Bilateral Borrowing Facility of the International Monetary Fund
Frequently Asked Questions

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1. ***What is the International Monetary Fund (IMF)?***

   The International Monetary Fund (IMF) is a cooperative international monetary organization with a near-universal membership of 188 countries, working to foster global monetary cooperation, secure financial stability, and facilitate international trade, among others.

2. ***What is the mission of the IMF?***

   The fundamental mission of the IMF is to help ensure stability in the international system. It does so in three ways: keeping track of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and providing technical assistance to members.

3. ***What is the role of the IMF in addressing the European crisis?***

   The prolonged and deepening crisis in Europe prompted the IMF to mobilize its resources to boost its lending capacity. In January 2012, the IMF sought to raise US$600 billion in borrowed resources to ensure adequate Fund resources for the benefit of the whole membership which, along with strengthened European firewalls, will help stem potential contagion and secure global economic and financial stability.

   The broad-based response came in the form of pledges from members which amounted to US$456 billion as of 19 June 2012. These resources will be made available for crisis prevention and resolution, and will be drawn only if needed. If drawn, the resources will be refunded with interest.

4. ***What is the basis for the IMF to invite its members to provide loan resources?***

   Only member economies, or the member's financial institution, with strong external positions, are invited by the IMF to participate in its lending facilities. Invitations to lend to the IMF reflect the recognition of the strength of the country's macroeconomic fundamentals, particularly the strong balance of payments and external position.

5. ***Why did the BSP commit to provide loan resources to the IMF?***

   The BSP's commitment of US$1 billion to the IMF shows our support to the global efforts in stabilizing the world economy and maintaining its growth path. As a member of the global community of nations, it is also in our interest to ensure economic and financial stability across the globe. Europe is an important trading and financial partner of the Philippines. If this region deteriorates and its financial markets become dysfunctional, exports, overseas Filipino (OF) remittances and investments to the Philippines will be reduced. Further, the US$1 billion commitment to the IMF can be thought of as a means of diversification to manage risk and maximize return.

6. ***Do we have an obligation to lend to the IMF?***

No. The BSP's commitment to lend to the IMF is not obligatory. It is a voluntary act which resulted from in-depth analysis anchored on the following considerations: (a) capacity to lend; (b) legal basis; (c) risk-return profile of investments; and (d) non-financial costs and benefits, among others.

7. ***Why US$1 billion? Why not higher or lower?***

An important consideration in determining the size of the commitment is the capacity of the BSP to provide such, as measured by the gross international reserves (GIR). As of end-July 2012, the reserves remain adequate for the country's requirements.

In terms of the size of the commitment, a total of 37 countries have announced pledges totaling US$456 billion to boost IMF resources, where Malaysia, Philippines and Thailand, each committed US$1 billion to the collective effort. The commitment of US$1 billion accounts for 1.3 percent of the country's GIR. While the international reserves of Malaysia and Thailand are larger, the debt-to-GDP ratio of Malaysia (33 percent) and Thailand (31 percent) are higher compared to the Philippines (29 percent) suggesting that the latter has a strong external position, which makes the country capable to provide comparable commitment with that of Malaysia and Thailand.

8. ***Who approved the contribution? What is the legal basis for the participation of the BSP in the bilateral borrowing facility?***

Section 75 of Republic Act (R.A) No. 7653 (also known as The New Central Bank Act) provides the legal basis for the BSP to grant and receive loans from foreign banks and other foreign or international entities, both public and private, and may engage in such other operations with these entities as are in the national interest and are appropriate to its character as a central bank. Pursuant to this, the Monetary Board approved the loan contribution to the IMF. With the IMF requirement of the member's consent, the concurrence of the President was sought and received by the BSP on 18 June 2012.

9. ***What do we get out of lending to the IMF?***

The IMF pays interest on its loans at SDR interest rate[1]. The current annual SDR interest rate is 0.09 percent per annum (as of 1 August 2012). It may be noted that

[1]The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies (i.e., US dollar, Euro, Yen, Pound).

the IMF is considered triple-A rated and supported by 188 member countries. Hence repayment is guaranteed. Sovereign credit ratings of European countries are lower which is associated with higher credit risk. By lending to the IMF, we get to diversify our portfolio investments.

