

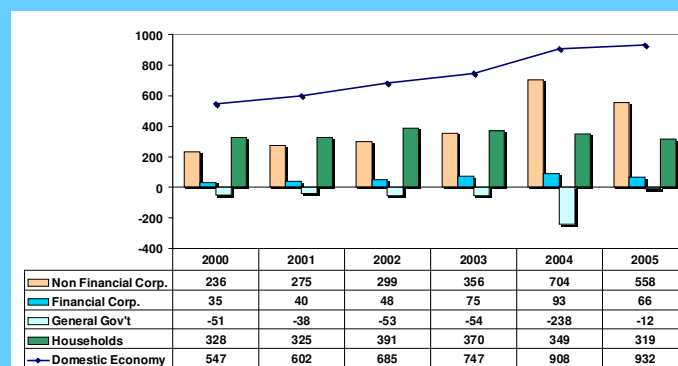
2005 PHILIPPINE FLOW OF FUNDS¹

Savers in the Economy

All sectors except for the general government are savers

Gross savings continued to be on the uptrend. All sectors recorded savings except for the general government, which remained in deficit although at a lower level compared to the past five years. (Annexes A and B).

Gross Saving and Capital Transfers, by Sector
in Billion Pesos



Non-financial corporate sector is the top saver

The non-financial corporate sector was the top saver posting ₱558 billion savings in 2005 or 10.6 percent increase over the previous year's level. It surpassed the household sector in 2004, which ranked first in 2000 to 2003. This could be traced to increased profitability of private non-financial corporations, in particular, those engaged in trade, real estate, electricity, mining, education and health.²

General government deficit narrows

On the other hand, the lower deficit in the General Government savings account was mainly due to the higher growth in revenues which outpaced that of expenditures. The boost in revenue of the National Government, in particular, was largely attributable to the: (1) implementation of sin tax law, which took effect 1 January 2005 (RA No.

¹ Prior to this, the available series based on the new framework is from 2000 to 2004, which were released in December 2006. Old FOF series covered 1980 to 1999.

² Based on SEC's report on top 5000 corporations

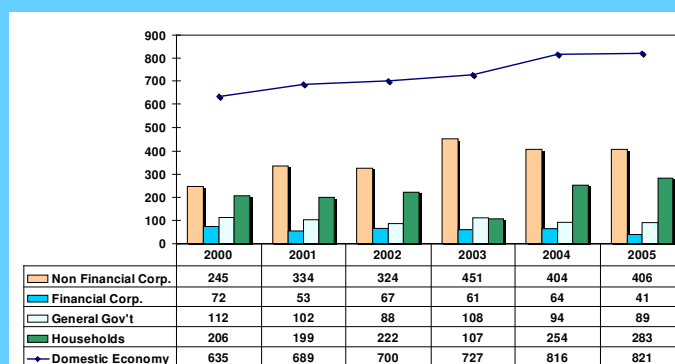
9334 dated 21 December 2004); (2) expansion of the coverage of commodities/ services subject to value added tax in November 2005; and (3) improved efficiency of tax collection.³

Investing Institutions

Overall capital accumulation slows down even as households' investments in real properties pick up funded by remittances from overseas Filipinos

In 2005, the economy's gross capital accumulation posted a minimal growth of 0.6 percent.⁴ The non-financial corporate sector, which accounted for the largest share of the capital accumulation for the period, matched the national average growth at 0.6 percent.

Gross Capital Accumulation, by Sector
in Billion Pesos



Meanwhile, households' investment, mainly in real estate, grew at a much faster pace at 11.6 percent. Remittances from overseas Filipinos partly contributed to households' purchases of houses, condominiums and other real properties.

³ RA No. 9334, which was signed on 21 December 2004 and which took effect on 1 January 2005, increased the excise tax on sin products –alcohol and tobacco– and contributed ₱3.0 billion in revenues. The first phase of the Reformed Value Added Tax (RA No. 9337), which took effect in November 2005 provided for the widening of the tax base through the lifting of the VAT exemptions on power and petroleum products and medical services, and added some ₱4.4 billion in revenues. Improved tax collections were implemented through: (1) the intensified tax administration programs in both the BIR and the BOC with the implementation of the Run After Tax Evaders (RATE) and Run After the Smugglers (RATS) Programs starting March 2005; and (2) the enactment of the Lateral Attrition Law, which improved the systems and procedures in tax and customs administration.

