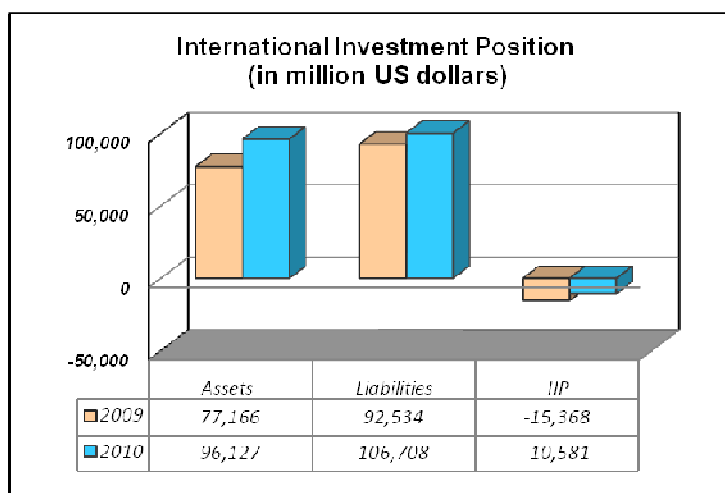


2010 INTERNATIONAL INVESTMENT POSITION (IIP) OF THE PHILIPPINES

The country's net international investment position improves.

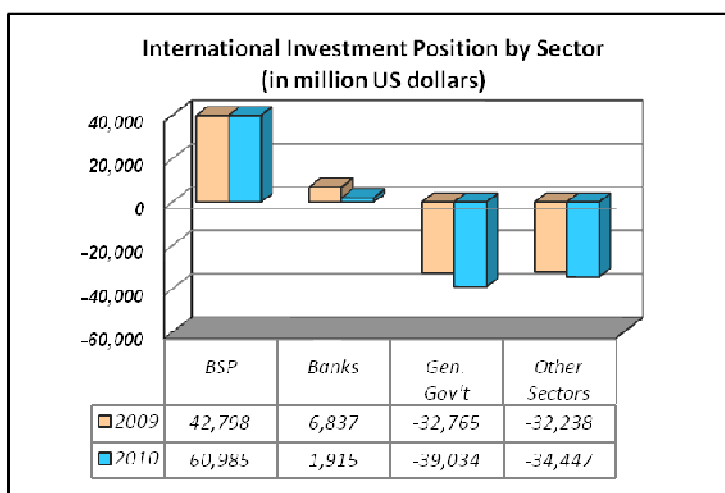
The developments in the Philippine economy ended last year on a strong note as the country emerged from the global economic turmoil with a solid performance. Notwithstanding the growing concerns on the weak and uneven pace of global activity, the country's International Investment Position (IIP) further improved at end-2010 on the back of strong growth prospects and sustained appetite for emerging markets' assets. Preliminary IIP data as of end-December 2010 indicated that the country's net liability position declined by 31.1 percent to US\$10.6 billion, from the revised end-2009 level of US\$15.4 billion. The sustained expansion in the country's total financial assets or claims of residents from the rest of the world continued to drive the country's net IIP. Total financial assets surged to US\$96.1 billion by end-2010, markedly higher by 24.6 percent relative to the previous year's level of US\$77.2 billion. Similarly, total financial liabilities increased, albeit, at a much slower pace of 15.3 percent to reach US\$106.7 billion, from its year-ago level of US\$92.5 billion (Table 1). The improvement in the net IIP is broadly consistent with the performance of the external sector in 2010, as the balance of payments (BOP) surplus more than doubled to US\$14.3 billion from US\$6.4 billion in 2009.



Net position of the BSP strengthens, while those of the Banks, General Government and Other Sectors weaken.

An analysis of the developments across sectors showed that the net external position of the Bangko Sentral ng Pilipinas (BSP) strengthened while those of the Banks, General Government and Other Sectors weakened at end-December 2010. The BSP's net external asset position improved appreciably by 42.5 percent to US\$61.0 billion in 2010, compared to the US\$42.8 billion recorded in the preceding year (Table 1). The year-on-year expansion in the BSP's foreign assets was driven by the steady build-up in the country's gross international reserves (GIR) given robust foreign exchange inflows.

