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**Volume I**

*Bangko Sentral ng Pilipinas*  
*Manila, Philippines*



**Bangko Sentral ng Pilipinas**

**MANILA**

**OFFICE OF THE GOVERNOR**

31 March 2009

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

Dear Mrs. President:

I have the honor to submit the **2008 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 2008, the major policies and other key measures adopted by the BSP, and highlights of its operations and activities.

Very respectfully,

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

**AMANDO M. TETANGCO, JR.**

Governor

31 March 2009

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## The Governor's Foreword

Despite price shocks that led to elevated inflation levels and moderating external demand resulting from the global economic slowdown, the economy posted a respectable growth in 2008. While major economies, reeling from the effects of the global financial turmoil, went into recession, Philippine GDP grew by 4.6 percent. This was lower than the record expansion of 7.2 percent in 2007, but well within the Government's forecast growth of 4.1 – 4.8 percent. The economic expansion continued to be led by services, with industry and agriculture also contributing to growth. On the demand side, personal consumption expenditure (PCE) and government consumption were the main drivers of growth, aided by capital formation.

Inflation followed an upward trajectory up to August, but slowed down in the last four months of 2008 following the subsequent downtrend in global commodity prices. The BSP accommodated the first-round effects of higher global oil and food prices up to May but tightened the policy stance from June to August when second-round effects from the price shocks, including wage pressures and rising inflation expectations, became evident. Policy rates were increased three times during this period by a total of 100 basis points. After maintaining the policy rates for two policy meetings, the Monetary Board reduced them by 50 basis points in December, given the improving inflation outlook, due partly to the sharp fall in inflation, which came in November, earlier than anticipated. Global fuel and food prices fell markedly with the sharp slowdown in demand and supply responses to the price incentive, in the case of food. Meanwhile, to address any possible tightness in financial markets resulting from the global financial turmoil, the BSP implemented preemptive measures aimed at providing adequate market liquidity and ensuring the orderly functioning of the financial system. These measures took the form of: opening a US dollar repurchase facility, doubling the rediscounting budget, and reducing the reserve requirement ratio by two percentage points.

The country's external position continued to post a surplus in 2008, allowing the country to build a healthy level of international reserves. The overall BOP position recorded a surplus of \$89 million in 2008 as the current account registered net inflows during the period despite the stresses in the global financial markets and the economic downturn. On the back of strong inflows from the BSP's foreign exchange operations, as well as the National Government's deposit of proceeds from its issuance of global bonds and other foreign borrowings during the year, the country's gross international reserves (GIR) increased to US\$37.6 billion in 2008, adequate to cover about 5.7 months' worth of imports of goods and payment of services and income. This GIR level was also equivalent to 4.5 times the country's short-term debt based on original maturity and 2.9 times based on residual maturity. Meanwhile, the peso depreciated by 12.8 percent on a year-to-date basis with the continued rise in risk aversion against emerging market assets. Against this backdrop, the BSP remains committed to pursue its policy of a market-determined exchange rate.

The risk aversion against emerging market assets also adversely affected our stock exchange, with its composite index dropping by 24.8 percent in 2008.

The Philippine banking system remained resilient, with key performance indicators reflecting the system's overall soundness. Bank lending continued to expand, while asset quality improved further with the decline in the non-performing loans ratio. Moreover, banks' capital adequacy ratio remained above the statutory level set by the BSP and the international (Bank for International Settlements) standard. The

BSP reaffirmed its commitment to establish a strong and vibrant financial system that would contribute to a more balanced and sustainable economic growth. Reforms were implemented in the areas of regulatory and prudential standards, risk management, corporate governance, and capital market development. In the second half of the year, reforms were implemented to shield the financial system against the adverse impact of the ensuing global financial turmoil.

The BSP also continued to ensure the safe and timely completion of financial transactions by minimizing systemic risks and enhancing the integrity of financial processes through progressive policies on e-commerce and innovations in the payments system.

The BSP continued to pursue its major advocacies in the areas of microfinance, small and medium enterprises, financial learning and other information campaigns, and export promotion. Special programs were also undertaken to sustain initiatives that improve the overseas Filipinos' (OF) remittance environment, in recognition of the significant contribution of OFs to the economy. These initiatives were geared toward fostering competition to lower remittance charges, and increasing financial awareness among OFs and their beneficiaries on how to channel remittances to more productive financial investments.

The year ahead poses major challenges for the country. The recession in major economies is expected to slow down exports, remittances, and capital inflows, which, in turn, could put pressure on the balance of payments and the exchange rate. Domestic economic activity could also weaken as households and firms respond in a cautious manner by holding back consumption and investment. Firms' profit margins could shrink and lead to difficulties in debt servicing, prompting banks to tighten access to financing. Such developments could affect economic activity and add to financial system stress, resulting in a negative feedback loop that could intensify the impact of the global economic slowdown.

These challenges, both in the external and domestic fronts, call for prompt and decisive actions. The BSP is well-equipped to meet these challenges, guided by its three-pronged thrust of promoting price stability, a sound banking system, and an efficient payments and settlements system. The BSP's inflation targeting framework is disciplined by the inflation outlook but is flexible enough to allow support to growth. The favorable inflation outlook gives the BSP room to maneuver in supporting growth and promoting financial sector stability. Monetary stimulus measures undertaken during the year, particularly the two-percentage-point reduction in reserve requirements and the increase in the rediscounting budget, together with the reduction in policy rates, should help ensure the orderly functioning of the financial system and support economic activity in the coming year.

Going forward, the BSP will use the full array of its policy instruments to maintain monetary and financial stability that will reinforce confidence in the economy. The BSP's collaboration with fiscal authorities and other regulatory agencies, as well as with its foreign/regional counterparts, will help put the country in a stronger position to weather the ongoing global financial storm.

AMANDO M. TETANGCO, JR

\_\_\_\_ March 2009

## INTRODUCTION



### ABOUT THE BSP

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

Section 20, Article XII, 1987 Philippine Constitution

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

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

## **The BSP's Legal Mandate**

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

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

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

## **Powers and Functions**

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

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

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

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



### *Our Vision*

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

### *Our 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.

## The Monetary Board

**Amando M. Tetangco, Jr.**  
*Chairman and Governor*

**Peter B. Favila**  
*Member*

**Raul A. Boncan**  
*Member*

**Juanita D. Amatong**  
*Member*

**Nelly F. Villafuerte**  
*Member*

**Alfredo C. Antonio**  
*Member*

**Ignacio R. Bunye**  
*Member*

**Vicente B. Valdepeñas, Jr.<sup>1</sup>**  
*Member*

---

<sup>1</sup> Reappointed on 29 November 2002 up to 2 July 2008.

## The Management Team

**Amando M. Tetangco, Jr.**  
Governor

### Executive Management

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

**Teresita O. Hatta**  
*Assistant Governor*

**Vicente S. Aquino**  
*Executive Director II*

**Ma. Ramona Gertrudes D.T. Santiago**  
*Managing Director*

### Resource Management Sector

**Armando L. Suratos**  
*Deputy Governor*

**Willie S. Asto**  
*Managing Director*

**Gerardo S. Tison**  
*Managing Director*

**Manuel H. Torres**  
*Managing Director*

**Teresita S. Bulseco**  
*Acting Managing Director*

### Security Plant Complex

**Evelyna C. Avila**  
*Assistant Governor*

### Monetary Stability Sector

**Diwa C. Guinigundo**  
*Deputy Governor*

**Rene N. Carreon**  
*Assistant Governor*

**Ma. Aurora L. Cruz**  
*Managing Director*

**Celia M. Gonzalez**  
*Managing Director*

**Pedro P. Tordilla, Jr.**  
*Managing Director*

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

### Supervision and Examination Sector

**Nestor A. Espenilla, Jr.**  
*Deputy Governor*

**Ma. Corazon J. Guerrero<sup>1</sup>**  
*Assistant Governor*

**Ma. Dolores B. Yuvienco**  
*Assistant Governor*

**Johnny Noe E. Ravaló<sup>2</sup>**  
*Managing Director*

**Leny I. Silvestre**  
*Managing Director*

<sup>1</sup> Promoted to Assistant Governor effective 22 January 2009

<sup>2</sup> Assumed office on 20 August 2008

**LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS**

AOAMS	Acquired and Other Assets Management System
AFF	Agriculture, Fishery and Forestry
ADDIE	Analysis, design, development, implementation to evaluation
AMLC	Anti-Money Laundering Council
AONCR	Areas outside National Capital Region
AFAS	ASEAN Framework Agreement on Services
ASEAN+3	ASEAN plus China, Japan and Korea
AANZFTA	ASEAN-Australia/New Zealand FTA
APRACA-CENTRAB	Asia Pacific Rural and Agricultural Credit Association- Center for Training and Research in Agricultural Banking
ABMI	Asian Bond Markets Initiative
ABS	Asset-backed Securities
ABROI	Association of Bank Remittance Officers Inc.
ASEAN	Association of South East Asian Nations
ALs	Auto Loans
ABPMs	Automated Banknote Processing Machines
AFS	Available for Sale
BSP	Bangko Sentral ng Pilipinas
BSPI	Bangko Sentral ng Pilipinas Institute
BSRDs	Bangko Sentral Registration Documents
BDI	Bank Distress Index
BPR	Bank Performance Rating
BSPD	Banknotes and Securities Printing Department
BMBEs	Barangay Micro Business Enterprises
BSAs	Bilateral Swap Arrangements
BSP LMM	BSP Learning Management Module
BSPI-IMS	BSPI Integrated Management System
BUDS	BSP's Unified Directory System
BOC	Bureau of Customs
BIR	Bureau of Internal Revenue
BTr	Bureau of the Treasury
BES	Business Expectations Survey
CAR	Capital Adequacy Ratio
CEMLA	Center for Latin American Monetary Studies
CMFP	Center for Monetary and Financial Policy
CIF	Center Information File
CFSA	Certification as Financial Services Auditor
CFA	Chartered Financial Analyst
CMI	Chiang Mai Initiative
CIMS	Collateral Information and Management System
CTRM	Committee on Tariff and Related Matters
CES	Consumer Expectations Survey
CFS	Consumer Finance Survey
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
CPO	Corporate Planning Office

CTRs	Covered Transaction Reports
CCRs	Credit Card Receivables
CRIS	Credit Information System
CSFP	Credit Surety Fund Program
CMO	Crisis Management Office
CIRO	Currency Issuance and Retirement Office
DWP	Data Warehouse Project
DMFAS	Debt Management and Financial Analysis System
DSB	Debt Service Burden
DSR	Debt Service Ratio
DBCPs	Departmental Business Continuity Plans
DER	Department of Economic Research
DES	Department of Economic Statistics
DepEd	Department of Education
DOF	Department of Finance
DFA	Department of Foreign Affairs
DLC	Department of Loans and Credit
DCS	Depository Corporations Survey
DBCC	Development Budget Coordinating Committee
DPs	Dialogue Partners
DSL	Digital Subscriber Lines
DOSRI	Directors, Officers, Stockholders, and Related Interests
DA	Documents against Acceptance
DSGE	Dynamic Stochastic General Equilibrium
EWS	Early Warning System
EFLC	Economic and Financial Learning Center
EPRA	Economic Policy Reform and Advocacy
e-DvP	Enhanced Delivery-versus-Payment
EFTIS	Electronic Fund Transfer Instruction System
ESEs	Environmental Scanning Exercises
EOH&SMS	Environmental, Occupation Health and Safety Management System
ERSS	Examiner Resource Scheduling System
EMS	Executive Management Sector
EMEAP	Executives' Meeting of East Asia and Pacific Central Banks
EFCDU	Expanded Foreign Currency Deposit Unit
EDC	Export Development Council
XGSI	Exports of Goods and Receipts from Services and Income
FAS	Financial Accounting System
FECs	Financial Education Campaigns
FIs	Financial Institutions
FIE	Fixed Income Exchange
FLC	Financial Learning Campaign
FLP	Financial Learning Program
FRP	Financial Reporting Package
FSF	Financial Sector Forum
FSI	Financial Stability Institute
FSR	Financial Stability Report

FXTBs	Fixed-Rate Treasury Bonds
FXTNs	Fixed-Rate Treasury Notes
FOF	Flow of Funds
FBT	Food, beverage and tobacco
FCDU	Foreign Currency Deposit Unit
FDI	Foreign Direct Investment
FX	Foreign Exchange
FTA	Free Trade Agreement
FAQs	Frequently Asked Questions
FLW	Fuel, light and water
GATS	General Agreement on Trade in Services
GS	Government Securities
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNP	Gross National Product
HO	Head Office
HFT	Held for Trading
HTM	Held to Maturity
HRDD	Human Resource Development Department
IQA	Independent Quality Assessments
ITSS	Information Technology Sub-Sector
ISD	Instructional Systems Design
IPSMMS	Integrated Property Supplies and Materials Management System
IACFDIS	Inter-Agency Committee on Foreign Direct Investments
IACLIPS	Inter-Agency Committee on Labor, Income and Productivity Statistics
IACTS	Inter-Agency Committee on Trade Statistics
I-CSS	Internal Customer Satisfaction Survey
IRAs	Internal Revenue Allotment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIP	International Investment Position
IMF	International Monetary Fund
JPEPA	Japan-Philippines Economic Partnership Agreement
LFPR	Labor force participation rate
LBP	Land Bank of the Philippines
LDR	Loans-to-Deposits Ratio
LAN	Local Area Network
LGUs	Local Government Units
LTMM	Long-Term Macro-Model
MTPs	Major Trading Partners
MS	Management System
MSEP	Management Skills Enhancement Program
MLT	Medium and Long-Term
MTPDP	Medium-Term Philippine Development Plan
MSMEs	Micro, Small and Medium Enterprises
MROD	Mint and Refinery Operations Department
MB	Monetary Board

MSS	Monetary Stability Sector
NPCC	National Price Coordinating Council
NCR	National Capital Region
NG	National Government
NHA	National Housing Authority
NSM	National Statistics Month
NSO	National Statistics Office
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NIR	Net International Reserves
NBFIs	Non-bank Financial Institutions
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
OA	Open Account
ODCs	Other Depository Corporations
ODCS	Other Depository Corporations Survey
OFWs	Overseas Filipino Workers
OFs	Overseas Filipinos
OWWA	Overseas Workers Welfare Administration
PAIF	Pan-Asian Index Fund
PSO	Payments and Settlements Office
PMS	Performance Monitoring System
PRS	Performance Review Sessions
PC	Personal Computer
PCE	Personal Consumption Expenditure
PDIC	Philippine Deposit Insurance Corporation
PES	Philippine Economic Society
PNP	Philippine National Police
PPS-FES	Philippine Payments System-Front End System
PSA	Philippine Statistical Association
PSS	Philippine Statistical System
PM	Project Management
PICs	Public Information Campaigns
QMS	Quality Management Systems
ROPA	Real and Other Properties Acquired
REER	Real Effective Exchange Rate
RELS	Real Estate Loans
RTGS	Real Time Gross Settlement
REFLC	Regional Economic and Financial Learning Center
RMASS	Regional Monetary Affairs Subsector
RP	Repurchase
Repo	Repurchase agreement
RFPs	Requests for Proposals
RITS	Requests for IT Services
RMS	Resource Management Sector
RTBs	Retail Treasury Bonds
RRP	Reverse Repurchase
SPC	Security Plant Complex

SPEI	Selected Philippine Economic Indicators
SRPA	Self-managed Reserve Pooling Arrangement
ST	Short Term
SEAVG	South East Asia Voting Group
SEANZA	South East Asia, New Zealand and Australia
SEACEN	South East Asian Central Banks
SDA	Special Deposit Account
SRF	Standardized Reporting Format
SES	Supervision and Examination Sector
STRs	Suspicious Transaction Reports
TF4	Task Force 4
TCPS	Technical Committee on Price Statistics
TWGs	Technical Working Groups
TBs	Thrift Banks
TLP	Total Loan Portfolio
T-bills	Treasury Bills
TD	Treasury Department
UITFs	Unit Investment Trust Funds
UNCTAD	United Nations Conference on Trade and Development
U/KBs	Universal/Commercial Banks
UDSCL	Unquoted Debt Securities Classified as Loans
VPN	Virtual Private Network
WC-FSL	Working Committee on Financial Services Liberalization



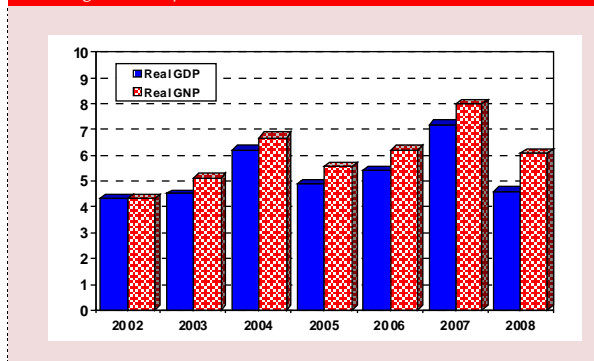
## PART ONE: THE PHILIPPINE ECONOMY

### Domestic Economy

***The domestic economy continues to grow.***

The growth of the domestic economy was sustained despite the difficult external environment in 2008. Economic expansion continued to be led by the services sector supported by the industry and agriculture sectors. On the demand side, personal consumption expenditure (PCE) and government consumption were the main drivers of growth, aided by capital formation. Real gross domestic product (GDP) expanded by 4.6 percent in 2008, lower than the 30-year high of 7.2 percent in 2007, but within the Government's forecast of 4.1-4.8 percent for 2008. Real gross national product (GNP) likewise continued to grow at 6.1 percent in 2008, lower than the 8.0 percent posted in 2007 (Table 1).

