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Bangko Sentral ng Pilipinas
Manila, Philippines



Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

28 March 2008

HER EXCELLENCY
GLORIA MACAPAGAL-ARROYO
President
Republic of the Philippines
Malacañang, Manila

Dear Madame President:

I have the honor to submit the **2007 Annual Report of the Bangko Sentral ng Pilipinas (BSP)** pursuant to the provisions of Sections 39 and 40 of Republic Act No. 7653.

The report contains a review of key economic and financial developments in 2007, the major policies and other key measures adopted by the monetary authorities, and highlights of the BSP's operations and activities.

Very respectfully,

A handwritten signature in black ink, appearing to read "Amto", written over a light blue horizontal line.

AMANDO M. TETANGCO, JR.
Governor

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The Governor's Foreword

The Philippine economy recorded a strong performance in 2007. With a 7.3 percent GDP growth, the Philippines surpassed its output performance in the past three decades and exceeded the Government's growth target of 6.1 – 6.7 percent for 2007. The economic expansion was led by services; the favorable performance of both the agriculture and industry contributed to the growth in economic activity. On the demand side, growth was driven by government consumption due to the improved fiscal balance and by investments arising from the increase in private and public construction as well as by personal consumption.

The strong growth was achieved in a benign inflation environment. Headline inflation last year stood at 2.8 percent, the lowest in 21 years and well below the 4-5 percent target range for the year. The BSP endeavored to maintain price stability by implementing liquidity management measures starting the first half of the year to contain the upside risks posed by the acceleration in money growth arising from the surge in foreign exchange inflows. These measures included encouraging government financial corporations and trust departments of financial institutions to deposit their excess funds with the BSP. As inflation pressures dissipated following these new measures, and supported by favorable supply conditions, a more accommodative monetary policy stance was adopted in the fourth quarter through a series of reductions in the BSP's policy rates.

The health of the banking system continued to improve, with key performance indicators reflecting the system's overall soundness. Bank lending expanded, while asset quality improved significantly, with the banking system's average non-performing loan (NPL) ratio approaching the pre-Asian crisis level. Moreover, banks' capital adequacy ratio remained way above the statutory level set by the BSP at 10.0 percent and the Bank for International Settlements' (BIS) standard of 8.0 percent. During the year, the BSP put in place initiatives aimed at aligning the domestic regulatory framework closer to international standards, promoting corporate governance, and advancing capital market reforms.

Complementing its role of preserving the stability of the financial system, the BSP continued to work on a sound market infrastructure to ensure safe and timely completion of financial transactions, with a view to minimizing systemic risk and enhancing the integrity of financial processes in the country. This is being implemented through the promotion of progressive policies on e-commerce and innovations in the payments system.

The country's external position improved significantly in 2007. The overall BOP position was a surplus of US\$8.6 billion, the highest on record. This reflected improved market sentiment as evidenced by higher foreign investment as well as continued vibrancy of overseas remittances and other services receipts. This contributed to the firmness of the peso, which averaged ₱46.15 per US dollar in 2007. This also provided the BSP the opportunity to build up its international reserves, which reached a historic level of US\$33.7 billion as of end-December 2007, equivalent to 5.9 months' worth of imports of goods and payments of services and

income and 4.9 times the country's short-term external debt based on original maturity and 3.0 times based on residual maturity.

To allow freer and more efficient cross-border movements of foreign exchange, the BSP implemented two waves of reforms in its foreign exchange regulatory framework during the year, the first in April, followed by a second wave of liberalization in December. The first phase of reforms was geared towards providing markets greater access to foreign exchange for outward investments and over-the-counter transactions. The second phase of liberalization aimed at promoting greater integration with international capital markets and at streamlining the documentation and reporting requirements on the sale of foreign exchange by banks.

The BSP continued to pursue its major advocacies in the areas of export promotion, microfinance, anti-money laundering, financing for small and medium enterprises, consumer education and financial learning and other information programs in 2007. To help maintain the export sector's growth and competitiveness, the BSP contributed ₱50 million to the Export Promotion Fund (EPF) of the Export Development Council (EDC). The BSP also hosted a conference which introduced exporters to hedging and the different hedging products offered by banks to manage foreign exchange risks. Cognizant of the contribution of overseas Filipinos to economic growth and to address their concerns amid the firm peso, the BSP carried out initiatives to improve the overseas Filipinos' remittance environment. Moreover, the BSP together with other institutional partners continued to conduct financial learning campaigns to promote a culture of savings and investments among OFs and their families by presenting alternative opportunities for the utilization of remittances. In line with the campaign against money laundering, the BSP enforced strict compliance with anti-money laundering regulations of the Anti-Money Laundering Council to ensure the integrity of financial transactions and to protect the public against organized frauds and scams.

2007 was an unusual year in that the country experienced very strong foreign exchange inflows. Such development necessitated the BSP to use this opportunity to build up its international reserves and help ensure orderly conditions as well as prevent abrupt swings in the exchange rate which could be detrimental to the conduct of business in the country. The increase in the US dollar holdings of the BSP adversely impacted its financial position as the value of these foreign assets fell with the appreciation of the peso. Nonetheless the BSP's operations continued to be positive with a net operating income of P 26.8 billion. This however was not enough to cover losses from fluctuations in the FX rate amounting to P113.7 billion during the same period, resulting in a net loss of P86.9 billion in 2007. This financial situation is not unique to the BSP. Other central banks in the region have also incurred losses from the appreciation of their local currencies.

The BSP's capital position remains strong as it had been able to increase capital reserves mainly due to the FX profits made in previous years, when the peso was depreciating. During those years, the BSP fulfilled its obligations of remitting dividends and paying taxes due to the National Government. Since its creation on 3 July 1993, the BSP has given the NG P106.0 billion in rebates, taxes and dividends [preliminary] with the NG's P10.0 billion (out of P50.0 billion) initial capitalization of the BSP.

The year ahead poses a number of challenges for the country. The first challenge relates to the global prices of oil and other commodities that could remain elevated for a protracted period and fan inflationary pressures. The second challenge is slower world economic growth, triggered primarily by a US slowdown, and the continuing global financial market turbulence. For the Philippines, a global slowdown could mean weaker exports and lower remittance receipts. Global financial turbulence, meanwhile, could heighten risk aversion. This could impact on the movements of capital between developed and emerging markets, including the Philippines. The third challenge is sustained foreign exchange inflows. Part of the surge in foreign capital inflows that we have seen has come from yield-seeking activities of economic agents. There is a need to monitor developments on this front to ensure that the amount of liquidity resulting from these inflows remains consistent with our inflation objective.

These challenges remain manageable as the Philippines is now better able to weather these headwinds compared to 7 or 10 years ago. The country has built up buffers to withstand economic and financial shocks — high economic growth rate, low inflation, low interest rates, a broadly competitive exchange rate, adequate foreign reserves, manageable external debt levels, well-capitalized banks with stronger balance sheets and commitment to structural reforms.

The BSP's key policy thrusts will be aimed at maintaining sound macroeconomic fundamentals. Monetary policy will be geared towards attaining the inflation target of 4 percent (± 1 percentage point) target in 2008 even with risks posed by supply shocks such as volatile prices of oil and other commodities. On the external front, policies will ensure the sustainability of the external debt level, maintain comfortable reserves and a market-determined exchange rate and further improve the foreign exchange environment through foreign exchange liberalization. Reforms in the financial sector will continue to support a strong banking system and a vibrant capital market. Specifically, the focus will be on: further enhancing the regulatory framework through the implementation of the BASEL II roadmap; improving corporate governance by promoting compliance with international accounting and financial reporting standards; accelerating the implementation of risk-based supervision technology; and continuing support for the development of a deep and efficient capital market, including by supporting necessary legislative reforms.



AMANDO M. TETANGCO, JR.

28 March 2008

INTRODUCTION



ABOUT THE BSP

“The Congress shall establish an independent central monetary authority... (which) shall provide policy direction in the areas of money, banking and credit. It shall have supervision over the operations of banks and exercise such regulatory powers as may be provided by law over the operations of finance companies and other institutions performing similar functions.”

Section 20, Article XII, 1987 Philippine Constitution

“The State shall maintain a central monetary authority that shall function and operate as an independent and accountable body corporate in the discharge of its mandated responsibilities concerning money, banking and credit. In line with this policy, and considering its unique functions and responsibilities, the central monetary authority established under this Act, while being a government-owned corporation, shall enjoy fiscal and administrative autonomy.

Section 1, Article 1, Chapter 1
Republic Act No. 7653 (The New Central Bank Act)

The BSP's Legal Mandate

The BSP is the central bank of the Republic of the Philippines. It was established on 3 July 1993 as the country's independent central monetary authority, pursuant to the Constitution and the New Central Bank Act. The BSP replaced the old Central Bank of the Philippines, which was established on 3 January 1949, as the country's central monetary authority.

A government corporation with fiscal and administrative autonomy, the BSP is responsible, among other things, for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy;
- Formulating and implementing policy in the areas of money, banking and credit; and
- Supervising and regulating banks and quasi-banks, including their subsidiaries and affiliates engaged in allied activities.

Powers and Functions

The BSP's Charter also provides that, as the country's central monetary authority, the BSP performs the following functions:

- *Liquidity management.* The BSP formulates and implements monetary policy aimed at influencing money supply consistent with its primary objective of maintaining price stability.
- *Currency issue.* The BSP has the exclusive power to issue the national currency. All notes and coins issued by the BSP are fully guaranteed by the Government and are considered legal tender for all private and public debts.
- *Lender of last resort.* The BSP extends discounts, loans and advances to banking institutions for liquidity purposes.
- *Financial supervision.* The BSP supervises banks and exercises regulatory powers over non-bank institutions performing quasi-banking functions.
- *Management of foreign currency reserves.* The BSP seeks to maintain sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.
- *Determination of exchange rate policy.* The BSP determines the exchange rate policy of the Philippines. Currently, it adheres to a market-oriented foreign exchange rate policy such that its role is principally to ensure orderly conditions in the market.

- *Other activities.* The BSP functions as the banker, financial advisor and official depository of the Government, its political subdivisions and instrumentalities, and Government owned and controlled corporations.

The New Central Bank Act imposes limitations and other conditions on the exercise of such powers by the BSP. Among others, the Charter limits the circumstances under which the BSP may extend credit to the Government and prohibits it from engaging in development banking or financing.

Our Mission

The BSP is committed to promote and maintain price stability and provide pro-active leadership in bringing about a strong financial system conducive to a balanced and sustainable growth of the economy. Towards this end, it shall conduct sound monetary policy and effective supervision over financial institutions under its jurisdiction.

Our Vision

The BSP aims to be a world-class monetary authority and a catalyst for a globally competitive economy and financial system that delivers a high quality of life for all Filipinos.

Our Core Values

Integrity
Excellence
Patriotism
Solidarity
Dynamism

The Monetary Board

Amando M. Tetangco, Jr.
Chairman and Governor

Romulo L. Neri
Member

Vicente B. Valdepeñas, Jr.
Member

Raul A. Boncan
Member

Juanita D. Amatong
Member

Nelly F. Villafuerte
Member

Alfredo C. Antonio
Member

The Management Team

Executive Management

Amando M. Tetangco, Jr.
Governor

Juan De Zuñiga, Jr.
*Assistant Governor and
General Counsel*

Vicente S. Aquino
Executive Director II

Teresita O. Hatta
Assistant Governor

Ma. Ramona Gertrudes D.T. Santiago
Managing Director

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Rene N. Carreon
Assistant Governor

Ma. Aurora L. Cruz
Managing Director

Celia M. Gonzalez
Managing Director

Pedro P. Tordilla, Jr.
Managing Director

**Ma. Cyd N. Tuaño-
Amador**
Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Ma. Dolores B. Yuvienco
Assistant Governor

Ma. Corazon J. Guerrero
Managing Director

Leny I. Silvestre
Managing Director

Resource Management Sector

Armando L. Suratos
Deputy Governor

Manuel H. Torres
Managing Director

Teresita S. Bulseco
Acting Managing Director

Security Plant Complex

Evelyna C. Avila
*Assistant Governor and
Officer-In-Charge*

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

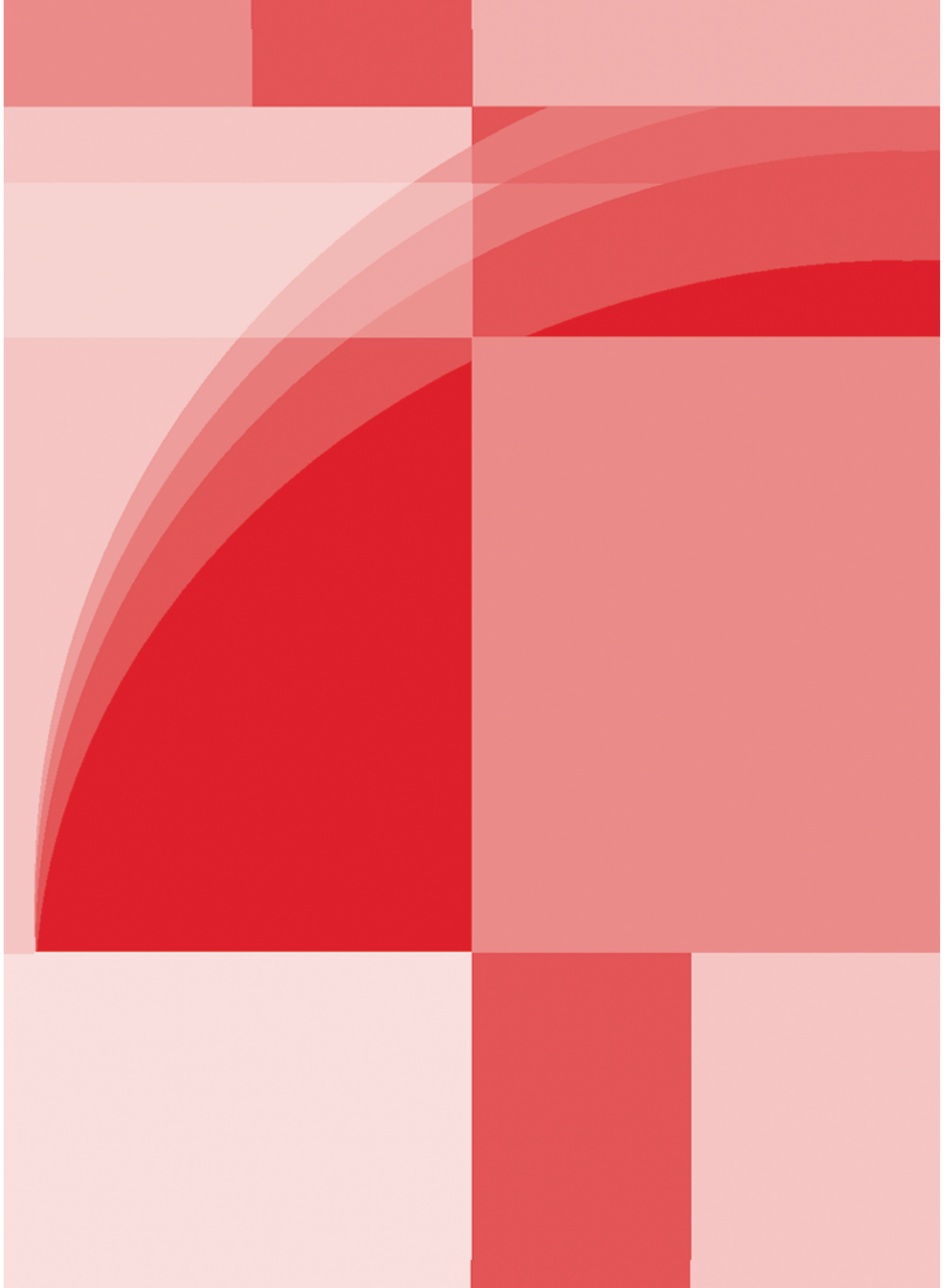
ABF	Asian Bond Funds
ABMI	Asian Bond Market Initiative
ABS	Asset-Backed Securities
ACBF	ASEAN Central Bank Forum
ACC	Asian Consultative Council
ADB	Asian Development Bank
AEC	ASEAN Economic Activity
AFDM	ASEAN Finance and Central Bank Deputies Meeting
AFAS	ASEAN Framework Agreement on Services
AFF	Agriculture, Fishery and Forestry
AFMM	ASEAN Finance Ministers' Meeting
AFS	Audited Financial Statements
AFTA	ASEAN Free Trade Area
AMCs	Asset Management Companies
AMLC	Anti-Money Laundering Council
AOAMS	Acquired and Other Assets Management System
APEC	Asia Pacific Economic Cooperation
APG	Asia Pacific Group
ASA	ASEAN Swap Arrangement
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus China, Japan and Korea
ATR	Automated Time Recording
BAP	Bankers Association of the Philippines
BBCP	BSP Business Continuity Plan
BES	Business Expectations Survey
BESS	BSP Employee Self-Service
BEST	BSP Educational Scholarship and Training
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BLES	Bureau of Labor and Employment Statistics
BMBEs	Barangay Micro-Business Enterprises
BoC	Bureau of Customs
BOP	Balance of Payments
BPM5	Fifth Edition of the BOP Manual
BPO	Business Process Outsourcing
BPR	Bank Performance Report
BSA	Bilateral Swap Arrangement
BSP	Bangko Sentral ng Pilipinas
BSPD	Banknotes and Securities Printing Department
BSPI	Bangko Sentral ng Pilipinas Institute
BTr	Bureau of the Treasury
CAMELS	Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to market risk
CAR	Capital Adequacy Ratio
CARP	Comprehensive Agrarian Reform Program
CCRs	Credit Card Receivables

CEMLA	Center for Monetary Studies in Latin America
CES	Consumer Expectations Survey
CFA	Chartered Financial Analyst
cFAS	Core Financial Accounting System
CFS	Consumer Finance Survey
CIA	Certified Internal Auditor
CIF	Central Information File
CIPI	Certification International Philippines, Inc.
CIS	Collective Investment Schemes
CLMV	Cambodia, Laos, Myanmar and Vietnam
CMFP	Center for Monetary and Financial Policy
CMI	Chiang Mai Initiative
CNP	Clean Note Policy
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CPO	Corporate Planning Office
CRIS	Credit Information System
CTRM	Committee on Tariff and Related Matters
DA	Department of Agriculture
DA/OA	Documents Against Acceptance/Open Account
DBCC	Development Budget Coordination Committee
DBCP	Departmental Business Continuity Plan
DCS	Depository Corporations Survey
DDA	Demand Deposit Account
DepEd	Department of Education
DER	Department of Economic Research
DES	Department of Economic Statistics
DFA	Department of Foreign Affairs
DILG	Department of Interior and Local Government
DLC	Department of Loans and Credit
DMFAS	Debt Management and Financial Analysis System
DMFAS	Debt Management and Financial Analysis System
DSB	Debt Service Burden
DSR	Debt Service Ratio
DTI	Department of Trade and Industry
DvP	Delivery versus Payment
DWP	Data Warehousing Project
ECWS	Electronic Cash Withdrawal System
eRediscounting	Electronic Rediscounting
EDYRF	Exporters Dollar and Yen Rediscount Facility
EFLCs	Economic and Financial Learning Centers
EFS	Executive Forum Series
EFTIS	Electronic Funds Transfer Instruction System
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
EMP	Exchange Market Pressure
EOH&SMS	Environmental and Occupational Health and Safety Management System
EPIRA	Electric Power Industry Reform Act
EPRA	Economic Policy Reform and Advocacy
ERB	Energy Regulatory Board

ERSS	Examiner Resource Scheduling System
ESE	Environmental Scanning Exercise
ETFs	Exchange Traded Funds
EXCO	Executive Committee
EWS	Early Warning System
FBT	Food, Beverage and Tobacco
FCDU	Foreign Currency Deposit Unit
FDI	Foreign Direct Investments
FIs	Financial Institutions
FIE	Fixed Income Exchange
FIREBS	Financial Institutions, Real Estate and Business Services Sector
FLC	Financial Literacy Campaign
FLP	Financial Literacy Program
FLW	Fuel, Light and Water
FMM	Finance Ministers' Meeting
FOF	Flow of Funds
FRP	Financial Reporting Package
FTA	Free Trade Agreement
FX	Foreign Exchange
FXTBs	Fixed Rate Treasury Bonds
FXTNs	Fixed Rate Treasury Notes
GDP	Gross Domestic Product
GIR	Gross International Reserves
GK	Gawad Kalinga
GNP	Gross National Product
GOCCs	Government-Owned and Controlled Corporations
GOE	Group of Experts
GS	Government Securities
GSIS	Government Service Insurance System
HR	Human Resource
HRDD	Human Resource Development Department
HTM	Held to Maturity
HT1	Hybrid Tier 1
IACTS	Inter-Agency Committee on Trade in Services
IAS	International Accounting Standards
IC	Insurance Commission
ICMPS	Integrated Currency Management and Production System
ILF	Intraday Liquidity Facility
ILO	International Labor Organization
IMF	International Monetary Fund
IPOs	Initial Public Offerings
IPSMMS	Integrated Property, Supplies and Materials Management System
IRIS	Integrated Regional Information System
JCR	Japan Credit Ratings
JPEPA	Japan-Philippine Economic Partnership Agreement
KBs	Commercial Banks
LBMA	London Bullion Market Association
LCs	Letters of Credit
LFS	Labor Force Survey
LGUs	Local Government Units

M3	Domestic Liquidity
MB	Monetary Board
MFJ	Ministry of Finance of Japan
MFSC	Monetary and Financial Stability Committee
MFSM	Monetary and Financial Statistics Manual
MLT	Medium- and Long-Term
MTP	Major Trading Partner
NBFIs	Non-Bank Financial Institutions
NBQBs	Non-Bank with Quasi-Banking Functions
NCR	National Capital Region
NDA	Net Domestic Assets
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NG	National Government
NIR	Net International Reserves
NPAs	Non-Performing Assets
NPCC	National Price Coordinating Council
NPLs	Non-Performing Loans
NSO	National Statistics Office
OBUs	Offshore Banking Units
OF	Overseas Filipino
OFWs	Overseas Filipino Workers
OMOs	Open Market Operations
PAS	Philippine Accounting Standards
PAIF	Pan-Asian Index Fund
PCA	Prompt Corrective Action
PCGG	Presidential Commission on Good Government
PDEX	Philippine Dealing and Exchange Corporation
PDEX	Philippine Dealing and Exchange
PDIC	Philippine Deposit Insurance Corporation
PDS	Philippine Dealing System
PES	Philippine Economic Society
PFMS	Provident Fund management System
PFO	Provident Fund Office
PFRS	Philippine Financial Reporting Standards
PhilPaSS	Philippine Payments and Settlements System
PHISIX	Philippine Composite Stock Index
PIC	Public Information Campaign
PFRS	Philippine Financial Reporting Standards
PNOC	Philippine National Oil Company
PPCS	Philippine Payments Client System
PSA	Philippine Statistical Association
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PvP	Payment versus Payment
QMS	Quality Management System
R.A.	Republic Act
RB	Rural Bank
REER	Real Effective Exchange Rate
REFLC	Regional Economic and Financial Learning Centers

REL	Real Estate Loan
RFPs	Requests for Proposals
RIPS	Revenue Integrity Protection Service
RMASS	Regional Monetary Affairs Sub-Sector
ROPA	Real and Other Properties Acquired
ROPOA	Real and Other Properties Owned or Acquired
RoSS	Registry of Scripless Securities
ROW	Rest of the World
RP	Repurchase
RRP	Reverse Repurchase
RTBs	Retail Treasury Bonds
RTGS	Real-Time Gross Settlement
RVAT	Reformed Value Added Tax
SAP	System Application and Products
SDA	Special Deposit Account
SDRs	Special Drawing Rights
SEACEN	South East Asian Central Banks
SEANZA	South East Asia, New Zealand and Australia
SEC	Securities and Exchange Commission
SED	Supervision and Examination Department
SEG	SEACEN Expert Group
SMEs	Small- and Medium-Enterprises
SPC	Security Plant Complex
SPEI	Selected Philippine Economic Indicators
SPV	Special Purpose Vehicle
SRF	Standard Report Forms
SSS	Social Security System
ST	Short-Term
STP	Straight Through Processing
TB	Thrift Bank
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TCPS	Technical Committee on Price Statistics
TLP	Total Loan Portfolio
TWG	Technical Working Group
UITF	Unit Investment Trust Fund
U/KBs	Universal and Commercial Banks
UNCTAD	United Nations Conference on Trade and Development
UNITAR	United Nations Institute for Training and Research
VAT	Value-Added Tax
WC-AFAS	Working Committee on AFAS
WGs	Working Groups
WTO	World Trade Organization
XGSI	Exports of Goods and Receipts from Service and Income



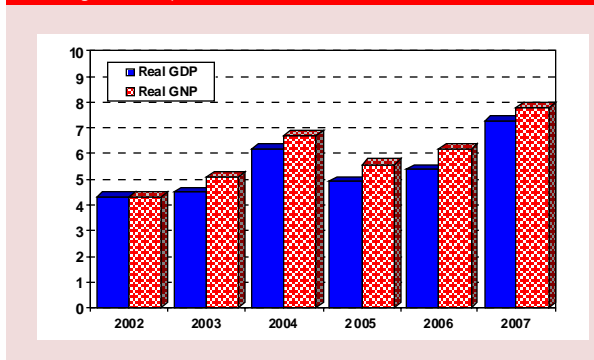
PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

The Philippine economy performed strongly

The Philippine economy recorded a strong performance in 2007, boosted by the expansion of the services sector and the favorable performance of the agriculture and industry sectors. On the demand side, government consumption and fixed capital formation were the main drivers of growth, aided by the accelerated growth in personal consumption expenditure. Gross Domestic Product (GDP) grew by 7.3 percent – surpassing the 5.4 percent growth achieved in 2006. This growth rate, the highest in 31 years, was above the Government’s 2007 target of 6.1 – 6.7 percent. Real Gross National Product (GNP) likewise continued its growth at 7.8 percent in 2007, higher than the 6.1 percent growth rate posted in 2006 (Table 1).

Real Gross Domestic Product and Real Gross National Product
Annual growth in percent

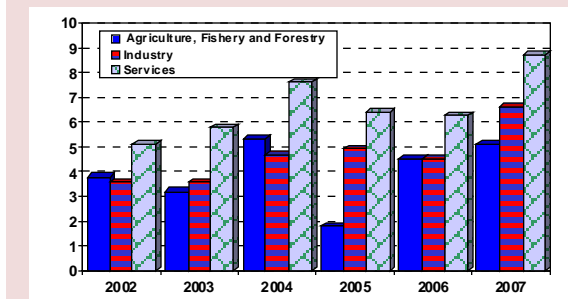


Aggregate Output and Demand

Services and industry drive economic growth

The strong growth of the domestic economy was driven by the buoyant performance of the services sector, which was ably supported by the robust growth of the industry and agriculture sectors. On the demand side, government consumption expenditure (GCE) and capital formation were the leading growth engines in 2007. Personal consumption expenditure (PCE) likewise exhibited higher growth during the year. These strong growth performances offset the slowdown in the growth of the export sector.

Real GDP, By Industry
Annual growth in percent



The services sector, which constituted nearly half of total GDP, continued to lead the growth of the economy in 2007, expanding by 8.7 percent. This translated to a 4.2 percentage contribution to the 7.3 percent GDP expansion in 2007 (Table 1a). Notable expansions were recorded in finance and trade as well as private services, and transportation, communication, and storage. The real property market also remained vibrant due in part to low interest rates. Except for government services, all sub-sectors posted faster growth rates, reinforcing one another and generating significant multiplier effects for the economy.

The industry sector grew by 6.6 percent in 2007 compared to 4.5 percent in 2006. The sector accounted for 32.3 percent of total GDP. The growth in industry was led by mining and construction as the government's efforts to revitalize the mining sector gained headway. Electricity, gas and water likewise posted an accelerated growth in 2007. Meanwhile, the expansion of manufacturing was weighed down by the slowdown of the US economy and heightened competition from China.

The agriculture, fishery and forestry sector (AFF) registered a 5.1 percent growth, outperforming its 2006 growth rate of 3.8 percent. The AFF accounted for the remaining 18.4 percent of overall GDP. The growth in AFF was due in large part to the quick-response programs initiated by the government to mitigate the negative effects of weather disturbances. The AFF growth was also reinforced by the reported increases in harvested areas and the rehabilitation of farm facilities in Central Luzon, Ilocos, MIMAROPA¹, and in the Autonomous Region of Muslim Mindanao.

¹ Provinces of Mindoro, Marinduque, Romblon, and Palawan

On the demand side, growth was supported by personal consumption expenditure which grew by 6.0 percent in 2007. Government consumption expenditures accelerated by 10.0 percent in 2007 from 6.1 percent in 2006 on the back of the improved fiscal balance. The increase in private consumption expenditures was supported by the benign inflation environment, the steady flow of OF remittances, and the improvement in the labor market conditions. Fixed capital formation grew by 9.3 percent, due mainly to stronger activity in both the public and private construction sector.

Labor, Employment and Wages

Labor conditions continue to improve

Employment conditions continued to improve in 2007. Based on the four rounds of Labor Force Survey (LFS) of the National Statistics Office (NSO) in 2007, the average growth in employment in 2007 was recorded at 2.8 percent as the number of employed persons reached 33.6 million workers in 2007 (Table 2). All sectors posted growth in employment, led by the services sector.

The average unemployment rate declined to 7.3 percent in 2007 from 8.0 percent a year ago.² The decline in unemployment could be attributed partly to the decline in labor force participation rate to 64.0 percent from 64.2 percent.³ During the year in review, the lowest unemployment rate at 6.3 percent was posted in the fourth quarter of 2007, while the highest unemployment rate of 7.8 percent was recorded during the first and third quarters of 2007.

The average underemployment rate in 2007 dropped to 20.1 percent from 22.6 percent a year earlier. The underemployment rate fell below 20.0 percent in the second (18.9 percent) and fourth (18.1 percent) quarters of 2007.

The total number of Filipino workers deployed overseas exceeded one million (at 1,073,402 workers), a modest growth of 1.0 percent compared to the year-ago level. By type of worker, the number of deployed land-based Filipino workers rose by 2.7 percent to 809,740 workers

² Starting April 2005, the new LFS questionnaire was adopted to reflect the change in definition of unemployment, pursuant to NSCB Resolution No. 15 dated 20 October 2004. As indicated in the said Resolution, the unemployed included all persons who were 15 years old and over as of their last birthday and were reported as without work, currently available for work, and seeking work or not seeking work due to valid reasons. The old unemployment definition did not consider the criterion on availability for work. The inclusion of the availability criterion in the new definition was aimed at fully adopting the international standards prescribed by the International Labor Organization (ILO).

³ Labor force participation rate is the proportion of the total number of persons in the labor force to the total household population 15 years old and over.

in 2007, while the number of deployed sea-based workers contracted by 3.9 percent to 263,662 workers. The lower number of deployed sea-based workers in 2007 can be attributed partly to delays encountered in the issuance of workers' visa by host countries and increasing competition from workers from other countries.

Prices

Inflation slows to a 21-year low

Inflation averaged 2.8 percent in 2007, well below the 4.0-5.0 percent target range for the year and the lowest annual average since 1986 (Table 3). This was due to favorable supply conditions, particularly the sustained growth in agriculture, and the subsiding base effect of the reformed value added tax (RVAT) on the consumer price index (CPI). The firm peso also tempered the impact on domestic prices of increasing global commodity prices, including food and oil, which increased during the latter part of the year.

Both food and non-food inflation decline

The average inflation for food, beverage and tobacco (FBT) decreased by 2.2 percentage points to 3.3 percent in 2007, from the previous year's 5.5 percent. Lower food inflation can be attributed to the deceleration in the price increases of most food items (miscellaneous food, fruits and vegetables, fish, cereal preparation, rice and dairy products), particularly during the early part of the year.

Non-food inflation likewise eased in 2007 by more than half its previous rate to 2.3 percent from 6.9 percent in 2006. Most of the non-food index registered slower inflation, with sharp price declines noted for fuel, light and water (FLW), as well as transportation and communication services.

Headline inflation in 2007, both for Metro Manila and areas outside Metro Manila, went down to 2.6 percent and 2.8 percent, respectively.

Core inflation also decreases

Meanwhile, core inflation, an indicator of the long-term trend of inflation, similarly declined in 2007. The annual average core inflation measure fell by 2.7 percentage points to 2.8 percent in 2007 from 5.5 percent in the previous year. Alternative measures of core inflation estimated by the BSP also trended downward during the year.

Core Inflation Measures		
	Year-on-Year Change	
	2000=100	
	2006	2007
Official Measure ¹	5.5	2.8
Trimmed Mean ²	5.4	2.6
Weighted Median ³	5.0	2.3
Net of Volatile Items ⁴	6.9	2.8

¹ The official definition excludes 18.4 percent of the CPI basket as follows: rice, corn, fruits & vegetables, fuel items, (gas, LPG, kerosene, gasoline and diesel).

² The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.

³ The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year inflation rates.

⁴ The net of volatile items method excludes the following items: educational services, fruits and vegetables, personal services, rentals, recreational services, rice, and corn, which represent 37.59 percent of all items. The series has been recomputed using a new methodology that is aligned with NSO's method of computing the official core inflation, which re-weights remaining items to comprise 100 percent of the core basket after excluding non-core items. The previous methodology retained the weights of volatile items in the CPI basket while keeping their indices constant at 100.0 from month to month.

