

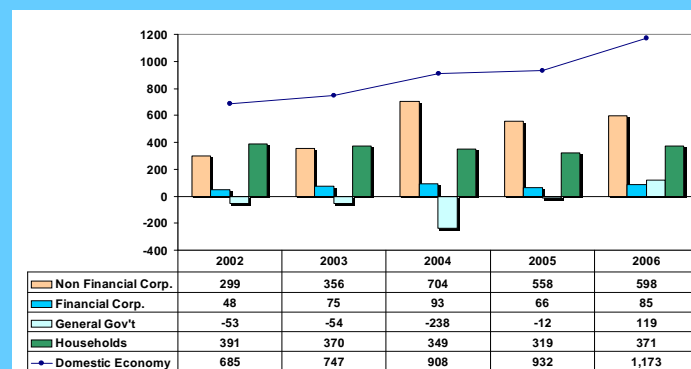
2006 PHILIPPINE FLOW OF FUNDS¹

Savers in the Economy

All sectors are savers, as the General Government turns around to being a saver

Gross savings continued to rise in 2006 and was evident across all domestic sectors (Annexes A and B). The non-financial sector was the top saver, followed by the households. A notable development was the ₱116 billion savings realized by the General Government (GG) after six years of dissaving.²

Gross Savings and Capital Transfers, by Sector
in Billion Pesos



Non-financial corporate sector remains the top saver

The non-financial corporate sector realized savings of ₱598 billion in 2006 or a 7.3 percent increase over the previous year's level, making it the top saver during the year. This was due largely to the increased profitability of firms engaged in real estate, construction, mining, transportation, communication and storage.³

Households were the second largest saver, after the non-financial corporate sector.

¹ Prior to this, the available series based on the new framework is from 2000 to 2004 and 2005, which were released December 2006 and May 2007, respectively. Old FOF series covered 1980 to 1999.

² General Government includes the National Government (NG), Central Bank – Board of Liquidators (CB-BOL), local government units (LGUs) and social security agencies (SSAs). SSAs refer to the social insurance funds of the Government Service Insurance System, Social Security System, Philippine Health Insurance Corporation and Employees Compensation Commission.

³ Based on SEC's Philippines Top 5000 Corporations, 2007 Edition

Financial sector savings, which comprised about 7 percent of the domestic economy's savings, leveled at ₱85 billion in 2006, posting a 28.0 percent increment over the previous year's level. This could be traced to increased profitability of both banks and non-bank financial intermediaries despite the lackluster performance of insurance and pension fund companies. Net income of banks and non-banks with quasi-banking functions increased by 29.4 percent, while that of other financial corporations, other than insurance and pension funds, doubled.⁴

*General
Government
emerges as a saver*

The GG realized ₱116 billion in savings largely on account of the National Government's (NG) improved fiscal position on current operations. This, in turn, was due mainly to:

(1) strong revenue collections, spurred by the higher VAT rate starting in February 2006, among other revenue measures.⁵ The tax-to-GDP ratio rose to 14.3 percent from 13.0 percent in 2005; and

(2) slowdown in the growth of interest payments arising from peso appreciation (with respect to foreign currency-denominated debt) and lower interest rates.

The non-passage of the 2006 proposed budget and the delay in the passage of the supplemental budget also constrained public spending, therefore contributing to the surplus of the NG from current operations, at ₱26 billion.

⁴ Comparative Statement of Income and Expense of Philippine Banks and Non-Banks with Quasi-Banking Functions, from the Supervisory Data Center, Supervision and Examination Sector (SES) of the Bangko Sentral ng Pilipinas (BSP), reported ₱72.2 billion net income after tax in 2006 from ₱55.8 billion in 2005. SEC's Philippines Top 5000 Corporations showed that profits of corporations engaged in non-bank financial intermediation and in activities auxiliary to financial intermediation amounted to ₱54.2 billion in 2006, a 113 percent growth from its 2005 level.

⁵ Administrative measures were also adopted both by the Bureau of Internal Revenues (BIR) and Bureau of Customs (BoC), which included: (1) the enhancement of the Integrated Tax System (ITS) of the BIR; (2) conduct of taxpayer compliance verification drives; (3) adoption of industry benchmarks in measuring taxpayers' compliance; (4) filing of charges against tax evaders under BIR's Run After Tax Evaders (RATE) program and the BoC's Run After the Smugglers (RATS) program; and the (5) implementation of the Revenue Integrity Protection Service (RIPS).