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

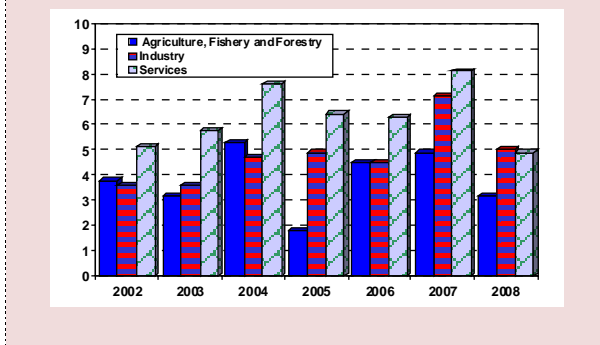


### Aggregate Output and Demand

***The services sector continues to drive output growth.***

All the key sectors of the economy contributed to the expansion of the Philippine economy in 2008. The services sector, which constituted nearly half of total GDP, grew by 4.9 percent in 2008. This translated to a 2.3 percentage-point contribution to the 4.6 percent GDP growth in 2008. Real estate led the growth in the services sector, owing to strong demand from business outsourcing firms and overseas Filipinos (OFs). Notable expansions were also recorded in trade, private service and government services. Finance exhibited a substantial decline on investors' concerns about the lingering effects of the global economic downturn.

Real GDP, By Industry  
Annual growth in percent



The industry sector, which accounted for about a third (32.6 percent) of total GDP, grew by 5.0 percent in 2008 compared to 7.1 percent in 2007. This sector contributed 1.5 percentage points to the 4.6 percent 2008 GDP growth rate (Table 1a). The growth of the industry sector was driven by construction, and electricity, gas and water. Manufacturing growth accelerated in 2008 due to the strong performances of food manufactures and beverages. Meanwhile, the growth in construction was traced to the aggressive push in public construction as well as the sustained demand for real properties by OFs and outsourcing firms while the expansion of mining and quarrying was propelled by high commodity prices in the world market, especially during the first three quarters of 2008.

The agriculture, fishery and forestry (AFF) sector registered a 3.2 percent growth in 2008, lower than the 4.9 percent growth recorded a year ago. The AFF, which accounted for about a fifth (18.1 percent) of overall GDP contributed 0.8 percentage point to the 4.6 percent GDP growth in 2008. The growth in AFF was due, in large part, to favorable weather conditions and timely government intervention to mitigate the impact of higher input costs. However, *palay* and corn production contracted during the year due to damage caused by typhoons in some parts of the country and the high cost of fertilizer.

**Consumption leads demand-side growth.**

On the demand side, growth was led by the 4.5 percent increase in PCE in 2008. The growth in PCE was due to strong spending, particularly on food, transportation and communication, and miscellaneous expenses. Government consumption also grew by 4.3 percent, albeit lower than its 2007 expansion of 8.3 percent. Capital formation registered a 4.2 percent increase, but this was lower than the 2007 growth of 11.2 percent, on account of

the decline in investments in durable equipment and decrease in stock. The export sector's growth stagnated in 2008 as exports of finished electrical machinery products, semiconductors and electronic microcircuits, as well as garments slowed down, as demand from major trading partners led by the US contracted significantly, particularly in the latter part of the year.

## Labor, Employment and Wages

### ***Employment growth continues.***

Employment conditions in 2008 was tempered by the global economic and financial difficulties towards the fourth quarter of 2008. Based on the average data of the four rounds of the Labor Force Survey of the National Statistics Office (NSO) in 2008, the unemployment rate was broadly steady, increasing by 0.1 percentage point to 7.4 percent in 2008 from the previous year. This figure could have been higher if not for the decline in the labor force participation rate (LFPR) to 63.6 percent in 2008 from 64.0 percent a year ago. The level of unemployed persons rose by an average of 63,000 to reach 2.7 million in 2008 (Table 2). During the year, the lowest unemployment rate at 6.8 percent was posted in the fourth quarter of 2008, while the highest unemployment rate was recorded at 8.0 percent in the second quarter of 2008.

Meanwhile, employment growth in 2008 in the four survey rounds was placed at an average of 1.6 percent, equivalent to the generation of 530,000 jobs, to reach 34.1 million in 2008 from 33.6 million a year-ago. Employment growth was recorded in the services sector (2.2 percent) and the AFF sector (2.1 percent). By contrast, employment in the industry sector contracted by 1.5 percent led by the weak performance of the manufacturing sub-sector, as well as the electricity, gas and water sub-sector. The decline in manufacturing was dampened by the high oil prices and the slowdown in exports. These offset employment gains in the construction, and mining and quarrying sub-sectors.

The underemployment rate continued to decline to 19.3 percent in 2008 from 20.1 percent in 2007. The total number of overseas Filipino workers rose by 27.8 percent to 1,376,823 workers in 2008 from 1,077,623 workers last year.

## Prices

***Inflation accelerates but slows down beginning September.***

Inflation averaged 9.3 percent in 2008, higher than the 3.0-5.0 percent target range for the year and the 2.8 percent average in the previous year (Table 3). Inflation pressures stemmed mainly from the surge in the international prices of oil and food commodities. While inflation followed an upward trajectory up to August, the subsequent collapse of global commodity prices, reflecting the downturn in global economic activity, complemented by supply and production responses and timely monetary actions brought down inflation in the last four months of 2008.

***Both food and non-food inflation rise.***

The average inflation for food, beverage, and tobacco (FBT) reached double-digit figures at 12.9 percent in 2008, from the previous year's 3.3 percent. Food prices followed a continuous uptrend since November 2007 up to July 2008 due to the surge in the prices of some agricultural commodities in international markets, caused by a combination of supply and demand factors. However, food inflation started going down in August as price declines were observed in virtually all food groups, particularly that of rice, as well as fruits and vegetables. The lower prices partly reflected the decline in global food prices, which fell markedly since their peak in July 2008.

Non-food inflation likewise went up in 2008 and almost tripled to 6.0 percent from 2.3 percent in 2007. Items under the non-food index posted higher inflation, with fuel, light, and water (FLW) and services shooting up to 6.5 percent and 8.6 percent, respectively. However, similar to food inflation, non-food inflation started to decline in September, due mainly to the collapse of international oil prices.

On a geographical basis, headline inflation in both the National Capital Region (NCR) and in areas outside the NCR (AONCR) went up to 6.9 percent and 10.4 percent, respectively. These were significantly higher than the average inflation of 2.6 percent in the NCR and 2.8 percent in AONCR recorded in the previous year.

***Core inflation also increases.***

Core inflation, an indicator of the long-term trend of inflation, also traced an upward path, averaging 6.2 percent during the year compared to 2.8 percent in the previous year. Alternative measures of core inflation estimated by the BSP also went up during the year.

Core Inflation Measures	Year-on-Year Change	
	2000=100	
	2007	2008
Official Measure <sup>1</sup>	2.8	6.2
Trimmed Mean <sup>2</sup>	2.6	7.6
Weighted Median <sup>3</sup>	2.3	7.3
Net of Volatile Items <sup>4</sup>	2.7	7.8

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

<sup>2</sup> 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.

<sup>3</sup> 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.

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

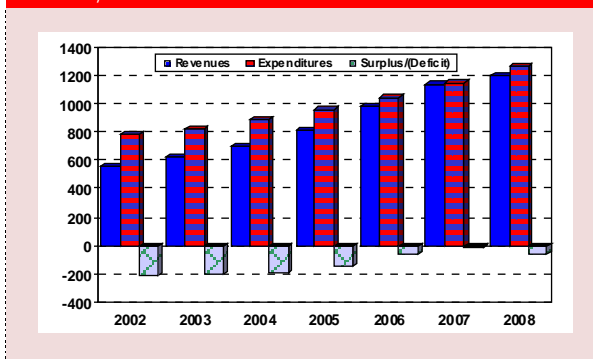
Sources of Basic Data: NSO, BSP-DER

## Operations of the National Government

### **NG's operations yield a larger deficit.**

The National Government's (NG) deficit rose to ₱68.1 billion in 2008 from a shortfall of only ₱12.4 billion in 2007. This deficit was lower by ₱6.9 billion than the programmed deficit of ₱75 billion for the year. The NG deficit was equivalent to 0.9 percent of GDP. Revenues grew by 5.8 percent to ₱1,202.9 billion but fell short of the target by 1.8 percent. Expenditures likewise increased to ₱1,271.0 billion during the year but fell below the programmed level by 2.2 percent (Table 4).

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



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and other offices, increased by 12.5 percent to reach ₱1,049.2 billion during the period January-December 2008. The tax revenues achieved during the review period constituted 96 percent of the programmed level of ₱1,093.4 billion for 2008. However, non-tax revenues notably of the Bureau of the Treasury (BTr) fell by 6.3 percent to ₱63.7 billion during the same period. Non-tax revenues exceeded the programmed level by 16.7 percent to reach ₱153.7 billion for 2008.

Total NG expenditures increased by 10.6 percent, although this was lower than the programmed level of ₱1,300.2 billion. Allotments to the Local Government Units (LGUs) exceeded both the programmed and the year-ago levels because of the monetization of Internal Revenue Allotments (IRAs) which were withheld in prior years. Meanwhile, interest payments increased by 1.6 percent to ₱272.2 billion during the review period, and accounted for 93.8 percent of the programmed level of ₱290.1 billion for 2008.

The deficit was financed mainly from domestic sources, which covered 82 percent of the total financing requirement of the NG. The share of domestic borrowings was higher than the targeted 76 percent of the financing mix. Net repayments on foreign borrowings amounted to ₱9.2 billion for 2008.

## **Monetary and Financial Conditions**

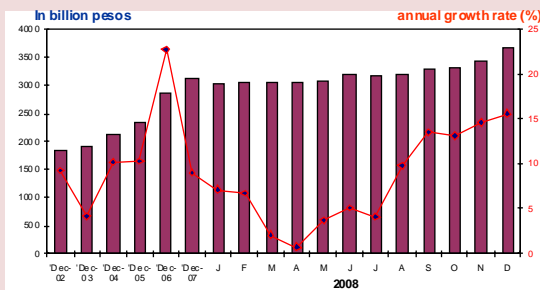
### **Monetary Conditions**

#### ***Monetary Aggregates***

#### ***Domestic liquidity growth accelerates.***

After posting single-digit growth rates for the first eight months, domestic liquidity or M3 recorded double-digit growth rates starting September 2008, to post a year-on-year expansion of 15.6 percent in December.

Domestic Liquidity (Depository Corporations Survey \* Concept)

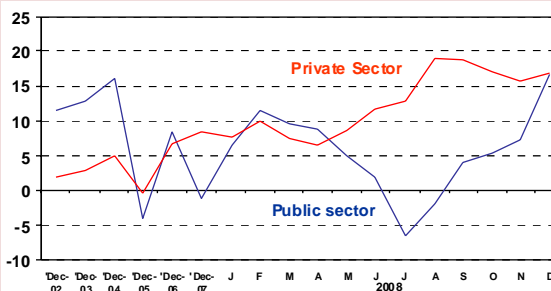


\* Depository Corporations Survey (DCS) is a consolidation of the balance sheets of the deposit-generating financial institutions namely the Monetary Authorities (MA) or the BSP and the Other Depository Corporations (ODCs) composed of banks.

The sustained expansion in domestic liquidity was due to the strong growth in both net domestic assets (NDA) and net foreign assets (NFA). NDA expanded by 13.1 percent in December, a reversal of the 1.0 percent decline recorded in the same month a year ago. This was due mainly to the growth in credit extended to the private sector at 16.8 percent, an acceleration from the 8.5 percent growth posted in December 2007. Credit extended to the public sector also grew by 16.7 percent, a turnaround from the 1.2 percent decline in the same month a year ago, on the back of a 16.2 percent growth in lending to the NG. The growth of credit granted to local government units and other public entities accelerated at 18.2 percent from a 6.0 percent decline in the same period in the previous year.

Monetary System (DCS Concept):  
Net Domestic Credits

Annual growth in percent



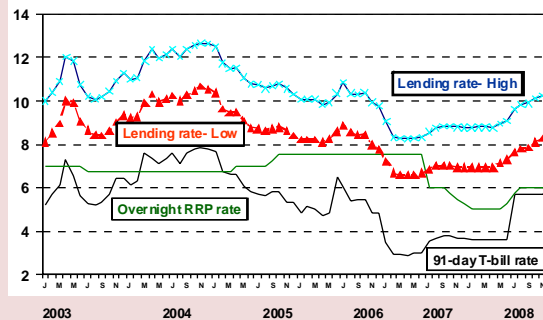
NFA grew by 16.4 percent, slower than the year-ago growth of 19.5 percent. The sustained expansion in NFA was due largely to the continued increase in the BSP's foreign assets at 28.0 percent from 23.8 percent in the previous year. Meanwhile, banks' NFA continued to contract, although at a much slower pace, by 16.8 percent in December from 41.9 percent in November, as their investments in foreign securities plummeted (Table 5).