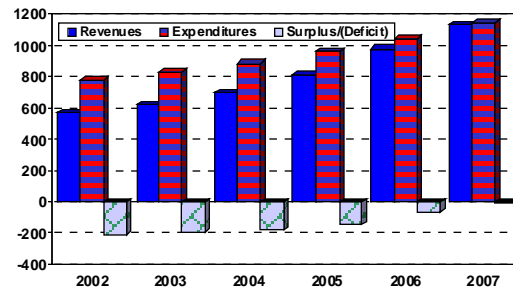
Sources of Basic Data: NSO, BSP-DER

Operations of the National Government

Improvement in NG's cash position continues

The National Government's (NG) operations in 2007 exhibited notable gains in fiscal consolidation. The NG deficit in 2007 declined to 0.2 percent of GDP, lower than the programmed ceiling of 1.0 percent of GDP. This was also substantially below the 1.1 percent of GDP fiscal deficit recorded in 2006. The NG deficit of ₱12.4 billion was lower than the programmed ceiling of ₱63 billion for the year and the actual deficit of ₱64.8 billion in 2006. This was a result mainly of strong revenue collections. Revenues grew by 16.0 percent to ₱1,136.6 billion and exceeded the revenue target by 1.6 percent. Expenditures likewise increased to ₱1,149.0 billion during the year but fell below the programmed level by 2.8 percent (Table 4).

**National Government:
Cash Operations**
In billion pesos



The tax revenue gains could be attributed to the higher-than-expected collections of other offices which generated ₱9.9 billion, exceeding the ₱9.1 billion target. Likewise, the non-tax revenue of the Bureau of the Treasury (BTr) reached ₱67.9 billion and was above the programmed amount of ₱53.5 billion. Efforts to boost collection efficiency resulted in the improvement of the NG revenue effort from 14.9 percent of GNP in 2006 to 15.6 percent in 2007. Furthermore, the government was able to raise ₱90.6 billion from the sale of its assets, majority of which came from the proceeds collected from the PNOC-Energy Development Corporation and the Presidential Commission on Good Government (PCGG).

Total NG expenditures increased by 10.0 percent, although lower than the programmed level of ₱1,181.8 billion. Allotments to the Local Government Units (LGUs) exceeded both the programmed and the year-ago levels on account of the monetization of the Internal Revenue Allotment (IRA) in 2007 which were withheld in prior years. Meanwhile, interest payments declined by 13.6 percent and was below the target level by 11.7 percent. NG expenditures to GDP is 17.3 percent, same as the previous year's level.

The deficit was financed mainly from domestic sources which covered 73.4 percent of the total financing requirement of the NG. The share of domestic borrowings was higher than the targeted 68.3 percent of the financing mix due to the unprogrammed retail Treasury bond and domestic bond issuances.

Monetary and Financial Conditions

Monetary Conditions

Monetary Aggregates

Growth in domestic liquidity slows down

The slowdown in the growth of domestic liquidity or M3 starting May 2007 was due to the absorptive impact of the monetary measures implemented by the BSP early that month. From the double-digit growth rates of above 20 percent recorded in the first four months of 2007, the expansion in M3 started to decelerate in May and posted single-digit rates in November and December.

Domestic Liquidity (Depository Corporations Survey * Concept)



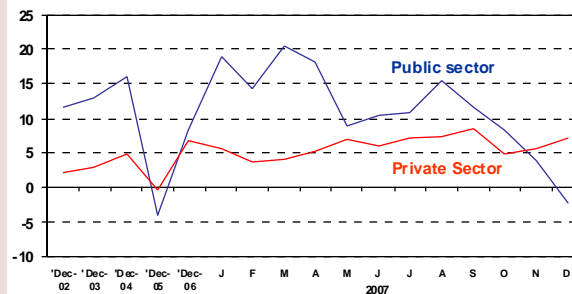
* Depository Corporations Survey (DCS) is a consolidation of the balance sheets of the deposit-generating financial institutions namely the Monetary Authorities (MA) or the BSP and the Other Depository Corporations (ODCs) composed of banks.

The expansion in domestic liquidity continued to be driven by the increase in the net foreign asset (NFA) position of depository corporations, which in turn, was attributed to the steady inflow of overseas Filipino (OF) remittances, export earnings, as well as foreign direct and portfolio investment. These foreign exchange inflows contributed to the increase in the BSP's holding of reserves, which also allowed the BSP and the NG to prepay foreign obligations.

On the liabilities side, the growth of demand, savings and time deposits followed the decelerating trend in domestic liquidity.

**Monetary System (DCS Concept):
Net Domestic Credits**

Annual growth in percent



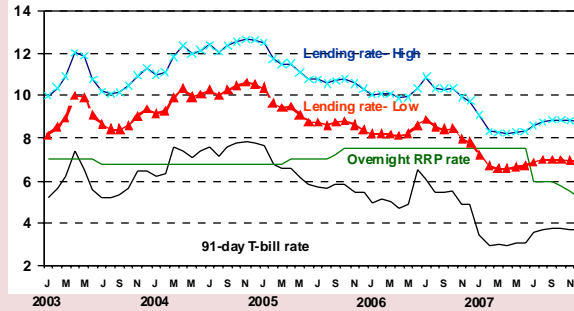
Net domestic assets (NDA) of depository corporations likewise trended downward by 2.9 percent year-on-year in December, a reversal of the 6.3 percent growth recorded in the same month a year ago. In particular, the growth in credit to the public sector decelerated by 2.3 percent, a turnaround from the 8.3 percent expansion in the previous year. This was partly offset by the sustained expansion in credit to the private sector, which posted a 7.2 percent growth in December from 6.7 percent in 2006 (Table 5).

Interest Rates

Market interest rates decline on ample liquidity

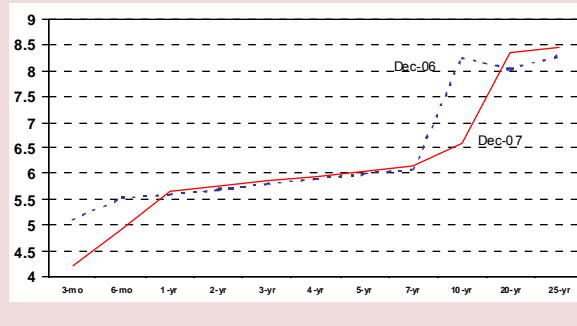
Domestic interest rates eased in 2007, influenced by the ample liquidity in the financial system. Treasury bill rates declined significantly relative to their levels posted a year ago due to a low and stable inflation environment and the positive response of investors to the notable improvement in the NG's fiscal position (Table 6). Interest rates across all tenors in the secondary market followed the same downtrend. The decline in the yields in the secondary market could be traced to easing inflation expectations and more positive investor sentiment over the medium term.

Domestic Interest Rates



Secondary Market Yield Curve

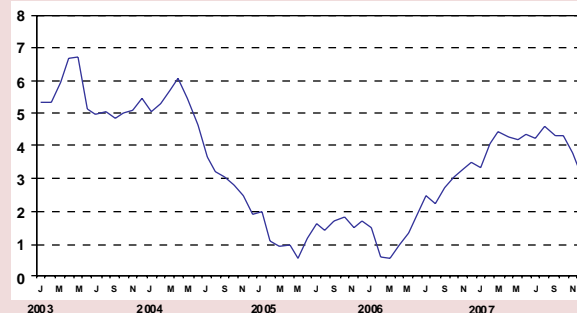
End-of-period, in percent



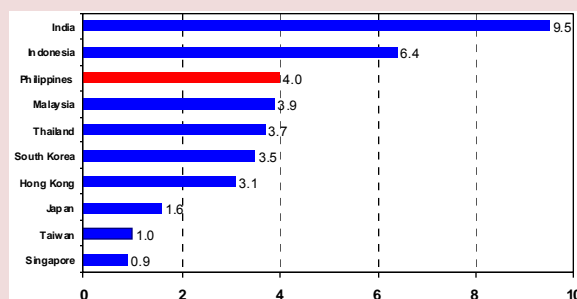
Bank lending and borrowing rates decreased during the review period. However, the same rates increased in real terms relative to the levels posted a year ago due to lower inflation. The Philippines' real lending rate ranked third highest in a sample of 10 Asian countries surveyed.

Real Lending Rates: Philippines

Average bank lending rate less CPI Inflation, in percent



Average Real Lending Rates: Asian Countries
end-December 2007, in percent



The BSP's policy rates were unchanged in the first semester of the year at 7.5 percent for the overnight borrowing or reverse repurchase (RRP) rate and at 9.75 percent for the overnight lending or repurchase (RP) rate. The reduction in the BSP's policy rates started in July 2007 but accompanying the reduction in the policy rates was the removal of the tiering system on banks' placements with the RRP and special deposit account (SDA) windows, which was put in place by the Monetary Board in November 2006.⁴ This twin moves effectively maintained a neutral monetary policy stance. The decision to lift the tiering system was based on the assessment that the additional liquidity management measures implemented in early May 2007 had begun to exert the desired tempering effect on liquidity conditions.

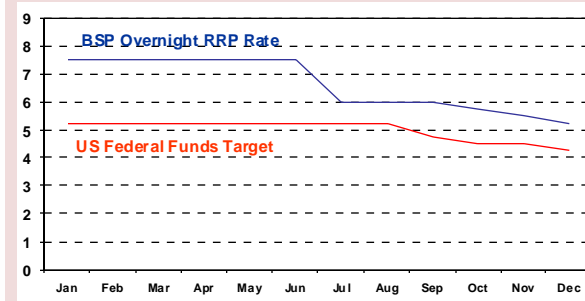
2007	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	7.50	5.25	225
Feb	7.50	5.25	225
Mar	7.50	5.25	225
Apr	7.50	5.25	225
May	7.50	5.25	225
Jun	7.50	5.25	225
Jul	6.00	5.25	75
Aug	6.00	5.25	75
Sep	6.00	4.75	125
Oct	5.75	4.50	125
Nov	5.50	4.50	100
Dec	5.25	4.25	100

⁴ Under the tiering system, banks' aggregate placements with the BSP under the RRP and SDA windows were subject to the following interest rates: the applicable BSP published rate for the first ₱5 billion, the applicable BSP published rate less 200 basis points for the next ₱5 billion; and the applicable BSP published rate less 400 basis points for amounts in excess of ₱10 billion.

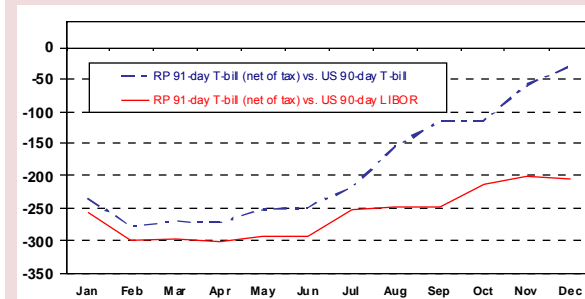
Beginning in October 2007, three consecutive policy rate cuts brought the RRP and RP rates to settle at 5.25 percent and 7.25 percent, respectively by the end of the year. The decision to reduce the policy rates took into account the benign inflation outlook, well-anchored inflation expectations, and manageable risks over the policy horizon.

The interest rate differential between the BSP's overnight borrowing rate and the US federal funds target rate narrowed considerably in 2007 as the BSP's policy rate and US federal funds rate decreased by 225 basis points and 100 basis points, respectively by end-December 2007 compared to their year-ago levels. The before-tax differential between the domestic interest rates and US T-bill rates moved to the positive region in the last quarter of the year with the decline in the US 90-day T-bill rate, while its after-tax differential narrowed but remained in negative territory.

BSP Policy Rate vs.
US Federal Funds Target Rate
2007, in percent



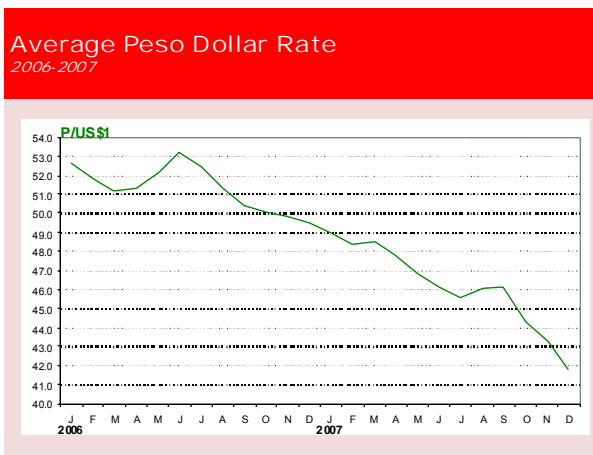
Domestic and Foreign Interest Rate Spreads
2007, in basis points



Exchange Rate

Peso appreciates on OFW remittance, export earnings, and capital flows

The peso averaged ₱46.15/US\$1 for the period 2 January to 28 December 2007, appreciating by 11.2 percent from the ₱51.31/US\$1 2006 average, due to strong dollar inflows from OF remittances coupled with strong regional currencies (Table 7).⁵ The steady stream of export earnings as well as foreign direct investments, reflecting favorable investor sentiment, also provided support to the peso.



The peso remained firm during the first quarter of 2007, appreciating by 6.7 percent from its year-ago level to average ₱48.60/US\$1. Similarly, the peso rose by 2.4 percent on a quarter-on-quarter (q-o-q) basis. Dollar inflows during the quarter remained strong due to sustained OF remittances, export earnings and foreign direct investments, indicating investor optimism, which, in turn, was encouraged by favorable economic fundamentals. However, the global stock market slump, triggered by the sell-off in the Chinese stock market caused the peso to depreciate in the latter part of February and mid-March along with other regional currencies. This was exacerbated by weak US economic data (i.e., a fall in US durable good orders), which reinforced worries about the health of the world's biggest economy.

Nonetheless, the peso appreciated in the second quarter by 11.3 percent year-on-year (y-o-y) to average ₱46.93/US\$1. On a q-o-q basis, the peso appreciated by 3.6 percent. Strong dollar inflows, including OF

⁵ Dollar rates or the reciprocal of the peso-dollar rates (based on reference time data) were used to compute for the percentage change.

remittances ahead of the school opening in June, export earnings and foreign portfolio investments boosted the local currency. Moreover, the relatively high interest rates of peso instruments also benefited from investors' search for higher-yielding instruments. The positive investor sentiment was further validated by Japan Credit Ratings' (JCR) move to upgrade the Philippines' credit outlook to positive from stable on 5 June 2007, while affirming the sovereign's credit ratings on its local- and foreign-currency denominated obligations.

The peso continued to track an appreciating path until July 2007 but weakened in August 2007 as market jitters prompted investors to unload regional currencies and shift away from the perceived riskier assets of emerging markets amid fears of a global credit tightening. The risk aversion displayed by global investors was tied to concerns about the soured exposure of banks and funds to the US sub-prime mortgage market, stemming from potentially higher defaults and weak housing prices. However, the peso's depreciation was tempered by continued net inflows of foreign direct investments combined with the steady stream of remittances from OFs as well as dollar earnings from exports. The peso appreciated against the US dollar in the third quarter with a y-o-y growth of 11.8 percent to average ₱45.94/US\$1. On a q-o-q basis, the peso appreciated by 2.2 percent.

The peso further appreciated by 15.4 percent on a y-o-y basis in the fourth quarter to average ₱43.11/US\$1. On a q-o-q basis, the peso appreciated by 6.6 percent. This developed as the US dollar generally weakened against the peso and other regional currencies during the quarter amid fears of a US recession, which were fueled by concerns on US banks' and funds' exposures to the sub-prime mortgage market as well as the weakness in the US housing prices and employment conditions. The peso reached its highest level since April 2000 on 14 December 2007 to average ₱41.14/US\$1, buoyed by strong inflows from remittances due to the holiday season as well as export earnings.

Year-to-date movements saw most Asian currencies strengthening vis-à-vis the US dollar as of 28 December 2007, led by the Thai baht's 19.8 percent gain and followed by the Philippine peso's 18.8 percent appreciation.⁶ However, the South Korean won and Indonesian rupiah depreciated by 0.6 percent and 4.5 percent, respectively.

⁶ Based on the last done deal in the afternoon.

Selected Asian Currencies	Appr/Depr(-) 28 Dec 2007 vs 29 Dec 2006
Thai Baht (offshore)	19.8
Philippine Peso	18.8
Indian Rupee	12.2
Chinese Yuan	6.9
Malaysian Ringgit	6.4
Singaporean Dollar	6.3
Japanese Yen	5.3
New Taiwan Dollar	0.3
South Korean Won	- 0.6
Indonesian Rupiah	- 4.5

On a real, trade-weighted basis, the peso lost some external price competitiveness in 2007 against all baskets of currencies as the nominal appreciation of the peso translated to increases in both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) indices of the peso (Table 7a).⁷ The combined effects of the nominal appreciation of the peso and the widening of the inflation differential led to an increase of the peso's REER index by 9.0 percent both against the baskets of currencies of the country's major trading partners (MTPs)⁸ and competitor countries in the broad series.⁹ Meanwhile, the REER index of the peso increased by 5.1 percent against the basket of currencies of competitor countries in the narrow series as the tightening of the inflation differential partly tempered the nominal appreciation of the peso.¹⁰

⁷ The REER index represents the Nominal Effective Exchange Rate (NEER index) of the peso, adjusted for price differentials with the countries whose currencies comprise the NEER index basket. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

⁸ The MTP currency basket consists of the US dollar, Japanese yen, Euro, and UK pound.

⁹ The broad basket of competitor countries is composed of the Singaporean dollar, South Korean won, New Taiwan dollar, Malaysian ringgit, Thai baht, Indonesian rupiah and Hong Kong dollar.

¹⁰ The narrow basket of competitor currencies include: the Malaysian ringgit, Thai baht, and Indonesian rupiah.

Box Article 1:

**BSP Initiatives to Address the Concerns of Overseas Filipinos
Amid the Peso Appreciation**

The appreciation of the peso has both positive and negative effects on the economy. On the one hand, a firm peso benefits consumers in general (by tempering the general rise in prices of goods and services or inflation arising from increases in international prices of imported or import-based commodities), importers, Filipinos who travel or invest abroad, and those who pay for foreign loans (including the government and the taxpayers in general).

On the other hand, a firm peso could have some negative impact on certain sectors, including some export-oriented companies (both merchandise and services), domestic producers of import substitutes, tourism sector, foreign investors, creditors who had lent money in foreign currency, and overseas Filipinos (OFs) and their families.

The following discussion looks into how the firm peso affects the OFs and their families and the initiatives undertaken by the Bangko Sentral ng Pilipinas (BSP) to address their concerns, including ways to improve the environment for OF remittances and channeling these remittances to productive activities.

Impact of the Firm Peso on the Beneficiaries of OF Remittances

Beneficiaries of OF remittances may be affected adversely by a firm peso. As the peso appreciates, beneficiaries of OF remittances receive less pesos for every dollar that is sent by an OF workers. However, their pesos can also buy more local products because of lower inflation resulting from lower import costs.

Many Overseas Filipino workers are deployed in countries whose currencies are appreciating against the dollar. These workers are paid in the currencies of the host countries. For those workers paid in currencies that have strengthened against the US dollar, the peso equivalent of their remittances may not necessarily be lower.

BSP Policy Response and Initiatives to Address the Concerns of OFs and their Beneficiaries

Measures to Temper the Peso Appreciation

Aware of the possible consequences of a strong peso on some sectors of the economy, the BSP has implemented measures to temper the appreciation pressure and maintain orderly conditions in the foreign exchange market. The measures sought to increase demand and outflow of dollars or reduce supply of available dollars. These include:

- Building up the international reserves of the BSP;
- Prepaying the foreign currency debt by the BSP, National Government and other government corporations; and
- Liberalizing the foreign exchange regulatory framework particularly pertaining to outward investments, foreign exchange purchases for non-trade current account transactions, use of foreign exchange swaps, capital movements as well as banks' foreign exchange positions. The reforms allowed individuals and businesses greater access to foreign exchange for outward investment and over-the-counter

transactions. By making the foreign exchange environment more open, some of the pressure on the exchange rate could be alleviated; and

- Encouraging the National Government to shift borrowings to pesos.

Initiatives to Enhance the Remittance Environment

The BSP has undertaken initiatives focused on improving the environment for remittances and channeling these remittances to productive activities. The five pillars, under which specific initiatives were identified, are as follows:

1) Enhancing transparency and competition to lower remittance charges

Posting of remittance charges, costs and other relevant information. In line with the BSP's policy of promoting the efficient delivery of competitively-priced remittance services by banks and other remittance service providers, the BSP issued Circular No. 534 dated 26 June 2006, requiring banks and non-bank financial institutions to post remittance charges, classification of costs, and other relevant information for the benefit of remitters and beneficiaries.

A survey on the effectiveness of the said circular among top seven commercial banks indicated that remittance charges of the banks have declined compared to those in 2000, as shown in the table below:¹¹

Comparative Remittance Charges
(in US \$, excluding FX mark-up)

Source of Remittance Ave. Amt. of Remittance per transaction	USA		United Kingdom		Hong Kong*	
	400		600		200	
	2000	2007	2000	2007	2000	2007
1. Credit to Account (Own Bank)	6.00-10.00	7.00-8.00	7.48-11.96	10.36-14.50	1.92-3.85	0.00-3.86
2. Credit Other Local Bank	6.00-15.00	8.00-14.00	8.97-16.74	10.36-16.58	2.31-5.13	2.00-5.14
3. Door-to-Door:						
Metro Manila	12.00-15.00	9.00-15.00	11.96-21.53	16.58-18.65	2.31-4.49	2.00-3.86
Provinces	14.00-17.00	9.00-14.00	11.96-21.53	16.58-18.65	2.31-5.77	2.00-5.14
4. Advice and Pay **	6.00-14.00	8.00-12.00	8.97-16.74	14.50-16.58	2.31-4.49	2.00-4.50

*Charges exclude FX mark-up/differential/charge for FX conversion as well as fees charged by tie-ups.

**The bank notifies the beneficiary of the remittance by phone; the beneficiary picks up the remittance from the nearest branch.

In 2007, the banks noted that remittance charges should have been higher because of investments in infrastructure and automation, as well as the continuing enhancement of products and services. However, remittance charges were kept steady because the costs of building the infrastructure and enhancing services were not passed on to the banks' customers.

Launching of OFW portal in the BSP website. The BSP launched an OFW portal on 30 March 2007, with specific pages in the BSP website that link the users to the financial institutions' relevant information on remittances. The BSP web pages contain the lists of countries where the Philippine financial institutions have market presence, while the individual bank websites update the user on the locations of branches and remittance centers, profile of products and services offered delivery time, and service fees/rates. This initiative facilitates comparability of remittance services offered by financial institutions.

¹¹ Based on the banks' level of remittances earned in 2007

2) Improving the payments and settlements system to facilitate remittances and help further reduce remittance charges

As the BSP takes the lead in promoting efficient payments and settlements systems, the policy direction is to minimize layers in the remittance flow process and help further reduce transaction costs. Less layers and lower service fees would, in turn, allow easy, convenient and less expensive access of beneficiaries to a safe, sound and efficient payment system.

Grant of foreign currency deposit unit (FCDU) license to rural banks/cooperative banks. To encourage the flow of foreign exchange into the banking system and to provide OFs with an option to maintain foreign currency deposits (FCD) instead of immediately exchanging their remittance proceeds into pesos, the BSP issued Circular No. 522 dated 23 March 2006, authorizing qualified rural banks/cooperative banks, subject to prior Monetary Board approval, to operate a foreign currency deposit unit (FCDU). The Circular also allowed rural banks/cooperative banks to open FCD accounts with an FCDU of another commercial or thrift bank to enable rural banks to service foreign exchange remittances as well as buy and sell foreign exchange. Nine rural banks have applied with the BSP to be granted authority to operate FCDUs since the Circular's issuance.

Interconnection of three major Automated Teller Machines (ATM) networks. On 20 June 2006, Expressnet formalized the inter-operability of their networks with Bancnet and Megalink. The interconnection unified the operations of the country's more than 6,000 ATMs. A survey of commercial banks with large ATM networks noted slight increases in the volume of total OFW remittances as a result of the full interconnectivity of the three networks. The banks' remittance network has also expanded, with more aggregators and service providers for ATMs, e.g., Nationlink, Encash, etc.

Approval of G-Cash, Smart Padala and stored-value cards as alternative modes of remittances. The BSP has approved the operations of G-Cash, Smart Padala, and stored value-cards or cash cards as alternative mechanisms for sending money. Several banks have introduced other new technologies to which beneficiaries have greater access, such as card products with debit features to facilitate remittances with financial institutions as issuers and telecommunication companies as service providers.¹²

3) Channeling remittances to financial investment

The BSP has encouraged commercial banks to offer OFs specialized investment products and services, e.g., insurance, pension and real estate, with direct payment schemes for the added convenience of beneficiaries.

In November 2007, the BSP granted authority to the Development Bank of the Philippines to trade and offer the following peso-dollar derivatives products to OF workers: non deliverable forwards (NDFs), currency options and outright forwards.

¹² To date, there are fifteen banks that offer cash cards to their clients.

4) Simplifying identification of bank clientele

Consistent with the BSP policy to promote access of Filipinos to services offered by formal financial institutions, including those residing in remote areas, the BSP issued Circular No. 564 on 3 April 2007 to clarify existing regulations in identifying customers under the Manual of Regulations for Banks, the Anti-Money Laundering Act (AMLA), and its revised implementing rules and regulations.

5) Increasing financial education of OFWs and beneficiaries

Financial Literacy Campaign (FLC) for OFWs and Beneficiaries. The BSP¹³ has launched nineteen FLCs in different regions since 2006, i.e., Cebu City; Calamba, Laguna; San Fernando, Pampanga; Davao City; San Fernando, La Union; Tacloban City; Iloilo City; Tuguegarao, Cagayan; Manila, Baguio City; Legazpi City, Albay; Bacolod City; Quezon City; Cagayan de Oro City; Dagupan City, Pangasinan; Iloilo City; Roxas City, Capiz; Kalibo, Aklan; and Zamboanga City, for the benefit of the OFs visiting the Philippines, their beneficiaries, and others who intend to work abroad. Eight more FLCs are scheduled for 2008 in provinces that were identified by OWWA as the origin of marginalized OFs. The FLC aims to (1) cultivate financial education among OFs and their beneficiaries; (2) promote savings and investments among OFs/their beneficiaries by informing them of alternative uses of their remittances, including savings, investments in financial instruments and business ventures; and (3) familiarize OFs with the consumer laws and BSP issuances relating to consumer protection.

Consumer protection help desk. As part of its ongoing advocacies, the BSP has taken a proactive stance by embarking on a consumer education program to improve basic financial literacy skills. The program involves familiarizing the public on the various banking products and services that they usually encounter in ordinary financial transactions. The BSP also promotes consumer rights awareness and protection through its linkage with an inter-agency group, ConsumerNet, an inter-agency group that facilitates the resolution of consumer complaints, including those pertaining to remittances of migrants and OFWs.

In line with Letter of Instruction (LOI) No. 2 issued by President Gloria Macapagal-Arroyo to address worries and difficulties over food prices, fares, and OFW remittances and following the meeting at Malacañang on 23 October 2007, the BSP and other government agencies have consolidated several intermediate and long-term remedial measures to assist OFWs through livelihood programs, skills training, alternative savings and investment programs, and financial literacy campaigns.

Conclusion

The appreciation of the peso has affected key economic sectors of the economy, in particular exporters and OFs and their families. For OFs, the resulting change in the peso equivalent of their income due to the peso appreciation will depend on the currency denomination of their earnings. If their earnings are denominated in US dollars, there is a reduction in income, but if denominated in currencies that are appreciating against the

¹³ Together with the Overseas Workers Welfare Administration (OWWA), National Reintegration Center for OFWs (NRCO), Association of Bank Remittance Officers, Inc. (ABROI), Department of Agriculture (DA), Department of Trade and Industry (DTI), Social Security System (SSS), Philippine Deposit Insurance Corporation (PDIC), Rural Bankers Association of the Philippines (RBAP), Philippine Center for Entrepreneurship (PCE), ABS-CBN Bayan Foundation, Inc., Philamlife, SEAFDEC AQD, and Economic Resource Center for Overseas Filipinos (ERCOF) as FLC institutional partners.

US dollar, peso gains may be realized or peso losses can be tempered. It may also be instructive to note that the appreciation of the peso has a dampening effect on the rate of increase in prices of basic commodities or inflation, a clear benefit to all Filipino consumers including OFs and exporters. In addition, the BSP has implemented measures to moderate the appreciation of the peso with a view to maintaining orderly condition in the foreign exchange market and has taken concrete steps to improve the remittance environment for OF remittances.

Financial Conditions

Performance of the Banking System

Philippine banking system remains stable

The Philippine banking system remained stable in 2007, anchored on good asset quality and enhanced capital base. The overall performance of the banking industry underscored the notable improvement in banks' balance sheets on account of continuous asset clean-up and capital build-up. Profitability indicators showed stable returns on assets and an increase in return on equity during the year, indicative of banks' efficient maximization of revenue streams. Likewise, the banking system's capital adequacy ratio was well above the BSP's regulatory requirement of 10 percent and international standard of 8 percent on account of increased capital-raising activities of banks as part of their overall preparations for Basel II, which was implemented in July 2007.

Selected Banking Indicators			
	2007 ^{p/}	2006	Growth Rate (%)
Deposits (₱ Billion)	3,603.8	3,453.5	4.4
Resources (₱ Billion)	5,248.3	4,985.7	5.3
Loans Outstanding (₱ Billion, Gross of RRP's)	2,185.0	2,000.0	9.2
Number of Banking Institutions (Head offices)	852	862	-1.2
NPL to Total Loans (%)	4.9	6.2	-21.0
Capital Adequacy Ratio (%)	18.8 (Jun)	18.1	
Return on Assets (ROA)	1.3 (Jun)	1.3	
Return on Equity (ROE)	11.6 (Jun)	10.6	
<i>p/ Preliminary</i>			

Deposit Generation

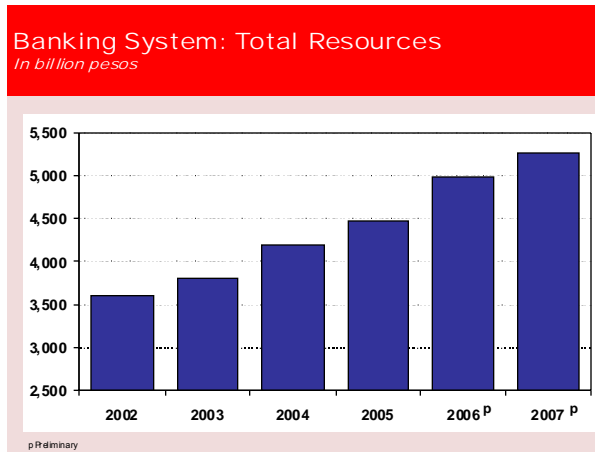
Outstanding deposits increase

The banking system's deposit liabilities as of end-December 2007 increased by 4.4 percent to ₱3.6 trillion from the end-2006 level of ₱3.4 trillion (Table 8). Both demand and time deposits sustained their growth at 15.7 percent and 8.0 percent, respectively. Savings deposits, which continued to account for almost half of the banks' funding base, declined by 1.1 percent relative to its level at end-2006. Meanwhile, commercial banks' (KBs) deposits, which accounted for 87.2 percent of the deposit base, expanded by 4.0 percent compared to its level at end-2006. Moreover, an increase of 17.6 percent in the rural banks' (RBs) deposit base was registered as these banks aggressively extended their services to farmers through the stages of farm production.

Resources

Higher cash holdings, bank deposits with the BSP and loans and discounts boost total resources

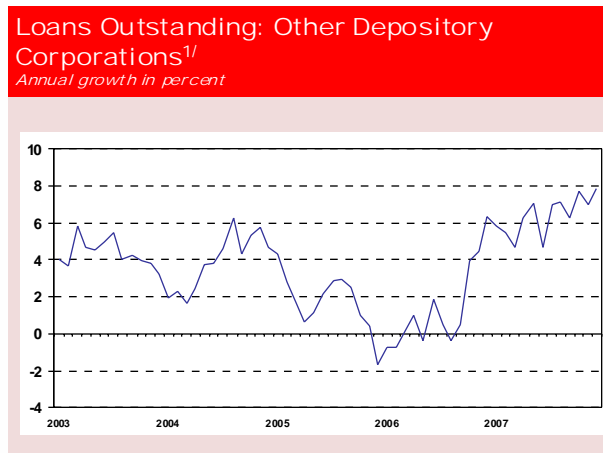
The total resources of the banking system rose by 5.3 percent to ₱5.2 trillion at end-2007 from its year-ago level of ₱4.9 trillion (Table 9). The increase in the system's resources was due mainly to the rise in cash holdings, banks' deposits with the BSP and loans and discounts. Universal/Commercial banks (U/KBs) continued to account for almost 90 percent of the total resources of the banking system.



Lending Operations

Lending growth accelerates

Outstanding loans of banks (net of reverse repurchase or RRP placements) expanded by 7.8 percent year-on-year in 2007 compared to 6.3 percent recorded during the same period last year. The faster growth in lending indicated the corporate sector's higher demand for loans given the declining cost of funds and increasing economic activity.



1/ Other Depository Corporations (ODCs) cover only UBs, KBs, TBs and RBs.

Utilities posts rapid growth

Bank lending to most sectors of the economy registered an uptrend except for agriculture, fisheries, and forestry and manufacturing. The utilities (electricity, gas and water) sector continued to lead the year-on-year growth in lending, expanding by a hefty 55.8 percent from only 7.7 percent growth last year. The momentum in bank lending was likewise driven by loans to transportation, storage and communication (15.6 percent); community, social, and personal services (10.7 percent), and mining and quarrying (9.4 percent).

