Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

23 March 2006

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

Dear Madame President:

I have the honor to submit the ***2005 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 2005, the major policies and other key measures adopted by the monetary authorities and highlights of the BSP's operations and activities.

Very respectfully,

AMANDO M. TETANGCO, JR.
Governor

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The Governor's Foreword

By most accounts, 2005 was a very challenging year for the Philippines. Oil prices reached record high levels. Exports slowed down with a relatively slower global demand. Agricultural production declined due to the El Niño phenomenon. On top of these economic difficulties, there were also political pressures.

In the face of all these challenges, the economy proved its resilience and underlying strength. Real GDP grew by 5.1 percent during the year, driven mainly by services on the output side and consumer spending on the demand side. At the same time, domestic inflation was kept at an average of 7.6 percent.

The continued resilience of the economy to the various shocks of the past year was not merely due to chance. It was the result of a demonstrated commitment to a comprehensive economic reform program involving both the government and the private sector.

A key development during the year was the implementation of the Reformed Value Added Tax (RVAT) and the changes in the excise taxes. These revenue-improving measures were a major step for the Government in ensuring fiscal sustainability over the long term. Expectedly, this was received with great approval by investors and international institutions.

The positive sentiment generated by our improved fiscal performance translated into increased foreign investments, both portfolio and direct investments. The inflows from these investments and the surge in remittances from overseas workers helped keep our balance of payments in surplus, despite modest merchandise trade. International reserves level was built up to a comfortable level.

The improvement was complemented with continued resilience and soundness of the banking system. Asset quality, in particular, has been improving considerably with commercial banks' non-performing loans (NPL) ratio settling at single-digits by the end of the year. The capital adequacy ratio of commercial banks also remained well above the international benchmark of 8.0 percent at 17.5 percent as of June 2005. Nevertheless, lending activity has remained sluggish, mainly because of banks' generally cautious attitude toward lending and also because of weak corporate credit demand. The weak lending activity, of course, also meant that the banking system was awash with liquidity, which in turn implied falling market interest rates and narrowing interest rate differentials. Needless to say, such developments in a time of cost-push inflation made things more complicated for monetary policy.

It became critical therefore for the BSP to work hard in carefully calibrating monetary policy without collateral effect on economic activity. Our main focus was on ensuring the achievement of the inflation target, keeping the public's inflation expectations anchored and managing the rapid growth in domestic liquidity. These considerations led the BSP to raise its policy interest rates by a total of 75 basis points and increase its reserve requirement ratios by 200 basis points. These measures paid off in terms of declining inflation in the latter half of 2005.

We look ahead with great optimism that economic growth will be sustained. The main risk we see for domestic demand is the high oil prices, which have already taken some of the buoyancy out of consumer spending in the past year. High oil prices also continue to be the key source of risk to inflation. On the other hand, the RVAT is expected to have only a short-lived impact on inflation, while the strong peso and the recent easing of food prices should help balance out the upside risks. Thus, after a brief upward trend in the early part of 2006, we expect inflation to decelerate as the impact of cost push pressures subside in the months ahead.

Meanwhile, market interest rates are expected to benefit from ample liquidity, improving fiscal performance, and better prospects for the country's sovereign credit standing. We may expect interest rates to remain generally stable at current levels during the year. At the same time, our external position is likely to continue to benefit from dollar inflows from remittances and investments. With healthy inflows, the nominal exchange rate is also likely to remain generally stable in the course of the year.

In the months ahead, the task for economic managers will be to strengthen the economy in the short term and to preserve the momentum for economic reforms to ensure sustained growth in the long term. For the BSP, the main task will be to remain committed to fighting inflation and reforming the financial sector.

To this end, monetary policy will continue to be aimed at responding proactively to the second round effects of cost-push shocks; potential buildup in demand pressure due to excessive money growth; and any inflationary consequences of exchange rate volatility coming from narrowing interest rate differentials. The BSP will therefore be focused on helping to steer inflation towards the inflation target.

In the area of banking supervision, our focus will be on reducing the stock of non-performing bank loans which have continued to dampen bank lending activity. Helping banks dispose of their non-performing assets will also enable the monetary transmission mechanism to work more effectively by allowing credit to better respond to monetary action. The Bank will also be working hard to improve its supervision technology and capacity; enhance the prudential regulatory environment in line with international standards and best practices; strengthen corporate governance standards and market discipline mechanisms; and further developing the domestic capital market. Efforts will also be focused on further enhancing the payments system.

In sum, the near-term economic outlook suggests continued strength in economic activity, but there are potential obstacles on the way to sustainable growth. The critical task ahead is for policymakers to focus, not just on macroeconomic stabilization in the short-term, but also on preserving the momentum for economic reforms to ensure sustained growth in future years.

AMANDO M. TETANGCO, JR.
Governor

March 2006

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 Bangko Sentral ng Pilipinas (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 Bangko Sentral performs the following functions:

- *Liquidity management*. The BSP formulates and implements monetary policy aimed at influencing money supply consistent with its primary objective to maintain 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. It adheres to a market-oriented foreign exchange rate policy such that the role of Bangko Sentral 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, it limits the circumstances in 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, imbued with the values of integrity, excellence and patriotism, 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.

The Monetary Board

Amando M. Tetangco, Jr.[1]
Chairman and Governor

Romulo L. Neri[2]
Member

Vicente B. Valdepeñas, Jr.
Member

Raul A. Boncan
Member

Juanita D. Amatong[3]
Member

Nelly F. Villafuerte[3]
Member

Alfredo C. Antonio[3]
Member

[1] Assumed office as new BSP Governor effective 4 July 2005, replacing former BSP Governor Rafael B. Buenaventura.
[2] Assumed office effective 27 July 2005 as the Government representative to the Monetary Board
[3] Ms. Juanita D. Amatong and Ms. Nelly F. Villafuerte assumed office effective 4 July 2005 replacing former Monetary Board Members Antonino L. Alindogan, Jr. and Juan Quintos, Jr. respectively. Mr. Alfredo C. Antonio assumed office effective 26 September 2005 replacing former Monetary Board Member Melito S. Salazar, Jr.

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
Managing Director

Celia M. Gonzalez
Managing Director

Pedro P. Tordilla, Jr.
Managing Director

Ma. Aurora L. Cruz
Acting Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Ma. Dolores B. Yuvienco
Managing Director

Ma. Corazon J. Guerrero
Managing Director

Resource Management Sector

Armando L. Suratos
Deputy Governor

Evelyna C. Avila
Managing Director

Wilhelmina A. De Las Alas
Managing Director

Security Plant Complex

Armando L. Suratos
Concurrent Head

Nestor D. Garcia
Managing Director

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

ABMI	Asian Bond Market Initiative
ACBF	ASEAN Central Bank Forum
ACDM	ASEAN Central Bank Deputies Meeting
AFDM	ASEAN Finance and Central Bank Deputies Meeting
AFAS	ASEAN Framework Agreement on Services
AFF	Agriculture, Fishery and Forestry
AFMM	ASEAN Finance Ministers' Meeting
AMCs	Asset Management Companies
APEC	Asia Pacific Economic Cooperation
ASA	ASEAN Swap Arrangement
ASR	ASEAN Surveillance Report
ASEAN	Association of Southeast Asian Nations
ATM	Automated Tellering Machines
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BOC	Bureau of Customs
BOK	Bank of Korea
BOP	Balance of Payments
BOT	Bank of Thailand
BPM5	Fifth Edition of the BOP Manual
BPR	Bank Performance Report
BS	Bangko Sentral
BSA	Bilateral Swap Arrangement
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
BTRCP	Bureau of Trade Regulation and Consumer Protection
CAPEX	Capital Expenditure
CAS	Central Accounting System
CCR	Credit Card Receivable
CD	Cash Department
CITSU	Core Information Technology Supervision Unit
CMFP	Center for Monetary and Financial Policy
CMI	Chiang Mai Initiative
CPC	Central Point of Contact
CPI	Consumer Price Index
CPO	Corporate Planning Office
CRA	Credit Rating Agencies
CRPP	Currency Risk Protection Program
CSOC	Consolidated Statement of Condition
CTF	Common Trust Fund
CTRM	Committee on Tariff and Related Matters
CVCS	Currency Verification, Counting and Sorting
DA	Department of Agriculture
DBCC	Development Budget Coordinating Committee

DCS	Depository Corporations Survey
DDA	Demand Deposit Account
DepEd	Department of Education
DER	Department of Economic Research
DES	Department of Economic Statistics
DILG	Department of Interior and Local Government
DMS	Document Management System
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOSRI	Director, Officer, Stockholder and Related Interests
DTI	Department of Trade and Industry
DvP	Delivery versus Payment
DW	Data Warehouse
EFTIS	Electronic Funds Transfer Instruction System
EMEAP	Executives' Meeting of East Asia and the Pacific Central Banks
ESE	Environmental Scanning Exercise
ERB	Energy Regulatory Board
EWS	Early Warning System
FATF	Financial Action Task Force
FAQs	Frequently Asked Questions
FBT	Food, Beverage and Tobacco
FCD	Foreign Currency Declaration
FCDs	Foreign Currency Deposits
FCDUs	Foreign Currency Deposit Units
FDI	Foreign Direct Investment
FIE	Fixed Income Exchange
FILS	Financial Institutions Library System
FIXBIS	Fixed-Rate Investments at the BIS
FLW	Fuel, Light and Water
FRP	Financial Reporting Package
FSF	Financial Sector Forum
FTO	Fine Troy Ounces
GA	General Assembly
GDP	Gross Domestic Product
GIR	Gross International Reserves
GL	General Ledger
GNP	Gross National Product
GOCCs	Government Owned and Controlled Corporations
GS	Government Securities
GSEDs	Government Securities Eligible Dealers
HLURB	Housing and Land Use Regulatory Board
HRMD	Human Resource Management Department
HRMS	Human Resource Management System
IAC-TCS	Inter-agency Committee on Trade in Services
IAC-TIA	Inter-agency Committee on Trade and Investment Agreements
IAP	Individual Action Plan
IAS	International Accounting Standards

IC	Insurance Commission
IFRS	International Accounting Financial Reporting Standards
ILF	Intraday Liquidity Facility
ILO	International Labor Organization
IMF	International Monetary Fund
IPOs	Initial Public Offerings
IRIS	Integrated Regional Information System
IT	Information Technology
IYM	International Year of Microcredit
JPEPA	Japan-Philippine Economic Partnership Agreement
KBs	Commercial Banks
LFS	Labor Force Survey
LGUs	Local Government Units
LIBOR	London Interbank Offered Rate
LTO	Land Transportation Office
M3	Domestic Liquidity
MB	Monetary Board
MLT	Medium- and Long-Term
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MROD	Mint and Refinery Operations Department
MS	Monetary Survey
MTP	Major Trading Partner
NBQBs	Non-Bank with Quasi-Banking Functions
NDC	Net Domestic Credits
NDF	Non-deliverable Forward
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NG	National Government
NIR	Net International Reserves
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
NSO	National Statistics Office
OBUs	Offshore Banking Units
OFWs	Overseas Filipino Workers
OMOs	Open Market Operations
OSPD	Office of the Supervisory Policy Development
OY	Operating Year
PAS	Philippine Accounting Standards
PCC	Philippine Coordinating Committee
PCAAC	Philippine Council on ASEAN and APEC Cooperation
PCHC	Philippine Clearing House Corporation
PDIC	Philippine Deposit Insurance Corporation
PhilPASS	Philippine Payment and Settlement System
PHISIX	Philippine Composite Stock Index
PIC	Public Information Campaign
PFMS	Provident Fund Management System
PFRS	Philippine Financial Reporting Standards

PNC	Philippine National Committee
PPM	Post-Program Monitoring
PPS-FES	PhilPass Front-end System
PSE	Philippine Stock Exchange
PvP	Payment vs. Payment
R.A.	Republic Act
RB	Rural Bank
REER	Real Effective Exchange Rate
RIED	Reporting, Information Exchange and Dissemination Committee
RP	Repurchase
ROCA	Risk Management, Operational Control, Compliance and Asset Quality
ROPOA	Real and Other Properties Owned and Acquired
ROSS	Registry of Scripless Securities
RP	Repurchase
RRP	Reverse Repurchase
RTGS	Real-Time Gross Settlements
RVAT	Reformed Value Added Tax
SDC	Supervisory Data Center
SDRs	Special Drawing Rights
SEACEN	South East Asian Central Banks
SEANZA	South East Asia, New Zealand and Australia
SEC	Securities and Exchange Commission
SEIPI	Semiconductor and Electronics Industries of the Philippines, Inc.
SEG	SEACEN Expert Group
SEM	Security Engineer Machine
SES	Supervision Examination Sector
SOAs	Statement of Accounts
SPC	Security Plant Complex
SPV	Special Purpose Vehicle
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TLP	Total Loan Portfolio
TRO	Temporary Restraining Order
UAT	User Acceptance Test
UITF	Unit Investment Trust Fund
VAT	Value-Added Tax
WTO	World Trade Organization

PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

The Philippine economy continues to grow in 2005

The Philippine economy expanded by 5.1 percent in 2005, buoyed by the continued growth of the services and industry sectors on the production side and sustained consumer expenditures on the demand side. While the Gross Domestic Product (GDP) growth was slightly below the 6.0 percent growth posted in 2004 and the lower end of the 5.3-6.3 percent target set for 2005, this was achieved against the backdrop of a number of pressures that weighed down on the economy, including the volatility of international oil prices, mild El Niño phenomenon, and political uncertainties (Table 1).

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

The growth of the domestic economy resulted in a 2.2 percent increase in employment mainly in the services sector. Based on the old unemployment definition, the average unemployment rate for 2005 was lower at 11.4 percent compared to 11.8 percent in 2004.[1]

On the supply side, increased global oil prices and domestic supply constraints raised the cost of production and pushed the inflation rate above the Government's 5-6 percent target for the year. However, inflation began to slow down in the second half of 2005 as food prices eased.

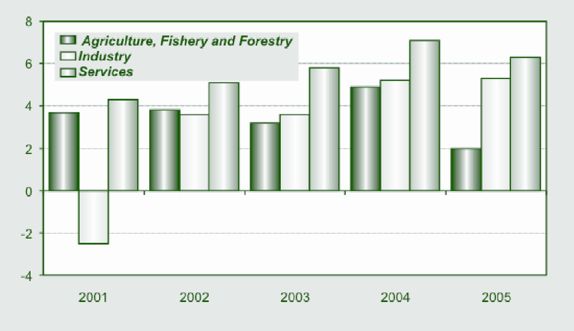
[1] The old unemployment definition considered only those without jobs and those looking for work. The new unemployment definition considered the criterion on availability for work. The inclusion of the availability criterion in the new definition was aimed at fully adopting the international standards prescribed by the International Labor Organization (ILO). Starting April 2005, the new LFS questionnaire was used to estimate the unemployed, which 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 NSO did not provide comparative year-ago figures based on the new LFS questionnaire.

On the fiscal front, enhanced revenues buoyed by the implementation of tax reform measures [i.e. sin tax law and the landmark Reformed Value Added Tax (RVAT) Law] along with administrative measures to promote efficiency in the collection of taxes and continued fiscal discipline enabled the government to improve its finances. The National Government (NG) attained an improved fiscal deficit to GDP ratio of 2.7 percent of GDP, outperforming the programmed ceiling of 3.4 percent of GDP.

Aggregate Output and Demand

The growth of the domestic economy was driven by the favorable performance of the industry and services sectors on the supply side. On the other hand, growth on the demand side continued to be driven by increased personal consumption expenditure.

Real GDP, By Industry
Annual growth in percent



Services and industry drive economic growth

The services sector contributed 3.0 percentage points to the 5.1 percent growth of GDP. The sector's growth was led by the financial subsector which recorded an upsurge in non-interest income such as trading gains from government securities. Transportation, communication and storage subsector also contributed significantly to the growth given the continued demand for mobile communication services. Likewise, overseas Filipino workers (OFW) remittances and tourist arrivals boosted the trade subsector.

The industry sector, meanwhile, grew by 5.3 percent, accounting for 1.8 percentage points of the GDP growth. Despite the oil price hikes, manufacturing surpassed its year-ago growth rate and was the biggest contributor to the growth of the industry sector. The growth in manufacturing was propelled by food manufactures, chemical and chemical products, footwear and wearing apparel, petroleum products, and textile and tobacco manufactures. The mining sector recorded strong growth on account of increased foreign investment and rising metal prices in the world market. Construction also grew at a respectable pace as public construction recovered. Growth of public utilities, however, weakened with the rising cost of oil and regulatory uncertainties.

Agriculture, Fishery and Forestry (AFF) comprised 19 percent of total domestic output and contributed 0.38 percentage point to economic growth. The moderate growth in the AFF sector of 2.0 percent was due to weak growth in crop production, modest increases in livestock and poultry output, and a contraction in forestry output. On the other hand, the relatively strong performance of the fishery subsector was supported by increased production of seaweed due to high foreign demand, improved dispersal programs and better technical and financial assistance from the Government.

Personal consumer spending leads growth on the demand side

On the demand side, personal consumption expenditure continued to be the main driver of growth, rising by 4.9 percent in 2005 (Table 1a). Consumer spending was buoyed by the strong inflow of OFW remittances during the year. However, spending was also tempered partly by the higher prices of goods and services. Meanwhile, investments slipped in 2005 due to the substantial decline in durable equipment. On the other hand, government services increased moderately by 2.7 percent in 2005 as the NG continued to practice fiscal prudence. Public construction, however, improved in the latter part of the year due to increased capital outlays.

The export sector grew by 2.3 percent in 2005, lower than last year’s double-digit growth as merchandise exports posted a low growth of 2.0 percent from a high of 14.1 percent in 2004. Meanwhile, total imports expanded by 1.8 percent in 2005 following a 5.9 percent growth in 2004.

Labor, Employment and Wages

Overall labor market conditions improve

Employment conditions continued to improve in 2005. The number of employed workers rose by 2.2 percent to a total of 32.3 million, or an average of 700,000 jobs created per year. This was lower than the 978,000 jobs created in 2004 but higher than the 573,000 jobs created in 2003 (Table 2).

…as the jobless rate declines

Average unemployment rate declined slightly to 11.4 percent in 2005 from 11.8 percent in 2004 based on the old National Statistics Office (NSO) definition. Likewise, the number of unemployed persons declined to 4.1 million in 2005 from 4.2 million in 2004. Based on the new definition of unemployment, the jobless rate as of April 2005 at 8.3 percent was the highest recorded during the year because of the entry in the labor force of new graduates and vacationing students looking for summer jobs. The unemployment rate in July and October of 2005 registered at 7.7 percent and 7.4 percent, respectively. The total number of unemployed persons under the new definition ranged from 2.6 million to 2.9 million in the NSO Labor Force Surveys (LFS) from April to October 2005.

Gains in employment were seen in all major sectors. Employment in the services sector, which continued to be the country's major source of employment, grew by 2.8 percent (423,000 jobs) during the year. The wholesale and retail trade subsector posted the biggest growth in employment, followed by hotels and restaurants; real estate, renting and business activities; and education. Employment in the agriculture, fishery and forestry sector rose by 2.2 percent (248,000 jobs) despite the El Niño dry weather disturbance, while employment in the industry sector rose slightly by 0.5 percent (27,000 jobs).

Prices

Inflation trends upward

Higher oil prices and a mild El Niño phenomenon drive inflation higher in 2005

Inflation averaged higher in 2005 compared to its year-ago level, reflecting the impact of the unprecedented increase in world oil prices and the occurrence of a mild El Niño in the early part of the year. Headline inflation for 2005 based on the 2000 Consumer Price Index (CPI) series averaged 7.6 percent, higher than the 6.0 percent inflation recorded in the previous year and the Government target of 5.0-6.0 percent (Table 3). Nevertheless, consistent with BSP's forecasts, there has been some observed easing in price pressures beginning in the second semester of the year due to favorable food prices as weather conditions improved and prices of imported oil moderated following temporary declines in world oil prices and the strengthening of the local currency. Meanwhile, core inflation sustained its easing trend which started in March, indicating the absence of demand-based pressures on consumer prices.

Food and non-food inflation rise in 2005

The average inflation for food, beverage and tobacco (FBT) inched up to 6.4 percent in 2005 from 6.2 percent in 2004. Price increases were recorded for some food items, particularly rice, sugar, alcoholic beverages, and meals eaten outside homes. The implementation of higher taxes for tobacco and alcoholic drinks also contributed to higher FBT inflation during the year. Likewise, the sharp rise in world oil prices since 2004 continued to affect food inflation in 2005, as higher fuel prices led to upward adjustments in transportation and distribution costs. It may also be noted that the world market prices of some agricultural commodities such as sugar and coffee exerted upward pressure on the local prices of these products.

During the first quarter, the onset of a mild El Niño affected agricultural production in many parts of the country. The resulting supply constraints led to higher inflation for farm products such as rice, corn, other cereal products and most seafood items. With improved weather conditions in the second half of the year, inflation for food items such as corn, eggs, fish, meat, fruits began to moderate.

Price increases in energy-related products lead to higher non-food inflation

Similarly, the average non-food inflation edged higher to 8.6 percent (2000=100) in 2005 from 5.8 percent a year ago as indices for all major non-food commodity groups rose. This development was driven primarily by the double-digit inflation rates of fuel, light and water (FLW) as well as services. FLW posted an 18.1 percent inflation during the year. Meanwhile, inflation for services also went up to 11.8 percent in 2005, as transportation and communication services rose by 18.3 percent. These developments were attributed to the sharp increases in world oil prices since 2004 which translated into higher domestic pump prices, transport fares and utility charges.

On a regional basis, the 2005 average headline inflation for Metro Manila settled at 8.6 percent while that for areas outside Metro Manila settled at 7.2 percent. These were higher than the 2004 average inflation rates of 5.8 percent in Metro Manila and 6.1 percent in areas outside Metro Manila.

Core inflation also climbs

Meanwhile, core inflation—defined as headline inflation excluding selected food and energy products— rose during the first quarter but followed a sustained downward trend beginning March. Nevertheless, core inflation averaged higher in 2005 at 7.0 percent, compared to 5.7 percent in 2004. Alternative measures of core inflation as estimated by the BSP likewise rose at the beginning of the year, but generally declined between July and October and in December 2005. The trimmed mean, weighted median and net of volatile items rose at 6.2 percent, 5.6 percent, and 6.0 percent, respectively, from 5.0 percent, 4.2 percent, and 4.5 percent in 2004.

Core Inflation Measures
Year-on-Year Change

	2000=100	
	2004	2005
Official Measure [1]	5.7	7.0
Trimmed Mean [2]	5.0	6.2
Weighted Median [3]	4.2	5.6
Net of Volatile Items [4]	4.5	6.0

[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.

Operations of the National Government

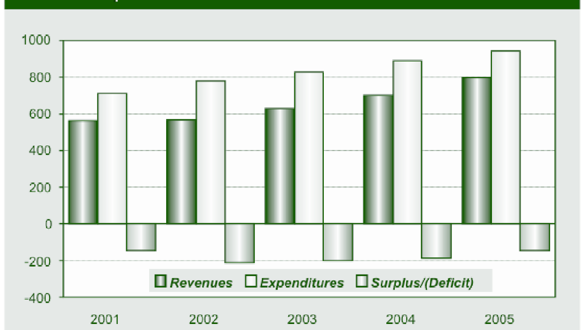
National Government's cash position improves

NG's cash position posts lower deficit as a result of revenue enhancement and expenditure tightening measures

The fiscal deficit in 2005 declined to 2.7 percent of GDP, lower than the programmed ceiling of 3.4 percent of GDP and below the 3.9 percent of GDP fiscal deficit recorded in 2004. This affirms the commitment of the NG to attain fiscal consolidation and achieve a balanced budget by 2008.

The country's fiscal position strengthened as a result of revenue enhancement and expenditure-tightening measures. Revenues increased by 13.7 percent, exceeding the revenue target by 1.6 percent (Table 4). Expenditures likewise increased, exceeding year-ago levels, but were 2.2 percent lower when compared to program. These developments helped the NG to reduce its deficit by 21.7 percent from the previous year's levels, as it posted a deficit lower than program by 18.6 percent.

National Government: Cash Operations
In billion pesos



Tax collections, the main source of revenues, expanded by 14.4 percent, but were lower than the programmed level by 3.1 percent. New tax measures such as the Excise Tax on Tobacco and Liquor and the RVAT, as well as the administrative measures adopted by the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), helped to improve tax collection. This resulted in the improvement of the NG revenue effort from 13.5 percent of Gross National Product (GNP) in 2004 to 13.7 percent in 2005. Non-tax revenues also increased as the Bureau of the Treasury (BTr) exceeded its target and 2004 performance on account of higher investment and interest income.

Total NG expenditures rose from a year ago by 6.2 percent, but were lower than program by 2.2 percent. Allotments to Local Government Units (LGUs) increased compared to the previous year and to program levels, while interest payments, though higher than the previous year, fell below the program level. With the adoption of austerity measures which generated savings for the NG, total expenditures as a share of GDP declined to 17.5 percent from 18.3 percent in 2004.

The deficit was financed mainly from domestic sources, which covered 60.8 percent of the total financing requirement, exceeding the targeted 54.4 percent share of domestic borrowing in the financing mix.

Monetary and Financial Conditions

Domestic liquidity expands mainly on account of strong foreign exchange inflows

Growth in domestic liquidity during the year was driven mainly by strong external inflows from overseas remittances and foreign investments (both portfolio and direct), which contributed to a buildup in the net foreign assets (NFA) of the both the BSP and the financial system.

Given the liquidity condition, the BSP undertook policy measures to help slow down the rise in liquidity and contain the potential risks to inflation. These measures helped bring down the growth in M3 in the latter part of 2005. Nevertheless, ample liquidity among banks led to a generally declining trend for market interest rates.

Credit activity in the early part of the year mainly involved lending to the public sector through the government securities (GS) market, as banks maintained a generally cautious attitude toward new lending to the corporate sector due to asset quality concerns. This situation reversed towards the latter half of the year, as improving public finances led to reduced borrowing and declining non-performing loan (NPL) ratios encouraged more private sector lending from banks.

Meanwhile, activity in financial markets, particularly for equities and government debt, was supported by ample liquidity in the banking system and strong market optimism concerning the government's fiscal performance.

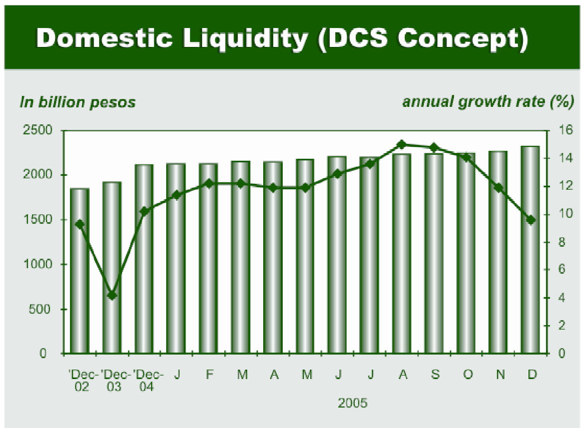
Monetary Conditions

Monetary Aggregates

Domestic liquidity reflected strong growth

Domestic liquidity registers double-digit growth during most of 2005

After months of minimal growth, domestic liquidity or M3 began posting double-digit growth rates consistently starting December 2004 based on data from the BSP's Depository Corporations Survey (DCS).[2] Year-on-year M3 growth peaked in August at 15.02 percent, prompting the BSP to submit a formal report to the President explaining the cause of the increase (as stipulated under the New Central Bank Act).[3]



The rapid expansion in liquidity was traced to the strong inflows of foreign exchange from OFW remittances as well as from portfolio and direct investments. OFW remittances sent through commercial banks reached US$10.7 billion in 2005, 25.0 percent higher than that posted in 2004. Meanwhile, renewed investor confidence buoyed strength in portfolio and direct investments. Foreign portfolio investment rose by more than threefold to US$ 2.1 billion in 2005. Similarly, net foreign direct investment rose to US$863 million as of end-October 2005, up by 64.4 percent relative to the previous year's level.

[2] The DCS, which replaces the Monetary Survey (MS) as the basis for measuring domestic liquidity, features an expanded list of surveyed institutions that includes the Bangko Sentral ng Pilipinas (BSP), commercial banks, thrift banks, rural banks, non-stock savings and loan associations and non-banks with quasi-banking functions. The MS concept included only data from the BSP and the commercial banks in its survey.

