

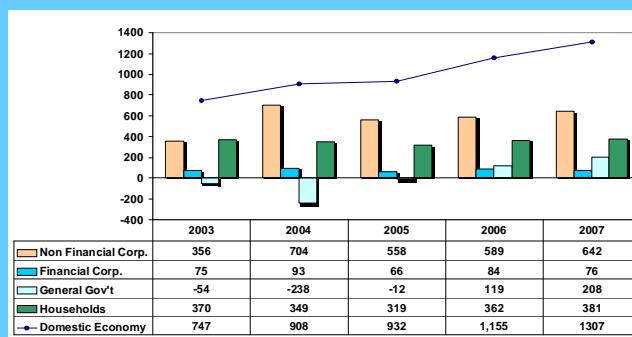
2007 PHILIPPINE FLOW OF FUNDS ¹

Savers in the Economy

All sectors are savers, resulting from the strong performance of the economy.

All sectors generated savings in 2007 in the light of the strong performance of the domestic economy. Gross Domestic Product (GDP) grew by 7.2 percent, the best ever recorded in 31 years (Annexes A and C). The non-financial sector posted the highest savings, followed by the households. The general government with its ₱204 billion savings, recorded the fastest growth

Gross Savings and Capital Transfers, by Sector
in Billion Pesos



in savings at 76.0 percent from the previous year's level.²

Non-financial corporate sector remains the prime saver.

The non-financial corporate (NFC) sector maintained its top position as it realized ₱642 billion savings in 2007, 9.0 higher percent than the previous year's level (Annex C). This was due to the combined effects of strong revenues, largely on consumer products, and better-managed operating expenses especially with inflation and domestic interest rates on the downtrend. The most profitable industries in

¹ Prior to this, the available FOF series based on the new framework covered the periods 2000 to 2004, 2005 and 2006, which were released in December 2006, May 2007 and January 2008, respectively. The old FOF series covered 1980 to 1999.

² Included under the General Government are the National Government (NG), local government units (LGUs) and social security agencies (SSAs). SSAs refer to the social insurance fund of the Government Service Insurance System, Social Security System, Philippine Health Insurance Corporation and Employees Compensation Commission. The NG accounts also include transactions of the CB-Board of Liquidators (CB-BOL) and NG's transactions with the IMF.

2007 were manufacturing, wholesale and retail, real estate, transport, communication and storage, and electricity, gas and water.³

Overseas Filipinos' remittances and improving employment conditions underpin household savings.

Household sector remained the second largest saver in 2007 as it generated ₱381 billion savings, or an increase of 6.5 percent from last year's level of ₱358 billion. The continued growth in household savings could be attributed to improving income-generating opportunities as evidenced by: 1) steady inflow of cash remittances from the Overseas Filipinos (OF), which rose year-on-year by 6.5 percent; and 2) lower national unemployment rate at 7.3 percent during the year compared with the previous year's 8.0 percent.⁴

Strong revenues due to robust domestic production and increased administrative efficiency boost general government savings.

The general government posted a remarkable 76.0 percent increase in savings from ₱116 billion in 2006 to ₱204 billion in 2007, bolstered by the substantial improvement in the national government's (NG) net position on current operations.⁵ In addition to the robust domestic production which increased the tax base, fiscal revenues were boosted by the improved administrative efficiency of collecting agencies and effective implementation of tax collection enhancement programs (e.g., BIR's Ran After Tax Evaders) that encouraged tax payments. Alongside was the lower growth in current operating expenditures, mainly on account of the 13.6 percent decline in interest payments which in turn was due to the strengthening of the peso and the low interest rate environment.

In addition, the local government units (LGUs) and social security agencies (SSAs) contributed ₱36 billion and ₱60 billion, respectively, to the overall savings of the general government.

³ Based on SEC's Philippines Top 8000 Corporations, 2008 Edition

⁴ OF cash remittances pertain to those coursed thru banks and informal channels, which amounted to about ₱15 billion in 2007 and ₱14 billion in 2006.