Aside from making money from lending to the IMF, the Philippines will also be able to help in the global efforts to stabilize the Euro area. Being a part of the global community, the Philippines is not insulated from external shocks and contagion is a clear and present danger to the country's macroeconomic stability. It may be noted that 16.4 percent of total remittances come from OF workers based in Europe and 12.1 percent of total exports go to the same region. By extending help to crisis-stricken Europe, we are also helping ourselves.

Other non-financial benefits include: (a) signal to the global community of the country's strong external position; (b) possible consideration for credit rating upgrades; (c) demonstration of support for crisis-hit economies; and (d) participation in the IMF's initiative to address the global crisis.

10. ***Where will the money be coming from?***

Loan resources to the Fund will be coming from the BSP's international reserves. There will be no budgetary outlay from the National Government (NG).Thus, the GIR level will not change since only the composition will vary; neither will the national budget be reduced.

Section 65 of R.A. No. 7653 stipulates that the BSP shall maintain international reserves adequate to meet any foreseeable net demands for foreign currencies in order to maintain the international stability and convertibility of the Philippine peso. The country's international reserves are invested in accordance with an investment guideline that mandates that only investment-grade and highly-rated financial instruments of non-residents should qualify. The US$1 billion pledge is in accordance with one of the major considerations in the management of the country's international reserves, which is the preservation of capital.

11. ***What are reserves? Where does the BSP get them?***

Gross international reserves (GIR) are external assets that are available to and controlled by monetary authorities and central banks. They represent claims on non-residents. These are comprised of monetary gold, foreign exchange (FX) assets and other claims in foreign currency. The BSP builds up its GIR through the following: (i) outright purchase of FX in the market; (ii) income from investments in foreign assets; and (iii) gold purchases and subsequent revaluation gains of gold holdings.

12. ***How are reserves commonly used?***

The BSP's reserves are held primarily for precautionary reasons, serving as a contingency buffer in instances of insufficient domestic FX supply (for crisis prevention) and to fund FX shortages during market stresses (for crisis mitigation). A country's FX reserves are particularly useful during unexpected shortages in FX liquidity as what occurred during the 1997-98 Asian financial crisis. These FX assets are readily available to meet the country's FX liquidity requirements and promote the stability of the exchange rate.

13. ***Do OFW remittances fall into the reserves? If they do, why can't OFWs have a say on where their monies go to?***

Foreign exchange inflows from remittances, along with receipts from exports, business process outsourcing (BPOs), tourism activities, as well as inflows from foreign direct and portfolio investments are sold to or deposited in the banks. The BSP buys FX, as part of its FX operations, from banks as the opportunity arises. In turn, these BSP's FX purchases become part of the GIR. The BSP then manages the international reserves in accordance with the provisions of its Charter and the Monetary Board-approved investment guidelines.

14. ***What will be the direct effect to the country of this commitment to the IMF?***

Indeed, the BSP's level of reserves will remain the same and only its composition will change, if the commitment is drawn. There is no impact whatsoever on the NG's budget allocation. Lending to the IMF is just one form of BSP's investment using its reserves. Section 66 of R.A. No. 7653 provides the basis for the BSP to freely convert any of the assets in its international reserves into other assets. It includes gold and assets in foreign currencies including documents and instruments customarily employed for the international transfer of funds, demand and time deposits in central banks, treasuries and commercial banks abroad, foreign government securities and foreign notes and coins.

15. ***What is the difference between National Government money and BSP's money? Don't they come from the same source – taxes?***

The resources of the NG come mainly from tax and non-tax revenues while the BSP's revenues are primarily derived from its investment income, supervisory fees and miscellaneous income. The reserves form part of the BSP's total assets.

16. ***Why is the US$1 billion commitment to the IMF not invested in higher-earning instruments?***

The GIR's investment guidelines underscore the precautionary objective of holding reserves. As such, the decision to pledge US$1 billion to the IMF allows for the diversification of portfolio investments in safe assets while optimizing the risk-return profile of the GIR. Moreover, the non-financial benefits from this commitment of signaling a stronger external position and possible credit rating upgrade, as well as participating in initiatives to address the global crisis are consistent with the crisis-prevention nature of the GIR.

17. ***Why is the BSP lending to the IMF when over 26.5 percent of the population is living below the poverty line?***

The BSP is aware of the challenges of poverty in the country and has a role to help by stabilizing prices. However, the direct responsibility of addressing poverty rests with the NG with resources coming from the budget. It is emphasized that lending to international institutions indirectly supports the poor because any yields on these lending will be part of the BSP's net income from which dividends can be remitted to the NG which can use these dividends to finance social spending.