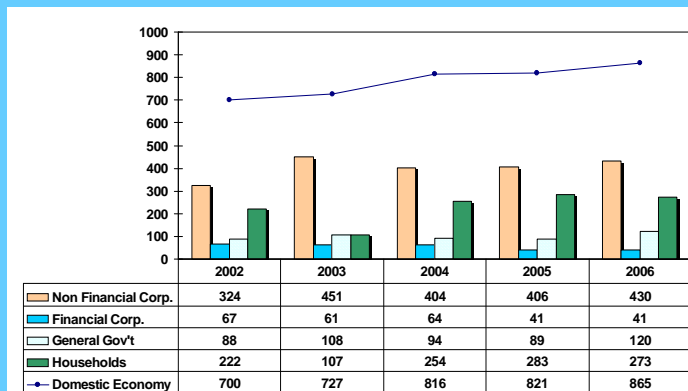
In addition, the local government units (LGUs) and social security agencies (SSAs) contributed P35 billion and P55 billion, respectively to the overall surplus of the General Government.

Investing Institutions

Non-financial corporations continue to dominate capital accumulation

Gross capital accumulation grew by 5.4 percent to P865 billion. This was largely due to the 5.7 percent growth in the non-financial corporate sector's capital purchases, which accounted for about half of the total capital accumulation.⁶

Gross Capital Accumulation, by Sector in Billion Pesos



The General Government likewise contributed to the robust expansion of gross capital accumulation as its accumulation increased by 34.5 percent, a reversal of the 5.0 percent decline in 2005. The uptrend was observed primarily in the ongoing construction of roads,

⁶ Capital accumulation (usually referred to as real investments) in the System of National Accounts (SNA) consists of net acquisition of two main types of assets — produced assets and non-produced assets. Examples of produced assets are fixed capital, such as buildings and structures, machinery and equipment; and changes in stocks, which are also considered as forms of capital formation. Meanwhile, examples of non-produced assets, which are not products of any economic activity, include 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, and eventually cancel out in the process of national consolidation.

highways and bridges, which comprised about 75 percent of total NG infrastructure outlays in 2006.

On the other hand, capital accumulation of households dropped by 3.5 percent, as the 9.9 percent growth in its capital formation was more than offset by the decline in its other accumulation account, which was due to the sale of land to the public sector for infrastructure projects.⁷ The growth of capital formation in households, which are mainly in the form of dwelling units, is reflective of the substantial increase of loans by the banking sector for the acquisition of residential property.⁸

Capital accumulation in the financial sector continued to be cautious, registering only 0.2 percent growth. This was reflective of the banks' efforts to dispose of non-performing assets (NPAs) before the implementation of Basel II in July 2007.⁹ This has resulted in substantial asset disposal during the year either through Special Purpose Vehicles (SPVs) or through other innovative schemes of asset disposition, such as joint venture agreements, public auctions and debt write-offs.¹⁰ The considerable disposal of NPAs resulted in the decline of the NPA ratio of banks to 6.9 percent by end-December 2006 from 8.8 percent in 2005.¹¹

⁷ Conversely, the public sector showed an increase in other capital accumulation, specifically from purchases of land.

⁸ Data on real estate loans of the Philippine banking system showed an increase of 22.4 percent in loans granted for the acquisition of residential property in 2006.

⁹ NPAs are given higher capital charges in the computation of capital adequacy ratio.

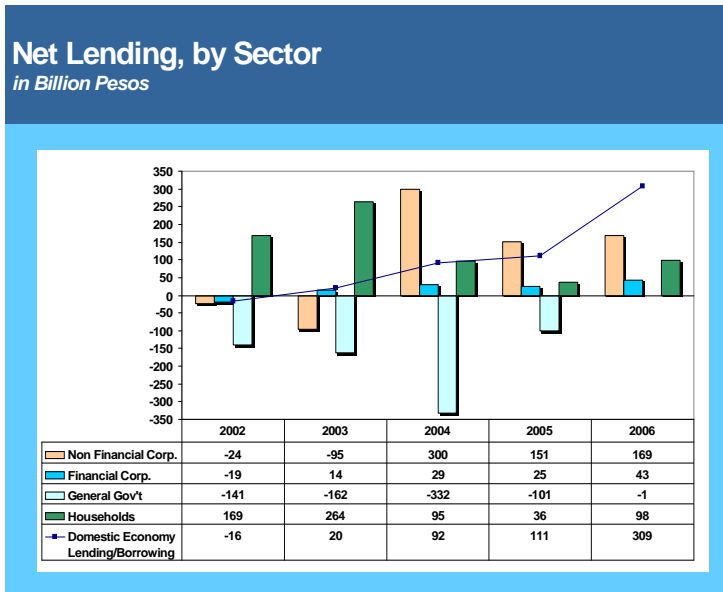
¹⁰ Source: A Status Report on the Philippine Financial System, Second Semester 2006, Office of Supervisory Policy Development (OSPD), SES, BSP.