[3] Under its Charter, the BSP is required to report to the President and Congress on the recent developments in domestic liquidity whenever the monetary aggregates, or the level of credit, increases or decreases by more than 15.0 percent.

The foreign inflows were absorbed by the financial system in the form of foreign exchange purchases by both the BSP and the banks. This was reflected as an increase in the NFA of both the BSP and depository corporations (i.e., commercial, thrift and rural banks). In November, the BSP's NFA grew by 21.0 percent relative to its December 2004 level while that of the depository corporations posted an increase of 293.0 percent.

Continued expansion in demand and tim deposits drives liquidity growth

On the liabilities side of banks' balance sheets, growth in liquidity may be explained by the continued expansion in demand and time deposits in the financial system. For example, the growth in demand deposits from December 2004 to November 2005 of 16.6 percent exceeded the increase in domestic liquidity for the same period while the growth in time deposits of 49.3 percent was almost seven times the reported growth rate in M3. The increase in time deposits, in turn, was partly due to the shift of funds from common trust funds (CTFs) to time deposits. Banks have been encouraging their clients to move from CTFs to a new product called unit investment trust funds (UITFs), which offer a number of advantages over CTFs. However, many depositors remained unfamiliar with the new product and therefore opted to place their funds in time deposits instead. At the same time, anecdotal evidence suggested that the increase in time deposits may also be due to banks' increased marketing activities as they encourage recipients of foreign exchange remittances to open time deposit accounts.

Credits to the public sector increase early in the year but decline in the latter part of the year

The growth in credits also contributed to the expansion in domestic liquidity. Credits to the public sector increased strongly during the early part of the year, lending to the NG slowed down in September and October, and declined in the remaining two months of the year, as its cash position steadily improved following the implementation of the new tax measures. On the other hand, growth in credits to the private sector strengthened in the latter part of the year, as banks resumed regular lending activity. This was traced mainly to a decline in the levels of NPLs of commercial banks, that were able to dispose off their non-performing loans under the Special Purpose Vehicle (SPV) Law.

Monetary System (DCS Concept): Net Domestic Credits
Annual growth in percent

BSP mops up excess liquidity

To forestall any inflationary fallout from excess money supply, the BSP took a series of steps to mop up excess liquidity in the financial system. On 15 July 2005, it increased the regular reserve requirement and liquidity reserve requirement by a percentage point each to 10 percent and 11 percent, respectively. The Monetary Board (MB) also raised the BSP's overnight policy rates by 25 basis points on 22 September and on 20 October, bringing the overnight RRP or borrowing rate to 7.50 percent and the overnight RP or lending rate to 9.75 percent. These policy moves contributed to a slowdown in liquidity growth in the system. M3 growth decelerated from its peak level of 15.0 percent in August to 14.9 percent year-on-year in October and further to 9.6 percent in December (Table 5).

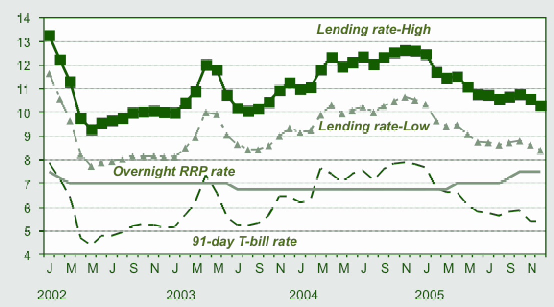
Interest Rates

Interest rates on a downtrend

Market interest rates decline on ample liquidity

Despite the monetary tightening by the BSP in the latter part of the year, interest rates remained on a generally declining trend in 2005 due to ample liquidity in the banking system (Table 6). The improving fiscal outlook with the implementation of the RVAT law in November reduced the risk premium associated with government debt, also contributing to the decline in interest rates. Compared to the beginning of the year, the average 91-day T-bill rate as of end-2005 was lower by 2.3 percentage points. The range of bank lending rates likewise declined, settling at 8.4-10.3 percent in December 2005 from 10.4-12.5 percent in January 2005.

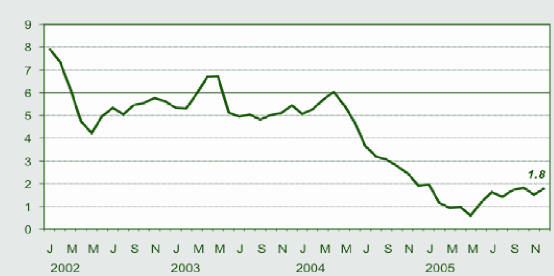
Domestic Interest Rates



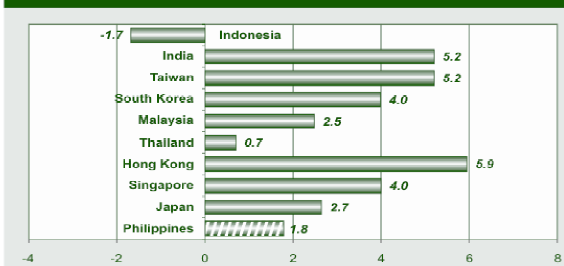
RP's real lending rates remain one of the lowest in Asia

Real bank lending rates were lower in 2005 compared to levels in the previous year, mirroring the decline in the benchmark T-bill rates. Meanwhile, the deceleration of inflation since June 2005 helped boost real bank lending rates to an average of 1.8 percent in December from 0.6 percent in May. Philippine lending rates continue to be among the lowest in the Asian region.

Real Lending Rates: Philippines
Average bank lending rates less CPI Inflation



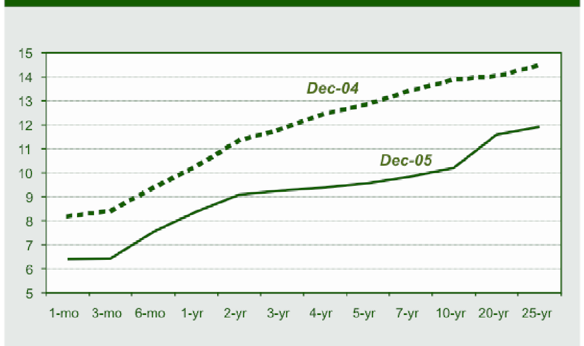
Average Real Lending Rates: Asian Countries
December 2005



Secondary market yields reflect lower primary market rates

The yield curve for Government Securities (GS) remained upward-sloping but shifted downward in 2005 following the general decline in market interest rates.

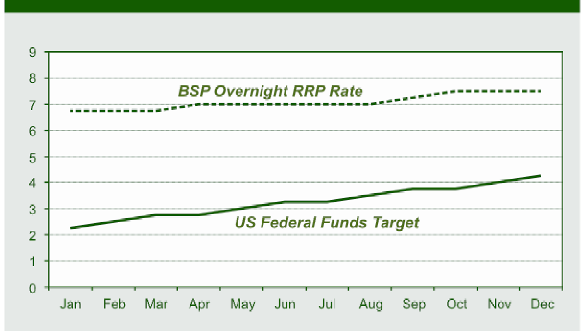
Secondary Market Yield Curve
End-of-period, in percent



Differentials between RP and US interest rates narrow

The differential between the BSP's policy interest rate [overnight borrowing or reverse repurchase (RRP) rate] and the US federal funds target rate narrowed to 325 basis points as of end-December 2005. This resulted from the cumulative increases of 75 basis points in the BSP's policy interest rates and the total increase of 200 basis points in the US federal funds target rate during the year.

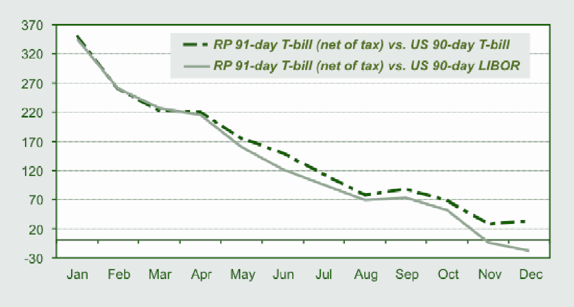
BSP Policy Rate vs. US Federal Funds Target Rate
2005



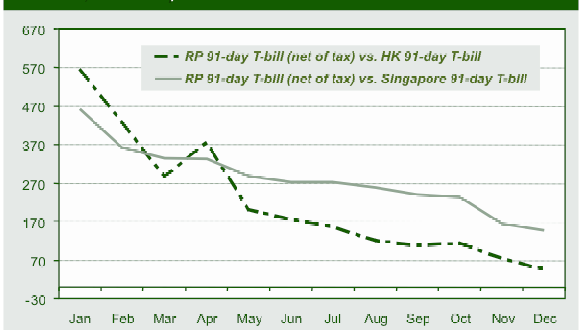
2005	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	6.75	2.25	450
Feb	6.75	2.50	425
Mar	6.75	2.75	400
Apr	7.00	2.75	425
May	7.00	3.00	400
Jun	7.00	3.25	375
Jul	7.00	3.25	375
Aug	7.00	3.50	350
Sep	7.25	3.75	350
Oct	7.50	3.75	375
Nov	7.50	4.00	350
Dec	7.50	4.25	325

Consequently, the differentials between Philippine and US interest rates narrowed steadily. The differential between the RP 91-day T-bill rate (net of tax) and the US 90-day London Interbank Offered Rate (LIBOR) and US 90-day T-bill declined to -18.1 basis points and 32.8 basis points, respectively, from 345.8 basis points and 350.6 basis points at the beginning of the year.

Domestic and Foreign Interest Rate Spreads
2005, in basis points



Domestic and Foreign Interest Rate Spreads
2005, in basis points



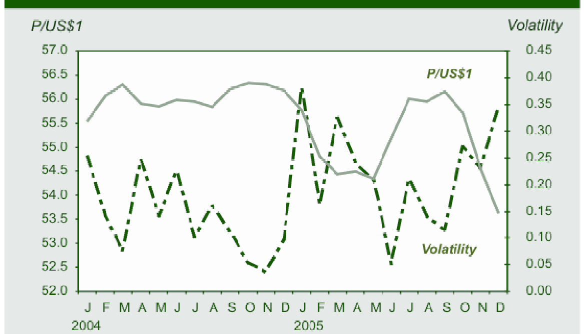
Exchange Rate

Peso strengthens against the US dollar

Peso gains on account of inflows from OFW remittances and capital flows

The peso strengthened by 1.72 percent to average ₱55.09/US$1 in 2005, from an average of ₱56.04/US$1 in 2004 (Table 7).[4] The peso's appreciation was due largely to the sustained dollar inflows from OFW remittances and portfolio and foreign direct investments.

Peso Dollar Rate, Average and Volatility
2004-2005



The peso strengthened during the first five months of 2005 to average ₱54.77/US$1, as it appreciated by 2.73 percent compared to the end-December 2004 level. The peso drew its strength from the following factors: 1) continued dollar inflow from offshore markets (into the equities and government securities markets) following a string of initial public offerings (IPOs) and the liberalization of the mining industry; 2) the passage of the sin tax and RVAT laws; 3) strong inflow of OFW remittances; 4) revaluation of the Chinese yuan; and 5) the decision of Paris-based Financial Action Task Force (FATF) earlier in the year to remove the Philippines from its list of non-cooperative countries in the fight against money laundering. These factors counter-balanced the effects of the bombing incidents in February as well as the sovereign credit rating downgrades by Standard and Poor's and Moody's.[5]

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[4] Dollar rates or reciprocal of the peso-dollar rates were used to compute for the annual percentage changes.

[5] On 17 January 2005, Standard and Poor's lowered the country's long-term foreign and local currency credit ratings to BB- from BB and to BB+ from BBB-, respectively. Similarly, the Philippines' short-term local currency rating was also downgraded to B from A-3, while the country's short-term foreign currency sovereign credit rating of B was affirmed. This was followed by Moody's move to cut the country's foreign and local currency credit ratings by two notches to B1 from Ba2 on 16 February 2005.

The peso began to depreciate in mid-June on account of market apprehensions over the uncertainty on the implementation of key structural reforms due to domestic political controversies. The peso continued to weaken in July due to the Supreme Court's temporary restraining order (TRO) on the RVAT on 1 July and the mass resignation of key Cabinet secretaries on 8 July. These developments increased market uncertainty and prompted international credit rating agencies to revise their outlook on the country's sovereign debt from stable to negative expressing concerns on the country's fiscal sustainability.[6]

The local currency recovered slightly in August due to lower corporate demand for dollars, higher portfolio capital inflows, and market expectations on the possible lifting of the TRO on the RVAT law. The peso sustained its gains in the first two weeks of September on the easing of crude oil prices, the Supreme Court's favorable ruling on the constitutionality of the RVAT and the dismissal of the impeachment case against the President.

During the second half of September, the peso, together with other Asian currencies, showed a generally depreciating trend amid expectations of further hikes in the US Federal Reserve's federal funds target rate as well as the increases in crude oil prices on fears that Hurricane Rita would wreak damage to oil refineries in the Gulf of Mexico. Higher corporate dollar demand to cover import requirements and quarter-end foreign exchange obligations also contributed to the peso's weakness during the period.

The peso strengthened beginning mid-October due to higher inflows from OFW remittances and portfolio and foreign direct investments, implementation of the RVAT law, and improvements in the fiscal and external performance.[7] It was boosted further by the BSP's move to raise policy rates in 20 October, which was meant to address the risk to inflation and inflation expectations. As a result of these developments the peso breached the ₱53 level against the dollar on 29 November and closed the year at ₱53.062, its strongest since May 2003.

6 Standard and Poor's and Fitch revised their outlook on 11 July while Moody's followed two days later.

7 The law widens the coverage of the VAT to include oil and electricity, among other sectors, and allows an increase in the VAT rate from 10 percent in 2005 to 12 percent in 2006.

Year-to-date, the peso remained one of only four regional currencies to strengthen against the US dollar (together with the Chinese yuan, Korean won, and Malaysian ringgit). The peso appreciated by 6.01 percent against the US dollar as of 29 December 2005 versus end-2004.[8]

Asian Currency	Appr (+)/ Depr (-) from 31 Dec 2004 (in %)
Phiippine peso	6.01[a]
Chinese yuan	2.58
South Korea won	2.16
Malaysian ringgit	0.54
Singapore dollar	-2.04
New Taiwan dollar	-3.6
Thai baht	-4.9
Indonesian rupiah	-5.79
Japanese yen	-12.97

[a] *Computed based on the last done deal for the day*

Peso's real appreciation leads to a slight decline in external competitiveness

The nominal appreciation of the peso in 2005 brought about increases in both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) indices of the peso.[9] In nominal terms, the peso strengthened against the three baskets of currencies as its NEER's index rose against the currencies of its major trading partners (MTPs) by 2.21 percent. Similarly, the peso's NEER index rose vis-à-vis the broad and narrow baskets of competitor countries by 2.65 and 7.04 percent, respectively (Table 7a).[10]

On a real, trade-weighted basis, the peso's external price competitiveness weakened slightly against the basket of currencies of the country's major trading partners and competitor countries, both in the broad and narrow series. The REER index of the peso appreciated relative to the currencies of its MTPs by 7.68 percent and its broad and narrow baskets of competitor countries by 6.51 and 7.69 percent, respectively (Table 7a). The combined effects of the peso's nominal appreciation against the US dollar and the widening price differentials between the Philippines and MTPs as with its competitor countries brought about the decline in the peso's external competitiveness.

[8] Dollar rates or reciprocal of the peso-dollar rates were used to compute for the percent changes.
[9] The REER index represents the NEER index of the peso, adjusted for inflation rate 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.
[10] The basket of the major trading partners is composed of the currencies of US, Japan, the Euro area and the United Kingdom. The broad basket of competitor countries comprises the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong while the narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand only.

Financial Conditions

Key financial indicators improve

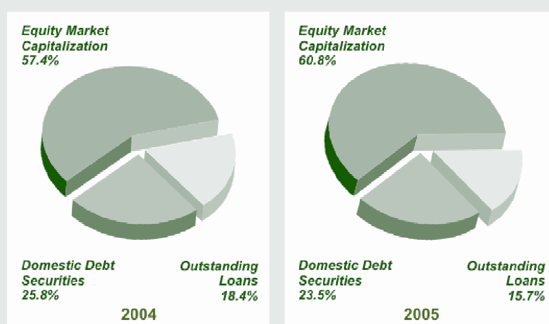
The Philippine financial system posted improvements during the year, despite weak credit activity, rising global interest rates, credit rating downgrades and renewed political uncertainty. The banking sector remained sound, largely on account of the economy's steady growth, as reflected in the relatively strong performance of the corporate sector, manageable inflation, and declining interest rates.

In the capital market, both the local equities and government debt papers benefited from strong investor demand. The continued cautious lending stance of banks, combined with ample liquidity in the system, saw investible funds being channeled to the GS market. The strong demand was reflected in the substantially high tenders offered by investors during the regular T-bill auctions. Trading in the equity market was likewise boosted by robust corporate earnings, improved fiscal performance and strong capital inflows, which served to offset the impact of renewed political tensions on market sentiments.

The equities market accounts for nearly two-thirds of capital financing

Of the total capital financing for 2005, nearly two-thirds was sourced from the equities market, as reflected by the significant increase in stock market capitalization during the year. Financing from the debt securities market followed, contributing over one-fifth to the total fund. Bank lending provided only about one-sixth of total financing as loan demand remained weak during the period.

Financial Sector Profile
2004-2005



Performance of the Banking System

Philippine banking system remains upbeat

The banking industry showed a moderate increase in its deposit base, a slight increase in total assets, modest lending growth, higher capital adequacy ratios, and an improvement in asset quality. The strong performance of the corporate sector, the easing inflationary environment in the second half of the year, the improving fiscal situation and strong peso helped boost the system's overall performance. Policy changes in the areas of capital adequacy, corporate governance and transparency—to align existing regulations with international standards—also helped enhance confidence in the banking system.

Selected Banking Indicators

	2004	2005[p]	Growth Rate (%)
Deposits (₱ Billion)	2,734.3	2,920.2	6.8
Resources (₱ Billion)	4,183.0	4,444.0	6.2
KB's Loans Outstanding (₱ Billion)	1,525.9	1,539.4	0.9
Banking institutions (number)	893	881	0.5
NPL Ratio of Universal and Commercial Banks (%)	13.6 (Nov)	8.7 (Nov)	
Capital Adequacy Ratio (%)	18.4 (June)	17.5 (June)	

[p] *Preliminary*

Deposit Generation

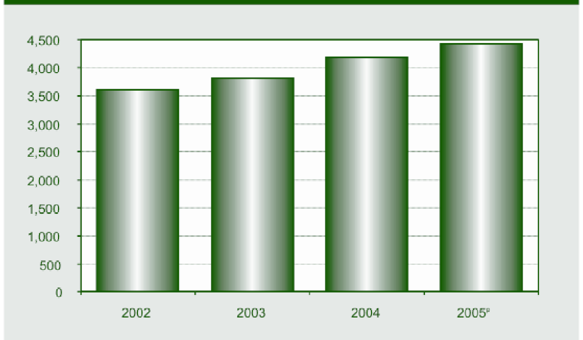
Growth of outstanding deposits decelerate

Outstanding deposits of the banking system registered an increase of 6.8 percent in end-December 2005, slower than the 11.6 percent growth posted the year before (Table 8). Commercial banks' deposits, which accounted for over four-fifths of the deposit base (88.8 percent), registered a slower growth of 6.3 percent during the year. This can be traced largely to the slowdown in the growth in deposits of the commercial banking sector to 0.95 percent in 2005. For the banking system as a whole, funds from savings deposits posted a sluggish 2.4 percent growth in 2005 reducing its share of the total from 55.7 percent in 2004 to 53.5 percent in 2005. The slowdown in time and savings deposit rates accompanied by the increase in inflation could have dampened savings mobilization. Average time deposit rate fell from 6.4 percent in 2004 to 5.2 percent in 2005 while savings deposit rate dropped from 4.3 percent to 3.8 percent. Inflation meanwhile rose from 6.0 percent to 7.6 percent during the period.

Resources

In line with the pace of growth in the deposit base, total resources of the Philippine banking system grew by a steady 6.2 percent to reach ₱4,444.0 billion in end-2005 (Table 9). The growth in the system's resources may be traced to the 1.5 percent expansion in investments and 3.7 percent rise in loans and discounts, which comprised the bulk of the resources of the banking system (71.3 percent).

Banking System: Total Resources
In billion pesos

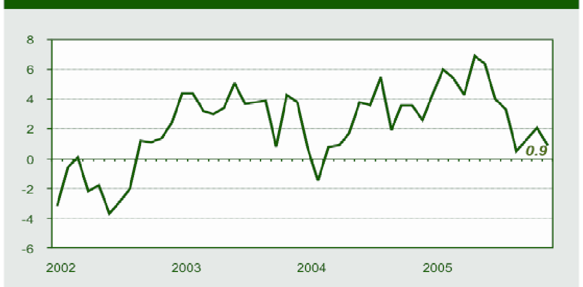


Lending Operations

Lending growth remains sluggish

Commercial bank lending operations inched up by a marginal 0.9 percent in end-December 2005, despite the general decline in domestic interest rates and the modest cleanup in bank balance sheets. The slow pace was indicative of the private sector's moderate loan demand as well as the banks' continued cautious approach to lending. Banks maintained their prudent lending stance as a result of reduced lending margins arising from increased competition and higher provisioning requirements.

Commercial Banks: Loans Outstanding
Annual growth in percent



FIREBS is the main driver of loan growth

The main driver of loan growth was the financial institutions, real estate and business services sector (FIREBS), which accounted for 27.3 percent of total loan volume and grew by a substantial 15.4 percent in 2005. In contrast, loans to the manufacturing sector, which accounted for more than a quarter of total commercial bank loans, tempered overall credit demand as it dipped by 1.6 percent.

Commercial Bank Loans by Economic Activity
December 2005

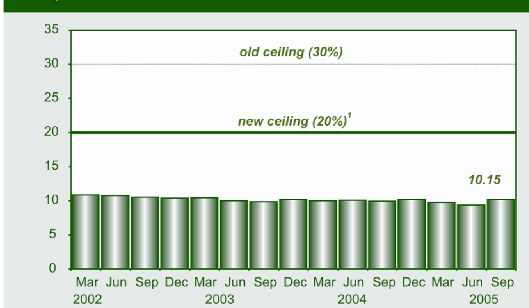
	KB loans (billion pesos)	Percent to Total	Annual Growth Rate (%)
Agriculture, Fishery and Forestry	94.7	6.2	2.5
Mining and Quarrying	11.4	0.7	-6.7
Manufacturing	412.5	26.8	-1.6
Electric, Gas & Water	70.1	4.6	-9.2
Construction	26.1	1.7	-12.7
Wholesale & Retail Trade	193.4	12.6	-9.7
Transportation, Storage & Communication	69.2	4.5	-8.2
Financial Institute, Real Estate & Business Service	420.4	27.3	15.4
Community, Social & Personal Service	241.6	15.7	0.2
TOTAL	**1,539.4**	**100.0**	**0.9**

Source: BSP

Exposure to the real estate sector increases but remains below prescribed ceiling

The ratio of commercial banks' real estate loans to their total loans increased as of end-September 2005 compared to its level for the same period in 2004. Commercial banks' real estate exposure went up to 10.1 percent in September 2005 from 10.0 percent a year ago. Nonetheless, the ratio continued to remain below the BSP's 20 percent ceiling on bank lending to the real estate sector.

Commercial Banks: Real Estate Loans/Total Loans
In percent



[1] *Set in June 1997*

About three-fifths of the loans to the sector were for the acquisition of residential properties and the acquisition and development of commercial properties. The development of subdivisions for housing (12.8 percent), construction of infrastructure projects (9.9 percent), construction of office condominiums (4.8 percent), construction of residential condominiums (3.2 percent), and the development of industrial parks (1.1 percent) and memorial parks (1.1), among others, accounted for the balance of the lending to the real estate sector during the year.

Credit card receivables jump

Meanwhile, the KBs' credit card receivables (CCRs) as of end-December 2005 grew by 19.8 percent to ₱79.9 billion from the end-December 2004 level of ₱66.7 billion, reflecting heightened consumer spending as well as aggressive marketing of their credit card products. Of the total KBs' CCR, ₱56.5 billion was due to the bank proper, while the remaining amount was due to subsidiaries. The ratio of CCRs to total loan portfolio remained steady at 4.7 percent. KBs' past due accounts improved to about 19.8 percent of total CCRs from the 21.0 percent recorded a year ago.

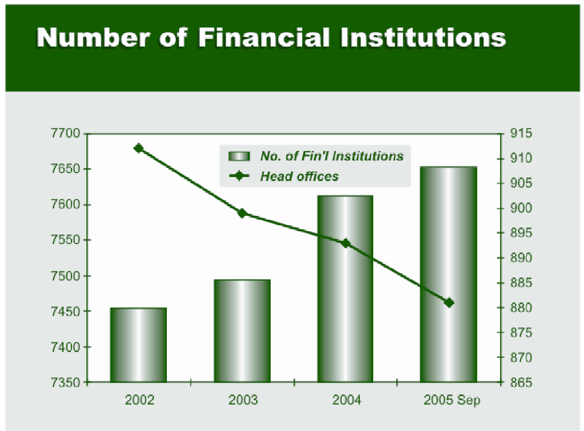
Auto loan receivables also increase

Similarly, total auto loans were up by 25.1 percent to ₱55.9 billion as of end-December 2005 from the end-December 2004 level of ₱44.7 billion. As a ratio to total loan portfolio, auto loans stood at 3.3 percent. Thus far, only 4.2 percent of total auto loans were past due.

Institutional Developments

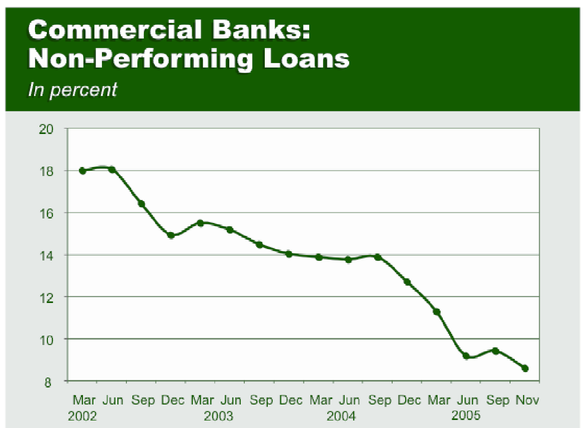
Banks continue to consolidate

The BSP's continued efforts to establish a more robust financial system and encourage healthy competition within the industry sector encouraged greater consolidation in the banking industry. The number of banking institutions declined from 893 in 2004 to 881 in 2005 (Table 9a), which consisted of 42 commercial banks, 84 thrift banks and 755 rural banks. However, the operating network of the banking system increased by 41 to 7,653 as of end-2005, 12 of which were head offices and branches of microfinance banks. The BSP partially lifted moratorium on bank branching in 2001 to encourage the establishment of microfinance-oriented banks.



Banks' asset quality improves…

Commercial banks asset quality improved in 2005 as its Non-Performing Loan (NPL) ratio – the ratio of NPLs to the total loan portfolio – dipped to 8.7 percent as of end-November 2005 from 13.6 percent a year ago. This ratio is the lowest in more than seven and a half years and the sixth in a series of single-digit NPL ratios that began in June 2005.



The improvement largely reflected the progress in the implementation of the SPV Act, which was enacted in 2002 to address the system's high level of bad loans. Under the law, banks were able to unload a total of ₱96.7 billion involving various transactions. Of the total peso transactions, ₱79.1 billion involved the sale to an SPV while the remaining amount involved the sale of real and other property owned or acquired (ROPOA) to individuals and *dacion en pago* transactions. The unloading of an additional ₱100 billion worth of non-performing assets (NPAs) may be expected with the extension of the effectivity of the said law.

… but remains relatively higher than neighboring countries

Despite the improvement in Philippine banks' asset quality, the country's NPL ratio remains relatively high. Compared to those of other countries in the region, the Philippines' NPL ratio was below that of Thailand's 10.3 percent but higher than Malaysia's 6.7 percent, Korea's 1.7 percent and Indonesia's 7.9 percent.[11] The lower NPL ratio in other Asian countries may be traced to the publicly-owned asset management companies' (AMC) purchases of the bulk of their NPLs.