18. ***Can we use the international reserves to pay off National Government debts? Or use for infrastructure projects of the Government?***

The country's international reserves are invested in accordance with an investment guideline which mandates that only investment-grade and highly-rated financial instruments of non-residents should qualify. Moreover, while the BSP is the designated banker and financial adviser of the Government under Sections 110 and 123 of its charter, the performance of such functions is not equated with an authority for the NG to draw FX from the BSP reserves whenever there is a need therefor. However, the BSP may readily provide the NG with FX that the NG can purchase to pay off its external debts.

In terms of the use of international reserves for infrastructure projects of the NG, Section 128 of R.A. No. 7653 prohibits the BSP from engaging in development banking or financing.

19. ***Why is the public not consulted on the BSP's action to lend to the IMF?***

The BSP's decision to lend to the IMF, as well as decisions on the allocation and appropriation of international reserves, is part and parcel of its legal mandate to manage reserves.

20. ***How can the BSP lend when it incurred losses in 2011?***

Losses are incurred by the BSP in its role to stabilize prices and support the Philippine economy. Notwithstanding its losses, the BSP's net worth remains positive. The reserves of US$79.3 billion remain intact and invested in various instruments. Lending to the IMF is a way of reserve diversification to manage risk and maximize return.

21. ***Can the Philippines dictate the loan conditions to the IMF? To the borrowing country?***

The BSP's participation in the IMF's bilateral borrowing facility is subject to terms and conditions (e.g., term of availability, repayment period, limit of commitment, etc) in accordance with the central banks' investment guidelines.

On the other hand, IMF lending to the borrowing member countries, and the conditionalities associated to the lending facility, if any, are all approved by its Executive Board. A consultation process, supported by in-depth and regular surveillance, occurs on a transparent basis. All these conditionalities are intended to ensure that the country in need will revert to its recovery track and the creditors will be paid. In some cases, IMF intervention is not aligned with the authorities' views. This is where intensive consultation is most needed, as was the case for the Philippines years ago.

22. ***Can we withdraw our loan resources in case the country experiences BOP needs?***

Yes. The IMF will return our resources should the Philippines encounter balance of payments needs.

23. ***If BSP is an autonomous government body, who has oversight over it?***

While no single government body has formal or direct oversight over the BSP, it is accountable to the President and both Houses of Congress. The BSP is required by law to submit to these government branches regular reports on economic and financial developments, the status of the Philippine financial system, the financial condition of the BSP as well as policy actions adopted by the BSP in pursuit of its mandate. At the same time, the BSP is made to appear in NG budget hearings to provide testimonies on current economic developments as well as the outlook on key economic variables as inputs to the macroeconomic assumptions used in the budget.

24. ***Should the BSP Charter be amended to allow the NG to use the BSP's international reserves?***

No. The prohibitions cited in the BSP Charter against development financing and the use of its capital and foreign exchange to support government development projects are lessons drawn from past experience wherein central bank support of government development projects led to significant losses for the old Central Bank of the Philippines and its eventual rehabilitation. At the same time, the use of BSP's international reserves for purposes other than as self-insurance against external shocks will adversely affect the country's ability to stabilize the foreign exchange market and ensure adequate supply of foreign exchange to finance our importation needs and service our foreign obligations during crisis periods.

In addition, the amount drawn from the BSP's international reserves and transferred to the NG—whether for payment for its external debt or for financing its development projects—could have significant liquidity impact which may prove to be too large for the BSP to offset. Should the NG use the BSP's international reserves for re-payment of its external debt, there will be an outflow of dollar reserves, which implies a reduction in the BSP's Net Foreign Assets (NFA), reducing domestic liquidity by the same amount. Meanwhile, should the NG use the dollar reserves to finance its development projects, the impact on liquidity will be expansionary, which in turn, is potentially inflationary. Given the magnitude of the amount involved (BSP's gross international reserves amounted to US$79.3 billion as of July 2012), the BSP may not be able to absorb the potential macroeconomic impact of these transactions given its present capital position of PhP20 billion.

Likewise, even if the policy concerns and monetary implications were somehow addressed, it is unclear how the BSP will be able to recover its foreign exchange advances to the NG since public infrastructure projects by nature do not necessarily generate a revenue stream and may not be self-liquidating.