⁴ Gross capital accumulation comprised of capital formation and other capital accumulation. Other capital accumulation includes purchase and sale of patents, copyrights, trademarks, and franchises. Purchase and sale of land are also included but would only be covered in transactions among the domestic sectors but will cancel out in the process of national consolidation.

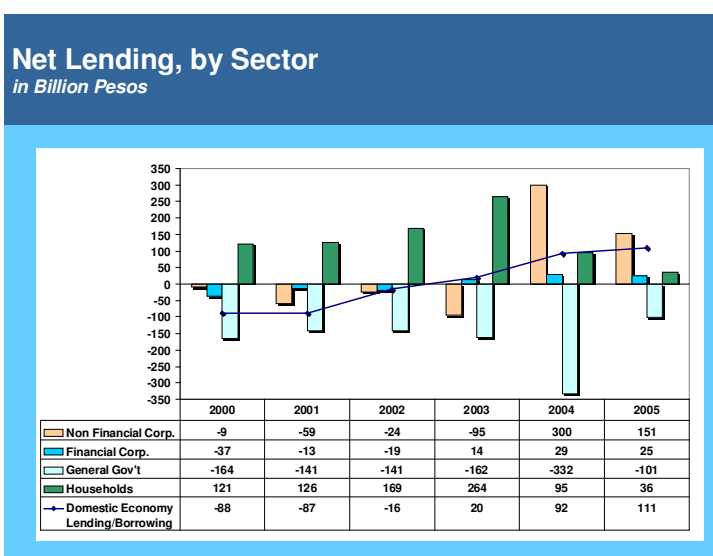
On the other hand, the general government capital accumulation was on the downtrend, following the delayed enactment of the National Government budget, which constrained capital expenditures in 2005.

Likewise, capital accumulation by the financial sector declined. This reflected in part banks' efforts to improve the asset quality of their balance sheets by disposing of their non-performing assets including Real and Other Properties Owned or Acquired Assets (ROPOA) through Special Purpose Vehicles (SPVs).

Lenders and Borrowers in the Economy

The country remains a net lender to the rest of the world

The country further improved its external position as net lending to the rest of the world rose from ₱92 billion in 2004 to ₱111 billion in 2005, or an increase of 20 percent (Annex C).⁵



Non-financial and financial corporations, and households are consistent net lenders

The non-financial corporate sector with net lending at ₱151 billion continued to outperform households and financial corporations as net lenders in the economy. The non-financial corporate sector net lending was largely attributed

⁵ Conversely, Rest of the World increased its borrowing from the domestic economy in 2005.

to the private corporations, with the public corporations contributing only a modest amount. Fund provision by non-financial corporate sector was largely in the form of currency and deposits and other accounts receivables, the bulk of which were trade credits. Due to the large savings realized by the private non-financial corporate sector during the period, a substantial amount of its loan liabilities had been repaid.

OFW remittances drive up deposits by households

The households ranked second among the domestic economy's net lenders at ₱36 billion. Its net lending for the period was primarily in the form of currency and deposits at ₱131 billion. The increasing remittances from Overseas Filipino Workers' (OFWs) could be a major factor behind this development.⁶ On the other hand, loans had been the households' main source of financing.

Securities and loans are the preferred mode of lending by financial corporations

The financial corporations posted a net lending of ₱25 billion, boosted by the expansion in the banking system's asset position alongside moderate economic growth. Securities and loans were consistently the preferred mode of lending by financial corporations while deposits, expectedly, were the biggest source of financing. During the year, the consolidated balance sheet of resident banks showed a 7.3 percent expansion in demand, savings, and time deposits. There was a substantial increase in loan liabilities by the BSP under the reverse repurchase facility and by the offshore banking units (OBUs) particularly from the foreign capital market.⁷

However, OBUs' increased foreign borrowings were subsequently on-lent to non-residents including affiliates abroad in the form of loans and securities. This partly contributed to the increase in the financial corporations' holdings of securities and loan receivables.

⁶ In 2005, remittances coursed thru banks and informal channels grew by about 20 percent.