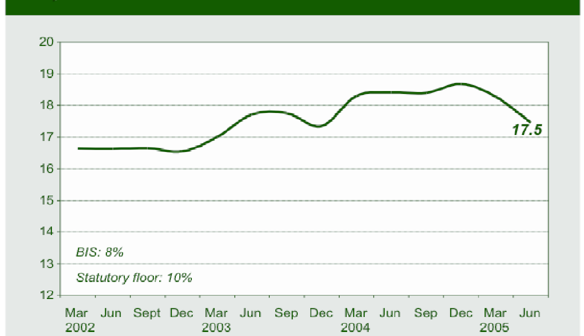
Loan-loss provisioning rises substantially

Loan-loss provisioning also improved during the period in review. The coverage of commercial banks' NPLs, in particular, increased substantially to 72.7 percent in November from 53.4 percent the year before. The coverage for commercial banks' NPAs similarly expanded from 28.7 percent in November 2004 to 32.9 percent a year after. The increase in coverage ratios reflected not only banks' improving asset quality but also their cautious provisioning stance against possible losses.

CAR remains above statutory level

The banking systems' risk-based capital adequacy ratio (CAR) in 2005 remained well above the 10 percent minimum CAR prescribed by the BSP. Compared to year-ago levels, however, commercial banks' CAR was lower at 17.5 percent in June 2005. This decline can be attributed to the slower build-up in bank capital relative to the increase in risk-weighted assets during the period. The introduction of hybrid Tier 1 capital will help shore up banks' capital position. Hybrid capital instruments have equity-like features that will enable debt instruments to absorb losses like common equity. In December 2005, BSP approved the regulations that allow banks to use hybrid instruments to beef up their Tier 1 or core capital.

Capital Adequacy Ratio
In percent



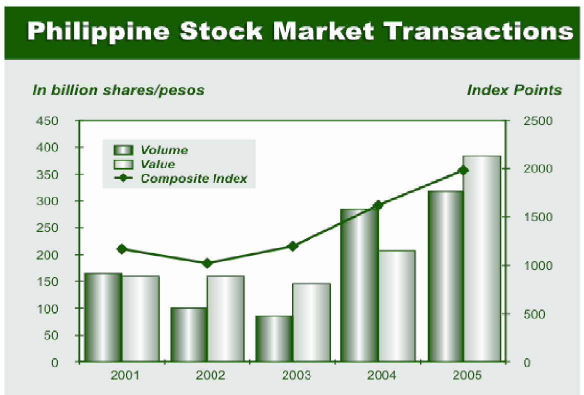
[11] Source: ARIC Financial Indicators, ADB website. Financial system's NPL, Thailand (July 2005), Malaysia (July 2005); Korea (KBs, March 2005); and Indonesia (June 2005).

The Philippines' CAR was higher than that of Malaysia (13.2 percent), Thailand (13.5 percent) and Korea (11.3 percent)[12], except for Indonesia which posted the highest CAR in the region at 19.5 percent as of June 2005.

Stock Market Developments

Upbeat market sentiment buoys stock trading in second half of the year

The local stock market performed strongly in 2005 compared to the preceding year. The average Philippine Stock Exchange (PSE) composite index (PHISIX) rose by 22.3 percent from 1,621.7 index points in 2004 to 1,983.1 index points in 2005. Total trading volume went up to 317.6 billion shares during the year, 11.7 percent higher than the year-ago level. Trading value surged by 85.7 percent to ₱383.5 billion from ₱206.6 billion (Table 10). Foreign investors continued to account for more than 50 percent of the market's value turnover.



Total market capitalization of listed firms at the exchange also rose significantly by 24.8 percent to ₱5.95 trillion in December 2005 from the ₱4.77 trillion capitalization recorded a year ago. The increase can be traced to the general uptrend in market prices as well as the listing in March of 2.5 billion shares of two major companies namely Manila Water Company and SM Investments Corporation. The mining sector registered the highest growth rate in market capitalization, benefiting from the December 2004 Supreme Court ruling that upheld the constitutionality of the Philippine Mining Act of 1995, the financial and technical assistance agreements between the Government and foreign mining firms; and the more liberal listing requirements for mining firms applied by the PSE. In terms of size, the banking and financial services sector (70.9

[12] Source: ARIC Financial Indicators, ADB website. Commercial banks CAR: Malaysia (July 2005); Thailand (July 2005); and Korea (March 2005).

percent) and the commercial and industrial sector (24.3 percent) remained the two biggest sectors in the exchange.

Behind the overall positive picture, however, concerns were reflected in the uneven, but generally rising trend of the monthly PHISIX. While the local bourse started the first two months of the year on a positive note, share prices began falling in the middle of March as investors either took profits or stayed on the sidelines amidst the lack of fresh positive news. The rising trend was renewed in May and carried forward in June with the passage of the expanded VAT bill and reports of another budget surplus in the same month. August saw the stock market index retreat, dragged down by the TRO suspending the implementation of the expanded VAT, the impeachment proceedings against President Arroyo, and the record high oil prices. The next three months from September to November saw share prices increasing anew as positive developments such as the lifting of the TRO on the RVAT and its implementation in November, the better-than-expected corporate earnings, and the peso's continued appreciation boosted market sentiment. December saw the index adjust slightly lower as the weakness in the foreign markets and renewed political tensions overshadowed the peso's strength and dampened investors' optimism.

The PSE's continued implementation of reforms helped lift market sentiment and boosted investor confidence. These reforms include, among others, the adoption of global industry classification standards; revision in the criterion used in the selection of companies to comprise the index; and issuance of PSE Rules on Securities Borrowing and Lending & Short Selling and its Implementing Guidelines for public comment. Listing and details of the PSE reforms are in Annex 1.

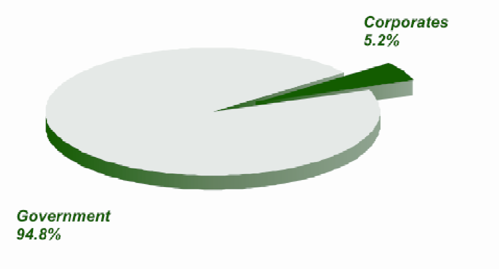
Debt Securities Market Developments

Government securities dominate the market

The domestic debt securities continued to be dominated by government issuances. Rough estimates indicate that about 94.8 percent of total outstanding domestic debt securities consisted of T-bills and T-bonds while the remaining 5.2 percent is accounted for by private debt issuances.[13]

[13] Sources: For outstanding private debt securities, PhilRatings; for outstanding government securities, the Bureau of the Treasury

Domestic Debt Securities Outstanding
By Issuer
As of end-December 2005



Banks continue to lend mostly to the Government sector

Ample liquidity and banks' cautious lending stance continued to make investments in government securities, the banks' preferred activity over lending to the private sector. This was reflected in the substantial amount of oversubscription during the regular auction of T-bills and T-bonds throughout 2005, despite the declining trend in the benchmark 91-day T-bill rates and renewed political concerns.[14] The inflow of foreign capital and remittances from overseas Filipino workers contributed investible funds to the system and kept demand for the risk-free government securities high. Total oversubscriptions for the year amounted to ₱706.1 billion for T-bills and T-bonds. The Auction Committee tempered increases in T-bill rates by exercising its option to reject excessively high bids. Total rejections for the period reached ₱767.3 billion.

Results of GS Auctions, 2005
In billion pesos

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids	Oversubscription
T-bills	**282.0**	**734.9**	**231.4**	**503.5**	**452.9**
1st Quarter	90.0	171.5	74.5	97.0	81.5
2nd Quarter	78.0	245.0	67.4	177.7	167.0
3rd Quarter	78.0	157.7	54.7	102.9	79.7
4th Quarter	36.0	160.7	34.8	125.9	124.7
T-bonds	**182.0**	**435.2**	**171.5**	**263.8**	**253.2**
1st Quarter	52.0	120.8	52.0	68.8	68.8
2nd Quarter	56.0	132.3	51.5	80.8	76.3
3rd Quarter	54.0	113.3	48.0	65.3	59.3
4th Quarter	20.0	68.9	20.0	48.9	48.9
TOTAL	**464.0**	**1170.1**	**402.9**	**767.3**	**706.1**

Source: Bureau of the Treasury

[14] An oversubscription means that there was much more demand than supply of the instrument being offered. It is measured as the difference between the amount offered and the amount tendered or bid.

Opening of the FIE helps improve secondary market liquidity

The inception of the Fixed Income Exchange (FIE) in March 2005 helped improve liquidity in the secondary market. Around ₱1.38 billion worth of government securities were transacted during the first day of operation of the virtual, inter-dealer trading platform that offers government securities. The daily volume of transactions has since surged to ₱300.5 billion as of end-August 2005. The gradual increase in turnover indicates that the FIE is achieving its purpose of enhancing market liquidity as the trading platform has enabled active trading of government securities in the secondary market.

The second phase of the platform rollout – public trading on the exchange that will allow retail investors to transact deals through their brokers – commenced in the third quarter of 2005. The exchange is envisioned to provide the platform for the secondary trading of both public and private fixed-income securities.

External Sector

The country's overall external position yielded substantial improvements. The overall balance of payments (BOP) position reversed to a surplus, as both the current and capital and financial accounts improved. The increase in the current account surplus reflected rising current transfers from OFW remittances, which offset the deficits in the trade and income accounts. The capital and financial account reversed to a surplus due mainly to net inflows of direct and portfolio investments. As a result, gross international reserves (GIR) as of end-2005 rose from the previous year's level and exceeded the GIR target level for the year.

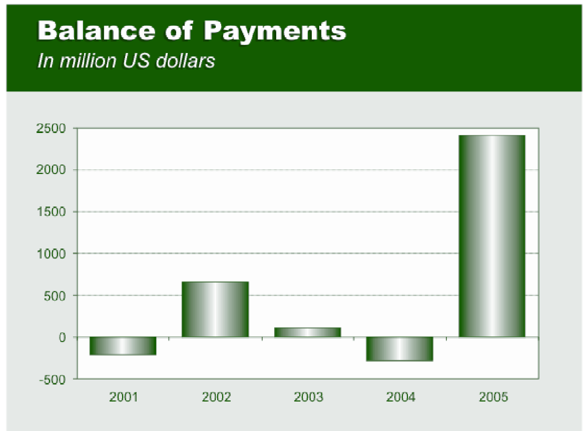
Meanwhile, the country's external debt as of end-September 2005 rose from the end-December 2004 level due to the increase in net loan availments, particularly by the NG and local banks.

Balance of Payments

Overall BOP yields a surplus

Net inflow in the capital and financial account leads to a BOP surplus

The country's BOP registered an overall surplus of US$2.407 billion in 2005, a reversal from the US$280 million deficit recorded in 2004 (Table 11). Underpinning this positive development was the strong performance of both the current account and capital and financial account.



Strong inflows of OFW remittances supports the current account surplus

The current account registered a surplus of US$2.354 billion in 2005 as against a US$1.626 billion surplus in 2004. The significant rise in the current account surplus was traced primarily to the strong inflows of OFW remittances which offset the higher shortfall in the trade-in-goods and income accounts.

Weak export growth pulls down merchandise trade

The shortfall in trade-in-goods amounted to US$7.546 billion in 2005, higher by 32.8 percent from its level in 2004. Total exports grew by 3.7 percent while imports accelerated by 7.4 percent (Table 11a and 11b). The slower-than-expected growth of total export in 2005 was traced to the weak performance of electronics. This, notwithstanding, electronic products and other electronics remained the top export of the country accounting for 70.8 percent of total exports.

Import bill rises on higher world oil prices

Meanwhile, the significant increase in the prices of petroleum crude and other products contributed largely to the expansion in imports. Imports of mineral fuels and lubricants rose by 33.2 percent in 2005 from its year-ago level of US$4.714 billion to reach US$6.277 billion.

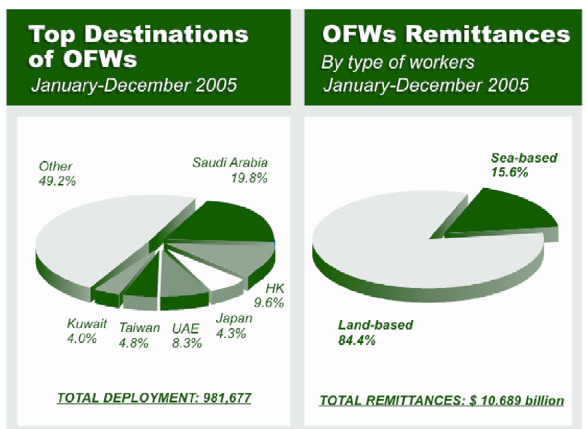
Services account improves

The trade in services recorded a smaller deficit of US$1.396 billion in 2005, narrowing by 21.4 percent from the 2004 level (Table 11). The improvement in trade in services was brought about by higher net inflows from computer and information services as well as construction, communication, travel and passenger services. Other services such as personal, cultural and recreational services, miscellaneous business, professional and technical services, royalties and license fees and other business services also contributed to the reduction in the trade in services deficit.

Higher dividend and interest payments result in higher income account deficit

Transaction in the income account resulted to a higher deficit of US$107 million in 2005 compared to its year-ago deficit of US$73 million. This was brought about by increased net outlays of dividends and profits to direct investors and rise in interest payments by the general government on its bond and notes issues.

The net inflow in current transfers for 2005 exceeded its level in 2004 by 24.5 percent to US$11.403 billion as net receipts by sectors other than the government improved substantially. Transfers in the other sectors were largely comprised of workers' remittances from overseas Filipino workers (OFWs) which reached US$10.7 billion in 2005.[15] The rise in workers' remittances was ascribed to the continued deployment of Filipino workers overseas. The consistent efforts by financial institutions to direct remittances through the banking channels equally contributed to the higher level of remittances channeled through the banking system.



Capital and financial account reverses to a surplus

The capital and financial account reversed to a net inflow of US$860 million, a turnaround from the net outflow of US$1.630 billion posted in 2004. This development resulted from the recovery of both the direct and portfolio investment accounts, which more than offset the higher outflows in the other investment account (Table 11).

[15] Under the BPM5, the residency of seasonal workers such as OFWs is classified according to the length of their stay in the host economy. OFWs who are working for less than one year are classified as Philippine residents and their gross earnings reflected under the Income Account. Meanwhile, OFWs who are working for one year or more are classified as non-residents (or migrants) and their remittances are reflected under the Current Transfers Account.

Inflows of private capital transfers buoy the capital account

The capital account registered a net inflow of US$40 million in 2005, more than double the US$17 million posted a year earlier. The increase was mainly on account of higher receipt of capital transfers by the general government.

Increase in non-residents' equity capital investments leads to net inflow of direct investment

The direct investment account surplus widened to US$970 million in 2005 from US$109 million in 2004. This eight-fold increase in direct investments was due to the combined effects of higher non-residents' net investments in the country and lower residents' investments abroad. Non-residents' net investments grew by 64.5 percent to reach US$1.132 billion in 2005 following the reversal in the other capital account from a net outflow to a net inflow. In addition, positive investor sentiments continued as reflected in the rise in net equity placements by non-residents by 37.3 percent to reach US$1.030 billion in 2005. A large share of the equity infusion by non-residents came from the U.S., Hong Kong and Japan and absorbed mainly by the manufacturing and real estate sectors.

Higher placement equity securities and GS boost portfolio investments

Also exhibiting marked improvement during the review period was the portfolio investments account which posted a surplus of US$2.835 billion in 2005 as against a net outflow of US$1.665 billion last year. Underpinning the increase in portfolio investments were the non-residents' increased placements in equity securities and increased subscription to the bond and note issuances by the NG.

Meanwhile, the deficit in the other investment account widened to US$2.942 billion in 2005 from US$64 million in 2004. The significant decline in the other investment account resulted largely from: (1) the higher currency and deposit placements abroad by banks and other private entities; (2) higher loan repayments by the NG; and (3) placement to higher receivables of resident banks from foreign banks.

International Reserves

Gross international reserves (GIR) level ends higher

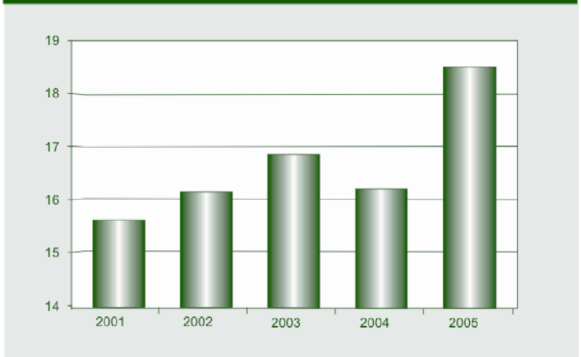
The BSP's GIR, including the reserve position in the International Monetary Fund (IMF), ended the year at US$18.50 billion. This level was 14.0 percent or US$2.27 billion higher compared to the end-December 2004 level of US$16.23 billion. The end-2005 GIR was also considerably higher than the preliminary reserve target for the period of

US$17.3 billion. At this level, the GIR was adequate to cover about 3.9 months worth of imports of goods and payment of services and income. This level was also equivalent to 3.0 times the country's short-term debt based on original maturity and 1.6 times based on the residual maturity (Table 12).[16]

NG's deposit boosts GIR

The increase in the end-December 2005 GIR level was mainly on account of the deposit by the NG of its loan proceeds as well as the BSP's income from investments abroad and foreign exchange operations. These inflows were, however, offset partly by payments of maturing foreign exchange obligations of the NG and the BSP.

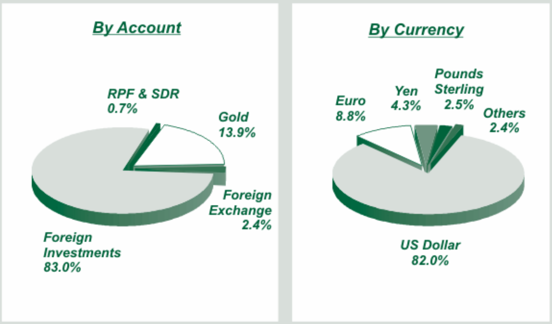
Gross International Reserves
In billion US dollars



As of end-2005, a sizable share of total reserves was in the form of foreign investments (83.0 percent), with the remaining balance accounted for by gold (13.9 percent), foreign exchange (2.4 percent), and the combined Special Drawing Rights (SDRs) and reserve position in the Fund (0.7 percent).

[16] Short-term debt based on residual maturity refers to outstanding short-term external debt 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.

Composition of Reserves
Percent share, end-December 2005



The net international reserves (NIR) level likewise rose to US$17.66 billion as of end-December 2005, US$3.1 billion or 21.3 percent higher than the end-2004 level of US$14.56 billion.

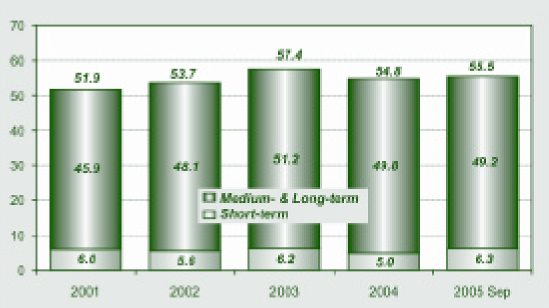
External Debt

External debt increases

Public sector availments increase the stock of foreign debt

The external debt of the country rose by 1.2 percent as of end-September 2005 to US$55.5 billion from US$54.8 billion in end-December 2004. The increase in the debt stock resulted largely from the 2.7 percent increase in net loan availments, particularly by the NG and local banks (Table 13). This was narrowly offset by the foreign exchange revaluation losses amounting to US$2.1 billion, as the US dollar strengthened against most major currencies, particularly the Japanese yen.

External Debt
By maturity
In billion US dollar



Bulk of external debt continues to have long maturities spread out over a period of 17.4 years

Major foreign borrowings for the end-September 2005 period were used primarily for budgetary support and funding of development projects for power and energy, as well as communications, transportation, and other infrastructure.

Liabilities to non-residents remained dominated by medium- and long-term (MLT) debt, which accounted for 88.7 percent of the total debt stock. These MLT loans, with original tenors of more than one year, had a weighted average maturity of 17.4 years, with public sector borrowings averaging almost 20 years and private sector borrowings averaging 10.5 years. Almost 63 percent of MLT liabilities carried fixed rates, 34 percent had variable rates, and the remaining 3 percent were non-interest bearing.

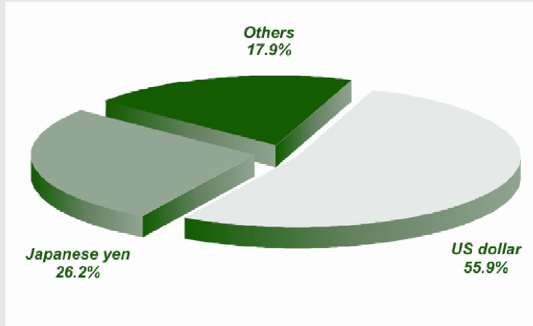
Weighted Average Based On Original Maturity of MLT Debt
As of end-September 2005

	No. of years
Total MLT Debt	17.4
Public sector	20.0
Private sector	10.5

By creditor profile, official creditors (consisting of multilateral and bilateral institutions) represented 40.4 percent of the total external debt, followed by foreign holders of bonds and notes at 32.1 percent, and foreign banks and other financial institutions at 22.0 percent. The rest of the creditors (5.5 percent) were mostly suppliers and exporters.

By currency mix, the country's external borrowings remained denominated largely in the currencies of its major trading partners, namely, the US dollar (55.9 percent) and the Japanese yen (26.2 percent).

External Debt
By currency, percent share, end-September 2005



Debt servicing capacity improves

The country's debt service burden for the period January to December 2005 increased but external debt ratios managed to show improvements due to higher foreign exchange inflows from exports of goods and receipts from services and income. Total debt service burden as a percentage of aggregate output or GNP was lower at 7.2 percent in 2005 from 7.8 percent last year, reflecting improvements in the country's capacity to service its maturing obligations on a continuing basis. Likewise, for the period January to December 2005, debt service ratio, computed as the percentage of debt service burden to total exports of goods and receipts from services and income, declined slightly to 13.3 percent from 13.8 percent during the same period in 2004. This level is well below the 20 percent international benchmark, indicating that the country's debt service burden remains manageable.

PART TWO: THE BANK'S OPERATIONS

Monetary Stability

BSP raised its policy rates thrice during the year

The BSP raised its key policy interest rates three times by a cumulative 75 basis points in 2005. Currently, the overnight borrowing or RRP and the overnight lending or RP rates stand at 7.50 percent and 9.75 percent, respectively.

The BSP undertook monetary action in the early part of 2005 to keep inflation expectations from spiraling away from the target and prevent ongoing supply shocks from generating second-round effects. Further measures were undertaken in the latter half of the year in response to expected price pressures and the risk of a sustained breach of the inflation target as well as the surge in liquidity growth.

Policy interest rates

During its meeting on 7 April 2005, the MB decided to increase the BSP's policy rates for the first time since October 2000 by 25 basis points to 7.0 percent for the overnight RRP rate and 9.25 percent for the overnight RP rate.

At the time, although demand-driven inflationary pressures remained limited given fairly high unemployment, modest credit growth, and spare capacity in manufacturing, the MB noted that the upside risks to the inflation outlook had become more pronounced. There also appeared to be some evidence that supply-side developments—particularly the increases in oil prices—were already feeding into inflation expectations. With the prospect of renewed cost-push pressures from rising oil prices and other supply-side factors, combined with falling real wages, authorities believed that a modest increase in policy interest rates could help prevent rising inflationary expectations from spiraling away from the target and prevent ongoing supply shocks from generating second-round effects.

Liquidity concerns prompt an increase in reserve requirements

Concerns about liquidity prompted an increase in the regular reserve requirement and liquidity reserve requirement by one percentage point each to 10 percent and 11 percent, respectively, on 7 July 2005.[17] This move was aimed at mopping up the excess peso liquidity in the financial system and stemming its inflationary impact. The MB observed that the excess peso liquidity appeared to be finding its way into the foreign exchange market and may be contributing to the depreciation of the peso, which would further add to inflationary pressures.

[17] Regular reserves refer to that portion of deposit and deposit substitute liabilities which must be held as deposits with the BSP, with the balance kept in banks' vaults as cash or as reserve eligible government securities (REGS). Liquidity reserves refer to the proportion of deposits and deposit substitute liabilities that may be kept in the form of market-yielding GS purchased directly from the BSP.

Emerging forecasts of above-target inflation in 2006 and 2007 are the main factors behind increase in policy rates

Additional quarter-point interest rate increases followed in September and in October. The decision to further raise policy rates was based on the assessment that the expected price pressures and the risk of a sustained breach of the inflation target required a timely response from the BSP. Emerging forecasts by the BSP indicated an above-target average inflation rate in 2006 and potentially in 2007 as well. The MB was of the view that the possibility of a sustained deviation of the forecast from the target over the policy horizon posed a considerable risk to inflation expectations, in that the public may begin to expect inflation to remain persistently well above announced government targets.

The MB's decision to raise policy rates also took into consideration the continued strong growth in domestic liquidity. Authorities were primarily concerned about the adverse effects of excess liquidity on inflation and inflation expectations, either through increased demand-based pressures on prices or through volatility in the foreign exchange market due to narrowing interest rate differentials. Data suggested that the financial system remained very liquid despite the April increase in the policy rates and July hike in the reserve requirements. The members of the MB also considered that the strong growth in the money supply did not appear to be providing support to consumption and investment spending, given that growth in bank lending had remained moderate in past months and aggregate demand has been slowing down.

The subsequent slowdown in liquidity growth in the latter months of 2005, along with the observed easing in both headline and core inflation, gave the BSP room to keep its policy settings unchanged in the remainder of the year.

Open Market Operations

OMO is consistent with the monetary policy stance

Open market operations (OMOs) were conducted in line with the BSP's monetary stance aimed at ensuring that liquidity in the financial system is consistent with the economy's growth and inflation paths. Such operations consisted mainly of outright purchases/sales of BSP's holdings of T-bills as well as lending and borrowing under the RRP and RP facilities of the BSP. The BSP's conduct of OMO in 2005 mopped up a total of ₱101.2 billion from the system.

Transparency Measures

Press statements on policy discussions and the Quarterly Inflation Report aim to help the public better understand BSP actions

The monetary policy responses to the various risks to inflation during the year were accompanied by a strong emphasis on greater transparency and communication with the public as a means of managing inflation expectations in the face of supply side shocks. The BSP's various disclosure and reporting mechanisms, such as press statements on policy decisions, publication of the highlights of the MB meeting on monetary policy and the Quarterly Inflation Report, were aimed at helping the public better understand the BSP's policy decisions and the overall thinking behind them. In addition, these provide a detailed view of the BSP's assessment of the future inflation path.

Communications with the public concerning the monetary policy stance emphasized the dominant role of international oil prices and their feed-through impact on domestic prices, as well as of the expected price adjustments arising from the RVAT implementation. The BSP's policy pronouncements continued to emphasize to the public that the impact of the RVAT will consist mainly of one-off increases in prices, and thus unlikely to fuel a sustained rise in inflation. Such a policy message would help ease public expectations about the price increases from RVAT, particularly when combined with mitigating measures to stabilize commodity supply through imports and enforcement of regulations against unreasonable price increases.

Open letter explains reasons behind the deviation of actual inflation from the Government target

Other public communications discussed the BSP's commitment to its inflation objective and its responsibilities concerning monetary stability. Early in the year, on 25 January 2006, following the release of official data confirming that the 2005 average inflation rate exceeded the 5-6 percent government target, the BSP submitted an open letter to the President to explain the reasons behind the uptrend in inflation during the year and the resulting deviation of actual inflation from the government target. The letter clarified the considerations behind the BSP's monetary policy decisions and highlighted the BSP's continuing efforts to ensure price stability. On 6 October 2005, the BSP also sent a letter to the President when the growth in domestic liquidity or M3 in August breached the 15.0 percent ceiling prescribed in the BSP Charter. The letter apprised the President on the factors that contributed to domestic liquidity growth and the policy actions taken by the BSP to forestall possible inflationary fallout from excess money supply.

As part of its transparency measures, the BSP continued the conduct of countryside information campaign to increase the public's awareness on the role of monetary policy in the country's economic development.