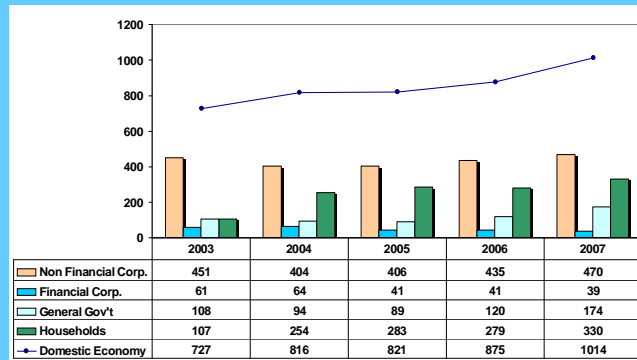
⁵ Based on the data sourced from the Commission on Audit net position on current operations by the NG more than tripled from ₱42 billion in 2006 to ₱137 billion in 2007.

Financial sector savings decline on weak profit of non-banks.

Meanwhile, the financial sector remained as a net saver but its savings of ₱76 billion was 10.2 percent lower than the previous year's savings of ₱84 billion, as profits of non-bank financial corporations declined. However, the banking sub-sector continued to generate savings albeit at a lower growth rate. The deceleration in the banking system's net income was due to the decline in non-interest incomes specifically from trading activities, as well as the increase in miscellaneous costs such as advertising and marketing expenses.⁶ Other expenses incidental to the mergers of banks also weighed down on the industry's profit.

Investing Institutions

Gross Capital Accumulation, by Sector in Billion Pesos



Investment growth is broad-based on expectation of improving business climate.

Gross capital accumulation grew by 15.9 percent to ₱1.0 trillion to support expansion in business activities in anticipation of increased demand.⁷ The increase in capital formation was evident

⁶ Information was based on the Comparative Statement of Income and Expense of Philippine Banks from the Supervisory Data Center, Bangko Sentral ng Pilipinas (BSP), which showed a 3 percent decline in trading income. This led to an 8.4 percent growth of non-interest income in 2007, slower compared to the 32.8 percent growth in the previous year.

⁷ 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.

across all sectors except for the financial corporations.

The non-financial sector accounts for about half of the economy's capital accumulation.

The non-financial sector's investment in capital goods grew by 8.1 percent to ₱470 billion, accounting for about half of the country's annual capital accumulation. In particular, double-digit growth was recorded in private corporations' expenditures on buildings and structures in 2007.⁸

The general government posts double-digit growth in real investment, particularly on infrastructures.

The general government recorded the highest growth in capital accumulation at 45.3 percent with its real investment of ₱174 billion, following a noticeable increase in government expenditures on capital outlay, particularly on infrastructure projects.

Households continue to accumulate real assets mostly in residential properties.

Households' capital accumulation amounted to ₱330 billion, or an increment of 18.5 percent from last year's level. It ranked second to the non-financial corporations as it accounted for about 33 percent of the national capital accumulation. Households' capital accumulation consisted mainly of acquisition of residential properties. OF remittances and access to bank financing, as reflected by the 9.5 percent increase in the real estate loans for the acquisition of residential real estate properties, helped boost investment in housing units.⁹

Financial sector's capital accumulation declines with banks' commitment to improve asset quality.

Capital accumulation in the financial sector fell by 4.6 percent to ₱39 billion in 2007 from ₱41 billion in 2006 as the growth in the acquisition of real assets was outpaced by the growth in the disposal of bad assets. In particular, banks' continued commitment to clean up their books was facilitated by the availability of more disposition venues, such as the Special Purpose Vehicles (SPVs), joint venture agreements and public auctions.¹⁰ By year-end, the level of

⁸ The Philippine System of National Accounts (PSNA) indicated a 20.6 percent growth in the gross value of private construction at current prices. Moreover, based on building statistics from the National Statistics Office (NSO), total floor area and value of approved building permits for non-residential construction in 2007 increased by 16.7 percent and 26.4 percent, respectively, from their previous year's level.