Meanwhile, the 6.3 percent contraction in the Banks' total external assets, coupled with the 39.0 percent increase in its foreign liabilities (largely due to increase in liabilities to direct investors in the form of intercompany borrowings and foreign loan availments of local banks) led to a weaker net asset position amounting to US\$1.9 billion vis-à-vis the previous year's level of US\$6.8 billion. On the other hand, the General Government remained a net user of foreign resources. It posted a higher net liability position of US\$39.0 billion from the year-ago level of US\$32.8 billion. The bond flotations (US\$6.6 billion), net issuances of peso-denominated government securities in the domestic market (US\$2.7 billion), as well as foreign loan availments (US\$1.3 billion) by the National Government (NG) contributed to the increase in financial liabilities of the General Government. Similarly, the Other Sectors¹ recorded a higher net liability position of US\$34.4 billion from the US\$32.2 billion recorded last year due to higher foreign direct investments and foreign borrowings.



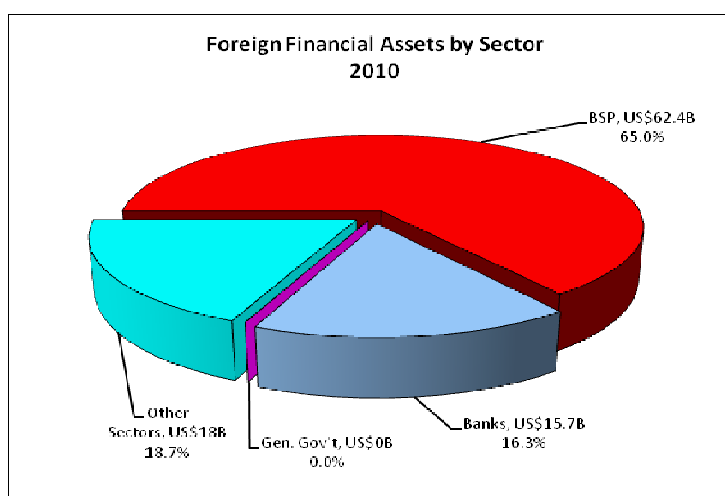
External Financial Assets

The BSP holds the biggest share of the country's foreign financial assets. The BSP continued to hold the largest financial claims on the rest of the world across sectors. The BSP's share accounted for 65.0 percent of the country's total external financial assets during the review period (Table 2). Strong foreign exchange inflows allowed the BSP to accumulate a comfortable level of international reserves and create buffers against external shocks. As of end-December 2010, the GIR level rose to US\$62.4 billion, reflecting a 41.0 percent increase from the previous year's level of US\$44.2 billion.

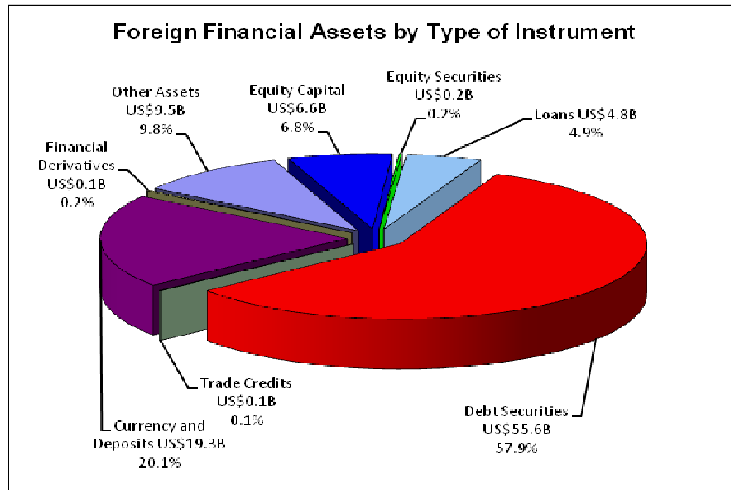
¹ Other Sectors consist of private non-banks and public corporations.

The sustained improvement of the BSP's GIR level over the year was largely due to inflows arising from the foreign exchange operations of the BSP, income from its investments abroad, deposits by the NG of proceeds from its program loans, as well as revaluation gains on the BSP's gold holdings on account of the rising price of gold in the international market during the year in review.

The Other Sectors' foreign assets, consisting primarily of deposits in banks abroad, investments in equity capital, and placements in debt securities, constituted 18.7 percent of the total external financial assets. Banks' assets, on the other hand, accounted for the remaining 16.3 percent of the country's aggregate foreign assets. These were mainly held in the form of loans extended to non-residents, holdings of foreign debt securities, currency and deposits abroad, and other assets. The General Government continued to have no outstanding stock of foreign assets during the review period.



