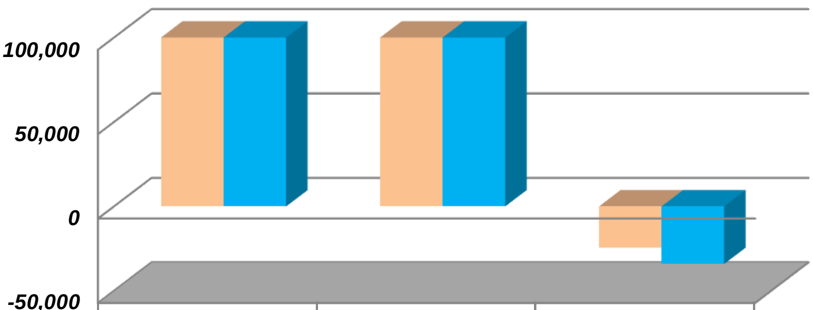
2012 INTERNATIONAL INVESTMENT POSITION OF THE PHILIPPINES

The country's international investment position declines.

The country's International Investment Position (IIP) based on the Balance of Payments and International Investment Position Manual, 6th edition (BPM6) posted a higher net liability position at end-2012 on the back of robust inflows in the financial account as investors trooped toward emerging markets, including the Philippines. Preliminary IIP data as of end-December 2012 indicated that the country's net liability position grew by 39.1 percent to US$34.1 billion, from the revised end-2011 level of US$24.5 billion. This developed as the growth in the country's total external financial liabilities exceeded the growth of total external financial assets. Total external financial assets increased year-on-year by 12.4 percent to US$119.7 billion, while total external financial liabilities increased by 17.4 percent to reach US$153.8 billion (Figure 1).

Figure 1
International Investment Position
(in million US dollars)



	Assets	Liabilities	IIP
2011	106,454	130,988	-24,534
2012	119,675	153,798	-34,123

Sound macroeconomic fundamentals, highlighted by positive credit rating actions from Moody's and Standard & Poor's (S&P), boosted investors' confidence in the economy, which was reflected in the appreciable increases in portfolio, direct, and other investment liabilities. Amid economic uncertainties across Europe and sub-par economic growth in the U.S., foreign investors have been attracted to emerging markets as they seek higher-yielding investments. As a result, the Philippine Stock Exchange (PSE) Index gained 33 percent and closed at 5,812.73 points at end-2012, ranking second to Thailand among Southeast Asian economies. Moreover, the country's favorable external payments dynamics led to the Philippine peso appreciation against the U.S. dollar by 6.6 percent, closing at ₱41.192/US$ at end-2012. These developments pushed the stock of liabilities upward, particularly investments in portfolio equity securities. About 72 percent of the increase in equity securities held by non-residents was due to changes in the market prices of securities, around 13 percent was attributed to exchange rate fluctuations, and the remaining 15 percent was due to transactions that materialized over the 12-month period.

The BSP maintains a net asset position, while Deposit-Taking Corporations, the General Government and Other Sectors remain net users of foreign resources.

Across sectors, only the Bangko Sentral ng Pilipinas (BSP) recorded a net external asset position at end-2012. Deposit-taking Corporations (or Banks), General Government, and Other Sectors were net users of foreign resources, posting higher net external liability position.

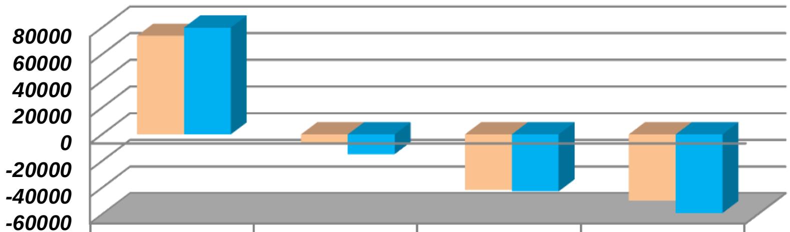
The BSP's net external asset position improved by 11.6 percent to US$82.5 billion at end-December 2012 from US$73.9 billion at end-2011 (Figure 1). This was driven by the 11.3 percent growth in the BSP's reserve assets from US$75.3 billion to US$83.8 billion, underpinned by the US$9.2 billion balance of payments (BOP) surplus in 2012.

Meanwhile, the net liability position of deposit-taking corporations more than doubled to reach US$14.8 billion. This was due mainly to the 42.8 percent growth in external liabilities, almost five times the expansion in external assets. The increase in liabilities was driven mainly by portfolio investments – equity securities and debt securities which grew by 82.7 percent and 50.8 percent, respectively – reflecting strong investor sentiment in emerging markets. Non-residents' placements of currency and deposits in local banks and resident banks' net availments of foreign loans, likewise shored up external financial liabilities.