**Interest Rates**

**Interest rates on government securities rise.**

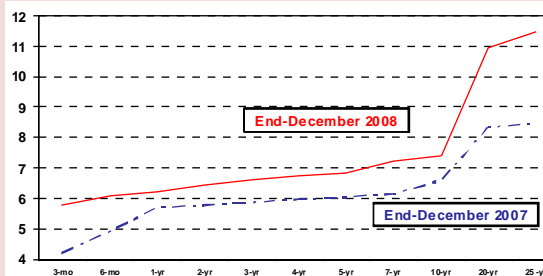
Domestic interest rates on government securities in the primary and secondary markets rose across all tenors in 2008, due mainly to heightened risk aversion resulting from the global financial turmoil and concerns over the elevated inflation readings for the most part of the year (Table 6).

**Domestic Interest Rates**



**Secondary Market Yield Curve**

*End-of-period, in percent*



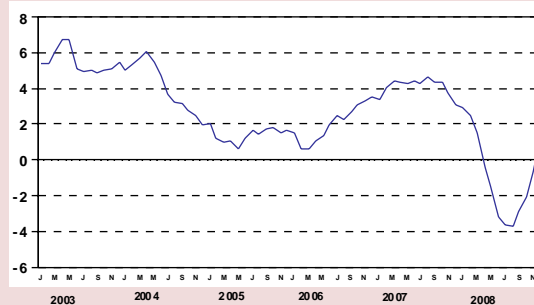


**Nominal lending and deposit rates increase but real rates decrease.**

Mirroring the rise in the interest rates on government securities, bank lending rates and time and savings deposit rates also increased. However, the interbank call loan and Manila reference rates declined. In real terms, the borrowing and lending rates decreased relative to the levels posted a year ago due to higher inflation. In particular, the Philippines' real lending rates moved to fourth lowest from being the third highest a year ago in a sample of ten countries surveyed.

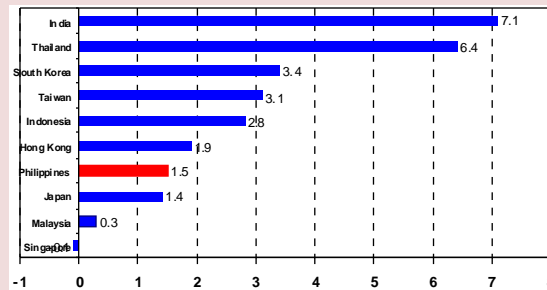
**Real Lending Rates: Philippines**

*Average bank lending rate less CPI Inflation, in percent*



**Average Real Lending Rates: Asian Countries**

*end-December 2008, in percent*



**Key policy rates are 25 basis points higher than year-ago levels.**

The BSP's policy rates settled at 5.5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.5 percent for the overnight lending or repurchase (RP) facility at the end of 2008, following a series of adjustments during the year.

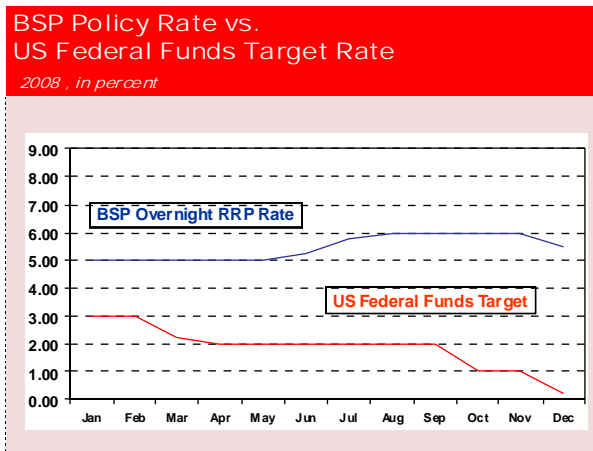
The Monetary Board (MB) reduced policy rates in January by 25 basis points and kept these unchanged at 5 percent and 7 percent respectively, for the overnight RRP and RP facilities until June 2008. However, given the rapid acceleration of inflation starting in June, the negative real interest rates, and the early evidence of second-round effects, the MB gradually raised policy rates starting in

June to reach a total of 100 basis points by August. In its October and November policy meetings, the MB opted to keep policy rates unchanged as the retreat in food and energy prices reduced the risks of additional second-round effects. In December, the MB decided to cut policy rates by 50 basis points given the improved inflation outlook, the downward shift in the balance of risks following the easing of global commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity resulting from the global financial turmoil.

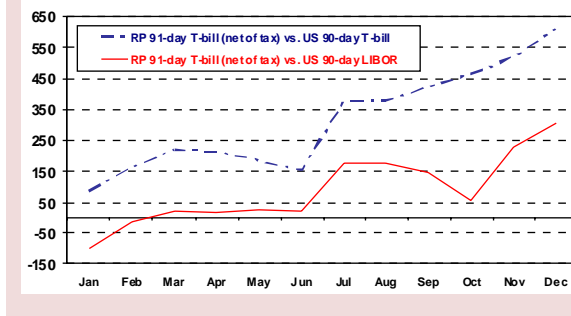
2008	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	5.00	3.00	200
Feb	5.00	3.00	200
Mar	5.00	2.25	275
Apr	5.00	2.00	300
May	5.00	2.00	300
Jun	5.25	2.00	325
Jul	5.75	2.00	375
Aug	6.00	2.00	400
Sep	6.00	2.00	400
Oct	6.00	1.00	500
Nov	6.00	1.00	500
Dec	5.50	0.25	525

**Interest rate differentials between domestic and foreign rates turn positive.**

The differential between the BSP's overnight borrowing rate and the US federal funds target rate widened significantly in 2008, potentially encouraging inflows, as the BSP's key policy rate was raised by a net amount of 50 basis points while the US federal funds target rate was reduced by a total of 275 basis points compared to their year-ago levels. Both before- and after-tax differentials between the 91-day RP T-bill rate and US interest rates entered into positive territory due to the significant decline in the latter.



Domestic and Foreign Interest Rate Spreads  
2008, in basis points

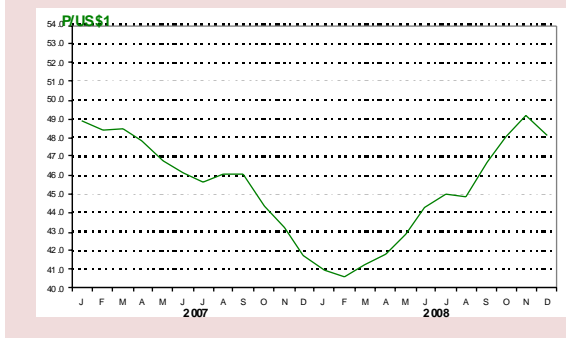


Exchange Rates

**The peso appreciates in terms of yearly averages, but depreciates in terms of end-of-period levels.**

In terms of yearly averages, the peso averaged ₱44.47/US\$1 for the period 2 January - 24 December 2008, appreciating by 3.8 percent from the ₱46.15/US\$1 2007 average, buoyed up by strong dollar inflows from OF remittances and export earnings in goods and services (Table 7).<sup>1</sup> However, in terms of end-of-period levels, the peso averaged ₱47.49/US\$1 for end-December 2008, depreciating by 12.8 percent from the ₱41.40/US\$1 end-December 2007 level. The volatility in oil prices, the continued risk aversion against emerging market economies, and the impact of the global financial turmoil contributed to the peso's depreciation in the latter part of 2008.

Average Peso Dollar Rate  
2007-2008



<sup>1</sup> Dollar rates or the reciprocal of the peso-dollar rates (based on reference time data) were used to compute for the percentage change.

The peso remained strong during the first quarter of 2008, appreciating by 18.7 percent from its year-ago level of ₱48.60/US\$1 to average ₱40.95/US\$1 on sustained foreign exchange inflows from OF remittances. Similarly, the peso appreciated by 5.3 percent on a quarter-on-quarter (q-o-q) basis. This developed despite reports pertaining to the sale of Bear Stearns to JP Morgan Chase on 14 March 2008, the Fed's cut in its target rate by 75 basis points on 18 March 2008, and fears of a possible recession in the US.

In the second quarter, the peso appreciated by 9.1 percent year-on-year (y-o-y) to average ₱43.00/US\$1. On a q-o-q basis, however, the peso depreciated by 4.8 percent. Risk aversion continued in April as market concerns shifted from economic growth to rising inflation as a less pessimistic US economic outlook emerged. Heightened market concerns over rising inflation continued to drag down the peso in May and June 2008, as increasing costs of imported oil and oil-based products, cereals, rice and other raw materials fueled increased demand for dollars.

In the third quarter, the peso appreciated by 0.96 percent on a y-o-y basis, but depreciated by 5.5 percent on a q-o-q basis to average ₱45.51/US\$1. Concerns of a slowing global economy, particularly in the Euro area, as well as the worsening financial turmoil caused by the U.S. sub-prime crisis, had deepened. The sharp decline in global commodity and oil prices further underpinned the US currency's strength as investors speculated on an easing global inflation and a cut in non-US interest rates.

The peso further depreciated by 11.0 percent on a y-o-y basis in the fourth quarter to average ₱48.44/US\$1. On a q-o-q basis, the peso also depreciated by 6.0 percent. This developed as the worsening global financial crisis, as well as rising risk aversion on concerns of a slowing global economy, influenced the movement of the peso. The peso began to recover towards the end of October 2008 as key BSP measures helped augment dollar liquidity in the financial system and provided relief to banks with dollar sourcing problems. Nonetheless, the peso reached a two-year low of ₱50.17/US\$1 on 21 November 2008 after reports on the worsening financial condition of Citigroup caused investors to shift away from emerging markets' assets. Subsequently, the US dollar gained some strength before the end of the quarter following the U.S. government's decision on 19 December 2008 to cut the federal funds target rate by 75-100 basis points and to assist U.S. imperiled automakers with a US\$17-billion emergency loan.

**Most Asian currencies depreciate vis-a vis the US dollar.**

Year-to-date movements saw most Asian currencies depreciating vis-à-vis the US dollar as of 24 December 2008, led by the South Korean won (29.4 percent), followed by the Indian rupee (19.3 percent). Meanwhile, the Japanese yen and Chinese yuan both appreciated by 25.0 percent and 6.8 percent, respectively.

Selected Asian Currencies	Appr/Depr(-) 24 Dec 2008 vs. 28 Dec 2007
Japanese Yen	25.0
Chinese Yuan	6.8
Singaporean Dollar	- 0.6
New Taiwan Dollar	- 1.5
Malaysian Ringgit	- 3.9
<b>Philippine Peso</b>	<b>- 12.8</b>
Indonesian Rupiah	- 13.2
Thailand Baht	- 13.8
Indian Rupee	- 19.3
South Korean Won	- 29.4

**Peso loses external price competitiveness.**

On a real, trade-weighted basis, the peso lost some external price competitiveness in 2008 against all baskets of currencies. Along with the nominal appreciation of the peso, wide inflation differentials particularly in the first nine months translated to an increase in the real effective exchange rate (REER) index of the peso across all currency baskets for the year (Table 7a). The peso's REER index increased by 5.0 percent against the baskets of currencies of the country's major trading partners (MTPs). The REER index of the peso against both the broad and narrow basket series increased by 10.2 percent and 8.4 percent, respectively, indicating that the peso lost external price competitiveness among the country's competitors.

**Financial Conditions**

**Performance of the Banking System**

**Philippine banking system continues to be sound and stable.**

The Philippine banking system remained generally sound and stable in 2008 despite the negative developments emanating from the continuing global financial crisis and episodes of rising inflation during the first eight months of the year. The reforms implemented in the past years strengthened the industry in terms of risk management, corporate governance and transparency. Growth indicators such as asset levels, loans and deposits continued to post robust increases. The banking sector's asset quality also exhibited a notable improvement as shown by the continued decline in the non-performing loan (NPL) ratio while the capital adequacy ratio (CAR)

remained above global standards and the BSP's regulatory requirement.

<b>Selected Banking Indicators</b>			
	<b>2008 <sup>p/</sup></b>	<b>2007</b>	<b>Growth Rate (%)</b>
Deposits (₱ Billion)	3,182.4	2,781.4	14.4
Resources (₱ Billion)	5,907.7 <sup>p/</sup>	5,224.7	12.6
Loans Outstanding (₱ Billion, Gross of RRP's)	2,181.1	1,856.7	17.5
Number of Banking Institutions (Head offices)	818	847	-3.4
NPL to Total Loans (%)	4.3	5.4	-21.3
Capital Adequacy Ratio (%)	15.3 (Jun)	18.8	
Return on Assets (ROA)	1.0 (Sep)	1.3	
Return on Equity (ROE)	8.7 (Sep)	11.7	
<small>p/ Preliminary</small>			

### **Deposit Generation**

***Demand and time deposits increase.***

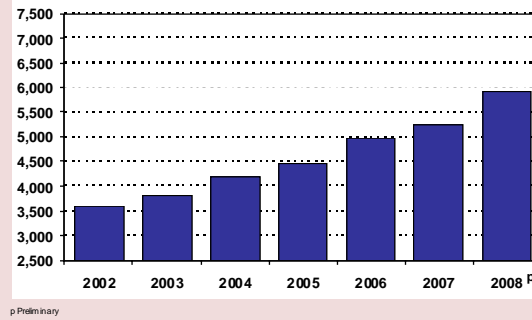
The banking system's outstanding deposits as of end-December 2008 increased by 14.4 percent to ₱3.182 trillion from ₱2.781 trillion during the same period in 2007 (Table 8). Time deposits, which accounted for more than a third (35.1 percent) of the deposit base, grew significantly by 51.4 percent. Demand deposits likewise sustained their growth at 19.1 percent. Meanwhile, savings deposits, which continued to account for almost half of the banks' funding base, decreased by 5.4 percent relative to its year-ago level.

### **Resources**

***Total resources of the banking system increase.***

The total resources of the banking system rose by 12.6 percent to ₱5.906 trillion as of end-December 2008 from its year-ago level of ₱5.245 trillion (Table 9). The increase in the system's resources was largely due to the expansion in banks' deposits with the BSP and other banks and loans and discounts. Universal/Commercial banks (U/KBs) continued to account for almost 90 percent of the total resources of the banking system.

Banking System: Total Resources  
*In billion pesos*

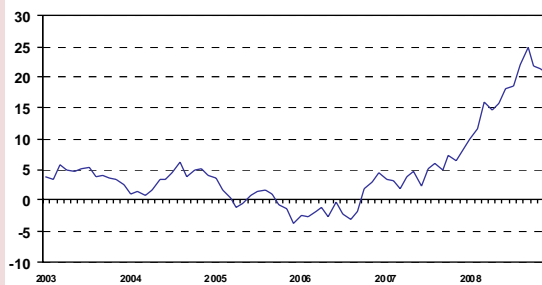


Lending Operations

**Lending growth accelerates.**

Outstanding loans of U/KBs (net of RRP placements) expanded by 20.5 percent year-on-year as of end-December 2008 compared to the 8.3 percent recorded during the same period last year. The faster growth in lending indicated the corporate sector's higher demand for loans, particularly in the agriculture and real estate industries, which grew year-on-year by 53.0 percent and 30.2 percent, respectively.

Loans Outstanding: Universal/Commercial Banks  
*Annual growth in percent*



Bank lending to most sectors of the economy registered an uptrend except for fishing, mining and quarrying, and financial intermediation which registered negative growth rates. Meanwhile, other growth drivers included public administration and defense (39.4 percent), construction (36.8 percent) and wholesale and retail trade (27.9 percent).