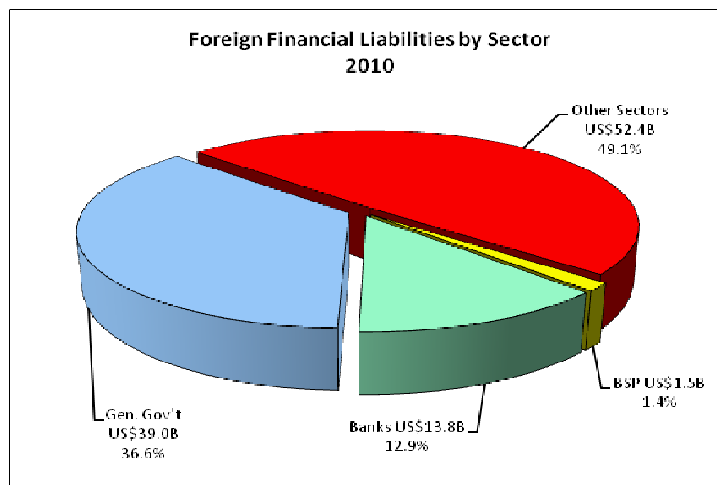
Residents' financial asset holdings remain in debt securities and currency and deposits. Investments in debt securities, mostly held by the BSP and Banks, led the expansion in the country's external financial assets. Debt securities comprised more than half (or 57.9 percent) of the residents' financial claims abroad during the year in review. Currency and deposit placements abroad ranked next, accounting for 20.1 percent of total external assets. Other assets, consisting mainly of monetary gold holdings of the BSP, comprised 9.8 percent of total external assets. Equity capital invested abroad by private local banks and corporations, on the other hand, accounted for 6.8 percent. Meanwhile, loans receivables of Banks and the Other Sectors, contributed 4.9 percent to total foreign financial assets. The remaining instruments held by different sectors were in equity securities (0.2 percent), financial derivatives (0.2 percent), and trade credits with non-affiliates (0.1 percent).



External Financial Liabilities

The Other Sectors have the largest exposure to the rest of the world.

During the review period, the Other Sectors covered majority of the country’s financial liabilities to non-residents, aggregating US\$52.4 billion (or 49.1 percent). The General Government came next as its liabilities—mainly composed of debt securities and loans from non-residents—accounted for 36.6 percent (or US\$39.0 billion) of total external liabilities (Table 3). The remaining exposures were attributed to Banks (12.9 percent or US\$13.8 billion) and the BSP (1.4 percent or US\$1.5 billion). Among the four sectors, only the BSP registered a decline in its foreign liabilities (by 3.8 percent). Banks, on the other hand, posted the largest increase in the stock of its foreign liabilities at 39.0 percent. Its liabilities to non-residents were in the form of other capital, foreign loan availments, issuances of equity and debt securities, as well as currency and deposits.



The bulk of the country's financial liabilities are held mainly in foreign loans and debt securities.

Classified by type of liability, loans including trade credits extended to the NG, the Banks and the Other Sectors, comprised 38.7 percent of the country's total external financial exposure. Debt securities such as bonds and notes issued primarily by the NG and Other Sectors accounted for 25.6 percent of total financial liabilities. The country's strong macroeconomic fundamentals and investors' improved risk appetite for emerging market assets encouraged the sustained flow of foreign capital into the country. This was partly manifested in the favorable response of foreign investors to the debt securities offerings in 2010. Foreign equity capital investments represented 17.2 percent of total external liabilities while placements by non-residents in equity securities contributed 8.5 percent to the total. Meanwhile, liabilities to non-residents in the form of other capital (i.e., intercompany loans between related parties) covered 7.4 percent of total financial liabilities. The rest of the financial liabilities to non-residents were held in the form of other liabilities (1.2 percent), such as allocations of Special Drawing Rights (SDR) of the BSP (1.2 percent) as well as accrued interest and taxes payable of Banks, currency and deposits (1.1 percent) and financial derivatives (0.3 percent).