¹¹ See data on Philippine Banking System: Selected Asset Quality Indicators from A Status Report of the Philippine Financial System, First Semester 2007, OSPD, SES, BSP.

Lenders and Borrowers in the Economy

Net lending to the rest of the world grows threefold

With a robust external payments position, the country's net lending to the rest of the world tripled from ₱111 billion in 2005 to ₱309 billion in 2006 (Annex C).¹²



The General Government remains a net borrower

All the other domestic sectors ended the year as net lenders except for the General Government. Despite GG's realized savings for the year as a result of lower current operating expenditures relative to its revenues, these savings were not enough to finance its strong infrastructure spending. This prompted a net borrowing of ₱745 million to cover up for the deficit due to capital expenditures. However, this was a significant reduction compared to the ₱101.2 billion net borrowing incurred in 2005. It must also be noted that NG's prepayment of US\$648.4 million worth of foreign debt (equivalent to ₱33 billion) contributed to lower net borrowing.

Private non-financial corporations are top fund providers

The non-financial corporate sector continued to be the top lender, with its ₱169 billion net

¹² Conversely, the Rest of the World almost tripled its borrowing from the domestic economy in 2006.

lending, an increase of 11.5 percent from ₱151 billion in 2005. Fund provision, largely by the private companies, was in the form of other accounts receivables, which are mainly in trade credits, and in the form of currency and deposits.

Households net lending almost threefold

Households ranked second among the domestic economy's top net lenders, with its net lending of ₱98 billion being almost threefold its 2005 level of ₱36 billion. Its net lending for the period was primarily in the form of currency and deposits at ₱456 billion from only ₱131 billion in 2005. Increasing remittances from overseas Filipino workers' (OFWs) could be a major factor behind this development.¹³

Financial corporations display stronger balance sheets

The financial corporations' net lending further improved to ₱43 billion from ₱25 billion in 2005, funded particularly by the banking industry's growing deposit base and capital resources. A sharp decline was also noted in the financial sector's loan payables as banks paid off their current and some future obligations.¹⁴ Banks' foreign obligations were also reduced by US\$1.3 billion (or ₱107 billion) in 2006.

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

Securities and loans remained the preferred mode of lending by financial corporations while deposits as expected, were the biggest source of financing. The expansion in deposit liabilities could be attributed to the aggressive marketing of financial institutions of their deposit products and services targeting the OFWs and their families. Lower issuances of Treasury bills may have also led non-bank investors to keep their money in the form of deposits.

On the other hand, loans extended by the financial corporations more than doubled in 2006. Moreover, there was also a substantial increase in the loans granted by offshore banking

¹³ In 2006, cash remittances grew by 14.2 percent to US\$14.0 billion from US\$12.3 billion in 2005.

¹⁴ This included prepayment of the BSP and Development Bank of the Philippines worth US\$965 million.

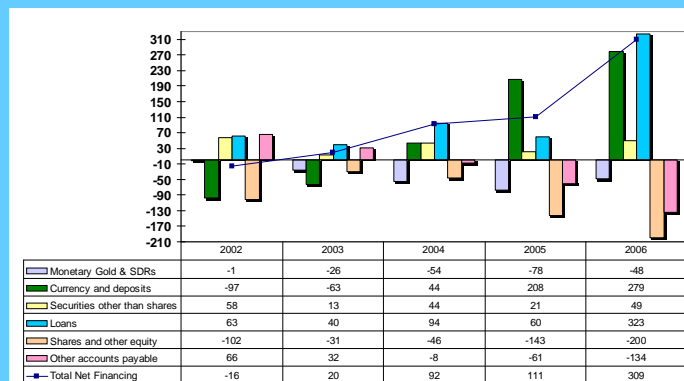
units (OBUs). The bulk of these loans was contracted from abroad by the OBUs, which, in turn, were subsequently on-lent to nonresidents.

