lower than the US$134 million posted in the previous year, due to the decline in other capital transfers to the NG.

Net outflows in the financial account rise significantly

The financial account registered net outflows amounting to US$10.1 billion in 2014, more than fourfold the USS$2.2 billion net outflows registered a year ago. This was on account of the substantial increase in the net outflows in other investments and the reversal to net outflows in portfolio and direct investments.

Direct investment account. The direct investment account reversed to net outflows of US$789 million from net inflows of US$90 million a year ago. This developed on account of the 91.7 percent rise in residents' net acquisition of financial assets to US$7 billion from US$3.6 billion due to resident corporations' net placements in both equity capital (US$2.9 billion) and debt securities (US$4 billion) abroad. Meanwhile, residents' net incurrence of liabilities (or FDI) rose by 65.9 percent from last year's US$3.7 billion to US$6.2 billion. The increase was due to higher non-residents' net placements in domestic equity capital (US$2 billion) and increased residents' borrowings from their non-resident direct investors (US$3.3 billion). Equity capital investments came mostly from the United States, Hong Kong, Japan, Singapore, and the United Kingdom. These funds were channeled mainly to the financial and insurance; manufacturing; real estate; mining and quarrying; and wholesale and retail trade sectors.

Portfolio investment account. Portfolio investment account recorded net outflows of US$2.5 billion during the period, a reversal of last year's net inflows of US$1 billion. This was due to residents' net acquisition of financial assets of US$2.5 billion, from a net disposal of assets amounting to US$638 million combined with non-residents' net withdrawal of investments amounting to US$3 million, a reversal from the net placements of US$363 million in 2013. Residents' net acquisition of financial assets resulted mainly from net placements in foreign-issued debt securities by resident banks and the central bank. Meanwhile, the net repayment of liabilities in foreign portfolio investments was due largely to the redemption of NG-issued short-term debt securities held by non-residents.

Other investment account. The net outflows in the other investment account doubled to US$6.9 billion from US$3.4 billion in 2013 on account of increased net placements in currency and deposits abroad by resident banks and non-bank corporations, amounting to US$2.7 billion and US$1.4 billion, respectively), and to higher resident banks' net lending of US$2.7 billion. Meanwhile, residents' net repayment of liabilities amounting to US$66 million was attributed to non-residents' net withdrawal of deposit placements in resident banks (US$334 million) and residents' net repayment of trade credits and advances (US$302 million).

Box Article 2:

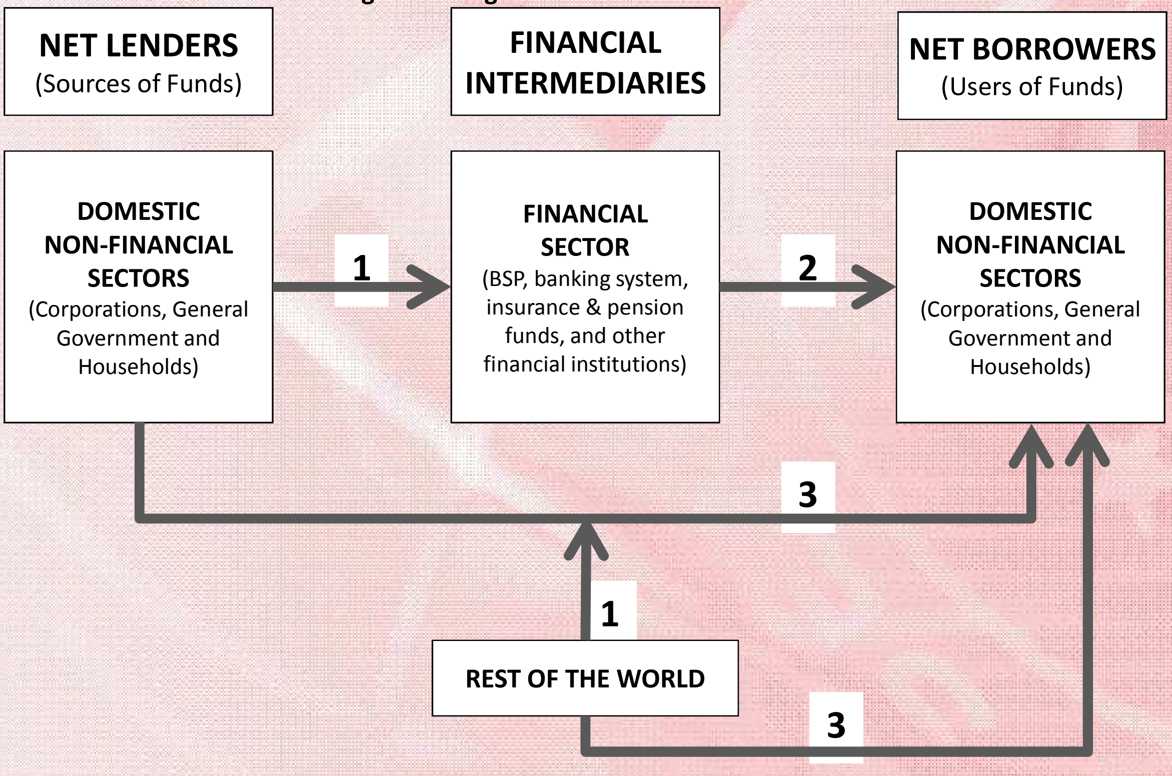
The Flow of Funds (FOF): Theoretical Framework, Analytical Uses and Philippine Experience

Theoretical Framework

The framework underlying the compilation of the Philippine FOF is based primarily on the concepts of international economic accounting manuals. These manuals are the 2008 System of National Accounts (SNA), the 2000 Monetary and Financial Statistics Manual (MFSM), and the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6).

The FOF deals with the financial transactions among resident institutions and between these institutions and the rest of the world. It describes all the income and financial transactions undertaken in the economy: i.e., (i) expenditures and income (what flows out of one sector and into another); (ii) saving and investment patterns (how excess income over expenditure in some sectors finances excess expenditures over income in other sectors); and (iii) types of financial instruments involved in a sector's financial transactions. In addition, the FOF shows the economy's net lenders and net borrowers. **Figure 1** shows a basic FOF illustrating three main transactions: (1) deposit/invest funds/repay loans; (2) relend/invest funds; and (3) directly lend/invest funds.

Figure 1. Diagram of the Flow of Funds*



* Scenario where the rest of the world (ROW) is a net lender/source of funds

The transactors in the FOF are divided into two main groups; the resident institutions collectively referred to as the domestic sectors and the rest of the world (non-residents). **Table 1** summarizes the categories of the domestic sectors.

Table 1. Domestic sectors of the economy

Categories	Sub-Categories
Financial Corporations (FC) Sector	Bangko Sentral ng Pilipinas (BSP)
	Other Depository Corporations
	Universal/Commercial Banks
	Thrift Banks
	Rural Banks
	Other deposit-taking institutions[42]
Non-financial Corporations (NFC) Sector	Private Non-financial Corporations
	Public Non-financial Corporations
General Government (GG) Sector	National Government
	Local Government Units
	Social Security Agencies (SSAs)[43]
Household (HH) Sector	Includes all resident households both as consumers and as entrepreneurs of household-based businesses such as sari-sari stores and farm operations; also included are non-profit institutions serving households, such as the non-governmental organizations

The FOF has two major parts, namely, the capital account and the financial account. The capital account records transactions linked to the acquisition of non-financial assets and capital transfers involving the redistribution of wealth. The basic structure of the capital account is shown in **Figure 2**.

Figure 2: Basic Structure of the Capital Account

	Domestic Sectors					ROW	Total
	NFC	FC	GG	HH	Sub-total		
Gross Savings & net Capital Transfers							
Gross Capital Formation & Other Accumulation							
Net Lending(+)/Borrowing(–)							

Meanwhile, the financial account records transactions in asset and liability categories that are consistent with the 2008 SNA classification of financial instruments. The major categories of financial instruments based on the 2008 SNA are: (i) monetary gold and special drawing rights (SDRs); (ii) currency and deposits; (iii) debt securities; (iv) loans; (v) equity and investment fund shares; (vi) insurance, pension, and standardized guarantee schemes; (vii) financial derivatives and employee stock options; and (viii) other accounts receivable/payable.

[42] Other deposit-taking institutions include non-stock savings and loan associations (NSSLAs) and non-banks with quasi-banking functions (NBQBs).
[43] SSAs include Social Security System (SSS) and Government Service Insurance System (GSIS).

Importance and Analytical Uses of the PFOF

The analytical applications of the FOF in the assessment of policy decisions encompass the multi-faceted aspects of the economy. In particular, the FOF places greater emphasis on the financial side of the economy. From a wider financial policy perspective, the detailed FOF table can be used to analyze the structural characteristics of the economy as well as the structural interdependencies of institutional sectors in several ways.

First, it facilitates the study of the saving-investment process by tracing the channels through which savings reach borrowers, after passing through various financial institutions and financial instruments. Second, it provides an economic analysis and description of the underlying financial transactions and trends on the use of financial instruments, determining which sectors are incurring deficits (net borrowers) or surpluses (net lenders). Third, the FOF serves as one of the major inputs in the construction of the Philippine Financial Social Accounting Matrix (PFSAM).[44] Lastly, it provides users an idea on the demand for and supply of financial instruments, which in turn indicates how the economy performs amidst evolving financial developments.

The 2013 Philippine FOF report showed a 13.3 percent rise in the domestic economy's savings on the back of the country's strong macroeconomic fundamentals, stable banking system, and adequate liquidity buffers. Capital accumulation grew steadily at a rate of 6 percent as all sectors registered a marked growth in investments in fixed and other non-financial assets. As the domestic economy's savings exceeded capital expenditures, net lending to the rest of the world grew significantly. As in the past, currency and deposits and debt securities remained the most preferred and widely used financial instruments.

Philippine Experience

The Philippine FOF compilation started in 1980 as a shared venture between the Central Bank of the Philippines (Department of Economic Research) and the National Economic and Development Authority (Statistical Coordination Office). Following the issuance of Letter of Instruction No. 1082 in 1980 stating that the Central Bank of the Philippines (CBP) would continue to be responsible for monetary and financial statistics, the CBP was tasked to compile the FOF. In 1993, the CBP was reorganized and became the Bangko Sentral ng Pilipinas (BSP).[45] The reorganization of the BSP led to a transitory disruption in the release of the FOF series in 1994. The compilation of the FOF resumed in 2000 with the release of the FOF series covering the period 1996 - 1999. Meanwhile, the 2000-2004 FOF series were released in 2006. Since then, the statistical analysis and compilation of the Philippine FOF became a regular output of the BSP through the Department of Economic Statistics (DES).

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[44] The Bangko Sentral ng Pilipinas, through the collaboration of the Department of Economic Statistics (DES) and the Center for Monetary & Financial Policy (CMFP), completed the first 2009 Philippine FSAM (PFSAM) in 2012. The FSAM, which tracks the *from-whom-to-whom* transactions of the institutional sectors of the economy using the different financial instruments, provides a benchmark database for the Financial Computable General Equilibrium (FCGE) model. The FCGE is a forthcoming work of the BSP that serves as an evaluative model to assess the impact of monetary policy (i.e., interest rate cuts) and shocks in financial variables on the different sectors of the economy.

[45] Bernabe, Loreto M. and Remulla, Marriel M. (2002) "The Philippine Flow of Funds," *Bangko Sentral Review*. July.

International Reserves

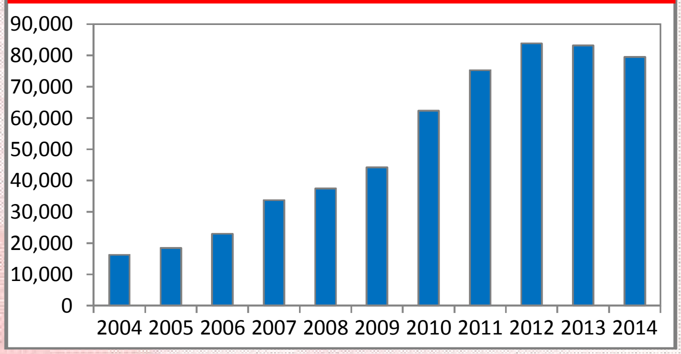
Gross international reserves decrease but remains ample to cover foreign obligations

The country's GIR amounted to US$79.5 billion as of end-December 2014, registering a 4.4 percent decline from the end-2013 level. Nevertheless, the end-2014 GIR level remains ample to cover 10.4 months' worth of imports of goods and payments of services and income. It is also equivalent to 8.2 times the country's short-term external debt based on original maturity and 6.0 times based on residual maturity.

The change in the level of reserves was due mainly to the BSP's foreign exchange operations, revaluation adjustments on its gold holdings, income from its investments abroad, as well as the NG deposits in net foreign currency and payments for its maturing foreign exchange obligations.

Bulk of the reserves, or about 88.0 percent of the total GIR as of end-2014, was held in foreign investments. Meanwhile, 9.4 percent of total reserves were in gold, and the remaining 2.6 percent were in the combined holdings of SDRs, the BSP's reserve position in the IMF, and foreign exchange.

Gross International Reserves
In Million US Dollars



Net international reserves (NIR), which refer to the difference between the BSP's GIR and total short-term liabilities, amounted to US$79.5 billion as of end-2014, lower by US$3.6 billion than the year-ago level.

External Debt

The MB approved enhancements/modifications to the framework for reporting Philippine external debt statistics, to take effect starting with the report for 31 December 2014. The changes provided for the inclusion of the following accounts, shown only in footnotes to the debt tables:

(1) "Due to Head Office/Branches Abroad" (DTHOBA) accounts of branches of foreign banks operating in the Philippines.[46] These accounts are treated by BSP as quasi-equity in view of the minimal permanently assigned capital required of these banks;

(2) Private sector medium and long-term (MLT) loans without BSP approval/registration[47] Intercompany borrowings of branches of foreign banks; and

(3) Obligations under financial/capital lease agreements which are likewise classified as "loans" under the international concept.

The above enhancements are in line with the international standards under the latest External Debt Guide and the International Monetary Fund's Balance of Payments and International Investment Position Manual, 6th edition (BPM 6).

External debt declines

The Philippine external debt stood at US$77.7 billion under the new reporting framework as of end-2014, down by US$815 million (or 0.8 percent) from the US$78.5 billion in December 2013.

The decline was a result of: (a) negative FX revaluation adjustments (US$1.8 billion); (b) previous periods' adjustments (negative US$142 million) due to audit findings/late reporting; and (c) net repayments (US$122 million). The downward effect of these developments on outstanding debt was tempered by the transfer of Philippine debt papers from residents to non-residents (US$1.2 billion).

By Maturity

The maturity profile of the country's external debt in the fourth quarter of the year remained biased towards medium- and long-term (MLT) accounts [i.e., those with original maturities longer than one (1) year]. MLT accounts represented 79.1 percent (US$61.4 billion) of total, keeping FX requirements for debt servicing well spread out and, thus, manageable.

Short-term (ST) loans [or those with original maturities of up to one (1) year] stood at US$16.2 billion, accounting for the 20.9 percent balance.

The weighted average maturity of MLT loans was estimated at 16.8 years as of end-2014.

The slightly lower average maturity of public sector accounts as of end-2014 may be attributed to US$107 million prepayments by Power Sector Assets and Liabilities Management (PSALM) Corporation. Nonetheless,

[46] DTHOBA: (a) includes those of foreign banks' offshore banking units (OBUs) in the Philippines which were also previous excluded from official external debt statistics to align their treatment with similar accounts of foreign bank branches under MB Resolution No. 365 dated 18 March 2004; but (b) excludes unremitted profits and retained earnings which are considered equity accounts.

[47] The foreign exchange for servicing these accounts cannot come from the banking system.

the tenors of public sector borrowings were much longer than those of the private sector (21.8 years versus 8.7 years) due to the developmental nature of projects being financed by the former requiring longer repayment periods. On the other hand, commercial projects of the private sector usually have shorter payback periods which are typically the bases for the tenors of the financing obtained.

By Borrower

At US$39.3 billion, public sector external debt comprised 50.7 percent of total debt stock, with the bulk pertaining to National Government (NG) accounts to finance priority projects, developmental programs, and budget requirements.

The amount is US$1.4 billion lower than the US$40.7 billion level as of end-September 2014 due largely to: (a) negative FX revaluation adjustments (US$1.1 billion) with the strengthening of US Dollar against most currencies (particularly the Japanese Yen); and (b) transfers by non-residents to residents of Philippine debt papers issued offshore (US$454 million).

Private sector debt, on the other hand, stood at US$38.3 billion (49.3 percent of total), with US$14.7 billion pertaining to borrowings without BSP approval (including capital leases). These obligations increased by US$1.9 billion from US$36.4 billion a quarter ago as availments (largely by banks) exceeded principal repayments by US$2.1 billion.

By Creditor

Obligations to foreign bond/noteholders accounted for the largest share of total debt outstanding at 32.2 percent (US$25.0 billion), but a US$588 million decline in nominal terms was noted compared to the previous quarter's US$25.6 billion level due to: (i) a US$446 million drop in non-resident holdings of such papers, coupled with (ii) negative FX revaluation adjustments of US$133 million.

Borrowings from foreign banks and other financial institutions comprised 31.2 percent (US$24.2 billion) of total, up from the 28.2 percent share (US$21.8 billion) in the third quarter of 2014 due to net availments of US$2.6 billion, of which US$2.3 billion are by banks.

Outstanding official credits (multilateral institutions and bilateral creditors) accounted for 29.7 percent (US$23.1 billion) of total, compared to 30.8 percent (US$23.7 billion) in the previous quarter due to negative FX revaluation adjustments (US$838 million), which were partially offset by net availments (US$221 million).

The US$5.4 billion balance (6.9 percent) of outstanding external debt referred to borrowings from other types of creditor (mainly suppliers/exporters).

The external debt ratio (a solvency indicator), or total outstanding debt (EDT) expressed as a percentage of annual aggregate output (GNI), still showed an improving trend, and was recorded at 22.7 percent by year-end from 24.1 percent a year ago. The same trend was observed using GDP as denominator as the Philippine economy grew by 6.9 percent in the last quarter of 2014, indicating the country's sustained strong position to service foreign obligations.

The debt service ratio (DSR), which relates principal and interest payments (or DSB) to exports of goods and receipts from services and primary income, is a measure of the adequacy of the country’s FX earnings to meet maturing obligations. The ratio further improved to 6.4 percent in December 2014 due to higher receipts and lower payments during the year. The DSR has consistently remained well below the international benchmark range of 20.0 to 25.0 percent.

Box Article 3:

Revised External Debt Statistics

In compiling external debt data, the BSP follows the methodology prescribed under the *External Debt Statistics Guide: Guide for Compilers and Users*, or the Debt Guide.[48]

The reliability and comprehensive coverage of the Philippines' external debt statistics and monitoring system have earned recognition since 1997 from international organizations such as the IMF, the WB/International Bank for Reconstruction and Development (IBRD), and the TFFS based on citations/comments/observance reports of IMF missions, the rating system under the WB/IBRD Debtor Reporting system, and the Debt Guide. In particular, the Philippine external debt monitoring system was featured as a case of best practice in the 2003 Debt Guide. The IMF has also certified that the external debt data being provided by the BSP for the Fund's Special Data Dissemination Standards (SDDS) is compliant with prescriptions of the SDDS.

While the Philippines is broadly compliant with the Debt Guide, the current presentation excludes certain accounts from the headline external debt statistics although these accounts are fully disclosed in footnotes to the official statistics (including the historical data series) being released to the public.

Beginning March 2015, the BSP will include these footnoted items in the official external debt statistics for the end-2014 report:

(a) **Intercompany borrowings of branches of foreign banks**

Intercompany accounts of foreign banks operating in the Philippines have been treated by the central monetary authority as quasi-equity in view of the small amount of equity/permanently assigned capital required from these banks. However, the revised policies on bank capitalization with effectivity on 1 January 2015 now provide for a revised treatment and a ceiling on the amount of these intercompany accounts. Essentially, these accounts will no longer be considered as quasi equity and will not be included in determining compliance with the CAR.

(b) **Private sector accounts without BSP approval/registration**

(1) Loans of non-bank enterprises that are obtained without BSP approval/registration do not represent claims against the foreign exchange (FX) resources of the banking system since these accounts are not eligible to be serviced with said resources. However, these accounts are being monitored in the same manner as registered obligations, and are also fully disclosed in footnotes to the debt tables.

(2) Obligations under capital lease are classified as loans by the International Accounting Standards Board, following the latest version of the BOP and IIP Manual as well as the new Debt Guide.

The BPM6 and the new Debt Guide of 2014 do not distinguish private sector loans with respect to source of funding for servicing and merely cite their inclusion in external debt statistics.

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48 The latest of which is the 2013 edition published in May 2014 (new Debt Guide), prepared under the joint responsibility of the nine (9) organizations under the Inter-Agency Task Force on Finance Statistics (TFFS). The TFFS is composed of the BIS, Commonwealth Secretariat, European Central Bank, European Commission (Eurostat), IMF, Organization for Economic Co-operation and Development, Paris Club Secretariat, United Nations Conference on Trade and Development, and World Bank (WB).

The revised reporting framework will, therefore, align the country's statistics with current BSP rules on FX transactions (including supervisory policies for banks), as well as with international best practices, including the Balance of Payments and International Investment Position Manual, Sixth Edition, from where the new Debt Guide derived its framework for compiling external debt statistics.

The revised reporting will consequently yield higher debt levels and, correspondingly, debt ratios. Nevertheless, these levels and ratios are expected to remain at prudent and comfortable levels, indicating the country's strong position to meet maturing obligations while sustaining the economy's growth trajectory.

In terms of other country practices, presentation of debt data are not as explicit as the BSP's, which clearly indicate the accounts that are included in, or excluded from, official debt statistics.

Another enhancement currently envisioned is the inclusion in official external debt statistics of non-resident holdings of peso-denominated securities. However, pending availability on a regular basis of detailed data, outstanding holdings by non-residents of such securities will initially be disclosed in a footnote to the debt tables starting with the report for end-2014, with historical data series starting 2005. The mechanism to obtain reliable and timely data on these accounts is being designed for coordination with concerned stakeholders.

The revised external debt statistics reporting framework is in line with the BSP's thrust towards greater transparency and alignment with international standards and best practices. The BSP remains committed to discharge its external debt management mandate that is conducive to economic development and sustained attractiveness of the country as an investment destination.

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

The BSP raises reserve requirements in early 2014…

During its policy meetings on 27 March and 8 May 2014, the MB decided to raise the reserve requirement rates by a total of 2.0 ppts. The adjustments were intended to guard against potential risks to financial stability that could arise from continued strong liquidity growth and rapid credit expansion. During this period, the MB was of the view that solid domestic growth prospects provided scope for a measured adjustment in the BSP's reserve requirements amid the ongoing normalization of monetary policy overseas.

…increases the SDA rate in June 2014…

In its subsequent policy meeting on 19 June 2014, the MB increased the interest rate on the SDA facility by 25 bps from 2.0 percent to 2.25 percent across all tenors. The MB's decision was made to counter risks to price and financial stability that could emanate from ample liquidity. The MB noted that a modest upward adjustment in interest rates would be prudent amid robust credit growth. The MB was of the view that solid economic activity allowed room for a measured adjustment in the SDA rate to ensure that monetary and credit conditions continue to be appropriate.

…hikes RRP and RP rates in July 2014…

Meanwhile, on 31 July 2014, the MB decided to hike the BSP's key policy rates by 25 bps each to 3.75 percent for the overnight borrowing or RRP facility and 5.75 percent for the overnight lending or RP facility. The interest rates on term RRPs and RPs were also raised accordingly.

The MB's decision was a preemptive response to signs of inflation pressures and elevated inflation expectations. Baseline projections indicated that the inflation target could be at risk, as the forecasts shifted closer toward the higher end of the target range of 3.0 percent ±1 percentage point for 2015. At the same time, the balance of risks to the inflation outlook continued to be tilted toward the upside, with price pressures emanating from higher food prices, short-term volatility in international oil prices, and pending petitions for adjustments in power rates and transport fares.

…and raises key policy and SDA rates in September 2014

During its policy meeting on 11 September 2014, the MB decided to raise further the BSP's key policy rates by 25 bps each to 4.0 percent for the overnight borrowing or RRP facility and 6.0 percent for the overnight lending or RP facility. The interest rates on term RRPs, RPs, and SDAs were also increased accordingly.

The MB's decision was based on the assessment that the inflation target, particularly for 2015, remained at risk as baseline forecasts shifted closer toward the higher end of the target range for 2015, indicating elevated inflation pressures. Moreover, inflation expectations were seen to be settling near the upper end of the inflation target range, particularly for 2015. At the same time, the balance of risks to the inflation outlook continued to lean toward the upside, with price pressures emanating from the possible further increases in food prices as a result of tight domestic supply conditions, as well as from pending petitions for adjustments in utility rates and potential power shortages.

Given these considerations, the MB deemed it necessary to respond with stronger policy action to rein in inflation expectations further and preempt potential second-round effects even as previous monetary responses continued to work their way through the economy. The MB was of the view that the continued favorable prospects for domestic demand, as evidenced by strong GDP growth, allowed some scope for a further adjustment in policy rates.

Box Article 4:

The International Transmission of Monetary Policy in the Philippines [49]

Over the last two decades, there have been significant changes in the way financial markets behave and in the manner central banks conduct monetary policy. The experience of most economies in reacting to the impact of the GFC in 2008 to 2009 underscored the importance of how monetary policy in one country can affect monetary policy in another and how this can eventually influence inflation and growth. These developments indicate that there could have been changes in the monetary policy transmission post-GFC.

Borio and Disyatat (2009) noted that prior to the GFC, monetary policy was generally implemented across countries using short-term interest rates. With the subsequent flow of capital to EMs, most central banks in EMs have found it difficult to set monetary policy independently. The resulting increase in liquidity from the flows posed upward risks to inflation, yet a higher interest rate to address it would only stimulate further capital inflows. Measures adopted by recipient countries, including the Philippines, include exchange rate flexibility, sterilization, and accumulation of foreign exchange reserves.

Financial globalization exposes EMs to the volatility of international markets. In the literature on financial globalization there is considerable discussion on the implications of large surges and volatility of capital flows, especially when they are routed through the financial system.[50] The global financial crisis in 2008 coincided with a surge in gross capital inflows into EMs, a real appreciation of their currencies, and an increase in the prices of their main commodities, stocks, and houses.