Box Article

TRANSPARENCY AND COMMUNICATION IN MONETARY POLICY *

I. Why Transparency and Communication are Important for Monetary Policy

Over the past decade or so, there has been a trend toward increased transparency and greater communication in the conduct of monetary policy among central banks. Indeed, transparency and communication have increasingly taken on both a central role in modern monetary policymaking and being part of best practice in monetary policy.

The trend toward greater transparency and better communication was driven by the increasing recognition that they make monetary policy work more effectively. It is possible to think of central bank communication strategies as having two main goals: (1) to allow financial markets to anticipate the policy decisions as well as the future path of monetary policy; and (2) to reduce the uncertainty surrounding these expectations. As Ehrmann and Fratzscher (2005) observe, "*Central banks have direct control only over a single interest rate, usually the overnight rate, while their success in achieving their mandate requires that they are able to influence asset prices and interest rates at all maturities*." 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 growing interest in the greater accountability of central banks, as an increasing number of them were accorded greater independence from political authorities. The responsibility over money and banks by an unelected central bank can be established if it were to make its targets and policies known to the general public.

The increasing popularity of inflation targeting, with its emphasis on transparency and accountability of the central bank, has also helped in improving the disclosure and openness of central banks. Inflation targeting as a framework attempts to establish an explicit link between monetary decisions and the central bank's assessment of future inflation, and thus places an emphasis on the release of timely information about the views of the central bank on the inflation outlook.[1] Recent converts to inflation targeting, including the Philippines, have also had to develop disclosure and transparency mechanisms along these lines.

II. Central Bank Communication in an Emerging Market Context: The Philippine Case

A. The Communications Strategy of the BSP

The BSP's shift to inflation targeting in 2002 prompted an increased emphasis on transparency in the conduct of monetary policy. In the early stages, the change in approach required the familiarization of the public with the concept of inflation targeting. Thus, the most important component of the preparatory blueprint for the new policy framework was the series of public hearings and discussions in 2000 and 2001 held by the BSP in key cities around the country. The objective was to introduce the concept of

* Speaking notes of Diwa C. Gunigundo, Deputy Governor, Bangko Sentral ng Pilipinas for the Regional Seminar on Central Bank Communications, Mumbai, 23-24 January 2006.

inflation targeting to the public and increase public understanding of the monetary policy process in general.[2] The public information campaign has continued well after the formal start of inflation targeting and the BSP presently holds public briefings on a regular basis in various locations around the country.

The BSP also developed various disclosure and reporting mechanisms to help the public understand what the Bank is doing and the reasons for its monetary policy actions. The seven-member Monetary Board, which is the policymaking body of the BSP, meets every four weeks to discuss the monetary policy stance. The results of each meeting is accompanied by a press statement, which is released immediately afterwards, and an account of the highlights of the discussion, which is published after a predetermined lag of six weeks.

Publication of the Quarterly Inflation Report. The BSP Inflation Report provides a longer discussion of the assessment of monetary conditions. The release of the Report each quarter is accompanied by a briefing for the media. The Report is considered a key document in the monetary policy process. It conveys to the public the overall thinking and analysis behind the BSP's decisions on monetary policy, so that monetary policy will be easier to follow and understand. It is essentially a survey of the various factors affecting inflation—recent price and cost developments, prospects for aggregate demand and output, monetary and financial market conditions, labor market conditions, fiscal developments, and the international environment. A section is devoted to the BSP's view of the inflation outlook over the two-year policy horizon. This is followed by a discussion of the implications of the analysis on future monetary policy stance of the BSP. Box articles on selected topics offer more detailed analysis and information concerning issues relevant to monetary policy.

Issuance of Open Letter. 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. So far, the BSP has had to issue four Open Letters since the start of the inflation targeting regime: two for achieving inflation below the target and two for inflation above the target.

Collegial Approach to Communication. The BSP's communications with the public emphasize portraying the consensus or majority view within the Bank, so that officials speak in one voice, rather than conveying the diversity of views within the Monetary Board. This is similar to the approach of the Bank of England and the European Central Bank and is in contrast with the individualistic or dispersed approach of the US Federal Reserve. The collegial approach is intended to prevent confusion on the part of market players arising from multiple signals concerning the direction of monetary policy. In practice, views on the monetary policy stance are typically articulated in the media by the BSP Governor. Monetary Board members seldom make public comments on the likely path of monetary policy.

The BSP's communications with the public have also 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 the policy message across more clearly to the wider base of informed laymen.[5] This general-audience approach to central bank communication has thus far served the BSP in good stead, and has generated positive feedback from various quarters.

B. The Challenges in Communicating Monetary Policy

In the initial phase of the shift to inflation targeting, the task of improving transparency and communication at the Bank posed a number of challenges to monetary authorities. One such problem was the general state of economic literacy. Outside of financial market professionals, academics and economists, the public had relatively little familiarity with central bank functions. The BSP's initial attempts at greater transparency through briefings and awareness campaigns were generally well received. The public were appreciative of the authorities' efforts to expand general public awareness and understanding of the monetary policy process and explaining what inflation targeting is. Three 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 lag of monetary transmission and of the fact that the assessment process for the monetary policy stance gives less weight to current and past inflation than to future or forecasted inflation.[6] This helped the public better understand the reasons for monetary action even in the face of favorable data on current inflation. In addition, the Bank'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 run-up in inflation due to oil prices.

Challenges in the operating environment for monetary policy also pose problems for the content of central bank communications, which after all consist mainly of the assessment and responses of the central bank to its environment. Some economists have argued that the operating environment and practice of inflation targeting are quite different in emerging market economies compared to developed economies. A central bank in an emerging economy, for example, is likely to face larger hurdles in terms of credibility, typically because of a history of double-digit inflation and exchange rate crises. In the same way that fiscal consolidation efforts may be hampered by a history of fiscal slippages, a poor inflation record leads to skepticism about the probability of a secular disinflation, and about the central bank's ability to engineer such a process. Perhaps the only means by which this can be truly addressed is to make sure that pronouncements are backed by action and that actions are based at all times on the tight logic and discipline prescribed by inflation targeting.

III.Concluding Remarks

Judging merely from the numerous transparency mechanisms currently in place, the monetary policy of the BSP is certainly more transparent now under inflation targeting than previously. More importantly, there is a greater conscious effort within the policymaking circle to properly communicate the policy impulses to financial markets, the media and the public. Greater transparency and communication, in turn, have not only enabled financial markets and the public to better anticipate the direction of monetary policy, but have also made the task of explaining the stance of monetary policy, and the rationale behind it, easier for authorities.

Nevertheless, there continues to be plenty of room for improvement in the communication strategy of the BSP. The Bank, for one thing, remains very much in the process of educating the public and the local press, whom it would like to familiarize with important concepts such as core inflation, changes in the CPI base year, and so on through the continued conduct of regional briefings and other means. Future efforts to increase economic literacy will center on these and other issues, including the importance of looking at the forecasted path of inflation over the policy horizon, not just the forecasted figure for the month ahead. In time, increased public understanding of the basic concepts will allow the BSP to employ greater nuance in communicating its monetary policy stance with greater assurance of better public appreciation and support.

Efforts to familiarize and educate the public about the nature of inflation, monetary policy and other economic issues will also be complemented with measures to improve transparency in monetary policy. Such measures may include, among other things, documenting and publishing the range of views aired during the Monetary Board discussions on monetary policy, in order to emphasize that BSP monetary decisions are the product of intensive debate and discussion, and more generally to help stimulate public debate on monetary policy. Transparency efforts may also include providing more details on the Bank's inflation forecasts, in order to allow the public to better gauge their reliability. However, the disclosure of such information will be conditional on the progress the Bank makes with improving its forecasting process.

Endnotes:

1 As Fracasso, Genberg and Wyplosz (2003) argue, "merely announcing IT and publishing inflation forecasts is not enough: the benefits from IT only accrue to central banks that convince the public that their decisions are rooted in the relatively tight constraints imposed by a process that starts with forecasts, considers the optimal responses and ends with decisions which, year after year, appear as derived from the same logic."

2 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.

3 BSP Press Release dated 08 January 2003. Available on the BSP website at http://www.bsp.gov.ph/archive/news_2003/2003-01/news-01082003a. htm

4 The top 10 among all 20 countries in the sample, based on the unweighted average of ratings across categories, were as follows: (1) United Kingdom; (2) New Zealand; (3) Brazil; (4) Thailand; (5) Chile; (6) Czech Republic; (7) Iceland; (8) Norway; (9) Sweden; and (10) South Korea. The BSP Inflation Report for the Third Quarter 2002 was used as the basis for the evaluation. The authors asked five different readers to read a recent inflation report from each central bank and give each of these reports a rating of between 1 and 10 (1=bad, 10=good) on a number of characteristics. The readers were graduate students in economics who are familiar with the broad principles of IT but not necessarily all "central bank watchers". The ratings per criterion were averaged for each country.

5 Guinigundo (2005)

6 Ibid.

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Financial System Stability

BSP sustains financial system stability

BSP issues policy measures to strengthen the financial system…

The BSP's efforts to strengthen the financial system focused on encouraging banks to dispose their non-performing assets (NPAs) through the Special Purpose Vehicle (SPV) Law. This led to a significant improvement in the banking industry's asset quality with NPA and NPL ratios falling to single-digit levels. To further sustain this development, the BSP is supporting the proposed two-year extension of the SPV law to allow further asset cleanup and bring down the banking industry's asset quality ratios to pre-crisis levels.

Other policy measures to make the banking system stronger were aimed at preparing banks for the adoption of internationally-accepted standards and best practices. Regulations were issued to align existing accounting standards for Philippine banks with the International Accounting Standards (IAS) and the new international capital accord—the Basel 2 accord.

Prudential regulations were also strengthened to address three vital areas of concern: enhancing risk management, strengthening corporate governance, and intensifying the fight against money laundering. In addition to banking reforms, the BSP continued to actively support the rapid development of the capital market to provide an alternative pillar to the financial system.

Aligns banking practices with international standards

…align prudential standards closer to international standards

Various initiatives were undertaken to enhance the prudential regulatory environment by aligning existing banking practices with international standards. This is consistent with the BSP's thrust of making banks compliant with the IAS by end-2005 and with the Basel 2 capital accord by 2007.

The BSP continued to prepare the banking system for the phase-in implementation of the modified local capital adequacy framework compliant with the provisions of the Basel accord. The exposure draft for the new risk-based adequacy framework was issued for comment by financial institutions under the supervision of the BSP. The exposure draft contains the implementing guidelines for the local adoption of the Basel 2 accord.

Existing provisions on the adoption of the current risk-based capital adequacy framework were revised to gradually phase in the new framework. Amendments were issued to allow the lower risk weighting of highly rated private enterprises and impose a higher risk weighting for non-performing accounts. Guidelines were also amended to include Hybrid Tier 1 capital as part of qualifying capital and to rationalize the minimum requirements for eligibility of unsecured subordinated debt instruments that qualify as Upper or Lower Tier 2 capital. The BSP also issued the guidelines for the capital treatment of banks' investments in: (a) structured products or financial instruments where the return is a function of one or more underlying indices, such as interest rates, equities and exchange rates; and (b) securities overlying securitization structures, both traditional and synthetic.

During the year, the BSP also approved the adoption of the Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) which are based on the International Accounting Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the IAS Board. The standards were adopted to promote greater transparency in financial reporting and instill market discipline consistent with international best practices and will be effective beginning 1 January 2005 for the annual financial statements. This year, implementing guidelines to align the existing regulations with the provisions of PAS and PFRS to the greatest extent possible were issued.

Box Article 2:

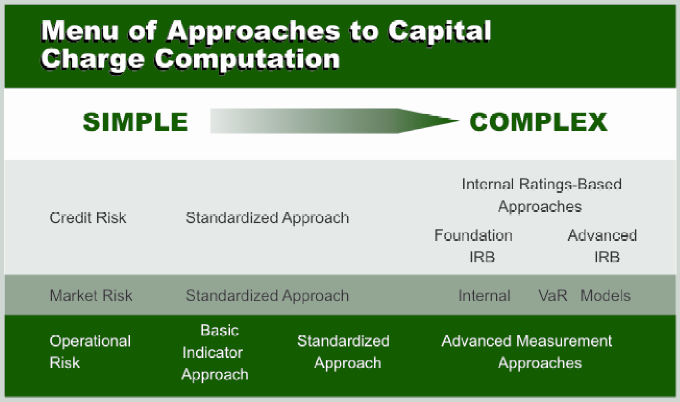
Implementation of Basel 2 in the Philippines

In 2005, the BSP issued policy guidelines to signal the start of a key reform in the banking industry – the adoption of the Basel 2 Capital Accord. Basel 2 is the new international standard set by the Basel Committee on Banking Supervision (BCBS) to replace the original Basel Accord agreed in 1988 (and amended in 1996).[1] It will be recalled that the 1988 Accord helped strengthen the soundness and stability of the international banking system by requiring higher capital ratios.[2] Basel 2 revises the original Accord to make the capital adequacy framework more risk sensitive to ensure that the financial resources held by a bank are commensurate with the risks associated with their business profile and the control environment within which they operate.

Background on Basel 2

On 26 June 2004, after several years of consultation with regulatory/supervisory agencies and financial institutions across the globe, the BCBS issued the document *"International Convergence of Capital Measurement and Capital Standards: A Revised Framework,"* also known as Basel 2. While Basel 1 set minimum capital requirements based on credit risk and market risk, the new Accord is more sensitive to the risks that banks face. More specifically, Basel 2 includes an explicit measure for operational risk and more risk sensitive risk weightings against credit risk. It takes into account improvements in the banks' risk management practices, and the use of internal ratings-based approach that allows banks to rely to a certain extent, on their own estimates of credit risk. Moreover, the new framework provides incentives for banks to improve their risk management practices, with more risk sensitive risk weights as they adopt more sophisticated approaches to risk management.

Basel 2's approach to risk-based supervision is supported by three mutually reinforcing pillars: minimum capital requirements (Pillar 1); supervisory review process (Pillar 2); and, market discipline (Pillar 3). *Pillar 1* sets out the detailed guidelines for computing regulatory capital for credit, market and operational risks, providing a range of options/approaches in computing the minimum capital requirements.[3] *Pillar 2* prescribes sound principles that should be followed in the process of supervisory review of a bank's own assessment of capital adequacy. Under Pillar 2, banks and supervisors have to take a view on whether a bank should hold additional capital against risks not covered in Pillar 1. *Pillar 3*, meanwhile, proposes an extensive list of bank disclosure requirements recognizing that markets contain disciplinary mechanisms that can reinforce supervisory efforts. The aim of Pillar 3 is to improve market discipline by requiring banks to publish certain details of their risks, capital and risk management.



Following the circulation of the Basel 2 document, the BSP became one of over 100 banking supervisors worldwide that signified their intention to adopt Basel 2 in their respective jurisdictions.

BSP Implementation Plans and Timetable

In December 2005, the BSP announced, in a Memorandum to All Banks, that it plans to phase in Basel 2 between 2007 to 2010.

- *Commercial/Universal banks (KBs/UKBs)* are expected to comply with the standardized approach for credit risk and the basic indicator or standardized approaches for operational risk by 2007. By 2010, these banks may move to the implementation of more advanced approaches such as the IRB and advance IRB approaches for credit risk and advance measurement approaches for operational risk. This will allow banks to build up reliable historical database to estimate default probabilities and other variables as important inputs to the more advanced models.

- *Foreign banks* whose head offices use the advance approaches will be allowed to use them provided that they can show that their models are suited to domestic conditions.

- *Small thrift banks* are expected to be subject to an enhanced Basel 1-type approach by 2007, while thrift banks affiliated with KBs/UKBs are expected to use the same approach used by their parent KBs/UKBs.

- *Rural/cooperative banks* are expected to be subject to an enhanced Basel 1-type approach by 2007. [4]

BSP Timetable

Between now and 2007, certain provisions of Basel 2 will gradually be incorporated by the BSP into the current risk-based capital adequacy framework under Circular Nos. 280, 360 and 400. These would include: giving lower risk weights for highly-rated corporate exposures; giving higher risk weights for past due claims (net of specific provisions); adopting the standardized approach for investments in securitization structures (i.e., risk weights would depend on external ratings); implementing a standard computation of liquidity risk and interest rate risk in the banking book; and issuing broad guidelines on operational risk management.

The rest of the provisions of Basel 2 standardized approach for credit risk, and basic indicator and standardized approaches for operational risk will be implemented by 2007. Under the standardized approach for credit risk, risk weights would mainly depend on the external rating of the counterparty. Under the basic indicator approach for operational risk, capital charge is 15 percent of the 3-year average of a bank's gross income. Under the standardized approach for operational risk, on the other hand, banks will compute capital charge separately for each business line. Business line operational risk charge is a fraction (between 12 percent-18 percent) of the 3-year average of a business line's gross income. Total operational risk charge is the sum of the operational risk charges for all business lines. The expanded disclosure requirements prescribed under Basel 2 will also be implemented by 2007.

The draft implementation guidelines containing all the provisions under the new framework were issued by the BSP in April 2005 (exposure draft) for comments by the banks concerned. These comments are now under evaluation.

Conclusion

Once adopted, Basel 2 is expected to have a profound impact on Philippine banking. The onset of positive effects should start well before 2007 as banks are beginning to strengthen their risk management processes and improve their efficiency. It is important to note, however, that the adoption of Basel 2 may also compound capital charges. The higher risk weights on bank assets as well as the provision of operational risk apart from credit and market risks in the new framework may stretch banks' finances. Hence, compliance with the new capital adequacy regulatory framework, as well as the new set of accounting standards, will likely be the banking industry's biggest challenge in the near term.

The more stringent regulatory regime, combined with tougher global competition and the more rigorous demands of modern banking and international benchmarking of financial standards is expected to further contribute to the consolidation of the Philippine banking industry. Down the road, the BSP foresees a composition of few big, globally competitive mega banks complemented by small niche players.

Endnotes:

[1] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities that was established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements in Basel, Switzerland where its permanent Secretariat is located.

[2] Regulators require a bank's capital adequacy ratio (CAR) to be above a minimum ("adequate") level so that there is little risk of the bank failing. CAR is measured as the ratio of a bank's unimpaired capital to its total risk-weighted assets.

[3] For *credit risk,* Basel 2 presents 3 options: the standardized approach, the foundation internal ratings based (FIRB) approach and the advanced internal ratings based (AIRB) approach. The standardized approach assigns risk weights to exposures depending on the external credit risk ratings. The FIRB approach, on the other hand, allows banks to use their internal ratings assessment to determine the appropriate capital charge of their exposures. Banks under this approach are required to compute the corresponding probability of default (PD) of their exposures using their internal ratings model. Meanwhile, the AIRB approach requires banks to compute not just the PD but also the loss given default (LGD), exposure at default (EAD), and effective maturity (M) of their exposures using their internal ratings model. For *operational risk,* Basel 2 presents 3 options: the basic indicator approach, the standardized approach, and the advanced measurement approaches (AMA). Under the basic indicator approach, a bank's operational risk charge is computed as a fraction of its gross income. Under the standardized approach, banks' operations are divided into business lines. Operational risk charge for each business line would just be a fraction of gross income attributed to each line. Lastly, operational risk charge under the advanced measurement approaches would depend on statistics-based advanced measurement models developed by banks themselves or by outside vendors. For *market risk,* capital treatment remains generally unchanged except that Basel 2 required that specific risk weights under the standardized approach depend on the external ratings of the issuer.

[4] An enhanced Basel 1-type approach is basically the same as the existing framework (Circular No. 280 dated 29 March 2001, as amended) but with certain elements of Basel 2 already incorporated (such as higher risk weighting for past due claims, lower risk weighting for retail portfolio, etc.) as well as additional disclosure requirements.

Enhances banks' risk management

During the year, the BSP issued regulations to further enhance the capability of banks to effectively manage the various risks attendant to its operations. Consistent with safe and sound banking practices, the BSP required that banks, in providing credit accommodations, grant loans only in amounts and for the periods of time essential for the effective completion of the operation to be financed. Banks are also expected to obtain adequate information on the borrower's credit standing and financial position before granting loans.

The BSP allowed universal and commercial banks without expanded derivatives authority to invest in foreign-currency denominated structured products issued by banks and SPVs without need of prior Monetary Board approval. The regulation was intended to encourage banks to diversify their investment portfolios in order to stabilize earnings, control maturity mismatches and minimize overconcentration of exposures.

Guidelines for the Currency Rate Risk Protection Program (CRPP), a non-deliverable USD/PhP forward contract (NDF) between the BSP and a universal/commercial bank were also revised. This was in response to requests of bank clients desiring to hedge their eligible foreign currency obligations.

Strengthens corporate governance

Various guidelines were implemented to further enhance the corporate governance framework in BSP supervised institutions. These measures were intended to safeguard against excessive risk-taking, ensure fair exercise of business transactions, promote consumer protection and make the board of directors fully accountable to its shareholders and the public.

…strengthen regulations governing independent directors

The rules and regulations governing independent directors were strengthened. Independent directors are now required to submit a certification under oath that he/she is compliant with BSP's rules and definition of an independent director. Said certification is submitted to BSP together with the bio-data of the independent director.

Rules on bank lending to directors, officers, shareholders and other related interests (DOSRI) were tightened, providing stringent penalties for bank officials who violate the rules. Guidelines were also issued outlining the approved rules of procedure on administrative cases involving directors and officers of banks, NBQBs and trust entities.

To further discourage BSP-supervised financial institutions from following unsafe and unsound practices, the BSP issued the monetary penalty guidelines for banks/quasi-banks, their directors and/or officers for violations/offenses with sanctions falling under Section 37 of the New Central Bank Act. The schedule of penalty is categorized based on the nature of offenses and the assets size of the institutions

Recognizing the importance of the internal auditors on the governance processes of an organization, the BSP strengthened the rules and regulations governing the internal audit function. The new guidelines stressed that the internal audit function should be independent of the activities audited and independent from the day-to-day internal control process. The rules likewise set out the scope of internal audit and the qualification standards of the internal auditor. Additionally, the Audit Committee was enjoined to establish and maintain mechanisms by which officers and staff may raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control and auditing to persons that have the power to take corrective action.

Intensifies the fight against money laundering

…put foreign exchange dealers and remittance agents under BSP supervision

The BSP implemented guidelines to intensify its support for the global fight against money-laundering. Foreign exchange dealers, money changers and remittance agents were placed under the effective supervision of the BSP with the adoption of the rules governing the registration of such institutions with the BSP. Under said rules, officers and staff of foreign exchange dealers, money changers and remittance agents involved in foreign exchange operations are required to attend a seminar on the requirements of the anti-money laundering law prior to the issuance of their Certification of Registration by the BSP.

Furthermore, the BSP required universal and commercial banks to adopt a monitoring system for electronic money laundering transaction. The system should at least be able to: (1) perform statistical analysis and profiling of covered and suspicious transactions; (2) check transfer parties and existing customer database for any unlisted undesirable individual or corporation; and (3) provide for a complete audit trail.

Accelerates the development of domestic securities market

The BSP continued to pursue various reform initiatives to speed up the development of the country's domestic capital market development. Initial efforts included the active nurturing of domestic rating agencies which play an important role in guiding the public in their investment decisions and in enforcing effective market discipline on issuers. The BSP issued regulations recognizing, for bank supervisory purposes, internationally accepted credit rating agencies (CRAs) that will undertake local and national ratings provided that said CRAs have at least a representative office in the Philippines.

…widen the array of available financial products

Procedures to be observed in investing in credit-linked notes, structured products and securities overlying securitization structures were issued to widen the array of available financial products in the capital market. Furthermore, reform efforts to fully implement the third party custody system bore fruit when the third party custodians were finally allowed to open an account in the Registry of Scripless Securities (RoSS) of the Bureau of Treasury (BTr).

Procedures and framework for a consolidated and risk-based supervision

…pursue full implementation of risk-based supervision

Consistent with the Basel 2 committee recommendations on effective banking supervision, the BSP pursued the full implementation of the consolidated and risk-based supervision framework. The new process provides examiners the flexibility and discretion in developing the appropriate examination strategy that will respond to existing and emerging risks of the institution.

During the year, the BSP reinforced its existing framework and technology through various initiatives such as examiner training, institutional reorganization and enhanced risk rating systems. A structured training program for BSP's examiners and supervisors were developed and implemented with the support of the IMF and FIRST Initiative. The training program was aimed at enhancing the capacity of the BSP examiners in the conduct of risk-based supervision.

A separate risk rating system aligned with the existing CAMELS rating system was developed and implemented for foreign bank branches.[18] The new risk rating system is called the Risk Management, Operational Control, Compliance and Asset Quality (ROCA).

…improve its off-site surveillance functions

To complement its efforts in implementing risk-based on-site examinations of banks, the BSP continued to improve its off-site surveillance functions. In the first quarter of the year, the BSP initiated the set-up of a central data repository system under Phase 1 of the Data Warehouse project to provide the necessary infrastructure for financial and non-financial data. The Data Warehouse Project is envisioned to centralize the handling and exchange of information on financial and non-financial data of BSP supervised institutions.

In addition to existing regulatory reports, the BSP relied on early warning tools in its off-site surveillance activities. Bank Performance Reports (BPR) and comprehensive bank folders, which contain key performance indicators, trends and peer group comparisons, were used in monitoring the financial performance of supervised entities in between on-site examinations. The BSP also used a statistical model, the Bank Early Warning System (EWS), that generates one-year ahead forecasts of key bank performance variables, especially solvency and asset quality, to help prioritize on-site examinations.

[18] CAMELS stand for Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk

Payment and Settlement System

In 2005, the BSP, as operator of the country's Philippine Payments and Settlements system (PhilPaSS) continued to take various initiatives to further improve the system's delivery and transfer of financial transactions.[19] The system enhancements during the year included:

- Computerization of the Trust Fund Accounting;
- Conduct of a Business Continuity Plan on RTGS in its remote site at the Security Plant Complex, Quezon City;
- Direct sending of settlement of PCHC clearing results via PhilPaSS to the Central Accounting System (CAS) instead of passing through AS400 (a mid-range business computing system);
- Automation of the PhilPaSS Billing System which facilitated the BSP's collection of daily transaction fees, monthly access or connectivity fees and annual license fees from participant banks, non-banks and Third Party Option System Providers;
- Updating of the mailing address data base of participants so that the Statement of Accounts (SOAs) of participating banks are now sent in sealed envelopes without accompanying transmittal letters, thus, eliminating the manual preparation of transmittal letters which could be prone to errors;
- Use of PhilPaSS Front-End System (PPS-FES) which allowed real time broadcast advisories to thrift banks during business hours;
- On-line settlement of BTr-Bond Sinking Fund's outright sale of secondary trade government securities holdings to Government Securities Eligible Dealers (GSEDs) and Non-GSEDs which is consistent with the objective of providing real-time settlement;

[19] Transactions accepted for processing by PhilPaSS include: interbank transactions (call and term) among banks, and non bank financial intermediaries performing quasi-banking functions; purchase and sale of government securities under outright and repurchase agreements between and among banks and NBQBs and BSP in connection with the latter's OMO; settlement of the peso leg of foreign currency transactions and government transactions; high value customer payment instructions; interbank settlement of Automated Teller Machines (ATM) transactions; and other payment instructions under Delivery vs. Payment (DvP), Payment vs. Payment (PvP).

- Enhancement of the Electronic Funds Transfer Instruction System (EFTIS) Demand Deposit Account (DDA) Module to provide on-line access of banks with details of quarterly interest payments credited to their DDAs; and

- Improvement in the DDA Statement of Accounts (SOAs)—which now reflects the description of the nature of transaction that banks entered into—an improvement over the previous practice wherein only the reference codes of the transactions were reflected.

The continued effort to enhance the country's payments and settlements system yielded favorable results. Compared to 2004, the number of transactions through PhilPaSS in 2005 rose by 42.5 percent to reach 368,138.

The value of transactions rose similarly to ₱53.9 trillion in 2005, an increase of 60.4 percent from last year's value of ₱33.6 trillion. Meanwhile, the transaction fees collected during the year rose by 72.8 percent from the previous year to amount to ₱42.5 million.