<b>Loans Outstanding of UBs/KBs December 2008</b>			
	<b>Loans (₱ B)</b>	<b>Percent to Total</b>	<b>Annual Growth Rate (%)</b>
Agriculture, Hunting & Forestry	309.3	17.7	53.0
Fishing	3.9	0.2	-42.9
Mining and Quarrying	6.9	0.4	-33.4
Manufacturing	392.8	22.5	5.3
Electricity, Gas & Water	112.6	6.4	-8.1
Construction	34.5	2.0	36.8
Wholesale & Retail Trade	228.7	13.1	27.9
Trans, Storage & Com.	81.0	4.6	45.9
Financial Intermediation	130.6	7.5	-14.9
Real Estate, Renting & Business Services	282.9	16.2	30.2
Public Administration and Defense	52.7	3.0	39.4
Education	10.3	0.6	10.5
Health and Social Work	8.4	0.5	18.1
Other Community, Social & Personal Services	72.6	4.2	13.0
Hotels & Restaurants	21.1	1.2	44.4
<b>TOTAL</b>	<b>1,748.2</b>	<b>100.0</b>	<b>18.3</b>
Source: BSP			

***Lending to the real estate sector increases.***

U/KBs' real estate loans (RELs) as of end-September 2008 increased by 15.4 percent to ₱215 billion, of which 71.0 percent went to commercial properties. Despite the increase in RELs, U/KBs' real estate exposure to total loans went down to 10.4 percent from 11.2 percent a year ago, owing to the 25.0 percent increase in the total loan portfolio (TLP). The REL/TLP ratio remained below the BSP's 20.0 percent prescribed ceiling on bank lending to the real estate sector.

***Credit card receivables increase.***

The combined credit card receivables (CCRs) of U/KBs as well as thrift banks (TBs) as of end-September 2008 increased by 17.4 percent year-on-year to reach ₱124.4 billion, reflecting increased consumer spending and use of credit card products. Of the total CCRs, 11.7 percent was non-performing, a decline from the 14.3 percent posted a year ago. As a percentage to total loan portfolio, CCRs' share was slightly reduced to 5.2 percent from 5.5 percent in the same period in 2007.

***Auto loan receivables decline.***

U/KBs' and TBs' combined auto loans as of end-September 2008 dropped by 7.0 percent to ₱77.2 billion from ₱83.0 billion a year ago. Auto loans constituted 3.2 percent of the total loan portfolio, lower than the 4.3 percent posted in the previous year. The ratio of non-

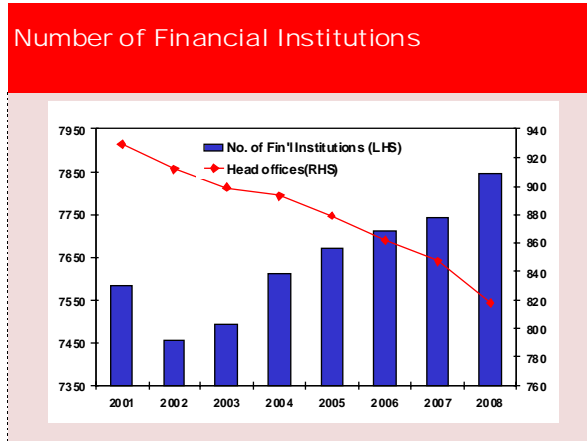


performing auto loans to total auto loans remained steady at 5.1 percent.

### Institutional Developments

***Consolidation in the banking industry continues.***

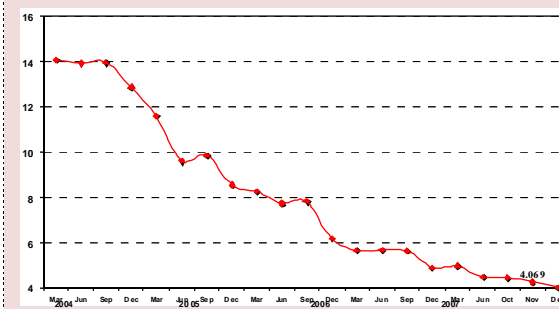
The number of banking institutions declined to 818 as of end-December 2008 from 847 as of the same period a year ago, reflecting continued mergers and consolidation as well as the closure of weak banks. The total number of banking institutions consisted of 38 U/KBs, 77 TBs and 703 RBs. Meanwhile, the operating network of the banking system, consisting of head offices and branches, increased to 7,848 as of end-December 2008 from 7,744 in the previous year due to the rise in the number of branches/agencies of U/KBs, thrift banks and rural banks (Table 9a).



***Banks' asset quality improves.***

The banking system's asset quality showed continuous improvement as the non-performing loan (NPL) ratio, which stood at 4.1 percent as of end-December 2008 from 4.9 percent a year ago, moved much closer to the ratio during the pre-crisis period of around 4.0 percent. The decline in the NPL ratio was brought about by the 7.4 percent reduction in NPLs and the 12.2 percent expansion in total loan portfolio. As of December 2008, NPLs declined to ₱118.2 billion from the previous year's level of ₱127.7 billion, while TLP expanded by ₱315.9 billion to ₱2,905.4 billion.

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



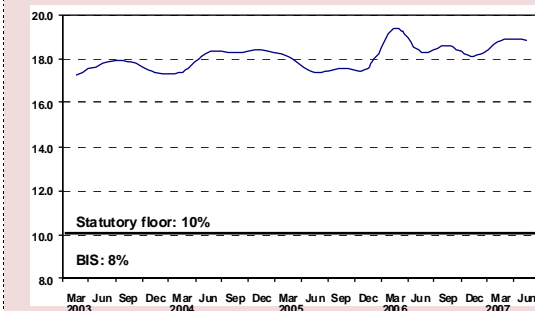
Moreover, the real and other properties acquired (ROPA) of U/KBs dropped by 8.2 percent to ₱140.8 billion as of December 2008 compared to the same period last year. The lower NPLs and ROPA during the year translated to an improvement in the non-performing assets (NPAs) ratio, which shrank to 4.4 percent as of December 2008 from 5.2 percent a year ago.

The loan exposure of banks remained adequately covered as the banking system's declining NPL pushed up the NPL coverage ratio to 86.9 percent as of end-December 2008, from 81.6 percent in the same period of the previous year. This ratio reflected banks' diligent compliance with the loan-loss provisioning requirements.

**CAR remains above statutory floor.**

Using the new risk-based framework, banks remained adequately capitalized as of end-June 2008, with the industry's capital adequacy ratio (CAR) at 14.3 percent on a solo basis and 15.2 percent on a consolidated basis. The industry's CAR continued to exceed the statutory minimum set by the BSP at 10.0 percent and the Bank for International Settlements' (BIS) standard at 8.0 percent. The stricter requirements of Basel 2 caused the decline in the CARs of the banking system as compared with last year's CARs of 17.5 percent and 18.8 percent on solo and consolidated bases, respectively.

Banking System: Capital Adequacy Ratio  
In percent

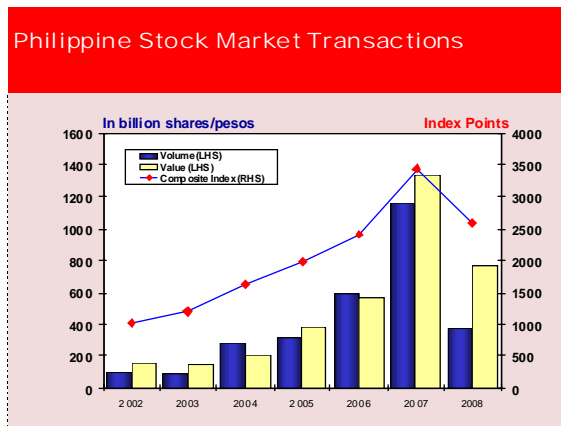


The Philippine banking system's CAR remained comparatively higher than those of Malaysia (12.6 percent), and South Korea (11.2 percent) but lower than Thailand (18.4 percent) and Indonesia (17.1 percent).<sup>2</sup>

### Stock Market Developments

**Risk aversion dampens trading in the local bourse.**

Concerns over the global financial turmoil and the subsequent slowdown of the global economy saw equity prices fall in 2008 as investors either sold shares or stayed in the sidelines. The average Philippine composite index fell by 24.8 percent to 2,587.4 index points from an all-time high of 3,442.9 index points posted in 2007 (Table 10). Other stock market indicators also reflected investors' generally bearish stance during the year, including: the 48.9 percent drop in market capitalization<sup>3</sup> to ₱4,069.2 billion; the 42.3 percent fall in market turnover<sup>4</sup> to ₱763.9 billion; the 85.2 percent jump in market volatility<sup>5</sup> to 448.2 index points; the reversal of foreign transactions to a net selling position of ₱22.1 billion; and the 26.4 percent decline in the P/E ratio to an average of 11.7.



Mounting fears that the shocks stemming from the US subprime mortgage crisis would be more widespread than expected, worries of a prolonged and deep US recession, and anxiety over the surge in inflation due to the uptrend in prices of crude oil and other commodity products, saw equity prices decrease steadily from 3,621.6 index points in end-December 2007 to 2,557.1 index points in end-July 2008.<sup>6</sup> Intermittently, during the first seven months of the year, the stock market index was lifted by

<sup>2</sup> Sources: Various central bank websites, Malaysia (Banking System, December 2008); Korea (KBs, June 2008); Indonesia (KBs, August 2008); and Thailand (Average Full Branch, September 2008)

<sup>3</sup> Market capitalization is the measure of the aggregate value of the issued shares of listed firms.

<sup>4</sup> Market turnover refers to the number of shares of stocks sold in the market during a given period of time.

<sup>5</sup> Stock market volatility is measured as the standard deviation of daily stock indices.

<sup>6</sup> Domestic inflation rose sharply from 3.9 percent in December 2007 to a peak of 12.4 percent in August, before easing slightly to 8.0 percent by December 2008.

positive developments such as Moody's Investors Service upgrade of the country's outlook from "stable" to "positive" and several policy rate cuts made by the US Fed. However, these rallies were never sustained for long amidst fears of higher domestic inflation and slower economic growth, dampening income and consumption.

In August, investors' appetite received a boost from the decline in global crude oil prices as the composite index closed higher at 2,688.1 index points. The following four months, however, saw share prices retreat anew despite the fall in international oil prices and coordinated central bank actions to ease global liquidity pressures and the faster-than-expected 4.6 percent growth of the Philippine economy in the third quarter of the year. The PSEi fell sharply in the last four months of 2008 on fears over the collapse of major financial institutions in advanced countries.<sup>7</sup> The bourse closed 2008 lower by 48.3 percent to 1,872.9 index points compared to year-ago levels.

***Stock market volatility rises sharply.***

Amidst investors' increased uncertainty arising from mounting global financial market stresses, stock market volatility rose sharply in 2008. Specifically, the standard deviation of daily stock indices nearly doubled to 448.2 index points during the period from last year's 242.0 index points. Trading was also lackluster, with the average daily value turnover dipping by 43.4 percent to ₱3,105.3 million and the average daily volume turnover falling by 68.0 percent to 1,516.3 million shares. Further attesting to the deterioration of investor confidence was the drop in the price-earnings ratio from 15.5 in end-December 2007 to 9.4 in end-December 2008. This reflected investors' expectation of lower earnings growth in the future compared to the previous year's strong performance.

***Foreign investors retreat from the equities market.***

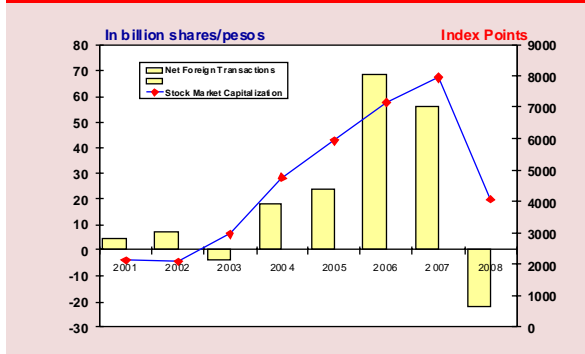
The net selling activity amounting to ₱22.2 billion in 2008 indicated investors' shift to safer havens (such as US Treasuries and gold).<sup>8</sup> This was a reversal of the net buying position of foreign investors in 2007. As a ratio to the total value traded at the exchange, foreign

<sup>7</sup> In the second half of the year, the drying up of liquidity and the subsequent fall in investors' confidence resulted in the closure, rehabilitation, takeover or conversion of several large financial institutions in the US (a) IndyMac Bancorp, one of the biggest US bank engaged in mortgage lending filed for Chapter 11 bankruptcy; (b) Fannie Mae and Freddie Mac, the two largest government-sponsored mortgage lenders in the US, were nationalized; (c) Lehman Brothers also filed for bankruptcy; (d) AIG, the biggest insurance company in the US, was provided by the US Fed with an \$85 billion loan in exchange for an 80 percent stake in the firm; (e) Merrill Lynch was bought by Bank of America; and, (f) Morgan Stanley and Goldman Sachs, the last two New York-based investment firms, converted into traditional bank holding companies.

<sup>8</sup> On a monthly basis, January to April and August to October were net foreign selling months; the rest were net foreign buying months.

transactions remained nearly unchanged at 48.7 percent during the period in review.<sup>9</sup>

**Net Foreign Transactions and Stock Market Capitalization (in billion pesos)**



**Market capitalization falls steeply.**

With both local and foreign investors either withdrawing their funds from the market or refraining from investing in equity shares, total market capitalization fell by nearly half (48.9 percent) to ₱4,069.2 billion from year-ago levels. All sectors posted declines from year-ago levels: the holding firms sector by 58.9 percent; mining and oil sector by 58.6 percent; financial sector by 54.5 percent; property sector by 50 percent; services sector by 35.7 percent; and, industrial sector by 26.7 percent. With the bearish market, most companies decided to defer their initial public offerings (IPOs) in 2008, except for two IPOs issued in the first half of the year (San Miguel Brewery, Inc. and Pepsi Cola Products Philippines, Inc.).

**Stock markets fall across the globe.**

The fall in equity markets was a global phenomenon as the subprime mortgage-induced global financial crisis led to either an economic slowdown or a full-blown recession in some major economies. As a result, other stock markets tracked the fall in Wall Street and performed poorly during the year in review. The table below shows the performance of selected stock markets in Asia and the rest of the globe. Among selected bourses in the region, the five indices which registered substantial declines were the Shanghai composite (68.4 percent), India's SENSEX (52.4 percent), Jakarta Composite (50.6 percent), Singapore's Strait Times (49.4 percent) and the Philippines' PSEi (48.3 percent).

<sup>9</sup> Foreign portfolio investments registered with the BSP also reflected higher risk aversion in 2008 as they posted a net outflow of US\$1.4 billion. This was a sharp reversal of the US\$3.5 billion net inflow registered in 2007.