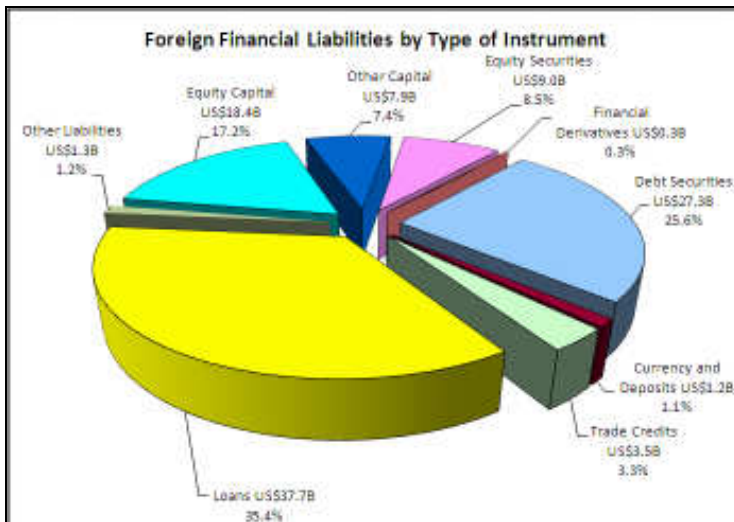


Table 1
International Investment Position by Sector
(in million US dollars)

	End-2009			End-2010		
	Assets	Liabilities	IIP	Assets	Liabilities	IIP
Levels						
Bangko Sentral ng Pilipinas	44313	1515	42798	62442	1457	60985
Banks	16750	9913	6837	15698	13783	1915
General Government	0	32765	-32765	0	39034	-39034
Other Sectors	16103	48341	-32238	17987	52434	-34447
Total	77166	92534	-15368	96127	106708	-10581
Percent Share to Total						
Bangko Sentral ng Pilipinas	57.4	1.6	-278.5	65.0	1.4	-576.4
Banks	21.8	10.7	-44.4	16.3	12.9	-18.1
General Government	0.0	35.4	213.2	0.0	36.6	368.9
Other Sectors	20.9	52.2	209.8	18.7	49.1	325.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Growth Rate						
Bangko Sentral ng Pilipinas	17.8	-23.7	20.1	40.9	-3.8	42.5
Banks	15.2	-20.9	241.5	-6.3	39.0	-72.0
General Government	0.0	9.2	-9.2	0.0	19.1	-19.1
Other Sectors	20.9	-0.1	8.1	11.7	8.5	-6.9
Total	17.8	-0.4	44.0	24.6	15.3	31.1

Table 2
Foreign Financial Assets
(in million US dollars)

Instrument/Sector	BSP		Banks		General Government		Other Sectors		Total		% to Total	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Levels												
Direct Investment	0	0	266	453	0	0	5829	6128	6095	6581	7.9	6.8
Equity Capital	0	0	266	453	0	0	5829	6128	6095	6581	7.9	6.8
Other Capital	0	0	0	0	0	0	0	0	0	0	0.0	0.0
Portfolio Investment	31397	43737	4502	5917	0	0	4089	6133	39988	55787	51.8	58.0
Equity Securities	0	0	17	18	0	0	148	159	165	177	0.2	0.2
Debt Securities	31397	43737	4485	5899	0	0	3941	5974	39823	55610	51.6	57.9
of which: Reserves	31397	43737	0	0	0	0	0	0	31397	43737	40.7	45.5
Financial Derivatives	0	0	119	146	0	0	8	2	127	148	0.2	0.2
Other Investment	12916	18705	11863	9182	0	0	6177	5724	30956	33611	40.1	35.0
Trade Credits	0	0	0	0	0	0	81	85	81	85	0.1	0.1
Loans	0	0	7475	4529	0	0	234	223	7709	4752	10.0	4.9
Currency and Deposits	6107	10254	3573	3638	0	0	5865	5418	15545	19310	20.1	20.1
of which: Reserves	6107	10254	0	0	0	0	0	0	6107	10254	7.9	10.7
Other Assets	6809	8451	815	1015	0	0	-3	-2	7621	9464	9.9	9.8
of which: Reserves	6739	8382	0	0	0	0	0	0	6739	8382	8.7	8.7
Total	44313	62442	16750	15698	0	0	16103	17987	77166	96127	100.0	100.0
Growth Rate												
Direct Investment	0.0	0.0	43.8	70.3	0.0	0.0	5.0	5.1	6.3	8.0		
Equity Capital	0.0	0.0	43.8	70.3	0.0	0.0	5.0	5.1	6.3	8.0		
Other Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Portfolio Investment	-2.1	39.3	37.3	31.4	0.0	0.0	182.0	50.0	8.7	39.5		
Equity Securities	0.0	0.0	-48.5	5.9	0.0	0.0	32.1	7.4	13.8	7.3		
Debt Securities	-2.1	39.3	38.1	31.5	0.0	0.0	194.5	51.6	8.7	39.6		
of which: Reserves	-2.1	39.3	0.0	0.0	0.0	0.0	0.0	0.0	-2.1	39.3		
Financial Derivatives	0.0	0.0	-48.5	22.7	0.0	0.0	-87.8	-73.3	-57.3	16.5		
Other Investment	132.6	44.8	9.4	-22.6	0.0	0.0	-1.3	-7.3	36.6	8.6		
Trade Credits	0.0	0.0	0.0	0.0	0.0	0.0	8.0	4.9	8.0	4.9		
Loans	0.0	0.0	41.3	-39.4	0.0	0.0	-71.4	-4.7	26.2	-38.4		
Currency and Deposits	522.5	67.9	2.1	1.8	0.0	0.0	9.5	-7.6	58.0	24.2		
of which: Reserves	522.5	67.9	0.0	0.0	0.0	0.0	0.0	0.0	522.5	67.9		
Other Assets	48.9	24.1	-60.3	24.5	0.0	0.0	-137.5	33.3	14.9	24.2		
of which: Reserves	49.6	24.4	0.0	0.0	0.0	0.0	0.0	0.0	49.6	24.4		
Total	17.8	40.9	15.1	-6.2	0.0	0.0	20.9	11.7	17.8	24.6		