Period	Number of Transactions	Value (in trillion pesos)	Transaction Fees Collected (in million pesos)
2004	258,394	₱33.6	₱24.6
2005	368,138	₱53.9	₱42.5
Percent Change (%)	42.5	60.4	72.8

The Bank's Other Key Operations

Loans and Credit

The BSP continued to extend rediscounts, discounts, loans and advances to banking institutions in order to influence the volume of credit consistent with the objective of price stability, as provided under Section 81 of the BSP Charter.

The BSP supported the delivery of credit to all productive sectors of the economy through the banking system under the regular and special credit windows.

In particular, the BSP's credit policies included: strict compliance with the rediscounting budget; enhanced credit risk management; periodic examination of borrowing banks; implementation of a new credit rating system for determining the rediscounting capabilities of borrowing banks; and continued setting of market-based prices of rediscounting loans.[20]

As of 31 December 2005, the total loan portfolio of the BSP reached ₱114.7 billion, ₱7.9 billion or 6.4 percent lower than the previous year's ₱122.6 billion. Total loans granted in 2005 amounting to ₱34.0 billion were also lower than those granted in 2004 at ₱38.9 billion. The bulk of loans granted were directed to regular peso and dollar/yen rediscounting. Meanwhile, loans utilized to assist banks with liquidity problems amounted to ₱0.5 billion.

Of the total loans granted, regular peso rediscounts reached ₱26.7 billion, which were channeled to the following sectors: export/import financing (₱12.8 billion); commercial/industrial and quedan loans (₱10.9 billion); production credits (₱2.5 billion); housing (₱0.4 billion); and microfinance (₱0.1 billion).

By institution, commercial banks got the biggest share at ₱20.0 billion or 58.8 percent of the regular rediscounts, followed by thrift banks at ₱12.2 billion or 35.9 percent and rural banks at ₱1.8 billion or 5.3 percent. Rural and thrift banks obtained liquidity assistance amounting to ₱0.1 billion and ₱0.4 billion, respectively.

Total gross income from the BSP's loans and credit operations reached ₱5.0 billion in 2005. This represented a ₱0.2 billion or a 4.2 percent improvement from the previous year's level. The increase in the BSP's income from lending despite the decline in its loan portfolio was due in part to improved loan collections as the past due ratio of rediscounting loans declined to 7.0 percent in 2005 from 7.5 percent in the previous year.

[20] As approved by the Monetary Board on 6 January 2005

Asset Management

The BSP acquired, through foreclosure proceedings or by virtue of dacion en pago agreements, real property assets of banking institutions that were used as collateral loans. The BSP likewise ensures that the foreclosed assets it had acquired through its loans and credit operations with banks are administered, preserved and disposed of properly.

As of end-December 2005, the book value of acquired assets increased by 11.8 percent year-on-year to ₱12.8 billion compared with the end-December 2004 level. Similarly, the number of real property titles acquired increased by 24.2 percent or 4,199 titles to 21,557 titles due to additional acquired assets turned over by the Department of Loans and Credit.

To improve the administration of foreclosed properties, the BSP implemented new and modified existing guidelines on managing acquired assets in 2005. The new guidelines defined the wholesale disposal of acquired assets and granted appropriate discount for such transaction. The modification of existing guidelines included the revision of existing guidelines on the appraisal of real properties to consider the latest appraised value as the basis of disposal and amended the procedural guidelines on the appraisal of properties and the disposal of acquired assets thru public auction.

International Reserve Management

In 2005, the BSP continued to adhere to the Bank's policy of managing the country's GIR at a level and mix that would allow the BSP to meet any foreseeable demand for foreign currencies. The BSP adhered to a strategy of yield enhancement, optimal utilization and diversification in the management of the country's international reserves as it took advantage of the significant increase in gold prices, to improve its income position in 2005.

During the year, the BSP implemented a number of new measures that aimed at enhancing the yield and improving further its operational efficiency. These included the following: (1) rationalization of gold reserve holdings and management; and (2) increased utilization of foreign currency swap transactions.

International Operations

The BSP continued to ensure that the county's external debt level is sustainable. As part of its debt management function, the BSP continued to evaluate foreign borrowing proposals from both the public and private sectors. The BSP's external debt management is guided by the principle of allowing borrowed funds to be channeled to priority areas for development, giving due consideration to the country's capacity to meet maturing obligations in a timely and orderly manner. As in previous years, the BSP actively participated in loan negotiations of the Government, provided advisory services to both public and private sector borrowers on relevant regulations, and assisted them in securing reasonable terms and conditions on their loans.

In 2005, the medium- and long-term foreign loans approved by the BSP aggregated US$5.75 billion, 30.8 percent lower than the previous year's approvals. Public sector loans amounted to US$4.91 billion, representing 85.4 percent of total approvals while the rest were accounted for by private sector loans. By creditor type, bond/noteholders accounted for the bulk (77.9 percent) of public sector loan approvals, banks and financial institutions provided 14.6 percent of new loans while official creditors accounted for 7.2 percent. Loan proceeds for public sector loans were used mainly for budgetary support, refinancing and relending.

Meanwhile, private sector loans of US$839 million approved for the year declined by 59 percent from last year's total. Banks and financial institutions provided 43.7 percent of the loans, with official creditors and bond/noteholders providing 38.4 percent and 17.9 percent, respectively. The loans were intended for telecommunication projects, relending to clients and refinancing of maturing obligations.

Foreign Investments

Inward foreign investments (both direct and portfolio) registered by BSP for the year totaled US$7.96 billion, an increase of US$4.08 billion or 105 percent from the previous year's total of US$3.88 billion.

Registered foreign direct investments (FDIs), posted a 19 percent decline from US$680 million in 2004 to US$552 million in 2005 due to a sharp drop (US$197 million) in applications for registrations of FDIs in the transport, storage and communication sectors. In contrast, registered foreign portfolio investments rose by 131 percent from US$3.20 billion in 2004 to US$7.41 billion in 2005.[21]

By type of instrument, 56 percent of the registered foreign portfolio investments were in PSE-listed securities, followed by government securities (23 percent), and peso deposits (20 percent).

Key Policy Initiatives

The following initiatives were approved by the Monetary Board during the year:

- Grant of ₱10.5 million to the Export Development Council to help fund selected export promotion and development projects.

- Revision of the Foreign Currency Declaration (FCD) Form to comply with the FATF's Special Recommendation IX. Said recommendation requires countries to have in place measures to detect the physical cross-border transportation, including a declaration system or other disclosure obligation, of currency and bearer negotiable instruments. The revisions in the FCD form consist of the inclusion of additional information pertaining to the transport of foreign currency and the expansion in the scope of the declaration requirement to include, in addition to foreign currency notes and coins, other foreign exchange-denominated bearer monetary instruments.

[21] Includes foreign investments in equities listed in the Philippine Stock Exchange that were registered by custodian banks on behalf of the BSP based on delegated authority.

Notes and Securities Printing

The BSP printed a total of 987.0 million notes for 2005 representing 105.2 percent of the year's target of 937.8 million pieces. The total delivery to the Cash Department (CD) for the year was 868.3 million pieces equivalent to 87.9 percent of the total notes produced.

Mint and Refinery

The BSP sustained its mint and refinery operations in 2005. It produced circulation coins as well as special coinage and medals in the most economic, efficient and secure way. It also manufactured and supplied presidential medals and state decorations; purchased gold from small-scale miners in accordance with Section 17 of R.A. No. 7076, "People's Small-Scale Mining Act of 1991" and from other sources; and refined the gold purchased to forms acceptable in the international bullion markets. In 2005, the BSP purchased 1.04 million troy ounces of panned gold, which contained 1.02 million troy ounces of fine gold. Gold purchases increased by 4.2 percent in 2005 from one million troy ounces in 2004. The BSP has five existing buying stations located in Quezon City, Baguio City, Davao City, Naga City and Zamboanga City.

The production of refined gold totaled 2,616 "good delivery" gold bars which contained 1.04 million troy ounces of fine gold. Each bar had a minimum assay of 99.5 percent. The refined gold production in 2005 was higher than the target for 2005 by 49.2 percent.

The BSP Mint produced 674.874 million circulation coins in 2005, consisting of 10-Piso, 5-Piso, 1-Piso, 25-Sentimo, 10-Sentimo and 5-Sentimo denominations. The output in 2005 was lower by 43.5 percent compared to the previous year's output of 1.195 million coins.

The BSP also produced and delivered 95 sets of medals and state decorations to Malacañang.

Currency Issuance and Retirement

Currency Issuance

The total stock of currency notes and coins issued by the BSP as of end-December 2005 amounted to ₱336.55 billion, 4.36 percent higher than the previous year's total of ₱322.47 billion. New and fit notes issued in 2005 amounted to ₱314.18 billion, or an increase of 10.04 percent from the ₱285.51 billion in new and fit notes issued in 2004.

Currency Retirement

Processed/verified canceled notes, which were retired through the Security Engineer Machine (SEM) Disintegrator and on-line thru the Currency Verification, Counting and Sorting (CVCS), totaled 523.4 million pieces amounting to ₱59.18 billion in 2005. This was 22.1 percent lower in value compared to the ₱75.96 billion notes retired in 2004.

Economic Research, Statistical, and Information Dissemination Activities

The BSP continued to conduct economic research and policy studies to assist the Monetary Board in the formulation, implementation, and review of monetary, credit, financial and foreign exchange policies as well as the determination of the appropriate monetary policy stance of the BSP. During the first quarter of 2005, the Department of Economic Statistics (DES) was created to generate relevant, accurate and timely economic and financial data. Likewise, the Center for Monetary and Financial Policy (CMFP) was established to develop a comprehensive and integrated research program that will, among others, address gaps and issues on the inflation targeting framework and conduct rigorous empirical and theoretical researches on economic and financial matters. The Department of Economic Research (DER) which used to handle the tasks assigned to these newly-created Departments will now be afforded greater focus in conducting in-depth economic research and policy studies in the formulation, implementation and review of monetary, credit, financial and foreign exchange policies.

Inflation Targeting

Outside of the regular monetary assessment process, Bank activities on inflation targeting centered mainly on efforts to improve the existing operational framework for monetary policy. This consisted mainly of engaging outside experts to review and evaluate the operational arrangements for inflation targeting and the inflation forecasting models being used by the BSP. The international experts were asked to identify key areas in the BSP's conduct of monetary policy which can be improved further in line with the best international practice in inflation targeting to ensure that its operational aspects are geared towards the attainment of the BSP's inflation objective. Dr. Paul D. McNelis of Fordham University began working with DER on various methods of estimating the output gap in the Philippines. Meanwhile, Dr. Bennett T. McCallum of Carnegie-Mellon University and Dr. Kenneth F. Wallis of the University of Warwick were asked to review the BSP's IT framework and forecasting models. A third expert, Dr. Peter Sinclair of University of Birmingham is scheduled to undertake a similar review in early 2006.

The BSP also conducted semestral Environmental Scanning Exercises (ESE) in line with the continuing efforts to further build a broader framework for analyzing economic and non-economic factors in the formulation of monetary policy under the Inflation Targeting framework. In February 2005, the ESE entitled "Supply-side Shocks and Implications for Monetary Policy" brought together resource persons from the energy and agricultural sectors sharing possible scenarios on the supply side that could have implications for monetary policy. In August 2005, the ESE on emerging socio-political issues and its implications on monetary policy gathered political science experts who discussed political developments and the impact on economic policies.

The BSP also developed the Early Warning System (EWS) for the macroeconomy which is part of the BSP's strategy to fully institutionalize the process of managing the risks involved in policy formulation. The objective of the strategy was to ensure that risks to the attainment of the inflation target are properly considered and incorporated in the monetary policy recommendations to the Monetary Board.

Towards this end, the BSP developed an EWS for the macroeconomy, with focus on currency crises. The model allows the BSP to monitor the movements of key economic variables when these tend to depart from the normal trends in a given period to a crisis. Deviations of these variables from their normal threshold levels are taken as warning signals of a possible crisis occurring within a specified time frame. The model alerts the BSP on a possible impending period of serious difficulty so that prompt preemptive measures could be undertaken.

Preparation of Policy Papers and Conduct of Special Studies

The BSP prepared monthly policy papers and special studies for the Advisory Council which, in turn, makes recommendations to the Monetary Board on the appropriate monetary policy stance. Special studies on the sources of liquidity growth, the impact of BSP policy interest rates on market rates and interest rate differentials under inflation targeting were prepared during the year.

The BSP likewise prepared/updated comments and positions on pressing monetary and financial issues, proposed legislation and other proposals/papers from government/regulatory/private agencies. It provided special reports, updates and compilation of various information on the developments relating to the Philippine economy requested by various local and foreign agencies. These papers and studies included perspectives and outlooks on capital flows, interest rate differentials under inflation targeting, domestic bond markets and implications to central banks, export promotion fund, financial market conditions, OFW remittances, foreign exchange intervention, external debt sustainability, REER rebasing, macroprudential surveillance and indicators framework, bank distress index, impact of BSP policy interest rates on market interest rates, apparent disconnection of Treasury Bill rates and bank lending rates, role of the central banks in the promotion of small- and medium enterprises, securities borrowing and lending practices in selected countries, domestic liability-management exercises and determination of the appropriate measure of the output gap, among others.

The BSP also prepared position papers on various issues/matters that emanated from international and financial institutions and multilateral/international and regional institutions/fora including the IMF, the World Bank (WB), Bank for International Settlements (BIS), the South East Asian Central Banks (SEACEN), the Executives Meeting of East Asia and the Pacific (EMEAP) and the Association of South East Asian Nations (ASEAN) as well as from bilateral arrangements with partner central banks, namely, Bank of Japan, People's Bank of China and Bank of Korea.

Participation in Inter-Agency Discussions on Economic, Monetary and Financial Development Issues/Negotiations on Multilateral, Regional and Bilateral Financial and Economic Cooperation

The BSP participated actively in various inter-agency committees tasked to draw the country's macroeconomic programs and formulate the stance of the Philippine Government on various proposals under the World Trade Organizations (WTO), the ASEAN and bilateral economic and financial matters, among others. These inter-agency committees were as follows: Development Budget Coordinating Committee (DBCC), the Committee on Tariff and Related Matters (CTRM), the Philippine Council on ASEAN and APEC Cooperation (PCAAC), the Inter-Agency Committee on Trade in Services (IAC-TCS), the TRM Inter-Agency Sub-Committee on Trade and Investment Agreements (IAC-TIA) the Philippine Coordinating Committee on the Japan-Philippine Economic Partnership Agreement (PCC-JPEPA), Joint Coordinating Team of the JPEPA, Inter-Agency Working Group on the quarterly macroeconomic model. The BSP also participated in negotiations on financial services liberalization under the ASEAN Framework Agreement on Services (AFAS) and the proposed Japan-Philippine Economic Partnership Agreement.

Statistical Management Activities and Data Generation Capabilities

The BSP continued to enhance its monitoring activities to provide more relevant, accurate and timely data for the guidance of the Monetary Board in the formulation of an effective and appropriate monetary and financial policies. The BSP also worked continuously towards enhancing the efficiency and flexibility in the processing, analysis and presentation of data series as well as developing data generation capability. Among the statistical management activities executed in 2005 were: (1) compilation and preparation on a regular basis of statistical series/tables/reports, on various economic and financial indicators; (2) flow of funds; (3) processing and evaluation of bank reports pertaining to Consolidated Statement of Conditions (CSOC)/Credits; (4) monitoring and preparation of bank reports pertaining to international transactions. In terms of enhancing BSP's data generation and information capability, the BSP continuously conducted periodic surveys e.g. Business Expectations Survey, Consumer Expectations Survey, Monthly Survey on Intercompany/Offsetting Accounts with Non-residents for member companies of the semiconductor and electronics industries of the Philippines, Inc. (SEIPI), Monthly Survey on Positions and Transactions on Accounts with Non-resident Banks, and Monthly Surveys on Transactions of Build-Operate Transfer (BOT) companies, processed the results of monthly Cross Border Transactions Survey, prepared and processed the Foreign Direct Investment Survey and the Balance of Payments Compilation.

Information Dissemination Activities

In line with the BSP's thrust to foster greater transparency in its operations and to enhance the awareness of the public on the role of the BSP in promoting price stability, the BSP continued to publish the regular and special reports on economic and financial developments in the country. These included the quarterly BSP Inflation Report, the quarterly Report on Economic and Financial Developments, Status Report on the Philippine Financial System and the BSP Annual Report. Other BSP publications and reports included the monthly selected Philippine economic indicators, quarterly balance of payments reports, quarterly business expectations reports, quarterly consumer expectations reports, updated primers on inflation targeting and microfinance as well as updates on frequently asked questions (FAQs) on economic and financial issues.

The Bangko Sentral (BS) Review continued to be published as a major vehicle for in-depth research output. The research articles in this publication are also intended to increase public awareness of the activities of the BSP and its view on relevant economic and financial issues. The January and July 2005 issues of the BS Review covered such topics as tracing the impact of world oil prices on inflation, promoting greater use of formal remittance channels by Overseas Filipino Workers, early warning system for macroeconomic vulnerability, an official measure of core inflation for the Philippines, asset price bubbles on and approaches to monetary policy and financial stability, survey on the disclosure practices of Philippine universal banks and the efficiency of fiscal and monetary policies in the Philippines.

Supervisory Policy Development and Banking Statistical Activities

The BSP continued its efforts to develop supervisory policy and enhance banking data management, through the Office of the Supervisory Policy Development (OSPD) and the Supervisory Data Center (SDC). The OSPD conducts studies/researches on the dynamics of financial system, monitors and analyzes developments in the financial sector, determines potential crises affecting the system, and develops and reviews policies, standards and guidelines on the governance of financial institutions. The SDC specializes mainly in banking data, validation, storage and reporting.

Policy Issuances

In 2005, the OSPD formulated regulatory issuances geared primarily towards attaining strong corporate governance, improving risk management systems in banks, promoting safe and sound banking practices, strengthening regulations, improving banking services, and requiring electronic monitoring systems for money laundering. Circular letters were also issued informing banks, other financial institutions, and the public on various scams and terrorist activities. The BSP likewise released reports on the status of the Philippine financial system; implementation of the barangay micro-business enterprise act; performance of Foreign Currency Deposit Units (FCDUs) and Offshore Banking Units (OBUs); NPLs by type of bank; and exposure of the banking industry to the credit card, automobile and real estate sectors. The BSP also conducted periodic stress tests to anticipate potential problems in banks.

Banking Statistical Data Activities

Among the major projects on banking statistics undertaken by the SDC during the year were the following: 1) implementation of the first three phases of the data warehousing project which is intended to be the main repository of financial and non-financial data collected by BSP from its supervised institutions; 2) simulation of the BSP reporting services portal (FI Portal) that will allow entities supervised by the BSP to submit/upload their reports to the BSP via the FI Portal and retrieve/download the reports already processed by the BSP through said portal; 3) implementation of the General Ledger (GL) reporting system for all Rural/Cooperative and Microfinance-Oriented Rural Banks (RBs); 4) systems development and enhancement of existing projects which include the transmission program of rural banks/cooperative banks database files for the PDIC, the application system designed to electronically extract and transmit reports to PDIC, and the modified financial institutions library system (FILS); and 5) issuance of certificates of eligibilities that will allow banks to sell their non-performing loans to prospective investors availing of the incentives under the Special Purpose Vehicle Act..

Branch Operations

The three (3) regional offices of the BSP (i.e. La Union, Cebu and Davao) and eighteen (18) branches (i.e. Zamboanga, Tuguegarao, Tacloban, Ozamiz, Naga, Lucena, Legazpi, Kalibo, Iloilo, General Santos, Dumaguete, Dagupan, Cotabato, Cagayan de Oro, Cabanatuan, Batac, Bacolod and Angeles) continued to upgrade the delivery of vital central banking services in the regions in 2005. Regional offices and branches serviced the cash deposits from 477 provincial cash centers and cash withdrawals of 406 branches of banks. The BSP regional offices and branches also played a proactive role in the conduct and implementation of the various advocacies of the BSP, particularly, the public information campaigns which included topics on recent economic developments and the role of the BSP in the Philippine economy, inflation targeting and core inflation, microfinance, anti-money laundering, salient features of the Special Purpose Vehicle Act, Clean Note policy, anti-counterfeiting, anti-pyramiding and text messaging scams, good governance and year-end economic briefing. These offices were also involved in the users' forum and the processing of the business expectations survey and the bi-annual report on regional economic developments.

Advocacy Programs

Microfinance

The year 2005 was declared as the International Year of Microcredit by the United Nations and Philippine Year for Microfinance under Presidential Proclamation No. 719. This highlighted the important role of microfinance in poverty alleviation and economic development.

Microfinance has been the flagship program of the BSP for poverty alleviation since 2000. BSP initiatives in microfinance followed a three-pronged approach: (1) providing the enabling policy and regulatory environment to promote micro finance activities; (2) increasing the capacity of the BSP and banking sector on microfinance operations; and (3) promoting the development of sound and sustainable microfinance operations.

Policy and Regulatory Environment for Microfinance

The BSP continued to work to create an environment that would allow banks to have wider scope and outreach for microfinance operations as well as maintain soundness and sustainability in their operations. In 2005, the Microfinance Committee of the BSP was reconstituted to provide overall policy direction for microfinance in the banking sector. The BSP likewise issued directives to address emerging issues regarding certain types of microfinance products and regulatory/prudential issues, namely: (1) micro-agri products; (2) housing microfinance; (3) remittances; (4) e-banking; (5) revised branching guidelines. To further complement the changing microfinance industry, the BSP has undertaken policy initiatives, such as (1) modifications in the Manual of Regulations for Banks to include microfinance operations; (2) creation of a comprehensive credit information system; (3) adoption of performance standards for all types of microfinance institutions to create more transparent and sustainable microfinance institutions; and (4) support for commercial banks, rural and thrift banks engaging in microfinance on a wholesale and retail bases.

Training and Capacity Building

The BSP continued to work towards increasing the skills, knowledge, understanding and appreciation of microfinance by BSP officials and staff tasked to oversee the microfinance operations of banks and by practitioners of microfinance in the banking sector. In particular, some 124 BSP examiners participated in workshops on microfinance operations organized by the BSP Institute in 2005. Likewise, key BSP officers participated in microfinance courses held in local and foreign training institutions. Meanwhile, bank officers and bookkeepers from the private sector in Regions IX, X, XI and XII participated in trainings on microfinance best practices, specifically on portfolio at risk and provisions for banks with microfinance operations. In 2005, a total of 1,364 staff and officers of banks attended the Basic Rural and Thrift Banking Courses conducted by the BSP Institute.

Promotion and Advocacy

The BSP continued to promote increased awareness on microfinance and pursued advocacy program on sound and sustainable microfinance operations as well as supported linkages for microfinance development in the country.

The centerpiece of BSP's advocacy effort for 2005 was its leadership in the Philippine National Committee (PNC) for Microfinance which was organized by the government in support of the United Nations declaration of 2005 as the International Year of Microcredit. The PNC, chaired by the BSP was awarded and recognized as an Outstanding National Committee by the United Nations and the Consultative Group to assist the poorest (a consortium of 28 donors). The award was given during the culmination of the International Year of Microcredit (IYM) last 8 November 2005 at the United Nations Headquarters in New York, U.S.A. The PNC in celebration of the IYM undertook several notable initiatives such as the search for outstanding national microentrepreneur of the year, conferences and seminars, policy dialogues, a trade fair of microfinance products, the launch of a complete communication campaign and the search for outstanding microentrepreneur's product.

The BSP also hosted delegations from six countries to learn about microfinance in the Philippines. These were: Vietnam, Afghanistan, Nigeria, Kenya, Ethiopia and Sri Lanka. The BSP likewise organized lectures on microfinance in various fora for members of the academe, chambers of commerce as well as microentrepreneurs and relevant government agencies.

In 2005, the BSP received technical assistance from donor institutions for the training of BSP examiners and hiring of a consultant to develop a business plan for a credit bureau in the Philippines. The BSP was also a part of the team which negotiated a loan for microfinance development in the Philippines.

Economic Information

In 2005, the BSP continued its public information campaigns (PICs) outside Metro Manila in line with the continuing effort to increase awareness on the role of the BSP in the country's economic development and to further enhance the transparency of monetary policy. The topics of the PICs included the BSP's role in the country's economic and financial system, recent economic developments in the Philippines, inflation targeting as a framework of monetary policy in the country, concept of core inflation, implementation of the Anti-Money Laundering Law, rediscounting facility of the BSP, microfinance program and the Special Purpose Vehicle Act and its implementing guidelines. The BSP conducted PICs in the cities of Cabanatuan, Legazpi, Dagupan, Cagayan de Oro, San Fernando (La Union), Iloilo, Tacloban, Tuguegarao, Lucena and Bacolod. In October 2005, the BSP also conducted the Users' Fora in the cities of Angeles, Kalibo and Zamboanga. The fora served as a regular venue for the presentation of the BSP-produced statistics among various data users and agencies in the country to coincide with the celebration of the National Statistics Month held every October. The topics covered in the forum include monetary and financial statistics, balance of payments, core inflation and business and consumer expectations surveys.

Financial Literacy

The BSP continued to take a proactive stance in embarking on a consumer education program that aims to improve the basic financial literacy of the public. In the sixth meeting of the Financial Sector Forum (FSF) held on 14 December 2005, it noted significant progress on initiatives aimed at deepening consumer financial literacy and further strengthening coordination arrangements between and among the member agencies (Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas, Office of the Insurance Commission and Philippine Deposit Insurance Corporation). As a result, the Consumer Protection and Education Committee would be mounting a consumer protection and education campaign plan to equip consumers with adequate, timely, and relevant information about financial products and services, not only for their protection but also for maintaining the stability of the financial sector. In line with the BSP's advocacy on financial literacy, the presidents of the Bank Marketing Association of the Philippines, Bankers Association of the Philippines, Chamber of Thrift Banks, Rural Bankers Association of the Philippines and the Credit Card Association of the Philippines launched the "Service code for consumer banking in the Philippines" in October 2005. This code standardizes the delivery of service in the banking industry. Similarly, the FSF, through its Reporting, Information Exchange and Dissemination Committee (RIED), has also moved to supplement its current Memorandum of Agreement (MOA) covering bilateral information exchange among FSF members.

In 2005, the BSP likewise hosted a forum on credit cards to discuss salient points on BSP directives which address common credit card problems and promote the welfare of cardholders.

Moreover, the BSP continued to promote consumer rights awareness and protection through its linkage with an inter-agency group, ConsumerNet.[22]

Institutional Building

Corporate Planning

The BSP put forward several initiatives on enhancing strategic management in 2005. Foremost among these initiatives is the BSP Strategic Planning Conference (BSP Strat Planning) which was facilitated by the Corporate Planning Office (CPO). The objectives of the BSP Strat Planning were as follows: 1) re-assess the overall strategic direction of the BSP; 2) determine the progress of the implementation of the BSP's medium-term operational plans; and 3) provide an enhanced mechanism for performance measurement. Prior to the conduct of the planning conference, a total of 22 pre-conference meetings were facilitated for the seven working groups participating in the BSP Strat Planning conference. These pre-conference meetings provided the working groups the opportunity to assess the operating environment, formulate strategies and prioritize projects. Furthermore, the working groups reviewed the existing operational plans and came up with a Medium-Term Plan 2005-2011 that coincides with the term of office of the new set of MB members. Indicative budgets of the projects for the year 2006-2011 were likewise identified. In cascading the results of the annual planning activity to the BSP employees, a General Assembly (GA) was coordinated and facilitated. The BSP employees were informed of the major directions and initiatives that will be embarked on for the next six years. The GA was replicated subsequently at the Security Plant Complex (SPC) in Quezon City. The General Assemblies in the three Regional Offices (La Union, Cebu and Davao) are slated to be conducted in early 2006.

[22] In an effort to protect consumers from unscrupulous businessmen, a group of national government agencies worked together to facilitate the resolution of consumer complaints and disseminate information regarding consumer rights. These government agencies are as follows: (1) DTI thru Bureau of Trade Regulation and Consumer Protection (BTRCP) of the DTI; (2) Department of Education (DepEd); (3) BSP; (4) Department of Agriculture; (5) Department of Interior and Local Government (DILG); (6) Energy Regulatory Board (ERB); (7) Department of Health (DOH); (8) Securities and Exchange Commission (SEC); (9) National Telecommunication Commission (NTC); (10) Housing and Land Use Regulatory Board (HLURB); (11) Insurance Commission (IC); (12) Bureau of Internal Revenue (BIR); (13) Land Transportation Office (LTO); and (14) Department of Justice (DOJ). The ConsumerNet website is www.i-reklamo.ph.