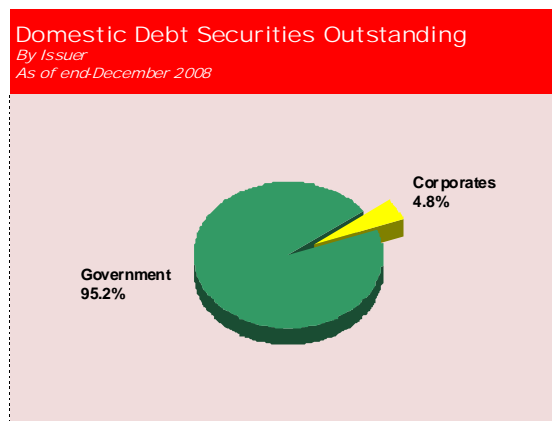
Selected Stock Indices				
End-of-Period				
Stock Index	Country	End-Dec-07	End-Dec-08	Y-o-Y Growth
<b>Asian Stock Indices</b>				
Shanghai Composite	China	5,761.6	1,820.8	-68.4
Sensex	India	20,287.0	9,647.3	-52.4
Jakarta Composite	Indonesia	2,745.8	1,355.4	-50.6
Strait Times	Singapore	3,482.3	1,761.6	-49.4
<b>PSEi</b>	<b>Philippines</b>	<b>3,621.6</b>	<b>1,872.9</b>	<b>-48.3</b>
Hang Seng	Hong Kong	27,812.7	14,387.5	-48.3
SET Index	Thailand	858.1	450.0	-47.6
Nikkei 225	Japan	15,307.8	8,859.6	-42.1
KOSPI	Korea	1,897.1	1,124.5	-40.7
KLSE Composite	Malaysia	1,445.0	876.8	-39.3
<b>Other Stock Indices</b>				
MerVal	Venezuela	2,151.7	1,079.7	-49.8
Bovespa	Brazil	63,886.0	37,550.0	-41.2
S&P 500 Index	United States	1,468.4	903.3	-38.5
DJ Industrial Avg.	United States	13,264.8	8,776.4	-33.8
DAX	Germany	8,667.3	4,810.2	-44.5
Swiss Market Index	Switzerland	8,828.4	5,534.5	-37.3
FTSE 100	United Kingdom	6,456.9	4,434.2	-31.3

Source: Bloomberg, Bombay Stock Exchange, Philippine Stock Exchange and Stock Exchange of Thailand

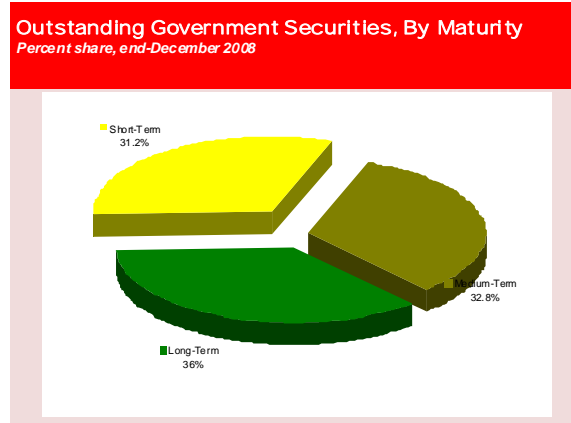
## Debt Securities Market Developments

### Government securities continue to dominate the market.

Government issuances continued to dominate the Philippine debt market, accounting for 95.2 percent of the total outstanding domestic debt in 2008. Outstanding government securities (GS) amounted to ₱2.5 trillion, 59.1 percent of which were regular issuances (e.g., Treasury bills (T-bills) and Fixed-Rate Treasury bonds (FXTBs)). T-bills comprised the bulk of regular issuances at ₱770 billion (52.7 percent). Meanwhile, private issuances comprised the rest of the domestic debt market at ₱125.0 billion or 4.8 percent of the total, a marked improvement from the 0.9 percent share posted in 2003. Asset-backed securities (ABS) comprised the bulk of private issuances at ₱80.3 billion, with the rest issued in bonds, corporate notes, and commercial paper lines.<sup>10</sup>



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



**Debt issuances rise in the primary market.**

In the primary market, the NG raised its programmed borrowings in 2008 by 14.9 percent to ₱303.0 billion from ₱263.8 billion in 2007. The NG made partial awards and only accepted ₱68.2 billion and ₱79.9 billion worth of T-bills and T-bonds, respectively. The NG also rejected fully some bids, and even cancelled a number of scheduled auctions for both the T-bills and T-bonds. For the entire second quarter, the sale of the 91-day and the 182-day T-bills was cancelled partly because the NG's cash flow reflected a bunching of maturities for short-term issuances. The NG likewise cancelled the last two T-bond auctions in July to give way to the issuance of the Retail Treasury Bonds (RTBs) on 30 July 2008.<sup>11</sup> The GS market was oversubscribed, as total tenders reached ₱195.4 billion and ₱271.9 billion for T-bills and T-bonds, respectively.<sup>12</sup>

The higher premiums demanded by dealers reflected rising risk aversion amidst the global financial turmoil. Reports of write downs and income losses by corporates and financial institutions in advanced countries accumulated. Expectations leaned heavily toward a further deterioration in the asset quality of global financial institutions as property prices continued to soften, credit terms tightened, and the global economy weakened.

The high bid rates also reflected the cautious attitude of investors due to the escalating inflationary pressures particularly in the first half of the year. The sharp movements in interest rates led to potential losses in the fixed-income market as bond prices dropped.

<sup>11</sup> The NG has raised a total of ₱70.0 billion from the sale of RTBs consisting of ₱29.003 billion in three-year and ₱40.997 billion in five-year tenors. Of the said amount, ₱9.124 billion were sold to eligible dealers through a Dutch Auction on 18 July, about ₱50.876 billion were subscriptions received by the selling agents during the public offering period and ₱10.0 billion were sold to GOCCs and other tax-exempt institutions through the BTR's over-the-counter window.

<sup>12</sup> Oversubscription is the gap between the amount tendered and the amount offered for a given instrument.



**Implementation of the 20 percent withholding tax on overnight RRP renews investors' interest in government securities...**

**... but uncertainties in the global financial markets increase interest in shorter-dated government debt papers.**

Meanwhile, the implementation of a 20 percent withholding tax on the overnight reverse repurchase (RRP) on 22 August 2008 renewed investors' appetite for GS papers in September. The tax implementation brought down the BSP's effective RRP rate, which, in turn, made GS more attractive to lenders. Moreover, interest rates fell towards the end of the month as the capital market reacted positively to the coordinated efforts implemented by major central banks to ease liquidity conditions and to cushion against a potential deepening of the global recession.

However, the positive sentiment was short-lived as bid rates jumped from October to November, reflecting spooked investor sentiment over growing concerns on the possibility of emerging markets falling into fiscal difficulties. GS dealers were seen investing in shorter-dated government debt papers, reflecting the preference to stay away from longer-dated bonds given the uncertainties in the global financial markets. Nonetheless, the deceleration in inflation rates towards the end of the year was a source of optimism as it gave monetary authorities flexibility to lower policy rates.

<b>Results of GS Auctions, 2008</b>				
<b>In billion pesos</b>				
<b>Quarter</b>	<b>Offering</b>	<b>Tenders</b>	<b>Accepted Bids</b>	<b>Rejected Bids</b>
<b>T-bills</b>	<b>137.0</b>	<b>195.4</b>	<b>68.2</b>	<b>127.2</b>
<b>First Quarter</b>	45.0	46.7	13.9	32.7
<b>Second Quarter</b>	36.0	50.2	17.4	32.8
<b>Third Quarter</b>	36.0	75.2	26.9	48.3
<b>Fourth Quarter</b>	20.0	23.4	10.0	13.4
<b>T-bonds</b>	<b>166.0</b>	<b>271.9</b>	<b>79.9</b>	<b>192.0</b>
<b>First Quarter</b>	45.0	74.3	21.7	52.5
<b>Second Quarter</b>	42.0	57.7	18.5	39.2
<b>Third Quarter</b>	49.0	94.8	27.5	67.3
<b>Fourth Quarter</b>	30.0	45.2	12.2	33.1
<b>TOTAL</b>	<b>303.0</b>	<b>467.3</b>	<b>148.1</b>	<b>319.2</b>

Source: Bureau of the Treasury

**Trading in the secondary market continues to increase.**

Meanwhile, trading of government debt papers at the Fixed Income Exchange (FIE) increased despite the actual decline in GS issuances. Total transactions at the FIE reached ₱1,935 billion, 23.7 percent higher than the ₱1,564.0 billion posted a year ago. The average daily volume of around ₱7.9 billion was 21.5 percent higher than the ₱6.5 billion daily average in 2007. This reflected continued market confidence in the FIE as a trading platform of fixed-income instruments and as a channel for maintaining adequate liquidity to support the strong



uptrend in transactions despite the global credit crunch. Fixed Rate Treasury Notes (FXTNs) were the most traded instruments, accounting for 87.5 percent of all transactions at the FIE during the year.

### Credit Risk Assessment

***Credit ratings on Philippine sovereign debt remain stable, supported by favorable fiscal performance.***

Notwithstanding increasing concerns on the global market slowdown, international rating agencies maintained their ratings on Philippine sovereign debt in 2008 except for Moody's which upgraded its outlook from stable to positive. Ratings were kept on the back of a strong external position and significant improvements in general government and public sector financial performance against continued, albeit easing, risks to revenue and deficit targets. Compared with the long-term foreign currency sovereign ratings of its neighboring countries in Asia, the Philippines' ratings ranked close to Vietnam and Indonesia.

**Philippine Sovereign Credit Ratings on Local and Foreign Currency Debt As of December 2008**

Rating Agency	Date of Latest Rating Action	Date of Latest Rating Assessment	Local Currency LT/ST	Foreign Outlook LT/ST	Outlook
S&P	9-Feb-06	14-Apr-08	BB+/B	BB-/B	Stable
Moody's	16-Feb-05	25-Jan-08	B1/n.a.	B1/n.a.	Positive
Fitch	13-Feb-06	27-Jun-08	BB+/n.a.	BB/B	Stable

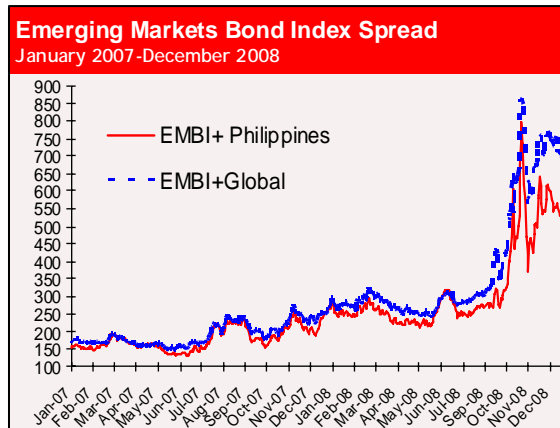
Source: S&P, Moody's and Fitch Ratings

***Concerns over the US credit crisis, rising inflationary pressures and slowing world economy weigh down on emerging market assets.***

Despite the unchanged credit ratings on Philippine sovereign debt, deepening concerns over the impact of the US credit crisis, rising inflationary pressures, and a slowdown in global economic growth continued to weigh down on demand for high-yielding emerging market (EM) assets.<sup>13</sup>

During the first quarter of the year, EMBI+ Global and EMBI+ Philippines widened to reach an average of 280 bps and 259 basis points (bps), respectively, from end-2007 levels of 239 bps and 206 bps. The rise in spreads was due to reports of huge losses of financial institutions and worsening conditions in the US housing sector, which contributed to intensified risk aversion and investors' shift to risk-free US Treasuries from assets of emerging markets (EMs).

<sup>13</sup> Credit default swap (CDS) is the cost of protecting Philippine government bonds from default.



Sovereign spreads expanded further in the third and fourth quarters, peaking on 24 October with the EMBI+Global spread increasing to 865 bps, the widest since October 2002 following the downfall of large financial institutions in the US and Europe. Similarly, the EMBI+ Philippine spread expanded to 796 bps, its peak level since August 1998, and CDS swelled to 825 bps.

**Sentiments for emerging market debt improve following interest rate cuts and fiscal stimulus packages.**

Towards the end of the year, the sentiments for emerging market debt improved. The successive interest rate cuts and fiscal stimulus packages in developed and developing countries buoyed the performance of emerging risk assets, which also benefited from sharply declining US Treasury yields. These positive developments reduced the EMBI+Global spreads to 690 bps, the EMBI+ Philippines to 541 bps and the CDS spreads to 386 bps at the end of 2008 from their peak levels.

## External Sector

### Balance of Payments

**Full-year 2008 BOP yields a surplus.**

Notwithstanding the deficit posted in Q4 2008 amidst the challenges posed by the stresses in the global financial markets and the economic downturn, the country's external payments position yielded a surplus of US\$89 million for the full year 2008. This level, however, was markedly lower compared to the US\$8.6 billion surplus in the same period in 2007. This developed as both the current account and the capital and financial account posted weaker performances, reflecting the strains in the external environment (Table 11).

**Current account registers lower surplus.**

The current account remained in surplus at US\$4.2 billion (equivalent to 2.5 percent of GDP), albeit lower by 40.6 percent from the previous year's surplus of US\$7.1 billion (4.9 percent of GDP). The sustained surplus in the current

account can be traced to the expansion in net current transfers receipts particularly due to robust remittances and the surplus of net income flows. These positive developments were, however, dampened by lower net services inflows and the higher trade-in-goods deficit.

Net current transfers receipts grew year-on-year by 7.6 percent to US\$15.2 billion, as a result mainly of the 9.7 percent rise in remittances of non-resident OFs amounting to US\$14.5 billion in 2008. Other transfers, mostly gifts and donations, also contributed to the performance of the current transfers account during the year.

The income account reverted to a surplus of US\$146 million from a deficit of US\$892 million, due mainly to higher gross earnings of resident OFWs which rose by 35.0 percent to reach US\$4.1 billion in 2008.

Services posted a net inflow of US\$1.4 billion. This was, however, 36.1 percent lower than the US\$2.2 billion surplus in 2007. Lending support to the surplus in the services account in 2008 were the net receipts from computer & information services and other business services largely on account of increased earnings from business process outsourcing (BPO) related-activities, notably contact centers, software development, medical transcriptions and animation. These gains were, however, moderated by higher net outflows in transportation, insurance, royalties and license fees, and government services as well as lower net receipts from travel, communication, and construction services.

The Philippines continued to attract high-value outsourcing operations (voice and non-voice) notwithstanding the global economic slump. This could be traced to the following factors: a) large pool of qualified workers with English and information technology (IT) proficiency; b) strong telecommunication infrastructures - with the private sector taking the lead in investments in local and international broadband connectivity; and c) relatively low wages.

A report of the Business Processing Association of the Philippines (BPA/P) indicated that the BPO industry achieved a revenue growth of 26 percent (US\$6.1 billion) in 2008. While this was 13 percentage points below the industry's revenue growth target of 39 percent, the industry expects to sustain its growth momentum in 2009 with huge growth potentials seen in all non-voice services particularly back-office (corporate) services, IT outsourcing and engineering/design process delivery,

following the excellent performance and higher value yields from these sectors.

On the other hand, the trade-in-goods deficit widened by 49.9 percent in 2008 to reach US\$12.6 billion from last year's deficit of US\$8.4 billion due to the combined effects of a contraction in exports (by 2.6 percent) and expansion in imports (by 5.0 percent). The decline in merchandise exports following the slowdown in external demand was in stark contrast to the 6.4 percent export growth in 2007. The expansion in merchandise imports, on the other hand, was driven mainly by major import commodity groups particularly mineral fuels & lubricants (28.5 percent) and consumer goods (41.0 percent), reflecting in part the higher prices of these goods in the middle part of the year.

***Capital and financial account reverses to a net outflow in 2008.***

The capital and financial account in 2008 reversed to a net outflow of US\$1.9 billion, a turnaround from the net inflow of US\$3.5 billion in 2007, pulled down by cautious investors' sentiment in the last quarter of 2008 in the wake of the global economic crisis. Both portfolio and other investments posted net outflows which more than offset the net inflow in direct investments.