Financial Instruments Used in the Economy

Net lending shifted from currency and deposits to loans

In 2006, net lending by the domestic economy to the rest of the world was mostly through the extension of loans, a shift from deposit placements in 2005. Net lending in the form of loans surged from ₱60 billion in 2005 to ₱323 billion in 2006. Currency and deposits, which grew by 34.5 percent, is the second widely used form of lending in 2006. Securities also provided an additional form of lending by the domestic economy to the rest of the world during the period. Fund provision abroad was largely carried out through interbank transactions, with local banks providing loans and placing deposits with foreign banks.¹⁵

Net Lending/ Net Borrowing by Financial Instrument in Billion Pesos



¹⁵ Unpublished data of the balance of payments showed that interbank transactions in 2005 and 2006 made up 84 percent and 61 percent, respectively, of the total foreign asset transactions of the whole economy with the rest of the world.

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR
2006^P
in million pesos

Annex A

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	598,286	84,688	119,290	371,067	1,173,331	-308,800	864,531
Saving	598,286	84,688	116,159	367,003	1,166,136	-301,605	864,531
Net capital transfers	0	0	3,131	4,064	7,195	-7,195	0
Capital Accumulation	429,569	41,430	120,035	273,497	864,531	0	864,531
Gross Capital formation	417,918	41,430	105,609	299,574	864,531	0	864,531
Other capital accumulation	11,651	0	14,426	-26,077	0	0	0
Net Lending (+) / Net Borrowing (-)	168,717	43,258	-745	97,570	308,800	-308,800	0
FINANCIAL ACCOUNT							
Net Financing ³	168,717	43,258	-745	97,570	308,800	-308,800	0
Net Acquisition of Financial Assets ⁴	310,123	975,077	52,217	106,528	1,443,945	183,776	1,627,721
Monetary gold and SDRs		-48,489			-48,489	48,489	0
Currency and deposits	109,755	481,170	61,212	455,714	1,107,851	-14,793	1,093,058
Securities, other than shares	33,406	170,331	6,139	-44,884	164,992	82,030	247,022
Loans	-3,418	278,219	-44,914	0	229,887	-164,189	65,698
Shares and other equity	2,172	20,975	3,958	-61,993	-34,888	204,753	169,865
Insurance technical reserves	8,250	210	202	60,780	69,442	0	69,442
Other accounts receivable	159,958	72,661	25,620	-342,403	-84,164	27,486	-56,678
Unclassified items ⁵				39,314	39,314		39,314
Net Incurrence of Liabilities ⁶	141,406	931,819	52,962	8,958	1,135,145	492,576	1,627,721
Monetary gold and SDRs		828,503			828,503	264,555	1,093,058
Currency and deposits		40,460	57,020		115,935	131,087	247,022
Securities, other than shares	18,455	129,871	-50,881	-44,884	49,057	-49,057	0
Loans	-39,617	331,729	-35,845	-8,958	323,125	-323,125	0
Shares and other equity	122,100	-21,539	3,958	-61,993	-199,502	199,502	0
Insurance technical reserves	8,250	-69,232	202	60,780	0	0	0
Other accounts payable	40,468	68,251	20,609	-342,403	-134,053	134,053	0
Unclassified items ⁵				39,314	39,314	-39,314	0
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	168,717	43,258	-745	97,570	308,800	-308,800	0
Monetary gold and SDRs		-48,489			-48,489	48,489	0
Currency and deposits	109,755	-347,333	61,212	455,714	279,348	-279,348	0
Securities, other than shares	14,951	129,871	-50,881	-44,884	49,057	-49,057	0
Loans	36,199	331,729	-35,845	-8,958	323,125	-323,125	0
Shares and other equity	-119,928	-21,539	3,958	-61,993	-199,502	199,502	0
Insurance technical reserves	8,250	-69,232	202	60,780	0	0	0
Other accounts receivable/payable	119,490	68,251	20,609	-342,403	-134,053	134,053	0
Unclassified items ⁵				39,314	39,314	-39,314	0
Memorandum Items:							
M4 ⁷		595,358			595,358		
Net Direct Foreign Investment	66,416				66,416		
Equity	66,416				66,416		