In the Philippines, the level and volatility of foreign portfolio investments with banks increased following the liberalization of foreign exchange rules on foreign investments in 2009.[51] In gross and in net terms, portfolio investments steadily increased since 2007, with larger flows recorded in the first and second quarter of 2008 and the third and fourth quarters in 2009 and in 2010. Since the third quarter of 2012, relatively large net portfolio investments were observed, mainly in equities. In 2013, foreign portfolio investments registered a net inflow owing mainly to net borrowings of residents from the rest of the world, and investments in PSE-registered securities, peso government securities and peso time deposits. For 2014, however, foreign portfolio investments had a net outflow of US$310 million, reflecting investor reaction to the tapering of the US Fed's QE program, which started in January 2014 and ended in October 2014.

Where did these flows originate? The volatility in portfolio flows in the Philippines has been influenced by "push" factors in the US economy. In 2013, net outflows were registered during the months of March, May, June and August due to the uncertainty over the unwinding of QE measures of the US Fed following its May 2013 announcement. The trend in outflows continued until 2014 (particularly in the first quarter) because of the unwinding of the Fed's QE program which started in January 2014 and ended in October 2014. Yet, registered investments in 2014 were the second highest since 1999 (gross inflows of US$22.1 billion, second to 2013 gross inflows of US$24.2 billion) due to the country's sound macroeconomic fundamentals and the investment-grade ratings given

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[49] This article is based on Guinigundo, D. (2014), "What have emerging market central banks learned about the international transmission of monetary policy in recent years? The Philippine case", BIS paper in: *The transmission of unconventional monetary policy to the emerging markets,* BIS, vol. 78, August 2014.
[50] See Prasad et. al. (2003).
[51] Based on Bayangos, Elloso and Hallig (2013).

to the country by three international rating agencies (Fitch, Standard & Poor's, and Moody's), which helped sustain investor confidence in the Philippines.

A closer look at the way policy rates in advanced economies transmit to the Philippine economy can be insightful in determining how monetary policy setting has maintained its independence from the influence of global monetary conditions. This article revisits the channels through which policy rates in advanced economies transmit to the Philippine economy. This study finds that the long-term Treasury bonds, exchange rate, asset markets, and inflation expectations have been significant channels of transmission of the impacts of policy rate changes in advanced countries to the Philippine economy. Meanwhile, foreign policy rates have also had an indirect impact on the BSP's policy rate, to the extent that such changes in foreign monetary policy affect the outlook for domestic inflation and growth.

Long-term Treasury bonds. Studies have noted that yields on longer term domestic bonds have been affected by global monetary factors especially after the GFC. Following the rise in foreign investments in bond markets, the results of a vector autoregressive (VAR) model show that the degree of pass-through from the US 10-year bond rate to the 10-year Philippine bond rate has become more significant from 2008 to 2013 compared to pre-GFC period of 2003 to 2007.[52]

Exchange rate. Developments in the global economy continue to feed through the behavior of the nominal peso-dollar rate. Since the adoption of inflation targeting as the framework of monetary policy in 2002, the behavior of the peso-dollar rate has been broadly consistent with the direction and magnitude of foreign exchange flows. Importantly, data support the conclusion that structural factors have changed the trend and behavior of the peso-dollar rate as the trend of the nominal peso-dollar rate has changed since 2006. Employing the Bai-Perron test for structural break on the peso-dollar rate, the results show that there was indeed a break in 2006, particularly on the ninth month (September).[53]In 2012, the peso averaged ₱42.2/US$1, appreciating by 9.3 percent from the ₱46.2/US$1 average in 2007 and by 22.2 percent from the ₱51.6/US$1 average in 2002. The peso was slightly weaker during 2013 at ₱42.4/US$1 compared to the average in 2012 of ₱42.2/US$1. In 2014, the peso-dollar rate averaged at ₱44.4/US$1. The sustained inflow of foreign exchange from overseas Filipino remittances and Business Process Outsourcing (BPO), export receipts, portfolio investments, and foreign direct investments remained the fundamental drivers of the peso's strength. The peso was likewise anchored by the country's sustained economic growth and sound macroeconomic fundamentals.

Asset markets. The risk-taking channel of international monetary policy transmission has become more evident post-GFC when policy rates in advanced economies reached near-zero and pushed fund holders to seek higher returns elsewhere. The volatility in foreign portfolio investments took a toll on the stock market, as foreign investors became more cautious. Although foreign investors were net buyers of ₱20.9 billion worth of stocks in 2013, net purchases were down by almost 81 percent compared to net purchases in 2012. Foreign transactions as a proportion of total value traded reached 51.7 percent, higher than the 44.9 percent posted in 2012, highlighting the significant role played by foreign investors in the movement of the local market.[54]

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[52] For the pre-GFC period of 22 July 2003-31 December 2007, results show that a one percentage point increase in the US 10-year yield (sustained for 3 consecutive days) was associated with a 0.03 percentage point increase in the current Philippine 10-year yield. For the period 1 January 2008-26 November 2013, the association changes to a 0.16 percentage-point decline in the current Philippine 10-year bond yield (with a lag of one day and significant at five percent level of significance).

[53] The apparent structural break in the peso-dollar rate behavior reflects the impact of the easing of FX regulations that started in 2007 and the consequent surge in remittances transfers from overseas Filipinos. See Bayangos, Elloso and Hallig (2013).

[54] See BSP Annual Report (2013).

It should be noted that some BSP studies have underscored the significance of the asset price channel in transmitting international monetary policy stance. Five vector autoregressive (VAR) models were constructed in order to examine the effects of monetary policy shocks on asset bubbles and the impact of policy and market interest rates on portfolio flows in five asset sub-classes, namely, composite equity price index, financial stocks, property stocks, housing market, and foreign exchange market, from January 2001 to December 2011.[55] Looking closely at the variation of portfolio investments, the study finds that shocks in the peso-US dollar exchange rate contribute significantly to such variation, followed by shocks in monetary policy rate. Moreover, policy rates influence portfolio flows indirectly through their influence on market interest rates.

Inflation expectations. The role of expectations channel in transmitting international monetary policy on the Philippine economy has become significant.[56]A comparison of the behavior of private sector inflation expectations and the BSP's inflation forecasts from January 2009 to October 2014 implies some convergence between the two, suggesting that inflation expectations continue to be well anchored.[57] Moreover, a recent international survey has identified the Philippines as one of the countries for which transparency has improved the most (Dincer and Eichengreen 2014).[58]These findings indicate that private agents assess the credibility of the BSP and form their expectations based on what they have learned at the end of the current period and are similarly interested in the declining medium-term path of inflation target announced by the monetary authorities.

Foreign policy rates. Meanwhile, foreign policy rates have also had an indirect impact on the BSP's policy rate, to the extent that such changes in foreign monetary policy affect the outlook for domestic inflation and growth. A change in foreign policy rates determines the movement of capital from one country to another. In the Philippines, there are indications that changes in foreign policy rates may have affected movements in the BSP policy rate. The preliminary results of Granger causality test between monthly changes in the overnight RRP rate and Federal Funds (Fed) rate from January 2002 to January 2014 show that changes in the Fed rate (Granger) cause changes in the overnight RRP rate.

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Prasad, E., K. Rogoff, S. Wei and M.A. Kose (2003) Effects of Financial Globalization on Developing Countries: Some Empirical Evidence, IMF, Washington DC.

[55] Based on Elloso and Redoblado (2012). A longer series was also used to take into account the effects of the Asian financial crisis in 1997.
[56] See Guinigundo (forthcoming in 2015).
[57]Average coefficient of variation between the private sector and the BSP's monthly inflation forecast dropped from 0.6 in 2009 to 0.1 percentage point in 2012 to 0.04 percentage point from January to October 2014. Such a convergence may reflect the positive response of the private sector to the BSP's communication strategy of announcing its inflation forecast as well as its policy intentions over the medium term.
[58] The other central banks for which the transparency index increased the most include Hungary, Thailand and Turkey.

Financial System Stability

The BSP continued to pursue a broad set of reform initiatives aimed at promoting a financial system that is stable, efficient, resilient, and responsive to the needs of stakeholders. Accordingly, the new and amendatory policy and regulatory issuances for the year remained geared toward (1) aligning the BSP's domestic regulatory and supervisory frameworks with international reforms and global standards and (2) ensuring that the existing regulatory framework remains relevant and effective given developments in the financial services industry, both at the domestic and international fronts.

To keep pace with developments, the BSP's policy and research initiatives for 2014 resulted in the issuance of 35 circulars, 64 circular letters, and 46 memoranda to all banks. Key issuances include:

Basel Reforms

Reform issuances this year sought to further align regulations with current Basel requirements, address the deficiency in the Basel Core Principle self-assessment completed in August 2013, keep current the risk-based capital adequacy framework of BSP, and align with international standards. These reform issuances covered risk-based capital adequacy framework for stand-alone thrift, rural, and cooperative banks; guidelines on sound credit management practices; and implementing guidelines on the framework for dealing with domestic systemically important banks under Basel III.

Corporate Governance

To continuously support the mandate of the BSP in fulfilling its financial advocacies through strengthening corporate governance, the policies with regard to qualifications of a director were revised. The amendment provided exemptions of qualified directors with established stature, reputation, and leadership experience from the corporate governance seminar requirement.

Prudential Regulations

In addition, the BSP introduced measures to promote banking stability and assist in the minimization of inevitable challenges in the financial sector. These include the issuance of Circular No. 839 dated 27 June 2014 on the establishment of a real estate stress test limit for real estate exposures. Under the rule, banks are required to ensure that they have sufficient capital to absorb any credit risk or stress conditions related to their real estate lending and to put in place effective risk management frameworks.

Meanwhile, Circular No. 850 dated 8 September 2014 requires banks to report their cross-border financial positions, thus providing the BSP with a comprehensive view of potential risks and their transmission channels that emanate from foreign counterparties of Philippine banks.

Competition

The BSP also issued Circular No. 858 dated 21 November 2014, which provides the implementing rules and regulations (IRR) of Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721). The new law paves the way for entry of fresh capital and a wide array of financial products and services to the Philippines, while also preparing further for regional integration. With the approval of the IRR, additional foreign banks can now apply to operate in the Philippines either as a branch or as a wholly-owned subsidiary. In addition, the new law allows foreign banks to acquire up to 100 percent of the voting stock of an existing domestic bank. This is an increase from the 60 percent cap under the previous law.

Financial Inclusion and Consumer Protection

To protect the welfare of financial consumers, the BSP adopted a consumer protection framework by issuing Circular No. 857 dated 21 November 2014.

The BSP now has a comprehensive framework that deals with issues of financial consumer protection that is consistent with international best practices, which have been carefully studied and adapted to Philippine conditions.

The framework has been crafted based on the fundamental tenets of consumer empowerment, market conduct, and collective responsibility. It underscores that financial consumer protection is a collective responsibility and shared accountability among BSP-supervised financial institutions, the BSP, and financial consumers.

Moreover, in 2014, the Financial Consumer Affairs Group has been reorganized into a new department under the Supervision and Examination Sector to focus on the financial consumer protection operations and advocacies of the BSP.

Enhancement of Supervisory Tools

To keep prudential reports reflective of the amendments to regulations and to facilitate a more efficient and improved supervision of financial institutions, the BSP initiated efforts to further improve its operational efficiency as embodied in the following major issuances:

- Memorandum No. 045 dated 2 December 2014 – Operational Guidelines on the Administration of the Personal Equity and Retirement Account (PERA);
- Memorandum No. 044 dated 24 November 2014 – Basel III CAR Report (Version 3);
- Memorandum No. 040 dated 3 October 2014 – Card Fraud and Skimming Attacks; and,
- Memorandum No. 035 dated 16 September 2014 – Guidelines on the Electronic Submission of the Enhanced Report of Selected Branch Accounts.

Engagements with Co-Supervisory and Regulatory Authorities, Industry Participants, and Related Stakeholders

In order to ensure the responsiveness of the reform agenda to industry operations and related developments, the BSP sustained its consultations with industry associations, other regulators, other government agencies, and its regional and global partners. In 2014, the BSP conducted meetings with 47 industry associations through the Bank Supervision Policy Committee. The BSP also sustained its coordination efforts with the Financial Stability Forum and the Financial Stability Coordinating Council, and worked hand-in-hand with key government agencies (e.g., DOF, DOLE, DepEd, DBM, DTI, NEDA, and BIR) on various projects.

Supervision and Enforcement

1. On-Site Supervision

Examinations conducted in 2014 covered 639 institutions: 563 banks, 36 non-banks, 39 NSSLAs, and 1 representative office. These put the average number of examined institutions at 53 per month. These included 11 unprogrammed examinations.

To ensure compliance with existing mandate on examination while at the same time improving the examination process, the BSP (1) adopted certain prioritization standards and criteria in the programming of examination; and (2) introduced, issued, and implemented several initiatives in the form of supervision guidelines and sub-sector orders.

2. Off-Site Surveillance

a. Risk-profiling of BSP-supervised/regulated entities - In support of its risk-based and consolidated approach to banking supervision, risk-assessment exercises form the bases of the development of individual supervisory plans for entities under the BSP's jurisdiction. Coverage and execution of these supervisory plans (i.e., normal to close and/or special monitoring) varied depending on the following risk profiling category: very low, low, medium, medium-PCA candidate, upper medium, moderately high, high, and very high risk.

This off-site surveillance exercise is being done every semester and/or as may be deemed warranted by circumstances, and is used as bases for updating supervisory plans, enforcement actions, and examination programs. On the average, there were 475 non-PCA banks and 306 PCA banks that were risk profiled in 2014 on a semestral and quarterly basis, respectively.

b. Preparation of institutional overview (IO) of BSP-supervised/regulated entities – The IO captures the institutional knowledge of the supervised entity. The IO contains the company profile, list of officers and stockholders of the financial institution (FI), as well as the financial condition and risk assessment of the FI as of reporting period. IOs are updated regularly to provide users of the IO current and relevant information about the supervised entity's risk profile including its systemic importance (if any) in the banking system.

c. Implementation of the International Capital Adequacy Assessment Process (ICAAP) – In 2014, the BSP received 46 final ICAAP documents from universal/commercial banks. The ICAAP refers to the process carried out by banks in determining the appropriate level of capital to hold. One hundred percent of the received ICAAP documents were evaluated.

3. Problem Bank Resolutions

The BSP continued to move decisively on problem bank resolution, resulting in 10 cases of prompt corrective action (PCA) lifting and eight cases of declaration of PCA failure in 2014. At the same time, 15 banks were placed under receivership in 2014.

Seven banks were issued with a cease and desist order (CDO). There were also 27 PCA initiations and 5 banks were required to execute letters of commitment to address identified areas of major supervisory concern.

In response to the challenges in banking supervision, the Supervision and Examination Sector (SES) has completed the crafting of enforcement guidelines to provide the SES examiners with a set of standards to ensure uniformity and consistency in the selection and use of appropriate enforcement actions. SES likewise introduced the enhanced approach to enforcement in an effort to address the liberal use of the PCA Framework.

4. NBFI Surveillance

Inspections of pawnshops, foreign exchange dealers (FXDs), money changers (MCs), remittance agents (RAs), particularly those engaged in multiple corollary businesses, were periodically conducted. These were focused principally on consumer protection issues, specifically transparency, complaints resolution, and security concerns.

Of the 2014 approved program of inspection of 376 entities, 391 pawnshops were inspected, which translates to 104 percent accomplishment rate.

For 2015, the BSP will embark on the following initiatives to keep on improving its performance and ensure compliance with existing mandate on supervision and examination:

- Issuance of the enhanced examination manual, manual of supervision guidelines for pawnshops and LGU coordination;
- Adoption of the enhanced risk-based examination framework to promote efficient and effective utilization of SES' resources; and
- Issuance of supervisory guidelines on the credit risk framework.

Box Article 5:

Global Financial Regulatory Reforms:
Challenges of Implementation and Potential Impact on the Philippine Financial System

In the aftermath of the global financial crisis, there was widespread consensus for building a stronger financial system, and for implementing more intensive and proactive oversight. These reforms include the Basel III rules for capital adequacy and liquidity; related G20-inspired reforms in the areas of global systemically important financial institutions (G-SIFIs), requirements for over-the-counter (OTC) derivative markets, and shadow banking; and related national legislation, especially the Dodd-Frank Act in the US. The matrix below summarizes the key features and timelines of the regulatory reforms, the BSP initiatives and progress on implementation and impact on the Philippine financial system.

Today, there has been significant progress on regulatory reforms and regulators are now focusing on building a more robust financial system that is in line with international practices, and creating adequate oversight structures and procedures.

The Philippines has fully implemented the Basel III capital requirements within the timeline prescribed by the Basel Committee and the minimum capital ratios of Philippine banks are higher than the Basel III requirement of 8 percent. However, the other areas of reform are still in the pipeline, as there are number of issues that need to be addressed and which require both remedial response and enhancing desired standards. For example, the Basel III Liquidity Coverage Ratio (LCR) may result in a shortage of qualified safe and liquid securities in EMs including the Philippines given the current level of development and activity in these markets. While regulatory changes could significantly improve the strength and stability of the financial system, the BSP is cognizant of some unintended consequences of these reforms, specifically the inconsistent application of rules across jurisdictions and across sectors and the cross-border implications of national rules.

The development of the new regulations was in response to conditions in advanced economies that led to the crisis. However, as these measures will also apply to emerging economies, including the Philippines, which did not experience significant dislocations and have considerably different financial systems compared with advanced economies, this leaves the question of whether the enhanced prudential bar should be uniform or whether some measure of proportionality should be introduced. Regulators will need to be responsive to local considerations while cognizant of the global/regional best practice standards. This means that regulators need flexibility to pursue differentiated and/or calibrated approaches to the reform agenda if justified by structural and legal concerns.

Inconsistent Implementation of Rules

Inconsistent application of rules on jurisdictions could lead to the risk of regulatory arbitrage. An example is the implementation of the new capital rules. A study conducted by the Basel Committee found considerable variation across banks in average risk-weighted assets for credit risk.[59] A material part of this variation was due to different bank and supervisory practices.

[59] Basel Committee on Banking Supervision: Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms, August 2013

Inconsistent application of rules across entities carrying out similar activities could also lead to the issue of shadow banking. The higher capital and liquidity requirements required under Basel III may create the incentive for activities to be conducted outside the regulated banking sector.

Cross-border Implications of National Rules

Cross-border application of national rules could give rise to overlapping regulations, which can create additional compliance costs for internationally-active financial institutions. In the US, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010 sets out new guidelines to strengthen the market for swaps, a form of OTC derivative.

Under the Dodd-Frank Act, the Commodity Futures and Trading Commission (CFTC) mandate has been extended specifically for the swaps market. As the CFTC's OTC swap rules apply to financial institutions operating outside the US, including foreign-domiciled financial institutions and foreign branches of US financial institutions, the Dodd-Frank Act and its prudential treatment of derivatives will have a cross-border impact.

If there are conflicts between different national requirements, or if the burden of complying with multiple sets of rules is significant, this may prevent the execution of trades on a cross-border basis. The risk is that the global derivatives and foreign exchange transactions, for example, might become confined within regional borders, creating fragmented markets.

Cross-border application of national rules runs the risks of complicating home-host country collaboration, the principle of consolidated supervision, and cross-border resolution. An IMF staff discussion paper published in May 2013 highlighted that differences between national structural reforms could lead to cross-border regulatory arbitrage by global banks, posing a challenge to consolidated supervision.[60]

The challenges posed by the application of national regulations across borders would require a robust mutual recognition framework based on an outcome-based approach (and not a line-by-line correspondence of rules). In the area of OTC derivative trading, for example, the US has adopted a substituted compliance or equivalence assessment approach so that entities can comply with just the set of rules applied by the jurisdictions in which they operate. This recognizes the need for calibrated or differentiated compliance to the principles fostered by the reform agenda. It will also be important for regulators to have a consistent and defined toolkit – i.e., a set of risk mitigation techniques that will be useful in reducing the overall risk associated with cross-border transactions.

[60] Viñals, J., C. Pazarbasioglu, J. Surti, A. Narain, M. Erbenova, and J. Chow, Creating a Safer Financial System: Will the Volcker, Vickers, and Liikanen Structural Measures Help? IMF Staff Discussion Note 14/03, International Monetary Fund, May 2013

Matrix on Global Financial Regulatory Reforms[61,62,63]

<table>
<tr><th>Regulatory Reform, Timeline, and Key Features</th><th>BSP Progress on Implementation/Initiatives</th><th>Impact on the Philippines</th></tr>
<tr>
<td>
1. BASEL III

1.1 Capital Implementation Timeline:
• 2014 (for definition of capital and capital conservation buffer)
• Under Study (for countercyclical buffer)

Key Features:
• Definition of capital: Raise both the quantity and quality of capital
➢ Quantity: minimum Common Equity Tier 1(CET1) Ratio=4.5%, Tier 1 Ratio=6.0%, Total Capital Ratio=8.0%
➢ Quality: Define “common equity” as core capital and enhance inclusion criteria of Additional Tier 1 and Tier 2

• Capital buffers: Build up common equity above the minimum capital requirement
➢ Conservation 2.5%
➢ Countercyclical 0%-2.5%

• Risk coverage: Refine the calculation of risk-weighted assets for better prudence
</td>
<td>
• The BSP considered adopting the Basel III higher capital requirements, including the capital conservation buffer, beginning 1 January 2014.

<table>
<tr><th></th><th>Under BIS</th><th>BSP Guidelines</th><th></th></tr>
<tr><th></th><th></th><th></th><th>w/CCB*</th></tr>
<tr><td>CET 1</td><td>4.5%</td><td>6.0%</td><td>8.5%</td></tr>
<tr><td>Tier 1</td><td>6.0%</td><td>7.5%</td><td>8.5%</td></tr>
<tr><td>CAR</td><td>8.0%</td><td>10.0%</td><td>10.0%</td></tr>
</table>
* Capital Conservation Buffer

• Likewise, the regulatory deductions were deducted in full from Common Equity.

• The BSP also adopted the capital reforms in full, unlike the staggered implementation under the international rules, in recognition of the strong capital position of the banking industry.
</td>
<td>
• Upon the implementation of Basel III, the U/KBs’ CAR in March 2014 declined mainly due to the full deduction and increased items that are deducted against regulatory capital.

• The consolidated CAR of U/KBs stood at 16.35 percent while Tier1 and CET1 ratios registered at 14.59 percent and 14.41 percent, respectively.

• As of June 2014, there was a slight increase in U/KBs’ consolidated CAR, Tier 1 and CET1 ratios at 16.66 percent, 14.65 percent and 14.48 percent, respectively.
</td>
</tr>
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[61] Source: Watanagase, T. (2012) “Impact of Changes in the Global Financial Regulatory Landscape on Asian Emerging Markets” ADB Working Paper Series. Asian Development Bank

[62] Source: IMF Global Financial Stability Report (October 2012)

[63] Updates from the BSP’s Office of the Supervisory Policy Development

Regulatory Reform, Timeline, and Key Features	BSP Progress on Implementation/Initiatives	Impact on the Philippines
1.2 Liquidity **Implementation Timeline:** 2018 **Key Features:** • **Liquidity risk management:** ➢ Liquidity coverage ratio: banks to maintain a portfolio of "High Quality Liquid Assets (HQLA)" in such magnitude that it exceeds the estimated net cash outflow of the bank over the 30-day window ➢ Net stable funding ratio: banks to maintain sustainable maturity structure of assets and liabilities over 1—year horizon	• The BSP proposes for a staggering compliance to the LCR. Instead of meeting the required value of 100 percent from the onset, the BSP considers a lower minimum value at the start and have this prudential floor increase over time.	• No impact yet as this reform is still in the BSP's pipeline
1.3 Leverage **Implementation Timeline:** 2016 **Key Features:** • **Leverage ratio:** limits the (unweighted) ratio of capital to total assets (including some off balance sheet items) to 3 percent to constrain excessive leverage and will act in tandem with the existing suite of risk-based capital ratios	• The BSP proposed for a 5 percent leverage ratio which translates to a cap on assets of 20x of bank capital. • The domestic application of the framework is expected to be finalized in the first quarter of 2015 and will be implemented for rest of 2015 on a monitoring basis.	• No impact yet as this reform is still in the BSP's pipeline

Regulatory Reform, Timeline, and Key Features	BSP Progress on Implementation/Initiatives	Impact on the Philippines
2. Global Systemically Important Financial Institutions (G-SIFIs) **Implementation Timeline:** • **2017** (Phased-in implementation) • **2019** (Full compliance) **Key Features:** • SIFIs to have higher loss absorbency capacity, with additional progressive CET1 requirement ranging from 1.0% to 2.5%.	• The BSP issued Circular No. 856 which provides the policy measures for domestic systemically important banks (DSIBs).[64] The regulation is designed to reduce the probability of failure of DSIBs, consequently safeguarding the smooth functioning of the domestic financial system and ensuring that the banks themselves have higher share of the risks they enter into thereby increasing their resilience in the face of crisis.	• All banks identified as DSIB are expected[65] to be fully compliant with the higher standards in accordance with the approved implementation timeline.
3. Over-the-Counter (OTC) Derivatives Market Reform **Implementation Timeline:** In progress **Key Features:** • All standardized OTC derivative contracts to be traded on exchanges or electronic trading platforms, and cleared through central counterparties (CCPs) • OTC derivative contracts to be reported to trade repositories. Non-centrally cleared contracts subject to higher capital requirements	• The BSP has identified issues in relation to this initiative which include: a) The absence of express legal provision for the BSP, or any other local regulatory agency, to regulate the necessary financial market infrastructures, particularly a CCP and a TR; and b) The presence of a local party which has the integrity and technical expertise to act as a TR, which naturally, will handle highly confidential data. • The BSP Task Force on OTC Derivatives Market Reforms proposes to enhance BSP's reportorial requirements to gather transaction-level derivatives data on a weekly basis. The collection of transaction-level	• No impact yet as this reform is still in the BSP's pipeline

[64] DSIBs are characterized as banks whose distress or disorderly failure would cause significant disruptions to the wider financial system and economy (Financial Stability Board, "Policy Measures to Address Systemically Important Financial Institutions," 4 November 2011).
[65] Based on staff projections

Regulatory Reform, Timeline, and Key Features	BSP Progress on Implementation/Initiatives	Impact on the Philippines
	data would provide a meaningful view of systemic risk and facilitate more effective market monitoring and enforcement.	
4. Shadow Banking **Implementation Timeline:** In progress **FSB's proposal:** • **Definition:** system of credit intermediation that involves entities and activities outside the regular banking system, focusing particularly on the interconnectedness within the financial system that may cause systemic risk and regulatory arbitrage • Three steps for monitoring the shadow banking system: ➢ Map overall shadow banking ➢ Identify concerns regarding shadow banking ➢ Detailed assessment of systemic risk and regulatory arbitrage concerns	• In the Philippines, initiatives on shadow banking are discussed at the Financial Stability Coordination Council (FSCC) level. Inter-agency working groups were formed and tasked to identify and monitor the extent of shadow banking activity in repos and real estate transactions. • In coordination with counterpart regulators[66] under the FSCC, the BSP proposes to strengthen systemic and regulatory oversight over securities financing transactions through the development of prudential reports and surveillance tools, establishment of minimum standards for these activities as well as the institutionalization of financial market infrastructure which will promote price discovery, transparency, reporting, and risk mitigation. • With respect to shadow banking in real estate, the BSP strengthened coordination and collaboration with other relevant government agencies/industry groups such as housing authorities and other financial regulators in the formulation of standards/ requirements regarding financing transactions of real estate developers. Surveillance tools are also being developed/enhanced to detect potential vulnerabilities as well as the extent and nature of	• No impact yet as this reform is still in the BSP's pipeline

[66] Department of Finance, Securities and Exchange Commission, Insurance Commission and Philippine Deposit Insurance Corporation

Regulatory Reform, Timeline, and Key Features	BSP Progress on Implementation/Initiatives	Impact on the Philippines
	interconnectedness of shadow banking sector to the financial system. • The size of the shadow banking is not easily estimated. Nevertheless, the BSP recognizes the need to continuously monitor the extent of and developments in the shadow banking sphere and its interconnectedness to the banking and financial system.	
5. Foreign Account Tax Compliance Act (FATCA) **Implementation Timeline:** In progress **Key Features:** • The US Internal Revenue Service (IRS) on 1 December 2014 issued Announcement 2014-38 to provide updates on jurisdictions treated as if they had an intergovernmental agreement (IGA) in effect.[67] • An IGA is a means by which the Foreign Account Tax Compliance Act (FATCA) can be implemented in a foreign jurisdiction. • The Philippines is included as one of those jurisdictions considered to have an IGA in effect as of 30 November 2014; our IGA with the US government is a Model 1 IGA, reciprocal version.	• The status of the Philippines as a jurisdiction treated to have an IGA in effect provides welcome relief on some FATCA-related operational issues confronting Philippine financial institutions (FIs). The objective of FATCA is reporting of foreign financial assets by US taxpayers and by foreign financial institutions (FFIs) with withholding as the cost of not reporting by these entities. • With an IGA in effect as of 30 November 2014, all FIs in the Philippines will be considered FATCA compliant and will not be subject to withholding on certain US-sourced income payments provided that they register at the FATCA portal and must observe together with our government the terms of the IGA.	• As of 23 December 2014, 214 Philippine FIs have registered at the FATCA portal and 51 of these are banks.