⁷ OBUs are treated statistically as residents. As such, their transactions are recorded as transactions of the domestic economy.

General Government remains a net borrower

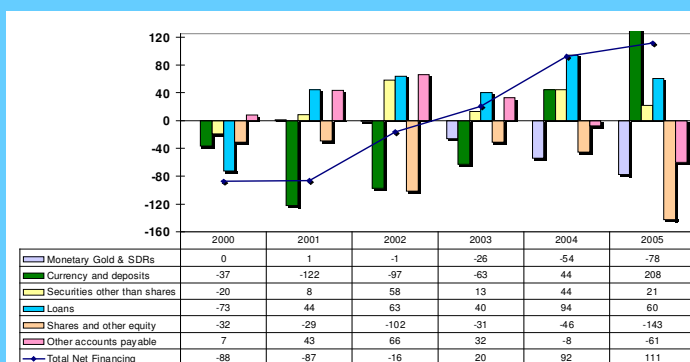
The General Government remained a borrower, relying primarily on the issuance of government securities for financing. However, its issuance of debt securities declined by 13.2 percent in 2005 vis-à-vis that in 2004, due to the lower borrowing requirement as a result of the lower fiscal deficit.

Financial Instruments Used in the Economy

Net lending was mainly in currency and deposits

In 2005, net lending by the domestic economy was mainly in the form of currency and deposits (₱208 billion). Loans and securities also provided additional sources of funding to the rest of the world by the domestic economy during the period.

Net Lending/ Net Borrowing by Financial Instrument in Billion Pesos



The diagram in Annex D shows the flow of funds in 2005 among institutions in the domestic economy, with the financial institutions acting as intermediaries for many of the transactions. The direction of the flows highlighted the net lending of the domestic economy to the rest of the world.

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR
2005^P
in million pesos

TRANSACTION CATEGORIES	Non-Financial Corporations	Financial Corp.	General Government	Households ¹	DOMESTIC ECONOMY ²	Rest of the World	TOTAL VOLUME
CAPITAL ACCOUNT							
Gross Saving and Capital Transfers	557,801	66,164	-11,894	319,490	931,561	-111,156	820,405
Saving	557,801	66,164	-14,153	319,435	929,247	-108,842	820,405
Net capital transfers	0	0	2,259	55	2,314	-2,314	0
Capital Accumulation	406,454	41,356	89,276	283,428	820,514	-109	820,405
Gross Capital formation	400,655	41,404	105,699	272,647	820,405	0	820,405
Other capital accumulation	5,799	-48	-16,423	10,781	109	-109	0
Net Lending (+) / Net Borrowing (-)	151,347	24,808	-101,170	36,062	111,047	-111,047	0
FINANCIAL ACCOUNT							
Net Financing ³	151,347	24,808	-101,170	36,062	111,047	-111,047	0
Net Acquisition of Financial Assets ⁴	199,596	487,460	113,554	82,271	882,881	427,894	1,310,775
Monetary gold and SDRs		-77,828			-77,828	77,828	0
Currency and deposits	82,732	177,519	51,034	130,510	441,795	7,160	448,955
Securities, other than shares	41,572	169,839	40,958	-2,614	249,755	119,263	369,018
Loans	-7,375	124,854	120	0	117,599	42,080	159,679
Shares and other equity	11,645	3,541	210	6,042	21,438	153,624	175,062
Insurance technical reserves	121	0	26	-933	-786	0	-786
Other accounts receivable	70,901	89,535	21,206	-154,652	26,990	27,939	54,929
Unclassified items ⁵				103,918	103,918		103,918
Net Incurrence of Liabilities ⁶	48,249	462,652	214,724	46,209	771,834	538,941	1,310,775
Monetary gold and SDRs							
Currency and deposits		234,091			234,091	214,864	448,955
Securities, other than shares	-2,297	-6,106	237,512		229,109	139,909	369,018
Loans	-131,926	163,863	-20,924	46,209	57,222	102,457	159,679
Shares and other equity	142,933	21,533			164,466	10,596	175,062
Insurance technical reserves		-786			-786	0	-786
Other accounts payable	39,539	50,057	-1,864	0	87,732	-32,803	54,929
Unclassified items ⁵						103,918	103,918
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	151,347	24,808	-101,170	36,062	111,047	-111,047	0
Monetary gold and SDRs		-77,828			-77,828	77,828	0
Currency and deposits	82,732	-56,572	51,034	130,510	207,704	-207,704	0
Securities, other than shares	43,869	175,945	-196,554	-2,614	20,646	-20,646	0
Loans	124,551	-39,009	21,044	-46,209	60,377	-60,377	0
Shares and other equity	-131,288	-17,992	210	6,042	-143,028	143,028	0
Insurance technical reserves	121	786	26	-933	0	0	0
Other accounts receivable/payable	31,362	39,478	23,070	-154,652	-60,742	60,742	0
Unclassified items ⁵				103,918	103,918	-103,918	0
Memorandum Items:							
M4 ⁷		219,888			219,888		
Net Direct Foreign Investment	62,371				62,371		
Equity	62,371				62,371		