In June 2005, a three-year project was launched to promote strategic management thinking with topics on leadership and emotional intelligence. The talk on leadership, with the theme "Visionaries at the Helm: The Growing relevance of Inspiring Leadership," was held during the same month with well-known Filipino leaders as guest speakers. On December 2005, the talk on emotional intelligence, with the theme "Emotional Intelligence: Stepping Up to Effective Leadership", was conducted with distinguished professionals as resource persons.

An Ad-Hoc Committee on Standardization of Common Capital Expenditure (CAPEX) Requirements and Other Asset Acquisitions was created as a means to achieve operational efficiency through the rationalization of procurement activities and streamlining of the procurement process that will result in cost savings, reduced processing time, as well as enhanced budget preparation process. This Ad-Hoc Committee is primarily tasked to formulate the standard specifications of common CAPEX requirements and other asset acquisitions of the different departments/offices of the BSP. The CPO website was also launched in 2005.

Information Technology

Major accomplishments were made in the area of information technology in 2005. These are in keeping with the BSP Medium-Term Strategic Plan for Information Technology 2005-2011. Among the projects which were completed during the year were: a) Human Resource Management System (HRMS); b) Real Time Gross Settlement System (RTGS) linkages; c) Acquired and Other Assets Management System; d) Document Management System (DMS); and e) Financial Reporting Package (FRP). Systems linked with the RTGS which were completed in 2005 are: 1) Intraday Liquidity Facility (ILF); 2) Electronic Cash Withdrawal; and 3) Philippine Clearing House Corporation (PCHC) transactions.

The ILF is used by the BSP to supply liquidity to banks through repurchase agreement facility to replenish temporary fund shortages arising from payments of RTGS-based interbank transactions. The system is set for another pass of User Acceptance Test (UAT) after the first pass done from 20-22 July 2005. The draft Memorandum of Agreement (MOA) is also scheduled for discussion with the RTGS-participating banks. The Electronic Cash

Withdrawal System eliminates check transactions with participating banks. Testing with 47 (out of 58) participating commercial and thrift banks was completed on 28 July 2005. It is scheduled for a parallel run in the first quarter of 2006. Direct posting of clearing transactions was also implemented on 5 January 2005.

Other projects which have been partially completed include: a) Data Warehouse (DW) – Phase 1; b) Provident Fund Management System (PFMS); c) Unified Rediscounting and Special Lending System – Phase 1; d) Integrated Regional Information System (IRIS); e) TIVOLI system; and f) BSP Regional LAN.

In improving the procurement process, the Financial Institutional Portal has been set-up. The portal is a web-base system that will serve as gateway and delivery system for all bank reporting requirements by facilitating receipt, validation and processing of reports to be transmitted electronically to the BSP. The proof of concept for the system was pilot tested with selected commercial, thrift and rural banks

Human Resource Management

In 2005, the BSP's activities on human resource were geared towards improving employee benefits and enhancing effective superior-subordinate relations. During the year, the BSP implemented fully the System Application and Products (SAP) Human Resource (HR) System that integrated the HR Information System to provide real time and accurate data viewing.

The BSP carried out programs pertinent to the enhancement of systems and methods in recruitment and selection including updating assessment tools, systems and processes.

Competency-based programs were also pursued, including team-building activities and lecture series for professional enrichment of staff covering work attitude, grief and crisis management, Philippine culture, food, painting, sports, yoga and medical updates.

The BSP continued to recognize and encourage excellence in the performance of one's duties with the grant of Program Awards and Incentives for Service Excellence (PRAISE), the Outstanding Department Award, Outstanding Regional Award, Academic Achievement Award, Perfect Attendance and Punctuality Award and Loyalty Awards to deserving employees.

Conferences, Seminars and Workshops

In line with the mandate to establish professionalism and excellence at all levels of the hierarchy, the BSP, through the BSP Institute, provided training programs benchmarked against global practices. The BSP not only upgraded the knowledge and technical skills of both officers and staff through their participation in local and foreign development programs/courses but also promoted positive values among its personnel.

In-house training programs accounted for the most number of training participants and were conducted through partnerships with local and foreign experts, including training accomplished through technical cooperation with the Bankers Association of the Philippines, Board of Accountancy, Bearing Point Consultants, Banque de France, Deutsche Bundesbank, to name a few.

Meanwhile, the in-house courses covered topics on economic statistics, international trade, financial risk management, loans and credit, supervision and examination, anti-money laundering, management services, procurement, property and supply management, and mechanical/electrical and building maintenance.

The BSP participated in international conferences and seminars organized by multilateral and regional bodies and financial institutions, such as IMF-Singapore, IMF-Washington, The SEACEN Centre, Federal Reserve System and Centre for Central Banking Studies (Bank of England). These conferences and seminars covered mainly core banking functions, such as monetary policy and macroeconomic management, payment system, financial programming and policies, financial markets and services, reserve management, market risk management, bank supervision, cash management, human resource management and counterfeit detection.

As part of its international commitment, the BSP also co-hosted two regional training events, namely: 1) SEANZA-FSI Regional Seminar on Risk Modelling and Basel II; and 2) SEACEN-IMF Institute Course on Balance of Payments Management.

In addition to its regular in-house, local and foreign training programs, the BSP launched a scholarship program called BSP Educational Scholarship and Training (BEST) Program. The program is aimed to provide the long-term requirement for technical experts in the fields of Economics, Finance, Statistics, Law, Information Technology and Human Resource. The program provided funding to send employees as scholars to pursue graduate and post-graduate courses in recognized schools here and abroad. Through the BEST Program, the BSP has deployed 10 scholars at prestigious universities: three at Georgetown University Law Center and Fordham University; three at the University of Machester; one at the University of Pennsylvania; one at the University of Illinois; and at the New York University.

Participation in training events whether local or foreign trainings/seminars, workshops, conferences and meetings provided Bank personnel the opportunities to be kept abreast with the latest information, developments, technology and systems and more importantly allowed them to network with professionals in similar fields, as a continuing source of updates way beyond the training event.

International Economic Cooperation

The BSP actively participated in international cooperation initiatives particularly on monetary and financial matters under the various programs and activities of multilateral and regional bodies and foreign financial institutions.

Association of South East Asian Nations (ASEAN)

Pursuant to the country's commitment in the ASEAN to promote closer economic and financial cooperation in the region, the BSP participated in various ASEAN and ASEAN+3 initiatives on finance cooperation as follows:

Expansion of the ASEAN Swap Arrangement (ASA).[23] During the ASEAN Central Bank Forum (ACBF) meeting in April 2005 in Vientiane, Lao PDR, the ASEAN central banks agreed to expand the size of the ASA from US$1 billion to US$2 billion. This is to enhance further the credibility and usefulness of the ASA in providing short-term liquidity assistance to its members as well as to further strengthen the commitment among ASEAN member countries towards regional financial cooperation. A Memorandum of Understanding was signed by the Governors of ASEAN central banks and monetary authorities to reflect the expansion in the size of the ASA.

Meeting of the ASEAN Working Committee on Financial Services Liberalization under the ASEAN Framework Agreement on Services (AFAS). The BSP co-chaired with the Department of Finance (DOF) the Meeting of the ASEAN Working Committee on Financial Services Liberalization under the AFAS held on 25 August 2005 in Manila, Philippines. The meeting discussed the progress of the activities of the Working Committee and finalized the guidelines for the negotiation of financial services under the positive list approach modality.

Renewal of the Bilateral Swap Arrangement (BSA) between the BSP and Bank of Korea (BOK).[24] The BSP and the BOK agreed on the renewal of the BSA on 17 October 2005 for a period of two years. The agreement reflected the measures adopted by the ASEAN+3 Finance Ministers during their meeting in May 2005 in Istanbul, Turkey, to enhance the effectiveness of the Chiang Mai Initiative (CMI) as a foreign exchange liquidity support mechanism. The size of the two-way swap was increased from US$1 billion to US$1.5 billion. The size of the swap that could be withdrawn without the IMF-support program was also increased from 10 percent to 20 percent of the total swap amount.

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[23] Established in August 1977 by the five founding members of the ASEAN (Indonesia, Malaysia, Philippines, Thailand and Singapore), 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 primary objective of the ASA is to provide short-term foreign exchange liquidity support for member countries experiencing balance of payments difficulties.

[24] The BSA is intended to provide short-term financial assistance in the form of swaps to the participating party that is in need of balance of payment support or short-term liquidity support and shall supplement existing international financing facilities such as those of the IMF and the ASA.

Review of the Chiang Mai Initiative. The BSP is actively involved in the 2nd phase of the review of the CMI which started in May 2005 in order to implement the decision at the 8th ASEAN+3 Finance Ministers' Meeting (AFMM+3) held on 4 May 2005 in Istanbul, Turkey, to enhance the effectiveness of the CMI as a liquidity support mechanism by: (1) integrating an enhanced ASEAN+3 economic surveillance into the CMI framework; (2) elaborating the swap activation process and adopting a collective decision-making mechanism for the current network of bilateral swap arrangements; (3) increasing the size of swaps; and (4) increasing the non-IMF linked portion of the swap from the current 10 percent to 20 percent.[25]

Informal Meeting of ASEAN-6 Central Bank Deputies. The BSP hosted the 3rd Informal Meeting of ASEAN-6 Central Bank Deputies on 26 August 2005 in Manila, Philippines. The central bank deputies from Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand met to discuss the progress of activities on ASEAN and ASEAN+3 initiatives on regional monetary and financial cooperation.

Preparation of the 10th ASEAN Surveillance Report (ASR). As part of the ASEAN Surveillance Process, the BSP prepared the following for the 10th ASR: (1) country report on the Philippines; (2) discussion of policy issues on the Philippines; and (3) updates on the ASEAN Surveillance Template.

In 2005, the BSP participated in other ASEAN and ASEAN+3 meetings as follows: (1) 13th ASEAN Central Bank Deputies Meeting (ACDM), 2 April 2005, Vientiane, Lao PDR; (2) 9th ASEAN Finance Ministers' Meeting (AFMM) and related meetings, 2-6 April 2005, Vientiane, Lao PDR; (3) Meetings of the ASEAN+3 Working Group on the Review of the Chiang Mai Initiative held on 29 June 2005 (Yogyakarta, Indonesia), 29-30 September 2005 (Hong Kong), and 7-8 November 2005 (Seoul, Korea); (4) Meeting of the ASEAN Working Committee on the Capital Account Liberalization, 7-8 September 2005, Jakarta, Indonesia; (5) 2nd ASEAN Finance Ministers' Investor Seminar, 20-21 September 2005, London, UK; (6) ASEAN+3 Asian Bond Markets Initiative (ABMI) Working

[25] The CMI is a regional financing arrangement through currency swaps adopted by the ASEAN+3 Finance Ministers in Chiang Mai, Thailand in May 2000. The CMI includes the following components: the ASEAN Swap Arrangement, bilateral swap and the network of repurchase agreement facilities among the ASEAN countries, China, Japan and Korea.

Group Meetings, 18-20 October 2005, ADB, Manila, Philippines; (7) Kick-off Meeting of Researchers/Institutes for the ASEAN+3 Research Group, 19 October 2005, ADB, Manila, Philippines; (8) ASEAN+3 ABMI Focal Group Meeting, 7 November 2005, Seoul, Korea; and (9) Informal ASEAN+3 Finance and Central Bank Deputies Meeting, 30 November-1 December 2005, Nara, Japan.

South East Asian Central Banks (SEACEN) Research and Training Center

As part of its commitment to the SEACEN Centre, the BSP participated in the 3rd SEACEN Executive Committee (EXCO) Meeting on 29 January 2005 in Colombo, Sri Lanka and the SEACEN EXCO Ad-Hoc Meeting on 22 April 2005 in Bali, Indonesia. The meeting aimed to discuss the SEACEN program of activities and budget for Operating Year (OY) 2005-2006, and to deliberate on operational and policy matters of strategic importance to the SEACEN Centre. The BSP also participated in the 40th SEACEN Governors' Conference and the 24th Meeting of the SEACEN Board of Governors on 31 May-3 June 2005 in Nadi, Fiji to decide and finalize the programs and activities of the SEACEN for OY 2005-2006.

On 21-23 November 2005, the BSP Directors of Research and Training attended the 27th Meeting of SEACEN Directors of Research and Training in Bandar Seri Begawan, Brunei Darussalam. The meeting reviewed the progress of research and training activities for OY 2005-2006 and discussed the proposed program of activities for OY 2006-2007.

The SEACEN Expert Group (SEG) on Capital Flows continued to monitor developments in capital flows in the Asian region through the exchange of data on capital flows via a standard set of templates. The SEG also held a meeting on 24-25 March 2005 and a teleconference on 12 December 2005 to discuss developments of capital flows and their outlook.

To facilitate cooperation among central banks and monetary authorities in the area of training, the BSP co-hosted the SEACEN-IMF Course on Balance of Payments on 14-25 November 2005 in Manila.

The BSP continued to provide inputs to the annual SEACEN Trends and Outlook as well as in the annual Guide to SEACEN Bank Watch – a collation of how monetary policy is formulated and implemented in the SEACEN member banks.

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

In support of the EMEAP's primary objective of enhancing regional cooperation among Asia Pacific central banks, the BSP continued to actively participate in the various activities of the organization in 2005.

The BSP participated in the following EMEAP meetings: (1) the 10th Governors' Meeting in Bali, Indonesia in June 2005, which discussed among others, the important role of central banks in maintaining financial stability under an integrated financial environment as well as in banking consolidation as an integral part of its financial stability objective; (2) the 2nd Informal Governors' Meeting held on 8-9 November 2005 in Frankfurt, Germany in conjunction with the High-Level EMEAP Eurosystem Seminar; (3) the 28th EMEAP Deputies' Meeting in Sydney in April 2005, where Deputies tackled issues on commodity prices, the ITC cycle, and volatility and risks in financial markets; and (4) the EMEAP Working Group (WG) meetings (i.e., WG on Financial Markets; WG on Banking Supervision; WG on Payments and Settlement System and IT Directors' Forum).

South East Asia New Zealand and Australia (SEANZA)

Central banks from the SEANZA held a meeting in 1956 to jointly run a course that would develop promising officers in central banks for further advancement. From just five members, SEANZA's membership grew to 20 member countries. Since 1956, members have taken turns in hosting the central banking course and the Governors' Symposium every two years. The Philippines hosted the two-week Central Banking Course in November 2004 but the Governors' Symposium and Meeting, which is traditionally held right after the course, was postponed for February 2005 in view of the inclement weather. In connection with Malaysia's hosting of these events in 2006, the BSP attended the SEANZA Advisors' Meeting on 25-26 November 2005 in Malaysia to discuss and share its experience in the conduct of the Central Banking Course and the Governors' Symposium.

Asia Pacific Economic Cooperation (APEC)

The BSP participated in the 12th APEC Finance and Central Bank Deputies' Meeting on 6-7 September 2005 and the 12th APEC Finance Ministers' Meeting on 8-9 September 2005 in Jeju, Republic of Korea. The Meetings focused on the following themes: (1) Free and Stable Movement of Capital; and (2) Meeting the Challenge of Ageing Economies.

As part of the commitment of the Philippines as an APEC member country, the BSP participated in the updating of the Individual Action Plan (IAP) required under the APEC Peer Review Process. The IAP is updated annually by each member recording therein specific actions that are deemed important in realizing the APEC goals, set down in Bogor, Indonesia, of free and open trade and investment in the APEC region by 2020 for developing economies. The BSP handled the financial services portion of the Chapter on Services of the IAP.

Bank for International Settlements (BIS)

The BSP took part in high-level meetings initiated by the BIS in 2005 as a member of the international organization. The BSP became its member in 2003. These meetings provide a venue for the review of current economic and financial developments and the exchange of views on issues that are of particular interest to central banks including Basel 2, payment system issues and assessing the weaknesses of financial systems.

BIS top officials conducted a Mission Visit in the Philippines on 3-4 February 2005 to discuss with their BSP counterparts research, treasury and supervisory concerns handled by the BIS. Among the topics proposed by the BSP for joint research were: (1) transparency and effectiveness of monetary policy; (2) microstructure of foreign exchange; and (3) technical trainings on international regulatory standards for the formulation of supervisory policy and conduct of examination.

The BSP participated in the Special Governors' Meeting in Hong Kong on 6-7 February 2005, which discussed Basel II-related issues. The BSP also participated in the Deputy Governors' Meeting in December 2005.

International Monetary Fund (IMF)

Following the end of a stand-by arrangement in December 2000, the BSP, as the representative of the Government of the Republic of the Philippines in the IMF Board of Governors, maintained a close dialogue with the IMF within the framework of Post-Program Monitoring (PPM) and the annual Article IV Review Consultation Mission. The PPM arrangement involved program assessments by the IMF, based on a regular review of economic developments and policies rather than on the attainment of specific quantitative targets. The arrangement does not involve a financing program. The annual Article IV consultations are held by the IMF staff with Philippine economic managers to review economic developments and policies and assess the impact of policies on a member's external accounts. Two IMF review missions were conducted in 2005. The PPM review was held on 9-22 June 2005 while the annual Article IV consultations/PPM review was conducted on 10-22 November 2005. Technical meetings on statistical issues were conducted to improve the compilation of banking and balance of payments data. To strengthen technical discussions, the IMF representatives made presentations on selected relevant topics.

The BSP and IMF jointly hosted a seminar on capital market reform and government bond market development on 10 May 2005 in Manila, Philippines.

Bilateral Meeting between the BSP and the Bank of Thailand

The BSP held its 4th bilateral meeting with the Bank of Thailand (BOT) on 22-23 February 2005 in Bohol, Philippines as part of efforts to promote greater cooperation between the two central banks. The Governors of the two central banks and other BSP and BOT officials exchanged views and experiences in areas such as asset prices and transmission mechanism of monetary policy, business cycles and accumulation of private sector debt, developments and strategies for capital market development, and Basel 2 implementation.

PART THREE: FINANCIAL CONDITION OF THE BSP

Financial Condition

BSP Balance Sheet

Based on preliminary and unaudited financial statements, the resources of the BSP as of end-November 2005 reached ₱1.296 trillion, while its liabilities amounted to ₱1.042 trillion. Consequently, this resulted in a BSP net worth for the same period of ₱253.8 billion, 14.2 percent higher than the year-ago level.

The BSP assets expanded by ₱34.8 billion or 2.8 percent due to an increase in the BSP's holdings of international reserves. The rise in international reserves was traced to the deposit by the NG of its loan proceeds as well as the BSP's income from investments abroad and from foreign exchange operations. International reserves were channeled to foreign investments (US$86.5 billion) and deposits with foreign banks (US$39.2 billion). Meanwhile, domestic securities declined on account of the net sales in BSP's holdings of T-bills in the course of BSP's liquidity management operations, as an increase in liquidity reserves by one percentage point was implemented in July. Similarly, net loans and advances decreased as banks settled their loan obligations through the Philippine Deposit Insurance Corporation (PDIC) and under the repurchase and liquidity loan facilities with the BSP.

During the same period, BSP liabilities expanded by ₱3.2 billion or 0.3 percent compared to their year-ago level. The increase in liabilities came mainly from the ₱48.6 billion rise in the BSP's borrowings under the reverse repurchase facility. The expansion was likewise supported by higher balances in the reserve deposits of banks and other financial institutions, partially reflective of the two-percentage points increase in reserve requirements that took effect in July. These expansionary trends were partially tempered by the decline in bonds payable and net revaluation of international reserves.

Results of Operations

BSP Net Income

Based on preliminary and unaudited data, the BSP's financial operations yielded a net profit of ₱4.1 billion for the period January-November 2005, ₱2.0 billion lower than the net income recorded during the same period in 2004. Total revenues amounted to ₱52.8 billion or 16.3 percent higher than the ₱45.4 billion reported in the previous year. The bulk of the income came from interest earned on international reserves (₱27.5 billion) and on investments in domestic securities (₱8.4 billion) due to higher foreign interest rates.

Total expenses reached ₱45.0 billion, or 5.3 percent higher than the expenses recorded during the period under review. This was due to higher interest expense as BSP borrowings under the reverse repurchase facility almost doubled during the period. The increase in expenses was slightly offset by the decline in the cost of minting and printing currency during the period.

Meanwhile, taxes and licenses remitted to the government amounted to ₱1.25 billion for the first eleven months of 2005. This amount includes final taxes on interest and discount on domestic securities and dividends on other securities totaling ₱1.1 billion.

List of Statistical Tables

1 GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos, at constant 1985 prices

				Percent Change		
	2003	2004	2005	2003	2004	2005
Agriculture, Fishery and Forestry	214,144	224,669	229,151	3.2	4.9	2.0
Industrial Sector	361,952	380,795	400,940	3.6	5.2	5.3
Mining and Quarrying	17,856	18,325	20,025	16.8	2.6	9.3
Manufacturing	263,255	276,747	292,177	4.2	5.1	5.6
Construction	45,579	48,971	51,071	-4.0	7.4	4.3
Electricity, Gas and Water	35,262	36,753	37,667	3.2	4.2	2.5
Services	504,576	540,334	574,442	5.8	7.1	6.3
Transportation,Communication & Storage	87,745	97,556	104,483	8.6	11.2	7.1
Trade	180,460	192,691	203,783	5.7	6.8	5.8
Finance & Housing	103,348	110,470	121,924	5.5	6.9	10.4
Other Services	133,023	139,617	144,251	4.3	5.0	3.3
Gross Domestic Product	**1,080,672**	**1,145,799**	**1,204,533**	**4.5**	**6.0**	**5.1**
Net Factor Income From Abroad	81,828	88,762	101,002	10.5	8.5	13.8
Gross National Product	**1,162,500**	**1,234,561**	**1,305,535**	**5.0**	**6.2**	**5.7**

Total may not add due to rounding.
All figures are estimates as of January 2006.
Source: NSCB

1a GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES

for periods indicated
in million pesos, at constant 1985 prices

	2003	2004	2005	Percent Change 2003	2004	2005
Personal Consumption Expenditures	853,598	903,131	947,799	5.3	5.8	4.9
Government Consumption Expenditures	74,419	74,421	76,465	2.6	0.0	2.7
Gross Domestic Capital Formation	215,273	235,830	225,601	1.5	9.5	-4.3
Fixed Capital Formation	218,147	227,339	220,553	2.3	4.2	-3.0
Construction	92,116	94,888	96,979	-4.4	3.0	2.2
Durable Equipment	109,138	115,419	106,258	8.5	5.8	-7.9
Breeding Stock & Orchard Development	16,893	17,032	17,316	3.4	0.8	1.7
Changes in Stocks	-2,874	8,491	5,048	...	...	...
Exports	464,049	529,621	541,982	3.7	14.1	2.3
Less: Imports	584,423	619,114	630,181	8.9	5.9	1.8
Statistical Discrepancy	57,755	21,910	42,866	...	...	...
Gross Domestic Product	**1,080,672**	**1,145,799**	**1,204,533**	**4.5**	**6.0**	**5.1**
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Total may not add up due to rounding.
All figures are estimates as of January 2006.
Source: NSCB

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for the periods indicated

					Annual Percent Change		
			2005			2005	
	2003	2004	Old [1]	New [2]	2004	Old [1]	New [2]
Employment Status [1]							
Labor Force (In Thousands) [2]	34,571	35,862			3.7%		
Employed	30,635	31,613	32,313	32,313	3.2%		2.2%
Unemployed [2]	3,936	4,249			8.0%		
Employment Rate (%)	88.6	88.2					
Unemployment Rate (%) [2]	11.4	11.8					
Overseas Employment (Deployed)	867,969	933,588	981,677 [P]		7.6%		5.2%
Land-Based	651,938	704,586	733,970 [P]		8.1%		4.2%
Sea-Based	216,031	229,002	247,707 [P]		6.0%		8.2%
Strikes [3]							
Number of new strikes declared	37	19	24		-48.6%		26.3%
Number of workers involved (In Thousands)	9	4	8		-55.6%		100.0%
Legislated Wage Rates [4]							
In Nominal Terms							
Non-Agricultural							
National Capital Region (NCR)	303.33	310.55	343.05 [P]		2.4 %		10.5 %
Regions Outside NCR (ONCR)	139.97-256.75	139.97-256.75	162.50-283.47 [P]		0.0 %		12.4 %
Agricultural							
Plantation	141.92-263.25	141.92-270.5	169.72-302.97 [P]		1.8 %		14.6 %
Non-Plantation	140.83-263.25	140.83-270.5	151.66-302.97 [P]		1.8 %		10.5 %
In Real Terms (at 1994 prices)							
Non-Agricultural							
National Capital Region (NCR)	173.28	170.60	260.76 [P]		-1.6 %		52.9 %
Regions Outside NCR (ONCR)	53.12-169.72	51.46-161.19	116.11-242.6 [P]		-4.6 %		68.7 %
Agricultural							
Plantation	53.86-150.41	52.18-147.94	121.29-230.3 [P]		-2.0 %		75.7 %
Non-Plantation	53.45-150.41	51.78-147.94	108.15-230.3 [P]		-5.7 %		69.5 %

[1] *Based on the old definition of unemployment only those without jobs and looking for work were considered unemployed.*

[2] *Starting April 2005, the new unemployment definition was adopted per NSCB Resolution No. 15 dated October 20, 2004. The definition of unemployed now includes the availability criterion. Hence, data for labor force, labor force participation rate, unemployed & unemployment rate are not comparable with previous survey rounds.*

[3] *Average of January-September data for periods indicated*

[4] *Includes Basic Minimum Wage, Cost of Living Allowance (COLA) and daily equivalent of 13th month pay. Average of March, June and November data for 2005, while average of March, June and September data for 2004 and 2003.*

Sources : BLES, NSO

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			
			Percent Change				Percent Change				Percent Change	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
All Items	120.6	129.8	6	7.6	121.1	131.5	5.8	8.6	120.4	129.1	6.1	7.2
Food, Beverages & Tobacco	116.3	123.8	6.2	6.4	115.3	120.8	6.1	4.8	116.5	124.7	6.2	7.0
Non-Food	125.0	135.8	5.8	8.6	125.0	138.7	5.5	11.0	124.9	134.3	5.9	7.5
Clothing	114.4	118.4	2.7	3.5	119.9	123.4	3.0	2.9	112.5	116.6	2.6	3.6
Housing & Repairs	121.4	126.9	3.8	4.5	118.0	125.5	3.0	6.4	124.0	128.0	4.2	3.2
Fuel,Light & Water	132.3	156.2	7.4	18.1	142.1	182.5	6.1	28.4	128.0	144.7	7.9	13.0
Services	132.8	148.5	9.2	11.8	132.1	148.8	9.6	12.6	133.2	148.3	9.0	11.3
Miscellaneous	113.5	117.1	2.2	3.2	113.4	116.8	2.2	3.0	113.5	117.2	2.2	3.3

Source: NSO

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	2004 r	Actual 2005 p	Program 2005	Actual Vs. Program (%)	Annual Change (%)
Revenues	699,768	795,707	783,156	1.60	13.71
Tax Revenues	598,014	684,418	706,206	-3.09	14.45
Bureau of Internal Revenue	468,177	534,486	546,899	-2.27	14.16
Bureau of Customs	122,471	141,669	151,185	-6.29	15.68
Other Offices	7,366	8,263	8,122	1.74	12.18
Non-tax Revenues	101,754	111,289	76,950	44.63	9.37
of w/c: Bureau of the Treasury	64,690	70,622	36,553	93.20	9.17
Expenditures	886,825	942,235	963,156	-2.17	6.25
of which:					
Allotments to Local Government Units	147,524	160,550	120,193	33.58	8.83
Interest Payments	260,901	299,807	313,393	-4.34	14.91
Equity and Net Lending	5,720	2,139	7,119	-69.95	-62.60
Surplus/Deficit (-)	**-187,057**	**-146,528**	**-180,000**	**-18.60**	**-21.67**
Financing	242,542	235,583	215,684	9.23	-2.87
External Borrowings (Net)	81,167	92,256	98,433	-6.28	13.66
Domestic Borrowings (Net)	161,375	143,327	117,251	22.24	-11.18
Total Change in Cash: Deposit/Withdrawal (-)	-19,412	25,750	10,987	134.37	-232.65
Budgetary	55,485	89,055	35,685	149.56	60.50
Non-Budgetary [1]	-74,897	-63,305	-24,698	156.32	-15.48