[67] There are two model IGAs under the FATCA regime: Model 1 IGA (in both reciprocal and nonreciprocal versions) and Model 2 IGA. In a Model 1 IGA, FFIs would satisfy their FATCA requirements by reporting information about US accounts to their respective tax authorities, followed by the automatic exchange of that information on a government-to-government basis with the United States. While in a Model 2 IGA, FFIs would report specified information directly to the IRS in a manner consistent with the final FATCA regulations, supplemented by government-to-government exchange of information on request.

Payments and Settlements System

BSP continues to provide intermediary services through PhilPaSS

The BSP as operator of the Philippine Payments and Settlements System (*PhilPaSS*) continued to provide safe, sound, and efficient payments and settlements of financial transactions in real time.

Volume and Value of *PhilPaSS* Transactions
2014 vs 2013

	2014	2013	Growth Rate (%)
Volume (in thousand)	1,351	1,358	-0.5
Value (in trillion pesos)	337.8	351.8	-4.0
Transaction Fees (in million pesos)	145.3	154.9	-6.2

Source: Payments and Settlements Office

Volume and value of PhilPaSS transactions decrease

In 2014, the number of transactions processed and settled in *PhilPaSS* declined by 0.5 percent to 1.35 million. The lower volume of transactions was due to the y-o-y decrease in the following: Megalink ATM Network transactions (22.6 percent), RP/RRP/SDA maturities transactions (20.4 percent), and interbank sale and purchase of foreign currency (US dollar) via payment-versus-payment (PvP) (11.9 percent).

Similarly, the value of transactions reached ₽337.8 trillion, 4.0 percent lower than the year-ago level. This was due to the decrease in the following accounts: Electronic Fund Transfer Instruction System (EFTIS) transactions (42.2 percent), sales and purchases of government securities via delivery-versus-payment (DvP) (29.7 percent), and RP/RRP/SDA maturities transactions (21.1 percent).

As a result of declines in the number of transactions, total revenues from transactions fees reached ₽145.3 million, 6.2 percent lower than the year-ago level. The decrease in revenues was also partly due to the decommissioning of PPS-Front End System (PPS-FES) and Electronic Fund Transfer Instruction System (EFTIS) beginning October 2014 and the free-of-charge online inquiry feature of the PhilPaSS participant browser (PBB) on all transactions.

The BSP also participated actively in various projects, activities, and initiatives in 2014 to enhance the efficiency of the existing payments system, which included the following:

- Implemented the Check Truncation Technology (CTT) in Philippine check clearing processes;
- Engaged the services of an independent third party consultant to provide an assessment of PhilPaSS' compliance with the 24 principles for Financial Market Infrastructures (FMIs) of the BIS;

- Decommissioned two legacy payments-processing systems—namely, the PPS-Front End System (PPS-FES) and Electronic Fund Transfer Instruction System (EFTIS)—in favor of the PPB, a web-based facility that provides participant banks easier and faster access to *PhilPaSS*; and
- Conducted the following information dissemination activities:
  - *PhilPaSS* Awareness Campaign for banks' branch personnel located in Baguio City and Cagayan de Oro City;
  - PhilPaSS One-Stop-Shop sessions for rural banks located in Baguio City and General Santos City; and
  - Annual *PhilPaSS* Forum for system users from participating banks.

Key Operations of the BSP

Loans and Credit

The BSP refines its lending operations

The BSP focused on refining its lending operations in 2014, while ensuring that the volume of credit in the financial system remained consistent with the BSP's price stability objective.

The rediscount rates for Rediscounting Window I and Rediscounting Window II (RW I and RW II, respectively) increased by a total of 50 bps during the year, following the similar increase in the BSP's policy rates in the second semester of the year in response to elevated inflation pressures and rising inflation expectations at the time. The peso rediscount rates for RW I and RW II are based on the applicable BSP one-month RP and overnight RRP rate, respectively, plus term premia for longer maturities per Circular No. 806 dated 15 August 2013.

The BSP also enhanced its eligibility criteria for the rediscounting window by requiring banks to have no with chronic reserve deficiencies in either deposit or deposit substitutes at the time of availment.[68]

Furthermore, the BSP granted temporary rediscounting relief, in addition to regulatory relief, to banks affected by different natural calamities during the year, including Typhoons Glenda, Luis, and Mario in Q3 2014. The temporary relief granted a 60-day grace period to settle outstanding rediscounting obligations to all banks with operations or end-user borrowers in affected areas. The measure also allowed rediscounting banks to restructure with the BSP, on a case-to-case basis, the outstanding rediscounted loans of their end-user borrowers affected by the calamities, subject to the terms and conditions stated in the implementing guidelines.

[68] Through Circular No. 861 dated 1 December 2014

Total loans granted in 2014 amounted to ₱1.9 billion, with about 61 .0 percent granted to TBs. A bulk of the loans was released through the rediscounting facility, except for about ₱0.1 billion, representing restructured loans to the PDIC and notes receivables.[69] The peso equivalent of dollar loans availed by banks under the Exporters' Dollar and Yen Rediscount Facility (EDYRF) amounted to ₱0.4 billion.

Meanwhile, total loan collections for the year reached ₱12.1 billion, with ₱3.9 billion representing payments under the rediscounting facility.

The total outstanding loan portfolio of the BSP as of 31 December 2014 declined by ₱10.2 billion or 12.7 percent to ₱70.4 billion from the previous year's level of ₱80.6 billion. With bigger loan repayments against drawdowns, the total loans outstanding under the peso rediscounting facility fell to ₱1.0 billion as of end-2014 from ₱2.9 billion in end-2013. Of the outstanding peso rediscounting loans, TBs and RBs accounted for ₱0.3 billion (33.1 percent) and ₱0.7 billion (66.9 percent), respectively.[70]

Total outstanding loans under the EDYRF likewise fell to ₱0.1 billion by end-2014 from about ₱0.4 billion in the previous year as loan repayments outpaced availments during the year.

Most targets related to credit provision are met

Most targets related to the provision of loans and credit were met or exceeded in 2014. Total gross income from lending operations of the BSP reached ₱2.0 billion in 2014, or about 58.5 percent lower than the 2013 income of ₱4.7 billion. Gross income fell below the 2014 projected level of ₱2.5 billion as loan grants and availments declined sharply during the year due to the increase in rediscounting rates[71] as well as to ample liquidity in the financial system.

Meanwhile, the BSP's past due ratio rose slightly to 10.2 percent in 2014 from 9.6 percent in the previous year, although this could be attributed to the faster reduction in the total outstanding loans vis-à-vis that in the total volume of past due loans.

The BSP continues to improve the delivery of credit

The BSP also implemented various projects to enhance the delivery of credit to all productive sectors of the economy. Among its accomplishments were:

1) The launching of the Credit Surety Fund (CSF) program in five cities (Quezon City, Marikina, Butuan, San Jose, and Muñoz) and three provinces (Bataan, Agusan del Norte, and Nueva Vizcaya), and consolidation of two CSFs (Cebu City and Zamboanga del Norte and Dipolog City CSF) bringing the total number of CSFs established nationwide to 37 from 29 in the previous year.[72]

[69] Availments for notes receivable do not entail actual release of funds but mere approval of the loan restructuring of borrowers of closed banks.
[70] Figures may not add up to total due to rounding.
[71] Interest rates on the rediscounting facility increased in 2014 with the introduction of term premia via the Rediscounting Windows I and II as well as the introduction of risk term premia on the EDYRF.
[72] The eight new CSFs join the 29 other CSFs throughout the country [i.e., in the cities of Baguio, Davao, Dipolog, General Santos, Iloilo, Metro Cebu, and Puerto Princesa; and in the provinces of Aklan, Albay, Aurora, Benguet, Bohol, Capiz, Cavite, Cebu, Compostela Valley,

The CSF is a credit enhancement scheme that allows micro, small and medium enterprises (MSMEs), which are members of cooperatives, to borrow from banks using the CSF surety cover as security for the loan in lieu of conventional collateral. Loans granted by banks under the program are eligible for rediscounting with the BSP through the Department of Loans and Credit.

2) The conduct of business fora and training courses nationwide to promote the CSF. Since the inception of the CSF in 2008, the BSP has conducted 130 runs of its various training programs and business fora across the country, including courses on Credit Appraisal and Monitoring and Appreciation of Financial Statements.[73] A new course, the Risk Management Seminar, was introduced in 2014.

3) The enhancement of the BSP's technological infrastructure and systems for lending. The BSP continued to upgrade its capabilities and systems through the conceptualization and development of the Loans and Credit Management Information System (LCMIS), which aims to streamline the BSP's lending operations as well as to centralize and integrate the databases of loan transactions. The LCMIS is envisioned to be an end-to-end solution that covers the entire loan cycle, as it integrates with existing BSP applications such as the Philippine Payments and Settlements System and the Core Financial Accounting System. The project is currently at the procurement stage.

4) The provision of technical assistance to various banks on the BSP's rediscounting facility and eRediscounting System.

Asset Management

The BSP maintains operational efficiency in its administration, maintenance, and disposal of acquired assets

The BSP ensures that assets acquired through foreclosures and *dacion en pago* agreements[74] and real properties not used in operations are administered, maintained, and preserved to enhance their value prior to eventual disposal. Private banks that avail of the BSP's loan facilities typically assign to the BSP their receivables, including collateral in the form of real properties. In cases where they are unable to pay their loans, borrower banks may opt to execute the *dacion en pago* agreement with the BSP. Without such arrangement, the real properties of said banks are foreclosed with its ownership transferred to the BSP for proper management and disposal.

Davao del Norte, Davao Oriental, Laguna, Negros Occidental, Negros Oriental, North Cotabato, Northern Mindanao (Cagayan de Oro), Occidental Mindoro, Oriental Mindoro, Palawan, Pangasinan, Saranggani, South Cotabato, and Tarlac]. Moreover, the CSF in Metro Cebu was expanded to cover the participation of the Cebu provincial government, thereby creating the Cebu CSF. Similarly, the Dipolog City CSF was expanded to cover the participation of the Zamboanga del Norte provincial government and cooperatives, thereby creating the Zamboanga del Norte and Dipolog City CSF.

[73] The Appreciation of Financial Statements course was discontinued in 2014 but was replaced with the Financial Management Seminar during the year.

[74] "*Dacion en pago*" refers to a payment scheme whereby property, whether real or personal, tangible or intangible, is alienated in favor of the creditor, which could either be a financial institution or a special purpose vehicle, in satisfaction of a non-performing loan.

The asset management policies and procedures are implemented by the BSP through the proper documentation of ownership in the BSP's favor, re-appraisal and validation of valuation of properties based on current values, payment of taxes and other government fees to avail early payment discounts, and collection of sales contract and lease receivables on sold properties.

The full implementation of the Acquired and Other Assets Management System (AOAMS) linked with the Accounting Department's Core Financial Accounting System (CFAS) facilitated the management of acquired assets as well as the monitoring of income, expenses, and receivables. Operational efficiency in asset management is continuously being enhanced with the development of computer systems for client payment through accredited banks (Acquired and Other Assets Payment System), and for the management and monitoring of all titles, contracts (Automated Title and Contract Monitoring System), and all post-dated checks received from clients (Automated Check Monitoring System).

The accumulated allowance for market decline for acquired assets stood at ₱1.4 billion as of end-2014, about 2.7 percent lower relative to the previous year's level. The valuation reserves fund[75] was set up to minimize the impact of a change in the value of acquired assets.

As of end-December 2014, the book value of acquired assets amounted to ₱16.2 billion,[76] higher by 1.2 percent from the 2013 level of ₱16.0 billion.

The BSP's income from asset disposal increases

The Asset Management Department and the BSP Committee on Disposal of Real Properties disposed 746 acquired properties in 2014, lower by 39.4 percent compared to the previous year in terms of number of titles/properties. However, the BSP sold its acquired properties for a total selling price of ₱1,718.6 million, exceeding the disposal target for the year.[77] This generated for BSP an estimated income of ₱571.2 million (inclusive of interest and net expenses),which is 22.5 percent higher than the previous year's income.

Asset Disposal Schemes in 2014

Disposal Scheme	Properties Sold	In Million Pesos Net Book Value	 Redeemed/ Selling Price	 Estimated Net Income
1. Public Auction	13	771.93	1,113.17	367.67
2. Negotiated Sales	616	273.66 [a]	453.95	199.13
3. AMD-PFO Housing Program III	21	6.65	10.23	3.52 [b]
4. Redemption	7	2.06	2.93	.91
5. Repurchase	89	138.29	138.29	-
Total	746	1,192.59	1718.57	571.23

[a] Net of allowance for market decline in the amount of P247,600.
[b] Exclusive of capital gains tax which is for the account of the BSP and shall be paid upon full payment by the buyer.

[75] The amount of the reserve fund varies each year depending on the latest appraised value of the properties.
[76] Subject to adjustments, includes the values of approved sale transactions awaiting submission of duly executed sale documents from buyers.
[77] The annual disposal mark for 2014 is 8 percent of total assets available for sale or ₱639.2 million.

Meanwhile, the BSP was able to collect ₱328.6 million on sales contract receivables, representing 83 percent of total principal installments due in 2014. Interest income earned from said collection amounted to ₱137.0 million, while miscellaneous income representing penalties from delinquent accounts reached ₱2.4 million. Total expenses incurred by the BSP in the consolidation, maintenance, and sale of properties amounted to ₱452.0 million.

For 2014, the BSP entered into five lease contracts[78] covering 13 property titles, bringing to 21 the total outstanding lease contracts with maturities ranging from 1 to 10 years. Total rental income from all the lease transactions amounted to ₱36.0 million.

The BSP also conducted several marketing strategies that accelerated the disposal of acquired properties. The BSP participated in various housing conventions such as the Convention of Subdivision and Housing Developers Association in Cebu (September 2014), various housing fairs sponsored by the National Housing Authority (October 2014), and the Property Expo Philippines (December 2014). The BSP also coordinated with the Department of Interior and Local Government for the possible disposal of properties on a wholesale basis under the Government's special housing fund (July 2014) as well as conducted a road show in Bulacan to showcase BSP properties (November 2014).

International Reserves Management

BSP reserve management focuses on ensuring safety and increasing returns of holdings

The BSP continued to manage its foreign exchange reserves consistent with its reserves management objectives amid an uneven global economic recovery, low inflation environment, and divergent monetary policies among major economies. In response to the developments and challenges in the global financial markets, the BSP implemented measures aimed at ensuring the safety and increasing the return of its holdings, as well as diversifying strategically its international assets.

Gold holdings were managed in compliance with existing management guidelines. While gold prices declined in 2014, total gold holdings of the BSP increased marginally relative to previous year's level. The BSP can engage in gold trading and gold swaps as part of its reserve management strategies.

On the liabilities side, the BSP continued to administer and monitor effectively its liabilities. In addition, the BSP administered the existing Memorandum of Understanding (MOU) on Bilateral Repurchase Agreements with Asian central banks, which cover stand-by USD-denominated repurchase facilities, the Swap Arrangements with ASEAN countries, the Bilateral Swap Arrangement (BSA) with the Bank of Japan (BOJ), and the Chiang Mai Initiative Multilateralization (CMIM). These facilities remained untapped as of end-2014.

[78] The BSP Monetary Board authorized the entry of the BSP into new lease agreements over acquired assets on 4 August 2000.

The BSP continued to manage its risk exposures arising from international assets. These included identification, measurement and controlling of market, liquidity, and credit risks. To mitigate credit risk, the BSP continued to negotiate International Swaps and Derivatives Association agreements and Credit Support Annex with counterparties. The BSP continued to evaluate and report the performance of its various portfolios, as well as monitor compliance with investment parameters and guidelines. To cover new strategies and measures adopted for reserve management, risk management systems and reports were updated. Finally, the BSP continued to participate in the World Bank Sovereign Investment Partnerships - Reserve Advisory Management Program (WBSIP-RAMP) to further improve the reserve and risk management capacities.

International Operations

Foreign Exchange (FX) Regulations

FX regime and debt monitoring system remain responsive to local and global developments

The BSP continuously reviews its FX regulatory framework to keep attuned with prevailing market conditions and be responsive to the needs of the expanding and dynamic economy. As of December 2014, the BSP had implemented seven waves of FX reforms primarily aimed at facilitating stakeholders' access to FX resources of the banking system for legitimate FX transactions and thereby lending support to business activities.

In 2014, the BSP issued Circular No. 838 amending the Manual of Regulations on Foreign Exchange Transactions (FX Manual). The Circular pertains to the amendments of the "Authority to Disclose Information" (ATD) which non-resident investors must accomplish relative to the registration of his investment through a custodian bank. The new form, which will only be accomplished and submitted once, greatly simplifies the requirement as the form now covers all investments of the non-resident held by a custodian bank.

Currency Exchange Facility (CEF) Program

The BSP established the CEF program to provide immediate liquidity assistance to displaced/affected overseas Filipino workers (OFWs) returning from countries experiencing emergencies/unforeseen problems. The CEF allows returning OFWs to convert their holdings of third currencies (i.e., non-US dollar) to Philippine pesos. As of December 2014, there have been seven CEFs put in place. In 2014, the BSP implemented the second CEF program for the Libyan Dinar.

Notes and Securities Printing

The BSP produced 1,511.53 million pieces of banknotes during the review period, which is below the targeted production of 1,952.36 million pieces. The 22.6-percent shortfall was due to high wastages incurred during the initial run of high denominational banknotes. The delivery of in-house produced banknotes met 77.4 percent of the target, while the delivery of banknotes based on outsourced production accomplished 64.2 percent of the target.

Meanwhile, the BSP produced 3.1 million electronic Passport (ePassport) booklets in 2014, representing 96.7 percent of the targeted production of 3.2 million booklets. The target was not met due to defective eCovers.

On the delivery of finished goods of banknotes, the BSP was not able to meet its target due to the failed bidding of the 500-Piso New Generation Currency (NGC) banknote, which prolonged the delivery lead time in outsourced finished note. Port congestion issues also delayed the deliveries of NGC banknotes. Meanwhile, the BSP was able to meet its target for the delivery of other security documents and exceeded its target for the delivery of ePassport booklets. The major projects that were completed in 2014 were as follows: (1) automatic single note inspection system (ASNIS); (2) OVD patch hot stamping machine No. 1; (3) BPG security cages; (4) material handling equipment replacement and standardization; and (5) warehouse section's shelving system.

Mint and Refinery

The BSP's mint and refinery operations delivered a total of 1,780.39 million pieces of circulation coins of various denominations to the Currency Issue and Integrity Office (CIIO). Meanwhile, the mint produced a total of 2,049.88 million pieces of coins in 2014, falling below its production target by 22 percent due to the non-availability of coin metals and the CIIO's request for deferral for finished coin deliveries. Out of the circulation coins produced, around 30 million pieces were commemorative coins: 9.98 million pieces of 10-Piso Apolinario Mabini, 9.98 million pieces of 5-Piso Leyte Landing and 9.97 million pieces of 5-Piso Bagong Bayani.

The mint also produced and delivered 136 sets of various presidential medals and state decorations to the Office of the President, Civil Service Commission, National Commission for Culture and the Arts, and BSP-Corporate Affairs Office. In addition, the mint produced 36,652 sets/pieces of commemorative medals which include the Tandang Sora Brilliant Uncirculated Coins, Andres Bonifacio Commemorative Medal, Apolinario Mabini Commemorative Coin and Medal, 23rd World Economic Forum, 75th Founding Anniversary of Quezon City Medallion, Centennial Medallion for the Boy Scout of the Philippines, BSP Fun Run Medal, Nestle Commemorative Medal, Service Excellence Medal and Tito Mijares Achievement Award Medallion.

The refinery produced 144 pieces of "good delivery bars" (GDBs), exceeding the target of 96 GDBs. Together with the BSP regional gold-buying stations, the Mint and Refinery Operations Department (MROD) purchased a total of 20,353.7 troy ounces of panned gold in 2014, 7 percent higher compared to its gold purchases of 18,948.1 troy ounces a year ago.

Currency Issuance and Retirement

Currency notes and coins issued continue to increase

Total currency notes and coins issued by the BSP as of 31 December 2014 amounted to ₱1,154.7 billion (26,814.8 million pieces), 97.7 percent of which were currency notes while the rest were coins. Total currency notes issued by the BSP amounted to ₱1,128.0 billion (4,085.7 million pieces), 36.4 percent higher than the year-ago level of ₱827.1 billion (3,178.9 million pieces). Meanwhile, total coins issued stood at ₱26.7 billion (22,729.0 million pieces), reflecting an increase of 6.9 percent from the year-ago level of about ₱25.0 billion (21,085.5 million pieces).

Volume of unfit notes retired rises

The volume of unfit notes retired either manually using the Security Engineered Machine (SEM) disintegrator or on-line through the Automated Banknote Processing Machines (ABPMs) reached 1,140.1 million pieces in 2014, higher by 84.4 million pieces or 8.0 percent than the previous year's level. Out of the total volume retired, 586.0 million pieces or 51.4 percent were retired manually through the SEM disintegrator, while the rest were retired on-line through the ABPMs.

To provide timely, good-quality, and adequate currency to meet the requirements of the economy, the BSP provided sufficient currency requirements, strengthened its currency forecasting model and data sources, launched the Enhanced Cash Management Services, facilitated faster verification of banknote and coin deposits, and expedited the retirement of unfit notes.

Meanwhile, in the area of preservation of currency integrity, the BSP formally announced on 29 December 2014 the demonetization of the New Design Series banknotes, conducted public information campaigns to promote the BSP's advocacies related to currency matters, examined mutilated/doubtful currencies and negotiable instruments, strengthened its anti-counterfeiting drive, enhanced its rules and regulations on currency notes and coins,[79] and calibrated the ABPMs for accuracy in counterfeit detection.

Targets related to currency management are exceeded

The BSP also exceeded its targets for the following metrics for 2014: (1) ratio of fit note deposits to total note deposits; (2) ratio of verified fit note deposits to total fit note deposits; (3) ratio of verified unfit note deposits to total unfit note deposits; (4) ratio of verified coin deposits to total coin deposits; (5) percentage of total volume of currency served to

[79] BSP Circular No. 829 dated 13 March 2014.

total volume of currency requested per Cash Order Slip; (6) ratio of unfit notes retired manually to unfit notes for manual retirement; (7) percentage of total number of successful operations to total number of actual operations; and (8) percentage of total number of undetected counterfeit notes over total number of passed counterfeit notes. Meanwhile, the actual percentage of total number of processed claim (released/unclaimed) over the total number of claims received was below target as the significant number of mutilated/doubtful currencies submitted for examination required longer processing time due to the severe condition of the said currency notes, particularly those from typhoon-stricken areas.

Economic Research, Statistical, and Information Dissemination Activities

The BSP, through the undertakings and initiatives of the Department of Economic Research (DER), the Department of Economic Statistics (DES), and the Center for Monetary and Financial Policy (CMFP), continued to uphold its commitment to support monetary and financial policies through the delivery of high-quality economic research; forecasting and modeling; policy analysis and simulation; participation in policy discussions; statistical data compilation and report generation; and information dissemination activities. These activities provided the monetary authorities the technical resources to make well-informed policy decisions; assisted economists, investors, statisticians, analysts, and students in the conduct of their research; increased the transparency of BSP policies; enhanced the availability and quality of information provided by the BSP to its stakeholders; and promoted better awareness to the public on the role of the BSP in the domestic and international financial community.

Research studies support monetary and financial policy decision-making…

The Advisory Committee (AC), which is tasked to deliberate, discuss, and make recommendations to the MB on issues relating to the formulation and implementation of monetary policy, held eight policy meetings in 2014. Correspondlingly, eight policy papers on the review of the BSP's monetary policy stance, containing the latest analyses of domestic, global, and financial developments, assessments of the inflation outlook in line with the inflation targeting framework, and discussions on selected topical issues that were relevant to the conduct of monetary policy, were submitted for consideration of the MB.