^P Preliminary

¹ Includes entrepreneurial activities of households as well as all other unaccounted transactions in the domestic economy; also covers non-profit institutions serving households (NPISH)

² Refers to the sum of the domestic sectors' transactions among themselves and with the rest of the world (ROW)

³ Net acquisition of financial assets less net incurrence of financial liabilities

⁴ Positive values indicate uses of funds

⁵ Represents the unclassified financial assets/liabilities in the Balance of Payment, including derivatives

⁶ Positive values indicate sources of funds

⁷ Based on the new Depository Corporations Survey data

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR
2004-2005
growth rates

TRANSACTION CATEGORIES	Non-Financial Corporations	Financial Corp.	General Government	Households ¹	DOMESTIC ECONOMY ²	Rest of the World	TOTAL VOLUME
CAPITAL ACCOUNT							
Gross Saving and Capital Transfers	-20.8	-28.9	95.0	-8.5	2.6	-19.7	0.6
Saving	10.6	-28.9	65.1	-8.7	2.5	-19.0	0.6
Net capital transfers	-	-	101.1	106.1	65.2	-65.2	-
Capital Accumulation	0.6	-35.4	-5.0	11.6	0.6	75.7	0.6
Gross Capital formation	3.0	-36.2	4.7	4.7	0.6	-	0.6
Other capital accumulation	-61.2	94.9	-135.1	264.1	-75.7	75.7	-
Net Lending (+) / Net Borrowing (-)	-49.6	-14.7	69.5	-62.1	20.1	-20.1	-
FINANCIAL ACCOUNT							
Net Financing ³	-49.6	-14.7	69.5	-62.1	20.1	-20.1	-
Net Acquisition of Financial Assets ⁴	-63.2	76.5	286.8	-58.3	-7.6	3,031.5	35.3
Monetary gold and SDRs	-	-44.9	-	-	-44.9	44.9	-
Currency and deposits	-60.5	96.6	736.3	1,063.8	45.9	-85.3	27.7
Securities, other than shares	786.0	62.3	183.1	-103.7	90.1	261.4	542.5
Loans	-441.0	26.6	-98.8	-	5.8	141.0	1,763.7
Shares and other equity	-69.1	-55.2	101.3	-80.7	-64.6	94.7	25.5
Insurance technical reserves	-69.3	-	100.0	-103.5	-102.9	-	-102.9
Other accounts receivable	-75.4	214.7	758.2	-494.0	-92.5	217.1	-85.1
Unclassified items ⁵	-	-	-	496.8	496.8	-	496.8
Net Incurrence of Liabilities ⁶	-80.1	87.2	-20.9	-54.7	-10.6	408.0	35.3
Monetary gold and SDRs	-	-	-	-	-	-	-
Currency and deposits	-	-9.4	-	-	-9.4	130.9	27.7
Securities, other than shares	98.6	73.0	-13.2	-	161.2	562.1	542.5
Loans	-397.6	280.1	45.0	-54.7	232.7	1,286.9	1,763.7
Shares and other equity	69.2	-0.9	-	-	54.9	-68.2	25.5
Insurance technical reserves	-	-102.9	-	-	-102.9	-	-102.9
Other accounts payable	-85.7	-6.6	-105.2	-	-76.1	-2,813.2	-85.1
Unclassified items ⁵	-	-	-	-	-	496.8	496.8
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	-49.6	-14.7	69.5	-62.1	20.1	-20.1	-
Monetary gold and SDRs	-	-44.9	-	-	-44.9	44.9	-
Currency and deposits	-60.5	66.3	736.3	1,063.8	368.5	-368.5	-
Securities, other than shares	-73.9	38.2	39.2	-103.7	-52.7	52.7	-
Loans	395.4	-120.6	-56.6	54.7	-35.7	35.7	-
Shares and other equity	-180.5	-30.3	101.3	-80.7	-213.9	213.9	-
Insurance technical reserves	-69.3	102.9	100.0	-103.5	-	-	-
Other accounts receivable/payable	171.4	256.9	169.4	-494.0	-699.0	699.0	-
Unclassified items ⁵	-	-	-	496.8	496.8	-496.8	-