The portfolio investment account reversed to a net outflow of US\$2.6 billion, from a net inflow of US\$4.6 billion in 2007. Contributing to this development were the following:

- a) net bond repayments by the NG (US\$831 million), corporates (US\$1.6 billion), the BSP (US\$43 million), and banks (US\$224 million); and
- b) net withdrawal by non-residents of their equity securities holdings in banks and private companies (US\$1.3 billion).

The other investment account recorded a net outflow of US\$522 million in 2008, more than twice the net outflow in 2007. A number of factors explained this development:

- a) net loan repayments by local banks (US\$487 million), and some private corporates (US\$2.5 billion); and
- b) non-residents' net withdrawal of currency and deposit with local banks (US\$204 million).

The direct investment account in 2008 reversed to a net inflow of US\$1.3 billion from a net outflow of US\$620 million in the previous year. This developed as residents deleveraged from their investments abroad resulting into

significantly lower net equity capital investments abroad by residents to US\$237 million (from US\$3.5 billion in 2007).

Meanwhile, foreign direct investments posted net inflows in 2008 of US\$1.5 billion, lower than the US\$2.9 billion net inflows in 2007 following the declines recorded in the major FDI accounts.

- a) Net equity capital flows in 2008 amounted to US\$1.4 billion, or 30.7 percent lower than the year-ago level. The U.S., Japan, Singapore, South Korea, Germany, Malaysia, Taiwan, Hong Kong, United Kingdom, and the Netherlands were the major sources of equity capital flows. The bulk of these inflows were channeled to the following sectors: manufacturing (shipbuilding/repair, auto electronics parts/components, paper/cigarette/tobacco products), services (recreational/cultural), mining, construction (hotel/resort/water spa development, power plant facility, global gateway and logistics hub), utilities, real estate, trade/commerce, and financial institutions.
- b) The other capital account, also recorded net inflows amounting to US\$261 million. The level, however, slipped by almost 25 percent compared to that recorded in the previous year, attributed mainly to the lower loan availments by Philippine subsidiaries from their mother companies as global economies continue to feel the financial squeeze and the slowdown in economic activity.
- c) Reinvested earnings, meanwhile, reversed to a net outflow of US\$91 million due to losses realized by some foreign direct investment enterprises in the country in 2008.

### **International Reserves**

#### ***GIR continues to increase.***

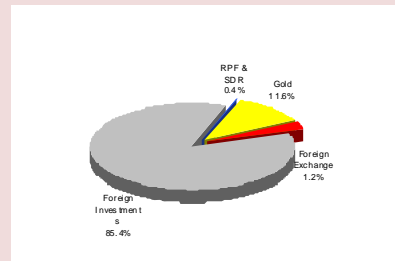
The gross international reserves (GIR) of the BSP, including the reserve position in the International Monetary Fund (IMF), reached US\$37.55 billion as of end-December 2008 (Table 12). This was 11.3 percent higher than the previous year's level of US\$33.75 billion. At this level, the reserves could cover 6.0 months' worth of imports of goods and payments of services and income. Alternatively, this level was equivalent to 4.2 times the country's short-term external debt based on

original maturity and 2.7 times based on residual maturity.<sup>14</sup>

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

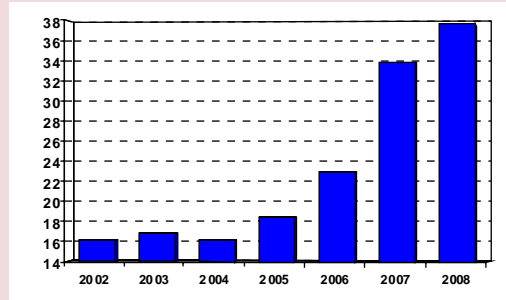
### Composition of Reserves

*Percent share, end-December 2008*



### Gross International Reserves

*In billion US dollars*



The bulk of the reserves was held in the form of foreign investments (85.4 percent), with the remainder in gold (11.6 percent), foreign exchange (2.6 percent), and combined Special Drawing Rights and reserve position in the IMF (0.3 percent).

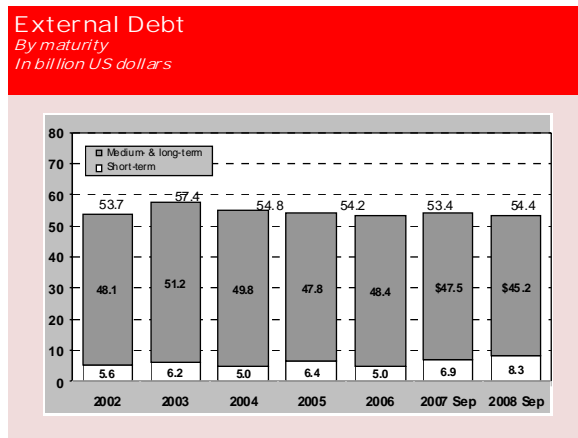
<sup>14</sup> Residual maturity refers to outstanding short-term debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.

The net international reserves (NIR) level, including revaluation of reserve assets and reserve-related liabilities, likewise rose to US\$36.0 billion from the end-2007 level of US\$33.74 billion. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

### External Debt

#### External debt declines.

The country's outstanding external debt reached US\$53.5 billion as of end-September 2008, down by US\$945 million or 1.7 percent from its year-ago level of US\$54.4 billion (Table 13). Compared to the end-December 2007 level of US\$54.9 billion, the end-September 2008 level was likewise lower by US\$1.46 billion or 2.7 percent.



Year-on-year, the decline in the debt stock was principally a result of net principal repayments which reached US\$3.3 billion. These were partially offset by: (a) upward foreign exchange revaluation adjustments (US\$1.5 billion), mainly reflecting the increase in the U.S. dollar equivalent of loans denominated in Japanese yen, which strengthened vis-à-vis the U.S. dollar; (b) increased holdings of Philippine debt papers by non-residents (US\$442 million); and (c) upward audit adjustments (US\$404 million).

#### The Government prepays some of its external debt.

Prepayments on external debt accounts during the 12-month period ending September 2008 totaled US\$1.8 billion. Major portions of these prepayments were made by the NPC, private commercial banks for their Tier-2 capital issuances and other major private borrowers across various sectors.

Medium and long-term (MLT) foreign loans decreased by US\$2.3 billion to US\$45.2 billion during the period under review from the previous year's US\$47.5 billion. Based on original maturity, these loans had a weighted average



maturity of 19.8 years, longer than the September 2007 average maturity of 18.7 years. Meanwhile, the share of MLT loans to total external debt fell to 84.5 percent from 87.3 percent in September 2007. By contrast, short-term (ST) obligations rose by US\$1.4 billion or 19.8 percent to US\$8.3 billion. Subsequently, the share of ST obligations to total debt stock climbed to 15.5 percent as of end-September 2008 from 12.7 percent as of end-September 2007.

<b>Medium and Long-Term External Debt*</b>	
<b>By maturity profile</b>	
<b>As of end-September 2008</b>	
	No. of Years
Total MLT Debt	19.8
Public Sector	21.6
Private Sector	11.7
*Based on Original Maturity	

***Public sector debt rises.***

Public sector debt rose by US\$1.1 billion to US\$38.3 billion during the third quarter of 2008. Similarly, the share of public sector borrowings to the total climbed to 71.7 percent as of end-September 2008 from 68.4 percent a year ago. By contrast, private sector debt dropped by US\$2.1 billion to US\$15.1 billion from US\$17.2 billion in September 2007. Likewise, the share to total borrowings of debt owed by the private sector declined to 28.3 percent from 31.6 percent in September 2007.

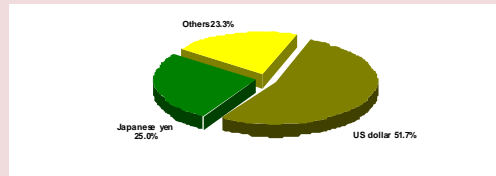
By creditor profile, official lenders (multilateral institutions and bilateral creditors) accounted for 42.0 percent of the total debt, followed by foreign holders of bonds and notes (33.4 percent) and foreign banks as well as other financial institutions (16.5 percent). The rest of the creditors (8.1 percent) were mostly foreign suppliers.

More than US\$28 billion (53.0 percent) of the total debt stock were denominated in US dollars while US\$14.3 billion (26.8 percent) were in Japanese yen. US dollar-denominated multi-currency loans from international financial institutions comprised 9.3 percent of the total external debt stock while the remaining 10.9 percent came from 18 other currencies, led by the euro.



External Debt

By currency, percent share, end-September 2008



**External debt indicators continue to improve.**

The country's major external debt indicators as a ratio to GNP and GDP continued to improve. The ratio of outstanding external debt to GNP fell markedly to 28.9 percent as of end-September 2008 from 36.8 percent in the same period in 2007. Similarly, the ratio of external debt to GDP dropped to 31.8 percent during the period under review from 40.2 percent in September 2007. The ratio has been moving further below the Early Warning System (EWS) threshold for assessing debt sustainability of 72.5 percent.

For the period January-September 2008, the country's debt service burden (DSB) amounted to US\$6.0 billion (i.e., principal amortizations plus interest payments) as against US\$6.0 billion for the same period in 2007 (Table 14). The debt service ratio (DSR), computed as the percentage of the DSB to the country's total exports of goods and receipts from services and income (XGSI) reached 10.0 percent compared to 10.8 percent in the comparable period in 2007. The current DSR is below the 20-25 percent international benchmark and the EWS threshold of 25.045 percent.

**Selected External Debt Indicators  
2007-September 2008, in percent**

	2007	Jan-Sep	
		2007 <sup>a/</sup>	2008 <sup>b/</sup>
External debt to GNP	35.0	36.8	28.9 <sup>a/</sup>
External debt to GDP	38.1	40.2 <sup>a/</sup>	31.8 <sup>a/</sup>
DSB to XGSI	10.1	10.8	10.0
DSB to CAR	9.7	10.3	9.6
DSB to GNP	4.9	5.4	4.4
Source: International Department			

<sup>b/</sup> preliminary

<sup>a/</sup> For comparability with annual figures, GNP and GDP numbers used are based on the sum of Q1 to Q3 data of the current year and Q4 data of the preceding year.

## PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

### Monetary Stability

***Inflation accelerates, reaching its peak in August.***

The Philippine inflation environment in 2008 turned out to be more challenging compared to the BSP's assessment two years earlier. Price pressures in the first half of the year had intensified more than initially anticipated, principally due to the surge in the international prices of oil and food. Thus, instead of the expected steady decline towards the target range, inflation climbed sharply from 4.9 percent in January to peak at 12.4 percent in August. Subsequently, as international commodity price pressures receded, inflation fell quickly, consistent with the temporary nature of commodity shocks. Inflation stood at 8 percent by December, bringing the full year average to 9.3 percent.

The surge in oil and food prices was a global phenomenon and affected not only the Philippines but also most countries worldwide. In fact, because of the magnitude and the unexpected nature of the global shocks, inflation targeting central banks breached their respective 2008 inflation targets.

***The BSP accommodates first-round effects; keeps policy rates steady in early part of 2008.***

In this situation, the BSP was aware that the initial rise in prices was primarily supply-side in origin and that commodity shocks are transitory in nature. Therefore, following an approach consistent with the widely-accepted principle that supply-side developments are best addressed by non-monetary measures, the BSP kept its policy rates steady. The BSP considered the rise in prices during the first half of the year as a shift in relative prices and accommodated such first-round effects, allowing them to "pass through" in the form of higher prices.

***With second-round effects evident, the BSP hikes policy rates from June to August.***

However, supply shocks from rising food and energy prices continued over a longer period, contributing to second-round effects, and affecting the wage- and price-setting behavior of businesses and households by the end of the second quarter. A rise in inflation expectations was also evident from surveys and financial market data, while the BSP's forecasts showed the risk of inflation exceeding targets for 2008 and 2009. The BSP responded to these second-round effects with decisive action and strong anti-inflation pronouncements. In particular, the BSP raised key policy rates by a total of 100 basis points from June to August while strengthening its anti-inflation commentary.

***The BSP adopts a neutral stance from September to November with improving inflation outlook...***

The inflation outlook started to improve in September, with the decline in international commodity prices. Monetary authorities, however, took the view that with the domestic elevated core inflation readings still rising, there were still price pressures in the pipeline. The weaker peso also posed an upside inflation risk. Hence, the Monetary Board, during its October and November policy meetings opted to keep policy rates steady to ensure that inflation and inflation expectations were kept at bay. Meanwhile, to address any possible tightness in financial markets as a result of the global financial turmoil, monetary authorities implemented preemptive measures aimed at providing adequate market liquidity and ensuring the orderly functioning of the financial system.

### **Introduction of a US dollar Repurchase Agreement (Repo) facility**

***... implements preemptive measures to support the orderly functioning of the financial system***

The BSP approved on 17 October the opening of a US dollar repurchase agreement (repo) facility to support the orderly functioning of the financial system as the main conduit for the implementation of monetary policy. The US dollar repo facility is expected to augment dollar liquidity in the market that would help address any temporary market tightness. In turn, this will help ensure the ready availability of credit for imports and other qualified funding requirements. For this facility, the use of foreign-denominated sovereign debt securities (ROP) as collateral for loans availed was allowed.

In addition, the BSP expanded the eligible collateral for the BSP's standing peso repo facility to include ROPs. The valuation for such collateral under both the peso and dollar repo facilities is governed by a revised scheme that is relatively more relaxed.

This facility complements the existing BSP standing facilities such as the overnight and term RRP/RP facilities, the emergency loan window and the peso rediscounting facility.

### **Reduction of the reserve requirement ratio and increase on the rediscount budget**

***...and provides ample liquidity to the system.***

Similarly, effective 14 November 2008, the regular reserve requirement on peso demand, "NOW", savings and time deposit liabilities and deposit substitutes of banks was reduced by two percentage points.

This move was accompanied by the increase in the BSP budget for the peso rediscounting facility from ₱20 billion to ₱40 billion effective immediately.

***The BSP cuts  
policy rates in  
December as the  
inflation outlook  
improves further.***

These two measures were aimed at preemptively ensuring the proper functioning of the interbank market and guarding against a possible liquidity or credit tightness arising from the global rise in risk aversion.

In December, the inflation outlook further improved, showing a decelerating path over the policy horizon, with the average inflation falling within the target range in 2010. This outlook reflected the significant fall in the November inflation and the sharper-than-expected slowdown in global economic growth. Given the downside risks associated with the declines in commodity prices, the fall in inflation expectations, and the slowdown in economic activity, the Monetary Board decided to reduce key policy rates by 50 basis points during its 18 December policy meeting.