[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: BTr

5 DEPOSITORY CORPORATIONS SURVEY [p]

as of period indicated
in million pesos

	LEVELS			FLOWS		GROWTH RATES (%)	
	Dec-04	Nov-05	Dec-05	Dec05-Dec04	Dec05-Nov05	Dec05-Dec04	Dec05-Nov05
1. NET FOREIGN ASSETS	677,664	856,614	906,780	229,115	50,166	33.81	5.86
A. Bangko Sentral ng Pilipinas	689,251	834,248	848,282	159,031	14,034	23.07	1.68
Net International Reserves	819,183	931,877	937,135	117,952	5,258	14.40	0.56
Foreign Assets	913,110	975,148	981,489	68,379	6,341	7.49	0.65
Foreign Liabilities	93,927	43,271	44,354	(49,573)	1,083	(52.78)	2.50
Medium & Long-Term Foreign Liabilities	129,932	97,629	88,853	(41,079)	(8,776)	(31.62)	(8.99)
B. Other Depository Corporations (Deposit Money Banks)	(11,587)	22,366	58,498	70,084	36,132	604.87	161.55
Foreign Assets	563,983	628,908	668,703	104,720	39,795	18.57	6.33
Foreign Liabilities	575,570	606,542	610,205	34,635	3,663	6.02	0.60
2. NET DOMESTIC ASSETS	2,304,953	2,262,113	2,280,341	(24,612)	18,227	(1.07)	0.81
A. Net Claims on Residents (Net Domestic Credits)	2,846,710	2,806,985	2,797,662	(49,048)	(9,323)	(1.72)	(0.33)
Net Claims on the Public Sector (Public Sector)	1,000,719	947,151	956,942	(43,777)	9,792	(4.37)	1.03
National Government	799,705	712,263	721,720	(77,985)	9,457	(9.75)	1.33
Credits	963,299	940,458	920,406	(42,892)	(20,051)	(4.45)	(2.13)
CB BOL	964	250	246	(718)	(4)	(74.48)	(1.60)
Foreign exchange Receivables	14,861	13,158	13,176	(1,685)	18	(11.34)	0.14
T-IMF accounts	(70,185)	(61,067)	(60,138)	10,046	928	14.31	1.52
Deposits	(109,234)	(180,535)	(151,966)	(42,735)	28,566	(39.12)	15.82
Local Government and Other Public Entities	201,015	234,887	235,222	34,208	335	17.02	0.14
Claims on Other Sectors (Private Sector)	1,845,991	1,859,835	1,840,720	(5,271)	(19,115)	(0.29)	(1.03)
Other Financial Corporations	150,194	151,301	163,862	13,668	12,461	9.10	8.24
Others	1,695,797	1,708,454	1,676,858	(18,939)	(31,596)	(1.12)	(1.85)
B. Net Other Items	(541,757)	(544,872)	(517,321)	24,436	27,551	4.51	5.06
Revaluation	(91,500)	...	...	91,500	...	100.00	...
Capital and Reserves	(935,435)	...	...	935,435	...	100.00	...
Other Assets/Liabilities	485,178	...	...	(485,178)	...	(100.00)	...
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	2,982,617	3,118,728	3,187,121	204,504	68,393	6.86	2.19
A. M4	2,905,881	3,043,889	3,107,786	201,905	63,897	6.95	2.10
Broad-Money Liabilities (M3)	2,119,267	2,269,626	2,322,049	202,782	52,423	9.57	2.31
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	565,068	588,553	619,520	54,452	30,967	9.64	5.26
Other Deposits (Quasi-Money)	1,541,962	1,658,877	1,680,390	138,429	21,513	8.98	1.30
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	12,236	22,196	22,139	9,901	(57)	80.91	(0.26)
Transferable & Other Deposits in Foreign Currency (FCDU Deposits-Res)	786,614	774,264	785,738	(876)	11,474	(0.11)	1.48
B. Liabilities Excluded from Broad-Money (Other Liabilities)	76,737	74,838	79,335	2,598	4,497	3.39	6.01
Bills Payable	66,524	70,053	74,695	8,171	4,642	12.28	6.63
Marginal Deposits	5,523	1,548	1,406	(4,116)	(142)	(74.54)	(9.18)
Restricted Deposits	4,691	3,237	3,234	(1,457)	(3)	(31.05)	(0.11)
Deposits with Other Depository Corporations Under Liquidation	2,064	1,794	1,795	(269)	1	(13.01)	0.03
Import Deposits	2,627	1,443	1,439	(1,188)	(4)	(45.22)	(0.28)
Narrow Money	565,068	588,553	619,520	54,452	30,967	9.64	5.26
Currency Outside Depository Corporations (Currency in Circulation)	253,704	225,442	270,955	17,251	45,513	6.80	20.19
Transferable Deposits (Demand Deposits)	311,364	363,111	348,565	37,201	(14,546)	11.95	(4.01)
Other Deposits (Quasi-Money)	1,541,962	1,658,877	1,680,390	138,429	21,513	8.98	1.30
Savings Deposits	1,265,361	1,245,969	1,266,450	1,089	20,481	0.09	1.64
Time Deposits	276,601	412,908	413,940	137,340	1,032	49.65	0.25

n.a. Not Available
Source: *BSP*

6 SELECTED DOMESTIC INTEREST RATES

for the periods indicated
in percent per annum

	Nominal Interest Rates			Real Interest Rates [7]		
	2003	2004	2005	2003	2004	2005
Bank Borrowing Rates						
Interbank Call Loans	7.0058	7.0473	7.3448	3.5058	1.0473	-0.2552
Savings Deposits [1]	4.2120	4.2620	3.7550	0.7120	-1.7380	-3.8450
Time Deposits, All Maturities [1]	6.4080	6.4270	5.2580	2.9080	0.4270	-2.3420
Manila Reference Rates, All Maturities [2]	7.2500	8.1250	8.3125	3.7500	2.1250	0.7125
Bank Lending Rates						
All Maturities [3]	9.4790	10.0680	10.1470	5.9790	4.0680	2.5470
High [4]	10.7541	12.0764	11.0606	7.2541	6.0764	3.4606
Low [5]	8.9183	10.0677	9.0531	5.4183	4.0677	1.4531
Bangko Sentral Rates						
R/P (Overnight) [6]	9.1012	9.0000	9.3125	5.6012	3.0000	1.7125
R/P (Term) [6]	9.1703	9.0838	9.2307	5.6703	3.0838	1.6307
RR/P (Overnight) [6]	6.8672	6.7500	7.0404	3.3672	0.7500	-0.5596
RR/P (Term) [6]	6.9597	6.8429	7.0698	3.4597	0.8429	-0.5302
Rediscounting	4.9050	6.6400	6.6260	1.4050	0.6400	-0.9740
Government Securities Rates						
Treasury Bills (All Maturities)	6.6540	8.1270	7.5280	3.1540	2.1270	-0.0720
91-Days	6.0280	7.3400	6.3580	2.5280	1.3400	-1.2420
182-Days	6.9530	8.3210	7.6710	3.4530	2.3210	0.0710
364-Days	7.4890	9.2180	8.6830	3.9890	3.2180	1.0830

[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
2004	**Ave**	**56.03992**	**0.51844**	**102.69787**	**7.19551**	**45.14894**	**43.13614**	**33.16442**	**41.39111**	**148.66012**	**14.94383**	**33.06276**	**0.00629**	**1.39316**	**15.25789**	**69.68520**
	Jan	55.52610	0.52185	101.22082	7.15113	44.73684	42.88942	32.71775	42.84286	147.32886	14.80683	32.62164	0.00662	1.42141	15.11811	70.03419
	Feb	56.06958	0.52703	104.55918	7.21290	45.02194	42.23322	33.26363	45.09847	148.73128	14.95189	33.11966	0.00665	1.43562	15.26594	70.82398
	Mar	56.30291	0.51825	102.98341	7.22581	44.11318	42.37124	33.11841	42.21374	149.40958	15.01521	33.02128	0.00656	1.42796	15.32949	69.11978
	Apr	55.90389	0.52005	100.84544	7.17093	43.16246	41.67711	33.21531	41.54947	148.29886	14.90783	33.11692	0.00651	1.41851	15.22095	67.09148
	May	55.84530	0.49855	99.79818	7.16302	43.55797	40.55307	32.63483	39.36229	148.13726	14.89188	32.53977	0.00621	1.37865	15.20480	67.08310
	Jun	55.98482	0.51161	102.45782	7.18054	44.80825	41.19782	32.69415	38.88577	148.50621	14.92908	32.59895	0.00597	1.37350	15.24278	68.03832
	Jul	55.95273	0.51202	103.16715	7.17395	45.01204	42.32339	32.69843	40.02249	148.42162	14.92055	32.60318	0.00621	1.36814	15.23416	68.70225
	Aug	55.83423	0.50599	101.71452	7.15793	44.23183	42.49375	32.56174	39.68987	148.08298	14.88636	32.46705	0.00605	1.34654	15.19919	68.06304
	Sep	56.21318	0.51072	100.75129	7.20777	44.50800	43.57543	33.14405	39.43404	149.11288	14.99014	33.04662	0.00613	1.35630	15.30508	68.66508
	Oct	56.34143	0.51700	101.75386	7.23351	45.61427	45.11771	33.59016	41.25366	149.45658	15.02435	33.49033	0.00619	1.36433	15.33996	70.38490
	Nov	56.32205	0.53713	104.58560	7.24308	48.00708	47.04825	34.10325	43.33954	149.40204	15.01918	34.00032	0.00625	1.39545	15.33589	73.05769
	Dec	56.18283	0.54107	108.53716	7.22549	49.01342	46.15332	34.23138	43.00113	149.03334	14.98263	34.12741	0.00611	1.43152	15.29838	75.15857
2005	**Ave**	**55.08548**	**0.50150**	**100.29745**	**7.08300**	**44.31237**	**45.49880**	**33.10900**	**41.99212**	**146.13508**	**14.68915**	**33.00977**	**0.00569**	**1.36967**	**14.99922**	**68.61015**
	Jan	55.76619	0.54038	104.88907	7.15564	47.37927	45.62889	34.04580	42.72412	147.92747	14.87080	33.94219	0.00606	1.43927	15.18540	73.28122
	Feb	54.81284	0.52262	103.29402	7.02932	45.93482	44.27091	33.44760	42.75121	145.42815	14.61979	33.34586	0.00594	1.42489	14.92814	71.25201
	Mar	54.44015	0.51801	103.92207	6.98077	46.45392	44.70775	33.42956	42.79620	144.42339	14.51851	33.32722	0.00583	1.41282	14.82415	71.94285
	Apr	54.49176	0.50799	103.29714	6.98731	45.59894	44.16691	32.99696	42.11570	144.54560	14.53082	32.89734	0.00570	1.37891	14.83687	70.55984
	May	54.34110	0.50987	100.86202	6.97516	44.69042	43.31095	32.92982	41.62997	144.14739	14.49081	32.83034	0.00575	1.36596	14.79589	69.06753
	Jun	55.17905	0.50800	100.40711	7.09631	43.63394	44.47222	33.00421	42.29196	146.37020	14.71444	32.90579	0.00575	1.34946	15.02406	67.13860
	Jul	56.00620	0.50066	98.29648	7.20361	43.33751	45.75750	33.26509	42.09269	148.56445	14.93425	33.16660	0.00571	1.34359	15.24965	67.49799
	Aug	55.95230	0.50546	100.29492	7.20011	44.26844	46.37877	33.68981	42.62752	148.42133	14.92029	33.58867	0.00562	1.35959	15.23467	68.78173
	Sep	56.15618	0.50575	101.62847	7.23410	44.45100	47.63906	33.41585	42.92330	148.96240	14.97371	33.31672	0.00548	1.36795	15.29100	68.85835
	Oct	55.70770	0.48598	98.28910	7.18219	43.25834	47.35858	32.95589	42.02677	147.79071	14.85219	32.85871	0.00551	1.36153	15.16871	67.01703
	Nov	54.56058	0.46107	94.69867	7.03668	41.65346	46.14286	32.12983	40.08609	144.78599	14.54829	32.03548	0.00546	1.32745	14.85515	64.35228
	Dec	53.61175	0.45216	93.69029	6.91475	41.08839	46.15124	31.99754	39.83990	142.25392	14.29586	31.90236	0.00545	1.30457	14.59696	63.57243

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

average for periods indicated
December 1980 = 100

	NOMINAL			REAL		
	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]
2004	**11.30**	**27.94**	**54.72**	**54.68**	**105.92**	**146.14**
Jan	11.32	27.68	52.85	53.71	101.96	137.80
Feb	11.19	27.36	52.55	53.03	100.25	136.06
Mar	11.30	27.46	52.94	53.38	101.11	137.86
Apr	11.43	27.60	53.46	54.15	101.17	137.51
May	11.55	28.26	55.18	54.83	104.64	144.86
Jun	11.41	28.58	56.65	54.92	108.85	152.36
Jul	11.38	28.26	55.39	55.52	109.00	150.85
Aug	11.46	28.58	56.33	56.08	111.00	154.68
Sep	11.38	28.26	55.77	55.96	109.66	152.20
Oct	11.25	28.05	55.31	55.30	108.26	149.77
Nov	11.02	27.61	54.82	54.66	107.48	148.72
Dec	10.92	27.63	55.41	54.67	107.62	151.07
2005	**11.55**	**28.68**	**58.57**	**58.88**	**112.82**	**157.38**
Jan	11.05	27.74	55.76	55.79	108.15	150.32
Feb	11.32	28.14	56.70	57.10	108.83	152.13
Mar	11.34	28.36	57.61	57.01	109.81	153.95
Apr	11.45	28.70	58.54	57.60	110.79	154.78
May	11.53	28.64	58.41	58.27	111.71	157.94
Jun	11.56	28.49	58.33	58.88	113.31	160.19
Jul	11.51	28.47	58.35	59.00	113.87	160.70
Aug	11.42	28.51	58.74	58.64	114.65	162.54
Sep	11.39	28.83	59.58	58.37	115.25	163.02
Oct	11.65	29.02	59.52	59.74 [e]	113.59 [e]	155.34
Nov	12.06	29.56	60.54	62.38 [e]	116.64 [e]	158.01 [e]
Dec	12.26	29.74	60.80	63.75 [e]	117.25 [e]	159.63 [e]

[1] *US, Japan, European Monetary Union, United Kingdom*
[2] *Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia, Hongkong*
[3] *Indonesia, Malaysia, Thailand*
[e] *Estimates using the average inflation rate of the previous two months.*
Source: BSP

8 BANKING SYSTEM: OUTSTANDING DEPOSITS

As of end - December 2004 - 2005
In million pesos

Institutions	2004				2005				Percent Change			
	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time	TOTAL	Demand	Savings	Time
TOTAL	**2,734,286.9**	**353,308.6**	**1,524,078.3**	**856,900.0**	**2,920,189.7** [p]	**386,749.4**	**1,561,331.3**	**972,109.0**	**6.80**	**9.47**	**2.44**	**13.44**
Commercial Banks 1	2,439,089.0	336,879.0	1,298,971.0	803,239.0	2,591,829.0	368,490.0	1,311,343.0	911,996.0	6.26	9.38	0.95	13.54
Thrift Banks	224,091.4	14,806.8	176,258.4	33,026.2	249,935.5 [a]	16,641.2	197,054.2	36,240.1	11.53	12.39	11.80	9.73
Savings Banks	175,073.2	12,714.3	140,417.2	21,941.7	197,555.9 [p]	14,351.3	158,452.4	24,752.2	12.84	12.88	12.84	12.81
Private Development Banks	39,187.3	1,825.3	28,183.3	9,178.7	42,742.1 [p]	1,999.7	30,713.0	10,029.4	9.07	9.55	8.98	9.27
Stock Savings and Loan Associations	9,786.2	267.2	7,613.2	1,905.8	9,571.9 [p]	290.2	7,823.2	1,458.5	-2.19	8.61	2.76	-23.47
Microfinance Banks	44.7	_	44.7	_	65.6 [p]	_	65.6	_	46.76	_	46.76	_
Rural Banks	71,106.5	1,622.8	48,848.9	20,634.8	78,425.2 [b]	1,618.2	52,934.1	23,872.9	10.29	-0.28	8.36	15.69

[1] Includes DBP and AAIIBP
[a] As of August 2005
[p] As of September 2005

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM[1]

As of periods indicated
In million pesos

Institutions	2004	2005	% Change
Total	**5,142,454** [p]	**5,466,238** [p]	**6.3**
Banks	4,183,003	4,444,000 [p]	6.2
Commercial Banks	3,760,602	3,985,980	6.0
Thrift Banks	317,898	342,489 [p]	7.7
Savings Banks	233,920	255,540 [a]	9.2
Private Development Banks	67,229	70,115 [a]	4.3
Stock Savings and Loan Associations	16,475	16,521 [a]	0.3
Micro Finance Banks	274	313 [a]	14.2
Rural Banks	104,503	115,531 [b]	10.6
Non-Bank Financial Institutions [2]	959,451 [p]	1,022,238 [b]	6.5

[1] *Excluding 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. and others; also includes Private and Government Insurance Companies (i.e. SSS and GSIS). Beginning September 2003, Credit Card Companies were also included.*

[a] *As of end-August 2005*

[b] *As of end-September 2005*

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

as of period indicated

Institutions	2004	2005 [a]	% Change
Total	**19,336**	**19,849**	**2.7**
Head Offices	6,912	7,033	1.8
Branches/Agencies	12,424	12,816	3.2
A.Banks	**7,612**	**7,653**	**0.5**
Head Offices	893	881	-1.3
Branches/Agencies	6,719	6,772	0.8
Commercial Banks	4,329	4,322	-0.2
Head Offices	42	42	0.0
Branches/Agencies	4,287	4,280	-0.2
Thrift Banks	1,280	1,279	-0.1
Head Offices	87	84	-3.4
Branches/Agencies	1,193	1,195	0.2
Savings and Mortgage Banks	784	804	2.6
Head Offices	32	32	0.0
Branches/Agencies	752	772	2.7
Private Development Banks	302	298	-1.3
Head Offices	24	22	-8.3
Branches/Agencies	278	276	-0.7
Stock Savings and Loan Associations	191	162	-15.2
Head Offices	29	26	-10.3
Branches/Agencies	162	136	-16.0
MicroFinance Banks	3	15	400.0
Head Offices	2	4	100.0
Branches/Agencies	1	11	1,000.0
Rural Banks	2,003	2,052	2.4
Head Offices	764	755	-1.2
Branches/Agencies	1,239	1,297	4.7
B. Non-Bank Financial Institutions [2]	**11,724**	**12,196**	**4.0**
Head Offices	6,019	6,152	2.2
Branches/Agencies	5,705	6,044	5.9

[1] *Excluding 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. and others; also includes Private and Government Insurance Companies (i.e. SSS and GSIS). Beginning September 2003, Credit Card Companies were also included.*

[a] *As of end-September 2005*

Source: BSP

10 STOCK MARKET TRANSACTIONS [1]

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

	2003		2004		2005		Percent Change 2004		Percent Change 2005	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Total	**85,966.1**	**145,355.3**	**284,341.6**	**206,564.6**	**317,640.9**	**383,519.5**	**230.8**	**42.1**	**11.7**	**85.7**
Banking & Financial Services	927.0	16,382.0	1,048.5	29,852.7	2,435.1	67,135.7	13.1	82.2	132.2	124.9
Commercial and Industrial	38,786.9	107,967.2	81,177.9	144,987.7	100,306.0	255,944.5	109.3	34.3	23.6	76.5
Mining	23,762.8	435.3	156,359.8	4,027.4	165,403.6	18,546.9	558.0	825.2	5.8	360.5
Oil	14,929.0	68.3	35,182.2	225.6	36,573.3	809.7	135.7	230.3	4.0	258.9
Property	7,559.9	20,501.4	10,571.9	27,469.5	12,896.8	40,975.6	39.8	34.0	22.0	49.2
SME [2]	0.5	1.0	1.4	1.5	26.0	107.1	180.0	50.0	1,757.1	7,040.0
Composite Index (Average)	**1,197.2**		**1,621.7**		**1,983.1**			**35.5**	**22.3**	

[1] *Based on the expanded composition of share price indices to include banks and financial services effective November 15, 1996.*
[2] *Small and Medium Enterprises (SME) were included starting July 20, 2001*
Source: PSE

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

	2004 [r]	2005 [p]	Change (%)
Current Account	**1,626**	**2,354**	**44.8**
Goods and Services	-7,461	-8,942	-19.8
Export	42,837	44,693	4.3
Import	50,298	53,635	6.6
Goods	-5,684	-7,546	-32.8
Credit: Exports	38,794	40,231	3.7
Debit: Imports	44,478	47,777	7.4
Services	-1,777	-1,396	21.4
Credit: Exports	4,043	4,462	10.4
Debit: Imports	5,820	5,858	0.7
Income	-73	-107	-46.6
Credit: Receipts	3,725	3,937	5.7
Debit: Disbursements	3,798	4,044	6.5
Current Transfers	9,160	11,403	24.5
Credit: Receipts	9,420	11,706	24.3
Debit: Disbursements	260	303	16.5
Capital and Financial Account	**-1,630**	**860**	**152.8**
Capital Account	17	40	135.3
Credit: Receipts	46	58	26.1
Debit: Disbursements	29	18	-37.9
Financial Account	-1,647	820	149.8
Direct Investment	109	970	789.9
Debit: Assets, Residents' Investments Abroad	579	162	-72.0
Credit: Liabilities, Non-Residents' Investments in the Phil.	688	1,132	64.5
Portfolio Investment	-1,665	2,835	270.3
Debit: Assets, Residents' Investments Abroad	862	1,153	33.8
Credit: Liabilities, Non-Residents' Investments in the Phil.	-803	3,988	596.6
Financial Derivatives	-27	-43	-59.3
Debit: Assets, Residents' Investments Abroad	-58	-98	-69.0
Credit: Liabilities, Non-Residents' Investments in the Phil.	-85	-141	-65.9
Other Investment	-64	-2,942	-4496.9
Debit: Assets, Residents' Investments Abroad	907	3,532	289.4
Credit: Liabilities, Non-Residents' Investments in the Phil.	843	590	-30.0
Net Unclassified Items	-276	-807	-192.4
Overall BOP Position	**-280**	**2,407**	**959.6**
Debit: Change in Reserve Assets	-1,637	1,598	197.6
Credit: Change in Reserve Liabilities	-1,357	-809	40.4
Use of Fund Credits	-471	-321	31.8
Short-term	-886	-488	44.9

[r] *Revised to reflect: a) late reports; b) post audit adjustments; and c) final data from companies.*
[p] *Preliminary*

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: BSP

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

	January-December						Growth Rates (%)		
	2004			2005 p/			2005		
Commodities	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			**716**			**821**			**14.6**
Copra	..	443	0	0	0	0	0.0	0.0	-100.0
Coconut Oil	959	602	578	1152	570	657	20.1	-5.3	13.7
Desiccated Coconut	106	942	100	126	1010	127	18.9	7.1	27.4
Copra Meal/Cake	364	85	31	430	65	28	18.1	-23.5	-9.7
Others			8			8			7.2
Sugar and Products			**79**			**81**			**2.2**
Centrifugal & Refined	230	290	67	223	295	66	-3.3	1.8	-1.5
Molasses	235	48	11	180	74	13	-23.5	53.2	17.2
Others			1			2			77.1
Fruits and Vegetables			**601**			**660**			**9.8**
Canned Pineapple	208	427	89	209	523	110	0.7	22.6	23.4
Pineapple Juice	64	213	14	70	231	16	8.8	8.5	18.0
Pineapple Concentrates	51	645	33	48	734	35	-6.4	13.7	6.5
Bananas	1797	182	326	2023	179	363	12.6	-1.3	11.1
Mangoes	34	854	29	31	852	27	-7.1	-0.2	-7.3
Others			110			110			-0.4
Other Agro-Based Products			**476**			**441**			**-7.4**
Fish, Fresh or Preserved	82	3284	271	67	3551	240	-18.1	8.1	-11.5
Of which: Shrimps & Prawns	15	7333	112	12	7369	92	-18.2	0.4	-17.9
Coffee, Raw, not Roasted	0	0	--	0	0	..	0.0	0.0	0.0
Abaca Fibers	29	494	15	15	810	12	-50.7	63.9	-19.1
Tobacco,Unmanufactured	15	1209	18	17	1722	30	18.7	42.4	69.0
Natural Rubber	43	796	34	41	889	37	-5.1	11.6	5.9
Ramie Fibers, Raw or Processed	..	908	--	..	935	..	0.0	2.9	0.0
Seaweeds, Dried	32	1113	36	21	1329	28	-33.9	19.4	-21.1
Rice	0	731	0	..	576	0	0.0	-21.2	0.0
Others			103			94			-8.0
Forest Products 1/			**34**			**33**			**-2.8**
Logs	2	34	0	..	61	..	0.0	79.1	0.0
Lumber	126	84	11	130	66	9	3.5	-21.1	-18.4
Plywood	48	371	18	40	450	18	-17.1	21.2	0.4
Veneer Sheets/Corestocks	7	491	3	7	539	4	6.7	9.8	17.1
Others			2			3			19.7
Mineral Products			**796**			**819**			**2.9**
Copper Concentrates	27	527	14	55	670	37	103.7	27.0	158.8
Copper Metal	159	2580	411	114	3177	361	-28.7	23.1	-12.2
Gold 2/	153	317	49	150	332	50	-2.3	4.8	2.5
Iron Ore Agglomerates	4556	18	83	4130	27	110	-9.3	46.7	33.0
Chromium Ore	93	62	6	58	81	5	-37.0	31.9	-17.0
Nickel			0			0			0.0
Others			234			257			9.8
Petroleum Products			**380**			**586**			**54.0**
Manufactures			**35525**			**36913**			**3.9**
Electronic Products			26722			27276			2.1
Other Electonics			1145			1200			4.8
Garments			2171			2298			5.9
Textile Yarns/Fabrics			238			244			2.6
Footwear			34			26			-25.7
Travel Goods and Handbags			39			20			-48.4
Wood Manufactures			122			138			12.8
Furnitures & Fixtures			294			304			3.2
Chemicals			448			546			22.1
Non-Metallic Mineral Manufactures			165			171			3.6
Machinery & Transport Equipment			1604			1836			14.5
Processed Food and Beverages			498			519			4.4
Iron & Steel			58			94			63.7
Baby Carr., Toys, Games & Sporting Goods			128			130			1.8
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			67			58			-13.5
Misc. Manufactured Articles, n.e.s.			234			283			21.1
Others			1559			1769			13.5
Special Transactions			**1072**			**868**			**-19.1**
TOTAL EXPORTS, as per NSO Foreign Trade Statistics			**39681**			**41221**			**3.9**
Coverage and Conceptual Adjustments			-887			-991			-11.7
TOTAL EXPORTS, BPM5			**38794**			**40230**			**3.7**

[1] *Volume in 000 cubic meters; unit price in US$/cu.m.*
[2] *Volume in 000 troy ounces; unit price in US$/oz t.*
.. Less than one thousand metric tons
-- Less than one million US$
[p] *Preliminary*