^P Preliminary

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³ Net acquisition of financial assets less net incurrence of financial liabilities

⁴ Positive values indicate uses of funds

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⁶ Positive values indicate sources of funds

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR
2004^P
in million pesos

TRANSACTION CATEGORIES	Non-Financial Corporations	Financial Corp.	General Government	Households ¹	DOMESTIC ECONOMY ²	Rest of the World	TOTAL VOLUME
CAPITAL ACCOUNT							
Gross Saving and Capital Transfers	704,369	93,068	-238,213	349,108	908,332	-92,873	815,459
Saving	504,369	93,068	-40,511	350,005	906,931	-91,472	815,459
Net capital transfers	200,000	0	-197,702	-897	1,401	-1,401	0
Capital Accumulation	404,057	64,000	93,951	253,900	815,908	-449	815,459
Capital formation	389,109	64,946	100,936	260,468	815,459	0	815,459
Other capital accumulation	14,948	-946	-6,985	-6,568	449	-449	0
Net Lending (+) / Net Borrowing (-)	300,312	29,068	-332,164	95,208	92,424	-92,424	0
FINANCIAL ACCOUNT							
Net Financing ³	300,312	29,068	-332,164	95,208	92,424	-92,424	0
Net Acquisition of Financial Assets ⁴	542,943	276,164	-60,777	197,125	955,455	13,664	969,119
Monetary gold and SDRs		-53,712			-53,712	53,712	0
Currency and deposits	209,255	90,285	-8,021	11,214	302,733	48,724	351,457
Securities, other than shares	4,692	104,636	-49,307	71,326	131,347	-73,910	57,437
Loans	2,163	98,593	10,371	0	111,127	-102,559	8,568
Shares and other equity	37,651	7,912	-16,304	31,362	60,621	78,886	139,507
Insurance technical reserves	394	0	13	26,563	26,970	0	26,970
Other accounts receivable	288,788	28,450	2,471	39,248	358,957	8,811	367,768
Unclassified items ⁵				17,412	17,412		17,412
Net Incurrence of Liabilities ⁶	242,631	247,096	271,387	101,918	863,031	106,088	969,119
Monetary gold and SDRs							
Currency and deposits		258,400			258,400	93,057	351,457
Securities, other than shares	-163,389	-22,633	273,737		87,715	-30,278	57,437
Loans	44,324	-90,978	-38,064	101,918	17,200	-8,632	8,568
Shares and other equity	84,464	21,723			106,187	33,320	139,507
Insurance technical reserves		26,970			26,970	0	26,970
Other accounts payable	277,232	53,614	35,713	0	366,559	1,209	367,768
Unclassified items ⁵						17,412	17,412
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	300,312	29,068	-332,164	95,208	92,424	-92,424	0
Monetary gold and SDRs		-53,712			-53,712	53,712	0
Currency and deposits	209,255	-168,115	-8,021	11,214	44,333	-44,333	0
Securities, other than shares	168,081	127,269	-323,044	71,326	43,632	-43,632	0
Loans	-42,161	189,571	48,435	-101,918	93,927	-93,927	0
Shares and other equity	-46,813	-13,811	-16,304	31,362	-45,566	45,566	0
Insurance technical reserves	394	-26,970	13	26,563	0	0	0
Other accounts receivable/payable	11,556	-25,164	-33,242	39,248	-7,602	7,602	0
Unclassified items ⁵				17,412	17,412	-17,412	0
Memorandum Items:							
M4 ⁷		287,852			287,852		
Net Direct Foreign Investment	17,232				17,232		
Equity	17,232				17,232		