⁹ Source: Real Estate Loans, Philippine Banking System, Supervisory Data Center, SES

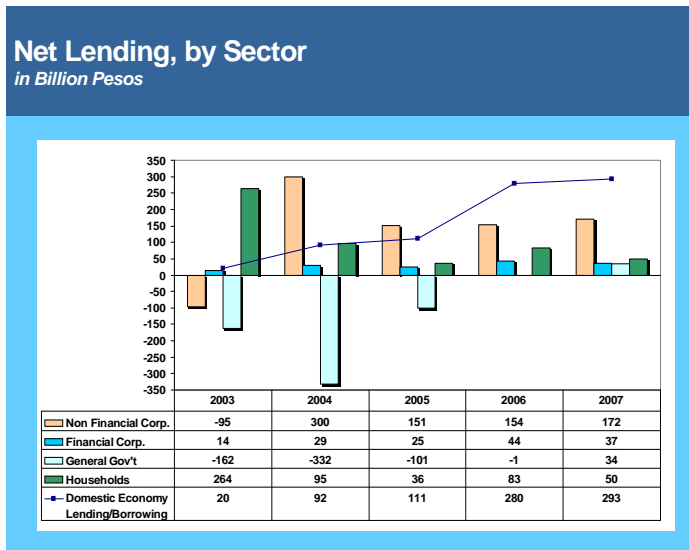
¹⁰ Source: A Status Report on the Philippine Financial System, Second Semester 2007, Office of Supervisory Policy Development (OSPD), SES, BSP.

banking system's net real and other properties acquired (ROPA) contracted further by 8.9 percent from the 5.2 percent decline registered in 2006.

Lenders and Borrowers in the Economy

Domestic economy sustains its net lending position.

The country's net lending to the rest of the world grew modestly by 4.5 percent to ₱293 billion in 2007 from ₱280 billion in 2006 (Annex D).¹¹



Non-financial corporate sector is the top fund provider.

The non-financial corporate sector continued to be the top net lender at ₱172 billion, an increase of 11.6 percent from ₱154 billion in 2006. Fund provision, largely by the private companies, was extended through other accounts receivables—mainly in the form of trade credits—and currency and deposits.

Households net lending slows down.

The household sector maintained its second position as net lender in the domestic economy, although the level of net lending at ₱50 billion, was lower than that realized in 2006. Net lending by the households was primarily in the form of currency and deposits.

¹¹ Conversely, Rest of the World increased its borrowing from the domestic economy by 4.5 percent in 2007.

The general government becomes a net lender for the first time since 2000 on SSAs' favorable balance sheets.

The general government's savings for the year was more than enough to cover its capital accumulation, allowing this sector to emerge as a net lender by ₱34 billion; this was in contrast with its being a net borrower in 2006. This was the first time that the general government became a net lender since 2000 mainly on account of the favorable financial position of the social security agencies (SSAs). These agencies, which put in relatively small investment in real assets, ended the year as net lender by ₱59 billion. This was more than enough to offset the deficit incurred by both the NG and LGUs due to heavy infrastructure spending during the year. However, it must also be noted that the lower deficit of the NG, due in turn, to fiscal consolidation, partly contributed to the net lending position of the general government.

Financial corporations remain a net lender although at a lower level.

The financial corporations continued to be a net lender at ₱37 billion in 2007. This level was lower compared to ₱44 billion in 2006 as outlays in most investments contracted. Overall lending by the financial sector declined by 44.2 percent due mainly to lower net lending to foreign market, even as banks' loans to the domestic market were still on the uptrend. However, the Bangko Sentral's investments in foreign securities, as part of its reserve assets, mitigated the impact of the decline in other instruments.

It was noted that other than deposits, banks source their funds for lending, by selling in the domestic market their holdings of securities under repurchase agreement with BSP. The share of bills payable (under loans payable), consisting mostly of repo instrument, had grown significantly as a source of funds for banks.

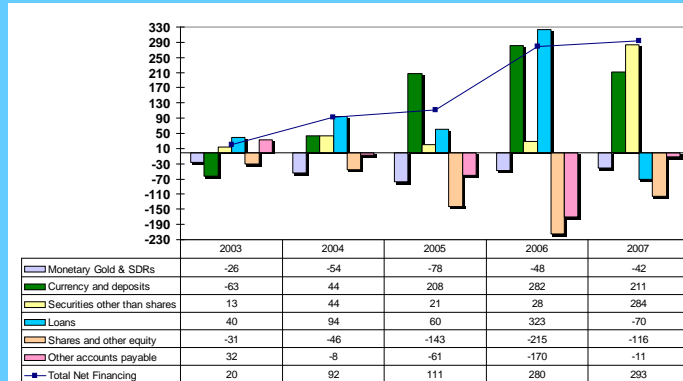
Financial Instruments Used in the Economy

Net lending is mostly in the form of securities.