Research studies on economic and financial issues were conducted by the BSP to analyze relevant economic and financial issues. These included studies on the possible trigger of a financial crisis; the impact of easing the foreign exchange liberalization rules on the Philippine economy; housing and consumer credit in the Philippines; and the analytical framework in assessing systemic financial market infrastructure. Collaborative research papers under the Southeast Asian Central Banks (SEACEN) Research Program were also completed in 2014 on *Building on the Counter-Cyclical Buffer Consensus: An Empirical Test for the Philippines*, and *Advancing Inclusive Financial Systems in the Next*

Decade. Meanwhile, research topics for the working papers initiated in 2014 covered the real effective exchange rate; decomposing sources of potential economic growth; price effects of minimum wage; capital flows and exchange rate volatility in the Philippines; inflation persistence; and household indebtedness in the Philippines.

The BSP completed technical notes, position papers, and policy briefs covering topics that included shadow banking; capital flows; proposed modifications on the lending and exceptional access framework of the IMF; impact of ASEAN integration on the Philippine economy/monetary policy; electronic money; Islamic banking in the Philippines; financial sector reforms; analysis of the inflation rates for the poorest 30 percent of Filipino households; and drivers of Philippine economic growth and labor market dynamics.

The *BSP Economic Newsletter*, which provides the BSP community and the public readily accessible, concise, and reader-friendly compendium of studies on current economic and financial issues, featured in its 2014 issues the following topics:

1) *The Relationship of Monetary Policy to National Security* (January - February 2014);
2) *Surveillance of the Philippine Rice Market* (March - April 2014);
3) *Role of Trade Promotion Organizations and Their Contribution in Creating Linkages: The Philippine Case* (May - June 2014); and
4) *Other Financial Corporations Survey (OFCS): Framework, Policy Implications and Preliminary Groundwork* (July - August 2014).

Eleven Brown Bag sessions for the BSP community were conducted in 2014. These sessions were as follows:

1) *Macroprudential Measures: Watering Down the Punch Bowl, Philippine Experience;*
2) *The Impact of Changes in Investor Base and Financial Deepening in EMs;*
3) *Regime Switching Model of Inflation for the Philippines, Domestic Rice Market Dynamics and Monetary Policy;*
4) *Update on 2014 El Niño Episode;*
5) *The Relationship of Monetary Policy to National Security;*
6) *Decomposing Sources of Potential Output Growth;*
7) *Analytics of the Philippine Economy: In Calm and Rough Waters;*
8) *2014 IMF Spillover Report, Focus on EMs;*
9) *Recent Philippine Economic Growth and Labor Market Dynamics;*
10) *Global Stability Report: Risk Taking, Liquidity and Shadow Banking;* and
11) *Inflation Rates for the Bottom 30 Percent of Filipino Households.*

The BSP provided commentaries on various Congressional and Senate bills pertaining to the credit card industry and interest rate ceilings, liberalization of the entry and scope of operations of foreign banks in the Philippines, anti-trust and fair competition measures, Fiscal Responsibility Act, Fiscal Monetary Board Act, and BSP Charter Amendments.

The BSP received a total of 301 requests for MB opinion on proposed borrowings by the NG, government-owned and controlled corporations (GOCCs), local water districts (LWDs), state universities and colleges (SUCs), and local government units (LGUs).

… and promote transparency and public awareness

In support of the government's drive to promote operational transparency and increase public awareness on economic and financial issues, the BSP continued to publish regular reports, media releases, and other relevant resource materials. These included the BSP Annual Report, International Investment Position (IIP), Philippine Flow of Funds (FOF), Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS), Year-End Report to the President, Regional Economic Developments in the Philippines; 2012 Survey of Information Technology-Business Process Outsourcing (IT-BPO) Services; Report on the Status of the Philippine Financial System; quarterly reports on the Balance of Payments (BOP), Business Expectations Survey (BES), Consumer Expectations Survey (CES), Inflation Report, Report on Economic and Financial Development; monthly reports on Selected Philippine Economic Indicators (SPEI); monthly press releases on inflation, domestic liquidity, and bank lending; statements on monetary policy decisions (after the policy meeting); and highlights of the MB policy meetings (one month after each meeting).

New analytical tools have been completed and are being used; others are on the pipeline...

In 2014, the BSP completed the development of short-term nowcasting models for domestic liquidity, GDP, and consumer price index (CPI). The results from these models were used to "soft-tune" existing structural economic models. In addition, the information from the short-term nowcasting models served as important near-term information for analyzing trends. Meanwhile, the study on the re-estimation of total factor productivity (TFP) growth for the Philippines, including an alternative estimation of potential output growth, was completed to complement the existing models on potential output already being used by the BSP. In addition, the estimate for the exchange rate pass-through has been reviewed to incorporate more recent information.

The BSP spearheaded the ongoing construction of the 2010 Philippine Financial Social Accounting Matrix (PFSAM). The PFSAM provides an overview of the real and financial transactions in the economy and shows the inter-linkages between the real and financial sectors, as well as the interrelationships among the economic institutions. The construction of the PFSAM was a follow-through activity identified in the MB meeting during the presentation of the 2009 Financial Social Accounting Matrix in June 2012.

The BSP also continued to pursue the construction of the Residential Real Estate Property Index (RREPI). The RREPI aims to be a valuable tool in assessing the real estate and credit market conditions in the country, while simultaneously guiding the BSP in its assessment of trends in asset prices and the risk of bubbles in housing prices. A preliminary RREPI was constructed based on construction materials and building permits provided by the Philippine Statistics Authority (PSA). Moreover, the BSP has identified relevant information that could be available from banks' loan application forms and would provide useful information in the generation and improvement of the RREPI. A survey/dry run with banks on the proposed Quarterly Report for RREPI was conducted and the processing of the preliminary results is ongoing.

To broaden the measure of stress in the financial markets, the BSP revised the computation of the Philippine Financial Stress Index (PFSI).

… while existing economic models go through continuous review and refinement

Continuous review and refinements were undertaken for the BSP's workhorse monthly inflation forecasting models, namely the Multiple Equation Model (MEM) and the Single Equation Model (SEM) to update them based on recent changes in data definitions and data extensions up to 2013; the semi-structural quarterly gap model called the Macroeconomic Model for the Philippines (MMPH) for forecast and policy tests; and the quarterly Medium-Term Macroeconometric Model (MTMM) for date updating. In order to facilitate the transfer of technical knowledge, the operations of these models are taught to the staff through the conduct of in-house training during the year. Moreover, the updating of the software and hardware, and other resource requirements of these models are being addressed.

The BSP initiates efforts to access new and relevant information...

The BSP began its subscription with the *Centre Pour La Recherche Economique Et Ses Applications* (CEPREMAP) to access real-time information on global developments from the Global Projections Model (GPM) network and to tap technical resources and subject matter experts needed for model improvements and extensions of the MMPH. The GPM provides a set of monthly indicators on the world economies, including forecasts of key economic variables shared by international research institutions and central banks.

… and collaborated with international experts on key areas of policy-making and operation.

The BSP also started building the groundwork for possible collaboration with the United States Department of the Treasury-Office of Technical Assistance (OTA) in 2014. The resulting technical assistance program aims to cover proposals on macroeconomic policy, financial stability, and operational efficiency through modernization of information technology systems.

The BSP reviews its survey tools for efficiency and standardization.

The regular surveys conducted by the BSP provided valuable information to policymakers and researchers. In an effort to achieve a more efficient and less burdensome survey design, the BSP held consultative meetings with selected respondents of the CDIS in 2014. Revisions to the Cross-Border Transactions Surveys (CBTS) were also undertaken and sent to respondents through the industry associations for comments and suggestions.

In 2014, the BSP completed the shift of the compilation of BOP and IIP statistics based on the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6).

The 2013 Philippine FOF, as aligned with the BPM6, had also been submitted in 2014 for presentation to the MB in early 2015.

With the institutionalization of the generation of the Information and Communication Technology (ICT)-BPO services at the PSA, the BSP ceased the conduct of the Annual Survey of IT-BPO Services in 2014.

Surveys provide valuable information to policymakers and researchers.

As part of its assessment of the inflation outlook, the BSP continued to conduct the monthly Private Sector Economists Inflation Forecast Survey, which gathers various private sector economists' inflation forecasts for the current quarter and for the full year.

The BSP completed the 24th cycle of the Senior Bank Loan Officers' Survey (SLOS) in Q4 2014. The SLOS aims to enhance the BSP's understanding of banks' lending behavior, which is an important indicator of the strength of credit activity in the country. The survey also helps the BSP assess the robustness of demand conditions, potential risks in the asset markets, and possible strains in the bank lending channel as a transmission channel of monetary policy.

The BSP exceeded its response rate target on several surveys, including the quarterly BES, quarterly CES, and monthly CBTS (1, 2 and 3). The BES provides monetary authorities with advance information on the current and near-term economic and business conditions of the country, while the CES provides a quick and regular assessment of the financial condition of consumers and economic condition of the country from the consumers' point of view.

The BSP advocates the streamlining and modernization of its research and reporting processes.

The computerization of the Total Credit Reporting System (TCRS) was completed in 2014. Software validation system to computerize the generation and submission of the total credit report was installed in banks. Briefings were held to familiarize the banks on the use of the system. Since June 2014, banks have been using the system to generate the total credit report which are then electronically submitted to the BSP.

The BSP continued to pursue the implementation of a Quality Management System (QMS) for the Monetary Policy Sub-Sector (MPSS). The set of manuals was published and continuously enhanced to document procedures, work instructions, and quality plans for the research and statistical outputs of the sub-sector.

The BSP provides a venue to recognize its partners in statistical activities and advocacies…

The BSP held the 2014 Awards Ceremony and Appreciation Lunch for BSP Stakeholders in recognition of its partners from the business and government sectors, who continued to support the BSP's statistical undertakings, information needs, and advocacies. The Stakeholders Awards were held in the National Capital Region (NCR) and in 11 regions all over the country. Other endeavors to promote greater statistical awareness among the public were the 16th BSP-Department of Education (DepEd) NCR Oratorical Contest, the Philippine Statistics Quiz, and the National Statistics Month.

… continues to actively participate in inter-government agency and international committees…

The BSP continues to work towards enhanced relationships with various organizations as it actively participated in meetings of inter-agency committees on discussions of economic policies and macroeconomic assumptions at the DBCC and its sub-committees, and the National Price Coordinating Council (NPCC). The BSP, as a resource institution of the DBCC, participated actively in economic policy discussions and in setting macroeconomic assumptions needed for the preparation of the annual budget and programs of the National Government (NG). The BSP also supported the DBCC during NG budget delideration at the House of Representatives and the Senate.

The BSP was involved in the activities of various committees on statistics such as the Technical Committee on Price Statistics (TCPS); the Inter-Agency Committee on Trade Statistics (IACTS); the Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS); the technical working group (TWG) on overseas Filipino (OF) statistics, trade in goods and in services, CPI and related indices; the IAC and TWG on tourism statistics; the BSP-Department of Trade (DTI) working group on data exchange; and various committees of the PSA. The BSP also participated actively in the Committee on Tariff and Related Matters (CTRM) and in the Technical Committee on Tariff and Related Matters (TCTRM). The BSP was also an active member of the Mining Industry Coordination Council (MICC) and the National Food Authority (NFA) Council.

…and organizes local and international conferences to provide an avenue for discussion on current issues and promote public awareness

The BSP conducted research and actively participated in the *Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) – Monetary and Financial Stability Committee (MFSC).*

In addition, the BSP reinforced its working relationships with the academe and other organizations by organizing two legs of the BSP-University of the Philippines (UP) Professorial Chair Lectures on 14 May 2014 and 26 November 2014.

In October 2014, the BSP organized the International Research Conference on *The Evolving Role and Limits of Monetary Policy: New Perspectives for EMs*. The BSP presented two papers in the conference: a collaborative paper with the IMF entitled *A Credit and Banking Model for EMs and An Application to the Philippines* and a paper co-authored with an economist from the European Central Bank (and formerly Kiel Institute for the World Economy) on *The Responsiveness of Monetary Policy to Financial Stress: A Dynamic Panel Threshold Analysis*. The conference brought together researchers from central banks, the academe, and research institutions to discuss current challenges for central banks and new insights on the future of monetary policy.

In addition, the BSP organized a lecture given by Professor Francis E. Warnock on *Capital Flows, Reserve Accumulation, and Capital Flows Management* on 11 March 2014 for BSP officers and staff, the academe, and researchers from various institutions.

Environmental scanning exercises tackle the implications of ASEAN financial integration as well as the challenges in the Philippine labor market

Environmental Scanning Exercises (ESEs) were conducted in June and December 2014. Resource persons from the banking community, government, multilateral organizations, private sector, and the academe participated actively in the exchange of knowledge and position on topics relevant to monetary policy formulation. Given the start of the ASEAN financial integration in 2015, the 22nd ESE in June 2014 was held with the topic *ASEAN Financial Integration: Implications for the Philippine Banking System and Financial Sector Policy*. Meanwhile, the 23rd ESE in December 2014 revolved around *Addressing the Jobs Challenge in the Philippines,* to provide an opportunity for deeper analysis of the Philippine jobs market given the observed weak relationship between output growth and unemployment rate in the Philippines.

In February 2014, the BSP conducted its regular consultative meetings with various export industry associations with the theme *Philippines: Making a Difference in 2014 and Beyond.* The meeting aimed to:

1) discuss the outlook of the export sector for 2014-2015;
2) bring the views and concerns of the export sector to the attention of concerned agencies;
3) understand the challenges/speed bumps ahead for the tradable goods and services sectors; and
4) determine how policy should respond in the face of all the challenges identified by exporters.

Supervisory Research Activities

Banking Statistics

To promote data integrity and timely delivery to end-users and to complement the BSP's focus on risk-based supervision and inclusive financial system, existing systems and approaches related to data capture, processing and dissemination were further improved. Major accomplishments in this area included the following:

1. **Development and Deployment of Financial Surveillance Dashboard.** Relevant financial market indicators were consolidated to make up the Financial Surveillance Dashboard, which is used for monitoring of recent financial market developments.

2. **Automation of the Processing and Computation of Reserve Position of Banks and Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs).** The automation of the processing and computation of reserve position of banks and NBQPBs involved the migration from the old system to the adoption of a new Java system.

3. **Development of Report Monitoring Tools**. Ad hoc monitoring systems using MS Access programs were developed to track the status of report submissions, as well as to prompt ITSS to process reports that were skipped for validation by the system. The monitoring programs developed include reports for real estate exposure, CAR, microfinance, and inventory of branch network (UKB, TB and RCB).

4. **Implementation of Enhancements to Prudential Reports.** In 2014, the BSP implemented enhancements to prudential reports in line with several Memorandum to All Banks issued in the same year.

5. **Development of Financial Inclusion Database.** Data-sharing arrangements with relevant departments were institutionalized to ensure that financial inclusion data remain updated, accurate, reliable and accessible.

Banking Reports

The BSP also published various reports on the condition and performance of the Philippine financial system, which include, among others, the President, both Houses of Congress and MB as recipients. The following are among the vital reports prepared during the year:

a. *Status Report on the Philippine Financial System* - A semestral status report on the condition and performance of the Philippine Financial System (Financial Health) is submitted to the Office of the President and both Houses of Congress pursuant to Section 39c, Article V of the New Central Bank Act (R.A. No. 7653). Highlights of the report are posted in the BSP website, circulated to news organizations, furnished to industry organizations and sold to outside recipients (i.e., academic organizations) via subscription. The report, at the end of every year, incorporates the progress on the implementation of Republic Act No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks and for Other Purposes), Republic Act No. 7906 (Thrift Bank Act of 1995), Republic Act no. 7353 (Rural Bank Act of 1992) and Republic Act No. 8367 (Revised Non-Stock Savings and Loan Association Act of 1997).

b. *Report on the Implementation of R.A. No. 9178 "Barangay Micro Business Enterprises (BMBEs) Act of 2002"* - An annual report on the status of implementation of BMBE Act (R.A. No. 9178) which is submitted to both Houses of Congress and the Office of the President.

c. *Report on CAR of Banks* - A quarterly report on the capitalization of banks in line with BSP's risk-based capital adequacy framework. Highlights of the report are posted in the BSP website, circulated to news organizations and furnished to concerned SES units for their appropriate action.

d. *Report on the NPLs of Banks* - A monthly report on the asset quality of universal and commercial banks (U/KBs), as an off-site supervisory tool, to help banks improve their positions and alert them to undertake remedial measures if their NPLs and non-performing assets (NPA) ratios fall above the industry average. The report is posted in the BSP website, circulated to news organizations and furnished to concerned units for their appropriate action.

Branch Operations

Timely delivery of central banking services in the countryside continues

The BSP sustained its efficient delivery of central banking services in the regions and promoted financial inclusion and other advocacies through its three regional offices (ROs) and 19 branches.

The availability of banknotes and coins in the regions was ensured throughout the year despite the challenges caused by the shortage in the supply of coins during the first quarter of the year. Aggregate currency available as of end-December 2014 was registered at ₱79.58 billion. This was equivalent to 111.8 percent of the ideal level of ₱71.16 billion. Increased withdrawals of banks were registered during the months of March and December in 2014.

To better provide service to BSP's clients in the countryside, the BSP Butuan Branch was completed and inaugurated on 26 November 2014. Branches damaged by Typhoon Yolanda (i.e., Tacloban and Roxas) were also rehabilitated to comply with BSP standards. Moreover, the BSP continued to improve and upgrade existing facilities at the regional offices and branches to further enhance its capacity to serve its clients.

To sustain its proactive role in the economic and financial education campaigns of the BSP, the Economic and Financial Learning Centers (EFLCs) in the regional offices and branches ramped up their operations by increasing the number of briefings and lectures conducted to 2,443 in 2014 from 1,465 in 2013. This yielded a total participant base of 257,614 people, up by almost 150 percent from the 103,826 total participants registered in 2013. These briefings and lectures covered topics such as the New Generation Currency, the Role of the BSP in the Economy, and other related areas.

The regional offices and branches continued to extend logistical support and assistance to the other advocacies and outreach programs of the BSP in the areas of microfinance, anti-money laundering, Clean Note Policy, anti-counterfeiting, User's Forum, Awarding Ceremony and Appreciation Lunch for Stakeholders in the Business Expectations and other surveys, briefing for pawnshops, lending investors and foreign exchange dealers, financial learning campaigns for Overseas Filipino's and their beneficiaries and other economic briefings.

The regional office and branches maintained their role as the listening posts of the BSP in the countryside. They received and attended to 107 complaints from various citizens. These issues were subsequently referred to the Financial Consumer Protection Department (FCPD) for resolution/appropriate action. In addition, the regional offices and branches continued to provide the BSP management with updates about issues in their respective areas of jurisdiction, through the quarterly regional economic development reports, quarterly business expectation surveys, and other updates in the areas of money, credit and banking. The heads of regional offices and branches likewise maintained their active participation and attendance in the regular meetings of the Regional Development Council in their respective areas.

In 2014, gold purchases in the four regional gold buying stations (Davao, Baguio, Naga, and Zamboanga) dropped by 15.5 percent to 24,825.45 troy ounces from 29,366.98 troy ounces in 2013. The continued decline in the gold purchases in the regions started in July 2011 when the Bureau of Internal Revenue (BIR) imposed 2 percent excise tax and 5 percent creditable withholding tax on all gold sold to the BSP.

Advocacy Programs

The BSP continued to enhance advocacy campaigns in the areas of microfinance and financial inclusion, economic and financial education and consumer protection.

Microfinance and Financial Inclusion

The BSP continues to implement its financial inclusion agenda

In 2014, the Economist Intelligence Unit (EIU), in its annual survey, named the Philippines as the top country in East and South Asia and the third in the world with the most conducive environment for financial inclusion.

From 2009 to 2013, the Philippines has been consistently ranked as the best in the world in terms of regulatory environment for microfinance. While the 2014 Global Microscope cannot be directly compared with past rankings due to substantial changes in the assessment methodology, the Philippines still ranked favorably.

The EIU recognized the following:

- The BSP as "the first central bank in the world" to establish an office, the Inclusive Finance Advocacy Staff (IFAS), dedicated to financial inclusion.
- The leadership of BSP Governor Amando M. Tetangco, Jr., as head of the BSP Inclusive Finance Steering Committee (IFSC), in championing the crafting of a national strategy for financial inclusion.

National Strategy for Financial Inclusion

The BSP believes that a National Strategy for Financial Inclusion (NSFI) will raise the level of awareness, appreciation and understanding of financial inclusion across stakeholders. The Strategy can enable coordination among participants and serve as a platform to improve coordination and maximize linkages toward financial inclusion.

The overall vision of the NSFI is to have a financial system that is accessible and responsive to the needs of the entire population toward broad-based and inclusive growth. This generally supports the theme of the 2011-2016 Philippine Development Plan (PDP) which is "In Pursuit of Inclusive Growth." In December 2014, inter-agency working groups that focus on Policy and Regulation; Financial Education and Consumer Protection; Data and Measurement; and Advocacy were constituted.

As of end-September 2014, there were 179 banks with microfinance operations. These banks served 1,170,889 borrowers with an outstanding loan portfolio of ₱9.4 billion.

Microbanking offices (MBOs), which are scaled down units of banks that target to serve low-income clients in areas that are harder to reach, also serve as additional financial access points for the effective delivery of banking services.

As of end-September 2014, 508 MBOs are operating in 325 cities/municipalities.

Policy and Regulation

Beyond the significant gains in microfinance, 2014 is also characterized by policy refinements and ongoing initiatives. To sustain the growth of microfinance in the banking sector, the BSP's regulatory approach to microfinance and financial inclusion continues to be responsive to the diverse and changing needs of the market. The BSP refined existing microfinance regulations to:

- Align the general features of microinsurance products with the provisions of the new Insurance Code (Circular No. 841 dated 4 July 2014), reflecting a more responsive product to enable clients to better cope with unfortunate events which adversely affect their livelihood, households and even lives.

    - The amount of daily microinsurance premium increased to 7.5 percent from 5 percent of the current daily minimum wage for non-agricultural workers in Metro Manila.
    - Maximum amount of benefits increased to 1,000 times from 500 times the current daily minimum wage.

- Amend microfinance reporting requirements to distinguish “microfinance loans” versus “small- and medium- enterprise loans” and microdeposits versus other types of deposits (Circular No. 836 dated 13 June 2014), to allow a more nuanced and accurate capture of data, which is the basis for sound and evidence-based policy making.

National Retail Payment System

The BSP continues to work on an efficient and inclusive payment system in the Philippines. In 2014, a National Retail Payment System (NRPS) Workshop was held to establish the framework for a more inclusive payment. This workshop, which was attended by key stakeholders from the government and payment system players from the private sector, provided a venue to craft a retail payment framework befitting the Philippine context.

Issuance of Regulations

The BSP also issued regulations affecting the general banking system that also have an impact on microfinance and financial inclusion:

- Amendment of the guidelines on sound credit risk management practices (Circular No. 855 dated 29 October 2014) to ensure that financial institutions have adequate and effective credit risk management systems. This reinforces the microfinance principle wherein granting of credit should be based on cash flow as primary source of repayment and reputation of the client.

- Amendment of the regulations on salary loans (Circular No. 837 dated 18 June 2014) to ensure that salary loans are provided under fair and sound credit practices. Salary loans, which are generally provided to employees, if not responsibly provided, can contribute to overindebtedness and financial distress.

- Issuance of the Europay, Mastercard and Visa (EMV) implementation guidelines (Circular No. 859 dated 24 November 2014) to safeguard customer information, reduce card fraud and maintain interoperability of payment networks. This is part of the BSP’s continuing efforts to strengthen the electronic retail payment network and for the protection of the public against payment card fraud.

Data and Measurement

The BSP continues to build a comprehensive and robust financial inclusion data framework that will allow to track progress, identify gaps, establish priorities and craft evidence-based financial inclusion policies.

Report on the State of Financial Inclusion in the Philippines

The BSP releases annually the Report on the State of Financial Inclusion in the Philippines. The report highlights the results of the BSP initiatives to promote greater financial inclusion in the country and the BSP's efforts in expanding financial access that have contributed to increased usage of financial products and services.

Nationwide Baseline Survey on Financial Inclusion

In 2014, the BSP completed key activities related to the conduct of a Nationwide Baseline Survey on Financial Inclusion (NBSFI). In collaboration with other government agencies and an external provider, the BSP designed and pilot-tested the survey.

This demand-side survey, targeted to be rolled-out in early 2015, will help the BSP complement the existing supply-side data. It will provide rigorous, objective and reliable data that can help the BSP to monitor progress, identify existing barriers, set targets and craft evidence-based financial inclusion policies. The results of the survey will be utilized to capture a more accurate picture of financial inclusion in the Philippines.

Ongoing financial measurements include a quarterly publication of "Financial Inclusion in the Philippines", geocoding and spatial mapping of financial service access points and the creation of a web search function of regional banks with microfinance operations.
Microfinance Programs

To further increase awareness on microfinance and recognize stakeholders, the BSP, along with partners, the academe and the banking community, conducted the following:

1) Microfinance Art Competition. In January 2014, the BSP conducted an art competition aimed to increase awareness of microfinance among university students and recognize Filipino artistic excellence in rendering meaningful themes into works of art.

2) Citi Microentrepreneurship Awards. In the 12^{th} Citi Microentrepreneurship Awards, the BSP, together with the Microfinance Council of the Philippines, and banking partners honored exceptional Filipino microentrepreneurs for their extraordinary contributions to the economic sustainability of their families as well as their communities. Since its launch in 2002, the CMA has generated a total of 100 winners. The program has also been replicated in 34 countries.

International Linkages

The BSP sustained its leadership and active participation in significant global discussions on financial inclusion.

In 2014, the BSP led and participated in the following major events and fora:

1. Global Standard Setting Bodies

   - The BSP continued to chair the Basel Consultative Group Workstream on Financial Inclusion. The Workstream completed the Range of Practice Survey which can serve as basis for specific guidance on financial inclusion for bank supervisors.
   - The BSP experience on financial inclusion was the featured presentation during the 3rd High-level Meeting on Financial Inclusion with Her Majesty Queen Maxima of the Netherlands and the Basel Committee on Banking Supervision (BCBS) on 2 October 2014 in Basel, Switzerland. The event aims to tackle progress of standard-setting bodies (SSBs) in financial inclusion.