Source: NSO

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 2005 Volume	2005 Price	2005 Value	2004 Volume	2004 Price	2004 Value	Growth Rates (%) 2005 Volume	2005 Price	2005 Value	2004 Volume	2004 Price	2004 Value
Capital Goods			**8881**			**8743**			**1.6**			**-0.4**
Power Generating & Specialized Machines			2122			2000			6.1			6.2
Office & EDP Machines			3307			3361			-1.6			-0.1
Telecommunication Eqpt. & Elect. Mach.			1921			2103			-8.7			-1.5
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			618			608			1.6			-27.6
Aircraft, Ships & Boats			467			153			205.2			33.0
Prof. Sci. & Cont. Inst.; Photographic Eqpt. & Optical Goods			446			518			-13.9			17.2
Raw Materials & Intermediate Goods			**28695**			**27389**			**4.8**			**13.3**
Unprocessed Raw Materials			1462			1502			-2.7			10.3
Wheat	2050	155	318	2155	156	336	-4.9	-0.6	-5.4	-21.7	2.0	-20.4
Corn	71	296	21	23	524	12	208.7	-43.5	75.0	-76.8	148.3	-42.9
Unmilled cereals excl. rice & corn			1			0			0.0			0.0
Crude materials, inedible			942			987			-4.6			18.6
Pulp & waste paper			64			75			-14.7			15.4
Cotton	33	1055	35	34	1461	49	-2.9	-27.8	-28.6	6.3	37.3	44.1
Syn. fibers	47	1735	82	67	1443	97	-29.9	20.2	-15.5	6.3	12.6	19.8
Metalliferous ores			421			397			6.0			33.7
Others			340			369			-7.9			3.9
Tobacco, unmanufactured			180			167			7.8			94.2
Semi-Processed Raw Materials			27233			25887			5.2			13.5
Feeding stuffs for animals	1742	243	424	1479	281	416	17.8	-13.5	1.9	1.4	27.1	28.8
Animal & vegetable oils & fats			143			105			36.2			69.4
Chemical			3276			3181			3.0			10.5
Chemical compounds			824			725			13.7			8.4
Medicinal & pharmaceutical chemicals			459			421			9.0			6.3
Urea	534	163	87	543	142	77	-1.7	14.8	13.0	-24.6	3.6	-22.2
Fertilizer excl. urea	735	147	108	830	135	112	-11.4	8.9	-3.6	7.4	4.7	12.0
Artificial resins			853			879			-3.0			15.4
Others			947			967			-2.1			13.2
Manufactured goods			3757			3489			7.7			7.5
Paper & paper products	593	666	395	595	642	382	-0.3	3.7	3.4	-1.8	7.7	5.8
Textile yarn, fabrics & made-up articles			785			740			6.1			1.9
Non-metallic mineral mftures.			184			160			15.0			1.9
Iron & steel	2651	513	1360	2736	445	1218	-3.1	15.3	11.7	-14.3	33.6	14.7
Non-ferrous metals			460			453			1.5			17.1
Metal products			323			320			0.9			-4.8
Others			250			216			15.7			0.0
Embroideries			1360			1219			11.6			-25.1
Mat/Acc for the mftr. of elect. eqpt.			18180			17402			4.5			9.1
Iron ore, not agglomerated	4777	19	91	4019	19	75	18.9	0.0	21.3	1.1	0.0	0.0
Mineral Fuels & Lubricant			**6277**			**4714**			**33.2**			**25.2**
Coal, Coke	4326	40	172	4258	32	137	1.6	25.0	25.5	4.2	28.0	34.3
Petroleum Crude [1]	78.33	48.29	3783	72.27	34.87	2520	8.4	38.5	50.1	-21.2	26.7	-0.2
Others [1]	38.73	59.95	2322	47.42	43.38	2057	-18.3	38.2	12.9	39.6	29.3	80.6
Consumer Goods			**3420**			**3027**			**13.0**			**11.1**
Durable			1407			1288			9.2			11.5
Passenger cars & motorized cycle			601			480			25.2			17.4
Home appliances			215			227			-5.3			25.4
Misc. manufactures			591			581			1.7			2.8
Non-Durable			2013			1739			15.8			10.8
Food & live animals chiefly for food			1873			1603			16.8			19.2
Dairy products	268	1543	414	344	1405	484	-22.1	9.8	-14.5	7.8	15.6	25.1
Fish & fish preparation	124	483	60	82	439	36	51.2	10.0	66.7	-15.5	-14.9	-28.0
Rice	1822	274	499	1001	232	232	82.0	18.1	115.1	13.0	34.1	51.6
Fruits & vegetables			114			102			11.8			-1.0
Others			786			749			4.9			14.9
Beverages & tobacco mftures.			61			74			-17.6			-56.7
Articles of apparel, access.			79			62			27.4			14.8
Special Transactions			**1041**			**1149**			**-9.4**			**12.6**
Articles temporarily imported & exported			501			616			-18.7			38.4
Others			540			533			1.3			-7.3
TOTAL IMPORTS [2]			**48314**	**1889**	**1155**	**45821**			**7.3**			**7.7**
Conceptual and Coverage Adjustments			-537			-543			1.1			62.1
TOTAL IMPORTS, BPM5			**47777**			**44479**			**7.4**			**7.2**

[1] *Volume in million barrels; unit price in U.S.$/barrel*
- - *Less than one million US dollars*
. . *Less than one thousand metric tons*
[2] *Include valuation adjustments to NSO data.*

Note: Valuation adjustments refer to those adjustments on imports as agreed upon by the members of the Inter-Agency Committee on Trade Statistics (IACTS); 2003 data include preliminary adjustments on the valuation of consigned raw materials for electronics.

Note: General merchandise imports can be derived by deducting goods for processing and non-monetary gold from Total Imports, BPM5

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

12 GROSS INTERNATIONAL RESERVES[1]

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[2] (7)	Short-Term External Debt Cover (in percent) Original Maturity (8)	Short-Term External Debt Cover (in percent) Residual Maturity[3] (9)
2004	Jan	16,281.35	129.40	3,236.07	9.17	12,326.43	580.28	4.00	263.49	132.05
	Feb	15,931.47	129.30	3,100.40	2.19	12,268.69	430.89	3.90	256.79	136.22
	Mar	16,534.15	129.33	3,317.01	2.19	12,568.27	517.35	4.02	220.75	127.57
	Apr	16,604.10	126.83	3,050.15	7.23	13,201.13	218.76	4.00	229.34	134.33
	May	16,745.23	128.31	3,137.45	1.34	13,287.48	190.65	4.02	234.53	136.07
	Jun	16,378.05	128.09	3,170.77	1.34	12,833.60	244.26	3.88	246.88	140.18
	Jul	16,152.30	127.45	3,216.25	7.89	12,538.05	262.66	3.78	243.48	137.64
	Aug	16,200.50	127.71	3,312.78	0.99	12,398.40	360.62	3.75	244.20	136.86
	Sep	16,140.04	128.44	3,400.98	0.99	12,336.80	272.83	3.68	282.22	148.72
	Oct	16,117.90	130.97	3,263.78	7.76	12,374.96	340.43	3.62	292.04	149.12
	Nov	16,071.41	134.29	3,239.53	0.99	12,399.77	296.83	3.59	291.20	149.64
	Dec	16,227.91	135.33	3,112.07	1.00	12,742.09	237.42	3.61	321.60	156.94
2005	Jan	15,745.60	132.94	2,866.31	8.58	12,288.56	449.21	3.48	312.04	156.80
	Feb	16,530.40	133.94	2,882.82	2.30	13,023.90	487.44	3.65	348.30	169.18
	Mar	16,525.61	132.10	2,699.35	2.27	13,325.75	366.14	3.65	299.87	159.98
	Apr	16,718.76	132.12	2,643.73	6.04	13,581.05	355.82	3.68	303.37	161.44
	May	17,281.03	128.96	2,496.72	0.31	14,304.62	351.42	3.79	313.57	168.76
	Jun	17,723.13	127.35	2,582.31	0.30	14,604.07	409.09	3.85	290.59	163.54
	Jul	17,668.79	127.02	2,592.35	6.11	14,387.95	555.34	3.84	289.70	162.67
	Aug	17,943.65	127.72	2,533.55	0.56	14,860.59	421.23	3.86	299.06	171.84
	Sep	18,542.31	126.81	2,568.75	0.56	15,386.53	459.67	3.93	296.77	176.41
	Oct	18,097.87	126.25	2,462.15	4.89	15,031.76	472.82	3.84	289.66	163.75
	Nov	18,058.62	124.59	2,554.83	0.11	14,958.89	420.20	3.83	289.03	163.60
	Dec	18,495.29	125.04	2,568.38	0.11	15,345.45	456.30	3.92	296.02	160.84

[1] *Figures for 2004 were revised to reflect the reclassification of released collaterals on Brady Bonds from non-IR to IR-eligible assets of the BSP. This is in line with the treatment of foreign investments under R.A. No. 7653 (New Central Bank Act), which allows investments in securities even for maturities over 5 years to be included as part of the GIR.*

[2] *Number of months of average imports of goods and payment of services and income that can be financed by reserves.*

[3] *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. Starting 2004, figures were revised based on debt service schedule on debt outstanding as of 30 September 2005.*

Source: BSP

13 EXTERNAL DEBT [1]

as of dates indicated
in million US dollars

	December 31, 2004				September 30, 2005			
	Short-term		Medium		Short-term		Medium	
		Non-	& Long-			Non-	& Long-	
	Trade	Trade	Term	Total	Trade	Trade	Term	Total
Grand Total	**1,675**	**3,371**	**49,800** [a]	**54,846**	**2,243**	**4,005**	**49,232** [a]	**55,480**
Public Sector	_	981	36,914	37,895	3	807	36,873	37,683
Banks	_	956	4,994	5,950	3	807	4,120	4,930
Bangko Sentral ng Pilipinas	_	875	1,846	2,721	_	394	1,400	1,794
Others	_	81	3,148	3,229	3	413	2,720	3,137
Non-Banks	_	25	31,921	31,946	_	_	32,753	32,753
CB-BOL	–	–	101	101	–	–	59	59
NG and Others	_	25	31,819	31,844	_	_	32,694	32,694
Private Sector	1,675	2,390	12,886	16,951	2,240	3,196	12,359	17,797
Banks	239	2,110	1,351 [c]	3,700	250	2,966	1,910 [c]	5,126
Foreign Bank Branches	14	396	567	977 [b]	35	638	1,167	1,840 [b]
Domestic Banks	225	1,714	784	2,724 [c]	215	2,328	743	3,286 [e]
Non-Banks	1,435	281	11,534 [d]	13,250	1,989	233	10,449 [d]	12,671

[1] Aggregate external debt data were revised from 1995 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 debt covers BSP-approved/registered debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.
[a] Includes cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank of US$351 as of December 2004 as of 31 December 2004 and US$77 million as of 30 September 2005.
[b] Includes cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank amounting to US$351 million to US$2,678 million and US$2,509 million as of 30 September 2005.
[c] Includes accounts restructured under CB Circular No. 1179 amounting to US$43 million as of 30 September 2005.
[d] Excludes obligations under various capital lease agreements of US$ 1,323 million as of 31 December 2004 and US$1,232 million as of 30 September 2005. Also, excludes loans without BSP approval/registration amounting to US$2,408 million as of 31 December 2004 and US$2,398 million as of 30 September 2005.
[e] Includes US$8 million liabilities of private development bank and rural banks as of 30 September 2005.

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS

for periods indicated

	2004 [p]					2005 [p]				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Debt Service Burden (DSB) [1]	1,936	1,586	2,294	1,401	**7,217**	1948	1441	2265	1865	**7,519**
Principal	1,305	1,090	1,611	846	**4,852**	1161	887	1468	1343	**4,859**
Interest	631	496	683	555	**2,365**	787	554	797	522	**2,660**
Export Shipments (XS)	8,957	9,355	9,984	10,498	**38,794**	9,336	9,682	10,469	10,744	**40,231**
Exports of Goods and Receipts from Services and Income (XGSI) [2]	12,181	12,631	13,367	14,082	**52,261**	13,047	13,700	14,718	14,961	**56,426**
Current Account Receipts (CAR) [3]	13,068	13,555	14,294	15,065	**55,982**	13,983	14,700	15,728	15,925	**60,336**
Gross National Product (GNP)	20,889	22,456	22,822	26,029	**92,212**	23,741	25,667	25,605	30,236	**105,213**
Ratios (%) :										
DSB to XS	21.61	16.95	22.98	13.35	**18.60**	20.87	14.88	21.64	17.36	**18.69**
DSB to XGSI	15.89	12.56	17.16	9.95	**13.81**	14.93	10.52	15.39	12.47	**13.33**
DSB to CAR	14.81	11.70	16.05	9.30	**12.89**	13.93	9.80	14.40	11.71	**12.46**
DSB to GNP	9.27	7.06	10.05	5.38	**7.83**	8.21	5.61	8.85	6.17	**7.15**

[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 receipts from workers' remittances that were coursed through and reported by commercial banks.*

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

[p] *Preliminary*

Source: *BSP*

15 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

As of the periods indicated
In million pesos

	2004 Nov	2005 [u] Nov	Percent Change (%)
Assets	**1,261,051.8**	**1,295,805.7**	**2.8**
International Reserves	883,850.3	969,084.3	9.6
Foreign Exchange Receivable	7,463.5	13,166.6	76.4
Domestic Securities	110,219.0	88,321.7	-19.9
Loans and Advances	122,579.9	109,531.7	-10.6
Bank Premises and Other Fixed Assets	11,537.1	11,656.4	1.0
Other Assets	125,402.0	104,045.0	-17.0
Liabilities	**1,038,751.8**	**1,041,976.3**	**0.3**
Currency Issue	275,029.7	288,600.5	4.9
Deposits	304,744.1	350,354.7	15.0
Reserve Deposits of Banks & Other FIs	87,633.5	120,584.3	37.6
of which:			
DMBs	81,204.7	112,283.2	38.3
Special Deposit Accounts	0.0	75.0	
Other Deposits of Banks & Other FIs	10,048.6	11,075.7	10.2
Treasurer of the Philippines [1]	93,023.1	121,404.8	30.5
Other Foreign Currency Deposits	15,261.2	13,910.7	-8.8
Foreign Financial Institutions	97,804.0	81,497.1	-16.7
Other Deposits [2]	973.7	1,807.1	85.6
Foreign Loans Payable	177,488.8	147,810.7	-16.7
Net Bonds Payable	85,169.8	46,863.1	-45.0
Allocation of SDRs	10,057.2	8,972.5	-10.8
Net Revaluation of International Reserves	92,564.1	57,235.8	-38.2
BSP Debt Instruments	79,808.0	128,441.0	60.9
Other Liabilities	13,890.1	13,698.0	-1.4
Net Worth	**222,300.0**	**253,829.4**	**14.2**
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	212,300.0	243,829.4	14.9

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-November 2004 prepared by the Comptrollership Department of the BSP.*

16 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS

For the periods indicated
In billion pesos

	2004 Jan-Nov	2005 [u] Jan-Nov	Percent Change (%)
Revenues	**45.38**	**52.78**	**16.3**
Interest Income	35.49	41.46	16.8
International Reserves	21.22	27.54	29.8
Domestic Securities	9.66	8.39	-13.2
Loans and Advances	4.38	3.91	-10.9
Others	0.23	1.63	607.0
Miscellaneous Income	9.77	11.21	14.8
Net income from Branches	0.12	0.11	-9.7
Expenses	**42.76**	**45.03**	**5.3**
Interest Expenses	25.95	32.05	23.5
Legal Reserve Deposits of Banks	2.37	2.86	20.4
Special Deposit Accounts	0.00	0.00	-50.0
National Government Deposits	5.31	7.87	48.3
BSP Debt Instruments	3.94	7.71	95.7
Loans Payable	14.27	13.42	-5.9
Other Foreign Currency Deposits	0.06	0.19	245.5
Other Liabilities	0.01	0.00	-100.0
Cost of Minting	2.85	2.15	-24.6
Other Expenses	13.96	10.83	-22.4
Net Income Before Gain/(Loss) on FXR Fluctuations	**2.62**	**7.74**	195.9
Gain/Loss(-) on FXR Fluctuations	4.17	-0.33	-107.8
Provision for Income Tax	0.63	3.31	423.4
Net Income	**6.16**	**4.12**	-33.1
Capital Reserves			
Net Income Available for Distribution	**6.16**	**4.12**	-33.1

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

[u] *Based on the unaudited BSP income statement as of end-November 2004 prepared by the Comptrollership Department of the BSP.*

17 CONDENSED STATEMENT OF CONDITION OF THE BANGKO SENTRAL NG PILIPINAS

In thousand pesos

Assets	November 2005	December 2004
Foreign Currency Financial Assets		
Deposit with Foreign Banks	224,612,086	207,388,674
Other Cash Balances	230,178	282,133
Foreign Investments	599,502,721	508,845,578
Gold in Bullion Vault	40,727,161	30,287,582
Gold with Foreign Financial Institutions	97,325,622	145,049,614
International Monetary Fund Special Drawing Rights	5,770	56,283
Accrued Interest	6,680,739	3,534,356
Gross International Reserves	**969,084,277**	**895,444,220**
Loans and Advances - net	727,581	1,304,718
Accrued Interest	54,645	2,051,932
Other Foreign Currency Receivables	21,254,153	33,799,648
Total Foreign Currency Financial Assets	**991,120,656**	**932,600,518**
Local Currency Financial Assets		
Government Securities	88,321,729	105,222,161
Loans and Advances (net)	108,804,127	119,845,995
Accrued Interest	9,468,981	5,378,407
Due from Administrator of Funds	29,138,985	24,683,719
Accounts and Notes Receivables	24,797,943	26,049,977
Other Receivables (net)	2,021,388	1,626,476
Total Local Currency Financial Assets	**262,553,153**	**282,806,735**
Total Financial Assets	**1,253,673,809**	**1,215,407,253**
Other Assets		
Bank Premises, Furniture, Fixtures and Equipment - net	11,656,359	11,524,242
Acquired Assets - net	11,849,525	12,226,828
Inventories	18,467,421	19,820,789
Miscellaneous Assets	158,600	154,334
Total Other Assets	**42,131,905**	**43,726,193**
Total Assets	**1,295,805,714**	**1,259,133,446**

17 CONDENSED STATEMENT OF CONDITION OF THE BANGKO SENTRAL NG PILIPINAS

In thousand pesos

(continuation)

Liabilities	November 2005	December 2004
Foreign Currency Financial Liabilities		
Short-term Deposits	18,156,584	23,257,714
Loans Payable	147,810,686	178,132,491
Bonds Payable	46,863,092	85,443,570
Allocation of International Monetary Fund Special Drawing Rights	8,972,548	10,167,883
Accounts Payable	888,366	884,654
Accrued Interest	2,577,957	2,675,279
Accrued Expenses	147,481	301,877
Other Liabilities	2,468,101	3,965,025
Total Foreign Currency Financial Liabilities	**227,884,815**	**304,828,493**
Local Currency Financial Liabilities		
Government Deposits	117,187,856	52,742,406
Deposits of Banks and Other Institutions	214,935,247	204,021,533
Securities Sold under Agreements to Repurchase	128,516,000	47,191,000
Accrued Interest	4,311,582	970,971
Total Local Currency Financial Liabilities	**464,950,685**	**304,925,910**
Total Financial Liabilities	**692,835,500**	**609,754,403**
Other Liabilities		
Currency in Circulation	288,600,505	322,465,565
Miscellaneous Liabilities	3,304,504	5,298,638
Revaluation of foreign currency accounts	57,235,801	100,012,222
Total Other Liabilities	**349,140,810**	**427,776,425**
Total Liabilities	**1,041,976,310**	**1,037,530,828**
Capital Accounts		
Capital	10,000,000	10,000,000
Surplus	47,842,215	37,124,623
Capital Reserves	195,987,189	174,477,995
Total Capital Accounts	**253,829,404**	**221,602,618**
Total Liabilities and Capital Accounts	**1,295,805,714**	**1,259,133,446**

18 CONDENSED STATEMENT OF INCOME AND EXPENSES OF THE BANGKO SENTRAL NG PILIPINAS with Budget Information [1]

In thousand pesos

Years ended December 31	Budget	Actual	
	2005	Nov. 2005	2004
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	24,497,409	29,131,245	23,526,851
Fees & Miscellaneous Foreign Currency Income	12,794,148	10,266,950	9,909,150
Total Income from Foreign Currency Financial Assets	**37,291,557**	**39,398,195**	**33,436,001**
Expenses on Foreign Currency Financial Liabilities			
Interest Expense	19,501,773	14,391,931	15,966,460
Other Foreign Currency Expenses	832,340	778,117	7,131,219
Total Expenses on Foreign Currency Liabilities	**20,334,113**	**15,170,048**	**23,097,679**
Foreign Currency Income	**16,957,444**	**24,228,147**	**10,338,322**
Income from Local Currency Financial Assets			
Interest Income	16,194,675	12,286,285	15,319,171
Total Income from Local Currency Financial Assets	**16,194,675**	**12,286,285**	**15,319,171**
Expenses on Local Currency Financial Liabilities			
Interest Expense	19,106,925	17,657,071	12,276,546
Final Tax on Interest Income/Discounts	1,231,325	1,104,573	1,201,491
Total Expenses on Local Currency Financial Assets	20,338,250	18,761,644	13,478,037
Local Currency Income/(Loss)	**(4,143,575)**	**(6,475,359)**	**1,841,134**
Total Operating Income	**12,813,869**	**17,752,788**	**12,179,456**
Currency Printing and Minting Cost	3,932,630	2,150,981	**3,546,617**
Operating Expenses:			
Personnel Services, Development and Training	5,312,922	4,534,317	3,707,966
Traveling	314,195	206,109	238,944
Taxes and Licenses	137,412	97,621	559,412
Currency and Gold Operations	99,438	66,755	80,057
Other Services	2,080,844	1,341,279	1,467,398
Depreciation	636,815	527,458	645,237
Fidelity Insurance	62,400	58,262	35,427
Light, Fuel & Water	270,380	202,907	211,693
Repairs & Maintenance	268,157	91,946	155,729
Communication Services	143,257	102,879	99,383
Supplies	63,349	48,231	61,329
Others	636,486 [2]	309,596	258,600
Total Operating Expenses	**7,944,811**	**6,246,081**	**6,051,777**
Net Operating Income before FX Gains	**936,428**	**9,355,726**	**2,579,062**
Net Realized Gains on Fluctuation in FX rates	**-**	**(325,446)**	**2,153,929**
Net Income before Provisions	936,428	9,030,280	4,732,991
Provision for Probable Losses [3]	1,351,662	1,789,261	861,678
Provision for Market Decline of Acquired Assets [4]	206,304	914,203	26,582
Provision for Fidelity Losses [5]	-	-	3,097,862 [6]
Net Operating Income (Loss)	**(621,538)**	**6,326,816**	**746,869**
Other Income	**1,530,866**	**1,099,488**	**2,462,846**
Net Income before Tax	**909,328**	**7,426,304**	**3,209,715**
Provision for Corporate Income Tax	288,064	3,307,740	1,060,755
Net Income after Tax	**621,264**	**4,118,564**	**2,148,960**
Capital Reserves			**0**
Net Income for Distribution			**2,148,960**

[1] *The statement presentation was restated for comparability with the budget format.*
[2] *Includes provisions for contingencies which when utilized are classified under the appropriate budget item*
[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] *Represents the amount set-up for self-insurance against losses that may arise from cash and gold accountabilities of employee-custodians in excess of PhP100 million.*
[6] *Addition to Provision for Fidelity Losses was recognized at year-end as an appropriation of net income before distribution.*

18 CONDENSED STATEMENT OF INCOME AND EXPENSES OF THE BANGKO SENTRAL NG PILIPINAS

with Budget Information [1]

In thousand pesos

(continuation)

Years ended December 31	Budget 2005	Actual Nov. 2005	Actual 2004
Net Realized Gains on Fluctuation in FX rates		**2,153,929**	**2,734,949**
Net Income before Provisions	2,906,513	4,732,991	12,733,609
Provision for Probable Losses [3]	3,946,210	861,678	4,251,643
Provision for Market Decline of Acquired Assets [4]	593,330	26,582	622,533
Provision for Fidelity Losses [5]	0	3,097,862 [6]	2,879,938
Provision for Currency and Gold Insurance [7]	0	0	7,743
Net Operating Income (Loss)	**(1,633,027)**	**746,869**	**4,971,752**
Other Income	**2,251,180**	**2,462,846**	**2,539,175**
Net Income before Tax	**618,154**	**3,209,715**	**7,510,927**
Provision for Corporate Income Tax	274,227	1,060,755	914,302
Net Income after Tax	**343,926**	**2,148,960**	**6,596,625**
Capital Reserves		**0**	**3,100,000** [8]
Net Income for Distribution		**2,148,960**	**3,496,625**

[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] *Represents the amount set-up for self-insurance against losses that may arise from cash and gold accountabilities of employee-custodians in excess of PHP100 million.*

[6] *In 2004, addition to Provision for Fidelity Losses was recognized at year-end as an appropriation of net income before distribution. Its current presentation is made for comparative purposes only.*

[7] *Represents the Bank's self-insurance scheme to cover for losses arising from currency and gold shipments*

[8] *Represents capital reserves of PHP 2.300 billion for the rehabilitation of the Security Plant Complex , and PHP 800 million for Property insurance under the Bank's self-insurance scheme.*

Annex 1

Philippine Stock Exchange (PSE)
Reforms in 2005

1. Adoption of global industry classification standards effective 1 December 2005 (moved to 2 January 2006). In an effort to bring the local equities market at par with global standards, the PSE adopted a new industry classification scheme that shifts the criteria in classifying listed companies from the "primary purpose" stated in the firms' articles of incorporation to that of the business that is generating the bulk of the listed companies' revenues.

2. Revision in the criterion used in the selection of companies to comprise the index beginning April 2006. To capture more accurately demand and supply conditions in the stock market, the PSE approved the shift from full market capitalization to free float market capitalization as criterion in the selection of companies to comprise the benchmark composite index. Companies in the current index have large market capitalization, but a considerable percentage of the shares are not being traded as they are not compelled to disperse shares. As a result, a recent review revealed that the current index is understated and did not reflect true market movement.

3. Issuance of PSE Rules on Securities Borrowing and Lending & Short Selling and its Implementing Guidelines for public comment. As a result of extensive discussions among the BSP, PSE, BIR, Securities and Exchange Commission (SEC) and private institutions comprising the PSE Technical Working Group on Securities Borrowing and Lending, the PSE has come up with the revised PSE Rules on Securities Borrowing and Lending and Short Selling and its implementing guidelines. The BIR has posted the BIR Revenue Regulation which prescribes the guidelines and condition of a tax-free treatment of securities borrowing and lending transactions involving securities listed in the Philippine Stock Exchange, Inc.

4. Adoption of a new index composition effective 1 December 2005. Following a review of its compositions, PSE decided on a new set of companies to comprise the Philippine Stock Exchange Composite Index beginning 1 December 2005. The new index composition is expected to track more accurately the real movement of the stock market and thus attract more investors. New inclusions in the 30-company composite index are Banco De Oro Universal Bank, Manila Water Company, SM Investments, Pilipino Telephone Corporation and Philex Mining Corporation. Eliminated from the current composition are Ginebra San Miguel, Inc., Ionics Circuits, JG Summit Holdings, Inc., Music Corporation, and Philippine National Bank.

5. Liberalization of listing requirements to accommodate more mining firms. In support of the government's policy to revitalize the industry, the PSE announced in August the more liberal interpretation of its listing rules, specifically on the matter of compliance with the track record and operating history requirements of an applicant mining company. However, under the revised listing rules of the Exchange, the said applicant is still expected to comply with the suitability rule and the general requirements for initial listing.

6. Tie-up with local governments to spur stock market awareness. To spur investor education and awareness on the stock market and to motivate existing as well as potential market participants, the PSE forged an agreement with the City of Makati to, among others, allow the display of stock market information (including stock indices and corporate logo) on the electronic board strategically located along Guadalupe Bridge on EDSA. At present, stock quotes are being displayed on electronic billboards in five strategic locations in Metro Manila: SM Megamall, La Salle Greenhills, Equitable-PCI Bank in Paseo de Roxas and the entrance of Ayala Alabang Village in Muntinlupa City.

7. Joint venture with FTSE to create Regional Index Series. In July 2005, the PSE joined four other regional exchanges (Bursa Malaysia, Jakarta Stock Exchange, Singapore Exchange, and the Stock Exchange of Thailand) in signing a Memorandum of Understanding (MOU) with the FTSE Group for the creation of internationally recognized indices for the Association of Southeast Asian Nations (ASEAN) equity markets as a regional grouping.* Under the MOU, the FTSE Group will create a set of indices for the trading and benchmarking of financial products such as institutional and retail funds, Exchange Traded Funds, and the derivatives contracts.

* The FTSE Group is a joint venture between the Financial Times and the London Stock Exchange (which may have been the basis for the acronym). The FTSE Group is a world leader in the creation and management of indices. With offices in London, Frankfurt, Hong Kong, Madrid, Paris, New York, San Francisco and Tokyo, FTSE Group services clients in 77 countries world wide. Its indices are used extensively by investors world wide for investment analysis, performance measurement, asset allocation, portfolio hedging and for creating a wide range of index tracking funds.