The General Government remained a net user of foreign resources. The increase in the National Government's (NG) issuances of debt securities accounted for the slightly higher net liability position of US$42.8 billion by the General Government compared with the year-ago level of US$41.5 billion. Its impact was moderated as the General Government shifted from foreign to domestic financing sources during the year.

The Other Sectors' net liability position also grew to US$59 billion at end-2012, higher by 18.7 percent compared to the US$49.7 billion recorded in the previous year. This was on account of the rise in non-residents' investments in equity capital from US$17.2 billion to US$19.9 billion.

Figure 2
International Investment Position by Sector
(in million US dollars)



	BSP	Deposit-taking Corporations, except CB	Gen. Gov't	Other Sectors
2011	73906	-7282	-41453	-49705
2012	82449	-14836	-42758	-58979

External Financial Assets

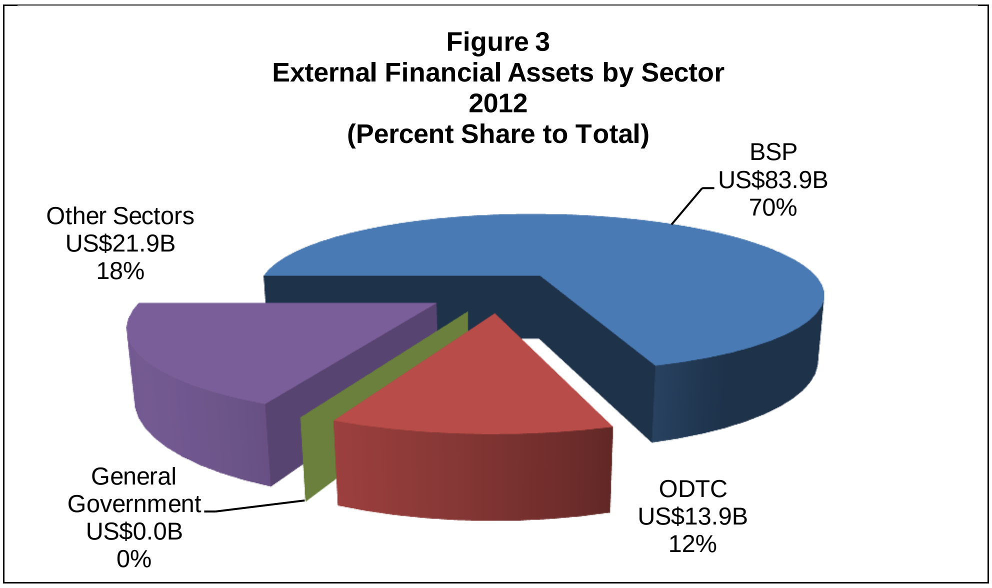
The BSP holds highest stock of external financial assets.

The BSP continued to hold the largest financial claims on the rest of the world, representing 70.1 percent of the country's total external financial assets at end-2012. The increase in the BSP's reserve assets was buoyed mainly by inflows from its foreign exchange operations and investment income as well as deposits by the NG and the Power Sector Assets and Liabilities Management (PSALM) Corporation of proceeds from their bond issuances and other foreign borrowings.

The Other Sectors accounted for US$21.9 billion (or 18.3 percent of total financial assets), mainly in the form of residents' equity capital investments and deposits in banks abroad (representing 35.9 percent and 47.1 percent of Other Sectors' total financial assets, respectively). Other Sectors' external financial assets are mostly comprised of portfolio investments – debt securities (11.4 percent) and direct investments in the form of placements in debt instruments (4.9 percent).