2. G20 Global Partnership for Financial Inclusion

   - The BSP remained an active member of the G20 Global Partnership for Financial Inclusion (GPFI) Subgroup on Regulation and Standard Setting.
   - The BSP also participated as a resource institution in the 2nd G20 GPFI Conference on SSBs and Financial Inclusion entitled "Standard Setting in Challenging Landscape of Digital Financial Inclusion" on 30-31 October 2014 in Basel, Switzerland.

3. United Nations Conferences. The BSP acted as a key resource person in these UN events:

   - United Nations General Assembly, "Session on Private Finance: Preparatory Process for the 3rd International Conference on Financing for Development".
   - UN Conference on Trade and Development (UNCTAD) "Single-Year Meeting on the Impact of Access to Financial Services, Highlighting Remittances on Development: Economic Empowerment of Women and Youth".
   - UN Economic and Social Commission for Asia and the Pacific (UNESCAP) "Asia Pacific Outreach Meeting on Sustainable Development Financing".

4. Alliance for Financial Inclusion

   - The BSP also maintained active leadership in its last year as Chair of the Steering Committee of the Alliance of Financial Inclusion (AFI). BSP representatives likewise continued to participate actively in various AFI working groups.

- During the 2014 AFI Global Policy Forum (GPF) in Port of Spain, Trinidad and Tobago, the BSP, given its concrete gains in its policy initiatives, was honored with the following awards:
  - Honorary award to Governor Amando M. Tetangco, Jr. for his excellent stewardship of the AFI network during his two-year chairmanship
  - Maya Declaration awards for tangible financial inclusion commitments achieved by the BSP.

Economic and Financial Education

The BSP remains committed to promote greater awareness and understanding of economic and financial issues

The BSP Economic and Financial Learning Program (BSP-EFLP) continued to promote greater awareness and understanding of essential economic and financial issues to help the public acquire the knowledge and develop the skills needed to make well-informed economic and financial decisions.

The BSP-EFLP embodies the BSP's thrust to promote inclusive and proactive economic and financial education among its stakeholders, the underlying philosophy of which is that a citizenry that is well- informed in economics and finance is a more effective partner of the BSP in maintaining the effectiveness of monetary policy as well as in ensuring a stronger and safer banking and payments system.

The following learning programs have been conducted in 2014:

- *"Be up to SPeed on BSP" Public Information Campaign (PIC) on the Role of the BSP in the Philippine Economy.* The PIC intends to enhance public awareness on the BSP's core functions and responsibilities and its role in the economy, particularly those relating to the three pillars of central banking. It also aims to generate public understanding of policies and programs implemented by the BSP. In 2014, nine sessions of PICs conducted in different parts of the country garnered a total of 2,126 participants, largely composed of students, teachers and school officials, as well as representatives from private and public offices, banks, and the media.

- *"Paghahanda sa Kinabukasan" Financial Learning Campaign (FLC) for Overseas Filipinos (OFs) and their Beneficiaries.* The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate participants on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures. The BSP conducted seven sessions in different parts of the country attended by 779 participants, mainly family members and other beneficiaries of OFs.

- *Users' Forum (UF) on BSP-Produced Statistics.* The forum aims to explain to the public the methods and processes employed by the BSP in gathering and analyzing data that it compiles and monitors. It covers topics on monetary, banking, financial, and external sector statistics, expectations surveys and balance of payments. The UF was conducted as part of the BSP's celebration of the National Statistics Month (NSM) in October 2014 in BSP Manila and Baguio City. This was attended by a total of 168 participants, mostly members of the academe and representatives of government offices.

- *Financial Literacy (FinLit) Session for the Beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps)*. FinLit supports the Department of Social Welfare and Development's (DSWD) program to provide a bridge to financial self-sufficiency, especially among households from the grassroots level. It aims to equip 4Ps beneficiaries with financial learning skills for them to better manage their finances, learn about potential ways to protect or grow their funds, be protected from scams, and maximize the benefits of the 4Ps. Beginning 2014, FinLit was replaced by BSP-Department of Social Welfare and Development (DSWD) Training of Trainers (TOT) on FinLit for the Field Implementers of the Sustainable Livelihood Program (SLP). The four TOTs were attended by 149 DSWD Project Development Officers (PDOs).

- *Financial Education Expo (Fin-Ed Expo).* The Fin-Ed Expo aims to instill awareness on the availability and accessibility of financial education programs, increase personal financial consciousness on the values and benefits of being financially empowered and orient the public on available financial tools that will help in the promotion of their financial well-being. Six Fin-Ed Expos were conducted in 2014 with 2,409 participants from the academe and local workforce. As part of its financial education initiatives, the BSP also developed and issued financial learning materials, which include Weekly Wealth Watch issues and primers. The BSP likewise developed various learning activities including Financial Empowerment Seminars and Special Learning Activities (e.g., Money Matters for Kids Traveling Exhibits and Alerto Ako Exhibit).

- *Conference on Gearing Up for External Competitiveness (CGEC).* The conference aims to raise awareness of exporters, importers, OFs, business process outsourcing (BPOs), and entities with foreign exchange exposures, academe, and concerned government agencies, on the various ways to manage their foreign exchange risks and to highlight the factors that determine the country's external competitiveness. The conference was conducted in Cebu City and Cagayan de Oro City and was attended by 181 exporters and representatives from banks, government agencies, schools, and the media.

- *Guro ng Pag-Asa.* The BSP partnered with the Department of Education (DepEd) in conducting the 2014 Gantimpala para sa Ulirang Pagtuturo ng Pag-iimpok at Araling PanSalapi (Guro ng Pag-Asa) or the search for best financial education teachers in public elementary schools. This program aims to reward the best teachers who have taught and integrated lessons in savings, money management and basic entrepreneurship in the elementary curriculum. In March 2014, the Guro ng Pag-Asa winners were recognized for their exceptional teaching and moral dedication in choosing financial education as their advocacy.

- *Banking on your Future Kiddie Account Program.* The BSP partnered with the Bank Marketing Association of the Philippines (BMAP) to promote the Kiddie Account Program which aims at encouraging children to put financial lessons into practice by minimizing the monetary and documentary requirements in opening bank accounts.

In 2014, the participation rates of the abovementioned EFLP component programs were mostly more than 100 percent as the number of participants exceeded the target.[80] Meanwhile, based on the results of the program evaluation, the overall conduct of these component programs yielded an average score of 4.6.[81] Participants were also asked to rate the learning they gained from attending the programs and this averaged 4.4.[82]

Meanwhile, the Economic and Financial Learning Center (EFLC) continued to offer information and learning services to the general public. It accommodated 9,935 visitors, mainly students, who visited EFLC for their research needs, tours, and attendance to in-house lectures. Other guests, with similar purpose, were from the private and government institutions. The EFLC aims to provide information services, programs and materials covering the work of the BSP and its role in the Philippine economy and to promote greater understanding of essential economic and financial concepts and issues.

The BSP also conducted knowledge exchanges with other countries, such as, Afghanistan, China, Myanmar, Nepal, Rwanda, Tunisia and Yemen. Topics ranged from microfinance, mobile financial services, consumer protection, financial education and payments and settlements system.

Consumer Protection

The BSP conscientiously seeks ways to improve consumer protection regulations and activities

In 2014, the BSP continued to work toward the establishment of a policy and regulatory environment that protects the welfare of financial consumers.

Financial Consumer Protection Framework

The BSP institutionalized consumer protection as an integral component of banking supervision in the country, through the adoption of the

[80] Participation rate is defined as the percent of actual number of participants to number of invitees.
[81] Average rating for PIC, FLC, UF, FinLit, Fin-Ed Expo, and CGEC based on a scale of 1.0 to 5.0, 5.0 being the highest score.
[82] Average learning gained rating for PIC, FLC, UF, FinLit, and Fin-Ed Expo based on a scale of 1.0 to 5.0, 5.0 being the highest score.

Financial Consumer Protection Framework. The Framework aims to develop among banks a culture of fair and responsible dealings with financial consumers to promote greater confidence in the financial system. It covers the following consumer protection standards: (1) Disclosure and transparency; (2) Fair treatment; (3) Respect of client's privacy; (4) Financial education and awareness; and (5) Effective recourse.

Consumer and Protection Advisory

The BSP, as chair of the Financial Sector Forum (FSF) Consumer Protection and Education Committee (CPEC), commissioned an action research by Microsave to determine, craft and deliver appropriate advisory tools for identified market segments.

In 2014, CPEC launched new Protect Your Money (PYM) advisories to expand the existing campaign. These advisories focused on the importance of savings (targeting students) and protection against financial scams (targeting microentrepreneurs and small business owners).

Alerto Ako Exhibit

In 2014, *Alerto Ako* was launched that focuses on financial consumer protection. The exhibit aims to provide financial consumers greater awareness through advisories on various financial products and services, thus empowering consumers to make informed financial decisions. This also serves as the BSP's pro-active stance to protect the public against financial fraud and scams.

The exhibit was launched in the BSP Cebu Regional Office on 2-4 September 2014. On 15-17 October 2014, the exhibit was also shown in the BSP Head Office in Manila.

Institutional Building

Corporate Planning

Enhanced strategy management system remains in place

The enhanced strategy management system using the Balanced Scorecard framework remained in place in 2014, with four strategy review meetings (SRMs) conducted during the year. The BSP's Corporate Planning Office (CPO) presented a report on the progress of the strategy execution in terms of achievement of targets for 2013; as well as the status of initiatives under the four strategic themes (Good Governance, Operational Excellence, Engaged Stakeholders and Organizational Readiness) during the Annual Strategy Review held on 16 May 2014 at the PICC. Theme leaders presented their proposed enhancements in the BSP strategy, in terms of revisions in Strategic Objectives and Measures. The proposed revisions were areas for refinement and fine-tuning for a better coherence and tighter linkage among the strategic objectives and initiatives arising from the discussions during the 2013 quarterly SRMs. The program also included a session that engaged MB members to discuss key strategic projects and initiatives, namely: 1) IT Modernization Study; (2) 2013 Public Perception Survey; (3) 2014 System-Wide Governance Assessment; and (4) the 2013 Organization Climate Survey.

Meanwhile, under the Project Management Excellence Program (PMEP), the enterprise project management system portal called Project Information Management System (PrIMS) registered 30 projects by end-2014.

Through the inclusion of a special session on values and culture in the Induction Course for New Employees, the BSP continued to cascade its vision and mission statements. The session aimed to ensure awareness and understanding of the BSP vision and mission by all employees of the Bank.

Information Technology

BSP continues to set up infrastructure for application system and to maintain and enhance systems on production

In 2014, the BSP, through the Information Technology Sub-Sector (ITSS), continued to provide information and communication technology support to various BSP offices, ensuring the delivery of the Bank's functions. Toward this end, the following were accomplished:

1) Continued to set up the infrastructure requirements of the application systems;[83]
2) Implemented data center environmental enhancements;
3) Conducted enterprise software upgrades/enhancements; and
4) Continued enhancement of enterprise information security.

Bangko Sentral Training Programs

BSP training programs strengthen learning environment to hone skills and competencies and build up leadership base

For 2014, the BSP Institute (BSPI) focused its efforts in establishing a BSP training curriculum, expanding its e-learning services, and implementing targeted leadership and management courses to support the succession management program.

The BSPI also continued the implementation of training programs aimed at developing and creating the competitive advantage of the Bank's human capital. The BSPI also continued to establish new networks and strengthen existing ones through technical collaboration with foreign and local counterparts and business partners; thus, providing more training and scholarship opportunities to BSP employees.

Training programs were implemented, as follows: (1) functional courses, referring to training programs that specifically address competencies of

[83] This included the Participant Browser and Secured Mobile Computing Deployment, LAN Expansion 2013, Regional Wide Area Network (WAN) Upgrade, Secondary HO-SPC Gigabit Ethernet, IT Service Desk System, 2013 Virtual Infrastructure, ELFC Media Server, AS400 OS Migration and Upgrade, Connections Infrastructure Implementation, Acquisition of additional Environmental Sensor for Data Center, Installation of additional ATR, Video Conferencing System Enhancement-Client Side Audio Peripheral Upgrade, and ICT Systems Monitoring Enhancement Lot 1 (Additional licenses for Whatsapp monitoring).

job family; (2) foundation courses, referring to courses that address skill requirements of Bank employees; (3) skills development courses, referring to courses that address skills requirements of Bank employees; and (4) leadership and management courses, referring to courses that address leadership and management competencies.

Functional training accounted for 76 percent of the total training participation, while skills development courses accounted for 11 percent of the total training participation. Foundation courses and leadership and management courses each accounted for 7 percent of total training participation. Although the focus of training and development for the medium-term is the preparation of leaders and managers, the size of the target population is small relative to the rest of the Bank, hence, the smaller number of training population.

There were a total of 694 training events. These events were comprised of 314 in-house offerings, 136 local training events, and 244 foreign training events, with total participation of 16,799. Of this total, 6,686 or 40.0 percent participated in in-house training courses, 543 or 3.0 percent participated in local training events, 474 or 3.0 percent attended foreign training events, and 9,085 or 54.0 percent completed online courses.

The BSPI also handled training events conducted by foreign resource speakers on international accounting standards; workforce analytics, planning and productivity; and a series of Executive Development lectures. Two co-hosting events were likewise conducted during the year in coordination with various international organizations.[84]

The Bank also has various local and international scholarship programs, some of which are in coordination with various agencies. There were a total of 69 scholars in 2014, 13 of whom graduated during the year. There were 15 new scholars, while 41 were still completing their courses. In addition, the Bank facilitated the review and/or examination of 13 bank personnel on various global certifications. Two new global certification programs were also introduced, namely, the Certified Project Management Professional and the Certified PMI Professional in Business Analysis.

Meanwhile, the BSPI was awarded its second certification from TUV Rheinland, in its first follow-up audit for the ISO Standard 9001:2008. This is to ensure effective implementation of the Department's quality and environmental management systems.

Human Resource Development

Programs and initiatives support BSP strategy map

Programs and initiatives were aligned with the BSP Strategy Map through the following: provision of appropriate structure, staffing, and job and competency requirements; implementation of leadership

[84]The BSP, through the BSPI, co-hosted the following training events: (1) the FSI-SEANZA Basel II and Capital Adequacy, and (2) SEACEN-IMF Course on External Sector Issues.

succession program and promotion of high-performance culture needed to execute the strategy map.

In 2014, the highlights of the BSP's accomplishments in the area of human resource development include the following:

1) Effectively implemented the succession plan
2) Fostered and sustained a high-performance culture through the following:
    a. Held a briefing on "Do More with Less;"
    b. Conducted four trainings on Business Process Improvement and Re-engineering (BPIR);
    c. Performed job description validation with the Job Evaluation and Salary Review Project (JESRP);
    d. Streamlined competency models; and
    e. Issuance of advisory, guide, and template of Individual Performance Scorecard (IPS);
3) Started implementation of the Data and Information Classification (DIC) Guidelines;
4) Presented to the Governor of the proposed revised Bank-wide organization structure, including structural and non-structural interventions for priority units, as part of the Bank-wide Organization Review;
5) Conduct of Organization and Manpower studies to strengthen delivery of core functions as well as support and executive services; and
6) Implementation of various workplace development interventions, both on the group level and at the individual level. The group level interventions serve as a venue to discuss strategic directions, strengthen communication, work relationships, camaraderie and share institutional knowledge. At the individual level, the interventions are aimed at developing competencies of the individual and provide guidance in individual development and career management.

Human Resource Management

BSP ensures that its human capital management strategies are at par with the trends and best practices

In ensuring that its human capital management strategies are at par with trends and best practices while remaining responsive to its personnel's needs, the BSP undertook the following:

1) Implemented e-Recruitment System;
2) Implemented a referral program for BSP employees;
3) Conducted study on feasibility of outsourcing certain recruitment functions;
4) Procured LinkedIn subscription access as a recruitment/sourcing tool;
5) Conducted the Phase I of JESRP;
6) Revised the Bank's merit selection planning;
7) Reviewed the applicability of existing policies and programs, and proposed revisions and enhancements or formulate new policies, rules and procedures, if necessary;

8) Assisted in the formulation of policies and guidelines on the Bank's "No Gift Policy;" and
9) Implemented the SAP-HRMS Data Migration Tool (DMT) Data Build-up and Clean-up Project.

Health Services

BSP remains committed to promotion and maintenance of BSP personnel's overall health and lifestyle

The BSP, through the Health Services Office, implemented appropriate and strategic health management programs, tackled various relevant and up-to-date medical topics, provided healthcare tips and accomplished the following:

1) Completed pre-programming and started programming of Employee Health Assessment System (EHAS) with ITSS
2) Enhanced annual medical examination;
3) Arranged affiliation with service providers (i.e., clinics, hospitals, and medical professional), affiliation/accreditation reached 81 service providers including five hospitals;
4) Ensured effectiveness of Bank-wide Risk Management System
5) Launched two new and maintained existing health programs, as follows:
    a. Sagip Mata Program (new);
    b. Customized Nutrition Program (new);
    c. Break-Free Stop Smoking Support Program, a smoking cessation program which profiled and targeted employee smokers who wanted to quit smoking;
    d. Enhanced health education programs such as the weekly "Kapihan sa Medical," 56 sessions have been conducted during the year;
    e. Total Diabetes Control Program;
    f. Weight Management Program;
    g. Expanded Adult Immunization Program; and
    h. Occupational Health Programs, includes hearing conservation program, neuro-psychiatric test, incident report/accident;
6) Established dental radiographic record of BSP personnel, which will provide permanent documentation of treatment done and constitute the grounds for diagnosis and future treatment plan for concerned personnel.

Enterprise Risk Management

BSP enhances its Enterprise Risk Management framework

The Enterprise Risk Management (ERM) framework continued to be implemented and enhanced through the following activities:

1) Implemented 86 projects concerning risks mitigation;
2) Conducted 8 workshops promoting risk awareness;
3) Integrated ERM in strategic decision making and allocation;
4) Completed the design framework for the development of Risk Appetite Statement as guide in strategic and operational risk management;

5) Issued a Bank-wide protocol for incident escalation to facilitate reporting, risk assessment and management of incidents; and
6) Participated in domestic, regional, and global fora to improve competency in handling the central risk management function.

Business Continuity

BSP ensures business continuity of the Bank

The Business Continuity Office (BCO) of the BSP, in its promotion of ensuring the business continuity of the Bank, implemented time-sensitive operations through the following activities:

1) Coordinated with ITSS and HRMS for the linking of the BSP Unified Directory System (BUDS);
2) Conducted human resources enhancement programs[85] to familiarize the Business Continuity Management Team and key personnel on their roles and responsibilities in the implementation of departmental Business Continuity Plans (dBCP);
3) Participated as member and resource speaker in various international conferences, seminars and workshops on enterprise risk management, business continuity, audit and information security governance, and strategic and critical thinking;
4) Released memorandum on business continuity preparations for power outage; and
5) Deployed 28 units of satellite phones to BSP executive offices, and regional offices and branches.

Systems and Methods

In pursuit of the BSP's commitment to institute service excellence at par with world class standards, the Systems and Methods Office (SMO), in coordination with other departments and offices, implemented the following programs in 2014:

1) Continued to design, develop and establish quality management systems of BSP departments/offices;
2) Assisted BSP departments/offices in evaluating continued compliance of established management systems through quality assessments and third party validation;
3) Engaged BSP departments/offices in developing initiatives to strengthen process including its linkages;
4) Pursued initiatives to strengthen governance mechanism, such as:
   a. Spearheaded the development of Employee's Charter (EC);
   b. Completed the final draft of the Integrated Customer Satisfaction Measurement (ICSM);
   c. Completed updates on Business Process Improvement and Reengineering (BPIR) of human resource processes; and

[85] This included (1) tabletop exercises; (2) education and awareness briefing on Business Continuity Management; (3) lecture on BSP Resiliency Framework; (4) validation of 15 revised departmental Business Continuity Plans; and (5) Integrated Business Continuity Test; and (6) ocular inspection of alternate sites of 10 BSP regional offices and branches.

d. Conducted project quality assurance, particularly on large projects, to ensure substantial and proper application of the Project Management (PM) methodology.

5) Initiated review of the revision of existing the Environmental, Occupational, Health and Safety Management System (EOH&SMS) Manual to capture the changes in the organization, programs, process and practices of the Bank; and
6) Implemented the BSP Constructor's Performance Evaluation System to check eligibility of constructors participating in the procurement process for the BSP infrastructure projects.

Comptrollership Functions

The BSP through its Financial Accounting Department accomplished, among others the following services:

1. Submitted the complete set of the BSP's Financial Statements to the MB for policy-making purposes;
2. Issued the 2015 budget preparation guidelines to ensure due compliance with directives/laws;
3. Pursued the hiring of consultant for Phase 1 of the Integrated Financial Management Information System (IFMIS) Project; and
4. Provided technical assistance, including:
   a. Provided guidance, advice and technical assistance on tax-related concerns to BSP departments and units;
   b. Participated in the crafting of the BSP memorandum on the withholding of Gross Receipts Tax (GRT) on interest income derived by banks and other financial institutions from the BSP;
   c. Assisted in the drafting of guidelines for the payment of special financial assistance to BSP outsourced personnel;
   d. Provided inputs/data/information on the proposed revisions of the BSP Charter;
   e. Participated in the drafting of proposal to adopt the two-phased approach in the completion of the Data Warehouse II (DW II) Project;
   f. Collaborated with other BSP departments in the review/improvement of existing accounting policies, processes and procedures;
   g. Served as Subject Matter Experts (SMEs) on briefings conducted with various schools/universities and the Bank of Thailand representatives focusing on the department's functions, budget and accounting system processes, and BSP's compliance to the International Financial Reporting Standards (IFRSs)/Philippine Financial Reporting Standards (PFRSs) and International Accounting Standards (IASs)/Philippine Accounting Standards (PASs); and
   h. Concluded meeting/dialogues with BSP operating department/booking units concerning issues on accounting, budget preparation and administration polices, processes and procedures; closed banks; Commission on Audit (COA) as well as other government laws, rules and regulations, among others.

Major Infrastructure Projects

As of end-2014, the BSP completed various infrastructure projects that are expected to contribute to the efficient operation and performance of the Bank's functions.

Project title	Original Contract Cost* (in thousand pesos)
Completed Projects	
Construction of BSP Butuan branch building	253,091
Installation of desking system (Space Rationalization Project)	122,312
Installation of portable walls (Space Rationalization Project)	74,800
Removal of hazardous material (BS Main Office)	18,486
Construction of Executive Offices (Phase 4, BSP Main Office	14,139
Various improvement works at BSP Batac branch building	10,371

* Exclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Source: PDMO

Project title	Original Contract Cost* (in thousand pesos)	Percentage of Completion (in percent)
Ongoing/Partially Accomplished Projects		
Renovation of BSPI offices and training center	239,908	91.0
Construction of BSP Lucena branch building annex	129,622	83.9
Enhancement works for BSP multi-purpose building (BSP Main Office)	4,169	76.3

*Exclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Source: PDMO

International Economic Cooperation and Integration Initiatives

Participates actively in international economic cooperation fora

In 2014, the Bangko Sentral ng Pilipinas (BSP) remained pro-active in its engagement in the international, regional and bilateral fronts on areas related to monetary and financial cooperation and integration guided by the BSP Strategy Map, 2012-2017 and the Operational Excellence theme.

Toward this end, the BSP participated in various initiatives covering critical global and regional issues related to economic and financial developments; crisis management; financial safety nets; financial stability; global regulatory reforms; regional integration; and capacity-building, among others. In particular, the BSP engaged with its international counterparts in the conduct of economic surveillance; policy dialogue; consultation missions of international institutions; provision of financial contributions and commitment to bilateral and regional pooling arrangements; involvement in regional financial cooperation and integration; and participation in capacity-building programs. The BSP likewise hosted international conferences/workshops/fora and attended high-level and technical meetings/conferences.

International Cooperation Activities

Economic Surveillance and Policy Dialogue Process

BSP remains committed toward pursuing initiatives to strengthen further economic surveillance

The BSP, as the Philippine representative in the IMF and as member of the ASEAN+3 Macroeconomic Research Office (AMRO), facilitated the conduct of regular economic surveillance activities in the country through the IMF Article IV Consultation Mission and the AMRO Consultation Visit held on 12-26 March 2014 and 21-25 July 2014, respectively.[86] The BSP also actively participated in the IMF's regular meetings, submitted positions on IMF staff papers and membership concerns. It also hosted the visits of IMF senior officials to share information and exchange views on recent developments and issues concerning the monetary, financial and external sectors.

The BSP actively participated in the development of the Economic Review and Policy Dialogue (ERPD) Matrix facilitated by AMRO. This matrix include economic indicators of all ASEAN+3 members that are intended to be used for the assessment of members' qualification for the Chiang Mai Initiative Multilateralization's (CMIM[87]) crisis prevention facility.[88]

The BSP also continued to contribute to the surveillance initiatives of the Executives' Meeting of East Asia-Pacific Central Banks' (EMEAP) through monthly financial market monitoring which tracked quick-moving financial indicators and identified trends and potential risks to regional stability.

In addition, the BSP contributed to the preparation of various regional economic monitoring reports such as the ASEAN Integration Report, ASEAN Financial Integration Monitoring Report, ASEAN+3 Self-Assessment Report on Local Currency Bond Market Development, ASEAN+3 Regional Economic Monitoring (AREM) monthly and quarterly reports, and IMF Staff Report.

BSP ensures well-representation in international policy dialogues

The BSP continued to be well-represented in various forums, such as the IMF, BIS, EMEAP, ASEAN, ASEAN+3, and the South East Asian Central Banks (SEACEN) Research and Training Center, to discuss relevant monetary, economic and financial cooperation issues.

The BSP hosted the 47th EMEAP Deputies' Meeting and Related Meetings on 27-29 November 2014 in Manila, where member central banks exchanged views on the following topics: (a) recent global and regional economic and financial developments; (b) research studies on various monetary and financial stability issues; (c) developments on the

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[86] Surveillance missions involve the assessment the country's macroeconomic conditions as well as emerging risks and outlook of the economy.

[87] The CMIM is a pooled fund within the Asian region which aims to address balance of payments and short-term liquidity difficulties in the region, and to supplement the existing financial arrangements by providing financial support through currency swap transactions among CMIM participants.

[88] The ERPD Matrix covers monitoring of fiscal policy, external position and market access, financial sector soundness and monetary policy indicators.

over-the-counter (OTC) derivatives market reforms; (d) continued enhancements to EMEAP's crisis management framework; and (e) initiatives in the areas of financial markets, banking supervision, payment and settlement systems, and information technology.