Loans Outstanding: Other Depository Corporations (ODCs)¹ (Net of RRPs) End-December 2007			
	Loans (₱ B)	Percent to Total	Annual Growth Rate (%)
Agriculture, Fishery & Forestry	139.8	7.2	-1.8
Mining and Quarrying	11.1	0.6	9.4
Manufacturing	389.4	20.2	-1.1
Electricity, Gas & Water	119.4	6.2	55.8
Construction	35.3	1.8	3.0
Wholesale & Retail Trade	274.5	14.2	3.0
Trans, Storage & Com.	96.8	5.0	15.6
Financial Institution, Real Estate & Business Services	455.2	23.6	10.0
Community, Social & Personal Services	410.6	21.2	10.7
TOTAL (net of RRPs)	1,932.2	100.0	7.8

¹ Other Depository Corporations (ODCs) cover only UBs, KBs, TBs and RBs. Source: BSP

Exposure to the real estate sector remains below prescribed ceiling

U/KBs' real estate loans (RELs) as of end-December 2007 declined minimally by 0.6 percent to ₱197.7 billion from its year-ago level of ₱198.9 billion. This resulted in a lower ratio of RELs to total loan portfolio (TLP) at 10.4 percent from the previous year's 11.5 percent ratio. The majority or 97.2 percent of total RELs was held by U/KBs' bank proper while the remaining 2.8 percent was accounted for by U/KBs' trust departments. The bulk of the RELs (79.9 percent or ₱158.0 billion) was extended for the construction and development of real estate properties for commercial purposes, including infrastructure projects. The remaining 20.1 percent (or ₱39.7 billion) was granted for the acquisition of residential units by individual homeowners/borrowers. The REL to TLP ratio of 10.4 percent continued to remain below the BSP's 20.0 percent overall limit on bank's real estate exposure.

**Credit card
receivables increase**

Meanwhile, the combined credit card receivables (CCRs) of U/KBs as well as thrift banks (TBs) as of end-December 2007 increased by 16.5 percent year-on-year to reach ₱116.1 billion. The ratio of CCRs to the TLP increased to 5.4 percent from 5.2 percent in the same period last year. Of the total CCRs, 14.2 percent was past due, which was lower than the 16.4 percent recorded at end-December 2006.

**Auto loan
receivables also
increase**

Similarly, U/KBs' and TBs' combined auto loans as of end-December 2007 rose by 19.4 percent to ₱86.2 billion from ₱72.2 billion in December 2006. Auto loans accounted for 4.1 percent of TLP. About 5.1 percent of the total auto loans were past due.

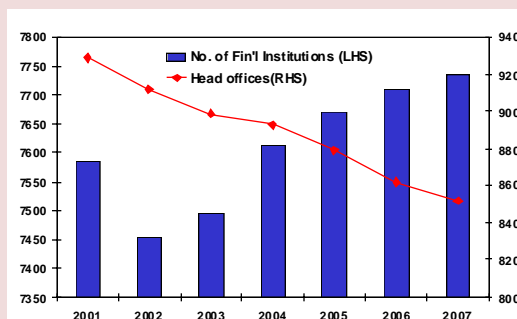
Institutional Developments

**Consolidation in the
banking industry
continues**

To better respond to a more dynamic banking environment, defined by the emergence of more sophisticated financial products and services as well as increased investment activities, banks continued to engage in mergers and consolidations.

Foremost was the merger of Equitable-PCI Bank and Banco de Oro in May 2007 with the latter as the surviving entity. The merger changed the rankings of the top 5 domestic banks in terms of assets and led to the trimming of the overall bank structure by 10 operating banks to 852 banks in 2007 from 862 banks a year ago. The number of banking institutions consisted of 38 U/KBs, 82 TBs and 732 RBs (Table 9a). The operating network of the banking system, consisting of head offices and branches, increased by 26 to 7,736 as of end-2007 due to the rise in the number of branches/agencies of thrift banks and rural banks. As of November 2007, there were three mergers, consolidations and acquisitions recorded in the banking system.

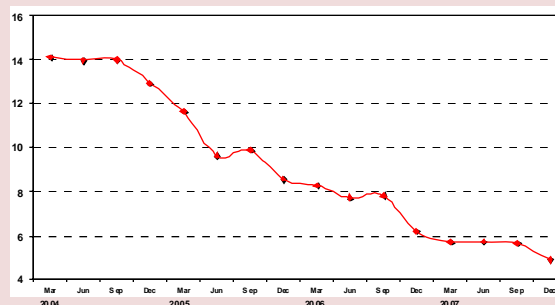
Number of Financial Institutions



**Banks' asset
quality improves**

The banking system's asset quality improved remarkably, with the non-performing loan (NPL) ratio at a record low of 4.9 percent as of end-December 2007 compared to 6.2 percent a year ago. The ratio was much closer to the pre-crisis level of around 4 percent. The significant decline in the NPL level was due to the sustained asset disposals through SPV-related transactions and other alternative modes of asset cleanup. The improvement in the NPL ratio during the period was due to the 14.6 percent drop in the level of NPLs, complemented by the 7.4 percent increase in the amount of the industry's TLP. NPLs shrunk to ₱127.3 billion during the period under review from the previous year's level of ₱149.1 billion, while TLP reached ₱2,585.5 billion from ₱2,406.9 billion.

Banking System: Non-Performing Loans
End of period, In percent



Compared with other countries in the region, the Philippine banking system's NPL ratio of 4.9 percent as of end-December was, however, higher than Indonesia's 4.6 percent, Malaysia's 3.2 percent, Thailand's 4.8 percent, and Korea's 0.7 percent.¹⁴ The lower NPL ratio in Malaysia, Thailand, and Korea could be attributed in part to the creation of publicly-owned asset management companies (AMCs), which purchased the bulk of their NPLs, a practice not resorted to in the Philippines.

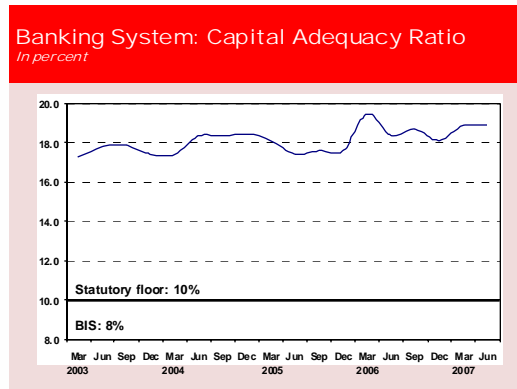
Moreover, U/KBs real and other properties acquired (ROPA) dropped by 10.7 percent as of end-December 2007 compared to the same period last year. The lower NPLs and ROPA during the year translated to an improvement in the non-performing assets (NPAs) ratio which went down anew to 13.3 percent as of end-December 2007, from the 19.6 percent decline recorded in 2006. NPAs consist of NPLs and ROPA.

¹⁴ Sources: Various central bank websites. Thailand (KBs, September 2007); Malaysia (Banking system, December 2007); Korea (KBs, June 2007); and Indonesia (Banking system, December 2007)

The loan exposure of banks was adequately covered as the banking system's NPL coverage ratio remained high at 81.6 percent as of end-December 2007, reflecting banks' diligent compliance with the loan-loss provisioning requirements.

CAR remains above statutory level

Using the new risk-based framework, banks remained adequately capitalized as of end-June 2007, with the industry's capital adequacy ratio (CAR) at 17.5 percent on a solo basis and 18.8 percent on a consolidated basis. These ratios were higher than the previous year's levels of 17.0 percent and 18.3 percent on solo and consolidated basis, respectively. The industry's CAR continued to exceed the statutory level set by the BSP at 10.0 percent and the Bank for International Settlements' (BIS) standard at 8.0 percent, reflecting the banking system's ability to cover risky assets.



The Philippines' CAR remains comparatively higher than those of Thailand (14.8 percent), Malaysia (12.6 percent), and Korea (12.6 percent). Indonesia posted the highest CAR in the region at 19.3 percent.¹⁵

Stock Market Developments

Positive developments cushion adverse impact of external challenges

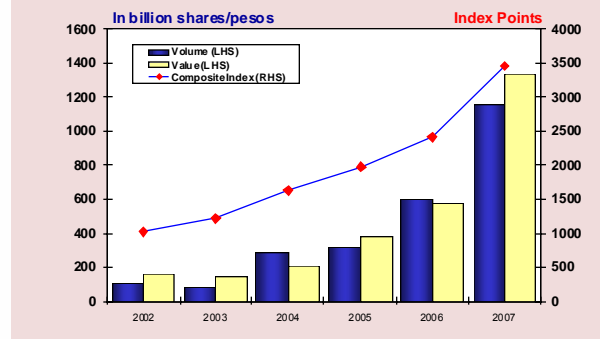
In 2007, positive developments in the domestic economy cushioned the adverse impact on the local equities market of the challenges that emerged on the external front. The average composite index surged to 3,442.9 index points in 2007, about 42.7 percent higher than the level posted in 2006 (Table 10).¹⁶ Year-end levels showed similarly robust figures with the Philippine Stock

¹⁵ Sources: Various central bank websites, Thailand (KBs, December 2007); Malaysia (KBs, December 2007); Korea (KBs, June 2007); and Indonesia (KBs, December 2007).

¹⁶ In 2007, the PSE revised the composition the 30-stock composite index twice to reflect more accurately the movement of stock prices in the local bourse. In May, the composition of its indices was revised following the completion of a free float-based review of the listed stocks. In October, after another review, the PSE revised the PSEi composition anew and changed the composition of the six sector indices as well.

Exchange Index (PSEi) rising by 21.4 percent to 3,621.6 index points in end-December 2007. Moreover, stock market capitalization rose to ₱7,962.4 billion during the year, 11.0 percent higher than the ₱7,172.8 billion capitalization recorded in 2006.

Philippine Stock Market Transactions



This overall favorable picture overshadowed the lingering concerns that were reflected in the occasional slide in the PHISIX's uptrend, particularly in the latter half of 2007. The market sustained 2006's bullish momentum from January up to early July of the year in review, with the PSEi posting a record-high level of 3,791.42 index points on 5 July. Trading was buoyed by strong domestic economic fundamentals, easing US interest rates and the net inflow of foreign capital during the first seven months of the year. However, emerging concerns about the US subprime mortgage market saw the market close lower by end-July at 3,501.2 index points. For the remainder of the year, market developments were dominated by investors' rising risk aversion and fears of a slowdown in the US economy in the wake of the US sub-prime mortgage crisis. These weighed down on investor sentiment, aggravated by the spike in crude oil prices. Partly cushioning the bearish sentiments were the country's continued strong macroeconomic fundamentals and the expected outcome of the policy rate cuts implemented by the US Fed and the BSP during the period. The nine corporate initial public offerings (IPOs) that transpired from April to December also helped mitigate negative sentiments and provided investors some incentive to trade.¹⁷ Overall, however, the combination of negative external shocks and solid domestic economic

¹⁷ There were nine corporate IPOs during the year: Pacific Online Systems Corporation; National Reinsurance Corporation of the Philippines; Phoenix Petroleum Philippines, Inc.; Aboitiz Power Corporation; GMA Network, Inc.; Anchor Land Holdings, Inc.; I-Remit, Inc.; Splash Corporation; and Oriental Peninsula Resources Group, Inc..

performance saw the market fluctuate between posting record highs (the highest at 3,873.5 index points on 8 October) and record lows (the lowest since December 2006 at 2,884.34 index points on 17 August 2007) during the last five months of 2007.¹⁸

Selected Philippine Stock Exchange Data				
Year	Composite Index (year-end)	Market Capitalization (₱m)	Ave. Daily Turnover ^{a/}	
			Value (₱m)	Vol.(mil shares)
2002	1,018.41	2,083,156.0	649.3	405.9
2003	1,442.37	2,973,832.0	588.5	348.0
2004	1,822.83	4,766,260.0	836.3	1,151.2
2005	2,096.04	5,948,370.0	1,565.4	1,296.5
2006	2,962.54	7,172,837.0	2,318.4	2,433.6
2007	3,621.60	7,962,399.6	5,484.6	4,745.2

Source: PSE, BSP Computation for average turnover
a/ The Average Value Turnover is measured as the ratio between total value of transaction for the year and the total volume of transactions for the year and the number of trading days during the year number of trading days during the year.

Notwithstanding the bearish sentiments in the latter half of the year, the 30-stock composite index rose by a fifth of its level in end-2006 to 3,621.6 index points in end-2007. All sectoral indices similarly outperformed their 2006 levels. Interest was particularly strong in the mining and oil sector, which nearly doubled (82.7 percent) to 8,375.1 index points in 2007. The rising crude oil prices and the shift in investments to safer havens (such as gold) increased the demand for mining and oil shares.

Total market capitalization, a measure of the aggregate value of the issued shares of listed firms, continued to rise in 2007 by 11.0 percent to ₱7,962.4 billion. Compared to the mid-year level of ₱8,326.5 billion, however, the end-December capitalization fell by 4.4 percent. All sectors posted gains from year-ago levels except for the financial sector, which is the biggest sector in the stock market (55.2 percent). The mining and oil sector posted the highest gain in capitalization as it rose by 98.6 percent to ₱122.3 billion. Compared to mid-year levels, all sectors posted declines in capitalization except for the mining and oil sectors, which deviated from the trend.

¹⁸ Meanwhile, political developments such as the Sandiganbayan trial of former President Estrada on plunder charges, the Senate probe on the government's broadband deal with China (ZTE fiasco), and the aborted coup 'd' etat at Manila Peninsula Hotel were mostly ignored by investors and had little long-term effect on the market.

Amidst rising investor risk aversion due to the US mortgage woes, net buying activity of foreign investors fell from year-ago levels. Preliminary data from the PSE showed that net foreign buying slid by 18.9 percent to ₱55.6 billion in 2007 from ₱68.5 billion in 2006, revealing an increase in the divestment of foreign investments in listed shares. As a percent of the total value traded at the exchange, foreign transactions fell from 56.4 percent in January to 52.8 percent in December.¹⁹

Meanwhile, stock market volatility²⁰ declined in 2007, notwithstanding heightened global market tensions in the second half of the year. Specifically, volatility eased slightly to 242.0 index points during the period in review from 251.8 index points in 2006. In addition, the price-earnings ratio rose from 14.6 times in end-2006 to 15.5 times in end-2007. This would seem to indicate that investors are expecting higher earnings growth in the future compared to year-ago expectations.

In terms of the daily turnover, the stock market continued to experience robust activity as it averaged ₱5.5 billion in 2007, which was 136.6 percent more than the level posted in 2006.

Debt Securities Market Developments

Government securities continue to dominate the market

Government issuances continued to dominate the Philippine debt market, accounting for 95.3 percent of the total outstanding domestic debt in 2007 from 94.7 percent in 2006. Outstanding government securities (GS) amounted to ₱2.2 trillion, 60.5 percent of which were regular issuances (e.g., Treasury bills and Fixed-Rate Treasury bonds (FXTBs)). FXTBs comprised the bulk or 54.7 percent of the total regular issuances at ₱742.7 billion. Meanwhile, private issuances comprised the rest of the domestic debt market at ₱111.4 billion or a 4.7 percent of the total, a marked improvement from the 0.9 percent posted in 2003. Asset-backed securities (ABS) comprised the bulk of private issuances at ₱70.7 billion, with the rest issued in bonds, corporate notes, and commercial paper lines.²¹

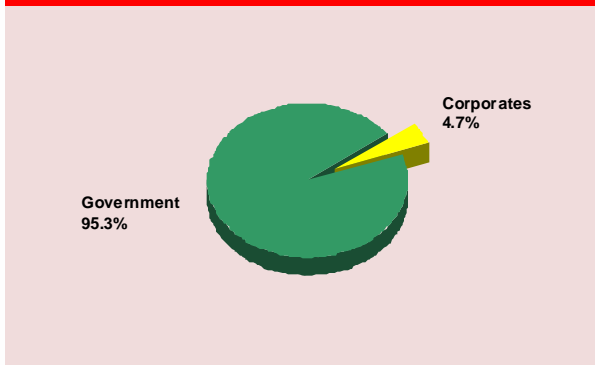
¹⁹ Notwithstanding the rise in investor risk aversion, Bangko Sentral-registered foreign portfolio investments posted a net inflow of over US\$3.5 billion for the whole of 2007, about 35 percent or US\$917.9 million more than the US\$2.6 billion figure for 2006. This developed despite the net outflow of US\$207.0 million in December, the second month in 2007 when net outflow was recorded after August's net outflow of US\$248.8 million.

²⁰ Stock market volatility is measured as the standard deviation of daily stock indices.

²¹ Data was sourced from the PhilRatings. For lack of available data, the issued amount was used instead of the outstanding amount for private debt issuances, which were in the form of asset-backed securities (ABS), bonds, corporate notes, as well as short- and long-term commercial paper lines. The data also exclude unsecured subordinated notes (Tier 2) which have some characteristics of both debt and equity. Tier 2 capital are long-term notes or debt obligations, with tenors usually 10 years and up, but are allowed to form part of the equity on capital of the issuer.

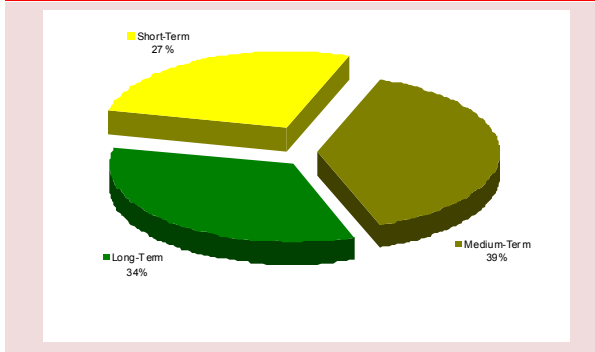
Domestic Debt Securities Outstanding

By Issuer
As of end-December 2007



Outstanding Government Securities, By Maturity

Percent share, end-December 2007



Debt issuances decline in the primary market

In the primary market, issuances by the NG declined during the review period. Debt securities offered by the NG were reduced to ₱263.8 billion in 2007 from ₱286.0 billion in 2006. The accepted bids for the Treasury bill (T-bill) and Treasury bond (T-bond) auctions were even lower than the offered amount as the NG did not always give a full award of their offerings and cancelled a number of auctions.

Results of GS Auctions, 2007
In billion pesos

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	106.0	312.7	71.2	241.5
First Quarter	24.0	133.1	21.9	111.2
Second Quarter	18.0	55.6	15.4	40.2
Third Quarter	34.0	77.7	19.5	58.2
Fourth Quarter	30.0	46.4	14.5	31.9
T-bonds	157.8	381.5	144.0	237.5
First Quarter	39.0	128.5	39.0	89.5
Second Quarter	37.0	100.9	36.0	64.9
Third Quarter	46.8	73.0	35.3	37.7
Fourth Quarter	35.0	79.1	33.7	45.4
TOTAL	263.8	694.2	215.2	479.0

Source: Bureau of the Treasury

In particular, during the first half of the year, the government rejected some of the bids in the T-bill and T-bond auctions as banks demanded higher premiums due to the government's fiscal slippage during the first four months of the year. The market's preference for longer dated papers was likewise cited as a reason for rejecting bids for the 364-day T-bill papers in April and canceling the entire auctions for the ₱12 billion worth of Treasury bills scheduled for the month of June. The government instead offered more of the previously issued three-year and five-year bonds to replace the ₱12 billion that would have been raised had the auction of T-bills proceeded as scheduled. The risk aversion following the US subprime mortgage crisis that affected the market in the second half of 2007 also resulted in the rejection of some of the bids for government papers due to the higher bid rates.

Despite these developments, investors continued to access the GS market as total subscriptions or market tenders reached more than twice the offered amount for both short-term T-bills and the offerings for the longer-dated T-bonds. The preference for longer-dated T-bonds also increased as the share of t-bonds from the total accepted bids rose to 67 percent from 58 percent in 2006.

Trading in the secondary market remains robust even as issuances decline

Meanwhile, at the Fixed Income Exchange (FIE), trading for government debt papers almost doubled in 2007. Despite the actual decline in the NG issuances, total transactions at the FIE reached ₱1,564.0 billion from ₱787.4 billion a year ago. This represents a 98.6 percent increase in the volume of transactions, indicating enhanced liquidity in the fixed-income market. The average daily volume of around ₱6.4 billion was up by more than two times the average daily volume of ₱3.2 billion a year ago. Fixed-Rate Treasury Notes (FXTNs) were the most liquid instruments, accounting for 91 percent of all transactions at the Exchange during the year. In terms of turnover, the bond turnover ratio²² recovered at 0.13 in December 2007 from 0.09 and 0.04 in January and August, respectively.

The significant growth in bond market trading was attributed to structural changes that improved efficiency, regulation and risk management in the debt market. The completion by the Philippine Dealing and Exchange Corporation (PDEX) of all the necessary interconnection for the trading of government securities through the “straight through processing” (STP) system contributed to the efficiency in the trading platform as buyers and sellers are able to exchange cash and securities ownership simultaneously. This eliminates the need to encode separately the instructions to the Registry of Scrippless Securities (RoSS) and trade transactions. Furthermore, increased investor demand for safe investment instruments led to the surge in the local debt market.

External Sector

Balance of Payments

Full year 2007 BOP yields record high surplus

The BOP for 2007 yielded a record high surplus of US\$8.6 billion, more than twice the US\$3.8 billion surplus in 2006 (Table 11). Robust foreign exchange (FX) inflows were recorded in both the current account and the capital and financial account. The ample FX liquidity in the system allowed the prepayment of some of obligations ahead of maturity, with total prepayments reaching US\$2.2 billion in the year. Without these prepayments, the external payments position would have ended higher.

²² The bond turnover ratio is computed as the ratio of the volume of sales of Treasury bonds over the average 2-month Treasury bond outstanding.

***The current
account surplus
rises***

The current account posted a surplus of US\$6.4 billion (4.4 percent of GDP) in 2007, higher by 18.8 percent than the previous year's surplus of US\$5.3 billion. This can be traced to strong inflows in the current transfers and services accounts coupled with the lower deficit in the income account. These developments more than compensated for the higher trade-in-goods deficit.

Net current transfers receipts grew by 5.9 percent to US\$14.0 billion driven mainly by higher remittances of non-resident OFs, which rose by 6.3 percent to reach US\$13.3 billion in 2007.²³

Net services receipts of US\$1.1 billion were more than eight times the US\$137 million surplus in 2006. The expansion was attributed mainly to the gains posted in travel, construction and other business services, particularly miscellaneous business, professional and technical services. Net receipts from travel rose by 46.1 percent to US\$3.3 billion, while those from other business services expanded at a hefty rate of 137.3 percent to US\$624 million.

The income account deficit was reduced to US\$467 million. The 62.8 percent reduction in the deficit was due to the combined effects of: a) higher gross earnings of resident OFWs which reached US\$3.0 billion, or a year-on-year growth of 9.1 percent; and b) lower deficit in investment income due mainly to higher income receipts by the monetary authorities on holdings of foreign debt securities and currency and deposit placements abroad as well as corporations' holdings of debt securities.

Meanwhile, the trade-in-goods deficit widened by 22.3 percent to US\$8.2 billion from US\$6.7 billion a year ago following a faster growth in goods imports relative to that of goods exports. Imports of goods expanded by 8.1 percent, bolstered by higher purchases across almost all major commodity groups, led by raw materials and intermediate goods. Notable increases of more than 20 percent growth were observed in imports of mineral fuels and lubricants and consumer goods while the expansion in capital goods imports remained steady at 1.9 percent. Meanwhile, exports of goods rose by 6.0 percent, supported mainly by higher shipments of manufactures (mainly electronics, machinery and transport, chemicals, wood, and processed food & beverages), mineral and petroleum products, coconut products, fruits and vegetables, forest, and other agro-based products.

²³ Total cash remittances from resident and non-resident OFs coursed through the banking system totaled US\$14.5 billion.

**Capital and financial
account records
significant net inflows**

The capital and financial account recorded substantial net inflows aggregating US\$3.9 billion from only US\$20 million in 2006 as the other investment account reversed to a net inflow from a net outflow and the portfolio investment account registered a modest net inflow. These developments negated the net outflows of direct investments brought about mainly by the repayment of intercompany loans. Portfolio investment inflows were boosted by investors' confidence in the country's strong macroeconomic fundamentals.

The other investment account yielded a net inflow of US\$1.6 billion in 2007, a turnaround from the net outflow of US\$5.8 billion a year ago. Contributory factors included:

- 1) Disbursements of program loans to the NG from official creditors (i.e., US\$250 million Development Policy Loan from the World Bank; US\$250 million Development Policy Support Loan from the ADB; and US\$295 million Power Sector Development Loan from the Japan Bank for International Cooperation);
- 2) Loan availment by corporations (US\$5.3 billion);²⁴
- 3) Short-term loan availment by banks (US\$390 million);
- 4) Higher net currency and deposit placements of non-residents (US\$528 million); and
- 5) Lower residents' lending (US\$1.2 billion) and currency and deposit placements (US\$1.6 billion) abroad.

These inflows were partly offset by loan repayments of the monetary authorities (US\$194 million), general government (US\$1.2 billion), and private corporations (US\$2.5 billion).²⁵

²⁴ Includes loan availment of US\$2.9 billion by a local power holding company which was subsequently used to purchase the shares of a foreign company (reflected as residents' investment abroad under the Direct Investment account). See related discussion under section on Direct Investment.

²⁵ The amount includes prepayment of loans made by the private sector (US\$1.3 billion) and public sector (US\$199 million).

The portfolio investment account posted a net inflow of US\$3.1 billion in 2007, US\$45 million higher than the 2006 level. Contributing to this development were:

- 1) Higher net placements by non-residents in equity securities of private corporations (US\$3.2 billion from US\$2.2 billion);
- 2) Non-residents' subscription to bonds/notes issuances by the NG (US\$1.0 billion); and
- 3) Lower residents' net investment abroad (US\$481 million from US\$1.6 billion in 2006), specifically in the form of bonds and notes net placements by domestic banks (US\$844 million from US\$1.2 billion).

However, these inflows were partly offset by the net purchase by residents of debt papers originally issued abroad (US\$569 million) and bond repayments by the BSP, NG and corporates (US\$999 million).²⁶

Meanwhile, the direct investment account reversed to a net outflow of US\$514 million from a net inflow of US\$2.8 billion mainly due to:

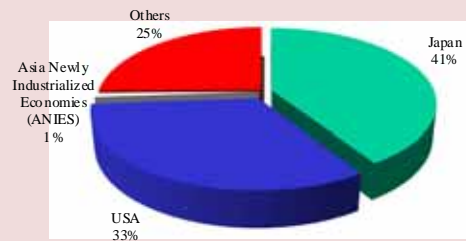
- 1) Higher residents' net equity capital placement abroad following the acquisition of shares of a foreign power company (US\$3.0 billion)²⁷; and
- 2) Repayment of intercompany loans of local subsidiaries to their mother companies abroad (US\$1.5 billion).

These outflows were, however, mitigated by the higher non-residents' net equity capital placements (US\$2.0 billion) and reinvested earnings (US\$567 million). In particular, gross equity capital placements expanded by 28.2 percent to US\$2.2 billion during the year. These were channeled largely into manufacturing, services, construction, mining, real estate, financial intermediation, and agricultural industries. The bulk of these inflows came from Japan and USA.

²⁶ The amount includes prepayment of bonds/notes made by the private sector (US\$601 million) and public sector (US\$139 million).

²⁷ This placement was funded by the private sector's foreign borrowings (see discussion of other investments) and by equity capital infusion from non-resident investor.

Net Foreign Direct Equity Investments (BOP Concept)
By country of origin, Percent share
2007



International Reserves

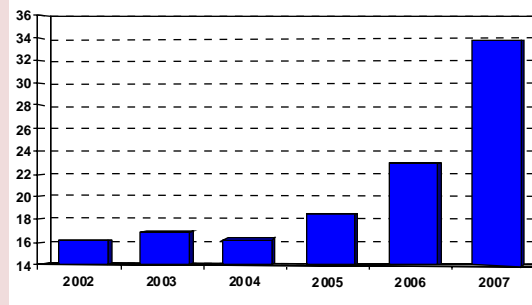
BSP's foreign exchange operations and income from investments abroad and NG's deposits boost GIR to an all-time high

The gross international reserves (GIR) of the BSP, including the reserve position in the International Monetary Fund (IMF), reached an all-time high of US\$33.75 billion as of end-December 2007 (Table 12). This was 47 percent higher than the previous year's level of US\$22.97 billion. At this level, the reserves could cover 5.9 months' worth of imports of goods and payments of services and income. Alternatively, this level is equivalent to 4.9 times the country's short-term external debt based on original maturity and 3.0 times based on residual maturity.²⁸

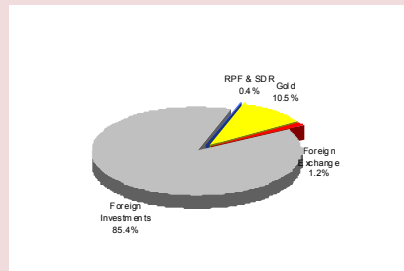
The significant increase in reserves could be traced to inflows from the BSP's net foreign exchange (FX) operations and income from its investments abroad, as well as the NG's deposit of proceeds of the program loan from the Asian Development Bank. Reserve accumulation remained strong, even with payments made by the BSP for maturing foreign exchange obligations, as well as NG's prepayment of the remaining Brady Bonds maturing in 2018.

²⁸ Residual maturity refers to outstanding short-term debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.

Gross International Reserves
In billion US dollars



Composition of Reserves
Percent share, end-December 2007



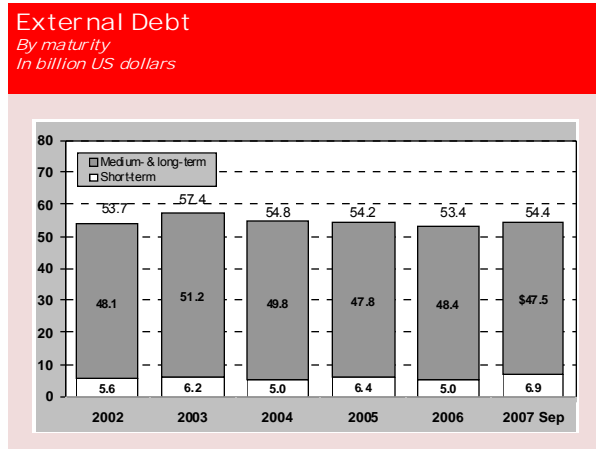
The bulk of the reserves was in the form of foreign investments (88 percent), with the remainder in gold (10.5 percent), foreign exchange (1.1 percent), and combined Special Drawing Rights and reserve position in the IMF (0.4 percent).

The net international reserves (NIR) level, including revaluation of reserve assets and reserve-related liabilities, likewise rose to US\$33.75 billion from the end-2006 level of US\$22.95 billion. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

External Debt

External debt remains manageable

The country's outstanding external debt reached US\$54.4 billion as of end-September 2007, higher by US\$366 million or 0.7 percent from its year ago level of US\$54.1 billion (Table 13). Likewise, this level exceeded by US\$1.07 billion or 2.0 percent the end-December 2006 level of US\$53.4 billion.



The y-o-y rise in the debt stock was owed to positive foreign exchange revaluation adjustments (US\$653 million) and net availments of foreign loans (US\$432 million). These were offset partly by the increase in residents' investments in Philippine debt papers (US\$432 million) and negative audit adjustments (US\$287 million).

Total prepayments of foreign obligations reached US\$2.0 billion in 2007. Of this amount, US\$1.8 billion were attributed to future years' maturities. These prepayments were motivated by the firm peso which made debt servicing less costly in peso terms. The prepayments also generated savings in interest costs.

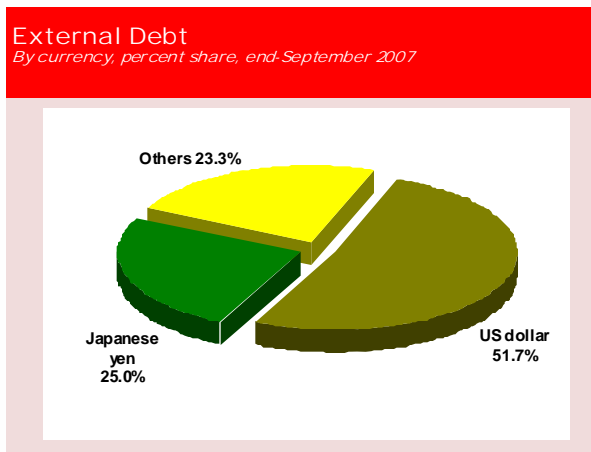
Medium and long-term (MLT) foreign loans decreased by US\$880 million to US\$47.5 billion during the period under review from the previous year's US\$48.4 billion. These loans had a weighted average maturity of 18.7 years, based on original maturity, longer than the 2006 average maturity of 17.9 years. Meanwhile, the share to total external debt of MLT loans fell to 87.3 percent from 89.5 percent in 2006. By contrast, short-term (ST) obligations rose by US\$1.2 billion or 21.1 percent to US\$6.9 billion. Subsequently, the share of ST obligations to total debt stock climbed to 12.7 percent as of end-September 2007 from 10.5 percent as of end-September 2006.

Medium and Long-Term External Debt*	
By maturity profile	
As of end-September 2007	
	No. of Years
Total MLT Debt	18.7
Public Sector	21.3
Private Sector	9.4
*Based on Original Maturity	

Public sector debt declined by US\$400 million to US\$37.2 billion during the third quarter of 2007. The share to total borrowings by the public sector slid to 68.5 percent as of end-September 2007 from 69.6 percent for the same period in 2006. In contrast, private sector debt rose by US\$766 million to US\$17.2 billion from US\$16.5 billion in 2006. Similarly, the share to total borrowings of debt owed by the private sector was up at 31.7 percent from 30.5 percent in 2006.

By creditor profile, official lenders (multilateral institutions and bilateral creditors) accounted for 38.5 percent of the total debt, followed by foreign holders of bonds and notes (33.3 percent) and foreign banks as well as other financial institutions (20.2 percent). The rest of the creditors (8.0 percent) were mostly foreign suppliers.

About US\$28 billion (51.7 percent) of the total debt stock were denominated in US dollars while US\$13.6 billion (25.0 percent) were in Japanese yen. US dollar-denominated multi-currency loans from international financial institutions comprised 9.4 percent of the total external debt stock while the remaining 13.9 percent came from 16 other currencies led by the euro.