Table 3
Foreign Financial Liabilities
(in million US dollars)

Instrument/Sector	BSP		Banks		General Government		Other Sectors		Total		% to Total	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Levels												
Direct Investment	0	0	3406	5274	0	0	19525	21045	22931	26319	24.8	24.7
Equity Capital	0	0	873	1006	0	0	16353	17375	17226	18381	18.6	17.2
Other Capital	0	0	2533	4268	0	0	3172	3670	5705	7938	6.2	7.4
Portfolio Investment	202	174	1576	1997	14769	19951	13609	14194	30156	36316	32.6	34.0
Equity Securities	0	0	1147	1441	0	0	7239	7580	8386	9021	9.1	8.5
Debt Securities	202	174	429	556	14769	19951	6370	6614	21770	27295	23.5	25.6
Financial Derivatives	0	0	210	308	0	0	26	1	236	309	0.3	0.3
Other Investment	1313	1283	4721	6204	17996	19083	15181	17194	39211	43764	42.4	41.0
Trade credits	0	0	0	0	0	0	2438	3497	2438	3497	2.6	3.3
Loans	0	0	3726	4985	17996	19083	12714	13676	34436	37744	37.2	35.4
Currency and Deposits	0	0	973	1187	0	0	12	6	985	1193	1.1	1.1
Other Liabilities	1313	1283	22	32	0	0	17	15	1352	1330	1.5	1.2
Total	1515	1457	9913	13783	32765	39034	48341	52434	92534	106708	100.0	100.0
Growth Rate												
Direct Investment	0.0	0.0	-17.2	54.8	0.0	0.0	110.7	7.8	105.4	14.8		
Equity Capital	0.0	0.0	-22.4	15.2	0.0	0.0	113.3	6.2	110.7	6.7		
Other Capital	0.0	0.0	-15.3	68.5	0.0	0.0	99.2	15.7	92.2	39.1		
Portfolio Investment	-34.0	-13.9	22.2	26.7	114.7	35.1	94.6	4.3	104.5	20.4		
Equity Securities	0.0	0.0	104.8	25.6	0.0	0.0	86.7	4.7	94.1	7.6		
Debt Securities	-34.0	-13.9	-41.2	29.6	114.7	35.1	105.7	3.8	109.2	25.4		
Financial Derivatives	0.0	0.0	0.5	46.7	0.0	0.0	18.3	-95.8	67.1	30.9		
Other Investment	-21.8	-2.3	-31.8	31.4	105.1	6.0	93.5	13.3	93.4	11.6		
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	101.4	43.4	101.4	43.4		
Loans	-100.0	0.0	-26.4	33.8	105.1	6.0	92.2	7.6	91.9	9.6		
Currency and Deposits	0.0	0.0	-8.9	22.0	0.0	0.0	75.0	-50.0	90.9	21.1		
Other Liabilities	629.4	-2.3	-97.2	45.5	0.0	0.0	48.6	-11.8	133.5	-1.6		
Total	-23.7	-3.8	-20.9	39.0	109.2	19.1	99.9	8.5	99.6	15.3		