In 2007, net lending by the domestic economy to the rest of the world was mostly in the form of securities other than shares, a shift from the loan-based net lending in 2006. Net lending in the form of securities surged from ₱28 billion in 2006 to ₱284 billion in 2007. As noted earlier, the BSP invested its international reserves largely in foreign-issued securities as part of reserve management.

Net lending in the form of currency and deposits amounting to ₱211 billion was the second widely used form of financing by the domestic economy to the rest of the world in 2007. This amount, however, was 25 percent lower than the previous year's level. As in the past, transactions in assets with the rest of the world were dominated by banks, while transactions in liabilities largely involved non-banks.¹²

Net Lending/ Net Borrowing by Financial Instrument in Billion Pesos



¹² Based on the Balance of Payments statistics

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR

2007^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	641,967	75,848	208,170	380,610	1,306,595	-294,594	1,012,001
Saving	641,967	75,848	204,424	381,299	1,303,538	-291,537	1,012,001
Net capital transfers	0	0	3,746	-689	3,057	-3,057	0
Capital Accumulation	470,102	39,062	174,416	330,360	1,013,940	-1,939	1,012,001
Gross Capital formation	447,530	39,061	169,776	355,634	1,012,001	0	1,012,001
Other capital accumulation	22,572	1	4,640	-25,274	1,939	-1,939	0
Net Lending (+) / Net Borrowing (-)	171,865	36,786	33,754	50,250	292,655	-292,655	0
FINANCIAL ACCOUNT							
Net Financing ³	171,865	36,786	33,754	50,250	292,655	-292,655	0
Net Acquisition of Financial Assets	548,846	890,616	185,752	104,067	1,729,281	532,473	2,261,754
Monetary gold and SDRs		-42,325			-42,325	42,325	0
Currency and deposits	101,959	325,422	90,714	380,331	898,426	23,425	921,851
Securities, other than shares	33,277	375,608	67,474	-49,913	426,446	-5,055	421,391
Loans	-166	156,229	16,425	0	172,488	131,464	303,952
Shares and other equity	-3,784	18,568	1,175	6,032	21,991	275,520	297,511
Insurance technical reserves	129	-120	254	31,447	31,710	0	31,710
Other accounts receivable	417,431	57,234	9,710	-299,306	185,069	64,794	249,863
Unclassified items ⁴				35,476	35,476		35,476
Net Incurrence of Liabilities	376,981	853,830	151,998	53,817	1,436,626	825,128	2,261,754
Monetary gold and SDRs							
Currency and deposits		687,108			687,108	234,743	921,851
Securities, other than shares	-1,730	23,211	120,511		141,992	279,399	421,391
Loans	128,330	31,870	28,396	53,817	242,413	61,539	303,952
Shares and other equity	93,281	44,216			137,497	160,014	297,511
Insurance technical reserves		31,710			31,710	0	31,710
Other accounts payable	157,100	35,715	3,091	0	195,906	53,957	249,863
Unclassified items ⁴						35,476	35,476
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	171,865	36,786	33,754	50,250	292,655	-292,655	0
Monetary gold and SDRs		-42,325			-42,325	42,325	0
Currency and deposits	101,959	-361,686	90,714	380,331	211,318	-211,318	0
Securities, other than shares	35,007	352,397	-53,037	-49,913	284,454	-284,454	0
Loans	-128,496	124,359	-11,971	-53,817	-69,925	69,925	0
Shares and other equity	-97,065	-25,648	1,175	6,032	-115,506	115,506	0
Insurance technical reserves	129	-31,830	254	31,447	0	0	0
Other accounts receivable/payable	260,331	21,519	6,619	-299,306	-10,837	10,837	0
Unclassified items ⁴				35,476	35,476	-35,476	0
Memorandum Items:							
M4 ⁵		203,323			203,323		
Net Direct Foreign Investment Equity	-42,881				-42,881		
	-42,881				-42,881		

^P Preliminary¹ 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 liabilities⁴ Represents the unclassified financial assets/liabilities in the Balance of Payment, including derivatives⁵ Based on the new Depository Corporations Survey data

Sources of Data:

1. COA annual reports of NG, LGUs and Government-Owned-and-Controlled Corporations (GOCCs)
2. Annual report of the BSP, financial statement of CB-BOL and the consolidated financial statements of banks and other financial institutions submitted to the BSP
3. Annual reports of Insurance Commission, Government Service Insurance System (GSIS) and Social Security System (SSS)
4. Structured financial statements of private corporations and the Philippines 8000 Corporations, from the Securities and Exchange Commission (SEC)
5. Budget of Expenditures and Sources of Financing from the Department of Budget and Management, Bloomberg and Philippine Stock Exchange.