The country's major external debt indicators continued to improve. The ratio of outstanding external debt to GNP fell to 36.8 percent as of end-September 2007 from 44.4 percent in the same period in 2006. Similarly, the ratio of external debt to GDP dropped to 40.3 percent during the period under review vis-à-vis 48.3 percent in 2006. The ratio has been moving further below the Early Warning System (EWS) threshold for assessing debt sustainability of 72.5 percent.

For the period January to September 2007, the country's debt service burden (DSB) amounted to US\$5.7 billion (i.e., principal amortizations and interest payments) as against US\$5.5 billion for the same period in 2006 (Table 14). The debt service ratio (DSR), computed as the percentage of the DSB to the country's total exports of goods and receipts from services and income (XGSI) reached 10.3 percent vis-à-vis 11.1 percent in the comparable period in 2006. The current DSR is below the 20-25 percent international benchmark and the EWS threshold of 25.045 percent.

Selected External Debt Indicators			
2005-2007, in percent			
	2005	Jan-Sep	
		2006	2007 /p
External debt to GNP	50.8	44.4	36.8
External debt to GDP	55.1	48.3	40.3
DSB to XGSI	13.51	11.1/p	10.3
DSB to CAR	12.61	10.6/p	9.9
DSB to GNP	7.15	6.1/p	5.1
p/ preliminary			

Box Article 2:

Recent Reforms in the BSP's Foreign Exchange Regulatory Framework

In 2007, the Bangko Sentral ng Pilipinas (BSP) approved two sets of reforms in the foreign exchange (FX) market. The liberalization of the FX regulatory framework is part of the continuing efforts of the BSP to improve the overall economic and financial regulatory environment. The move aimed to make the regulatory environment more responsive to the needs of an expanding, more dynamic economy that has become increasingly integrated with global markets. In the medium term, the free flow of capital is expected to provide direct benefits in terms of providing additional resources to the domestic economy and allowing portfolio diversification by Philippine entities.

The first phase of reforms—approved by the Monetary Board (MB) on 22 February 2007 and implemented in April 2007—involved changes pertaining to current and capital account transactions as well as to prudential regulations, which had been in place for nearly a decade. Specifically, it liberalized the regulations on non-trade transactions and outward investments by raising the allowable limit on FX purchases by residents from banks. Prudential regulations on banks' open FX positions were also relaxed. The corresponding regulations for these reforms are contained in Circular No. 561 dated 08 March 2007.²⁹

Subsequently, on 20 December 2007, the MB approved the second phase of reforms. This phase continued to focus on promoting greater integration with international capital markets and risk diversification supportive of an expanding economy with global linkages. It also streamlined documentation and reporting requirements on the sale of FX by banks. Clarifications on certain existing regulations were also made in the form of new policy issuances. Specifically, the second policy reforms involve the following: (1) increasing further the allowed FX purchases from banks by residents for non-trade current account transactions (without the need for supporting documentation) and outward investments (without the need for prior BSP approval); (2) expanding the authority of foreign currency deposit units (FCDUs) of thrift banks and rural/cooperative banks to deposit and borrow; (3) expanding the use of FX swaps involving the Philippine peso; and (4) enhancing other rules concerning both the current and capital accounts to improve the efficiency of the FX market. The corresponding regulations and implementing guidelines for these reforms can be found in Circular Nos. 590 and 591 dated 27 December 2007.

The increase in allowed FX purchases for non-trade transactions aims to address the rising FX demand by residents for non-trade purposes and also bring down transaction costs for bank clients. Although the documentary requirements will be reduced, existing anti-money laundering regulations will continue to apply to these transactions. At the same time, the further liberalization of outward investments of residents will facilitate better risk diversification by the investing public through greater access to FX resources.

Table 1 shows the comparative details of the measures in phase 1 and phase 2 of the FX reform package.

Moving forward, the BSP will continue to find ways through which the Philippines could advance further in upgrading its FX regulatory framework and improve the functioning of the FX market at a level that is at par with best international practices.

²⁹ The BSP, through Circular No. 565 dated 03 May 2007, also authorized the foreign currency deposit units (FCDUs) of thrift banks to invest in readily marketable debt instruments.

Table 1: Approved measures in phase 1 and phase 2 of the FX reform package

Area of Reforms	Phase 1 ³⁰	Phase 2 ³¹
1. Outward investments by residents	<ul style="list-style-type: none"> Increased the amount of FX that may be purchased by residents from banks without prior BSP approval to fund outward investments from US\$6 million to US\$12 million per investor per year Investments in foreign currency-denominated Philippine bonds/notes were made eligible to be funded by FX purchased from the banking system 	<ul style="list-style-type: none"> Further increased the allowable limit from US\$12 million to US\$30 million per investor per year, or per fund per year for qualified investors, without prior BSP approval. Qualified investors may apply for a higher limit per fund with the BSP
2. Over-the-counter FX purchase by residents for non-trade current account transactions	<ul style="list-style-type: none"> Increased the amount of FX that may be purchased by residents from banks to US\$10,000 from US\$5,000 per application without supporting documents; Deleted the “no-splitting” restriction; and Deleted the requirement to notarize the application form for exceeding amount 	<ul style="list-style-type: none"> Further increased the allowable limit to US\$30,000 per application without supporting documents
3. Open FX position limits of banks	<ul style="list-style-type: none"> Increased the limit on open positions (both overbought and oversold) to 20% of unimpaired capital or US\$50 million, whichever is lower. (Previously, the overbought position limit was 2.5% of unimpaired capital or US\$5 million, whichever is lower, while there was no limit on oversold position) 	
4. Authorized transactions of banks with FCDU license	<ul style="list-style-type: none"> Allowed banks with FCDU license to invest in readily marketable foreign currency-denominated debt instruments, regardless of maturity 	<ul style="list-style-type: none"> Allowed banks with FCDU license to transact (invest, deposit and borrow) with foreign banks abroad, OBUs and other FCDUs/EFCDUs without restriction as to maturity. (Note: Borrowing from other FCDUs shall remain limited to short-term tenor only)
5. Regulations on		<ul style="list-style-type: none"> Allowed use of FX swaps

³⁰ Pursuant to Circular No. 561 dated 08 March 2007 and Circular No. 565 dated 03 May 2007.

³¹ Pursuant to Circular Nos. 590 and 591 dated 27 December 2007.

derivatives transactions ³²		without restriction on tenor <ul style="list-style-type: none"> • Allowed use of swaps to cover customers' funding requirements in addition to hedging existing FX obligations
6. Drawdown condition on foreign loans of not earlier than 2 days prior to intended utilization		<ul style="list-style-type: none"> • Deleted the drawdown provision on foreign loans
7. Advance payment of imports		<ul style="list-style-type: none"> • Allowed AABs to sell FX up to US\$100,000 or its equivalent without prior BSP approval for partial or full advance payment of imports, subject to submission of prescribed documents
8. Reporting systems for FX transactions		<ul style="list-style-type: none"> • Streamlined reporting requirements for certain import and derivatives transactions
9. Documentation requirements for current and capital account transactions		<ul style="list-style-type: none"> • Streamlined documentation requirements for trade and non-trade current account transactions and outward investments
10. Registration requirement of trade-related guarantees		<ul style="list-style-type: none"> • Abolished the registration requirement for trade-related guarantees

³² The BSP issued Circular No. 594 dated 08 January 2008 which expanded the range of available derivatives which a bank can originate, distribute or use, without the need for prior BSP approval.

PART TWO: THE OPERATIONS OF THE BSP

Monetary Stability

During the year, the Monetary Board (MB) implemented new measures in May to contain the upside risks to inflation brought about by strong monetary growth from sustained foreign exchange inflows. The tiering scheme was also lifted in July, as monetary authorities implemented new measures and policy rates were adjusted to complement this move. During the last quarter of 2007, policy rates were reduced given the benign inflation outlook.

Liquidity Management Measures Implemented

In May 2007, concerns on strong monetary growth prompted the monetary authorities to implement new measures to mitigate the potential impact on future inflation. These measures included the following:

- a. Encourage GSIS, SSS, and other GOCCs to deposit funds with the BSP;
- b. Allow trust departments of financial institutions supervised by the BSP to place their funds with the BSP's special deposit account (SDA); and
- c. Allow SDA placements of banks to be deemed as alternative compliance with the liquidity floor requirements for government deposits.

Tiering Scheme Lifted

During its meeting on 12 July 2007, the Monetary Board decided to implement two complementary moves that involved (1) lifting the tiering system on placements with the BSP; and (2) adjusting the BSP's policy rates. The tiering system was lifted as monetary authorities observed that the system had already achieved its purpose in encouraging bank lending and as non-bank sources of funds helped to supplement bank lending. To complement the lifting of the tiering system, the BSP also adjusted its policy rates. This policy stance – which was neutral relative to future inflation and output – was consistent with the forward-looking orientation of inflation targets, considering the low actual inflation and, more importantly, the benign inflation outlook over the policy horizon.

Policy Interest Rates Adjusted

Given the benign outlook for inflation, policy rates were eased during the last quarter of 2007. Three consecutive policy rate cuts of 25 basis points each time were implemented in October, November, and December 2007.

Open Market Operations

Open market operations further absorb liquidity

The BSP conducted open market operations (OMO) in line with the current monetary policy stance aimed at ensuring that liquidity in the financial system is consistent with the economy's growth and inflation objectives. Such operations consisted of borrowing and lending under the RRP and RP facilities, outright purchases and sales of BSP's holdings of T-bills and placements of special deposits of banks through the Special Deposit Account (SDA) facility. In May 2007, access to the SDA facility was also broadened to include trust entities of banks and other financial institutions supervised by the BSP. GOCCs were also encouraged to place their funds in special time deposit accounts with the BSP. As of end-December 2007, the BSP's open market operations (including purchase/sale of T-bills, borrowing/lending under the RRP/RP facility and special deposit accounts) siphoned off P396.7 billion from the system.

Transparency Measures

The Inflation Report, highlights of monetary policy meeting, press statements, and press conferences aim to help the public better understand how BSP monetary policy decisions are made

Transparency is one of the key features of the BSP's inflation targeting framework. The BSP continued to strengthen the transparency and communication of monetary policy decisions through press statements, the publication of the highlights of the Monetary Board meetings on the policy stance, the Quarterly Inflation Reports, and press conferences after every policy meeting. These communication mechanisms are geared toward helping the public understand how the inflation outlook is assessed, and consequently keep the public's inflation expectations well anchored (Please refer to Box Article).

Communication to the public concerning the monetary policy stance emphasized that the inflation outlook over the policy horizon remained benign, consistent with modest demand growth. Meanwhile, supply-side pressures moderately increased toward the end of the year given higher world oil and non-oil commodity prices. The impact, particularly on domestic prices, of food, fuel and gasoline products remained manageable. However, possible upside risks to inflation could stem from volatile world oil prices and increase in the global price of non-oil

commodities, including food products. The BSP closely monitors risks to the inflation outlook and is firmly committed to price stability, a prerequisite for sustainable economic growth.

BSP KEY POLICY RATES, 2007			
EFFECTIVITY DATE	LEVELS		Monetary Policy Decision
	RRP OVERNIGHT	RP OVERNIGHT	
10-May-07	7.500	9.750	The Monetary Board believed that strong monetary growth could build up inflationary pressures over the medium term. To address this potential risk, the Monetary Board approved new monetary measures as follows: a) Encourage GSIS, SSS, and other GOCCS to deposit funds with the BSP; b) Allow trust departments of banks and other financial institutions supervised by the BSP to deposit with the BSP; and c) Allow SDA placements of banks to be deemed as alternative compliance with the liquidity floor requirements for government deposits.
13-Jul-07	6.000	8.000	The Monetary Board decided to maintain a neutral monetary policy stance by implementing two complementary moves. The tiering system on placements with the BSP was lifted and the BSP's key policy interest rates were adjusted to 6.0 percent for the overnight borrowing or reverse repurchase (RRP) rate and 8.0 percent for the overnight lending or repurchase (RP) rate. The removal of the tiering scheme and the adjustment in interest rates were also applied to placements in the special deposit account (SDA) facility of the BSP.
05-Oct-07	5.750	7.750	The Monetary Board decided to reduce by 25 basis points the BSP's key policy interest rates to 5.75 percent for the overnight borrowing or reverse repurchase (RRP) rate and 7.75 percent for the overnight lending or repurchase (RP) rate. In deciding to cut policy rates, the Monetary Board considered the benign inflation outlook.
16-Nov-07	5.500	7.500	The Monetary Board decided to reduce by another 25 basis points the BSP's key policy interest rates to 5.50 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.50 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP, RP, and special deposit accounts were also reduced accordingly. In deciding to cut policy rates further, the Monetary Board considered the continuing benign inflation outlook.
20-Dec-07	5.250	7.250	The Monetary Board decided to reduce by 25 basis points the BSP's key policy interest rates to 5.25 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.25 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP, RP, and special deposit accounts were also reduced accordingly. In deciding to cut policy rates, the Monetary Board noted that the inflation outlook continued to provide scope for further monetary policy easing.

Box Article 3:

Transparency and Communication in Monetary Policy

The trend toward greater transparency

Over the past decade, the conduct of monetary policy among central banks has given increasing prominence to the role of transparency and communication as a policy tool and as an element of best practice in policymaking.

This trend is partly born out of necessity. Both good and bad monetary policy can now be transmitted rapidly to interconnected financial markets and economies worldwide. Moreover, as Princeton economics professor and former US Federal Reserve Vice Chairman Alan Blinder explains, monetary policy “has important macroeconomic effects only to the extent that it moves financial market prices that really matter—like long-term interest rates, stock market values and exchange rates. The links from the direct lever of monetary policy (the overnight rate) to the prices that matter depend almost entirely upon market expectations.”³³ He further argues that this expectational mechanism works best in an environment of central bank transparency. Thus, in order to be able to influence economic variables properly, central banks must strive to make their policy actions not only understandable but also predictable to the public, particularly to the financial market players whose activities in turn determine financial prices. Effective communication as much as credible policy actions is of fundamental importance for achieving central bank objectives.

The emphasis on transparency and communication was also spurred by the need for more accountability among central banks as they received greater independence from political authorities. As central banks gained free rein to pursue policy objectives, they also needed a way to be accountable and responsible for their policy actions.

The growing popularity of inflation targeting, with its emphasis on transparency and accountability of the central bank, also helped in improving the disclosure practices of central banks. The inflation targeting approach emphasizes having an explicit link between monetary decisions and the central bank’s view of future inflation, thus requiring timely information on central bank forecasts as well as the rationale behind policy actions.³⁴ Converts to inflation targeting have also had to develop disclosure and transparency mechanisms along these lines.

Central Bank Transparency and Communication in the Philippines

The BSP’s shift to inflation targeting in 2002 prompted an increased emphasis on transparency in its conduct of monetary policy. By coordinating with the National Government on the desirable inflation targets for the medium term, announcing these targets to the public and committing itself to achieving these known parameters by reviewing its policy stance every six weeks, the BSP entered into a virtual contract with the citizenry. Thus was established the BSP’s accountability to the larger community.³⁵ By formally submitting itself to the judgment of financial markets and the general public,

³³ Alan Blinder, *Central Banking in Theory and Practice*, MIT Press, Cambridge, 1998.

³⁴ The benefits from inflation targeting accrue only to central banks that convince the public that their decisions are bound by a tight logic that is firmly rooted in forecasts and considers optimal responses. See Andrea Fracasso, Hans Genberg and Charles Wyplosz, “How do Central Banks Write? An Evaluation of Inflation Reports by Inflation Targeting Central Banks.” Geneva Reports on the World Economy Special Report No. 2. London, Centre for Economic Policy Research. 2003.

³⁵ Diwa Guinigundo, “Inflation Targeting: The Philippine Experience.” in *The Bangko Sentral and the Philippine Economy*, edited by Dr. Vicente B. Valdepeñas Jr., Manila: Bangko Sentral ng Pilipinas, 2005.

the BSP faces reputational risks (along with adverse changes in market sentiment and inflation expectations) should it fail to achieve the targets.

The new emphasis on transparency required the familiarization of the public with the concept of inflation targeting. Thus, the series of public hearings and discussions beginning in 2000 held by the BSP in key cities around the country sought to introduce the concept of inflation targeting to the public and increase public understanding of the monetary policy process in general.³⁶ The public information campaign has continued into the present, but has evolved in line with the need of the times.

Various disclosure and reporting mechanisms were also set up to explain the reasons for the BSP's monetary policy actions. Each monetary policy decision of the seven-member Monetary Board, the policymaking body of the BSP, which meets every six weeks to discuss the monetary policy stance, is accompanied by a press statement which is released immediately afterwards in a press briefing. An account of the highlights of the discussion is subsequently published after a predetermined lag of four weeks. The BSP also publishes a Quarterly Inflation Report, which provides a longer discussion of the assessment of monetary conditions.

In addition to the periodic reports and policy pronouncements, the BSP issues an open letter addressed to the President whenever the BSP fails to achieve the inflation target. The open letter explains the reasons why actual inflation did not meet the target, and discusses possible measures to be adopted to bring actual inflation back in line with the inflation target. The open letter is typically issued in January following the release of the full-year inflation data for the preceding year and is published on the BSP website.

The BSP's communications with the public have been aimed at the very broadest audience possible, with the policy stance articulated in general terms and difficult technical details omitted as much as possible in order to bring across more clearly the policy message to the wider base of informed laymen.³⁷ This takes account of the fact that, outside of financial market professionals, academics and economists, the public has relatively little familiarity with central bank functions. Seven years on, the awareness campaign has helped partly overcome the public's unfamiliarity with inflation targeting and monetary policy in general.

Increased public awareness has paid dividends for the BSP in its conduct of monetary policy, particularly in terms of managing public expectations about future inflation in the face of the recent oil price shock. For example, the BSP exerted efforts to make the public aware of the lags of monetary transmission and the fact that the assessment process for the monetary policy stance gave less weight to current and past inflation than to future or forecasted inflation.³⁸ This has helped the public understand better the reasons for monetary action even in the face of contrary data on current inflation. In addition, the BSP's efforts to explain the difference between cost-push and demand-side sources of inflation have made it considerably easier to explain the policy responses to the recent runup in inflation due to oil prices.

³⁶ The public hearings also enabled the BSP to gather views on a number of operational issues, such as the choice of inflation target (headline or core inflation; range or point target), the target-setting body (government or the BSP) and other key issues. Headline inflation, for example, emerged as a clear choice for the basis of the inflation target, mainly on account of its familiarity to the public.

³⁷ See Guinigundo (2005)

³⁸ Ibid.

Future challenges

Nevertheless, there continues to be room for improvement in the transparency and communication strategy of the BSP. Possible future directions in this regard can include the following: details on the Bank's inflation forecasts, in order to allow the public to better gauge their reliability; and better explanation of risks to the inflation outlook via fan charts and published documents. In the medium term, as general understanding of monetary policymaking improves, explanations of policy actions in the context of a Taylor-type rule (including assessments of the trend in the neutral or equilibrium rate of interest) can also be explored, in order to provide better guidance about the future path of monetary policy.

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Financial Stability

BSP pursues reforms to build a resilient financial system

BSP continues efforts to strengthen the financial system

The BSP sustained its efforts to develop a more stable and more efficient financial system in order to promote a balanced and sustainable economic growth. Reform efforts in 2007 were directed towards building a resilient banking system and promoting a vibrant domestic capital market.

The BSP continued to encourage banks to improve the quality of their assets through SPV-related transactions, joint venture agreements (JVA) with private developers or public auctions. This has led to a significant improvement in the NPL ratio of the banking industry which on aggregate is now closer to the pre-crisis level. Given this positive development, the BSP has shifted the focus of its reform initiatives towards further enhancement of existing regulatory framework to align it closer to international standards, promotion of corporate governance, full implementation of consolidated and risk-based supervision approach consistent with modern banking and finance standards, and advancement of capital market initiatives.

The BSP remained in the forefront of the fight against money-laundering, being a member of the Anti-Money Laundering Council. To help strengthen the government's drive to curb money laundering in the country, the BSP undertook actions to carry out its responsibilities within the context of the anti-money laundering regime.

Adopts the new risk-based capital adequacy framework in line with the Basel II standards

New capital adequacy framework takes effect

The revised risk-based capital adequacy framework for the Philippine banking system, which conforms with the Basel II standards, took effect in July 2007. In connection with the adoption of the new framework, guidelines on the use of the standardized approach in computing the capital charge for operational risks were issued. The BSP also released the reporting template which shall be used by universal and commercial banks, and their subsidiary banks, and quasi-banks starting with their end-September 2007 capital adequacy ratio (CAR) reports. A memorandum to all banks was likewise circulated to clarify issues and facilitate the successful implementation of the new framework. (Circular No. 574)

BSP issues additional guidelines to make framework more risk sensitive

Additional guidelines were issued during the year to make the regulatory capital framework more risk sensitive and more reflective of the risks that banks are exposed to. The reclassification of foreign currency-denominated NG/BSP bonds from the Held to Maturity (HTM) category were exempted from the “tainting rule” in view of the increase in risk weights of said securities under the new framework. The tainting rule requires reclassification of the entire HTM portfolio to the Available for Sale (AFS) category and prohibits the use of the HTM category during the reporting year and for the succeeding two full financial years whenever a financial institution sells or reclassifies more than an insignificant amount of HTM investments before maturity for reasons other than those specified under existing regulations. (Circular No. 558)

Rules on the capital treatment of banks’ holdings of ROP global bonds paired with warrants were adopted in light of the issuance of the warrants which give banks the option or right to exchange holdings of ROP Global Bonds into peso-denominated government securities upon the occurrence of a predetermined credit event. (Circular No. 588)

Aligns financial reporting rules with international standards

Various initiatives were undertaken by the BSP to further align local financial reporting rules with international standards. Since the BSP’s adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) in 2005, the BSP has issued guidelines aimed at raising existing financial reporting standards for enhanced risk disclosure and effective market discipline.

Banks start using the New Financial Reporting Package

In 2007, the BSP continued this thrust with the live implementation of the new Financial Reporting Package starting with September 2007 reports. The new Financial Reporting Package was designed to align the Manual of Accounts (MOA) and the BSP reportorial requirements with the provision of the PFRS and PAS. (Circular No. 568)

New procedures on the booking of Real and Other Properties Acquired, accounting for government grants with nil or low interest rates and determining compliance with the ceiling on equity investments were circulated to align them with internationally-accepted standards. (Circular No.555)

Strengthens Corporate Governance

Various guidelines were issued to further enhance the corporate governance framework in BSP-supervised institutions. These measures were intended to safeguard the institutions against excessive risk-taking, ensure fair exercise of business transactions and promote consumer protection.

BSP revises rules on interlocking directorships and officerships

Rules on interlocking directorships and officerships were revised to prevent any conflict of interest resulting from the exercise of directorship coupled with the reinforcing influence of an officer's decision making and implementing powers. (Circular No. 592)

The BSP clarified the definition of who are considered officers of a bank, quasi-bank or trust entity to include those positions whose duties are defined in the by-laws or are generally known to be the officers of the subject financial institution. The BSP further amended the procedures for the disqualification of directors and officers of closed banks and financial institutions under BSP supervision including those who were dismissed from employment for cause. (Circular Nos. 562 and 584)

BSP institutes more rigid requirements for officers

The BSP instituted more rigid requirements for officers who will be in-charge of FCDU operations of thrift and rural/cooperative banks. The rules require that the officer should have at least one year of actual experience in the same operations in another bank or have attended a specialized training course on FCDU operations. (Circular No. 582)

New guidelines on the imposition of monetary penalties on acts, omissions or transactions entered into in violations of laws, BSP rules and regulations, MB directives, and orders of the Governor were issued during the year to ensure a fair and uniform treatment to all BSP-supervised financial institutions, including their directors and/or officers. (Circular No. 585)

Improves banking operations

The BSP, in keeping with the developments in the industry, developed policies in support of improving banking operations and risk management.

BSP liberalizes rules on outsourcing

Regulations on outsourcing of certain banking functions were loosened to enable banks to focus more on their core competencies and business strategies. In particular, banks were allowed to outsource internal audit, credit administration, legal, and compliance services in favor of subsidiaries, affiliates and companies related to them by at least 5 percent common ownership. (Circular Nos. 567, 569 and 586)

The authority of foreign currency deposit units (FCDUs) of thrift, rural and cooperative banks had been expanded to give these banks sufficient flexibility in their day-to-day operations and minimize potential maturity mismatches of assets and liabilities. (Circular No. 582)

Enhances banks' risk management capabilities

BSP issues rules on loans to subsidiaries and affiliates

The BSP also issued rules and regulations to improve banks' management of their exposures to credit, market and technology risks. Rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks were released during the year. The new guidelines covered ceilings on loans, other credit accommodations and guarantees that a bank or quasi-bank may grant to its subsidiaries and affiliates. The rules likewise stressed that dealings of a bank or quasi-bank with its subsidiaries and affiliates shall be in the regular course of business and upon terms not less favorable to the bank/quasi-bank than those offered to others. (Circular No. 560)

The banks' allowable open FX position was adjusted to allow banks to better manage their foreign exchange exposures. The overbought and oversold limits were set at 20 percent of a bank's unimpaired capital or US\$50 million, whichever is lower.

BSP expands allowable derivative activities

The BSP amended regulations governing the derivative activities of banks and trust entities. The new rules included the guidelines on risk management and sale and marketing of derivatives. The amendments seek to provide a framework whereby banks could expand opportunities for financial risk management and investment diversification through the prudent use of derivatives. (Circular No. 594)

Banks and BSP-supervised non-bank financial intermediaries were advised to adjust or update their information security program as well as their risk management and control procedures in light of the increasing incidence of identity theft. Given the reputational and financial risks associated with this crime, failure to adjust may translate to reputational and financial costs to the financial institutions.

Accelerates the Development of Domestic Capital Market

The BSP remained deeply committed to accelerate the development of the domestic capital market through reform initiatives. Banks were strongly encouraged to issue Tier 2 eligible long-term debt as well as hybrid instruments to improve the array of financial products available in the market. Reforms were also introduced in the trust business to create a broader institutional investor base supporting the domestic capital market. The establishment of domestic credit rating agencies and institutionalization of the third-party custodianship system were also pursued.

BSP lifts the moratorium on grant of quasi-banking functions

In 2007, the BSP sought to sustain the reform momentum by lifting the moratorium on the grant of licenses to investment houses and financing companies engage in quasi-banking functions. This effectively laid down the enabling framework for more active participation of other specialized financial intermediaries in capital market development. (Circular No. 557)

Moreover, existing regulations were amended to exclude from the single borrower's loan limit foreign securities lending and other domestic securities lending programs duly recognized by the BSP. This is expected to add more liquidity and depth in the capital market. (Circular No. 578)

The BSP likewise continued to push for the passage of key legislations intended to accelerate the development of the domestic capital market. In particular, the BSP strongly supported the creation of a centralized credit information bureau to improve the quality of financial information to investors, expand private sector access to credit, and minimize exposure to risks of financial intermediaries.

BSP upgrades its supervision and examination approaches

Enhancements in BSP's supervisory processes

The BSP continued to upgrade its supervision and examination approaches in line with internationally accepted standards. The BSP's supervisory efforts remained geared towards: 1) the adoption of a risk-focused examination that leads to the prompt preparation of a comprehensive report that clearly presents major supervisory conclusions; and 2) the maintenance of an effective off-site monitoring mechanism that yields an updated assessment of the changing risk profile of a banking unit.

The BSP pursued the shift from a compliance-based exercise to a risk-based approach to on-site examination. In line with this, the method for implementing the rating system for banks, known as CAMELS, had likewise undergone a review to reflect the new approach. Specialized examination groups were created to institute a more risk-focused examination.

The reforms in supervision methodology and processes underscored the need for new skill sets other than what had been already recognized such as accounting and auditing skills. The need is being addressed through the development of an in-house structured training program and other highly specialized courses designed with the assistance of outside experts. A pool of in-house trainers from the supervisory staff was developed from the initial offering of the training program to facilitate mass training of personnel at affordable costs.

On the off-site monitoring side, enhancements were made through the creation of new units which serve as the central points of contact of the financial institutions in the BSP. These units continually assess the condition and performance of financial institutions to enable the prompt identification of potential risks and make sound judgments when called for.

Internal systems were upgraded to support the increasing demand for real time access to varied information and data mining capabilities for deeper analysis. The Data Warehouse project became operational with all its output reports already accessible online to authorized users through security codes. The project is designed to centralize the handling and exchange of information on financial and non-financial data of BSP-supervised institutions.

Other projects being enhanced include the Financial Reporting Package to further the efficiency of the banks' reporting system and the Central Information File which is constantly being updated to provide BSP examiners additional information on banks' board and senior management.

Intensifies fight against money-laundering

BSP advises banks to comply with the provisions of the AML Law

During the year, the BSP released issuances as it carried out its responsibilities as a member of the Anti-Money Laundering Council. Banks and NBFIs including their subsidiaries and affiliates were reminded to strictly comply with the requirements on reporting of suspicious transactions in electronic form with the corresponding hard copy.

Banks were also enjoined to strictly observe due diligence in implementing the "Know Your Client" policy in order to thwart individuals from opening anomalous deposit accounts.

Directives were also issued to report to the Council covered or suspicious transactions of certain foreigners as well as those involving the so-called advance fee fraud or Nigerian scam being perpetrated through the Internet.

Payment and Settlement System

The country's payments system continued to play a vital role in the efficient and real-time delivery of financial transactions. For 2007, the volume of transactions climbed to 491,584, an increase of 12 percent from the previous year. These include transactions from the BSP Treasury Department, interbank, and Electronic Cash Withdrawal System (ECWS) of the BSP. Meanwhile, the value of transactions rose significantly by 53.4 percent due to the increase in transactions that passed through the BSP Treasury Department (i.e., repurchase and reverse repurchase transactions), interbank, Megalink, Payment versus Payment (PvP) and ECWS. The rise in both volume and value of transactions resulted in the increase in fees collected to ₱50.9 million for the year, higher by 8.8 percent from the previous year's ₱46.8 million.

	2007	2006	Annual Change (%)
Volume	491,584	439,028	12.0
Value (In trillion pesos)	187.1	122.0	53.4
Transaction Fees (In million pesos)	50.9	46.8	8.8
Source: Payments and Settlements Office, BSP			

To respond to the changing financial environment, the BSP continued to fine-tune the current system through the implementation of the following:

- 1) Updating of the features of the Philippine Payments System-Front End Client System currently installed at the BTr to enable BTr users to create/transmit fund transfers/payments and messages/instructions for real-time settlement through the PhilPaSS;
- 2) Enhancement of the Electronic Fund Transfer Instruction System to improve services to clearing participants; and
- 3) Updating of the directory of the mailing recipients of management reports.

Moreover, there were activities and special projects that were started during the year aimed to further boost the efficiency of the system which include:

- 1) **Enhancement of the Intraday Liquidity Facility (ILF) system.** Under the new system, the availment of intraday liquidity can only be triggered if a bank's demand deposit account (DDA) is insufficient to cover fund transfer payments instructions;
- 2) **Interconnection of the Philippine Dealing System (PDS) Settlement Highway and the BSP PhilPaSS.** The tripartite MOA on the interconnection of the PDS Settlement Highway and the BSP PhilPaSS, which aims to further increase efficiency in the delivery of banking services, was signed by the Bankers Association of the Philippines (BAP), PDS and BSP on 29 August 2007. The target date for the implementation of the said interconnection is on the first quarter of 2008;

- 3) **Implementation of a New Graduated Pricing Structure for PhilPaSS.** This aims to establish a more equitable pricing structure for the real-time settlement of interbank transactions through PhilPaSS. It also aims to encourage the entry of retail value transactions;
- 4) **Continuous effort to automate other transactions affecting the demand deposit accounts.** This includes studies and discussions on the possibility of routing to PhilPaSS other transactions (e.g., DLC, SES and Treasury transactions) affecting the DDAs of banks and non-banks with the BSP;
- 5) **Automated processing of BTr transactions.** The automation includes the uploading of primary auction and redemption transactions as well as the introduction of an auto debiting system to cover these transactions;
- 6) **Enhancement of BSP's checkless system of paying claims.** This aims to eliminate BSP's use of checks in paying its suppliers and contractors;
- 7) **Connection of BANCNET and EXPRESS NET to PhilPaSS.** It is envisioned that with the rationalization of the pricing structure for PhilPaSS, BANCNET and EXPRESS NET would be encouraged to avail of the services of PhilPaSS thus, helping reduce the settlement risks of these ATM networks; and
- 8) **Enhancement of EFTIS to serve as a back-up system for PhilPaSS.** This aims to provide a contingency system in cases where there are connectivity problems between the BSP and all participating financial institutions.

Other Key Operations of the BSP

Loans and Credit

The overall guiding principle in the grant of discounts, loans and advances by the BSP is to influence the volume of credit consistent with the Bank's price stability objective. In addition, the BSP also ensures that the risks involved in such lending operations are manageable.

The BSP undertook special projects to enhance the timely and effective delivery of credit to all productive sectors of the economy through the banking system and PDIC under the regular and special credit windows.

The BSP also embarked on the following activities:

- 1) Completion of the first phase of the Electronic Rediscounting System (eRediscounting), covering the core modules of loan processing and payments. By the end of 2007, there were 138 banks participating in the fully computerized system;
- 2) Fast-tracking of the development, testing and implementation phases of the back-end modules of eRediscounting, including collateral management, credit examination, account management and management reports;
- 3) Successful launching of eRediscounting at the BSP Regional Offices in Cebu, Davao and La Union;
- 4) Intensified nationwide information campaigns on eRediscounting for banks and BSP Regional Loans and Credit Unit personnel; and
- 5) Started the groundwork for the development of a "Collateral Information and Management System" (CIMS), a project that will complement the eRediscounting system. The CIMS will provide the BSP Management access to real-time information on BSP's collateral portfolio and improve the risk management process in the administration and control of collaterals.