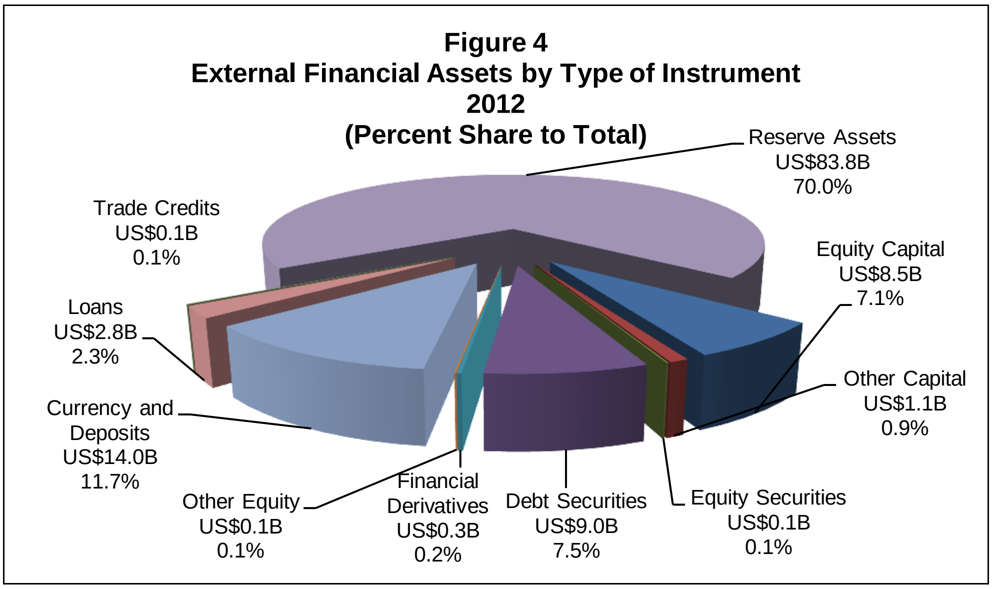
The remaining US$13.9 billion (11.6 percent share) of total holdings of external assets was held by deposit-taking corporations. The bulk (46.4 percent) of deposit-taking corporations' holdings was in the form of placements in debt securities. Other assets consisted of deposits in banks abroad (26.8 percent) and loans extended to non-residents (19.9 percent).

The General Government maintained its total external financial asset holdings at nil as of end-2012.



Majority of residents' financial assets are in the form of debt securities held by the BSP under its reserve assets.

In terms of instrument, total residents' holdings of external assets are mostly held by the BSP (54.9 percent) as investments in debt securities that form part of its reserve assets. Currency and deposits placements abroad accounted for 11.7 percent. This is followed by local institutions' investments in debt securities issued by non-residents (7.5 percent) and equity capital (7.1 percent). Loans extended to non-residents accounted for 2.3 percent of the total holdings.



External Financial Liabilities

The Other Sectors hold the highest financial exposure to the rest of the world.

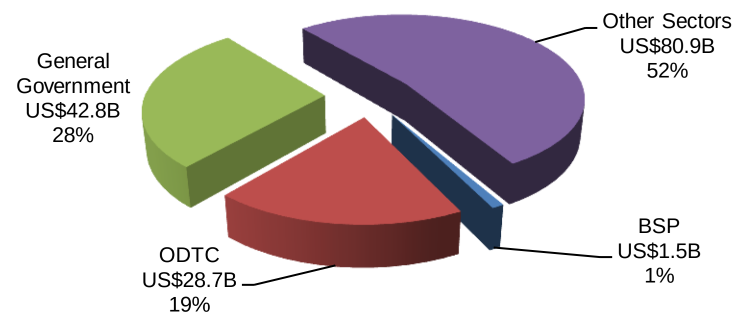
The Other Sectors continued to hold the majority of total residents' liabilities to non-residents with 52.6 percent share, as outstanding levels rose by 19 percent from US$68 billion at end-2011 to US$80.9 billion at end-2012. These were largely in the form of issuances of equity securities (37.9 percent of Other Sectors' total liabilities), equity capital (24.6 percent) and acquisition of foreign loans (16.3 percent).

The General Government recorded US$42.8 billion external liabilities as of end-2012, equivalent to 27.8 percent of total external liabilities to non-residents. The sector's outstanding external liabilities were distributed into two instruments – debt securities (56.2 percent of the General Government's total liabilities), and loans (43.8 percent).

Total external liabilities by deposit-taking corporations accounted for 18.7 percent of the country's total external liabilities. These were mostly in the form of non-residents' placements of currency and deposits in domestic banks (31.6 percent of deposit-taking corporations' total liabilities), equity securities (28.9 percent), and loans (25.4 percent).

The remaining 0.9 percent included allocation of Special Drawing Rights (SDR) of the BSP.

Figure 5
External Financial Liabilities
2012
(Percent Share to Total)



Financial liabilities are predominantly in the form of foreign loans and debt securities.

Foreign loans accounted for majority of total residents' external liabilities, amounting to US$39.2 billion, or 25.5 percent of total external financial liabilities. Debt securities – bonds and notes – issued by the NG and Other Sectors comprised 21.2 percent of total external financial liabilities. Non-residents' placements in equity securities accounted for 25.3 percent while non-residents' equity capital investments accounted for 14.1 percent of the total. Meanwhile, external liabilities in the form of currency and deposits, debt instruments, trade credits, and financial derivatives accounted for 5.9 percent, 4.5 percent, 2.4 percent, and 0.2 percent of the total, respectively.

Figure 6
External Financial Liabilities by Type of Instrument
2012
(Percent Share to Total)