BSP KEY POLICY RATES, 2008				
EFFECTIVITY DATE	LEVELS		Monetary Policy Decision	
	RRP OVERNIGHT	RP OVERNIGHT		
2008	31-Jan-08	5.00	7.00	The Monetary Board decided to reduce by 25 basis points the BSP's key policy interest rates to 5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's, RP's, and special deposit accounts were also reduced accordingly. In its assessment of macroeconomic conditions, the Monetary Board noted that the latest inflation forecasts indicated that inflation would fall within the 4.0 percent $\pm$ 1 percentage point target range in 2008 and the 3.5 $\pm$ 1 percentage point target range in 2009.
	13-Mar-08	5.00	7.00	The Monetary Board decided to keep the BSP's key policy interest rates at 5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's and RP's were also left unchanged. The Monetary Board also decided to implement immediately the following refinements in the Special Deposit Account (SDA) facility: (1) the closure of existing windows for the two-, three-, and six-month tenors; and (2) the reduction of the interest rates on the remaining tenors.
	24-Apr-08	5.00	7.00	The Monetary Board decided to keep the BSP's key policy interest rates at 5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's and RP's were also left unchanged.
	05-Jun-08	5.25	7.25	The Monetary Board decided to increase by 25 basis points the BSP's key policy interest rates to 5.25 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.25 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's, RP's, and SDAs were also increased accordingly. In its assessment, the Monetary Board noted that emerging baseline forecasts, which reflected more recent data on inflation and output, indicated a likely breach of the inflation target for 2008.
	17-Jul-08	5.75	7.75	The Monetary Board decided to increase by 50 basis points the BSP's key policy interest rates to 5.75 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.75 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's, RP's, and SDAs were also increased accordingly. The BSP's baseline forecasts showed the risk of inflation exceeding the inflation targets for 2008 and 2009, and for this reason, authorities believed that more decisive monetary action was necessary.
	28-Aug-08	6.00	8.00	The Monetary Board increased by 25 basis points the BSP's key policy interest rates to 6.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 8.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's, RP's, and SDAs were also increased accordingly. The Monetary Board noted that the impetus to tighten the monetary policy stance remained present as latest forecasts continued to show above-target inflation for 2009 as well as 2008.
	06-Oct-08	6.00	8.00	The Monetary Board kept the BSP's key policy interest rates at 6.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 8.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's and RP's were also left unchanged. The Monetary Board approved on 17 October the opening of a US dollar repurchase agreement facility to augment dollar liquidity in the market and ensure availability of credit for imports and other qualified funding needs. The measure complemented existing BSP standing facilities such as the repurchase (RP) facility, the rediscounting window, and the emergency loan facility.
	20-Nov-08	6.00	8.00	The Monetary Board kept the BSP's key policy interest rates at 6.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and 8.0 percent for the overnight lending or repurchase (RP) facility. The interest rates on term RRP's and RP's were also left unchanged. The Monetary Board approved on 6 November the reduction of the regular reserve requirement on bank deposits and deposit substitutes by two percentage points effective 14 November. The Board also increased the BSP budget for the peso rediscounting facility from ₱20 billion to ₱40 billion effective immediately. The two measures were aimed at preemptively ensuring the proper functioning of the interbank market and guarding against a possible liquidity or credit tightness arising from the global rise in risk aversion.
	18-Dec-08	5.50	7.50	The Monetary Board reduced the BSP's key policy interest rates to 5.5 percent for the overnight borrowing or reverse repurchase (RRP) facility and 7.5 percent for the overnight lending or repurchase (RP) facility. The Monetary Board based its decision on the latest baseline forecasts which reflected a decelerating inflation path over the policy horizon, supported by the downward shift in the balance of risks, following the easing of commodity prices, the moderation in inflation expectations, and the expected slowdown in economic activity.

## **Financial Stability**

***The BSP continues reforms to build a strong and resilient financial system.***

### **The BSP reaffirms its commitment to establish a vibrant financial system**

The BSP reaffirmed its commitment to establish a strong and vibrant financial system that would lead to a more balanced and sustainable economic growth path. During the year, a package of reforms was implemented in the areas of regulatory and prudential standards, risk management, corporate governance, and capital market development. Towards the second half of the year, reforms were implemented to shield the financial system against the adverse impact of the US financial market meltdown and the ensuing global financial and economic turmoil.

***The BSP introduces new guidelines on UITFs...***

### **Strengthening regulatory and prudential standards**

The BSP continued to strengthen its regulatory and prudential standards in line with international norms. These initiatives are aimed at promoting market discipline, greater transparency and reducing moral hazard.

During the year, new guidelines were put in place to govern the operation of unit investment trust funds (UITFs). Among others, the new guidelines required all UITF trustees to provide a list of prospective and outstanding investment outlets available for the review of all UITF clients as part of the minimum disclosure requirements in the trust agreements drawn by trustees for each UITF. The changes were intended to ensure that the investing public is well-informed of the returns and the general as well as specific risks associated with each type of fund product offered. (Circular No. 593 dated 8 January 2008)

As a complementary move, penalties were likewise amended to encourage banks/non-bank financial institutions (NBFIs) with authority to engage in trust and/or investment management activities and/or officers to comply with the basic security deposit for the faithful performance of trust, investment management and other fiduciary duties. (Circular No. 617 dated 30 July 2008)

In addition, the BSP imposed a single 20 percent overall limit on the exposure of universal and commercial banks (U/KBs) to the real estate industry. The new limit, which primarily serves as a prudential safeguard against the overconcentration of credits of U/KBs to commercial lending, is expected to provide greater flexibility in

delivering credit to high priority areas, such as infrastructure development and the construction of residential properties. (Circular No. 600 dated 4 February 2008)

***... relaxes rules on DOSRI and loans-to-deposits ratio***

Meanwhile, the rules on DOSRI and the loans-to-deposits ratio (LDR) of banks were relaxed while reportorial requirements on bank branches were further streamlined during the year. These regulatory changes were adopted to grant banks greater flexibility in their regional lending and deposit operations as well as to reduce the reportorial requirements. (Circular No. 613 dated 18 June 2008 and Circular No. 616 dated 30 July 2008)

**Strengthening Risk Management**

***... amends rules and regulations on derivatives activities to safeguard the interest of the investing public***

The rules and regulations governing the derivatives activities of banks and trust entities were likewise amended in 2008. The revised regulations expanded the range of available derivatives products for banks and their clients and, at the same time, strengthened the supervisory and risk management frameworks for derivatives activities. Safeguards were also put in place to protect the investing public by providing sales and marketing guidelines, including client suitability procedures and risk disclosure requirements for banks offering derivatives products to clients. (Circular No. 594 dated 8 January 2008)

***... issues guidelines on notes to fund recapitalization of banks***

To facilitate the recapitalization of banks undergoing rehabilitation, the BSP issued guidelines on the issuance of capital notes that will qualify as interim Tier 1 capital. Central to the qualifying guidelines is that the Philippine Deposit Insurance Corporation (PDIC) shall be the holder of the said capital notes and that any transfer from PDIC of said capital notes shall require prior BSP approval. (Circular No. 595 dated 11 January 2008)

***... amends guidelines on identifying and monitoring problem loans and other risk assets***

The BSP likewise amended the guidelines in identifying and monitoring problem loans and other risk assets and setting up allowance for probable losses. The amended regulation excluded from adverse qualitative classification of loans of Philippine branches of foreign banks to subsidiaries and affiliates in the Philippines of multinational companies. (Circular No. 603 dated 5 March 2008)

**Strengthening Corporate Governance**

***... requires banks to appoint a full-time compliance officer***

To enhance the compliance system of banks, the BSP amended the Manual of Regulations for Banks and all Quasi-banks by requiring all UBs/KBs, TBs and



RBs/Coop Banks and all quasi-banks with total resources of ₱500 million and above, to appoint an independent full-time compliance officer, who shall have the rank of at least a vice president or its equivalent. Meanwhile, an incumbent senior officer may be designated concurrently as the bank's compliance officer for banks and quasi-banks with total resources below ₱500 million. (Circular No. 598 dated 11 January 2008)

The BSP continued its policy drive to relax the rules on outsourcing of certain banking functions to enable banks to focus more on their core business activities and strategies. During the year, the BSP, through a series of circulars, included loan processing, credit administration and documentation services, production of credit cards, preparation of statement of accounts, telemarketing of insurance products as among the services/functions that banks may render through subsidiaries, affiliates and companies related to them by at least 5 percent common ownership. (Circular No. 596 and 597 dated 11 January 2008, Circular No. 604 dated 3 March 2008, and Circular No. 610, dated 26 May 2008)

#### **Promoting the development of the domestic capital market**

*... authorizes  
custodian banks to  
issue registration  
documents*

The BSP authorized custodian banks to issue special Bangko Sentral Registration Documents (BSRDs) to cover the PSE-listed shares of stock borrowed by foreign entities from local investors/lenders. Moreover, the said foreign borrowers are allowed to purchase foreign exchange from the banking system for remittance abroad using the peso sales proceeds of the borrowed shares, including the related income from Securities Borrowing and Lending (SBL) transactions, i.e., rebate or share in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the peso-denominated government securities and PSE-listed shares used as collaterals subject to certain conditions. (Circular No. 611 dated 30 May 2008)

#### **Strengthening efforts to address money laundering**

*... expands the type  
of valid identification  
cards for financial  
transactions*

The BSP amended the rules governing the acceptance of valid identification cards for all types of financial transactions by banks and non-bank financial institutions under BSP supervision, including those involving overseas Filipinos. The amendment expanded the type of valid identification cards used in any financial transactions to include the Integrated Bar of the Philippines ID and company IDs issued by private entities and institutions registered with or supervised or regulated



by the BSP, Securities and Exchange Commission or Insurance Commission. (Circular No. 608 dated 20 May 2008)

***... extends deadline for submission of covered transaction reports***

The BSP extended the deadline to ten working days (from five (5) days), for the submission to the Anti-Money Laundering Council (AMCL) of covered transaction reports (CTRs) and suspicious transaction reports (STRs) by all banks and non-bank financial institutions under the supervision and regulation of the BSP. (Circular No. 612 dated 13 June 2008)

**Tightening Bank Security**

***... revises rules on bank protection to ensure safety against crime***

The BSP revised the rules on bank protection to ensure public safety against crime. This entails the implementation of a security program that is acceptable to the BSP such as the installation of prescribed minimum security devices, the continued conduct of security awareness program to all bank personnel, the establishment of an effective working relationship involving the BSP, Philippine National Police (PNP), and other law enforcement agencies, and the continued conduct of research and studies on new techniques, methods and equipment to enhance bank protection measures. (Circular No. 620 dated 3 September 2008)

**Banking reforms to safeguard the banking system against the global financial crisis**

***... increases the rediscounting budget, reduces the reserve requirement ratio***

In November, the Monetary Board approved the reduction of the regular reserve requirement on bank deposits and deposit substitutes by two percentage points effective 14 November 2008. At the same time, the BSP increased its budget for the peso rediscounting facility from ₱20 billion to ₱40 billion effective 6 November 2008. The two measures are aimed at preemptively ensuring the proper functioning of the interbank market and guarding against a possible liquidity or credit tightness arising from the global rise in risk aversion. (Circular No. 632 dated 13 November 2008 and Circular 630 dated 11 November 2008)

***... adjusts guidelines in the computation of asset cover***

The BSP likewise approved an adjustment in the items eligible as asset cover for the purpose of the calculation of the 100 percent asset cover requirement. Under the revised guidelines, net unrealized losses arising from the marking-to-market of financial assets/liabilities and the revaluation of third currencies under the Foreign Currency Deposit Unit (FCDU)/Expanded Foreign Currency Deposit Unit (EFCDU) book will not be deducted from the asset cover for a limited period until 31 March 2009. The new

measure is expected to diminish the pressure on foreign exchange as banks would no longer need to keep buying dollars to comply with the 100-percent cover requirement, since the decline in asset values would not be deducted from their books. (Circular No. 629 dated 31 October 2008)

***... approves guidelines on the reclassification of financial assets***

The BSP approved the guidelines allowing financial institutions to reclassify financial assets from categories measured at fair value to those measured at amortized cost. Financial institutions may now reclassify their investments in debt and equity securities from the Held for Trading (HFT) or Available for Sale (AFS) categories to the Held to Maturity (HTM) or the Unquoted Debt Securities Classified as Loans (UDSCL) until 31 December 2008. This is consistent with the October 2008 amendments of the International Accounting Standards (IAS) 39 and the International Financial Reporting Standards (IFRS) 7 issued by the International Accounting Standards Board (IASB), in light of the extraordinary circumstances in the world's financial market. (Circular No. 626 dated 23 October 2008 and Circular 628 dated 31 October 2008)

***...and introduces the US dollar repurchase facility to mitigate the impact of global credit strains.***

The US dollar repurchase agreement facility (with foreign-denominated sovereign debt securities such as ROP bonds as collateral) was a contingency measure to mitigate, if not prevent, the effects of global credit strains to the Philippine economy. (Circular No. 627 dated 23 October 2008 and Circular No. 631 dated 12 November 2008)

## **Payments and Settlements System**

***Volume and value of transactions climb.***

In 2008, both the volume and value of financial transactions climbed by 16.8 percent and 19.0 percent, respectively, to reach 574,022 and ₱222.6 trillion. This was accounted for by the rise in new transactions coming from the Payments and Settlements Office (PSO) and Department of Loans and Credit (DLC), and the increase in transactions settled via the Treasury Department (TD), Enhancing the Electronic Fund Transfer Instruction System (EFTIS) and interbank. Following the rise in both the volume and value of transactions, transaction fees collected increased markedly by 123.2 percent to ₱113.6 million.

	<b>2008</b>	<b>2007</b>	<b>Annual Change (%)</b>
Volume	574,022	491,584	16.8
Value (In trillion pesos)	222.6	187.1	19.0
Transaction Fees (In million pesos)	113.6	50.9	123.2

Source: Payments and Settlements Office, BSP

***The BSP rationalizes transaction fees.***

To further improve the delivery of services to PhilPaSS participants, the BSP implemented in February a revised pricing structure that was aimed at rationalizing transaction fees charged to participants to make the fees more reasonable and equitable. Related to this was the abolition of the monthly connectivity and annual license fees on 3 July 2008.<sup>15</sup> The BSP also implemented projects that enhanced the system further, including:

- 1) Implementation of Enhanced Delivery-versus-Payment (e-DvP) system through the Philippine Dealing System Settlement Highway;
- 2) Automation of the Supervision and Examination Sector's collection of banks' annual supervisory fees;
- 3) Access to CD deposit transaction for the BSP Cash Department;
- 4) Auto-saving of PhilPaSS transactions every 5 minutes;
- 5) Batch processing of DvP transaction files transmitted by the BTr and vice-versa; and
- 6) Implementation of an on-line payment system for purchases of any BSP-publications.

## **Key Operations of the BSP**

### **Loans and Credit**

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

<sup>15</sup> The monthly connectivity refers to the fee imposed upon third party systems providers (TPSPs) who are the other payment system operators which eventually settle the results of their operations through PhilPass at the end of the day. These operators include Philippine Clearing House Corporation for check and electronic peso clearing results, the Bureau of the Treasury for the settlement of Delivery-versus-Payment (DvP) transactions, the Megalink for the settlement of ATM transactions, the Philippine Domestic Dollar Transfer System for the settlement of the peso leg in the Payments-versus-Payments (PvP) and the PDS Settlement Highway for the settlement of e-DvP and PDEX interbank repo trades.

As of 31 December 2008, the total loan portfolio of the BSP reached ₱125.8 billion, ₱24.9 billion or 24.7 percent higher than the previous year's ₱100.9 billion. Similarly, the total loans outstanding under the regular rediscounting facility amounted to ₱33.0 billion, also higher than the ₱6.2 billion in 2007.

Total loans granted for 2008 amounted to ₱67.1 billion, with ₱62.0 billion granted under the regular rediscounting facility. Out of the ₱62.0 billion released to banks for both peso rediscounting and EDYRF, loans granted to commercial banks, thrift banks, and rural banks reached ₱51.3 billion, ₱9.2 billion, and ₱1.5 billion, respectively.

Total loan collections for the year reached ₱42.2 billion with the bulk or ₱35.2 billion accounted for by rediscounting. Meanwhile, total gross income from lending operations of the Head Office reached ₱3.8 billion in 2008.