As of 31 December 2007, the total loan portfolio of the BSP reached ₱100.8 billion, ₱14.9 billion or 12.9 percent lower than the previous year's ₱115.7 billion. Similarly, total loans outstanding under the regular rediscounting facility amounted to ₱6.2 billion, lower than the total loans of ₱7.7 billion outstanding in 2006.

Of the total loans granted to banks, commercial banks received ₱9.5 billion, thrift banks ₱13.9 billion, and rural banks ₱1.5 billion.

Total loan collections for the year reached ₱39.8 billion while past due loans amounted to ₱6.6 billion.

Total gross income from lending operations of the Head Office reached ₱3.8 billion, slightly lower by 11.6 percent or ₱0.5 billion than last year's ₱4.3 billion.

Asset Management

New approaches in asset administration and disposal enhance asset management

The BSP has acquired assets which it administers, preserves and disposes properly. Private banks mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties, when availing of the loan facilities of the BSP. The BSP forecloses these real properties upon failure of these banks and mortgagors to pay their loans. Banks may also pay their loans with properties under a dacion en pago agreement.³⁹

The book value of the BSP's acquired assets as of end-December 2007 stood at ₱13.3 billion, ₱0.6 billion or 4.0 percent lower than the previous year's level. Similarly, the number of real property titles acquired decreased by 0.9 percent or 307 titles.

The BSP disposes its acquired assets through the following:

- 1) Redemption or repurchase;
- 2) Public auction;
- 3) Negotiated basis; or
- 4) The Provident Fund Office.

BSP likewise participates in Housing Fairs sponsored by the Housing and Urban Development Coordinating Council participated in by the different key government shelter agencies, government financial institutions and other private entities.

To improve the administration of foreclosed properties, the BSP modified the guidelines on appraisal, broker's accreditation and grant of commission, grant of discounts, auction procedures, and installment sale of acquired properties. Provisions for the grounds for revocation of real estate broker's accreditation were approved in 2007.

In addition, the BSP conducted a public auction of bank branch franchises of a closed private bank.

³⁹ "Dacion en pago" refers to a payment whereby property, whether real or personal, tangible or intangible, is alienated in favor of the creditor, which could either be a Financial Institution (FI) or an SPV, in satisfaction of an NPL.

International Reserve Management

Reserve management strategy focuses on yield enhancement, optimal utilization and diversification

The strong foreign exchange inflows from remittances and foreign investments provided the BSP the opportunity to build up its gross international reserves to record-high levels throughout the year. This provided for adequate cushion against any unforeseeable demand for foreign currencies. In 2007, the BSP continued to adhere to its reserve management strategy of yield enhancement, optimal utilization and diversification. The bulk of the increase in reserves could be traced to inflows from the BSP's net foreign exchange operations and income from its investments abroad.

To further enhance the reserve management strategy, the BSP undertook the following steps: (1) modified the Investment Guidelines, including giving authority to the Governor to approve minor changes in the Investment Guidelines, allowing the BSP to adapt to the changing market environment on a timely basis with limited risk exposure; (2) reviewed the BSP's Investment Guidelines for Reserve Management to account for the performance of various foreign currencies and asset classes in terms of returns to investment; and (3) upgraded six non-London Good Delivery Bars held at the Bank of England and mobilized gold holdings in the international market.

International Operations

Evaluation of foreign borrowing proposals continues to ensure sustainability of foreign debt and orderly debt servicing

The BSP continued to evaluate foreign borrowing proposals from both the public and private sectors to help manage the country's foreign debt and ensure orderly debt servicing. The BSP's external debt management framework aims to obtain loans at favorable terms and conditions, and to channel the proceeds to priority projects/activities.

Reflective of this external debt management policy, the country's major external debt indicators continued to improve. For the first nine months of 2007, the external debt service burden (DSB) ratio or the percentage of the country's total principal and interest payments to total exports of goods and receipts from services and income stood at 10.3 percent, lower than the previous year's 11.1 percent. The external debt to GNP ratio, or the outstanding external debt as a percentage of aggregate output or GNP, likewise improved to 36.8 percent in September 2007 from the previous year's 44.4 percent. As a percentage of GDP, the external debt ratio at 40.3 percent was lower than the 48.3 percent recorded a year

ago.⁴⁰ These developments indicate the country's strengthened capacity to service maturing obligations on a sustained basis.

The country's external position reflects the favorable maturity profile of the country's external debt, together with the continuing build-up of the BSP's GIR. As a result, the ratio of GIR to short-term debt based on residual maturity rose by more than three-fold from 96 percent at end-1997 to 301 percent at end-2007.

BSP implements capacity building/systems improvement to enhance debt management capability

As part of the BSP's capacity building/systems improvement program, the Monetary Board approved the acquisition of the Debt Management and Financial Analysis System (DMFAS) of the United Nations Conference on Trade and Development (UNCTAD). The DMFAS is an external debt monitoring software meant to enhance the debt management capability of the BSP.

Phase I of the BSP-DMFAS Project was completed in December 2007. At the same time, the final draft of the project document for Phase II was transmitted by the UNCTAD DMFAS Programme to BSP. The project document contains the terms of reference, details of activities, required resources, estimated timelines as well as the responsibilities of both parties under the project. By end-2007, both parties have agreed to sign the project document in early January of 2008 and conduct the first activity under Phase II in February of the same year.

BSP regulations require registration of inward foreign investments if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon, shall be sourced from the domestic banking system.

Inward foreign investments increase

Inward foreign investments (both direct and portfolio) registered by the BSP totaled US\$25.8 billion in 2007, an increase of more than two-fold from the previous year's total of US\$12.4 billion.⁴¹ Registered foreign portfolio investments reached an all-time high of US\$24.9 billion⁴², up by 118 percent from US\$11.4 billion in 2006. During the same period, registered foreign direct equity investments amounted to US\$949.5 million, posting a decline of 4 percent from US\$986.4 million.

⁴⁰ Based on the latest available estimates, external debt= US\$ 54,427 million; GDP=US\$135,013 million

⁴¹ Including foreign investments in equities listed in the PSE that were registered by custodian banks on behalf of the BSP based on delegated authority.

⁴² Inclusive of reinvestment of cash dividends and switch transactions, representing purchases of one type of portfolio investments with proceeds from sale of another type of portfolio investments.

Under existing policy on importations, documents against acceptance (DA) and open account (OA) arrangements are deemed registered once reported by banks. The BSP regularly conducts a post-audit of the said bank reports, comparing these with the supporting documents submitted by importers.

Import availments and import payments rise

In 2007, import availments under DA/OA arrangements totaled US\$12.3 billion, up by 18 percent from a year ago. The increase was accounted for by oil and non-oil imports, which grew by 12 percent and 26 percent, respectively. Outstanding liabilities under DA/OA arrangements also rose to US\$1.9 billion in 2007 from US\$1.3 billion in the previous year. Meanwhile, import payments under Letters of Credit (LCs) reached US\$4.5 billion during the year, up by 5 percent from the US\$4.3 billion recorded in 2006.

LCs opened and telegraphic transfers effected to service BSP's own foreign exchange obligations amounted to US\$53.1 million and US\$3.7 million, respectively, for a total of US\$56.8 million. This amount is lower by 14 percent from the previous year's level, mainly due to the decrease in the L/Cs opened for the procurement of finished banknotes and coin metals.

Notes and Securities Printing

Actual production and delivery of notes nearly equal target for 2007

The Banknotes and Securities Printing Department (BSPD) delivered a total of 892.45 million notes to the BSP's Cash Department to fill the 2007 orders. The Cash Department has ordered 1.05 billion notes for 2008.

In May 2007, the BSPD made an initial delivery of the machine readable (e-format) official and diplomatic passports to the Department of Foreign Affairs (DFA). A total of 2.51 million regular and e-format passport booklets were delivered to the DFA for the year 2007. For 2008, the DFA has ordered 2.10 million booklets of the e-format passports.

Mint and Refinery

Mint and refinery operations continue to be conducted in the most economic, efficient and secure ways

The Mint and Refinery Operations Department (MROD) delivered a total of 1.04 billion pieces of circulation coins to the BSP's Cash Department to fill its 2007 orders. The Cash Department has ordered 1.08 billion pieces of circulation coins for 2008.

The MROD also produced and delivered 1,352 sets of various presidential medals and state decorations to the Office of the President, Civil Service Commission, National Commission for Culture and Arts, and for the ASEAN Summit and Ministerial Meetings National Organizing Committee.

The refinery produced a total of 2,370 pieces of “good delivery” gold bars⁴³ which contained 949 thousand troy ounces of gold. Each bar had a minimum assay of 99.56 percent. In 2007, a total of 1.04 million troy ounces of gold were purchased by the BSP gold-buying stations from various sources including small-scale miners, in accordance with Section 17 of Republic Act (R.A.) No.7076, otherwise known as “People’s Small-Scale Mining Act of 1991.” The BSP has five existing buying stations located in Quezon City, Baguio City, Davao City, Naga City and Zamboanga City.

In 2007, the BSP gold refinery process passed the first Proactive Monitoring conducted by the London Bullion Market Association (LBMA) in line with LBMA’s system of monitoring the quality of production and assaying ability of the refiners on the Good Delivery List “to ensure that the standards are maintained.”

Currency Issuance and Retirement

Currency Issuance

Currency notes issued rise

Total currency notes issued by the BSP amounted to ₱483.2 billion (2,089.13 million pieces) as of December 2007, higher than the year-ago level of ₱470.9 billion by 2.6 percent. Meanwhile, total coins issued stood at ₱15.1 billion (13,355.04 million pieces) higher than the year-ago level of ₱13.4 billion by 12.3 percent.

Currency Retirement

Total value of unfit notes that were retired increases

A total of ₱33.45 billion (502.65 million pieces) processed/verified cancelled unfit notes were retired off-line in 2007 through the volumatic disintegrator. This represented an increase of ₱7.98 billion or 31.3 percent from ₱25.47 billion (463.28 million pieces) in 2006. Meanwhile, a total of ₱77.57 billion (136.95 million pieces) were retired on-line, higher by ₱10.96 billion or 16.5 percent compared to the previous year’s level of ₱66.61 billion (110.05 million pieces).

⁴³ London Good Delivery represents the standard measure of quality in gold and silver bullion used in physical transactions within the London market and, as such, has become the accepted standard worldwide. It is the ultimate seal of approval in the International Bullion Market that a gold or silver bar meets the exacting Good Delivery requirements of the London Bullion Market Association (LBMA).

Economic Research, Statistical, and Information Dissemination Activities

In 2007, the BSP strengthened its thrust towards more in-depth research, high quality statistics, and better information dissemination through the various initiatives and projects of the Department of Economic Research (DER), the Department of Economic Statistics, and the Center for Monetary and Financial Policy (CMFP). These undertakings have helped policymakers both within and outside the BSP to make better-informed decisions, assisted researchers and analysts to expand the scope of their studies, improved data availability, quality and transparency, and promoted a better understanding of the role of the BSP in the economy.

Various research activities support monetary policy making

During the year, policy papers were prepared every six weeks for the Advisory Committee, which makes recommendations to the Monetary Board on the monetary policy stance. These policy papers contained analyses of the economic and financial developments in the Philippines and abroad, an assessment of the outlook for prices in line with the inflation targeting framework, and discussions on selected issues which have a bearing on the conduct of monetary policy. The policy papers were the product of regular updating and monitoring of economic and financial indicators, thorough analysis of data/information trends and their policy implications, and econometric exercises on various scenarios and policy options.

Technical notes, policy briefs and other papers produced in 2007 covered a wide range of issues. Topics included asset prices and monetary policy; financial deepening; country practices in absorbing liquidity from foreign exchange inflows; the neutral real rate of interest; the impact of electronic money on domestic liquidity; developments in the global commodity markets and the US subprime mortgage market; labor and employment conditions; and the equilibrium exchange rate. In addition, comments and notes were made to reflect the BSP's position on the impact of the peso appreciation on overseas Filipino (OF) remittances and the macroeconomy, the issuance of retail Treasury bonds (RTBs) for OFs, monetary and financial cooperation in Asia, trade policy and development issues, and the proposed issuances of bonds by selected GOCCs.

Other research studies requested by the Monetary Board in support of the operations of the BSP covered long-term approaches to capital flows, alternative monetary policy instruments, global imbalances and the role of China, reforms on the foreign exchange regulatory framework, and the composition of commodities in the core inflation measure.

The BSP also contributed comments on proposed legislations and policy actions of government agencies and economic papers proposed by various institutions and individuals. Comments and position papers were related to initiatives on improving the environment for OF remittance flows; financial stability issues; capital market development; the effects of monetary policy on economic growth; the creation of regional monetary units; exchange rates and capital flows; and the world economic outlook, communication strategy, and Article IV assessment on the Philippines by the International Monetary Fund (IMF).

The BSP strengthened its working relationship with the academe and other organizations, with the upgrading of the CBP Professorial Chairs to UP Centennial Professorial Chairs as well as the hosting of the Philippine Economic Society (PES) annual meeting and selected events of the Philippine Statistical Association (PSA) by the BSP.

***Forecasting
activities are
enhanced***

In line with the formulation of monetary policy, the analysis of economic policy and setting of macroeconomic assumptions, the BSP continued to enhance its econometric modeling, forecasting and simulation activities. Along this line, the BSP prepared coded programs to automatically generate forecasts of macroeconomic variables using the single-equation and multi-equation models; adopted refinements in the data used in the models, including the alignment with the Depository Corporations Survey (DCS) concept to better forecast liquidity; and conducted additional econometric simulations on oil prices and exchange rate. Econometric exercises were also undertaken to examine the causality between bank lending and the stock market, and to identify any structural breaks in the relationship between liquidity and inflation. In addition, BSP completed studies on the various measures of the output gap and the predictive power of various exchange rate measures on OF remittances.

Environmental scanning exercises keep the BSP updated on relevant economic developments

During the Environmental Scanning Exercises (ESEs) conducted in 2007, resource persons from the banking community, private sector and academe actively participated in the exchange of knowledge on timely issues which could influence monetary policy-making. The information gathered from the ESE discussions served as inputs to the BSP's research agenda, forecast generation, and advocacy. The two ESE topics which were discussed during the year were Basel II and risk management, and developments and financing in the real property sector in the Philippines. These two ESEs were conducted in June and November of 2007, respectively.

Risk monitoring activities continue

The Early Warning System (EWS) on currency crisis uses a signal approach that compares the actual data of key indicators with the thresholds to help monitor foreign exchange pressures and predict the occurrence of a currency crisis in the future. The BSP conducted a review of the EWS, and revised the thresholds. Results of the EWS model in 2007 indicated normal conditions based on the exchange market pressure (EMP) index, weighted overall composite index of leading indicators, and sectoral indices. The Debt Sustainability Exercise, which utilizes the indicative threshold approach to anticipate the future debt servicing difficulties, is now regularly presented together with the result of the EWS on currency crisis during policy meetings of the Advisory Committee and the Monetary Board.

Improvements in data collection and management continue

In addition, the BSP now regularly measures and monitors the business cycle of the country as part of its efforts to manage the risks in the economy. The BSP makes use of various leading indicators of income, spending, services and production to help track the country's business cycle on a quarterly basis.

The BSP continued to conduct various surveys that complement regular reports and provide valuable information to policymakers and researchers. Surveys on the electronics sector, the positions and transactions with non-resident banks, and the transactions of build-operate transfer companies are conducted on a monthly basis through the Cross-Border Transactions Survey, while the Business Expectations Survey (BES), Consumer Expectations Survey (CES), and the Foreign Direct Investment Survey are conducted on a quarterly basis. Meanwhile, the Coordinated Portfolio Investment Survey (CPIS) and the Survey on IT-Enabled Services are conducted annually.

In the first quarter of 2007, the first nationwide CES was launched by the BSP. Past consumer expectations surveys from the third quarter of 2004 covered only the National Capital Region (NCR). In May 2007, the BSP released the 2005 Philippine Flow-of-Funds (FOF) Report which presented the financial transactions among the different institutions in the Philippine economy, including their transactions with the rest of the world; and the various financial instruments in which these institutions transact with one another. In mid-2007, the BSP completed the baseline study on the economic contribution of IT-enabled services based on the 2005 Benchmark Survey of IT-Enabled Services. The BSP also aligned the compilation of the Monetary Authorities Survey with the Standard Report Forms (SRF) of the IMF, in observance of international statistical standards.

During the year, the BSP, in cooperation with the Economic Policy Reform and Advocacy (EPRA), implemented the first phase of the Consumer Finance Survey (CFS) project. The CFS aims to generate data on the overall wealth and liabilities of Filipino families, including savings and investments patterns, loans and degree of indebtedness. These data are deemed useful inputs for monetary and financial policy formulation. Under the first phase of the CFS, the following activities were completed: (1) workshops with stakeholders on the framework, data elements, uses, and draft questionnaire of the CFS; (2) CFS questionnaire and enumerators' training manual; and (3) pilot surveys in the NCR, Region I and Region XI.

BSP strengthens partnership with stakeholders

The BSP held the 2007 Stakeholders' Awards on 4 July 2007, where it gave recognition to various partners from the business and government sectors. The awardees included the best respondents to BSP surveys in terms of timeliness, accuracy and completeness; commercial banks that facilitate the reporting and inflow of OF remittances; exporters that generate significant foreign exchange earnings; and institutional partners that provide valuable information support to the BSP's analysis of monetary developments and policies. The event further solidified the BSP's partnerships with stakeholders and encouraged their continued and expanded engagement with the BSP in its statistical endeavors and information initiatives.

***Published reports
and studies
promote
transparency and
improve public
awareness***

The BSP also continued to conduct regular dialogue with exporters to afford it a broader perspective from which to assess the outlook on the export sector. Among other initiatives, the BSP hosted in October 2007 a conference on Hedging Facilities for Exporters as part of its advocacy to promote greater awareness among exporters in managing foreign exchange risks.

As part of BSP's mandate of fostering greater transparency in its operations and enhancing public awareness to promote price stability, the BSP continued the publication of regular and special reports on economic and financial developments of the country. These included yearly reports such as the Annual Report, Bangko Sentral (BS) Review, Philippine Flow of Funds, and Survey of IT-Enabled Services; semestral report on the Status of the Philippine Financial System Report and Report on Regional Economic Developments in the Philippines; quarterly reports such as Balance of Payments, Business Cycle, Business Expectations Survey, Consumer Expectations Survey, Inflation Report and Report on Economic and Financial Development; monthly report on Selected Philippine Economic Indicators (SPEI); and weekly report on Monetary and Financial Trends. Other publications and reports included the Review of BSP's Monetary and Policy Stance and EWS on Currency Crisis Report which are submitted to the AC and the MB every six weeks, BSP Working Paper Series, and Frequently Asked Questions (FAQs). The FAQs cover a wide range of issues including the recent reforms on the foreign exchange regulatory framework, rules on foreign loans, core inflation, expectations surveys, flow of funds, and inflation targeting.

The Bangko Sentral (BS) Review continued to be published as a major vehicle for in-depth research output. The 2007 issue of the BS Review covered such topics as Dutch Disease and procyclicality issues related to remittances, the BSP Financial Literacy Campaign, developments in the payments and settlements system and the IMF's surveillance framework.

The BSP Working Paper Series was constituted to stimulate discussion and solicit comments/suggestions through peer review or refereeing. The two BSP working papers in 2007 included "Output Gap Estimation for Inflation Forecasting: The Case of the Philippines" and "Identifying the Determinants of Overseas Filipinos' Remittances: Which Exchange Measure is Most Relevant?" A paper on "Forecasting the Volatility of Philippine inflation using the Generalized Autoregressive

Conditional Heteroskedasticity Model” and “Adjustments in the Face of Peso Volatility: Perspective from the Past and Policy Directions” were also completed and are due for release in 2008.

BSP continues to participate actively in inter-government agency committees and international conferences

The participation of the BSP in inter-agency committees involved presentations and discussions on economic programs/policies and macroeconomic targets/assumptions at the DBCC and the National Price Coordinating Council (NPCC); the Philippine position on matters related to international trade in banking services being coordinated by the Inter-Agency Committee on Trade and Services (IACTS); and the stance of the BSP on industry petitions for tariff modifications presented at the Committee on Tariff and Related Matters (CTRM) as well as the review of bilateral investment treaties under the CTRM's Sub-Committee on Trade and Investment Agreements. The BSP was also involved in the Technical Committee on Price Statistics (TCPS) and its technical working groups; the Inter-Agency Committee on Foreign Direct Investment (FDI); the Steering Committee for the National Statistics Month (NSM); the Committee on the 16th Philippine Statistics Quiz; the PSA Board of Directors, Finance Committee and PSA Search and Awards Committee; and the Task Force on Retail and Wholesale Trade.

In the international front, the BSP participated in conferences and meetings organized by regional/multilateral organizations to discuss economic and financial developments and policy issues. The BSP also provided technical support to the Philippine delegation in various regional and multilateral meetings, conferences, and international roadshows, particularly in the areas of monetary policy, banking and finance.

Supervisory Policy Development and Banking Statistical Activities

The BSP is focused on further enhancement of existing regulatory framework, promotion of corporate governance, full implementation of consolidated and risk-based supervision approach consistent with modern banking and finance standards, and advancement of capital market reform initiatives. Moreover, the BSP continues to upgrade its supervision and examination approaches in line with internationally accepted standards, notwithstanding the limits set by the existing legal framework.

To keep pace with developments in international standards for corporate governance, improved banking operations, accounting practices, capital market regulation, microfinance and anti-money laundering, policies related to the following were implemented in 2007:

- 1) Enhancement of corporate governance to further strengthen the financial industry through improved standards on transparency, accountability and fairness;
- 2) Development of policies in support of improving banking operations and risk management;
- 3) Issuance of guidelines aimed at raising financial reporting standards for enhanced risk disclosure and effective market discipline;
- 4) Pursuance of a wide array of projects that will accelerate the development of the domestic capital market;
- 5) Alignment of local capital adequacy standards with international best practice to make regulatory capital framework more risk-sensitive and more reflective of the risks that banks are exposed to; and
- 6) Creation of more sustainable and viable microfinance institutions through its microfinance agenda.

The BSP also prepared reports describing the performance and condition of the Philippine financial industry. The following major reports were submitted to the Office of the President, the Legislative Body (both Houses), and other government agencies including co-regulators. Among these were the status report on the Philippine financial system; status report on the implementation of R.A. No. 9178 "Barangay Micro Business Enterprises (BMBEs) Act of 2002"; report on the implementation of R.A. No. 7721 (An Act Liberalizing the Entry and Scope of the Operations of Foreign Banks in the Philippines and for other Purposes); report on the risk-based capital adequacy ratios (CAR) of banks; report on the non-performing loans (NPL) of banks; Early Warning System (EWS); updates on BSP's supervised/regulated financial institutions (FIs); performance report of the Philippine offshore banking system; performance report of the Philippine foreign currency deposit system; report on exposures to the real estate sector; and report on auto loans (ALs) and credit card receivables (CCRs).

Likewise, internal systems are continuously being upgraded to support the increasing demand for real-time access to varied banking information and data mining capabilities for deeper analysis. These projects include:

- 1) The BSP Data Warehouse Project (DWP) which was conceptualized in 2003 with the objective of setting up a central data repository, initially for all supervisory data (under Phase I Implementation) and subsequently, in Phase II for the whole BSP, is now operational with all its output reports already accessible on-line to authorized users through security codes. Output reports include but are not limited to the Bank Performance Rating (BPR), the CAMELS report, and the Capital Adequacy Report;
- 2) The plan to adopt an Examiner Resource Scheduling System (ERSS) which is envisioned to facilitate efficient deployment of the limited examiner pool. The ERSS is an automated system that will generate the "best fit" schedule of deployment for the pool of on-site examiners requiring the use of optimization tools and software;
- 3) The enhancement of the Financial Reporting Package (FRP) to further improve the efficiency of banks' reporting system; and
- 4) Constant updating of the Central Information File (CIF) which provides BSP examiners additional information on banks' board and senior management.

Branch Operations

The BSP promotes stronger presence in the countryside

The BSP, through its three (3) regional offices⁴⁴ and eighteen (18) branches⁴⁵ continued to provide basic central banking services in the countryside that helped facilitate monetary and financial transactions in the regions in 2007.

The BSP ensured that the supply of currency notes and coins to the regional offices and branches was sufficient to meet the requirements of banks in servicing their clienteles' needs. The Electronic Rediscounting facility was likewise made available to provincial bank branches to further enhance the availability of credit in the countryside.

⁴⁴ La Union, Cebu, and Davao.

⁴⁵ Zamboanga, Tuguegarao, Tacloban, Ozamiz, Naga, Lucena, Legazpi, Kalibo, Iloilo, General Santos, Dumaguete, Dagupan, Cotabato, Cagayan de Oro, Cabanatuan, Batac, Bacolod, and Angeles.

The regional offices and branches of the BSP continued to play a pro-active role in the economic and financial literacy campaign by starting to operationalize the regional Economic and Financial Learning Centers (EFLCs). The EFLCs become the learning hub in their respective areas. The regional offices and branches of the BSP likewise extended valuable assistance for the successful conduct of the various public information campaigns and advocacy programs of the BSP. The BSP regional offices and branches also served as the listening posts in the countryside by generating quarterly regional economic development reports and coordinating the conduct of business and consumer expectations surveys.

Advocacy Programs

The BSP continued to support the promotion of economic and social development objectives of the government through advocacy programs in microfinance, consumer protection and economic and financial education.

Microfinance

The BSP remains deeply committed to create more sustainable and viable microfinance institutions through its microfinance agenda focused on: (1) establishing an enabling policy and regulatory environment and stepping up training and capacity building schemes; and (2) mobilizing support for microfinance advocacy programs. Positive results of these efforts were reflected in the increasing number of banks engaged in microfinance operations. In particular, the number of banks providing microfinance services increased in 2007, while greater involvement by large commercial banks in microfinance activities was noted. The focus of the BSP's microfinance activities in 2007 was to foster linkages between large and small financial institutions to be able to leverage the resources and skills of these institutions and expand further their operations as well as support initiatives aimed at increasing the skills and capacity of microfinance clients (i.e., financial education and business development). As of end-September 2007, there were 227 banks (largely dominated by rural banks) with microfinance operations. These banks were reaching more than 839,125 clients/households with outstanding loan portfolio of ₱6.0 billion. Banks have also generated deposits from micro-borrowers totaling ₱1.8 billion as of end-September 2007.

Consumer protection

The BSP aims to enhance awareness of the public/consumers on issues concerning financial products and services through policy initiatives, briefings and road shows to various sets of customers, information campaign through print and broadcast media, and complaint resolution. In 2007, the BSP conducted awareness sessions on the following:

- 1) consumer protection which covers the role of the BSP in consumer protection, consumer protection laws and regulations, and consumer assistance mechanism;
- 2) BSP issuances affecting credit card holders and transactions, how a credit card works, wise use of credit cards, how to manage credit card debts, identifying credit card frauds and how to help consumers protect themselves from fraudulent credit card practices and identity theft;
- 3) BSP issuances affecting remittances, how foreign remittances reach the designated beneficiaries; identifying remittance scams and how to help the consumers protect themselves from fraudulent remittance practices and identity theft; and
- 4) BSP issuances affecting pawnshop transactions, pawnshop transaction flow and how to help the consumers protect themselves from fraudulent pawnshop practices.

Consumer issues addressed and welfare programs completed in 2007 were as follows:

- 1) Facilitated resolution of 84 percent or 1,378 individual cases of financial consumer issues from a total of 1,643 cases received and processed;
- 2) Initiated and continued working on the proposal for a circular that would help Persons with Disabilities (PWDs) in transacting with financial institutions;
- 3) Initiated clarifications of various banking rules and regulations affecting consumers through 13 position papers;
- 4) Conducted four (4) credit card awareness sessions within and outside BSP (e.g., public malls, in coordination with the Department of Trade and Industry (DTI) and through broadcast media);

- 5) Web-published handbook on consumer protection laws and regulations covering financial institutions;
- 6) Published three (3) public advisories on: (i) tips in using Automated Teller Machines (ATMs) and related expenses/bank charges; (ii) text scams; and (iii) remittance issues, in coordination with the DTI; and
- 7) Helped in public education on various issues on credit cards, pawnshops, remittances through the media.

Economic and financial education

Regional Economic and Financial Learning Centers (REFLCs)

The BSP continued to take a proactive stance in embarking on a consumer education program that aims to improve the basic financial education of the public. In 2007, it initiated the regional economic and financial learning centers (REFLC) project aimed at establishing libraries, statistical and learning centers for the regional EFLCs as well as building skills and capabilities of regional EFLC staff members.

Public Information Campaigns (PICs) on the Role of the BSP in the Economy

The BSP continued its public information campaigns (PICs) across the country including Metro Manila in line with efforts to enhance public awareness of the role of the BSP in the country's economic development and to further enhance the transparency of monetary policy. The PICs have been conducted for the last seven years. The BSP has conducted 60 public information briefings all over the country since 2000. These briefings have been attended by almost 4,000 representatives from the academe, business and labor sectors, the banking community, government and non-government organizations, as well as members of the press. In 2007, the PICs were held in the following state universities and cities: Ormoc, Olongapo, Bago, Batangas, Calbayog, Benguet State University, Polytechnic University of the Philippines, Philippine Normal University, Cebu Normal University and Capiz State University.

Users' Forum

The BSP continued to conduct the Users' Forum every October of each year in celebration of the National Statistics Month. It aims to: (a) raise the level of public appreciation in current economic and financial issues; (b) educate the public and enhance awareness on BSP-produced statistics at the regional level; and (c) further strengthen the feedback mechanism on the conduct of the FLP as well as on the BSP's performance. In 2007, the BSP conducted the Users' Forum of BSP-Produced Statistics in the cities of Dumaguete and Legazpi. The Forum reached out to a diverse audience from the academe, media, government, banking and business sectors.

PICs against Counterfeiting

In line with its Clean Note Policy, the BSP continued to conduct information campaigns before various sectors on currency familiarization, proper handling of currency notes and coins and counterfeit detection of genuine Philippine/other acceptable foreign currencies. Likewise, the BSP continued to pursue the Reward System where the BSP encourages the public to furnish information on persons/groups responsible for the manufacture/passing of counterfeit currencies. In 2007, the BSP conducted the following:

- 1) Eight (8) briefings attended by a total of 480 City and Municipal Treasurers/Assessors in the cities of Puerto Princesa, Laoag, Vigan, Batac, Tagbilaran, Kalibo, Tacloban, General Santos, Dipolog and Bukidnon;
- 2) Twenty-Nine (29) briefings participated by 4,585 market administrators, market vendors and store owners in 29 cities/municipalities of Luzon, Visayas and Mindanao; and
- 3) Fifteen (15) briefings attended by 980 transport operators, drivers and conductors in 9 cities (i.e., Batangas, Cabanatuan, Candon, Dagupan, General Santos, Legazpi, Lucena, Meycauyan and Naga) and 5 municipalities in South Cotabato and Saranggani Province.

Financial Literacy Campaign for Overseas Filipinos (OFs) and their Beneficiaries.

The BSP initiatives to improve OFs' remittance environment are geared towards the following:

- 1) *Enhancing transparency and competition to lower remittance charges.* To further enhance business transparency in the remittance process, the BSP launched an OFW portal on 30 March 2007, with specific pages in the BSP website that link the users to the financial institutions' relevant information on remittances;
- 2) *Improving payments and settlements systems to facilitate remittances and help further reduce remittance charges.* As the BSP takes the lead in promoting efficient payments and settlement systems, the policy direction is to minimize layers in the remittance flow process and help reduce further transaction costs. Less layers and lower service fees would, in turn, allow easy, convenient and less expensive access of beneficiaries to a safe, sound and efficient payments system. Specific measures put in place in 2007 to foster a more efficient remittance system included (a) Grant of FCDU license to rural banks/cooperative banks; (b) interconnection of three major automated teller machines (ATM) networks; and (c) BSP's approval of G-Cash, Smart Padala and stored-value cards as alternative modes of remittances;
- 3) *Channeling remittances to financial investments.* For purposes of optimizing the use of remittances for development and preparing the OFs for their future reintegration into the Philippine economy, the BSP promotes savings by OFs and their beneficiaries and their investment in government securities, bonds, and productive enterprise activities such as those by small- and medium-enterprises (SMEs) and microenterprises; and
- 4) *Increasing financial education of OFs and their beneficiaries.* Financial education is also essential for OFs' families/beneficiaries to start saving and investing a larger portion of the remittances sent to them. The Financial Literacy Campaign (FLC) for OFs and beneficiaries aims to (a) cultivate financial education among OFs and their beneficiaries; (b) promote savings and investments among OFs/their beneficiaries by informing them of alternative uses of their remittances, including savings, investments in

financial instruments and business ventures; and (c) familiarize OFs with the consumer laws and BSP issuances relating to consumer protection.

In 2007, the BSP conducted a total of seven (7) FLCs for OFs and their beneficiaries, averaging 140 participants per FLC in the cities of Manila, Baguio, Legazpi, Bacolod, Quezon, Cagayan de Oro and Dagupan.

For Banks in the Countryside

BSP expands eRediscounting facility in the countryside

The BSP continued to expand its Electronic Rediscounting or eRediscounting facility which was launched in December 2006. In 2007, the BSP unveiled this facility in Cebu, Davao and La Union to help spur lending activities to the countryside and lower transaction costs of banks. With eRediscounting, banks may conduct their rediscounting transactions and inquiries with the BSP on an online, real-time basis from their own bank premises. Banks can now file or send loan applications to the BSP in less than 10 minutes and know whether their loan applications have been approved or disapproved. The eRediscount facility also allows the release of loans online as well as payments by banks of their rediscounting obligations online.

Conference on Hedging Facilities for Exporters

BSP organizes conference on hedging facilities for exporters

On 3 October 2007, the BSP, in collaboration with banks, organized a conference on hedging facilities to promote greater public awareness on financial matters, particularly among exporters, in managing their business risks. The topics included developments in the foreign exchange market, foreign exchange strategies for exporters, BSP regulations for hedging transactions and hedging programs for exporters and hedging products offered by commercial banks.