To facilitate policy dialogue and provide the platform for the IMF's outreach activities, the BSP organized four (4) seminars/workshop on the following: (a) world economic outlook (11 April 2014); (b) the impact of changes in investor base and financial deepening in EMs (19 May 2014); (c) spillover report with special focus on EMs (26 September 2014); and (d) risk taking, liquidity and shadow banking (27 October 2014).

The BSP likewise participated in the ASEAN policy dialogue with the IMF on recent economic financial developments and policy reforms during the ASEAN Central Bank Governors Meeting held on 4 April 2014 in Nay Pyi Taw, Myanmar. It has also engaged in a high-level policy dialogue with counterparts under the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting and ASEAN+3 Finance and Central Bank Deputies' Meeting (AFCDM+3).

The BSP Governor and Deputy Governors participated in various regular and special fora of the BIS which discussed issues related to domestic and international financing in EMs, capital flows, pricing of sovereign risk, global interest rate risk and adjustments, and structural bank regulation, among others. The BSP Governor, as Chair of the meeting of central bank Governors from small open economies, takes the lead in discussing common concerns. These include issues related to the risks of capital flow reversals, exchange rate policies, macroprudential measures in small open economies, managing increased uncertainties related to the eventual exit of accommodative monetary policies in advanced economies, and reserve management.

The year-in-review also saw the assumption of the Governor as the new Chair of the Asian Consultative Council (ACC) for a term of two (2) years, from 1 April 2014 to 31 March 2016.[89]

Meanwhile, the SEACEN Expert Group (SEG) on Capital Flows, which is co-chaired by the BSP along with Bank Negara Malaysia, facilitated two web-conferences in 2014. There were 11-13 SEG-member central banks which participated in both web-conferences. The first web-conference, which was held on 6 August 2014, focused on the *"Dimension of Capital Flows and Policy Implications."* The second, which was conducted on 17 December 2014, focused on "*Fed Policy Normalization: The Potential Impact on the SEACEN Region."* These events successfully provided a platform for the SEG-member central banks to share country experiences and exchange views on the topics.

[89] The ACC provides a vehicle for communication between the Asia and Pacific members of the BIS and its Board and Management on matters of interest to the central bank community in the region. The ACC meets at least once a year.

An inaugural session of the SEACEN Supervisory Discussion Room, a forum for bank supervisors deliberating on emerging regional and topical supervisory issues and their policy implications, was conducted on 19 June 2014 with 10 participating central banks. The second session, focusing on "The Road to Expected Loss Provisioning" was held on 25 September 2014 and attended by 16 participants from the BSP.

Financial Arrangements and Contributions

Sustained participation in financial arrangements and contributions

The strong external and reserve position of the BSP enabled the institution to increase its contributions in various fund pooling arrangements to support the stability of the international and regional financial systems.

<u>Global Arrangements</u>. In line with the establishment of global financial safety nets, the BSP facilitated contributions to various IMF facilities. As of 17 December 2014, nine (9) countries had drawn from funds exchanged by the BSP to the IMF's Financial Transactions Plan[90] (FTP) amounting to SDR230.10 million (about USD355.60 million). More than one-third of the funds were disbursed to European countries such as Portugal, Ireland, and Greece in an effort to address the financial crisis impacting the European economic zone. On the other hand, the Fund has made a total of SDR54.80 million (about USD83.91 million) in drawdown from the BSP's New Arrangements to Borrow (NAB) commitment to finance extended arrangements for Greece, Portugal, Tunisia, Cyprus, and Ukraine. With regard to the BSP's loan commitment of USD1 billion to the IMF in support of efforts to strengthen its capability to secure global economic and financial stability, no drawdown has been made since the agreement on 13 September 2013.

<u>Regional Arrangements</u>. The BSP actively participated in the internal approval of the amended CMIM Agreement, which entered into force on 17 July 2014. The amendments will effectively allow access of the ASEAN+3 member countries and Hong Kong to an enhanced CMIM package, which includes among others: (i) the doubling of the fund size from US$120 billion to US$240 billion; (ii) the increase in the level of access not linked to an IMF program from 20 percent to 30 percent; and (iii) the introduction of a crisis prevention facility. These amendments are expected to fortify CMIM as the region's financial safety net in the event of any potential or actual liquidity difficulty.

To help ensure the effectiveness of the CMIM, the Governments of the ASEAN+3 member countries and Hong Kong Special Administrative Region signed the AMRO Agreement on 10 October 2014 in Washington D.C., USA. The BSP Governor attended the signing ceremony and signed for and on behalf of the Government of the Republic of the Philippines. The AMRO Agreement will transform AMRO, which was established as a company limited in Singapore in April 2011, into an international

[90] The FTP is the mechanism through which the Fund finances its lending and repayment operations in the General Resources Account. A member is selected for inclusion in the FTP plan based on a finding by the Executive Board that the member's balance of payments and reserve position are sufficiently strong.

organization. This is expected to enable AMRO to conduct objective surveillance contributing further to regional financial stability along with the strengthened CMIM. The signatories to the AMRO Agreement, including the Philippines, are now in the process of facilitating ratification of the AMRO Agreement for its entry into force.

Bilateral Arrangements. There has been significant progress on the bilateral front, particularly on the enhancement of financial cooperation between the Philippines and Japan. On 6 October 2014, the BSP and the Bank of Japan, acting as the agent for the Minister of Finance of Japan, signed the third Bilateral Swap Arrangement (BSA). The arrangement is an expansion of the current BSA where the amount that the Philippines can swap is doubled from USD6-12 billion, while Japan can swap up to USD500 million. Aside from the crisis resolution facility, this arrangement also introduced a new feature in the form of a crisis prevention scheme to address potential liquidity needs.

The BSP and the BOJ exchanged letters and agreed to establish a Cross-Border Liquidity Arrangement (CBLA) for the provision of peso liquidity, during emergency situations, to eligible banks operating in the Philippines against such banks' Japanese Yen currencies located in Japan. The arrangement aims to enhance financial stability in the Philippines by widening the range of facilities available to eligible banks operating in the Philippines. The implementing guidelines for the CBLA are being drafted and will be issued in due course.

Regional Financial Cooperation and Integration

Strong commitment towards regional financial cooperation and integration

In line with the Philippines' continuing commitment towards the attainment of the ASEAN Economic Community (AEC), the BSP actively participated in implementing the AEC Blueprint.

The Senior Level Committee on ASEAN Integration (SLC) continued to monitor the progress of the implementation of the ASEAN Financial Integration Framework (AFIF) by the Working Committees and the Task Force on ASEAN Banking Integration Framework (TF-ABIF), and capacity-building under the Steering Committee on Capacity Building (SCCB).

The ABIF Guidelines, which embody the principles and understanding in the implementation of the ABIF, have been approved by the ASEAN Central Bank Governors on 31 December 2014.

In the area of regional capital account liberalization, the BSP continued to serve as the Co-Chair of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL) with the State Bank of Vietnam for another two-year term (2013-2015)[91]. In 2014, the ASEAN Member States (AMS) continued to monitor the developments in the capital account regime in ASEAN through the updated CAL Heat Maps; and the Monitoring Tool for the Implementation of Individual Milestones

[91] Extended to 2016 to synchronize with the term of other Working Committees

Blueprints. A policy dialogue on capital flows and safeguard mechanism for capital account liberalization was established to discuss current trends in capital flows and capital flow management measures. In 2014, the WC-CAL has conducted two policy dialogue sessions. The first session was held during the 27th Meeting of the WC-CAL on 25 February 2014 in Yangon, Myanmar, while the second one was held during the 28th Meeting of the WC-CAL on 24 November 2014 in Kuala Lumpur, Malaysia. The BSP also continuously participates in the activities of the Working Committees on Capital Market Development and the Payment and Settlement Systems, where the BSP serves as Co-Chair of the Taskforce on Money Remittances.

Under the Working Committee on Financial Services Liberalization (WC-FSL), the BSP submitted offers in banking services under the 6th Package of FSL commitments under the ASEAN Framework Agreement in Services (AFAS), which was finalized in 2014. The BSP also continued its active engagement in the negotiations in the Annex on Financial Services under the improved AFAS (or the ASEAN Trade in Services Agreement), ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and the Regional Comprehensive Economic Partnership (RCEP).

The BSP continued to support the Asian Bond Fund (ABF) Initiative which is aligned with developing regional bond markets and strengthening regional financial cooperation within the EMEAP region. The BSP also actively participated in regular meetings of the EMEAP ABF Oversight Committee and the Pan Asian Index Fund Supervisory Committee to monitor the performance of the ABF and discuss enhancements to ABF governance, marketing strategies for the ABF, and single market funds monitoring.

Focus on Capacity-Building Initiatives

To ensure that all AMS are ready for the AEC, the SCCB was established by the SLC to work on matching capacity-building requirements and supply that will support AMS in the process of integration. Funding for these programs were sourced from various sponsors, such as the Asian Development Bank, SEACEN, and the ASEAN-Australia Development Cooperation Program II. The BSP fully supports the capacity building initiatives and believes that there must be an organized program of development assistance to help the country and other less-developed member states to prepare for the regional integration process. The BSP participates as subject matter experts for selected training and workshop. Consequently, the BSP also identified four (4) training programs that may be offered to Brunei, Cambodia, Lao PDR, Myanmar, Vietnam (BCLMV) bloc[92] in 2015.

[92] Introduction to Banking, Risk, and Risk-Based Supervision, Risk Management Process and Risk-Based Supervision, Fundamental Course on Central banking, and Time Series and Analysis Forecasting (introductory and advance-level courses

Meanwhile, in support of SEACEN's capacity-building programs, the BSP participated as resource persons and training participants in various learning initiatives. For instance, Deputy Governor Vicente S. Aquino, Resource Management Sector, was a speaker during the "Cyber Security Summit" on 25-26 August 2014, which was participated in by 50 delegates from member central banks, strategic partners, CEMLA membership, and financial supervisory agencies.

Hosting of International Cooperation Events

The BSP hosted a number of conferences, workshops and meetings in line with the following objectives: (a) to sustain the discussion on common issues related to the ongoing recovery in emerging economies; (b) to lend its perspectives on critical issues affecting the region, in general and the country, in particular; and (c) to strengthen ties with other central banks and financial authorities by performing a leadership role in various bodies:

Conference/Workshop/Meeting	Date and Venue	Extent of BSP Participation
Bilateral Meeting between the BSP and Bank of Thailand (BOT)	8-9 August 2014, Manila	Host
Bilateral Meeting between Bank Indonesia (BI) and the BSP	26-28 September 2014, Cebu	Host
47th Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Deputies' Meeting and Related Meetings	27-29 November 2014, Manila	Chair

Box Article 6:

ASEAN Financial Integration: Progress and Prospects

What are the objectives and priority areas of the ASEAN financial integration agenda?

In 2003, the ASEAN Leaders resolved to establish an ASEAN Community that will be considered as a unified body of Southeast Asian nations living in peace, stability and prosperity, and bonded together in partnership for dynamic development and as a community of caring societies. One of the pillars of the ASEAN Community[93] is the establishment of an ASEAN Economic Community (AEC) which aims to transform the ASEAN into: (1) a single market and production base; (2) highly competitive economic region; (3) a region of equitable economic development; and (4) fully integrated into the global economy.

Within the AEC core initiatives, the ASEAN Member States (AMS) also seek to achieve a well-integrated and smoothly functioning regional financial system, characterized by more liberalized capital account regimes and inter-linked capital markets. In this regard, during the ASEAN Central Bank Governors' Meeting held on 7 April 2011, the Governors adopted the ASEAN Financial Integration Framework (AFIF) to provide a general approach to the liberalization and integration initiatives under the AEC 2015.

Under the AFIF, the ASEAN aims to have a semi-integrated market by 2020. The general approach to financial integration agreed upon by the ASEAN Central Bank Governors involves: (1) a general agreement on the end-goal of financial integration; (2) recognition that each AMS has its own initial conditions and the necessary preconditions to build before achieving specific milestones towards financial integration; and (3) a definition of each AMS' milestones and timelines to achieve the end goal of financial integration depending on the identified preconditions and own capacities.

How will the integration process be implemented? What has been achieved thus far?

The AMS take into consideration the broad thrust of the AFIF towards the realization of a semi-integrated market by 2020, as follows: (1) differentiated timelines and integration milestones for ASEAN5[94] and BCLMV[95], reflecting different stages of development and readiness; (2) equal access, treatment and environment for Qualified ASEAN Banks (QABs); (3) regard for financial and monetary stability in the process of financial services liberalization (FSL), capital market development (CMD), capital account liberalization (CAL) and harmonization of payments and settlement systems (PSS); and (4) shared responsibility among AMS for enhanced collaboration on financial stability and capacity building. Various ASEAN working committees (WCs) have been tasked to implement initiatives towards regional financial integration, particularly in the areas of CAL, FSL, CMD and PSS.

Table 1 below summarizes the deliverables, timelines and key accomplishments to date of the WCs

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[93] The other pillars include the establishment of an ASEAN Political-Security Community, and ASEAN Socio-Cultural Community.
[94] Original ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand
[95] Newer ASEAN: Brunei, Cambodia, Lao PDR, Myanmar and Vietnam

Table 1. Deliverables, Timelines, and Accomplishments of AFIF Working Committees

Working Committees	Timelines/Deliverables	Key Accomplishments
The WC-CAL implements workplans towards the achievement of freer flow of capital among AMS by gradually removing restrictions in the current account (CA), foreign direct investments (FDIs), portfolio investments (PIs) and other flows[96] (OFs).	• 2015 and beyond - to continue implementing programs to progressively liberalize, where appropriate and possible, the rules on CA, FDIs, PIs, and OFs as identified in the AMS' individual milestones blueprint	• Adoption of IMF Article VIII • Assessment and identification of rules on foreign exchange transactions • Individual AMS CAL roadmaps • Policy dialogue on safeguards for CAL
The WC-FSL aims to substantially eliminate restrictions on trade in services among AMS in order to make it easier for financial services suppliers to operate within the borders of ASEAN.	• 2020 - to continue activities and initiatives towards liberalization of financial services, including insurance, banking and capital market subsectors, subject to pre-agreed flexibilities	• Implementation of the five packages of financial services liberalization commitments • Conclusion of the Sixth Round of Negotiations on FSL under the ASEAN Framework Agreement on Services (AFAS)
The WC-CMD oversees efforts to build the capacity and lay the long-term infrastructure for development of ASEAN capital markets. The ASEAN Capital Market Forum (ACMF) focuses on the harmonization of domestic laws and regulations to achieve greater integration of the region's capital markets supportive of the AEC Blueprint 2015 goals.	• 2015/2016 (WC-CMD) – to continue efforts on bond market development and assessment of over-the-counter (OTC) derivatives market reforms • 2015 (ACMF) - to implement mutual recognition framework; strengthen stock exchange governance; harmonize listing rules and corporate governance; promote new products; and strengthen bond markets and their regional integration	• Linkage of ASEAN Equity Exchanges (Malaysia, Singapore and Thailand) • Development of mutual recognition framework for collective investment scheme • Full harmonization of ASEAN Disclosure Standards • Launch of the ASEAN corporate governance scorecard • Development/enhancement of the Bond Market Development Scorecard
The WC-PSS aims to foster integrated, safe, and efficient payment and settlement systems in the region that enable businesses and individuals to make or receive electronic payments with greater convenience.	• 2015 - to adopt common standards/best practices and improve the infrastructure and environment for the PSS in the region • Beyond 2015 - to determine the form of linkages within ASEAN for each PSS area	• Finalization of the Basic Principles on the Pre-Departure Orientation Program for migrant workers • Market analysis/assessment of key areas of ASEAN PSS • Development of WC-PSS Strategic Roadmap
The Taskforce on ABIF (TF-ABIF) seeks to facilitate the entry and operation of QABs in other ASEAN countries to promote equal access and treatment among ASEAN banks and expand intra-regional trade.	• 2015 - to conclude one ABIF arrangement • 2018 - For all ASEAN-5 countries to conclude at least one ABIF arrangement • 2020 - For other AMS to have concluded or in the stage of finalizing at least one arrangement per member state	• Finalization of the ABIF Guidelines which embody the principles on banking integration in the region

[96] Other flows include trade credits, deposits, borrowings and loans

Recognizing the need to provide necessary capacity building and other initiatives to narrow the development gaps among ASEAN economies and facilitate the AMS' full participation in the ongoing financial integration efforts, the Steering Committee on Capacity Building (SCCB) was established by the ASEAN Senior Level Committee on Financial Integration (SLC) to work on matching capacity-building requirements and supply that will support AMS in the process of integration. The SCCB has implemented six customized learning programs from March to September 2014 with full funding support[97] from the ASEAN-Australia Development Cooperation Program (AADCP).

Where does the Philippines stand in the integration process?

The Philippines has implemented 86.1 percent of all AEC measures targeted, exceeding the ASEAN implementation rate of 80.7 percent of all AEC measures targeted.[98]Various Philippine agencies continue to coordinate efforts to implement the necessary measures under the AEC guided by the country's 4C Strategy Gameplan: (a) compliance of the country's commitments with the ASEAN; (b) enhancement of competitiveness to improve business environment and support the private sector in developing Philippines industries; (c) intensive communication with stakeholders to deepen awareness and understanding of the AEC, its challenges, and benefits; and (d) effective collaboration among stakeholders towards a shared objective.

What do we gain? What do we lose?

The biggest opportunity that AEC offers is a market of more than 600 million people, all potential consumers of Philippine products and services. It expands the domestic markets and enables the country to participate in the regional value chain under a single production base where goods and services from the different AMS complement rather than compete with each other. More businesses and manufacturers across ASEAN will be made aware of the Philippines' capacity and capability to produce better quality goods at less cost, with the ease of transporting these goods to their destinations given the country's proximity and improving infrastructure.

While the integration process offers a number of benefits, potential risks and challenges are also recognized. A more liberalized financial market makes the Philippines vulnerable to rapid and massive flow of foreign capitals. Capital flows could reverse sharply and suddenly, resulting in volatile exchange rate movements. Moreover, an integrated financial market may expose the country to contagion risks when one AMS experiences a domestic crisis, but this would depend on its degree of integration with the crisis-torn country. The AEC recognizes these risks and has put in place necessary safeguards and cooperation initiatives such as policy dialogue mechanisms for information exchange and capacity-building initiatives to support the liberalization process.

Way forward – gearing up for integration

The potential contributions to lowering of banking costs and improving efficiency and mobility of services offers an opportunity for Philippine banks to develop potential tie-ups and strategic alliances to find better ways to expand their reach. However, concerns emerge on financial stability risks and the need to put the domestic industry in an equal footing with regional counterparts. The concern emanates from the observation that Philippine banks are small and might not be able to compete with bigger players in the region. Despite these concerns, the Philippine banking industry stands ready for banking integration under the AEC.

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[97] Travel and accommodation expenses of resource speakers and CLMV participants, and logistic and support expenses

[98] Department of Trade and Industry and ASEAN Secretariat

In gearing up for integration, measures being considered by banks to enhance competitiveness include scaling up operations through capital expansion and domestic merger and acquisition, enhancing risk management and IT systems, diversifying loan portfolio, and preserving competitive advantage in local operations. The next five years will likely see banking industries across the region adopting additional measures that would prepare the market for financial integration. With the adoption of the ASEAN Banking Integration Framework (ABIF) Guidelines, it is expected that negotiations on the entry of QABs in host ASEAN Member States will commence. The Philippine banks are reasonably positioned for regional competition that is expected to arise from QABs entering the country's market the same way there are potential benefits for these banks to operate as QABs in other ASEAN jurisdiction. The impact of ABIF on the banks will depend on the strategic focus of each bank. How the banks will prepare themselves for ABIF will depend on their own strategic decisions. Central bank officials have long prepared for the evolving banking regulatory environment and the changing global standards.

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-December 2014)

BSP's net worth rises

As of end-December 2014, total assets reached ₱4,087.5 billion, 2.7 percent or ₱114.6 billion lower than the year-ago level.[99] The BSP's liabilities decreased by ₱118.2 billion or 2.8 percent y-o-y to ₱4,043.2 billion. Meanwhile, the BSP's net worth rose to ₱44.3 billion compared to the year-ago level of ₱40.8 billion.

Balance Sheet of the BSP
In Billion Pesos

Accounts	December	
	2014*	2013
Assets	4,087.5	4,202.1
Liabilities	4,043.2	4,161.3
Net Worth	44.3	40.8

* Unaudited and Preliminary

The y-o-y contraction in the BSP's assets was largely due to lower level of international reserves, which accounted for around 86.5 percent of total assets. The ₱134.2 billion decrease in international reserves was attributed mainly to payments by the NG of its maturing foreign exchange obligations, revaluation adjustments, and the BSP's foreign exchange operations.

The BSP's liabilities similarly decreased during the review period due mainly to lower deposits brought about by the unwinding of placements from the SDA facility, but was partially offset by the increase in reserve deposits.[100] In particular, reserve deposits of other depository corporations (ODCs) increased by 22.9 percent or ₱258.4 billion to ₱1,386.7 billion from ₱1,128.3 billion posted a year ago. The decline in placements in the SDA facility may be traced to the BSP's decision to fine-tune access of banks and trust departments/entities (acting as trustees) to the said facility.[101]

[99] Based on preliminary and unaudited statement of financial condition of the BSP

[100] The BSP raised reserve requirement by 1.0 percent each in April and May 2014 as a proactive move to manage potential risks that could arise from the strong growth in domestic liquidity. (MB meetings on Monetary Policy dated 27 March 2014 and 8 May 2014)

[101] In May 2013, the Monetary Board, following consultations with the trust industry, decided that all other SDA placements of trust departments/entities such as investment management accounts (IMA) shall be reduced by at least 30 percent by end-July 2013 (relative to the outstanding balance as of 31 March 2013) and the remaining balance shall be phased out by end-November 2013. The BSP required trust entities to reduce by November 2013 their SDA placements that are inconsistent with the BSP's revised SDA guidelines as contained in Memorandum No. M-2013-021 dated 17 May 2013.

The BSP Net Income (January-December 2014)

BSP registers lower loss from operations

For the year 2014, the BSP recorded a loss of ₽11.3 billion (Table 16).[102]

Income Statement of the BSP
In Billion Pesos

Accounts	2014*	2013
Revenues	50.3	56.6
Less: Expenses	70.5	84.9
Net Income Before Gain/Loss on FX Rate Fluctuations, Provisions for Income Tax and Capital Gains	-20.2	-28.3
Add/Less: Gain/Loss on FX Rate Fluctuations	8.9	5.6
Provision for Income Tax	0.0	2.3
Net Income Available for Distribution**	-11.3	-25.1

* Unaudited and Preliminary
** Difference of P0.1 billion was due to rounding-off (2013 net income)

Total revenues for 2014 amounted to ₽50.3 billion, lower than the ₽56.6 billion posted last year. This was mainly due to the combined decrease in miscellaneous earnings and net income from branches of about ₽7.2 billion from the previous year's aggregate level. Meanwhile, interest income improved by 2.6 percent or ₽0.9 billion higher than the level posted in 2013.

Total expenditures amounted to ₽70.5 billion, ₽14.4 billion lower than the level posted last year. The y-o-y decrease in expenditures was due mainly to lower interest expense, which fell by 22.3 percent, on account of the reduction of interest rates on placements in the SDA facility by 50 bps each in January, March and April 2013 and of lower SDA placements. Interest rate on the said facility, however, was raised twice by 25 basis points in 2014 (June and September).

[102] Based on preliminary and unaudited data of financial operations of the BSP

List of Statistical Tables

1 GROSS NATIONAL INCOME (GNI) BY INDUSTRIAL ORIGIN

For Periods Indicated

In Million Pesos; at Constant 2000 Prices

				Percent Change		
	2012	**2013**	**2014**	**2012**	**2013**	**2014**
Agriculture, Fishery and Forestry	698,967	706,619	720,127	2.8	1.1	1.9
Industrial Sector	2,031,443	2,219,434	2,386,815	7.3	9.3	7.5
Mining and Quarrying	72,047	72,895	75,482	2.2	1.2	3.5
Manufacturing	1,395,711	1,538,912	1,663,785	5.4	10.3	8.1
Construction	348,262	381,657	414,258	18.2	9.6	8.5
Electricity, Gas and Water	215,423	225,970	233,289	5.3	4.9	3.2
Services Sector	3,581,764	3,839,405	4,070,930	7.4	7.2	6.0
Transport, Storage & Communication	482,095	509,086	542,729	8.1	5.6	6.6
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household	1,055,672	1,115,502	1,182,027	7.6	5.7	6.0
Financial Intermediation	426,787	480,683	512,732	8.2	12.6	6.7
R. Estate, Renting & Business Activities	678,898	737,937	797,632	6.4	8.7	8.1
Public Administration & Defense: Compulsory Social Security	274,870	285,378	295,270	5.7	3.8	3.5
Other Services	663,442	710,820	740,540	7.6	7.1	4.2
Gross Domestic Product	**6,312,174**	**6,765,459**	**7,177,872**	**6.8**	**7.2**	**6.1**
Net Primary Income from the rest of the worl(	1,195,423	1,303,574	1,398,430	4.1	9.0	7.3
Gross National Income	**7,507,597**	**8,069,033**	**8,576,302**	**6.4**	**7.5**	**6.3**

Notes:

(1) The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.

(2) Numbers may not add up to total due to rounding.

Source: Philippine Statistics Authority (PSA) *

* Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the PSA which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).

1a GROSS NATIONAL INCOME (GNI) BY EXPENDITURE SHARES

For Periods Indicated

In Million Pesos; at Constant 2000 Prices

Item	2012	2013	2014	Percent Change 2012	Percent Change 2013	Percent Change 2014
Household Final Consumption Expenditure	4,442,523	4,694,760	4,948,250	6.6	5.7	5.4
Government Consumption	672,176	723,640	736,745	15.5	7.7	1.8
Capital Formation	1,152,067	1,496,776	1,513,711	-5.3	29.9	1.1
Fixed Capital	1,285,180	1,438,295	1,561,619	10.8	11.9	8.6
Construction	528,569	583,551	641,784	17.4	10.4	10.0
Durable Equipment	624,112	720,937	783,467	7.0	15.5	8.7
Breeding Stocks and Orchard Development	100,066	96,063	94,805	1.4	-4.0	-1.3
Intellectual Property Products	32,432	37,744	41,563	17.5	16.4	10.1
Changes in Inventories	-133,112	58,480	-47,908	-333.4	143.9	-181.9
Exports	3,053,139	3,019,606	3,384,634	8.5	-1.1	12.1
Less: Imports	3,007,731	3,169,323	3,353,692	4.9	5.4	5.8
Statistical Discrepancy	0	0	-51,776			
Gross Domestic Product	**6,312,174**	**6,765,459**	**7,177,872**	**6.8**	**7.2**	**6.1**
Net Primary Income from the rest of the world	1,195,423	1,303,574	1,398,430	4.1	9.0	7.3
Gross National Income	**7,507,597**	**8,069,033**	**8,576,302**	**6.4**	**7.5**	**6.3**

Notes:

(1) The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.