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR

2006^f

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	588,825	84,455	119,290	362,105	1,154,675	-280,092	874,583
Saving	588,825	84,455	116,159	358,041	1,147,480	-272,897	874,583
Net capital transfers	0	0	3,131	4,064	7,195	-7,195	0
Capital Accumulation	434,886	40,954	120,035	278,708	874,583	0	874,583
Gross Capital formation	411,521	40,954	105,609	316,499	874,583	0	874,583
Other capital accumulation	23,365	0	14,426	-37,791	0	0	0
Net Lending (+) / Net Borrowing (-)	153,939	43,501	-745	83,397	280,092	-280,092	0
FINANCIAL ACCOUNT							
Net Financing ³	153,939	43,501	-745	83,397	280,092	-280,092	0
Net Acquisition of Financial Assets	353,722	996,219	52,217	76,454	1,478,612	245,108	1,723,720
Monetary gold and SDRs		-48,489			-48,489	48,489	0
Currency and deposits	131,930	484,396	61,212	434,073	1,111,611	-17,766	1,093,845
Securities, other than shares	14,969	187,198	6,139	-19,074	189,232	94,968	284,200
Loans	-13,430	279,833	-44,914	0	221,489	-164,430	57,059
Shares and other equity	15,060	20,975	3,958	-68,157	-28,164	220,514	192,350
Insurance technical reserves	8,250	210	202	60,780	69,442	0	69,442
Other accounts receivable	196,943	72,096	25,620	-411,302	-116,643	63,333	-53,310
Unclassified items ⁴				80,134	80,134		80,134
Net Incurrence of Liabilities	199,783	952,718	52,962	-6,943	1,198,520	525,200	1,723,720
Monetary gold and SDRs							
Currency and deposits		829,340			829,340	264,505	1,093,845
Securities, other than shares	54,529	49,760	57,020		161,309	122,891	284,200
Loans	-39,617	-46,248	-9,069	-6,943	-101,877	158,936	57,059
Shares and other equity	144,345	42,754			187,099	5,251	192,350
Insurance technical reserves		69,442			69,442	0	69,442
Other accounts payable	40,526	7,670	5,011	0	53,207	-106,517	-53,310
Unclassified items ⁴						80,134	80,134
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	153,939	43,501	-745	83,397	280,092	-280,092	0
Monetary gold and SDRs		-48,489			-48,489	48,489	0
Currency and deposits	131,930	-344,944	61,212	434,073	282,271	-282,271	0
Securities, other than shares	-39,560	137,438	-50,881	-19,074	27,923	-27,923	0
Loans	26,187	326,081	-35,845	6,943	323,366	-323,366	0
Shares and other equity	-129,285	-21,779	3,958	-68,157	-215,263	215,263	0
Insurance technical reserves	8,250	-69,232	202	60,780	0	0	0
Other accounts receivable/payable	156,417	64,426	20,609	-411,302	-169,850	169,850	0
Unclassified items ⁴				80,134	80,134	-80,134	0
Memorandum Items:							
M4 ⁵		595,358			595,358		
Net Direct Foreign Investment Equity	66,416				66,416		

^f Revised¹ 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 liabilities⁴ Represents the unclassified financial assets/liabilities in the Balance of Payment, including derivatives⁵ Based on the new Depository Corporations Survey data

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5. Budget of Expenditures and Sources of Financing from the Department of Budget and Management, Bloomberg and Philippine Stock Exchange.