Financial Literacy Campaign for Schoolchildren

The Financial Literacy Campaign for schoolchildren was conceptualized by the BSP in 2007 in collaboration with the Department of Education (Dep-Ed) and the Economic Policy Reform and Advocacy (EPRA) of the Ateneo de Manila University. This project aims to create a new generation of financially literate savers, starting with schoolchildren. This project came about in response to the result of surveys conducted by private groups showing that less than 5 percent of the Filipino youth regularly save money and that Filipinos have a financial intelligence quotient of only 47.8 points, out of the maximum score of 100. This FLC aims to integrate in the

elementary curriculum the lessons on money, money management, and basic economics related to savings. The project is expected to be implemented during school year 2008-2009.

Outreach Programs

Tulong Barya para sa Eskwela. The *Tulong Barya para sa Eskwela* met its twin objectives of promoting coin recirculation through the regular use of coins and raising of funds for the benefit of public elementary schools. In 2007, aside from increased public awareness of the need to regularly use coins, the campaign was able to flush out 6.7 million pieces of coins equivalent to production savings of ₱8.2 million. Out of this savings, the BSP bought 510 computers which were distributed to more than 1,500 schools all over the country. In addition, the BSP was able to raise some ₱6.7 million in the campaign which was turned over to the Department of Education for their other needs.

Tulong Barya para sa Gawad Kalinga (GK). The *Tulong Barya para sa GK*, an offshoot of the earlier *Tulong Barya para sa Eskwela*, ushered in the last leg of the BSP's fund raising efforts, which was intended to fund the construction of 100 GK houses. By end-2007, the BSP fulfilled its commitment of 100 GK houses: 50 houses in Las Piñas and another 50 in Tatalon, Quezon City.

Institutional Building

Corporate Planning

The Corporate Planning Office shifted from a function-oriented planning framework to a planning platform in 2007. This is to strengthen strategic alignment and formalize an organizational performance management system in the BSP. The BSP Organizational Model was adopted as the strategic planning framework for the Bank. The BSP Organizational Model served as a planning tool to better illustrate the key drivers of the BSP's success through the series of linked hypotheses that depict a more coherent story of how BSP works towards the attainment of its mission and vision. The BSP Organizational Model is anchored on the following guiding principles: a) advocate a systems perspective; b) promote greater stakeholder orientation; c) establish strategic alignment and focus; d) provide a robust platform for organizational performance management; and e) serve as an effective communication tool.

In order to forge commitment to the identified objectives, the BSP organized a clear set of performance metrics and targets that represents the expected level of performance required to achieve the desired level of performance. The BSP Organizational Performance Scorecard concretized BSP's commitment to attaining corporate objectives, fostering heightened accountability and promoting good governance.

The CPO facilitated the conduct of the 2007 BSP Strategic Planning Conference in three stages: (1) environmental analysis session in April 2007; (2) Corporate Monitoring Committee workshops on the corporate objectives, metrics and strategies of the BSP for 2008-2011 in May to June 2007; and (3) Corporate Level Planning Conference held on 15-17 June 2007. Subsequently, the BSP Strategy was cascaded through the conduct of Sector and Department Planning wherein each sector/department defined its respective organizational model and formulated its own performance scorecard.

To promote strategic management thinking in the Bank, the CPO, in cooperation with the Bangko Sentral ng Pilipinas Institute (BSPI), organized on 16 January 2007 its fourth Executive Forum Series (EFS) offering on the topic on change management with its theme, "Planning and Managing Change towards Greater Responsiveness".

Information Technology

Major accomplishments in the area of information technology were achieved in 2007. Through coordinated efforts with the various BSP departments/offices, ITSS deployed and implemented three application systems developed in-house and two outsourced projects. It also provided support in the definition of business requirements and preparation of Requests for Proposal (RFPs) of six outsourced projects which are currently in various stages of procurement. These projects are, as follows:

Projects developed in-house

- 1) Electronic Rediscounting System (eRediscounting);
- 2) Core Financial Accounting System (cFAS);
- 3) Enhanced Automated Time Recording (ATR) System;

Outsourced Projects

- 1) Provident Fund Management System (PFMS);
- 2) Data Warehouse Project (DWP) – Phase 1;
- 3) Integrated Property, Supplies and Materials Management System (IPSMMS);
- 4) BSP Employee Self-Service (BESS);
- 5) Integrated Currency Management and Production System (ICMPS);
- 6) Financial Institution (FI) Portal;
- 7) Acquired and Other Assets Management System (AOAMS); and
- 8) Debt Management and Financial Accounting System (DMFAS).

For the overall business continuity plan of the BSP, where infrastructure enhancements of the BSP main office and SPC sites are involved, the following activities were implemented:

- 1) Consolidation of the PC Intel server in September 2006;
- 2) Operationalizing of the Resource Monitoring Center on 8 June 2007;
- 3) Upgrading of the storage and tape library for filing Q1 2008;
- 4) Consolidation of pSeries (RS/6000) for filing Q1 2008;
- 5) Initiated the procurement process for the Installation of high speed fiber connection between the BSP main office and the SPC currently under procurement; and
- 6) Started the procurement process for the Consolidation of uninterruptible power supply (UPS) and other environmental requirements currently under procurement.

Human Resource Development

The BSP continued to streamline its human resource development operations during the year. The approval of the competency profiling framework provides the basis for competency model development which will serve as the guide in recruitment, promotion, training, development, and performance evaluation. The Individual Development Plan (IDP) and the policy framework on succession management were put in place to transfer knowledge, skills and expertise to officers and staff in the line of succession. The IDP acts as a performance development tool, identifies specific performance improvement goals and outlines interventions to attain those goals. The approval of the Merit Selection Plan ensures strict adherence to principles of merit, fitness and equality in the selection and placement of employees.

Reorganization initiatives were also completed during the year to enhance operations and delivery of services. On the individual level, internal qualification requirements for positions were rationalized.

Conference, Seminars and Workshops

The BSP is guided by its four-point training strategy, namely: (1) focusing on corporate growth while developing the individual; (2) adapting an integrated training approach such as blended learning, strategic partnerships and technology-leveraging; (3) promoting higher education primarily through educational scholarships; and (4) evaluating of results of training.

In 2007, 66.97 percent or 3,234 of the 4,829 BSP employees participated in at least one in-house, local, or foreign training event. MSS recorded the highest number of participants at 1,057 employees followed by SES at 768 employees, SPC at 547 employees, RMS at 519 employees, and EMS at 343 employees. Relative to each sector's population, SPC topped the list with 97.33 percent of its population attending at least one training event. It was followed by EMS at 77.60 percent, SES at 75.29 percent, MSS at 61.13 percent, and RMS at 48.23 percent.

A total of 10,596 employees participated in trainings. Of this, 9,435 employees or 89.04 percent participated in in-house training courses while 6.70 percent and 4.26 percent attended local and foreign events, respectively. On the average, a BSP employee attended 2.26 training events and conferences and received 47.26 hours of training for the year.

A total of 704 training events, meetings, and conferences were participated in by BSP staff and conducted for supervised financial institutions. These events involved 940 offerings, 343 of which were in-house, 223 were local, and 346 were foreign trainings. On the average, an in-house course was offered 2.29 times during the year.

The training for supervised financial institutions was attended by 1,904 participants for 28 offerings of 8 training events.

BSP officials and employees attended a total of 80 meeting and conferences (32 local and 48 foreign) for the year. The BSP participated in 301 meetings/conferences held domestically and overseas (232 local and 69 foreign meeting/conferences).

The BSP provided significant amount by resources for the enhancement of technical knowledge and skills of BSP officials and employees. Technical training accounted for 73.29 percent of the total training hours and 34.48 percent of total training participation.

The level of training activity in the BSPI may be gauged by the metric on average training days per employee which is 5.91 days for 2007.

The BSP's in-house training program is a wide-array of courses focusing on capability building and enhancement of Bank personnel in terms of technical, skills, leadership and behavioral competencies. Technical topics relevant to core central banking functions include: economic and financial forecasting, economic statistics, econometric modeling, risk-based supervision, risk management, forensic examination of counterfeit notes, information and communication technology, and property management and appraisal.

BSP lawyers had continuing updates on legal issues and best practices through the year-round offering of Mandatory Continuing Legal Education. This enabled them to comply with the registration requirements of the Integrated Bar of the Philippines. Training interventions were also made to support the capability requirements of the Bank in the areas of human resource, information technology, procurement, crisis management, productivity and quality, health, safety and security.

The Competency Profiling of Banknote Printers produced nine certified profilers who in turn completed profiling five (5) SPC job families. Meanwhile, the Bank Notes and Securities Printing Department printers who were the pilot group for competency profiling went through a series of training courses as a result of the competency gap analysis. The courses included Business Process Flowcharting and Work Processes and Procedures. Workplace application of learned skills produced the revised procedures manual and work instructions of various working units in Bank Notes and Securities Printing Department. Increased number of training programs for the Security Plant Complex personnel on safety and health and technical topics contributed to significant improvement of performance by the workforce.

The regional Monetary Affairs Sub-Sector personnel had greater access to in-house courses as BSP brought various offerings to the BSP regional offices and branches. The BSP Institute's training statistics recorded 1,195 training participation of RMASS personnel to the 59 offerings of technical and skills development courses. This entailed customization of course design, on-site/off-site logistics preparations, among others, with the regional offices/branches and providers, particularly for computer courses, to ensure the successful implementation of training programs.

Skills building courses, i.e., oral and written communication, computer proficiency, research and writing proficiency, project management, cost-benefit analysis were offered year-round to support BSP's drive for excellent performance. These were supplemented by courses aligned with BSP's core values and corporate culture such as the Orientation Course for New Employees, Values Orientation Workshop, Work Ethics, Accountability and Values Enhancement Seminar, Adding the Extra Mile in Customer Service and Life-Career Transition Planning: A Pre-Retirement Seminar.

New and enhanced courses, both programmed and unprogrammed, were introduced in the areas of technical, skill development, leadership and management and organizational development to meet current and future business needs. These courses as well as those just-in-time training requests of internal clients were conducted in response to the mandates of the Bank, developments in the thrusts of the sectoral planning conference, and initiatives/projects of the departments and offices.

External Training

The BSP facilitated the participation of Bank personnel in local public offerings to learn from subject matter experts and professionals, establish networking and keep abreast with the developments in their respective industry's best practices. Conferences and training events hosted by local and international organizations institutions cover topical areas on information technology, accounting, auditing, procurement, human resource, building management, administrative functions, training, and public relations, among others.

Foreign training, on the other hand, provided opportunities for bank officials and personnel to acquire knowledge and skills focused on central banking functions, which are scarcely available locally. The BSP's continued partnership and networking with international organizations and financial agencies allowed for increased number of training allocations and invitations in public offerings sponsored by the IMF Institute, (situated in both Washington D.C., USA and Singapore), the South East Asian Central Banks (SEACEN) Research and Training Centre, the Financial Stability Institute of the Bank for International Settlements, the Center for Central Banking Studies of the Bank of England, the International Banking and Finance Institute of Banque de France, Deutsche Bundesbank, the Federal Reserve Bank System, Comptroller of the Currency (USA), the World Bank Institute, South East Asia, New Zealand and Australia (SEANZA), Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), Asia Pacific Rural and Agricultural Credit Association-Center for Training and Research in Agricultural Banking (APRACA-CENTRAB), Center for Latin American Monetary Studies (CEMLA) and other central banks in the regions. The topics of these foreign trainings, included central banking, macroeconomic and monetary policy, financial risk management, Basle II, payments systems, banking supervision, accounting and audit, cash management, anti-money laundering, asset liability management, reserve management, exchange rates, financial derivatives, and debt management , among others.

BSP personnel involved in core disciplines and support functions, particularly the Resource Management Sector and Security Plant Complex, were also exposed to leading technologies and global best practices through their participation in international events hosted by professional organizations and reputable training organizations.

Scholarships

For 2007, a total of 53 personnel were granted scholarships to pursue graduate studies (Masteral degree) in foreign and local universities. Ten of these scholars were enrolled in various foreign universities through the BSP Educational Scholarship and Training Program (two grantees) and co-sponsorships with foreign agencies namely Japanese International Cooperation Center-Japanese Grant Aid for Human Resource Development Scholarship, Monbukagakusho (Japanese) Government, Japan-IMF Scholarship Program for Asia and NZAID (eight grantees). Masteral degree programs pursued in foreign universities are on central banking core functions, e.g. economics, finance and public policy.

On the other hand, a total of 43 Bank personnel were authorized to enroll in various local universities for graduate studies – nine under the CSC-Local Scholarship program and 34 under the Bank's Off-Campus Master's Degree-Student Financial Fund or "Study Now Pay Later Plan." These local scholars pursue master's degree programs on business administration, computational finance, information management, public management, technology management and statistics.

Forty-five (45) dependents of BSP employees were prequalified to take the competitive examination for the Scholarship Program for Deserving Children of BSP Employees for SY 2007-2008. The examination that was conducted simultaneously in the Main Office and BSRO – Davao yielded 17 successful applicants who were granted scholarship.

The 2007 Bank's scholarship program produced a total of 18 graduates: nine under the BEST Program from various foreign schools in the US and the UK, two under the Foreign Agency-Assisted Scholarship from University of Wollongong, three under the Off-Campus Master's Degree-Student Financial Assistance Fund from Asia Pacific College and four under CSC-LSP Master's Degree Completion from UP Manila and UST.

Global Professional Certification Programs

Recognizing the importance of acquiring professional certification to elevate the performance level of staff in their respective fields, the BSP facilitated review and applications for certification examinations of Bank personnel on specialized areas, in particular financial analysis, internal audit, information systems analysis, financial risk management, financial services analyst, etc.

In 2007, BSP examinees achieved pass rates of 60 percent for Level 1 and 40 percent for Level 3 in the Chartered Financial Analyst (CFA) examination. Similarly, 21 personnel passed the Certified Internal Auditor (CIA) examination held last May 2007 where examiners from the BSP emerged as one of the three global topnotchers that made them a recipient of the William S. Smith Certificate of Honor Award. CIA and Certified Financial Risk Manager (FRM) review classes and examination were facilitated mid-2007 to 45 and 44 Bank personnel, respectively. Forty-two (42) CIA examinees were awaiting results of the certification examination; while five (5) of the 17 FRM examinees had successfully passed the examination.

Regional Co-hostings

The BSP partnered with SEACEN-Financial Stability Institute, SEACEN-Federal Reserve System and De Nederlandsche Bank for the regional conduct of workshops on supervision and Basel II. These workshops were attended by BSP examiners, economists, statisticians and professionals from other regional central banks. Workshops co-hosted were: 13th SEACEN-FSI Regional Seminar for Supervisors and Regulators Supervisory Review Process of Pillar II w/ Special Focus on Interest Rate in Banking Books, 4th SEACEN Seminar on Preparations for Implementation of Basel II, 47th SEACEN/FRS Intermediate Course on Banking Supervision: Risk-Focused Supervision and BSP/DNB Challenges to BOP Compiler.

Partnership with the regional/international training institutions and financial agencies as mentioned in the preceding paragraphs to sponsor regional training courses realize the same objectives as sending participants to foreign training with the added value of having more BSP participants attending a high value course at a much lower training cost.

Special Projects

E-Learning

The BSP is committed to maximize the use of technology for the transfer of learning. The BSP, in line with the global trend towards providing total learning solutions, is upgrading its functions from merely providing training to building a learning culture. This means that learning will no longer be limited to classroom sessions but, through technology, will be available anytime, anywhere. This

technology that will provide the environment for the development of a learning culture is E-learning.

As part of the e-learning training delivery strategy, the BSP facilitated the enrolment of a number of employees in on-line courses offered by the United Nations Institute for Training and Research (UNITAR). These courses include: Negotiation of Financial Transactions, Fundamentals of Capital Market Development and Regulation, Basic Course on Public Debt Management, Effective Public Debt Management and Negotiation of Financial Transactions.

Scholarship Assessment Center

Another initiative of the BSP for continual improvement is the enhancement of the BEST Program's selection/admission process. The BSP Institute embarked on a study of adopting an assessment center that will –

- 1) identify the predictors of “successful scholars”;
- 2) determine whether the candidates meet the basic requirements of the scholarship program based on their qualifications;
- 3) include an in-depth assessment tool that can be easily administered and include both behavioral components and skills testing; and
- 4) Provide simple to understand, graphic reporting of an individual's potential, including attribute descriptions and test-guides.

The Scholarship Assessment Program, to be implemented to the BEST candidates for SY 2008-2009, will create a better system of predicting talents in the Bank who are worth developing, likely to build their career in the Bank and ultimately generate the best possible return on the Bank's investments.

Crisis Management

The BSP, through the Crisis Management Office, conducted Workshops/Briefings on the Departmental Business Continuity Plan (DBCP) template for HO & SPC on 19 November 2007 and for ROs/RUs on 16 November 2007 and special sessions for a few departments/offices. A bank-wide education and awareness initiative on business continuity and emergency management related

topics are also broadcasted every Monday through the network starting on 13 March 2007.

Related activities on crisis management included:

- 1) Training package for capacity building of all Disaster Brigade Chiefs and members bank-wide;
- 2) Development of a computerized system through the BSP Intranet wherein updates/changes in the Departmental Call Trees (DCTs) & Text Connect can be directly undertaken in real time by all BSP units;
- 3) Observance of the drills in the twenty-one (21) ROs/RUs as an added activity during official visits primarily to conduct briefings on BSP Business Continuity Plan (BBCP) and Disaster Control Manual (DCM);
- 4) Distribution of the Institutional Call Tree (ICT) to the top three decision-makers of all departments/offices in HO and SPC in wallet/pocket-size version; and
- 5) Provision of technical assistance to SSC and Disaster Control Organization (DCO) in Fire-bomb drills.

Systems and Methods

The BSP maintains the status as one of the most suitable benchmark for ISO certified management systems in the public and private sectors. In 2007, 17 departments and 7 branches were able to conform to the Directive under Executive Order 605 which directs all departments of the Executive Branch, to adopt ISO 9001:2000 QMS and the applicable Government Quality Management System Standards as part of implementation of a government-wide Government Quality Management Program and to pursue certification.

In addition, the BSP head office, three (3) regional offices and seven (7) branches achieved effective implementation of the Environmental, Occupation Health and Safety Management System (EOH&SMS). The BSP continues to instill and put premium on the importance of health and safety management among BSP personnel.

Other related service deliveries of the BSP include:

- 1) The completion of the BSP Service Manual; and
- 2) The conduct of a series of EOH&SMS awareness workshops to SES new examiners and ITSS personnel and training program extended to janitorial personnel to meet the requirement of ISO 14001 and OHSAS 18001 for outsourced services.

International Economic Cooperation

BSP participates actively in international meetings that cover monetary and financial issues

In 2007, the BSP continued to be engaged actively in international cooperation activities, particularly on monetary and financial concerns under various initiatives and programs of multilateral and regional bodies, as well as foreign financial institutions.

At the regional level, efforts were focused on information exchange and policy dialogue, regional financial arrangements, regional bond market development, and free trade agreement (FTA) negotiations among ASEAN member-countries and between ASEAN and its major trading partners. At the multilateral front, the BSP has promoted its position on various issues presented by IMF and World Bank, including the need for quota review that will reflect a greater role of the emerging market economies in the global economy.

Economic Surveillance and Policy Dialogue

At the regional and multilateral levels, economic surveillance and policy dialogue processes remained an integral element of international economic and financial cooperation. At the multilateral fora, surveillance issues were discussed at the meetings of the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

At the regional level, the BSP also participated in various initiatives to develop regional surveillance capabilities that complemented those undertaken by other international and regional financial institutions. Economic surveillance undertaken at the regional level included those covered by the Executives' Meeting of the East Asia-Pacific Central Banks (EMEAP), South East Asian Central Banks (SEACEN), and under the Finance Ministers' Processes of the Association of Southeast Asian Nations (ASEAN), ASEAN plus China, Japan and Korea (ASEAN+3), and the Asia-Pacific Economic Cooperation (APEC). Among these initiatives are the creation of a new committee of

EMEAP deputies, to examine issues related to monetary and financial stability among the EMEAP member economies; and the enhancement and integration of the ASEAN+3 economic surveillance mechanism into the regional liquidity support framework of the Chiang Mai Initiative (CMI).

Regional cooperation in monitoring short-term capital flows also remained a priority. Through the SEACEN Expert Group (SEG) on Capital Flows, the BSP participated in the exchange of information and analysis on capital flows among the SEACEN member countries.

Short-term Liquidity Support

Collaborative efforts on regional financial cooperation in the area of short-term liquidity support gained significant strides in 2007. To further strengthen the regional financial arrangement, the ASEAN+3 countries agreed to work towards an advanced framework of regional liquidity support arrangement under the Chiang Mai Initiative (CMI).

The CMI was established in May 2000 to provide, in a timely manner, financial resources to any ASEAN+3 country participating in the CMI, which is in need of balance of payments or short-term liquidity support. This facility is important because a regional financing arrangement would help complement financial support from an IMF program. The CMI has two components: first is the ASEAN Swap Arrangement (ASA), and the second is the network of bilateral swap arrangements (BSAs) between participating member countries of the ASEAN+3.

The ASA allows member-banks to swap their local currencies with major international currencies for a period of up to six months, and for an amount up to twice their committed amount under the facility. The ASA was first established in August 1977 by the five founding members of the ASEAN, namely Indonesia, Malaysia, the Philippines, Thailand and Singapore. In May 2000, the ASEAN Finance Ministers, under the CMI, agreed to expand participation to the ASA to include all ten of the ASEAN member countries. In April 2005, the central banks of ASEAN member-countries agreed to increase the size of the ASA from US\$1 billion to US\$2 billion to enhance further its credibility and usefulness in providing short-term liquidity assistance to members as well as strengthening further the commitment among ASEAN member countries towards regional financial cooperation. The new Memorandum of Understanding (MOU) on the expanded ASA came into force on 17 November 2005. In

October 2007, the BSP signed the Supplemental MOU renewing the ASA for a period of another two years, commencing on 17 November 2007.

At the 10th ASEAN+3 Finance Ministers Meeting held on 5 May 2007 in Kyoto, Japan, the Finance Ministers agreed in principle that a self-managed reserve pooling arrangement is an appropriate form for multilateralizing the CMI. The Finance Ministers also agreed to the conduct of further in-depth studies on the key elements of the multilateralization of the CMI including surveillance, reserve eligibility, size of commitment, borrowing quota and activation mechanism. The proposed framework is aimed at promoting a more effective and efficient pooling and utilization of regional liquidity support among member-countries. The BSP remained actively involved in the Task Force on CMI Multilateralization, as co-chair with the Bank of Korea, tasked to study the size of commitment and additional resources.

Under the CMI, the Philippines concluded BSA agreements, with China, Japan, and Korea. In October 2007, the Philippines' BSA agreement with Korea was renewed for another three years upon its expiry. The total amount of the Philippines' BSAs stands at US\$10 billion. Collectively, as at end-2007, the BSA network, which comprised 16 agreements among eight ASEAN+3 countries, totaled US\$84 billion, compared to US\$77 billion at end-2006.

Regional Bond Market Development

The ASEAN+3 countries, including the Philippines, are actively involved in the Asian Bond Markets Initiative (ABMI). The aim of the ABMI is to broaden and deepen the capital markets so that the availability of funds in the region will be more efficient, particularly reducing over-dependence on the banking system. The ABMI has focused on facilitating access to bond markets and enhancing market infrastructure for local and regional bond market development. These initiatives emphasized the following: creation of new securitized debt instruments and credit guarantee mechanisms; implementation of settlement and exchange regulations; issuance of local currency bonds by non-domestic issuers; introduction of a credit rating system; dissemination of information on Asian bond market developments; and coordination of regional technical assistance.

These initiatives have, so far, resulted in the diversification of issuers and types of local currency denominated bonds. The Asian Bonds Online Website (<http://asianbondsonline.adb.org>) also continued to help improve risk management in the region. Considerable progress has been achieved in studies on regional credit guarantee and investment mechanism, settlement system, credit rating harmonization, as well as technical assistance coordination. At the 10th ASEAN+3 Finance Ministers Meeting held on 5 May 2007 in Kyoto, Japan, the Finance Ministers endorsed the conduct of new studies on exploring new debt instruments for infrastructure financing, promotion of securitization of loan credits and receivables, and promotion of Asian medium-term note program.

As part of its Phase III Technical Assistance (TA) program under the ABMI, the BSP co-sponsored two workshops on the areas of bond market development in cooperation with Daiwa Institute of Research Ltd. The first BSP co-sponsored workshop was on Securitization of Future Cash Flows, which was held on 26-27 June 2007. The workshop discussed the overview of securitization issues in the Asian region, the structure of future flow securitization, procedural issues and rating methodologies, legal issues, as well as global accounting standards on securitization and risk management. The second BSP co-sponsored workshop was on Collective Investment Schemes (CIS), which was held on 9 November 2007. The workshop covered the overview of the CIS and current CIS-related issues, major challenges in mutual funds and the Unit Investment Trust Fund (UITF) market in the Philippines, overall structure of the exchange traded funds (ETFs), the characteristics of fixed income ETFs, the fund rating system/structure, and the fund selection processes and its role in Japan.

Under the auspices of the ASEAN Working Committee on Capital Market Development, the Philippines organized the 4th ASEAN Finance Ministers' Investor Seminar (AFMIS) to market ASEAN as a preferred investment site and to promote ASEAN advocacies in regional finance and monetary cooperation. The AFMIS was held on 23 October 2007 in New York City, USA with the theme "Borderless ASEAN: Stronger, Soaring Together". The 4th AFMIS was attended by international business leaders, fund managers, investors and ASEAN government officials.

Financial Services Negotiations

The BSP played an active role in the services negotiations at the World Trade Organization (WTO) and being the lead agency undertaking negotiations on trade in banking services. The BSP continued to support efforts toward the Philippines' ratification of the 5th Protocol (Financial Services).

On regional free trade agreements, the fourth round of financial services negotiations under the ASEAN Framework Agreement on Services (AFAS), which was launched by the ASEAN Finance Ministers at their meeting in April 2005 in Vientiane, Lao PDR, is in the final stages of completion. A "Protocol to Implement the Fourth Package of Commitments on Financial Services Liberalization" is expected to be signed by the ASEAN Finance Ministers when they meet in April 2008 in Hanoi, Vietnam. The BSP co-chaired with the Department of Finance in the Working Committee on Financial Services Liberalization under AFAS (WC-FSL), which is coordinating the financial services negotiations among the ASEAN member countries. Moreover, the WC-FSL also helped in the free trade agreement negotiations of ASEAN with its dialogue partners, namely Australia/New Zealand, Korea, and the People's Republic of China.

The advent of an increasingly competitive Chinese and Indian economies is inducing ASEAN to bring its cooperation activities into a higher level of regional integration, specifically closer economic, security and socio-cultural integration. Thus, ASEAN is actively pursuing significant steps towards achieving an ASEAN Economic Community (AEC), with free movement of goods, services, investment, and skilled labor further supported by greater capital mobility. To achieve the AEC, member-countries have embarked on efforts to progressively eliminate tariff and non-tariff barriers under the ASEAN Free Trade Area (AFTA) and continuously liberalize a broad range of services under the ASEAN Framework Agreement on Services (AFAS), among other initiatives. These are geared towards enabling ASEAN companies to reduce operating costs, improve economies of scale, and enhance capacity to participate in the regional production network and global supply chain.

During the 12th ASEAN Summit in Cebu, Philippines last 10-13 January 2007, the ASEAN Leaders agreed to accelerate the establishment of an AEC from 2020 to 2015, in recognition of the region's encouraging progress in achieving increased trade integration, closer regional cooperation, further deepening of relations with dialogue partners (China, India, Japan, Korea, Australia and New Zealand). Furthermore, the move will also address the increasing challenges and transboundary concerns that confront collectively the ASEAN region. On 21 November 2007 in Singapore, the Leaders signed the AEC Blueprint and its Strategic Schedule, a binding master plan that shall guide member countries in achieving the AEC by 2015. The Blueprint sets out specific goals and targets for a single ASEAN market and production base and seeks to make ASEAN more competitive as a region, and more attractive as an investment destination. The Blueprint and its schedule also identifies economic integration measures, and enumerates commitments, targets and timelines for their implementation in the next eight years. The AFAS (WC-FSL) contributed to the formulation of the AEC Blueprint and its Strategic Schedule, particularly on issues relevant to financial services liberalization.

Human Capital Management

The BSP also continued to support regional cooperation in human capital management to strengthen domestic capacity in central banking. The BSP strongly supported the training and research activities of the South East Asian Central Banks (SEACEN) Research and Training Center, focusing on macroeconomic and monetary policy management, bank supervision and financial stability, payment and settlement management systems, and central bank governance and support services.

The BSP hosted the following SEACEN training activities in 2007:

- (1) 13th SEACEN-Financial Stability Institute Seminar for Bank Supervisors and Regulators: Supervisory Review Process of Pillar II with Special Focus on Interest Rate in Banking Books, 11-14 March 2007;
- (2) 4th SEACEN Seminar on Preparation for Implementation of Basel II, 15-17 March 2007; and
- (3) 47th SEACEN-Federal Reserve System Intermediate Course on Banking Supervision: Risk-Focused Supervision, 12-17 August 2007.

Participation in International Forums and Initiatives

The BSP participated in a wide range of international and regional activities, which has enabled it to contribute to policy discussions on emerging issues of common interest in the regional and global forums, exchange information and to forge closer relationships with its counterparts in other countries.

International Monetary Fund

The BSP represents the Government of the Philippines in the IMF Board of Governors. The BSP has been actively participating in the IMF constituency by providing technical comments and position on issues such as the voice and quota reform process, proposed liquidity instrument, exchange rate surveillance, role of the Fund in Asia, and the Fund's debt relief initiative, among others. The BSP also supported the Fund initiative that provides financial assistance to a member country in need of debt relief to sustain the economic progress.

The BSP also maintains a close dialogue with the IMF within the framework of the annual Article IV IMF Review Consultation Missions, during which IMF staff meets with Philippine authorities to review economic developments and policies and assess the impact of policies on the country's external accounts. The 2007 Article IV mission was conducted from 29 November to 11 December 2007. In a preliminary assessment, the mission noted that the Philippines continued to benefit from economic reforms and favorable market sentiment due to the underlying strong macroeconomic fundamentals, including low inflation, strong output growth, good fiscal position and strong external payments balance. The IMF also identified key challenges, including achieving a virtuous cycle of investment and growth, raising the investment rate, improving tax collection, managing large capital inflows, rising food and oil prices in the region, and sustaining financial system reforms.

In July 2007, the BSP hosted the 2nd IMF Regional Seminar on Central Bank Communications. The seminar provided opportunities for senior representatives of central banks and monetary authorities in the Asia-Pacific region to share experiences on communication challenges that central banks are facing in an environment of rapidly changing and globalized information flows.

Bank for International Settlements (BIS)

The BSP has been a member of the BIS since 2003. In 2007, the BSP participated actively in meetings organized by the BIS. Key issues discussed at the meetings included financial asset prices, institutional asset allocation, financial stability, large and volatile capital flows and monitoring systemic risk.

Center for Monetary Studies in Latin America (CEMLA)

The BSP, along with the Banco Central de Reserva del Peru, hosted the Meeting of the Central Bank Governors of Asia, Latin America and the Caribbean, which was held on 18 October 2007, in Washington D.C. The meeting was participated in by 18 central banks from the Latin American and the Caribbean regions and 15 central banks from the Asian region. The Governors had an extensive discussion on the current economic situation in the Asian, Latin American and the Caribbean regions focusing on management of capital flows, capital market development, and regional financial cooperation initiatives.

Asia Pacific Economic Cooperation (APEC)

The BSP participated in the 14th APEC Finance Ministers Meeting and 14th Finance and Central Bank Deputies' Meeting held on 30 July - 3 August 2007 in Coolom, Australia. The meetings focused on the following APEC initiatives: (a) developing local capital markets; (b) strengthening investment in the Asia-Pacific region; and (c) ensuring transparency and sustainability of the public balance sheet. Also discussed in the meetings were the progress of various APEC activities such as the review of the APEC Finance Ministers' Process (FMP), developments on the APEC Policy Initiatives, and macroeconomic developments in the Asia-Pacific region. In preparation for the said meeting, the BSP also attended the 2nd Senior Finance Officials' Meeting (SFOM-2), in Melbourne, Australia on 10-11 May 2007. The SFOM-2 was held back-to-back with the 1st APEC Public-Private Sector Forum on Bond Market Development, 7-8 May 2007 and the APEC Policy Dialogue Workshop on Financial Sector Reform, 9 May 2007.

Executives' Meeting of East Asia Pacific Central Banks (EMEAP)

The BSP hosted the 12th Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Governors' Meeting, which was held on 1-3 June 2007 in Cebu. The meeting was attended by 11 EMEAP member-central banks and monetary authorities. The Meeting had an extensive discussion on policy issues and challenges to central banks posed by the shifts in global risk appetite and the impact of capital flows on the EMEAP economies. The Governors discussed the progress made in enhancing regional monitoring mechanisms as well as areas of cooperation covering financial markets, banking supervision, payments and settlement systems and information technology in the region.

The BSP actively participated in the Task Force on Regional Cooperation in Asia, which outlined the objectives as well as the nature of regional cooperation and developed a roadmap on regional cooperation in Asia. The Task Force recommended, among others, the creation of the Monetary and Financial Stability Committee, the enhancement of the mandate of existing EMEAP working groups and the establishment of an integrated crisis management/resolution network.

The BSP participated in the 32nd EMEAP Deputies' Meeting held on 22-24 April 2007 in Chengdu, China and the 33rd EMEAP Deputies' Meeting held on 1-4 November 2007 in Bali, Indonesia, which were conducted back-to-back with the 1st and 2nd Meetings of the EMEAP Monetary and Financial Stability Committee, respectively. The Monetary and Financial Stability Committee (MFSC) meetings had discussions on the terms of reference of the committee, the streamlining of the mandate/functions of the existing EMEAP working groups and the operationalization of the Integrated Crisis Management/Resolution Network. Moreover, the BSP also participated in the meetings of the Pan-Asian Index Fund (PAIF) Supervisory Committee, which supervises the management of the Asian Bond Fund.