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2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

For Periods Indicated

	2012	2013		2014	Percent Change 2013	Percent Change 2014
Employment Status 1						
Labor Force (In Thousands)	40,426	41,022 [r]	39,088 [a]	40,050 [a]	1.5	2.5 [a]
Employed	37,600	38,118 [r]	36,286 [a]	37,310 [a]	1.4	2.8 [a]
Unemployed	2,826	2,905 [r]	2,801 [a]	2,740 [a]	2.8	-2.2 [a]
Underemployed	7,514	7,371 [r]	6,912 [a]	6,870 [a]	-1.9	-0.6 [a]
Employment Rate (%)	93.0	92.9	92.8 [a]	93.2 [a]		
Unemployment Rate (%)	7.0	7.1	7.2 [a]	6.8 [a]		
Underemployment Rate (%)	20.0	19.3	19.0 [a]	18.4 [a]		
Overseas Employment (Deployed), in thousands	1802031	1802491		n.a.	0.0	
Land-Based	1435166	1469489		n.a.	2.4	
Sea-Based	366865	333002		n.a.	-9.2	
Strikes						
Number of new strikes declared	3	1		0 [4]	-66.7	
Number of workers involved	209	400		0 [4]	91.4	
Nominal Daily Wage Rates (in pesos) 2						
Non-Agricultural						
NCR	456.00	466.00		466.00	2.2	0.0
Regions Outside NCR	349.50	349.50		362.50	0.0	3.7
Agricultural						
NCR						
Plantation	419.00	429.00		429.00	2.4	0.0
Non-Plantation	419.00	429.00		429.00	2.4	0.0
Regions Outside NCR						
Plantation	324.50	324.50		337.50	0.0	4.0
Non-Plantation	309.00	309.00		322.00	0.0	4.2
Real Daily Wage Rates (in pesos)3, 2006=100						
Non-Agricultural						
NCR	363.64	362.36		356.54	-0.4	-1.6
Regions Outside NCR	268.23	256.80		260.23	-4.3	1.3
Agricultural						
NCR						
Plantation	334.13	333.59		328.23	-0.2	-1.6
Non-Plantation	334.13	333.59		328.23	-0.2	-1.6
Regions Outside NCR						
Plantation	249.04	238.43		242.28	-4.3	1.6
Non-Plantation	235.34	224.08		224.70	-4.8	0.3

Notes:

[1] Starting with January 2007 LFS round, the population projection based on the 2000 Census of Population was adopted to generate the labor force statistics per NSCB Resolution No. 1 Series of 2005.

[2] Source of data for both nominal and real wage rates is the National Wages and Productivity Commission. Includes basic minimum wage and cost of living allowance (COLA). Starting 2006, annual average/total is as of December.

[3] Starting 10 November 1990, adjustments in the minimum legislated wage rates are being determined by the Regional Tripartite Wages Productiviity Board. Starting 2010, real terms is computed using 2006 as base year.

[4] As of June 2014.

[a] Estimated based on January, April, July and October labor figures excluding the entire Region VIII.

[p] Preliminary

[r] Revised

.a. Not available

Sources: Philippine Overseas Employment Administration (POEA), National Wages and Productivity Commission (NWPC), and National Conciliation and Mediation Board (NCMB) and Philippine Statistics Authority (PSA)*

* Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the Philippine Statistics Authority (PSA) which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).

3 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, METRO MANILA AND ALL AREAS OUTSIDE METRO MANILA
For Periods Indicated
2006=100

Commodity Group	Philippines				Metro Manila				All Areas Outside Metro Manila			
	CPI		Percent Change		CPI		Percent Change		CPI		Percent Change	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
All Items	**134.0**	**139.5**	**3.0**	**4.1**	**126.4**	**130.5**	**1.6**	**3.2**	**136.3**	**142.4**	**3.3**	**4.5**
Food and Non-Alcoholic Beverages	143.8	153.4	2.8	6.7	136.4	144.9	2.2	6.2	145.3	155.2	2.9	6.8
Food	145.0	155.2	2.8	7.0	137.5	146.5	2.2	6.5	146.6	157.0	2.9	7.1
Alcoholic Beverages, Tobacco and Narcotics	167.0	175.7	29.8	5.2	144.3	152.7	16.9	5.8	171.6	180.3	32.3	5.1
Non-Food	126.4	129.2	2.1	2.2	122.0	124.2	1.1	1.8	128.1	131.2	2.5	2.4
Clothing and Footware	128.4	132.9	3.6	3.5	132.2	137.4	3.7	3.9	127.2	131.3	3.6	3.2
Housing, Water, Electricity, Gas and Other Fuels	127.9	130.8	1.7	2.3	123.6	125.0	0.3	1.1	129.8	133.3	2.3	2.7
Furnishing, Household Equipment and Routing Maintenance of the House	125.1	128.5	3.3	2.7	120.8	125.1	4.2	3.6	126.7	129.6	3.0	2.3
Health	132.1	136.4	3.0	3.3	135.6	141.8	3.2	4.6	131.2	135.0	3.0	2.9
Transport	126.5	127.7	0.6	0.9	114.1	115.1	-0.2	0.9	130.4	131.6	0.9	0.9
Communication	92.7	92.7	0.2	0.0	93.9	94.1	0.2	0.2	92.1	92.1	0.2	0.0
Recreation and Culture	112.0	114.1	2.3	1.9	114.2	117.0	2.3	2.5	111.2	113.0	2.2	1.6
Education	142.5	149.5	4.5	4.9	143.6	151.0	4.0	5.2	142.1	149.0	4.7	4.9
Restaurants and Miscellaneous Goods and Services	126.1	128.5	2.4	1.9	121.1	122.7	0.7	1.3	128.2	131.0	3.1	2.2

Source: Philippine Statistics Authority (PSA)

Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the Philippine Statistics Authority (PSA) which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

For Periods Indicated

In Million Pesos

	Actual 2013	Actual 2014	Program 2014	Actual Vs. Program (%)	Annual Change (%)
Revenues	**1,716,093**	**1,908,527**	**2,018,051**	**-5.4**	**11.2**
Tax Revenues	1,535,310	1,720,116	1,879,919	-8.5	12.0
Bureau of Internal Revenue	1,216,661	1,334,762	1,456,320	-8.3	9.7
Bureau of Customs	304,537	369,277	408,097	-9.5	21.3
Other Offices	14,112	16,077	15,502	3.7	13.9
Non-tax Revenues	180,783	188,411	138,132	36.4	4.2
of w/c: Bureau of the Treasury	81,013	93,444	56,237	66.2	15.3
Expenditures	**1,880,155**	**1,981,619**	**2,284,297**	**-13.3**	**5.4**
of which:					
Allotments to Local Government Units	317,255	344,235	273,236	26.0	8.5
Interest Payments	323,434	321,185	352,652	-8.9	-0.7
Equity and Net Lending	28,105	15,143	28,276	-46.4	-46.1
Surplus/Deficit (-)	**-164,062**	**-73,092**	**-266,246**	**72.5**	**55.4**
Financing	**319,118**	**175,239**	**283,970**	**-38.3**	**-45.1**
External Borrowings (Net)	-83,821	12,572	4,236	196.8	115.0
Domestic Borrowings (Net)	402,939	162,667	279,734	-41.8	-59.6
Total Change in Cash: Deposit/Withdrawal (-)	65,933	37,826	16,003	136.4	-42.6
Budgetary	155,056	102,147	17,724	476.3	-34.1
Non-Budgetary [1]	-89,123	-64,321	-1,721	-3,637.4	27.8

[1] Refer to accounts not included in the NG budget, e.g., sale, purchase or redemption of government securities, but included in the cash operations report to show the complete relationship in the movements of the cash accounts

Source: BTr

5 DEPOSITORY CORPORATIONS SURVEY (SRF-based) *

As of Periods Indicated
In Million Pesos

	LEVELS Dec-13	LEVELS Dec-14 r	GROWTH RATES (%)
1. NET FOREIGN ASSETS	**3,575,045**	**3,752,137**	**5.0**
A. Monetary Authorities	3,643,843	3,514,406	(3.6)
Claims on non-residents	3,719,802	3,587,434	(3.6)
less: Liabilities to non-residents	75,959	73,028	(3.9)
B. Other Depository Corporation	(68,798)	237,731	445.5
Claims on non-residents	696,045	1,028,650	47.8
less: Liabilities to non-residents	764,844	790,919	3.4
2. DOMESTIC CLAIMS	**5,988,691**	**7,057,079**	**17.8**
A. Net Claims on Central Government	950,846	1,135,737	19.4
Claims on central government	1,638,832	1,879,373	14.7
less: Liabilities to central government	687,986	743,636	8.1
B. Claims on Other Sectors	5,037,845	5,921,342	17.5
Claims on other financial corporations	559,059	630,838	12.8
Claims on state and local government	74,709	71,498	(4.3)
Claims on public nonfinancial corporations	266,418	269,259	1.1
Claims on private sector	4,137,659	4,949,747	19.6
3. LIQUIDITY AGGREGATES			
M4 (M3 + 3.e)	**8,054,206**	**9,055,948**	**12.4**
M3 (M2 + 3.d) **	6,925,038	7,709,106	11.3
M2 (M1 + 3.c)	6,693,572	7,395,679	10.5
M1 (3.a + 3.b)	2,045,189	2,319,204	13.4
3.a Currency outside depository corporations (Currency in circulation)	640,341	714,154	11.5
3.b Transferable deposits included in broad money (Demand deposits)	1,404,848	1,605,050	14.3
3.c Other deposits included in broad money	4,648,382	5,076,474	9.2
Savings deposits	2,889,169	3,189,633	10.4
Time deposits	1,759,214	1,886,842	7.3
3.d Securities other than shares included in broad money (Deposit substitutes)	231,466	313,428	35.4
3.e Transferable and other deposits in foreign currency (FCDs-Residents)	1,129,168	1,346,841	19.3
4. LIABILITIES EXCLUDED FROM BROAD MONEY	**1,509,530**	**1,753,268**	**16.1**

* Based on the Standardized Report Forms (SRFs), a unified framework for reporting monetary and financial statistics to the International Monetary Fund (IMF).

r Revised

**/Derived as Net Foreign Assets + Domestic Claims, net of Liabilities excluded from broad money and transferable and other deposits in foreign currency(FCDs-Residents)

Source: BSP

6 SELECTED DOMESTIC INTEREST RATES [1]
For Periods Indicated
In Percent per Annum

	Nominal Interest Rates			Real Interest Rates [7]		
	2012	2013	2014	2012	2013	2014
Borrowing Rates of Banks						
Interbank Call Loans	4.0620	2.2176	2.2179	0.8620	-0.7824	-1.8821
Savings Deposits [2]	1.3410	0.8270	0.6260	-1.8590	-2.1730	-3.4740
Time Deposits [2]						
(All Maturities)	2.8260	1.4100	1.0800	-0.3740	-1.5900	-3.0200
Lending Rates						
All Maturities [3]	5.6530	5.7640	5.5250	2.4530	2.7640	1.4250
High [4]	7.8382	6.9298	6.8010	4.6382	3.9298	2.7010
Low [5]	5.5649	4.6029	4.3850	2.3649	1.6029	0.2850
Bangko Sentral Rates[6]						
R/P (Overnight)	6.1250	N.T.	N.T.	2.9250	N.T.	N.T.
R/P (Term)	N.T.	N.T.	N.T.	N.T.	N.T.	N.T.
RR/P (Overnight)	3.8540	3.5000	3.7700	0.6540	0.5000	-0.3300
RR/P (Term)	3.8940	3.5210	3.7200	0.6940	0.5210	-0.3800
Rediscounting	3.9015	3.5061	3.7243	0.7015	0.5061	-0.3757
Rate on Government Securities						
Treasury Bills (All Maturities)	1.8260	0.5640	1.4950	-1.3740	-2.4360	-2.6050
91-Days	1.5830	0.3150	1.2440	-1.6170	-2.6850	-2.8560
182-Days	1.7590	0.4840	1.6050	-1.4410	-2.5160	-2.4950
364-Days	1.9650	0.7200	1.7880	-1.2350	-2.2800	-2.3120
Government Securities in the Secondary Market [8]						
3 Months	0.4865	0.4917	2.5409	-2.5135	-3.6083	-0.1591
6 Months	0.7885	0.6000	2.6432	-2.2115	-3.5000	-0.0568
1-Year	0.9885	0.9333	2.6955	-2.0115	-3.1667	-0.0045
2-Years	3.0577	2.5208	3.0568	0.0577	-1.5792	0.3568
3-Years	3.8258	2.9187	3.4500	0.8258	-1.1813	0.7500
4-Years	3.9865	3.4521	3.5705	0.9865	-0.6479	0.8705
5-Years	4.1058	3.7625	3.6795	1.1058	-0.3375	0.9795
7-Years	4.1385	3.6850	4.1475	1.1385	-0.4150	1.4475
10-Years	4.4000	3.8038	4.3705	1.4000	-0.2962	1.6705
20-Years	5.9692	5.1875	5.1727	2.9692	1.0875	2.4727
25-Years	5.8962	5.6458	4.9500	2.8962	1.5458	2.2500

[1] All figures are weighted average rates, unless stated otherwise
[2] Covers all commercial banks
[3] Ratio of all commercial banks' total interest incomes to their total outstanding peso-denominated loans
[4] Refers to the average of all highs quoted by reporting commercial banks
[5] Refers to the average of all lows quoted by reporting commercial banks
[6] Beginning 2012, the weighted average interest rates for R/P and RR/P are computed as end-of-period total interest expense divided by outstanding principal, while those for earlier periods are computed based on actual transactions during the period.
[7] Nominal interest rate less inflation rate
[8] End of Period
Source: BSP

7 CROSS RATES OF THE PESO

Period Averages

Pesos per Unit of Foreign Currency

		US Dollar	Japanese Yen	Pound Sterling	Hongkong Dollar	Swiss Franc	Canadian Dollar	Singapore Dollar	Australian Dollar	Bahrain Dollar	Saudi Rial	Brunei Dollar	Indo Rupiah	Thai Baht	UAE Dirham	EURO
2012	**Ave**	**42.2288**	**0.5299**	**66.9249**	**5.4441**	**45.0619**	**42.2570**	**33.8041**	**43.7274**	**112.0233**	**11.2607**	**33.6685**	**0.0045**	**1.3595**	**11.4975**	**54.3079**
	Jan	43.6191	0.5670	67.6569	5.6185	46.4833	43.0283	34.0705	45.3095	115.7204	11.6315	33.9379	0.0048	1.3818	11.8760	56.2828
	Feb	42.6608	0.5448	67.4003	5.5017	46.7513	42.7692	34.0289	45.7292	113.1728	11.3759	33.8937	0.0047	1.3882	11.6151	56.4222
	Mar	42.8574	0.5199	67.8338	5.5216	46.9533	43.1664	34.0664	45.2096	113.6969	11.4280	33.9315	0.0047	1.3975	11.6687	56.6288
	Apr	42.6998	0.5253	68.4145	5.5012	46.8292	43.0165	34.1571	44.2003	113.2677	11.3863	34.0210	0.0047	1.3841	11.6256	56.2914
	May	42.8515	0.5375	68.2662	5.5199	45.6900	42.4553	33.9592	42.7908	113.6718	11.4266	33.8251	0.0046	1.3704	11.6670	54.8780
	Jun	42.7765	0.5397	66.5015	5.5130	44.6523	41.6112	33.4579	42.5907	113.4713	11.4065	33.3276	0.0046	1.3518	11.6467	53.6192
	Jul	41.9054	0.5302	65.3765	5.4033	42.9574	41.3260	33.2304	43.0925	111.1611	11.1746	33.0991	0.0044	1.3250	11.4095	51.5881
	Aug	42.0452	0.5349	66.0660	5.4213	43.3782	42.3114	33.7009	44.0751	111.5326	11.2120	33.5664	0.0044	1.3384	11.4477	52.0961
	Sep	41.7490	0.5341	67.2180	5.3843	44.4168	42.6565	33.8922	43.3724	110.7502	11.1330	33.7552	0.0044	1.3467	11.3668	53.6856
	Oct	41.4521	0.5258	66.6237	5.3477	44.4393	42.0520	33.8484	42.6505	109.9634	11.0539	33.7108	0.0043	1.3515	11.2860	53.7545
	Nov	41.1222	0.5082	65.5939	5.3060	43.7294	41.2393	33.6142	42.7514	109.0981	10.9656	33.4773	0.0043	1.3399	11.1962	52.7036
	Dec	41.0067	0.4914	66.1474	5.2914	44.4629	41.4520	33.6230	42.9570	108.7732	10.9348	33.4760	0.0043	1.3388	11.1648	53.7443
2013	**Ave**	**42.4462**	**0.4356**	**66.4139**	**5.4725**	**45.8201**	**41.2098**	**33.9347**	**41.0195**	**112.5955**	**11.3184**	**33.7996**	**0.0041**	**1.3832**	**11.5567**	**56.3942**
	Jan	40.7295	0.4580	65.0893	5.2537	44.0648	41.0845	33.1823	42.7556	108.0370	10.8608	33.0477	0.0042	1.3549	11.0893	54.1270
	Feb	40.6723	0.4372	63.0701	5.2446	44.2094	40.3725	32.8469	41.9596	107.8863	10.8455	32.7148	0.0042	1.3647	11.0736	54.3618
	Mar	40.7127	0.4293	61.3734	5.2477	43.0786	39.7088	32.6803	41.9971	107.9992	10.8564	32.5497	0.0042	1.3788	11.0848	52.8776
	Apr	41.1422	0.4221	62.9378	5.2999	43.8810	40.3781	33.2313	42.7442	109.1365	10.9711	33.0977	0.0042	1.4164	11.2020	53.5266
	May	41.2976	0.4092	63.1389	5.3210	43.1649	40.4815	33.0769	40.9360	109.5494	11.0124	32.9449	0.0042	1.3898	11.2440	53.5926
	Jun	42.9069	0.4406	66.4568	5.5291	45.9536	41.6091	34.0634	40.5481	113.8188	11.4413	33.9287	0.0044	1.3959	11.6823	56.6122
	Jul	43.3559	0.4350	65.8438	5.5896	45.8749	41.6401	34.2142	39.7304	115.0081	11.5609	34.0798	0.0043	1.3950	11.8044	56.7089
	Aug	43.8639	0.4484	67.8155	5.6559	47.3611	42.2004	34.4837	39.5530	116.3570	11.6961	34.3487	0.0042	1.3899	11.9425	58.4174
	Sep	43.8318	0.4420	69.4375	5.6527	47.4263	42.2985	34.6960	40.6011	116.2681	11.6874	34.5592	0.0039	1.3821	11.9338	58.5044
	Oct	43.1825	0.4415	69.5227	5.5693	47.8228	41.6993	34.7164	41.0612	114.5503	11.5148	34.5774	0.0038	1.3850	11.7573	58.8668
	Nov	43.5546	0.4357	70.1141	5.6184	47.7037	41.5557	34.9239	40.6381	115.5390	11.6137	34.7845	0.0038	1.3786	11.8586	58.7584
	Dec	44.1043	0.4276	72.1669	5.6885	49.3007	41.4886	35.1010	39.7100	116.9964	11.7602	34.9619	0.0037	1.3677	12.0081	60.3768
2014	**Ave**	**44.3952**	**0.4208**	**73.1731**	**5.7252**	**48.6018**	**40.2315**	**35.0648**	**40.0974**	**117.7596**	**11.8363**	**34.9268**	**0.0037**	**1.3672**	**12.0872**	**59.0432**
	Jan	44.9266	0.4321	74.0269	5.7920	49.7477	41.1783	35.3263	39.8717	119.1749	11.9795	35.1880	0.0037	1.3657	12.2323	61.2469
	Feb	44.8950	0.4397	74.3135	5.7867	50.1819	40.6097	35.4679	40.2635	119.0872	11.9711	35.3284	0.0038	1.3756	12.2238	61.3016
	Mar	44.7916	0.4381	74.4520	5.7711	50.8876	40.3382	35.3400	40.6363	118.8140	11.9437	35.2012	0.0039	1.3832	12.1953	61.9409
	Apr	44.6416	0.4351	74.6995	5.7572	50.5496	40.6009	35.5664	41.6028	118.4140	11.9035	35.4253	0.0039	1.3815	12.1542	61.6350
	May	43.9236	0.4314	73.9965	5.6660	49.4516	40.3407	35.1096	40.8495	116.5086	11.7116	34.9698	0.0038	1.3513	11.9588	60.3484
	Jun	43.8175	0.4293	74.0822	5.6528	48.9246	40.4681	35.0303	41.0022	116.2253	11.6829	34.8908	0.0037	1.3474	11.9300	59.5975
	Jul	43.4665	0.4276	74.2780	5.6085	48.4989	40.5584	34.9877	40.8363	115.2966	11.5901	34.8475	0.0037	1.3531	11.8342	58.9257
	Aug	43.7673	0.4258	73.2141	5.6473	48.1523	40.0898	35.0739	40.7390	116.0917	11.6701	34.9339	0.0038	1.3663	11.9160	58.3659
	Sep	44.0751	0.4119	71.9350	5.6860	47.1462	40.0966	34.9299	40.0406	116.9114	11.7517	34.7920	0.0037	1.3708	12.0001	56.9349
	Oct	44.7979	0.4156	72.0912	5.7746	47.0830	39.9746	35.1776	39.3383	118.8267	11.9421	35.0400	0.0037	1.3812	12.1967	56.8661
	Nov	44.9514	0.3875	70.9959	5.7970	46.6432	39.7096	34.7182	38.9172	119.2334	11.9815	34.5846	0.0037	1.3717	12.2384	56.1001
	Dec	44.6878	0.3755	69.9919	5.7632	45.9551	38.8130	34.0494	37.0710	118.5317	11.9074	33.9201	0.0036	1.3589	12.1666	55.2554

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

Period Average

1980 = 100

	NOMINAL			REAL		
		Trading Partners			Trading Partners	
	Overall*	Advanced**	Developing ***	Overall*	Advanced**	Developing***
2012	**14.92**	**11.61**	**24.67**	**84.60**	**75.09**	**116.35**
Jan	14.43	11.08	24.07	83.64	74.10	115.17
Feb	14.64	11.33	24.30	83.55	74.09	114.98
Mar	14.72	11.51	24.24	83.24	74.33	114.01
Apr	14.75	11.51	24.35	84.02	74.59	115.53
May	14.76	11.47	24.43	83.84	74.05	115.69
Jun	14.89	11.52	24.71	84.95	74.79	117.50
Jul	15.17	11.78	25.12	85.95	76.18	118.32
Aug	15.06	11.69	24.93	85.14	75.35	117.32
Sep	15.03	11.66	24.92	84.50	74.41	116.84
Oct	15.09	11.76	24.94	84.90	75.21	116.92
Nov	15.25	12.00	25.02	85.81	76.96	117.19
Dec	15.31	12.11	25.04	85.65	77.24	116.51
2013	**15.26**	**12.38**	**24.45**	**87.44**	**81.57**	**115.85**
Jan	15.53	12.43	25.14	91.17	84.88	120.98
Feb	15.72	12.65	25.35	90.71	84.77	120.01
Mar	15.82	12.82	25.37	90.76	84.87	120.03
Apr	15.71	12.81	25.07	90.41	84.80	119.30
May	15.75	12.96	24.97	90.39	85.15	118.89
Jun	15.14	12.27	24.27	87.15	80.87	115.93
Jul	15.08	12.29	24.09	85.75	80.37	113.22
Aug	14.88	12.02	23.92	84.33	78.11	112.32
Sep	14.89	12.07	23.89	84.35	78.23	112.25
Oct	14.97	12.11	24.04	85.06	78.90	113.18
Nov	14.94	12.15	23.90	85.09	79.45	112.66
Dec	14.85	12.10	23.72	84.84	79.26	112.29
2014	**14.91**	**12.22**	**23.72**	**87.14**	**82.32**	**114.37**
Jan	14.67	11.94	23.45	87.98	83.80	114.77
Feb	14.63	11.86	23.47	86.45	81.75	113.37
Mar	14.65	11.85	23.53	85.66	80.41	112.96
Apr	14.67	11.89	23.52	85.87	80.20	113.67
May	14.88	12.07	23.85	87.05	81.03	115.51
Jun	14.94	12.14	23.92	87.71	81.68	116.36
Jul	15.01	12.23	23.99	87.60	82.15	115.60
Aug	14.96	12.25	23.80	87.15	81.95	114.77
Sep	15.05	12.46	23.74	87.24	82.78	114.11
Oct	14.93	12.37	23.55	86.85	82.54	113.47
Nov	15.17	12.73	23.71	88.16	85.10	113.85
Dec	15.44	12.98	24.11	89.04	85.86	115.09

* Australia, Euro Area, U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and

** U.S., Japan, Euro Area, and Australia

*** Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E.

Source: BSP

8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS [p]

As of End-Period

In Million Pesos

	LEVELS		GROWTH RATE
	2013	2014	(%)
T O T A L	6,053,230	6,681,525	10.4
Demand Deposits	1,404,848	1,605,050	14.3
Savings Deposits	2,889,169	3,189,633	10.4
Time Deposits	1,759,214	1,886,842	7.3

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]

As of Periods Indicated

In Billion Pesos

Institutions	2013	2014	% Change
Total	**12,833.6**	**14,260.9** [r]	**11.1** [r]
Banks	10,311.8	11,523.5 [r]	11.8 [r]
Universal and Commercial Banks [2]	9,300.4	10,398.4 [r]	11.8 [r]
Thrift Banks [2]	809.1	916.2 [r]	13.2 [r]
Rural Banks	202.3	208.9 [a]	3.3
Non-Banks [3]	2,521.8 `	2,737.3 [a]	8.5

[1] Excludes the Bangko Sentral ng Pilipinas; amount includes allowance for probable losses

[2] Data prior to 2008 were based on the Consolidated Statement of Condition which valued asset gross of allowance for probable losses and net of amortization and depreciation. Data from March 2008 onwards are based on the new Financial Reporting Package (FRP) which valued asset gross of amortization, depreciation and allowance for probable losses.