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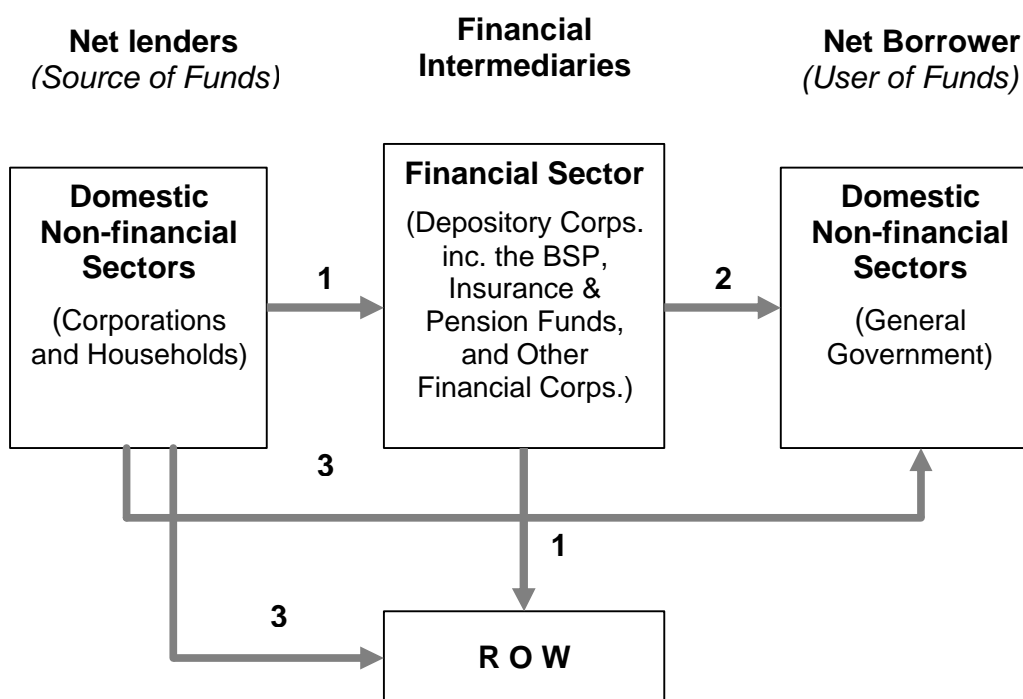
⁶ Positive values indicate sources of funds

⁷ Based on the new Depository Corporations Survey data

Net Lenders in the Economy		<i>Net Fund Provision/Availment (in P Billions & %)</i>	Net Borrowers in the Economy	
Sector	Net Lending (in P Billions & %)		Sector	Net Borrowing (in P Billions & %)
2000				
Households	121	210	General Government	164
	58%			78%
Rest of the World	88	100%	Financial Corporations	37
	42%			17%
				Non-Financial Corporations
				4%
2001				
Households	126	213	General Government	141
	59%			66%
Rest of the World	87	100%	Non-Financial Corporations	59
	41%			28%
				Financial Corporations
				6%
2002				
Households	169	184	General Government	141
	92%			76%
Rest of the World	16	100%	Non-Financial Corporations	24
	8%			13%
				Financial Corporations
				10%
2003				
Households	264	277	General Government	162
	95%			59%
Financial Corporations	14	100%	Non-Financial Corporations	95
	5%			34%
				Rest of the World
				7%
2004				
Non-Financial Corporations	300	425	General Government	332
	71%			78%
Households	95	100%	Rest of the World	92
	22%			22%
Financial Corporations	29			
	7%			
2005				
Non-Financial Corporations	151	212	General Government	101
	71%			48%
Households	36	100%	Rest of the World	111
	17%			52%
Financial Corporations	25			
	12%			

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

Diagram of the Flow of Funds in 2005



Transactions:

- 1- Deposit/invest funds/repay loans
- 2- Lend/invest funds
- 3- Directly lends/invest funds

Note: The arrows are unidirectional, showing net presentation of transactions among the group of institutions. This is also consistent with the presentation on net lenders and borrowers in Annex C.