^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
2005-2006
growth rates

Annex A1

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	7.3	28.0	1,102.9	16.1	26.0	-177.8	5.4
Saving	7.3	28.0	920.7	14.9	25.5	-177.1	5.4
Net capital transfers	-	-	38.6	7,289.1	210.9	-210.9	-
Capital Accumulation	5.7	0.2	34.5	-3.5	5.4	100.0	5.4
Gross Capital formation	4.3	0.1	-0.1	9.9	5.4	-	5.4
Other capital accumulation	100.9	100.0	187.8	-341.9	-100.0	100.0	-
Net Lending (+) / Net Borrowing (-)	11.5	74.4	99.3	170.6	178.1	-178.1	-
FINANCIAL ACCOUNT							
Net Financing ³	11.5	74.4	99.3	170.6	178.1	-178.1	-
Net Acquisition of Financial Assets ⁴	55.4	100.0	-54.0	29.5	63.5	-57.1	24.2
Monetary gold and SDRs	-	37.7	-	-	37.7	-37.7	-
Currency and deposits	32.7	171.1	19.9	249.2	150.8	-306.6	143.5
Securities, other than shares	-19.6	0.3	-85.0	-1,617.1	-33.9	-31.2	-33.1
Loans	53.7	122.8	-37,528.3	-	95.5	-490.2	-58.9
Shares and other equity	-81.3	492.3	1,784.8	-1,126.0	-262.7	33.3	-3.0
Insurance technical reserves	6,718.2	-	676.9	6,614.5	8,934.9	-	8,934.9
Other accounts receivable	125.6	-18.8	20.8	-121.4	-411.8	-1.6	-203.2
Unclassified items ⁵	-	-	-	-62.2	-62.2	-	-62.2
Net Incurrence of Liabilities ⁶	193.1	101.4	-75.3	-80.6	47.1	-8.6	24.2
Monetary gold and SDRs	-	253.9	-	-	253.9	23.1	143.5
Currency and deposits	-	762.6	-76.0	-	-49.4	-6.3	-33.1
Securities, other than shares	903.4	-	56.7	-80.6	-262.9	55.1	-58.9
Loans	70.0	-132.7	-	-	0.1	-50.4	-3.0
Shares and other equity	-14.6	97.4	-	-	8,934.9	-	8,934.9
Insurance technical reserves	-	8,934.9	-	-	-43.1	-224.9	-203.2
Other accounts payable	2.3	-91.2	368.8	-	-	-62.2	-62.2
Unclassified items ⁵	-	-	-	-	-	-	-
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	11.5	74.4	99.3	170.6	178.1	-178.1	-
Monetary gold and SDRs	-	37.7	-	-	37.7	-37.7	-
Currency and deposits	32.7	-514.0	19.9	249.2	34.5	-34.5	-
Securities, other than shares	-65.9	-26.2	74.1	-1,617.1	137.6	-137.6	-
Loans	-70.9	950.4	-270.3	80.6	435.2	-435.2	-
Shares and other equity	8.7	-19.7	1,784.8	-1,126.0	-39.5	39.5	-
Insurance technical reserves	6,718.2	-8,908.1	676.9	6,614.5	-	-	-
Other accounts receivable/payable	281.0	72.9	-10.7	-121.4	-120.7	120.7	-
Unclassified items ⁵	-	-	-	-62.2	-62.2	62.2	-

^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

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

Annex B

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)

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Net Lenders in the Economy		Net Fund Provision/Availment (in P Billions & %)	Net Borrowers in the Economy	
Sector	Net Lending (in P Billions & %)		Sector	Net Borrowing (in P Billions & %)
2002				
Households	169	184	General Government	141
	92%			76%
Rest of the World	16	100%	Non-Financial Corporations	24
	8%			13%
			Financial Corporations	19
				10%
2003				
Households	264	277	General Government	162
	95%			59%
Financial Corporations	14	100%	Non-Financial Corporations	95
	5%			34%
			Rest of the World	20
				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%			
2006				
Non-Financial Corporations	169	310	General Government	1
	54.4%			0.3%
Households	98	100%	Rest of the World	309
	31.6%			99.7%
Financial Corporations	43			
	14.0%			

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