The BSP also attended the 1st EMEAP High-Level Workshop of the Heads of International Department held on 10 December 2007 in Fukuoka, Japan. The workshop provided opportunity for EMEAP heads of International Departments to discuss issues of specific importance to their roles including the effect of globalization on central banking.

PART THREE: FINANCIAL CONDITION OF THE BSP

BSP Balance Sheet

BSP's net worth declines

Based on preliminary and unaudited financial statements, the BSP's assets as of end-December 2007 reached ₱2.035 trillion, 29.5 percent or around ₱463.7 billion higher than the year-ago level, while its liabilities rose by ₱556.1 billion or 42.6 percent (Table 15). With higher growth in liabilities, the BSP's net worth declined to ₱174.4 billion or 34.6 percent lower compared to the year-ago level.

The year-on-year expansion in BSP assets was attributed mainly to the build-up in international reserves (by ₱272.0 billion), as the BSP's foreign exchange operations and receipts from investment income abroad sustained the rise in the GIR. The growth in assets was also driven by the ₱106.8 billion rise in domestic securities on account of the BSP's net purchases of Treasury bills in the course of its liquidity management operations. The increases posted in international reserves and domestic securities were, however, partially offset by the decline registered in the following accounts: (1) loans and advances (₱14.3 billion) and (2) foreign exchange receivables (₱4.1 billion).

The same period saw an expansion in the BSP's liabilities due mainly to the higher balances in the special and reserve deposits of banks and other financial institutions following the liquidity management measures adopted by the BSP during the year. As a result, deposit liabilities increased by ₱488.8 billion or 85.6 percent from last year's level. The increase in liabilities was also due to the ₱66.5 billion increase in BSP debt instruments, owing to the rise in BSP's reverse repurchase borrowings for the year. The increase, however, was partially offset by the 88.7 percent decline in foreign loans payable as the BSP prepaid some of its foreign obligations.

BSP Net Income

BSP posts net operating income

Based on preliminary and unaudited data, the BSP registered a net operating income of ₱26.8 billion during the period January-December 2007 compared with the ₱22.7 billion recorded during the same period last year. However, the net operating income during the period under review was not enough to cover losses from FX fluctuations amounting to ₱113.7 billion, resulting to a net loss of ₱86.9 billion in 2007 (Table 16).

Total revenues amounted to ₱93.8 billion or ₱19.1 billion higher than the ₱74.7 billion posted during the previous year. Total interest earnings, which continued to be the major source of revenue, was ₱12.9 billion higher than the previous year's level, largely on account of higher income from international reserves and domestic securities. The higher interest income from international reserves was due mainly to the increased level of investments and deposits with foreign banks during the period under review. Likewise, miscellaneous income increased during the period due to higher proceeds from fees and commissions.

Total expenditures amounted to ₱67.0 billion, which was ₱15.0 billion higher compared to the level posted in the previous year. The year-on-year expansion was due mainly to the higher interest expense, which rose by 29.6 percent, owing mainly to increased interest payments on deposit liabilities. Meanwhile, total taxes and licenses remitted to the National Government amounted to ₱914 million for the year.

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1 GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN

for periods indicated

in million pesos, at constant 1985 prices

	2005	2006	2007	Percent Change		
				2005	2006	2007
Agriculture, Fishery and Forestry	231,000	239,837	252,010	2.0	3.8	5.1
Industrial Sector	396,882	414,931	442,352	3.8	4.5	6.6
Mining and Quarrying	20,032	18,813	23,516	9.3	-6.1	25.0
Manufacturing	293,334	306,837	317,074	5.3	4.6	3.3
Construction	45,852	49,213	58,805	-5.9	7.3	19.5
Electricity, Gas and Water	37,663	40,068	42,957	2.5	6.4	7.2
Services	582,616	621,667	675,656	6.8	6.7	8.7
Transportation, Communication & Storage	104,766	111,412	120,582	7.3	6.3	8.2
Trade	203,552	215,960	237,128	5.6	6.1	9.8
Finance	64,664	72,009	80,838	13.6	11.4	12.3
Other Dwellings & R. Estate	56,506	59,734	63,333	5.3	5.7	6.0
Private Services	100,373	107,316	116,718	7.9	6.9	8.8
Government Services	52,754	55,237	57,056	3.0	4.7	3.3
Gross Domestic Product	1,210,497	1,276,435	1,370,018	4.9	5.4	7.3
Net Factor Income From Abroad	108,610	123,092	138,600	10.8	13.3	12.6
Gross National Product	1,319,107	1,399,527	1,508,618	5.3	6.1	7.8

Totals may not add due to rounding.

All figures are estimates as of January 2008.

Source: NSCB

1a GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES
for periods indicated
in million pesos, at constant 1985 prices

	2005	2006	2007	Percent Change		
				2005	2006	2007
Personal Consumption Expenditures	947,561	999,217	1,059,466	4.8	5.5	6.0
Government Consumption Expenditures	76,669	81,371	89,523	1.6	6.1	10.0
Gross Domestic Capital Formation	213,534	219,286	239,667	-8.8	2.7	9.3
Fixed Capital Formation	209,389	212,276	232,493	-6.6	1.4	9.5
Construction	87,501	92,308	108,969	-7.3	5.5	18.0
Durable Equipment	105,298	103,446	106,238	-7.1	-1.8	2.7
Breeding Stock & Orchard Development	16,590	16,522	17,286	1.1	-0.4	4.6
Changes in Stocks	4,144	7,011	7,175	...	...	...
Exports	565,742	629,093	648,297	4.8	11.2	3.1
Less: Imports	643,839	655,791	620,329	2.4	1.9	-5.4
Statistical Discrepancy	50,830	3,258	-46,605	...	...	...
Gross Domestic Product	1,210,497	1,276,435	1,370,018	4.9	5.4	7.3
Net Factor Income From Abroad	108,610	123,092	138,600	10.8	13.3	12.6
Gross National Product	1,319,107	1,399,527	1,508,618	5.3	6.1	7.8

Totals may not add up due to rounding.
All figures are estimates as of January 2008.
Source: NSCB

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for the periods indicated

	2005	2006	2007	Percent Change	
				2006	2007
Employment Status ¹					
Labor Force (In Thousands)	36,458	35,464	36,213 ^p	^a	2.1
Employed	32,313	32,636	33,560 ^p	1.0	2.8
Unemployed	4,145	2,829	2,654 ^p	^a	-6.2
Employment Rate (%)	88.6	92.0	92.7 ^p		
Unemployment Rate (%)	11.4	8.0	7.3 ^p		
Overseas Employment (Deployed)					
Land-Based	988,615	1,062,567	1,073,402 ^p	7.5	1.0
Sea-Based	740,632	788,070	809,740 ^p	6.4	2.7
	247,983	274,497	263,662 ^p	10.7	-3.9
Strikes					
Number of new strikes declared	26	12	6 ^p	-53.8	-50.0
Number of workers involved (In Thousands)	8	1	-	-82.5	-
Legislated Wage Rates ²					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	325.00	350.00	362.00	7.7	3.4
Regions Outside NCR (ONCR)	265.00	287.00	300.00	8.3	4.5
Agricultural					
NCR					
Plantation	288.00	313.00	325.00	8.7	3.8
Non-Plantation	288.00	313.00	325.00	8.7	3.8
ONCR					
Plantation	240.00	262.00	275.00	9.2	5.0
Non-Plantation	220.00	242.00	255.00	10.0	5.4
In Real Terms (at 2000 prices)					
Non-Agricultural					
National Capital Region (NCR)	239.32	245.61	245.42	2.6	-0.1
Regions Outside NCR (ONCR)	202.23	205.88	208.33	1.8	1.2
Agricultural					
NCR					
Plantation	210.06	219.64	220.34	4.6	0.3
Non-Plantation	210.26	219.65	220.34	4.5	0.3
Regions Outside NCR (ONCR)					
Plantation	173.98	187.95	190.97	8.0	1.6
Non-Plantation	166.34	173.60	177.08	4.4	2.0

¹ Explanations on the employment status data are as follows: a) all figures comprise the average of four quarterly data for the year; b) 2005 figures are based on the old definition of unemployment; c) Starting 2006, figures are based on the new definition of unemployment per NSCB Resolution No. 15 dated October 20, 2004 and the population projections based on the 2000 Census of Population was adopted to generate the labor force statistics per NSCB Resolution No. 1 series of 2005.

² Includes basic minimum wage, Cost of Living Allowance (COLA). Data are of the highest ranges and as of December for all years.

^a Cannot be computed due to the adoption of the revised unemployment definition starting April 2005.

^p Preliminary

[^] Less than 1000

Sources: BLES, NSO, NCMB, POEA, NWPC

**3 CONSUMER PRICE INDEX IN THE PHILIPPINES, METRO MANILA
AND ALL AREAS OUTSIDE METRO MANILA**
for periods indicated
2000=100

Commodity Group	Philippines		Metro Manila		All Areas Outside Metro Manila							
	2006	2007	2006	2007	2006	2007						
	Percent Change		Percent Change		Percent Change							
	2006	2007	2006	2007	2006	2007						
All Items	137.9	141.8	6.2	2.8	140.7	144.4	7.0	2.6	136.8	140.6	6.0	2.8
Food, Beverages & Tobacco	130.6	134.9	5.5	3.3	127.6	131.8	5.6	3.3	131.6	135.8	5.5	3.2
Non-Food	145.3	148.7	6.9	2.3	149.5	152.9	7.8	2.3	142.9	146.3	6.4	2.4
Clothing	122.0	124.8	3.0	2.3	126.7	130.1	2.7	2.7	120.4	123.0	3.3	2.2
Housing & Repairs	131.9	133.9	3.9	1.5	131.7	133.3	4.9	1.2	132.0	134.4	3.1	1.8
Fuel, Light & Water	176.4	182.1	12.9	3.2	206.0	212.2	12.9	3.0	163.5	169.0	13.0	3.3
Services	161.7	166.2	8.9	2.8	164.4	169.4	10.5	3.0	160.2	164.4	8.0	2.6
Miscellaneous	120.6	122.5	3.0	1.6	120.1	121.6	2.8	1.2	120.7	122.8	3.0	1.7

Source: NSO

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	Actual		Program 2007	Actual Vs. Program (%)	Annual Change (%)
	2006	2007 ¹			
Revenues	979,638	1,136,560	1,118,761	1.6	16.0
Tax Revenues	859,857	932,937	1,003,130	-7.0	8.5
Bureau of Internal Revenue	652,734	713,605	765,859	-6.8	9.3
Bureau of Customs	198,161	209,439	228,208	-8.2	5.7
Other Offices	8,962	9,893	9,063	9.2	10.4
Non-tax Revenues	119,781	203,623	115,631	76.1	70.0
of w/c: Bureau of the Treasury	74,446	67,932	53,478	27.0	-8.7
Expenditures	1,044,429	1,149,001	1,181,761	-2.8	10.0
of which:					
Allotments to Local Government Units	174,713	193,712	150,045	29.1	10.9
Interest Payments	310,108	267,800	303,297	-11.7	-13.6
Equity and Net Lending	3,692	13,479	12,436	8.4	265.1
Surplus/Deficit (-)	-64,791	-12,441	-63,000	80.3	80.8
Financing	110,121	99,108	82,522	20.1	-10.0
External Borrowings (Net)	120,754	56,162	54,620	2.8	-53.5
Domestic Borrowings (Net)	-10,633	42,946	27,902	53.9	503.9
Total Change in Cash: Deposit/Withdrawal (-)	6,063	106,951	4,980	2,047.6	1,664.0
Budgetary	45,330	86,667	19,522	343.9	91.2
Non-Budgetary ¹	-39,267	20,284	-14,542	239.5	151.7

¹ Refers to accounts not included in the NG budget, e.g., sale, purchase or redemption of government securities, but included in the cash operations report to show the complete relations in the movements of the cash accounts.

Source: Bureau of the Treasury

5 DEPOSITORY CORPORATIONS SURVEY ^P								
as of periods indicated								
in million pesos								
Item	LEVELS			FLOWS		GROWTH RATES (%)		
	Dec-06	Nov-07	Dec-07	Dec 07- Nov 07	Dec07- Dec06	Dec 07- Nov 07	Dec07- Dec06	
1. NET FOREIGN ASSETS	1,366,258	1,672,176	1,632,633	-39,542	266,376	-2.4	19.5	
A. Bangko Sentral ng Pilipinas	1,077,033	1,365,171	1,364,501	-670	287,468	0.0	26.7	
Net International Reserves	1,127,726	1,399,370	1,397,147	-2,223	269,421	-0.2	23.9	
Foreign Assets	1,128,401	1,400,318	1,397,434	-2,884	269,033	-0.2	23.8	
Foreign Liabilities	675	948	287	-661	-388	-69.7	-57.5	
Medium & Long-Term Foreign Liabilities	50,693	34,199	32,646	-1,553	-18,047	-4.5	-35.6	
B. Other Depository Corporations	289,225	307,005	268,132	-38,872	-21,092	-12.7	-7.3	
Foreign Assets	792,182	762,762	738,623	-24,139	-53,560	-3.2	-6.8	
Foreign Liabilities	502,958	455,757	470,490	14,733	-32,467	3.2	-6.5	
2. NET DOMESTIC ASSETS	2,444,787	2,237,738	2,374,701	136,963	-70,086	6.1	-2.9	
A. Net Claims on Residents (Net Domestic Credits)	3,006,570	3,128,896	3,124,065	-4,831	117,495	-0.2	3.9	
Net Claims on the Public Sector (Public Sector)	1,039,651	1,069,776	1,016,031	-53,745	-23,620	-5.0	-2.3	
National Government	762,127	810,831	755,629	-55,202	-6,498	-6.8	-0.9	
Credits	986,426	1,091,803	1,071,469	-20,335	85,042	-1.9	8.6	
CB BOL	0	0	0	0	0	-	-	
Foreign exchange Receivables	4,083	0	0	0	-4,083	-	-100.0	
T-IMF accounts	-58,438	-52,879	-50,903	1,976	7,535	3.7	12.9	
Deposits	-169,944	-228,093	-264,937	-36,843	-94,993	-16.2	-55.9	
Local Government and Other Public Entities	277,524	258,945	260,402	1,457	-17,122	0.6	-6.2	
Claims on Other Sectors (Private Sector)	1,966,919	2,059,119	2,108,034	48,914	141,115	2.4	7.2	
Other Financial Corporations	146,968	218,448	236,966	18,518	89,998	8.5	61.2	
Others	1,819,951	1,840,671	1,871,068	30,396	51,117	1.7	2.8	
B. Net Other Items	-561,783	-891,157	-749,364	141,794	-187,581	15.9	-33.39	
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	3,811,044	3,909,914	4,007,334	97,420	196,290	2.5	5.2	
A. M4	3,722,087	3,724,596	3,857,356	132,760	135,269	3.6	3.6	
Broad-Money Liabilities (M3)	2,869,568	2,976,736	3,126,727	149,991	257,160	5.0	9.0	
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	768,895	804,561	885,368	80,807	116,473	10.0	15.1	
Other Deposits (Quasi-Money)	2,057,843	2,129,863	2,206,120	76,257	148,277	3.6	7.2	
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	42,830	42,312	35,240	-7,072	-7,590	-16.7	-17.7	
Transferable & Other Deposits in Foreign Currency (FCDs-Res)	852,520	747,860	730,629	-17,231	-121,891	-2.3	-14.3	
B. Liabilities Excluded from Broad-Money (Other Liabilities)	88,957	185,318	149,978	-35,340	61,021	-19.1	68.6	
Bills Payable	83,575	176,708	142,334	-34,373	58,759	-19.5	70.3	
Marginal Deposits	2,212	2,742	2,087	-655	-124	-23.9	-5.6	
Restricted Deposits	3,170	5,869	5,557	-312	2,387	-5.3	75.3	
Deposits with Other Depository Corporations Under Liquidation	1,902	2,024	2,024	0	122	0.0	6.39	
Import Deposits	1,268	3,845	3,533	-312	2,265	-8.1	178.6	
Narrow Money	768,895	804,561	885,368	80,807	116,473	10.0	15.1	
Currency Outside Depository Corporations (Currency in Circulation)	305,313	300,998	359,143	58,145	53,830	19.3	17.6	
Transferable Deposits (Demand Deposits)	463,582	503,563	526,225	22,662	62,643	4.5	13.5	
Other Deposits (Quasi-Money)	2,057,843	2,129,863	2,206,120	76,257	148,277	3.6	7.2	
Savings Deposits	1,500,293	1,443,536	1,475,879	32,343	-24,415	2.2	-1.6	
Time Deposits	557,550	686,327	730,241	43,914	172,691	6.4	31.0	

^P Preliminary
Source: Department of Economic Statistics

6 SELECTED DOMESTIC INTEREST RATES

for the periods indicated
in percent per annum

	Nominal Interest Rates			Real Interest Rates ⁷		
	2005	2006	2007	2005	2006	2007
Bank Borrowing Rates						
Interbank Call Loans	7.3448	7.8077	6.8604	-0.2552	1.6077	4.0604
Savings Deposits ¹	3.7550	3.5460	2.1960	-3.8450	-2.6540	-0.6080
Time Deposits, All Maturities ¹	5.2580	4.9420	3.4060	-2.3420	-1.2580	0.6060
Manila Reference Rates, All Maturities ²	7.0625	6.7500	6.1875	-0.5375	0.5500	3.3875
Bank Lending Rates						
All Maturities ³	10.1470	9.7140	8.6790	2.5470	3.5140	5.8360
High ⁴	11.0606	10.1542	8.5903	3.4606	3.9542	5.7903
Low ⁵	9.0531	8.2964	6.8475	1.4531	2.0964	4.0475
Bangko Sentral Rates						
R/P (Overnight) ⁶	9.3125	9.7500	7.9956	1.7125	3.5500	5.1956
R/P (Term) ⁶	9.2307	9.8125	8.3960	1.6307	3.6125	5.5960
RR/P (Overnight) ⁶	7.0404	7.5000	6.7690	-0.5596	1.3000	3.9690
RR/P (Term) ⁶	7.0698	7.5904	7.1932	-0.5302	1.3904	4.3932
Rediscounting	6.6260	5.3990	3.7320	-0.9740	-0.8010	0.9320
Government Securities Rates						
Treasury Bills (All Maturities)	7.5280	6.1960	4.2100	-0.0720	-0.0040	1.4100
91-Days	6.3580	5.3510	3.4060	-1.2420	-0.8490	0.6060
182-Days	7.6710	6.1490	4.1840	0.0710	-0.0510	1.3840
364-Days	8.6830	6.9550	4.9170	1.0830	0.7550	2.1170

¹ Of all commercial banks

² Refers to the New MRR based on combined transactions on time deposits and promissory notes of sample banks

³ Refers to the weighted average interest rate of all commercial banks' interest incomes on their outstanding peso-denominated loans

⁴ Refers to the average of all highs quoted by reporting commercial banks

⁵ Refers to the average of all lows quoted by reporting commercial banks

⁶ Weighted average of transacted rates

⁷ Nominal interest rate less inflation rate

Source: BSP

7 CROSS RATES OF THE PESO
period averages
pesos per unit of foreign currency

	US Dollar	Japanese Yen	Pound Sterling	Hongkong Dollar	Swiss Franc	Canadian Dollar	Singapore Dollar	Australian Dollar	Bahrain Dollar	Saudi Rial	Brunei Dollar	Indo Rupiah	Thai Baht	UAE Dirham	EURO
2006															
Ave	51.3143	0.4414	94.5112	6.6060	40.9739	45.2609	32.3020	38.6356	136.1346	13.6836	32.2006	0.0056	1.3542	13.9722	64.4473
Jan	52.6171	0.4556	92.8324	6.7862	41.1205	45.4383	32.1999	39.3921	139.5986	14.0308	32.1017	0.0056	1.3259	14.3260	63.7042
Feb	51.8168	0.4393	90.6459	6.6780	39.7511	45.1114	31.8151	38.4545	137.4861	13.8175	31.7177	0.0056	1.3181	14.1081	61.9465
Mar	51.2189	0.4369	89.4037	6.6012	39.2575	44.3360	31.5942	37.2809	135.9070	13.6575	31.4971	0.0056	1.3149	13.9471	61.5913
Apr	51.3597	0.4392	90.7294	6.6216	40.0147	44.8312	32.0753	37.7473	136.2593	13.6943	31.9755	0.0058	1.3509	13.9841	63.0480
May	52.1273	0.4665	97.4332	6.7228	42.7762	46.9769	33.0791	39.8281	138.3002	13.9015	32.9744	0.0058	1.3733	14.1941	66.5628
Jun	53.1567	0.4639	98.0421	6.8472	43.1639	47.7408	33.4184	39.3115	141.0294	14.1739	33.3137	0.0057	1.3861	14.4735	67.3326
Jul	52.3976	0.4531	96.5927	6.7410	42.4159	46.4947	33.0911	39.3404	138.9941	13.9718	32.9870	0.0057	1.3794	14.2667	66.5248
Aug	51.3618	0.4434	97.1914	6.6051	41.6952	45.8676	32.5999	39.2047	136.2473	13.6956	32.4967	0.0057	1.3656	13.9843	65.7810
Sep	50.4012	0.4304	95.1559	6.4776	40.5550	45.1774	31.9415	38.1384	133.6986	13.4393	31.8406	0.0055	1.3468	13.7231	64.2297
Oct	50.0038	0.4215	93.7642	6.4222	39.7028	44.3394	31.6691	37.6067	132.6495	13.3369	31.5691	0.0055	1.3393	13.6162	63.1181
Nov	49.8434	0.4248	95.2013	6.4048	40.3060	43.8773	32.0308	38.4686	132.2200	13.2911	31.9282	0.0055	1.3641	13.5719	64.1818
Dec	49.4670	0.4222	97.1423	6.3642	40.9277	42.9399	32.1094	38.8537	131.2246	13.1932	32.0055	0.0054	1.3859	13.4710	65.3468
2007															
Ave	46.1484	0.3919	92.3479	5.9149	38.4496	43.0173	30.6124	38.5971	122.5060	12.3179	30.5111	0.0051	1.4331	12.5679	63.1489
Jan	48.9143	0.4065	95.8111	6.2725	39.3756	41.6321	31.8211	38.3072	129.7467	13.0440	31.7179	0.0054	1.3873	13.3187	63.5771
Feb	48.3814	0.4015	94.7725	6.1939	39.0305	41.3271	31.5548	37.8359	128.3380	12.9020	31.4523	0.0053	1.4295	13.1748	63.2780
Mar	48.5172	0.4136	94.4978	6.2098	39.8396	41.4933	31.8232	38.4226	128.6987	12.9405	31.7192	0.0053	1.4869	13.2136	64.2540
Apr	47.8224	0.4023	95.1116	6.1195	39.4585	42.1660	31.5719	39.5728	126.8582	12.7526	31.4680	0.0053	1.4759	13.0233	64.6526
May	46.8141	0.3875	92.8791	5.9870	38.3245	42.7499	30.7444	38.5954	124.1816	12.4832	30.6438	0.0053	1.4260	12.7490	63.2859
Jun	46.1602	0.3765	91.7086	5.9077	37.4446	43.3150	30.0453	38.8230	122.4514	12.3088	29.9478	0.0051	1.4291	12.5689	61.9562
Jul	45.6251	0.3751	92.7695	5.8353	37.7608	43.4067	30.0855	39.5319	121.0356	12.1662	29.9866	0.0050	1.4972	12.4232	62.5667
Aug	46.0737	0.3936	92.7444	5.8936	38.2991	43.5070	30.2786	38.3617	122.2337	12.2848	30.1795	0.0049	1.4677	12.5452	62.7822
Sep	46.1315	0.4007	93.1168	5.9266	38.8888	44.8363	30.4991	38.8451	122.3950	12.3137	30.3986	0.0049	1.4403	12.5636	64.0563
Oct	44.3803	0.3830	90.7106	5.7226	37.7837	45.3861	30.2360	39.7530	117.7896	11.8696	30.1333	0.0049	1.4079	12.0865	63.0922
Nov	43.2176	0.3902	89.5467	5.5563	38.5846	44.8010	29.8806	38.6827	115.0287	11.5950	29.7776	0.0047	1.3772	11.7775	63.5045
Dec	41.7429	0.3721	84.5059	5.3535	36.6449	41.5872	28.8081	36.4336	111.3146	11.1548	28.7090	0.0045	1.3720	11.3709	60.8011

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

average for periods indicated
December 1980 = 100

	N O M I N A L			R E A L		
	Major Trading Partners ¹	Competing Countries Broad ²	Competing Countries Narrow ³	Major Trading Partners ¹	Competing Countries Broad ²	Competing Countries Narrow ³
2005 †	11.64	26.83	48.60	61.98	101.43	149.52
Jan	11.15	26.03	46.50	58.28	97.35	142.80
Feb	11.42	26.43	47.27	59.52	97.99	144.48
Mar	11.45	26.63	47.96	59.68	99.09	146.41
Apr	11.55	26.89	48.65	60.42	100.00	147.34
May	11.64	26.86	48.58	61.17	100.56	149.90
Jun	11.66	26.69	48.46	62.01	101.99	152.13
Jul	11.60	26.60	48.38	62.60	102.58	152.45
Aug	11.51	26.61	48.60	62.26	102.90	153.68
Sep	11.49	26.84	49.18	61.42	102.76	153.82
Oct	11.73	27.02	49.19	62.89	101.36	147.80
Nov	12.14	27.54	50.08	66.08	105.24	150.91
Dec	12.34	27.76	50.39	67.46	105.40	152.53
2006 †	12.91	28.17	55.52	69.99	109.01	153.85
Jan	12.74	28.13	55.99	67.88	107.09	153.57
Feb	13.05	28.25	55.92	70.07	107.89	153.49
Mar	13.16	28.43	55.97	70.78	109.00	153.67
Apr	13.02	27.91	54.68	69.79	106.30	148.13
May	12.52	27.36	53.87	67.13	104.73	148.90
Jun	12.38	27.39	54.36	66.92	106.77	152.28
Jul	12.57	27.54	54.29	68.84	108.22	152.87
Aug	12.78	28.07	55.16	70.13	110.82	156.62
Sep	13.08	28.62	56.29	71.25	111.72	157.78
Oct	13.26	28.90	56.86	72.51	111.56	157.45
Nov	13.18	28.72	56.55	72.40	112.04	156.32
Dec	13.16	28.66	56.33	72.12	112.00	155.07
2007 †	13.97	30.40	59.16	76.27	118.81	161.75
Jan	13.45	28.93	56.54	73.32	113.01	154.01
Feb	13.58	29.16	56.74	73.53	113.00	152.95
Mar	13.41	29.09	56.59	72.32	112.48	152.61
Apr	13.55	29.31	56.86	72.92	112.92	151.64
May	13.89	29.66	57.05	74.83	115.24	155.66
Jun	14.16	30.23	58.41	76.88	119.17	161.55
Jul	14.20	30.44	58.89	78.41	121.34	163.95
Aug	13.97	30.67	59.91	77.33	122.12	167.64
Sep	13.82	30.61	59.90	75.84	120.16	165.25
Oct	14.28	31.22	60.84	78.16	120.30	165.68
Nov	14.37	32.15	62.97	78.99	125.83	171.72
Dec	14.97	33.37	65.20	82.72	130.15	178.28

¹ US, Japan, European Monetary Union, United Kingdom

² Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia, Hongkong

³ Indonesia, Malaysia, Thailand

† Revised due to the update in the total trade weights

Source: BSP

8 OUTSTANDING DEPOSITS OF THE BANKING SYSTEM

As of end - December 2006 - 2007
In million pesos

Institutions	2 0 0 6			2 0 0 7			Percent Change					
	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time
TOTAL	3,453,465.0	491,833.2	1,804,368.6	1,157,263.2	3,603,827.0 ^p	569,033.6	1,784,868.7	1,249,924.7	4.35	15.70	-1.08	8.01
Commercial Banks ¹	3,028,092.0	467,474.0	1,480,092.0	1,080,526.0	3,148,855.0	543,734.0	1,443,542.0	1,161,579.0	3.99	16.31	-2.47	7.50
Thrift Banks	330,971.8	22,170.0	261,388.6	47,413.2	343,943.8 ^a	22,905.2	271,480.9	49,557.7	3.92	3.32	3.86	4.52
Savings Banks	266,757.6	19,380.2	213,956.5	33,420.9	272,948.4 ^p	19,831.7	218,922.8	34,193.9	2.32	2.33	2.32	2.31
Private Development Banks	52,071.9	2,424.0	37,454.2	12,193.7	56,066.6 ^p	2,622.5	40,289.8	13,154.3	7.67	8.19	7.57	7.88
Stock Savings and Loan Associations	11,969.3	365.8	9,804.9	1,798.6	14,727.3 ^p	451.0	12,071.7	2,204.6	23.04	23.29	23.12	22.57
Microfinance Banks	173.0	0.0	173.0	0.0	201.5 ^p	0.0	196.6	4.9	16.47	0.00	13.64	0.00
Rural Banks	94,401.2	2,189.2	62,888.0	29,324.0	111,028.2 ^b	2,394.4	69,845.8	38,788.0	17.61	9.37	11.06	32.27

¹ Includes DBP and AALBP

^p preliminary

^a As of October 2007

^b As of September 2007

Source: Bangko Sentral ng Pilipinas (BSP)

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM ¹

as of periods indicated
in billion pesos

Institutions	2006	2007	% Change
Total	6,257.2 ^P	6,556.7 ^P	4.8
Banks	4,985.7	5,248.3 ^P	5.3
Universal and Commercial Banks	4,392.6	4,578.3	4.2
Thrift Banks	453.8	513.3 ^P	13.1
Savings Banks	346.8	359.2 ^a	3.6
Private Development Banks	77.7	81.8 ^a	5.3
Stock Savings and Loan Associations	28.7	71.7 ^a	149.8
Micro Finance Banks	0.6	0.6 ^a	0.0
Rural Banks	139.3	156.7 ^b	12.5
Non-Banks ²	1,271.5 ^P	1,308.4 ^b	2.9

¹ Excludes the Bangko Sentral ng Pilipinas

² Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Assn., Mutual Building and Loan Assn., Venture Capital Corp., Credit Card Companies and others; also includes Private and Government Insurance Companies (i.e., SSS and GSIS).

^a As of end-October 2007

^b As of end-September 2007

^P Preliminary

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS ¹
as of periods indicated

Institutions	2006	2007 ^a	% Change
Total	20,953	21,254	1.4
Head Offices	7,264	7,337	1.0
Branches/Agencies	13,689	13,917	1.7
Banks	7,710	7,736	0.3
Head Offices	862	852	-1.2
Branches/Agencies	6,848	6,884	0.5
Universal and Commercial Banks	4,313	4,284	-0.7
Head Offices	39	38	-2.6
Branches/Agencies	4,274	4,246	-0.7
Thrift Banks	1,322	1,337	1.1
Head Offices	84	82	-2.4
Branches/Agencies	1,238	1,255	1.4
Savings and Mortgage Banks	844	860	1.9
Head Offices	33	33	0.0
Branches/Agencies	811	827	2.0
Private Development Banks	300	303	1.0
Head Offices	21	20	-4.8
Branches/Agencies	279	283	1.4
Stock Savings and Loan Associations	165	160	-3.0
Head Offices	26	25	-3.8
Branches/Agencies	139	135	-2.9
MicroFinance Banks	13	14	7.7
Head Offices	4	4	0.0
Branches/Agencies	9	10	11.1
Rural Banks	2,075	2,115	1.9
Head Offices	739	732	-0.9
Branches/Agencies	1,336	1,383	3.5
Non-Banks ²	13,243	13,518	2.1
Head Offices	6,402	6,485	1.3
Branches/Agencies	6,841	7,033	2.8

¹ Refers to the number of financial establishments which includes the head offices and branches; excludes the Bangko Sentral ng Pilipinas.

² Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Assn., Mutual Building and Loan Assn., Venture Capital Corp., Credit Card Companies and others; also includes Private and Government Insurance Companies (i.e., SSS and GSIS).

^a as of end-September 2007

Source: BSP

10 STOCK MARKET TRANSACTIONS ¹

for the periods indicated
Volume in million shares
Value in million pesos

	2006		2007		Percent Change 2007	
	Volume	Value	Volume	Value	Volume	Value
Total	601,090.7	572,634.3	1,157,830.0	1,338,252.4	92.6	133.7
Financial	4,960.1	108,577.1	7,485.1	182,428.5	50.9	68.0
Industrial	29,285.2	113,138.5	42,703.4	334,898.6	45.8	196.0
Holding Firms	61,223.2	71,013.1	258,072.3	204,170.2	321.5	187.5
Property	50,125.2	90,429.4	101,601.8	270,579.3	102.7	199.2
Services	92,565.3	154,649.3	104,718.0	244,748.5	13.1	58.3
Mining & Oil	362,922.2	34,775.7	643,077.6	101,047.9	77.2	190.6
SME	9.5	51.2	171.8	379.5	1,708.0	641.2
Composite Index (Average)	2,412.3		3,442.9		42.7	

¹ Starting January 2006, new classification by sector was implemented. Data for 2005 is already based on the new classification.