[3] Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Associations, Credit Card Companies (which are under BSP supervision), and Private and Government Insurance Companies (i.e., SSS and GSIS)

[a] As of end-September 2014

[r] Revised

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

As of Periods Indicated

Institutions	2013	2014 [3]	% Change
Total	**27,759**	**28,128**	**1.3**
Head Offices	7,053	6,840	-3.0
Branches/Agencies	20,706	21,288	2.8
Banks	9,720	10,207	5.0
Head Offices	676	652	-3.6
Branches/Agencies	9,044	9,555	5.7
Universal and Commercial Banks	5,330	5,738	7.7
Head Offices	36	36	0.0
Branches/Agencies	5,294	5,702	7.7
Thrift Banks	1,773	1,873	5.6
Head Offices	71	69	-2.8
Branches/Agencies	1,702	1,804	6.0
Savings and Mortgage Banks	1,150	1,248	8.5
Head Offices	28	28	0.0
Branches/Agencies	1,122	1,220	8.7
Private Development Banks	429	440	2.6
Head Offices	20	19	-5.0
Branches/Agencies	409	421	2.9
Stock Savings and Loan Associations	166	154	-7.2
Head Offices	20	18	-10.0
Branches/Agencies	146	136	-6.8
MicroFinance Banks	28	31	10.7
Head Offices	3	4	33.3
Branches/Agencies	25	27	8.0
Rural Banks	2,617	2,596	-0.8
Head Offices	569	547	-3.9
Branches/Agencies	2,048	2,049	0.0
Non-Banks [2]	18,039	17,921	-0.7
Head Offices	6,377	6,188	-3.0
Branches/Agencies	11,662	11,733	0.6

[1] Refers to the number of financial establishments which includes the head offices and branches; excludes the Bangko Sentral ng Pilipinas.
Starting December 2009, data include other banking offices per Circular 505 and 624 dated 22 December 2005 and 13 October 2008, respectively.
(Other banking offices refer to any office or place of business in the Philippines other than the head office, branch or extension office, which primarily engages in banking activities other than the acceptance of deposits and/or servicing of withdrawals thru tellers or other authorized personnel.)

[2] Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non Stocks Savings and Loan Associations, Venture Capital Corps., Credit Card Companies (which are under BSP supervision), and Private and Government Insurance Companies (i.e., SSS and GSIS).

[3] as of end-September 2014

Source: BSP

10 STOCK MARKET TRANSACTIONS
For Periods Indicated
Volume in Million Shares, Values in Million Pesos

	2012		2013		2014		Percent Change 2013		Percent Change 2014	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**1,043,119.0**	**1,771,711.1**	**515,135.0**	**2,546,182.9**	**815,193.1**	**2,130,120.9**	**-50.6**	**43.7**	**58.2**	**-16.3**
Financial	5,198.4	282,982.5	7,614.5	342,310.8	4,981.2	278,292.2	46.5	21.0	-34.6	-18.7
Industrial	142,663.3	419,111.7	80,766.2	684,087.7	64,433.4	428,165.2	-43.4	63.2	-20.2	-37.4
Holding Firms	181,570.6	400,478.3	80,453.7	605,710.8	37,382.4	499,986.7	-55.7	51.2	-53.5	-17.5
Property	76,464.6	244,175.1	68,488.1	409,150.3	70,184.2	360,390.5	-10.4	67.6	2.5	-11.9
Services	85,298.6	287,069.4	68,965.5	442,782.3	70,243.4	461,553.1	-19.1	54.2	1.9	4.2
Mining & Oil	551,922.0	137,881.6	208,844.7	62,011.6	566,348.1	89,916.5	-62.2	-55.0	171.2	45.0
SME	1.7	12.4	1.1	11.1	1,613.8	11,072.3	-32.2	-10.4	141,444.2	99,504.4
ETF			1.2	118.2	6.6	744.4	n.a.	n.a.	n.a.	n.a.
Composite Index (PSEi)										
Average	**5,178.4**		**6,471.3**		**6,793.3**		**25.0**		**5.0**	
End of Period	**5,812.7**		**5,889.8**		**7,230.6**		**1.3**		**22.8**	

Source: PSE

11 BALANCE OF PAYMENTS

In Million US Dollars

	2013 r	2014 p	Growth (%) 2013 p
Current Account	11,384	12,650	11.1
Export	97,886	104,879	7.1
Import	86,502	92,228	6.6
Goods, Services, and Primary Income	(9,690)	(9,906)	-2.2
Export	76,206	81,641	7.1
Import	85,896	91,546	6.6
Goods and Services	(10,647)	(10,977)	-3.1
Export	67,848	72,595	7.0
Import	78,495	83,572	6.5
Goods	(17,662)	(15,851)	10.3
Credit: Exports	44,512	47,758	7.3
Debit: Imports	62,174	63,609	2.3
Services	7,015	4,874	-30.5
Credit: Exports	23,335	24,837	6.4
Debit: Imports	16,320	19,963	22.3
Primary Income	957	1,071	11.9
Credit: Receipts	8,358	9,046	8.2
Debit: Payments	7,401	7,974	7.7
Secondary Income	21,073	22,556	7.0
Credit: Receipts	21,680	23,238	7.2
Debit: Payments	606	682	12.5
Capital Account	134	101	-24.1
Credit: Receipts	151	114	-24.6
Debit: Payments	18	13	-28.0
Financial Account	2,230	10,084	352.2
Net Acquisition of Financial Assets	6,337	15,986	152.3
Net Incurrence of Liabilities	4,106	5,901	43.7
Direct Investment	(90)	789	973.1
Net Acquisition of Financial Assets	3,647	6,990	91.7
Net Incurrence of Liabilities	3,737	6,201	65.9
Portfolio Investment	(1,001)	2,460	345.7
Net Acquisition of Financial Assets	(638)	2,456	485.2
Net Incurrence of Liabilities	363	(3)	-100.9
Financial Derivatives	(88)	(48)	45.8
Net Acquisition of Financial Assets	(312)	(277)	11.3
Net Incurrence of Liabilities	(224)	(229)	-2.2
Other Investment	3,410	6,883	101.9
Net Acquisition of Financial Assets	3,640	6,817	87.3
Net Incurrence of Liabilities	230	(66)	-128.8
NET UNCLASSIFIED ITEMS	(4,202)	(5,525)	-31.5
OVERALL BOP POSITION	5,085	(2,858)	-156.2
Debit: Change in Reserve Assets	5,085	(2,858)	-156.2
Credit: Change in Reserve Liabilities	0	(0)	-104.0
Use of Fund Credits	-	-	-
Short-term	0	(0)	-104.0

Details may not add up to total due to rounding.
p Preliminary
r Revised to reflect post audit adjustments, data updates and final data from official sources
Technical Notes:
1. Balance of Payments Statistics are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
2. Financial Account, including Reserve Assets, is calculated as the sum of net acquisitions of financial assets less net incurrence of liabilities.
3. Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
4. Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
5. Negative values of Net Acquisition of Financial Assets indicate withdrawal/disposal of financial assets; negative values of Net Incurrence of Liabilities indicate repayment of liabilities.
6. Overall BOP position is calculated as the change in the country's net international reserves (NIR), less non-economic transactions (revaluation and gold monetization/demonetization). Alternatively, it can be derived by adding the current and capital account balances less financial account plus net unclassified items.
7. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
8. Data on Deposit-taking corporations, except the central bank, consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

12 GROSS INTERNATIONAL RESERVES

End-of-Period

In Million US Dollars

		GIR (1=2 to 6)	Reserve Position in the Fund (2)	Gold (3)	SDRs (4)	Foreign Investments (5)	Foreign Exchange (6)	Import Cover [1] (7)	Short-Term External Debt Cover (in percent) [4] Original Maturity [2] (8)	Residual Maturity [3] (9)
2013	Jan	85,273.6	539.4	10,302.2	1,292.0	72,129.7	1,010.3	11.8	518.3	404.6
	Feb	83,623.3	530.1	9,787.6	1,269.9	71,165.5	870.2	11.7	508.3	411.2
	Mar	83,950.7	523.9	9,900.8	1,256.8	71,325.0	944.2	11.8	510.3	413.0
	Apr	83,213.3	529.4	9,020.7	1,270.1	71,190.9	1,202.2	11.7	505.8	415.3
	May	81,967.0	523.8	8,642.2	1,256.5	70,601.0	943.6	11.5	498.2	405.7
	Jun	81,255.5	540.2	7,663.4	1,260.9	70,645.4	1,145.7	11.5	493.9	400.9
	Jul	83,172.1	545.0	8,226.7	1,268.7	72,036.1	1,095.7	11.8	505.5	414.0
	Aug	82,891.3	544.9	8,589.5	1,270.4	71,402.7	1,083.8	11.8	503.8	416.8
	Sep	83,507.3	577.6	8,240.7	1,286.2	72,366.9	1,035.9	11.8	507.6	414.7
	Oct	83,607.4	576.7	8,156.3	1,295.7	72,226.9	1,351.8	11.8	508.2	415.1
	Nov	83,572.1	592.1	7,754.0	1,298.8	72,415.0	1,512.2	11.7	508.0	416.1
	Dec	83,187.0	594.0	7,498.4	1,302.8	72,936.3	855.6	11.6	492.0	405.5
2014	Jan	79,357.5	591.7	7,731.7	1,297.9	68,919.7	816.4	10.9	469.3	390.8
	Feb	80,539.6	595.6	8,333.4	1,309.2	69,753.0	548.4	11.0	476.3	392.8
	Mar	79,645.2	594.9	8,006.2	1,307.7	68,990.6	745.9	10.8	471.0	384.3
	Apr	79,844.2	601.6	8,012.4	1,313.9	69,224.3	692.1	10.7	472.2	386.3
	May	80,242.2	601.4	7,790.5	1,303.5	69,835.9	710.8	10.7	474.6	390.3
	Jun	80,733.3	611.6	8,285.0	1,308.1	69,889.5	639.2	10.7	477.5	394.6
	Jul	80,644.2	602.7	8,019.0	1,295.7	70,048.4	678.3	10.6	476.9	394.1
	Aug	80,872.8	597.6	8,050.8	1,284.9	70,081.0	858.4	10.6	478.3	395.5
	Sep	79,556.9	590.3	7,569.5	1,254.6	68,935.5	1,206.9	10.4	559.4	450.9
	Oct	79,409.2	585.9	7,311.7	1,251.0	69,966.6	294.0	10.3	558.3	453.1
	Nov	78,679.0	580.3	7,230.1	1,239.2	69,393.5	235.9	10.2	553.2	444.5
	Dec	79,540.6	570.6	7,483.6	1,226.1	69,960.1	300.2	10.4	489.5	401.2

[1] Number of months of average imports of goods and payment of services and income that can be financed by reserves. Starting 2005, figures were revised to reflect data based on BPM6 concept.

[2] Based on latest available outstanding short-term external debt.

[3] Refers to adequacy of reserves to cover outstanding short-term debt based on original maturity plus principal payments on medium-and long-term loans of the public and private sectors falling due in the next 12 months. Figures reflect data based on projected debt service schedule on debt outstanding and external debt report as of 30 September 2014, debt service burden and outstanding short-term debt of non-banks as of 31 December 2014.

[4] Starting December 2005, annual outstanding annual short-term debt were revised to reflect the new reporting framework in line with international standards under the latest External Debt Statistics Guide and International Monetary Fund's Balance of Payments and International Investment Position Manual, 6th Edition.

Source: BSP

13 TOTAL EXTERNAL DEBT [1]

As of Dates Indicated

In Million US Dollars

	31 December 2013				31 December 2014			
	Short-term		Medium &	Total	Short-term		Medium &	Total
	Trade	Non-Trade	Long-Term		Trade	Non-Trade	Long-Term	
Grand Total	**2,849**	**14,060**	**61,580**	**78,489**	**2,486**	**13,762**	**61,426**	**77,674**
Public Sector	**-**	694	39,830 [a]	40,524	**-**	606	38,740 [a]	39,346
Banks	-	694	3,740	4,434	-	606	3,542	4,148
Bangko Sentral ng Pilipinas	-	-	1,455	1,455	-	-	1,387	1,387
Others	-	694	2,285	2,979	-	606	2,155	2,761
Non-Banks	-	-	36,090	36,090	-	-	35,198	35,198
CB-BOL	-	-	-	-	-	-	-	-
NG and Others	-	-	36,090	36,090	-	-	35,198	35,198
Private Sector	2,849	13,366	21,750	37,965	2,486	13,156	22,685	38,327
Banks	-	12,969	1,339	14,307	-	12,565	1,870	14,435
Foreign Bank Branches	-	7,360	141	7,501 [b]	-	6,872	235	7,107 [b]
Domestic Banks	-	5,609	1,197	6,806	-	5,693	1,635	7,328
Non-Banks	2,849	397	20,411 [c]	23,657	2,486	591	20,815 [c]	23,893

1 Total external debt covers BSP-approved/registered debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

Inclusion	31 Dec 2013	31 Dec 2014
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	-4	(61)
Exclusions		
b Due to Head Office/Branches Abroad offshore banking units of foreign banks operating in the Philippines	5790	5329
c Obligations under various capital lease agreements;	1081	1015
Loans without BSP approval/registration	13112	13714

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS

For Periods Indicated
In Million US Dollar

	2013 r/	2014 p/
Debt Service Burden (DSB) [1]	7,535	6,318
Principal	4,615	3,607
Interest	2,921	2,710
Export Shipments (XS) [3]	44,512	47,758
Exports of Goods and Receipts from Services and Income (XGSI) [2, 3]	92,151	98,433
Current Account Receipts (CAR) [3]	97,886	104,879
Gross National Income (GNI)	88,848	94,412
Ratios (%) :		
DSB to XS	16.9	13.2
DSB to XGSI	8.2	6.4
DSB to CAR	7.7	6.0
DSB to GNI	8.5	6.7

[1] Debt service burden represents principal and interest payments after rescheduling. In accordance with the internationally-accepted concept, debt service burden consists of (a) Principal and interest payments on fixed MLT credits including IMF credits, loans covered by the Paris Club and Commercial Banks rescheduling, and New Money Facilities; and (b) Interest payments on fixed and revolving short-term liabilities of banks and non-banks but excludes (i) Prepayments of future years' maturities of foreign loans and (ii) Principal payments on fixed and revolving ST liabilities of banks and non-banks.

[2] Includes cash remittances of overseas Filipino workers that were coursed through and reported by commercial banks which are reflected under Compensation of Employees in the Primary Income account and workers' remittances in the Secondary Income account.

[3] Based on the accounting principle under the Balance of Payments and International Investment Position Manual, Sixth edition (BPM6)

p/ Preliminary

r/ Revised to reflect latest data adjustments

Source: BSP

15 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

As of Periods Indicated
In Million Pesos

	2013 Dec	2014 p,u Dec	Percent Change (%)
Assets	**4,202,085.6**	**4,087,468.4**	**-2.7**
International Reserves	3,670,012.8	3,535,808.4	-3.7
Domestic Securities	219,506.0	222,404.7	1.3
Loans and Advances	94,491.4	85,334.6	-9.7
Revaluation of International Reserves	32,553.6	41,664.2	28.0
Bank Premises and Other Fixed Assets	17,749.6	18,096.9	2.0
Derivative Instruments in a Gain Position	368.9	120.1	-67.4
Other Assets	167,403.3	184,039.5	9.9
Liabilities	**4,161,314.7**	**4,043,151.4**	**-2.8**
Currency Issue	797,451.9	929,502.2	16.6
Deposits	2,978,406.0	2,724,583.0	-8.5
Reserve Deposits of Other Depository Corporations (ODCs)[1]	1,128,302.4	1,386,745.3	22.9
Reserve Deposits of Other Financial Corporations (OFCs)[2]	467.8	7,667.8	1,539.2
Special Deposit Accounts[3]	1,367,302.9	845,010.3	-38.2
Treasurer of the Philippines[4]	412,290.6	415,195.0	0.7
Foreign Financial Institutions	35,464.5	39,477.3	11.3
Other Foreign Currency Deposits	52.7	47.0	-10.8
Other Deposits[5]	34,525.3	30,440.4	-11.8
Foreign Loans Payable	57.7	50.0	-13.3
Net Bonds Payable	22,198.1	22,374.9	0.8
Allocation of SDRs	57,304.0	54,321.2	-5.2
Derivatives Liability	0.0	36.7	
Derivative Instruments in a Loss Position	0.0	0.0	
Net Revaluation of International Reserves	0.0	0.0	
Reverse Repurchase Agreements[3]	293,905.0	302,285.0	2.9
Other Liabilities	11,992.0	9,998.4	-16.6
Net Worth	40,770.9	44,317.0	8.7
Capital	40,000.0	50,000.0	25.0
Surplus/Reserves	770.9	-5,683.0	-837.2

Note: Details may not add up to total due to rounding off.

[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).

[2] OFCs are trust units of banks.

[3] Includes accrued interest payables.

[4] Includes foreign currency deposits.

[5] Mostly GOCC deposits.

[p] Preliminary

[u] Based on the unaudited BSP balance sheet as of end-December 2014 prepared by the Financial Accounting Department (FAD) of the BSP.

16 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

As of Periods Indicated

In Billion Pesos

	2013 [r] Dec	2014 [u] Dec	Percent Change (%)
Revenues	**56.576**	**50.257**	**-11.2**
Interest Income	32.427	33.283	2.6
International Reserves	23.409	25.032	6.9
Domestic Securities	1.891	2.446	29.3
Loans and Advances	3.962	2.098	-47.0
Others	3.165	3.707	17.1
Miscellaneous Income	22.604	16.160	-28.5
Net income from Branches	1.545	0.814	-47.3
Expenses	**84.914**	**70.501**	**-17.0**
Interest Expenses	59.529	46.237	-22.3
Reserve Deposits of ODCs and OFCs [1]	0.023	0.014	-39.1
Special Deposit Accounts	41.416	26.246	-36.6
National Government Deposits	5.913	6.838	15.6
Reverse Repurchase Agreements	10.204	11.058	8.4
Loans Payable	1.922	2.142	11.4
Other Foreign Currency Deposits	0.003	0.000	
Other Liabilities	0.048	-0.061	-227.1
Cost of Minting	5.766	6.764	17.3
Other Expenses	19.619	17.500	-10.8
Net Income Before Gain/(Loss) on FXR Fluctuations	**-28.338**	**-20.244**	**28.6**
Gain/Loss(-) on FXR Fluctuations [2]	5.598	8.936	59.6
Income Tax Expense	2.312	0.000	
Net Income	**-25.052**	**-11.308**	**54.9**
Capital Reserves	0.000	0.000	
Net Income Available for Distribution	**-25.052**	**-11.308**	**54.9**

Note: Details may not add up to total due to rounding off.

[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs) while OFCs are trust units of banks.

[2] This represents realized gains or losses from fluctuations in FX rates arising from foreign currency-denominated transactions of the BSP, including: 1) rollover/re-investments of matured FX investments with foreign financial institutions and FX-denominated government securities; 2) servicing of matured FX obligations of the BSP; and 3) maturity of derivatives instruments.

[r] Revised due to the restatement of prior period adjustments per Philippine Accounting Standard (PAS) No. 8.

[u] Based on the unaudited BSP income statement as of December 2014 prepared by the Financial Accounting Department of the BSP.

17 CONDENSED STATEMENT OF CONDITION OF THE BANGKO SENTRAL NG PILIPINAS

In Thousand Pesos

Assets	As at December 31 2014*	2013
Foreign currency financial assets		
Deposits with foreign banks	649,582,038	492,572,996
Other cash balances	214,957	211,211
Investment securities	2,474,377,924	2,783,445,559
Foreign securities purchased under agreements to resell	19,304,727	0
Loan to IMF	2,651,361	3,015,768
Gold	334,815,999	332,915,279
International Monetary Fund special drawing rights	54,861,407	57,852,003
Gross international reserves	**3,535,808,413**	**3,670,012,816**
Loans and advances	138,083	378,055
Other foreign currency receivables	104,382,644	94,628,416
Non-IR foreign currency	15,184	6
Derivative instruments in gain/(loss) position	120,080	368,889
Total foreign currency financial assets	**3,640,464,404**	**3,765,388,182**
Local currency financial assets		
Investment securities	222,404,661	219,505,983
Loans and advances	85,196,544	94,113,365
Due from administrator of funds	29,962,637	29,913,775
Other receivables	17,809,086	12,111,269
Total local currency financial assets	**355,372,928**	**355,644,392**
Total financial assets	**3,995,837,332**	**4,121,032,574**
Acquired assets held for sale	65,887	7,752
Investment property	14,793,275	14,525,327
Bank premises, furniture, fixtures and equipment	18,096,852	17,749,582
Intangibles assets	278,614	237,805
Inventories	8,677,463	8,233,603
Property dividend to NG	285,214	285,214
Revaluation of foreign currency accounts	41,664,220	32,553,613
Deferred tax assets	6,525,202	6,520,569
Miscellaneous assets	1,244,337	939,539
Total other assets	**91,631,064**	**81,053,004**
Total Assets	**4,087,468,396**	**4,202,085,578**

* Preliminary and unaudited

Note: Breakdown may not add up to totals due to rounding.

Source: Financial Accounting Department

17 CONDENSED STATEMENT OF CONDITION OF THE BANGKO SENTRAL NG PILIPINAS (continuation)

In Thousand Pesos

Liabilities and Capital	As at December 31	
	2014*	2013
Foreign currency financial liabilities		
Short-term deposits	19,125,540	1,973,760
Loans payable	49,975	57,661
Bonds payable	22,374,897	22,198,052
Allocation of International Monetary Fund special drawing rig	54,321,219	57,304,045
Other liabilities	3,315,385	5,030,581
Total foreign currency financial liabilities	**99,187,016**	**86,564,099**
Local currency financial liabilities		
Government deposits	396,689,770	415,039,746
Deposits of banks and quasi banks	1,424,280,167	1,158,625,171
Deposits of the International Monetary Fund and other FIs	39,477,284	35,464,473
Securities sold under agreements to repurchase	302,285,014	293,904,980
Special deposit accounts	845,010,260	1,367,302,853
Total local currency financial liabilities	**3,007,742,495**	**3,270,337,223**
Total financial liabilities	**3,106,929,511**	**3,356,901,322**
Other liabilities		
Currency in circulation	929,502,152	797,451,937
Retirement benefit obligations	1,577,549	1,479,812
Miscellaneous liabilities	4,686,513	5,031,855
Deferred tax liability	6,303	0
Dividends payable	449,345	449,700
Interest rebate payable	0	49
Total other liabilities	**936,221,862**	**804,413,353**
Total Liabilities	**4,043,151,373**	**4,161,314,675**
Capital accounts		
Capital	50,000,000	40,000,000
Surplus	-80,232,222	-70,713,262
Unrealized gains/(losses) on investments	-3,311,670	-6,886,064
Capital reserves	77,860,915	78,370,229
Total Capital accounts	**44,317,023**	**40,770,903**
Total Liabilities and Capital accounts	**4,087,468,396**	**4,202,085,578**

* Preliminary and unaudited

Note: Breakdown may not add up to totals due to rounding.

Source: Financial Accounting Department

18 CONDENSED STATEMENT OF INCOME AND EXPENSES OF THE BANGKO SENTRAL NG PILIPINAS with Budget Information[1]

In Thousand Pesos

Period ended December 31	2014 Budget	2014* Actual	2013 Actual
Operating Income:			
Income from foreign currency financial assets			
Interest income	25,099,405	28,600,518	26,425,057
Fees, miscellaneous foreign currency income & trading gains foreign	573,549	10,112,679	16,871,519
Total income from foreign currency financial assets	25,672,954	38,713,197	43,296,576
Expenses on foreign currency financial liabilities			
Interest expense	1,970,553	2,152,940	1,927,606
Other foreign currency expenses	922,565	869,210	840,747
Total expenses on foreign currency liabilities	2,893,118	3,022,150	2,768,353
Net income from foreign currency financial assets and liabilities	22,779,836	35,691,047	40,528,223
Income from local currency financial assets			
Interest income & trading gains local	3,023,587	4,682,800	6,001,724
Total Income from local currency financial assets	3,023,587	4,682,800	6,001,724
Expenses on local currency financial liabilities			
Interest expense	52,663,290	44,083,627	57,601,798
Final tax on interest income/discounts	109,828	489,069	377,489
Total expenses on local currency financial assets	52,773,118	44,572,696	57,979,287
Net loss from local currency financial assets and liabilities	(49,749,531)	(39,889,896)	(51,977,563)
Net loss from financial accounts	(26,969,695)	(4,198,849)	(11,449,341)
Other operating income	6,211,671	6,860,318	7,277,969
Currency printing and minting cost	9,652,980	6,763,532	5,766,210
Operating expenses:			
Personnel services, development and training	11,015,424	10,698,814	10,246,244
Traveling	383,429	272,756	276,655
Taxes and licenses	1,777,020	1,769,880	5,384,040
Currency and gold operations	250,344	209,336	202,163
Acquired Assets	812,007	482,909	297,577
Other services	3,513,459	2,239,476	1,719,655
Depreciation	624,143	668,498	625,318
Fidelity insurance	92,283	47,318	65,664
Light, fuel & water	275,730	246,767	234,524
Repairs & maintenance	902,803	401,048	405,421
Communication services	233,530	162,255	151,435
Supplies	94,310	64,452	54,299
Others	1,290,661	649,139	182,993
Provision for uncollectible rentals/receivables	0	124,573	53,782
Provision for Bad Debts	0	344,017	262,344
Market decline of acquired assets [2]	38,427	25	(41,760)
Total operating expenses	17,790,111	16,141,787	18,400,699
Net loss before FX rates fluctuation	(48,201,115)	(20,243,850)	(28,338,280)

* Preliminary and unaudited

[1] The statement presentation was restated for comparability with the budget format.

[2] Represents the difference between the book value and appraised value of acquired assets; accumulated in the contra-asset account allowance for market decline of acquired assets.

18 CONDENSED STATEMENT OF INCOME AND EXPENSES OF THE BANGKO SENTRAL NG PILIPINAS (continuation)
with Budget Information[1]
In Thousand Pesos

Period ended December 31	2014 Budget	2014* Actual	2013 Actual
Net realized gain on fX rates fluctuation	0	8,935,935	5,598,246
Loss before income tax	(48,201,115)	(11,307,914)	(22,740,034)
Income tax expense	0	0	2,312,246
Loss for the year	(48,201,115)	(11,307,914)	(25,052,280)

* Preliminary and unaudited

Note: Breakdown may not add up to totals due to rounding.