FLOW OF FUNDS SUMMARY MATRIX, BY SECTOR

2006¹- 2007
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	9.0	-10.2	74.5	5.1	13.2	-5.2	15.7
Saving	9.0	-10.2	76.0	6.5	13.6	-6.8	15.7
Net capital transfers	-	-	19.6	-117.0	-57.5	57.5	-
Capital Accumulation	8.1	-4.6	45.3	18.5	15.9	0.0	15.7
Gross Capital formation	8.8	-4.6	60.8	12.4	15.7	-	15.7
Other capital accumulation	-3.4	0.0	-67.8	33.1	-	0.0	-
Net Lending (+) / Net Borrowing (-)	11.6	-15.4	4,630.7	-39.7	4.5	-4.5	491.3
FINANCIAL ACCOUNT							
Net Financing ³	11.6	-15.4	4,630.7	-39.7	4.5	-4.5	-
Net Acquisition of Financial Assets	55.2	-10.6	255.7	36.1	17.0	117.2	31.2
Monetary gold and SDRs		12.7			12.7	-12.7	
Currency and deposits	-22.7	-32.8	48.2	-12.4	-19.2	231.9	-15.7
Securities, other than shares	122.3	100.6	999.1	-161.7	125.4	-105.3	48.3
Loans	98.8	-44.2	136.6	-	-22.1	180.0	432.7
Shares and other equity	-125.1	-11.5	-70.3	108.9	178.1	24.9	54.7
Insurance technical reserves	-98.4	-157.1	25.7	-48.3	-54.3	-	-54.3
Other accounts receivable	112.0	-20.6	-62.1	27.2	258.7	2.3	568.7
Unclassified items ⁴				-55.7	-55.7	-	-55.7
Net Incurrence of Liabilities	88.7	-10.4	187.0	875.1	19.9	57.1	31.2
Monetary gold and SDRs							
Currency and deposits	-	-17.2	-	-	-17.2	-11.3	-15.7
Securities, other than shares	-103.2	-53.4	111.3	-	-12.0	127.4	48.3
Loans	423.9	168.9	413.1	875.1	337.9	-61.3	432.7
Shares and other equity	-35.4	3.4	-	-	-26.5	2,947.3	54.7
Insurance technical reserves	0.0	-54.3	-	-	-54.3	-	-54.3
Other accounts payable	287.7	365.6	-38.3	-	268.2	150.7	568.7
Unclassified items ⁴						-55.7	-55.7
NET LENDING / NET FINANCING BY FINANCIAL INSTRUMENT							
Net Financing ³	11.6	-15.4	4,630.7	-39.7	4.5	-4.5	
Monetary gold and SDRs		12.7			12.7	-12.7	
Currency and deposits	-22.7	-4.9	48.2	-12.4	-25.1	25.1	
Securities, other than shares	188.5	156.4	-4.2	-161.7	918.7	-918.7	
Loans	-590.7	-61.9	66.6	-875.1	-121.6	121.6	
Shares and other equity	24.9	-17.8	-70.3	108.9	46.3	-46.3	
Insurance technical reserves	-98.4	54.0	25.7	-48.3	-	-	
Other accounts receivable/payable	66.4	-66.6	-67.9	27.2	93.6	-93.6	
Unclassified items ⁴				-55.7	-55.7	55.7	

¹ Revised¹ 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 liabilities⁴ Represents the unclassified financial assets/liabilities in the Balance of Payment, including derivatives

Net Lenders in the Economy (Source of Funds)			Net Fund Provision/ Availment (in P Billions)	Net Borrowers in the Economy (Users of Funds)		
Net Lending				Net Borrowing		
P Billions	% to Total			P Billions	% to Total	
2002						
Households	169	92%	184	General Government	141	76%
Rest of the World	16	8%		Non-Financial Corporations	24	13%
				Financial Corporations	19	10%
2003						
Households	264	95%	277	General Government	162	59%
Financial Corporations	14	5%		Non-Financial Corporations	95	34%
				Rest of the World	20	7%
2004						
Non-Financial Corporations	300	71%	425	General Government	332	78%
Households	95	22%		Rest of the World	92	22%
Financial Corporations	29	7%				
2005						
Non-Financial Corporations	151	71%	212	General Government	101	48%
Households	36	17%		Rest of the World	111	52%
Financial Corporations	25	12%				
2006r						
Non-Financial Corporations	154	54.8%	281	General Government	1	0.3%
Households	83	29.7%		Rest of the World	280	99.7%
Financial Corporations	44	15.5%				
2007						
Non-Financial Corporations	172	58.7%	293	Rest of the World	293	100.0%
Households	50	17.2%				
General Government	34	11.5%				
Financial Corporations	37	12.6%				

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