Source: PSE

11 PHILIPPINES: BALANCE OF PAYMENTS
for periods indicated
in million U.S. dollars

	Jan - Dec		Change (%)
	2006 ^{a/}	2007 ^{b/}	
Current Account	5,347	6,351	18.8
Goods and Services	-6,595	-7,159	-8.6
Export	52,970	57,769	9.1
Import	59,565	64,928	9.0
Goods	-6,732	-8,236	-22.3
Credit: Exports	46,526	49,321	6.0
Debit: Imports	53,258	57,557	8.1
Services	137	1,077	686.1
Credit: Exports	6,444	8,448	31.1
Debit: Imports	6,307	7,371	16.9
Income	-1,255	-467	62.8
Credit: Receipts	4,388	5,488	25.1
Debit: Disbursements	5,643	5,955	5.5
Current Transfers	13,197	13,977	5.9
Credit: Receipts	13,511	14,397	6.6
Debit: Disbursements	314	420	33.8
Capital and Financial Account	20	3,928	19540.0
Capital Account	138	24	-82.6
Credit: Receipts	181	108	-40.3
Debit: Disbursements	43	84	95.3
Financial Account	-118	3,904	3408.5
Direct Investment	2,818	-514	-118.2
Debit: Assets, Residents' Investments Abroad	103	3,442	3241.7
Credit: Liabilities, Non-Residents' Investments in the Phil.	2,921	2,928	0.2
Portfolio Investment	3,043	3,088	1.5
Debit: Assets, Residents' Investments Abroad	1,567	481	-69.3
Credit: Liabilities, Non-Residents' Investments in the Phil.	4,610	3,569	-22.6
Financial Derivatives	-138	-288	-108.7
Debit: Assets, Residents' Investments Abroad	-159	-170	-6.9
Credit: Liabilities, Non-Residents' Investments in the Phil.	-297	-458	-54.2
Other Investment	-5,841	1,618	127.7
Debit: Assets, Residents' Investments Abroad	3,512	2,519	-28.3
Credit: Liabilities, Non-Residents' Investments in the Phil.	-2,329	4,137	277.6
Net Unclassified Items	-1,598	-1,703	-6.6
Overall BOP Position	3,769	8,576	127.5
Debit: Change in Reserve Assets	2,934	8,569	192.1
Credit: Change in Reserve Liabilities	-835	-7	99.2
Use of Fund Credits	-402	0	100.0
Short-term	-433	-7	98.4

^{a/} Preliminary

^{b/} Revised to reflect: a) late reports; b) post-audit adjustments; and c) final data from companies.

Technical Notes:

1. Net balances in the current and capital and financial accounts are derived by deducting debit entries from credit entries.
2. Overall BOP position is determined by deducting change in reserve liabilities from change in reserve assets.
3. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1.
5. Basic balance represents a BOP position that excludes transactions that are volatile and are in the short run susceptible to being reversed. It is derived using the following formula: Overall BOP position less (Net portfolio investments + net short-term liabilities) less errors and omissions. In the old BOP series, all transactions in assets and liabilities of commercial banks were deemed to be long-term. With the refinements in the new series on the maturity structure of KBs' transactions, short-term financial transactions of KBs are now excluded from the basic balance.

Source: Bangko Sentral ng Pilipinas

11a EXPORTS BY MAJOR COMMODITY GROUP

for periods indicated

volume in 000 metric tons; unit price in U.S.\$/m.t.; fob value in million U.S. dollars

Commodities	January-December						Growth Rates (%)		
	2006 ^{1/}			2007 ^{2/}			2007		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			757			944			24.8
Copra	0	0	0	0	0	0	0.0	0.0	0.0
Coconut Oil	1067	543	579	889	826	734	-16.7	52.2	26.8
Desiccated Coconut	136	1018	139	131	1204	157	-3.9	18.3	13.6
Copra Meal/Cake	430	71	30	482	90	43	12.2	26.7	42.1
Others			9			10			9.3
Sugar and Products			98			88			-10.2
Centrifugal & Refined	215	384	83	235	330	77	8.9	-14.0	-6.3
Molasses	116	102	12	63	87	5	-46.0	-14.8	-54.0
Others			3			5			50.3
Fruits and Vegetables			724			745			2.9
Canned Pineapple	186	580	108	196	623	122	5.9	7.5	13.8
Pineapple Juice	71	316	22	74	423	31	4.2	33.8	39.4
Pineapple Concentrates	48	774	37	42	840	35	-12.0	8.6	-4.4
Bananas	2312	175	405	2199	180	396	-4.9	2.7	-2.3
Mangoes	26	920	24	26	884	23	0.6	-3.9	-3.4
Others			127			136			7.2
Other Agro-Based Products			457			519			13.4
Fish, Fresh or Preserved	93	2778	258	99	2917	289	6.6	5.0	12.0
Of which: Shrimps & Prawns	3	6263	21	2	6267	14	-34.4	0.1	-34.4
Coffee, Raw, not Roasted	..	1245	..	..	3573	..	0.0	187.1	0.0
Abaca Fibers	14	907	13	28	521	15	97.2	-42.6	13.2
Tobacco, Unmanufactured	17	1890	33	19	2274	43	8.3	20.3	30.3
Natural Rubber	34	1372	47	35	1098	39	4.2	-20.0	-16.7
Ramie Fibers, Raw or Processed	..	917	..	0	0	0	0.0	-100.0	0.0
Seaweeds, Dried	19	1335	25	12	1793	21	-35.9	34.3	-13.9
Rice	0	974	0	..	2135	1	0.0	119.2	0.0
Others			82			112			36.1
Forest Products 1/			28			34			20.9
Logs	..	70	0	..	218	..	0.0	213.6	0.0
Lumber	184	72	13	208	71	15	12.7	-1.0	11.6
Plywood	20	482	10	37	403	15	84.2	-16.4	54.0
Veneer Sheets/Corestocks	6	674	4	6	566	4	5.6	-16.1	-11.4
Others			1			1			-34.5
Mineral Products			2103			2548			21.1
Copper Concentrates	62	1366	84	81	1696	137	31.2	24.1	62.8
Copper Metal	183	6730	1231	175	7121	1248	-4.2	5.8	1.4
Gold 2/	88	574	50	140	665	93	59.3	15.8	84.6
Iron Ore Agglomerates	5199	29	153	5406	32	172	4.0	7.9	12.2
Chromium Ore	74	64	5	146	53	8	97.7	-17.2	63.7
Nickel			..	0	0	0			0.0
Others			580			890			53.5
Petroleum Products			918			1109			20.7
Manufactures			40859			42824			4.8
Electronic Products			29673			31022			4.5
Other electronics			941			1151			22.3
Garments			2655			2309			-13.0
Textile Yarns/Fabrics			220			209			-5.3
Footwear			25			31			25.5
Travel Goods and Handbags			30			104			241.4
Wood Manufactures			651			770			18.3
Furnitures & Fixtures			276			241			-12.6
Chemicals			758			1016			34.1
Non-Metallic Mineral Manufactures			182			217			19.5
Machinery & Transport Equipment			1713			1852			8.1
Processed Food and Beverages			536			725			35.3
Iron & Steel			244			265			8.8
Baby Carr., Toys, Games & Sporting Goods			152			152			0.4
Basketwork, Wickerwork, & Other									
Articles of Plaiting Materials			53			56			7.2
Misc. Manufactured Articles, n.e.s.			358			342			-4.4
Others			2393			2361			-1.3
Special Transactions			1466			1458			-0.6
TOTAL EXPORTS, as per NSO Foreign Trade Statistics			47409			50271			6.0
Conceptual and coverage adjustments			-883			-950			-7.6
TOTAL EXPORTS, BPM5			46526			49321			6.0

.. Less than one thousand metric tons

-- Less than one million US\$

^{1/} Revised

^{2/} Preliminary

Source: NSO

^{1/} Volume in 000 cubic meters; unit price in US\$/cu.m.

^{2/} Volume in 000 troy ounces; unit price in US\$/oz.t.

11b IMPORTS BY MAJOR COMMODITY GROUP

for the periods indicated
volume in 000 metric tons; unit price in U.S.\$/mt; f.o.b. value in million U.S. dollars

Commodities	January - December						Growth Rates (%)		
	2006 ^{a)}			2007 ^{b)}			2007		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Capital Goods			9129			9306			1.9
Power Generating & Specialized Machines			2268			2432			7.2
Office & EDP Machines			3199			3321			3.8
Telecommunication Eqpt. & Elect. Mach.			1910			1979			3.6
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			689			662			-3.9
Aircraft, Ships & Boats			590			410			-30.5
Prof. Sci. & Cont. Inst.; Photo- graphic Eqpt. & Optical Goods			473			501			5.9
Raw Materials & Intermediate Goods			31756			33173			4.5
Unprocessed Raw Materials			1633			1648			0.9
Wheat	2756	172	473	1872	202	378	-32.1	17.4	-20.1
Corn	307	158	48	152	293	45	-50.5	85.4	-8.3
Unmilled cereals excl. rice & corn			4.88			6.81			0.0
Crude materials, inedible			949			1044			10.0
Pulp & waste paper			65			63			-3.1
Cotton	25	1188	29	17	1245	21	-32.0	4.8	-27.6
Syn. fibers	40	1821	73	45	1815	82	12.5	-0.3	12.3
Metalliferous ores			409			411			0.5
Others			373			467			25.2
Tobacco, unmanufactured			158			174			10.1
Semi-Processed Raw Materials			30123			31525			4.7
Feeding stuffs for animals	1710	236	403	1710	281	481	0.0	19.1	19.4
Animal & vegetable oils & fats			154			169			9.7
Chemical			3617			3970			9.8
Chemical compounds			900			1111			23.4
Medicinal & pharmaceutical chemicals			523			588			12.4
Urea	526	209	110	493	226	111	-6.3	8.1	0.9
Fertilizer excl. urea	938	147	138	787	184	145	-16.1	25.2	5.1
Artificial resins			945			979			3.6
Others			1001			1036			3.5
Manufactured goods			4001			4119			2.9
Paper & paper products	695	643	447	678	687	465	-2.4	6.8	4.0
Textile yarn, fabrics & made-up articles			888			849			-4.4
Non-metallic mineral mftures.			195			233			19.5
Iron & steel	2305	519	1195	2623	463	1215	13.8	-10.8	1.7
Non-ferrous metals			630			640			1.6
Metal products			394			460			16.8
Others			252			257			2.0
Embroideries			1086			981			-9.7
Mat/Acc for the mfr. of elect. eqpt.			20804			21678			4.2
Iron ore, not agglomerated	2634	22	58	3512	36	127	33.3	63.6	119.0
Mineral Fuels & Lubricant			7999			9662			20.8
Coal, Coke	5760	42	239	6096	39	235	5.8	-7.1	-1.7
Petroleum Crude ^{1/}	80.14	62.91	5042	76.40	75.59	5775	-4.7	20.2	14.5
Others ^{1/}	39.44	68.91	2718	42.38	86.17	3652	7.5	25.0	34.4
Consumer Goods			3729			4680			25.5
Durable			1632			2032			24.5
Passenger cars & motorized cycle			742			1072			44.5
Home appliances			215			239			11.2
Misc. manufactures			675			722			7.0
Non-Durable			2098			2647			26.2
Food & live animals chiefly for food			1933			2493			29.0
Dairy products	296	1517	448	287	2227	639	-3.0	46.8	42.6
Fish & fish preparation	123	487	60	156	584	91	26.8	19.9	51.7
Rice	1717	271	466	1806	331	598	5.2	22.1	28.3
Fruits & vegetables			158			175			10.8
Others			800			990			23.8
Beverages & tobacco mfture.			76			62			-18.4
Articles of apparel, access.			88			93			5.7
Special Transactions			999			706			-29.3
Articles temporarily imported & exported			354			263			-25.7
Others			645			443			-31.3
TOTAL IMPORTS ^{2/}			53612			57527			7.3
Conceptual and Coverage Adjustments ^{3/}			-354			30			108.5
TOTAL IMPORTS, BPM5			53258			57557			8.1

^{1/} Volume in million barrels; unit price in U.S.\$/barrel

^{2/} Include valuation adjustments to NSO data.

^{3/} Include deductions for aircrafts acquired under operational lease agreement.

^{a)} Based on the adjustments made by NSO that was released on 14 June 2007.

^{b)} Preliminary

Note: Valuation adjustments include:

a.) Adjustments to NSO's raw material imports for electronics exports for 2006 and 2007.

b.) Adjustments to NSO's raw material imports for garments for 2006 and 2007.

Components may not add up to total due to rounding

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12 GROSS INTERNATIONAL RESERVES OF THE BANGKO SENTRAL NG PILIPINAS

end of period
in million US dollars

		GIR (1=2 to 6)	Reserve Position in the Fund (2)	Gold (3)	SDRs (4)	Foreign Investments (5)	Foreign Exchange (6)	Import Cover ¹ (7)	Short-Term External Debt Cover (in percent)	
									Original Maturity (8)	Residual Maturity ² (9)
2005	Jan	15,745.60	132.94	2,866.31	8.58	12,288.55	449.22	3.44	312.04	154.55
	Feb	16,530.40	133.94	2,882.82	2.30	13,023.90	487.44	3.62	348.30	166.29
	Mar	16,525.61	132.10	2,699.35	2.27	13,325.75	366.14	3.63	299.87	157.25
	Apr	16,718.76	132.12	2,643.73	6.04	13,581.05	355.82	3.65	303.37	153.20
	May	17,281.03	128.96	2,495.72	0.31	14,304.62	351.42	3.76	313.57	155.40
	Jun	17,723.13	127.35	2,582.32	0.30	14,604.07	409.09	3.82	290.59	149.66
	Jul	17,668.79	127.02	2,592.36	6.11	14,387.96	555.34	3.80	289.70	149.96
	Aug	17,943.63	127.72	2,533.55	0.56	14,860.59	421.21	3.82	299.06	152.05
	Sep	18,542.31	126.81	2,568.75	0.56	15,386.53	459.66	3.91	296.77	147.64
	Oct	18,097.87	126.25	2,462.16	4.88	15,031.76	472.82	3.80	289.66	140.14
	Nov	18,058.62	124.59	2,554.83	0.11	14,958.89	420.20	3.78	289.03	136.61
	Dec	18,494.35	125.04	2,568.38	0.84	15,397.53	402.56	3.82	289.20	131.56
2006	Jan	20,401.77	126.45	2,658.62	5.19	17,117.26	494.25	4.17	325.39	150.23
	Feb	20,481.81	125.54	2,612.17	0.36	17,242.78	500.96	4.15	326.66	152.43
	Mar	20,645.34	126.05	2,797.31	0.36	17,208.85	512.77	4.12	335.81	154.22
	Apr	20,852.48	129.19	3,042.94	5.53	17,203.83	470.99	4.14	339.18	155.66
	May	20,949.91	130.72	2,849.39	0.89	17,503.48	465.43	4.11	340.76	161.70
	Jun	21,123.47	129.42	2,903.60	0.88	17,647.94	441.63	4.12	364.32	172.07
	Jul	21,274.11	129.90	2,940.65	5.33	17,910.27	287.96	4.11	373.36	180.14
	Aug	21,540.69	130.31	2,868.37	0.55	18,214.70	326.76	4.09	388.26	190.73
	Sep	21,593.36	129.25	2,746.44	0.55	18,265.57	451.55	4.11	380.23	196.39
	Oct	22,309.58	130.03	2,869.16	6.49	18,819.30	484.60	4.20	392.84	210.61
	Nov	22,649.27	132.27	2,991.66	2.34	19,321.35	201.65	4.20	398.82	225.05
	Dec	22,966.72	131.70	2,941.30	2.33	19,611.41	279.98	4.26	458.51	269.66
2007	Jan	23,694.35	130.46	2,975.85	4.54	19,995.27	588.23	4.37	473.04	281.07
	Feb	24,542.16	131.73	2,987.63	1.69	21,004.00	417.11	4.49	489.96	280.00
	Mar	24,684.41	132.21	3,008.36	1.70	20,804.08	738.06	4.49	482.31	267.44
	Apr	25,089.60	133.61	3,040.19	1.71	21,428.90	485.19	4.54	490.22	265.39
	May	25,599.28	132.44	2,992.37	0.62	21,855.14	618.71	4.61	500.18	269.78
	Jun	26,382.95	132.68	2,928.24	0.62	23,022.74	298.67	4.73	443.63	253.58
	Jul	28,019.00	134.13	3,024.09	1.40	24,607.95	251.43	4.97	471.15	266.72
	Aug	30,485.13	134.26	3,122.51	0.25	27,002.87	225.24	5.39	512.61	291.17
	Sep	30,902.16	136.36	3,034.47	0.26	27,498.73	232.34	5.41	446.24	278.22
	Oct	32,498.08	137.96	3,365.23	1.84	28,724.38	268.67	5.69	469.29	295.52
	Nov	32,719.24	139.30	3,330.72	0.74	28,978.05	270.43	5.73	472.48	295.22
	Dec	33,751.05	138.28	3,540.61	0.74	29,715.21	356.21	5.91	487.38	301.40

¹ Number of months of average imports of goods and payment of services and income that can be financed by reserves.

² Refers to adequacy of reserves to cover outstanding short-term external debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.

Source: BSP

13 TOTAL EXTERNAL DEBT ¹ as of dates indicated in million US dollars												
	September 30, 2006				December 31, 2006				September 30, 2007			
	Short-term Trade	Non- Trade	Medium & Long- Term	Total	Short-term Trade	Non- Trade	Medium & Long- Term	Total	Short-term Trade	Non- Trade	Medium & Long- Term	Total
Grand Total	3,271	2,407	48,382^a	54,061	2,112	2,897	48,358^a	53,367	2,436	4,490	47,502^d	54,427
Public Sector	252	240	37,109	37,601	213	177	36,686	37,076	82	38	37,082	37,201
Banks	252	240	3,401	3,893	213	177	3,056	3,440	82	38	2,608	2,927
Bangko Sentral ng Pilipinas	-	-	867	867	-	-	440	440	-	-	265	265
Others	252	240	2,534	3,026	213	177	2,616	3,006	82	38	2,543	2,662
Non-Banks	-	-	33,708	33,708	-	-	33,630	33,630	-	-	34,274	34,274
CB-BOL	-	-	47	47	-	-	46	46	-	-	39	39
NG and Others	-	-	33,660	33,660	-	-	33,584	33,584	-	-	34,235	34,235
Private Sector	3,109	2,168	11,273	16,460	1,899	2,720	11,672	16,291	2,354	4,452	10,420	17,226
Banks	907	1,895	2,608 ^b	5,610	231	2,576	3,621 ^b	6,428	173	4,242	3,317 ^b	7,732
Foreign Bank Branches	735	775	1,999	3,509 ^c	20	1,266	2,899	4,184 ^c	12	2,374	2,557	4,943 ^c
Domestic Banks	172	1,120	809	2,101 ^d	212	1,310	722	2,244 ^e	161	1,868	761	2,790 ^e
Non-Banks	2,112	272	8,465 ^f	10,850	1,668	144	8,050 ^f	9,863	2,182	209	7,103 ^f	9,494

¹ External debt data were revised from 1990 onwards to reflect the reclassification of offshore banking units (OBUs) from non-resident to resident entities for statistical purposes. Starting March 2004, debt stock is adjusted to exclude holdings of residents of Philippine debt papers booked under the Trust Department of commercial banks. Total external BSP-approved/registered debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/scheduling debt covers agreement/document.

^a Includes cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank amounting to US\$30 million and US\$24 million as of 30 September 2006 and 31 December 2006, respectively, and US\$81 million as of 30 September 2007.

^b Includes accounts restructured under CB Circular No. 1179 amounting to US\$43 million.

^c Excludes "Doe to Head Office/Branches Abroad" accounts of branches and offshore banking units of foreign banks operating in the Philippines which amounted to US\$2,521 million as of 30 September 2006 and US\$2,674 million and US\$2,601 million as of 31 December 2006 and 30 September 2007, respectively.

^d Includes liabilities of private development bank and rural banks amounting to US\$10 million as of 30 September 2006, US\$11 million as of 31 December 2006 and US\$10 million as of 30 September 2007.

^e Excludes obligations under various capital lease agreements of US\$1,133 million as of 30 September 2006, US\$838 million as of 31 December 2006 and US\$718 million as of 30 September 2007. Also, excludes loans without BSP approval/registration amounting to US\$3,096 million as of 30 September 2006, US\$3,786 million as of 31 December 2006 and US\$6,146 million loans as of 30 September 2007.

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS

for periods indicated
in million US dollars

	2006 ^P					2007 ^P			
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Total
Debt Service Burden (DSB)¹	1954	1722	1859	2367	7,902	2172	1646	1851	5,669
Principal	1007	1090	954	1591	4,642	1059	1083	910	3,052
Interest	947	632	905	776	3,260	1113	563	941	2,617
Export Shipments (XS)^{r/}	10947	11627	12263	11689	46,526	11931	12180	12461	36,572
Exports of Goods and Receipts from Services and Income (XGSI)^{2, r/}	15611	16820	17271	17659	67,361	17800	18213	18856	54,869
Current Account Receipts (CAR)^{3, r/}	16412	17692	18151	18614	70,869	18523	18964	19538	57,025
Gross National Product (GNP)	29039	30562	31189	37474	128,041	34256	37704	38701	110,530
Ratios (%) :									
DSB to XS	17.85	14.81	15.16	20.25	16.98	18.20	13.51	14.85	15.50
DSB to XGSI	12.52	10.24	10.76	13.40	11.73	12.20	9.04	9.82	10.33
DSB to CAR	11.91	9.73	10.24	12.72	11.15	11.73	8.68	9.47	9.94
DSB to GNP	6.73	5.63	5.96	6.32	6.17	6.34	4.37	4.78	5.13

¹ Debt service burden represents principal and interest payments after rescheduling. In accordance with the internationally-accepted concept, debt service burden consists of (a) Principal and interest payments on fixed MLT credits including IMF credits, loans covered by the Paris Club and Commercial Banks rescheduling, and New Money Facilities; and (b) Interest payments on fixed and revolving short-term liabilities of banks and non-banks but excludes (i) Prepayments of future years' maturities of foreign loans and (ii) Principal payments on fixed and revolving ST liabilities of banks and non-banks.

² Includes cash remittances of overseas Filipino workers that were coursed through and reported by commercial banks which are reflected under Compensation of Employees in the income account and workers' remittances in the Current Transfers account.

³ Based on the accounting principle under the Balance of Payments Manual, Fifth edition which (1) excludes temporary exports and returned goods for exports of goods and (2) excludes capital transfers in the computation of current account receipts.

p/ Preliminary

r/ Revised to reflect latest data adjustments

Source: BSP

15 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS
As of the periods indicated
In million pesos

	2006 Dec	2007 ^u Dec	Percent Change (%)
Assets	1,571,362.9	2,035,051.0	29.5
International Reserves	1,119,943.0	1,391,938.4	24.3
Foreign Exchange Receivable	4,076.4	-	
Domestic Securities	222,453.0	329,290.3	48.0
Loans and Advances	118,114.6	103,815.2	-12.1
Revaluation of International Reserves	-	102,883.0	
Bank Premises and Other Fixed Assets	12,116.0	12,302.2	1.5
Other Assets	94,659.9	94,821.9	0.2
Liabilities	1,304,600.5	1,860,631.4	42.6
Currency Issue	384,491.6	433,854.4	12.8
Deposits	<u>571,197.8</u>	<u>1,059,989.6</u>	<u>85.6</u>
Reserve Deposits of Banks & Other FIs	331,937.8	412,382.4	24.2
Special Deposit Accounts	51,755.0	385,477.0	644.8
Other Deposits of Banks & Other FIs	2,626.0	2,568.7	-2.2
Treasurer of the Philippines ¹	108,546.2	167,378.6	54.2
Other Foreign Currency Deposits	13,582.0	28,126.2	107.1
Foreign Financial Institutions	55,066.9	51,956.4	-5.6
Other Deposits ²	7,683.8	12,100.4	57.5
Foreign Loans Payable	51,693.0	5,856.0	-88.7
Net Bonds Payable	39,620.1	32,602.9	-17.7
Allocation of SDRs	8,660.8	7,670.7	-11.4
Derivative Instruments	3,887.0	18,287.1	370.5
Net Revaluation of International Reserves	9,097.0	-	
BSP Debt Instruments	228,694.3	295,213.3	29.1
Other Liabilities	7,258.9	7,157.5	-1.4
Net Worth	266,762.3	174,419.6	-34.6
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	256,762.3	164,419.6	-36.0

Note: Breakdown may not add up to totals due to rounding.

¹ Includes foreign currency deposits.

² Mostly GOCC deposits.

^u Based on the unaudited BSP balance sheet as of end-December 2007 prepared by the Financial Accounting Department of the BSP.

Source: Financial Accounting Department

16 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

For the periods indicated
In billion pesos

	2006 Dec	2007 ^u Dec	Percent Change (%)
Revenues	74.7	93.8	25.6
Interest Income	<u>50.7</u>	<u>63.6</u>	<u>25.4</u>
International Reserves	39.6	49.2	24.2
Domestic Securities	6.9	10.5	52.2
Loans and Advances	3.7	3.7	0.0
Others	0.5	0.2	-60.0
Miscellaneous Income	23.8 ¹	29.9	25.6
Net income from Branches	0.2	0.3	50.0
Expenses	52.0	67.0	28.8
Interest Expenses	<u>40.9</u>	<u>53.0</u>	<u>29.6</u>
Legal Reserve Deposits of Banks	4.8	10.5	118.8
Special Deposit Accounts	2.2	18.3	731.8
National Government Deposits	7.6	5.0	-34.2
BSP Debt Instruments	15.0	14.8	-1.3
Loans Payable	11.1	4.1	-63.1
Other Foreign Currency Deposits	0.2	0.3	50.0
Other Liabilities	0.0	0.0	
Cost of Minting	1.4	3.1	121.4
Other Expenses	9.8	10.9	11.2
Net Income Before Gain/(Loss) on FXR Fluctuations	22.7	26.8	18.1
Gain/Loss(-) on FXR Fluctuations	-18.9 ¹	-113.7	-501.6
Provision for Income Tax			
Net Income	3.8	-86.9	-2,386.8
Capital Reserves			
Net Income Available for Distribution	3.8	-86.9	-2,386.8

Note: Breakdown may not add up to totals due to rounding and growth rates computed at three decimal places.

^u Based on the unaudited BSP income statement as of December 2007 prepared by the Financial Accounting Department of the BSP.

¹ Trading gains in foreign and local currency financial assets were reclassified under miscellaneous income for comparability with the 2007 classification.

Source: Financial Accounting Department

17 BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at December 31	
	2007	2006
	PHP 000	PHP 000
Foreign Currency Financial Assets		
Deposits with Foreign Banks	401,595,874	354,628,763
Other Cash Balances	301,150	369,308
Investment Securities-Available for Sale	843,390,113	620,573,837
Gold	146,620,518	144,256,111
International Monetary Fund Special Drawing Rights	<u>30,697</u>	<u>114,954</u>
Gross International Reserves	<u>1,391,938,352</u>	<u>1,119,942,973</u>
Loans and Advances	283,494	774,670
Non-IR Foreign Currency on Hand	0	89
Other Foreign Currency Receivables	<u>4,413,166</u>	<u>8,240,670</u>
Total Foreign Currency Financial assets	<u>1,396,635,012</u>	<u>1,128,958,402</u>
Local Currency Financial Assets		
Investment Securities-Available for Sale	329,290,319	222,453,035
Loans and Advances	103,531,740	117,339,941
Due from Administrator of Funds	34,843,604	33,739,299
Other Receivables	<u>20,542,914</u>	<u>24,571,298</u>
Total Local Currency Financial Assets	<u>488,208,577</u>	<u>398,103,573</u>
Total Financial Assets	<u>1,884,843,589</u>	<u>1,527,061,975</u>
Other Assets		
Bank Premises, Furniture, Fixtures and Equipment	12,302,158	12,115,966
Acquired assets	11,013,973	11,354,869
Inventories	17,725,550	14,565,181
Revaluation of Foreign Currency Accounts	102,883,020	0
Deferred Tax Assets	6,095,170	6,095,170
Miscellaneous Assets	<u>187,529</u>	<u>169,812</u>
Total Other Assets	<u>150,207,400</u>	<u>44,300,998</u>
Total Assets	<u>2,035,050,989</u>	<u>1,571,362,973</u>

17 BSP: CONDENSED STATEMENT OF CONDITION

(continuation)

Liabilities and Capital	As at 31 December	
	2007 PHP 000	2006 PHP 000
Foreign currency financial liabilities		
Short-term deposits	32,405,186	41,301,012
Loans payable	5,856,002	51,693,046
Bonds payable	32,602,881	39,620,078
Allocation of International Monetary Fund special drawing rights	7,670,692	8,660,848
Derivative instruments	18,287,127	3,886,961
Other liabilities	<u>1,613,060</u>	<u>1,342,079</u>
Total foreign currency financial liabilities	<u>98,434,948</u>	<u>146,504,024</u>
Local currency financial liabilities		
Government deposits	163,099,521	80,824,292
Deposits of banks and quasi banks	427,051,538	342,250,539
Deposits of the International Monetary Fund and other FIs	51,956,351	55,066,923
Securities sold under agreements to repurchase	<u>680,690,242</u>	<u>280,449,352</u>
Total local currency financial liabilities	<u>1,322,797,652</u>	<u>758,591,106</u>
Total financial liabilities	<u>1,421,232,600</u>	<u>905,095,130</u>
Other liabilities		
Currency in circulation	433,854,412	384,491,616
Retirement benefit obligations	1,697,890	1,618,311
Miscellaneous liabilities	3,846,536	3,411,112
Dividends payable	0	887,472
Revaluation of foreign currency accounts	0	<u>9,097,004</u>
Total other liabilities	<u>439,398,838</u>	<u>399,505,515</u>
Total liabilities	1,860,631,438	1,304,600,645
Capital accounts		
Capital	10,000,000	10,000,000
Surplus	43,948,398	49,913,230
Capital reserves	<u>120,471,153</u>	<u>206,849,098</u>
Total capital accounts	174,419,551	266,762,328
Total liabilities and capital accounts	<u>2,035,050,989</u>	<u>1,571,362,973</u>

**18 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES
OF THE BANGKO SENTRAL NG PILIPINAS
with Budget Information¹**

Years ended December 31	2007 Budget PHP000	2007 Actual PHP000	2006 Actual PHP000
Operating Income:			
Income from foreign currency financial assets			
Interest income	45,703,886	49,347,964	40,134,294
Fees, miscellaneous foreign currency income & trading gains foreign	<u>7,422,817</u>	<u>27,463,389</u>	<u>19,347,222</u>
Total income from foreign currency financial assets	53,126,703	76,811,353	59,481,516
Expenses on foreign currency financial liabilities			
Interest expense	6,331,819	5,069,904	13,345,600
Other foreign currency expenses	<u>386,393</u>	<u>330,469</u>	<u>366,357</u>
Total expenses on foreign currency liabilities	6,718,212	5,400,373	13,711,957
Foreign currency income	46,408,491	71,410,980	45,769,559
Income from local currency financial assets			
Interest income & trading gains local	<u>21,937,968</u>	<u>14,111,838</u>	<u>11,864,710</u>
Total Income from local currency financial assets	21,937,968	14,111,838	11,864,710
Expenses on local currency financial liabilities			
Interest expense	<u>48,632,089</u>	<u>48,378,133</u>	<u>27,508,642</u>
Final tax on interest income/discounts	<u>797,544</u>	<u>702,833</u>	<u>945,874</u>
Total expenses on local currency financial assets	49,429,633	49,080,966	28,454,516
Local currency income/(loss)	(27,491,665)	(34,969,128)	(16,589,806)
Total operating income	18,916,827	36,441,852	29,179,753
Currency printing and minting cost	3,099,207	3,130,933	1,387,717
Operating expenses:			
Personnel services, development and training	6,776,474	6,365,835	5,505,605
Traveling	399,625	276,036	261,665
Taxes and licenses	156,881	198,996	167,065
Currency and gold operations	168,074	155,921	92,370
Prior period expenses ²	0	0	0
Other services	<u>2,579,260</u>	<u>1,660,664</u>	<u>1,188,243</u>
Depreciation	527,583	486,494	476,349
Fidelity insurance	85,131	63,208	68,016
Light, fuel & water	241,995	160,644	165,638
Repairs & maintenance	420,736	253,552	228,855
Communication services	176,884	109,473	106,013
Supplies	81,323	50,683	50,652
Others ³	<u>1,045,607</u>	<u>536,611</u>	<u>92,720</u>
Total operating expenses	10,080,314	8,657,452	7,214,948
Net operating income before impairments	5,737,305	24,653,467	20,577,088

¹ The statement presentation was restated for comparability with the budget format.

² Actual charges are distributed to the corresponding expense accounts affected.

³ Includes provisions for contingencies which when utilized are classified under the appropriate budget item.

**18 BSP:CONDENSED STATEMENT OF INCOME AND EXPENSES
OF THE BANGKO SENTRAL NG PILIPINAS**
with Budget Information¹
(continuation)

Years ended December 31	2007 Budget PHP000	2007 Actual PHP000	2006 Actual PHP000
Impairment losses on loans and advances ³	(685,416)	(561,707)	(665,968)
Market decline of acquired assets ⁴	<u>(722,251)</u>	<u>(213,661)</u>	<u>(560,373)</u>
Net operating income after impairment	4,329,637	23,878,099	19,350,747
Other operating income	3,681,977	2,888,166	3,381,495
Prior period income⁵	0	0	0
Net realized gains/(loss) on fX rates fluctuations⁶	0	(113,709,555)	(18,935,889)
Profit/(loss) before income tax	8,011,614	(86,943,290)	3,796,353
Income tax paid	0	0	(11,765)
Profit/(loss) for the year	<u>8,011,614</u>	<u>(86,943,290)</u>	<u>3,784,588</u>
Reserve for directors/officers liability fund			(100,000)
Profit for distribution			<u>3,684,588</u>

³ Represents additions to the contra-asset account allowance for probable losses.

⁴ Represents the difference between the book value and appraised value of acquired assets; accumulated in the contra-asset account allowance for market decline of acquired assets

⁵ Actual transactions are distributed to the specific income accounts affected.

⁶ 2006 Presentation together with "Trading Gains - Foreign and Local" are revised to conform with 2007 presentation.