***The BSP increases the rediscounting budget and liberalizes rediscounting guidelines...***

The BSP provided additional liquidity in the market and facilitated the flow of bank credit by increasing the rediscounting budget to ₱40.0 billion from ₱20.0 billion on 6 November 2008. The BSP also amended the rediscounting guidelines on 11 November 2008 to strengthen and liberalize the BSP's operations on rediscounting.

Moreover, the BSP undertook special projects to enhance the timely and effective delivery of credit to all productive sectors of the economy, through the banking system and PDIC, under the regular and special credit windows. Among the projects undertaken were:

***... and undertakes projects for the timely and effective delivery of credit to productive sectors.***

1) The development and program testing for the "Collateral Information and Management System" (CIMS), which will complement the eRediscounting System. CIMS enables authorized users to electronically obtain information on the status of collateral documents, particularly the collateral positions of borrower banks and end-user borrowers. This system will also further facilitate loan processing as well as ensure the BSP's protection against potential credit risk.

2) Launching of the Credit Surety Fund Program (CSFP) in Cavite. The program is a credit enhancement scheme that allows micro, small and medium enterprises (MSMEs) that are members of cooperatives to borrow from banks even without collateral. Loans granted by banks under the Program are eligible for rediscounting with the BSP through the DLC. Preparations are underway for the launching of the CFSP in the provinces

of Batangas, Cebu, Bohol, Bulacan, Davao and Metro Manila.

### **Asset Management**

The BSP's acquired assets are administered, preserved and disposed off properly by the Asset Management Department. Private banks mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties, when availing of the loan facilities of the BSP. Upon failure of these banks and mortgagors to pay their loans, the BSP forecloses these real properties. Banks may also pay their loans with properties under a dacion en pago agreement.<sup>16</sup>

The book value of the BSP's acquired assets as of end-December 2008 stood at ₱12.4 billion, ₱0.9 billion or 6.8 percent lower than the previous year's level. Similarly, the number of real property titles acquired decreased by 0.8 percent or 272 titles to 34,101.

#### ***The BSP utilizes new approaches in asset administration and disposal ...***

In 2008, the BSP disposed 1,389 acquired assets with a total price of ₱593.4 million. These properties were disposed through the following schemes:

- 1) Redemption or repurchase;
- 2) Public auction;
- 3) Sale of acquired assets on a negotiated basis; or
- 4) Sale through the Provident Fund Office.

#### ***... improves administration of foreclosed properties***

To improve the administration of foreclosed properties, the BSP modified the guidelines in disposing the acquired assets to include the following:

- Reduction in the redemption period of the acquired assets. The payment period for the redemption of the BSP-acquired assets was reduced from 10 years to five years, while requests for longer redemption period of up to 10 years need to be approved by the Monetary Board (MB);
- Approval by the MB for a single purchase offer by one buyer for several properties;
- Preference given to government agency or instrumentality in the disposal of the BSP-acquired assets; and

<sup>16</sup> "Dacion en pago" refers to a payment type whereby property, whether real or personal, tangible or intangible, is alienated in favor of the creditor, which could either be a Financial Institution (FI) or an SPV, in satisfaction of an NPL.

***... and develops system for the management of acquired assets.***

- Adoption of the pricing policy of the National Housing Authority (NHA) in the valuation of the properties of the BSP relocated families at the Kasiglahan Village.

Meanwhile, the BSP started the development of the Acquired and Other Assets Management System (AOAMS), an integrated computer system that aims to address the operational requirements of the BSP in the management of acquired assets and in the monitoring of income, expenses and receivables in the last quarter of the year.

### **International Reserves Management**

***Gross international reserves continue to grow.***

The country's gross international reserves continued to grow, allowing for adequate cushion against any unforeseeable demand for foreign currencies. The bulk of the increase in reserves came from inflows from the BSP's net foreign exchange operations and income from its investments abroad. The BSP likewise undertook proactive measures in reducing its risks and exposures to global financial institutions. Funds were transferred to major central banks while the criteria for counterparty accreditation were made more stringent. Although the peso depreciated in 2008, its performance was nonetheless respectable relative to the other currencies in Asia and other emerging market economies.

To further enhance the reserve management strategy, the BSP adopted the following measures:

- 1) tranching the reserves and currency composition in order to match the liquidity as well as the currency mix requirements against the country's outstanding external liabilities;
- 2) redefining the benchmark from custom-based to that which is market-determined;
- 3) revising the Investment Guidelines to provide, among others, more flexibility for active management and strong measures for risk control; and
- 4) creating an Investment Management Committee which would provide a higher level of authority over the strategic allocation of long-term investments of internally-managed portfolio.



## International Operations

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

The BSP continued to evaluate foreign borrowing proposals from both the public and the private sectors to help manage the level and direction of the country's foreign debt. The BSP's external debt management framework remained focused on maintaining the stock of foreign debt at a sustainable level and to ensure that loan proceeds are utilized for priority activities.

***The BSP implements capacity building programs to enhance debt management capability.***

Moreover, as part of the BSP's capacity building systems/improvement programs, the BSP implemented the BSP Debt Management and Financial Analysis System (DMFAS) Project, which involves the acquisition of the DMFAS of the United Nations Conference on Trade and Development (UNCTAD), a computerized external debt monitoring system intended to ensure that the country is at par with international standards. The Project entered Phase II with the signing of the project document on 4 February 2008. The first mission from the UNCTAD-DMFAS Programme started on 11 February 2008. Preliminary activities included the following: (a) conversion of the existing database to the DMFAS format; (b) transfer of data to the DMFAS; and (c) completion of all the required elements prior to the implementation of the system at the BSP. The project also included technical assistance and training programs for BSP users and IT staff.

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

## Notes and Securities Printing

In 2008, the Banknotes and Securities Printing Department (BSPD) delivered a total of 1,871.5 million pieces of banknotes to the BSP's Cash Department

A total of 2.5 million passport booklets were delivered to the Department of Foreign Affairs (DFA).

## Mint and Refinery

The Mint and Refinery Operations Department (MROD) delivered a total of 900.1 million pieces of circulation coins to the BSP's Cash Department.

The BSP Mint also produced and delivered 366 sets of various presidential medals and state decorations to the Office of the President, Civil Service Commission, Supreme Court of the Philippines, and the Cultural Center of the Philippines.

The refinery produced a total of 2,853 pieces of “good delivery” gold bars which contained 1.168 million troy ounces of gold. Each bar had a minimum assay of 99.56 percent. In 2008, a total of 923 thousand troy ounces of gold were purchased by the BSP gold-buying stations from various sources, including small-scale miners, in accordance with Section 17 of Republic Act (R.A.) No.7076, otherwise known as “People’s Small-Scale Mining Act of 1991.” The BSP continued to maintain its five existing buying stations located in Quezon City, Baguio City, Davao City, Naga City and Zamboanga City.

## **Currency Issuance and Retirement**

### ***Currency Issuance***

#### ***Currency notes issuance increases.***

Total currency notes issued by the BSP amounted to ₱588.0 billion (2,357.6 million pieces) as of 31 December 2008, 21.7 percent higher than the year-ago level of ₱483.2 billion. Meanwhile, total coins issued stood at ₱16.1 billion (14,458.8 million pieces) reflecting an increase of 6.6 percent from the year-ago level of ₱15.1 billion.

### **Currency Retirement**

#### ***The number and amount of unfit notes retired through ABPMs increase.***

A total of ₱17.7 billion (368.7 million pieces) verified cancelled unfit notes were retired off-line by Currency Issuance and Retirement Office (CIRO) in 2008 through the Volumatic Disintegrator. This represented a decrease of 26.7 percent or 134.0 million pieces of notes (₱15.8 billion) from 502.6 million pieces (₱33.5 billion) in 2007. Meanwhile, a total of ₱84.5 billion (254.3 million pieces) were retired on-line through the Automated Banknote Processing Machines (ABPMs), higher by ₱6.9 billion or 8.9 percent compared to the previous year’s level of ₱77.6 billion (137.0 million pieces).

## **Economic Research, Statistical, and Information Dissemination Activities**

In 2008, the BSP strengthened further its thrust towards more in-depth research, high quality statistics, and better information dissemination through the various initiatives and projects of the Department of Economic Research



(DER), the Department of Economic Statistics (DES), the Center for Monetary and Financial Policy (CMFP), and the Economic and Financial Learning Center (EFLC) which was formally inaugurated on 3 October 2008. These undertakings helped policymakers both within and outside the BSP to make better-informed decisions, assisted researchers and analysts to expand the scope of their studies, improved data availability, quality and transparency, and promoted a better understanding of the role of the BSP in the economy.

***Research activities to support monetary policy-making expand.***

During the year, policy papers on the monetary policy stance were prepared for the Advisory Committee and for the Monetary Board. These policy papers contained analyses of the economic and financial developments and outlook in the Philippines and abroad, an assessment of the outlook for prices in line with the inflation targeting framework, and discussions on selected issues which have bearing on the conduct of monetary policy. The policy papers were updated regularly to monitor the trends of economic and financial indicators, to analyze data/information trends and their policy implications, and to evaluate various scenarios and policy options.

***Research activities to enhance econometric modeling and forecasting continue.***

In line with the formulation of monetary policy, the analysis of economic policies and the setting of macroeconomic assumptions and targets, the BSP continued to enhance its econometric modeling and forecasting activities. In 2008, the BSP continued to review and improve its existing models, developed new ones, and conducted econometric simulations for policy analysis. Besides starting work on the re-estimation/re-specification of the single- and multiple-equation models, the BSP re-estimated its Long-Term Macro-Model (LTMM) using the 2000-based CPI indices, BPM5 format of the BOP and the Depository Corporations Survey (DCS). The BSP also finalized the Dynamic Stochastic General Equilibrium (DSGE) Model Development Project.

***Environmental scanning exercises on relevant economic developments continue.***

During the Environmental Scanning Exercises (ESEs) conducted in 2008, resource persons from the banking community, private sector and the academe participated actively in the exchange of knowledge on timely issues which could influence monetary policy-making. ESE topics included: 1) increasing the absorptive capacity of the economy through the development of financial markets specifically, the developments in foreign exchange inflows and the role of financial markets in efficiently channeling these inflows to investments to stimulate economic growth; and 2) anchoring inflation expectations amid global shocks, covering how inflation expectations are formed, measured and anchored, and

how they can serve collectively as a potent and effective channel for monetary policy amidst the protracted periods of high and volatile commodity prices, and the global financial turmoil.

***The administration of risk monitoring methods and activities widens.***

Results of the Early Warning System (EWS) on currency crisis and the EWS on Debt Sustainability are regularly reported to the Advisory Committee and the Monetary Board during their meetings on the monetary policy stance. In 2008, revisions in the thresholds of the EWS on currency crisis were made to incorporate changes in data definitions and indicators to be monitored. The BSP also started work on developing a Bank Distress Index (BDI) to identify the banking crisis episodes in the country and to anticipate possible systemic risks from liquidity constraints faced by a particular bank.

***Data collection and information management improves.***

The BSP continued to regularly measure and monitor the Philippine business cycle as part of its efforts to manage the risks in the economy. The BSP used various leading indicators of income, spending, services and production to help track the country's business cycle on a quarterly basis.

***The conduct of various surveys continues.***

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

In 2008, the coverage of the quarterly BES was expanded to the Top 7,000 Corporations of the Philippines and regional survey reports were published along with the national survey report through press releases and the BSP website.

Improvements were made to the CPIS, an annual survey on residents' holdings of foreign-issued equities and long- and short-term debt securities. Information on the currency of issue and the classification of the non-resident issuer of the security (i.e., whether the non-resident issuer is a bank, non-bank financial corporation, non-financial corporation, foreign government, foreign central bank, or international organization) were included

in the 2007 CPIS to enhance the analytical value of the CPIS reports.

The BSP participated in the inception plans on the conduct of the Coordinated Direct Investment Survey (CDIS), a new global statistical undertaking aimed at improving the coverage and comparability of international investment position statistics on FDI.

***The BSP participates in the pilot testing of investment and consumer finance surveys...***

During the year, the BSP prepared a report on the pilot-test results of the Consumer Finance Survey (CFS), a household-based survey on consumer's finances in the Philippines to guide planners in forecasting the direction of change of household financial and non-financial assets, indebtedness, sources of income, expenditures, and savings and its impact on monetary policy variables like inflation, interest rates and exchange rates, as well as on banking and financial stability indicators.

***...revises the depository corporations survey***

The BSP revised the Depository Corporations Survey (DCS) in accordance with the recommendations of the IMF Technical Mission. This involved a reclassification of some accounts and enhancement of the sector of accounts on reserve money in the compilation for the Other Depository Corporations (ODCs) starting March 2008. The BSP also constructed the time series on monetary statistics in accordance with the Standardized Reporting Format (SRF) for ODCs and central banks, augmenting the existing analytical formats. In addition to the existing DCS, the BSP generated the Other Depository Corporations Survey (ODCS), which consolidates the balance sheets of all deposit-takers, excluding the central bank.

The BSP developed and implemented statistical methodologies on external sector accounts aligned with international standards. The methodologies were also adopted in the revised historical BOP and International Investment Position (IIP) statistics.

***... releases the 2006 Annual Flow of Funds (FOF) statistics***

In February 2008, the BSP released the 2006 Annual Flow of Funds (FOF) statistics. Prior to this, the available series based on the new framework was from 2000 to 2004 and 2005, which were released in December 2006 and May 2007, respectively. The BSP also pursued a pilot test on the Semestral FOF for 2006 and 2007.

***... strengthens ties and partnerships with stakeholders***

The BSP held the 2008 Stakeholders' Awards on 11 July 2008 in the NCR and on July to August 2008 in Regions I, III, VII and XII to give recognition to its partners from the business and government sectors who continued to support the BSP's statistical undertakings and information

needs. The BSP awarded the best survey<sup>17</sup> respondents, commercial banks which accounted for the bulk of OF remittances, and top exporters. Awards were also given to institutional partners that provided valuable information support for the BSP's conduct of monetary policy and different advocacies.<sup>18</sup>

The BSP also continued to conduct dialogues with exporters to gain a broader perspective in its assessment of the outlook for the export sector. In line with this, the BSP hosted three Hedging Conferences for Exporters<sup>19</sup> and five sectoral dialogues with various export sectors in 2008.<sup>20</sup>

***... and strengthens working relationship with various organizations.***

The BSP strengthened its working relationship with the academe and other organizations, with the upgrading of seven CBP/BSP Professorial Chairs to BSP-UP Centennial Professorial Chairs, as well as the hosting of the Philippine Economic Society (PES) annual meeting and selected events of the Philippine Statistical Association (PSA). The BSP also provided resource speakers to universities, colleges and other institutions that requested briefings on the economy and the BSP's policy thrusts.

***The BSP publishes reports and studies to promote transparency and to increase public awareness on relevant issues ...***

As part of the BSP's mandate of fostering greater transparency in its operations and enhancing public awareness to promote price stability, the BSP continued the publication of regular and special reports on the economic and financial developments of the country.<sup>21</sup>

The BSP Working Paper Series was constituted to stimulate discussion and solicit comments/suggestions through peer review or refereeing. The two BSP working papers in 2008 included Forecasting the Volatility of Philippine Inflation using GARCH Models and Adjustments in the Face of Peso Volatility: Perspective from the Past and Policy Directions.

<sup>17</sup> These surveys include the BES, Cross Border Transactions Survey, FDI Survey, CPIS, and Survey on IT and IT-Enabled Services.

<sup>18</sup> These advocacy programs are the following: 1) Hedging Facilities for Exporters; 2) Public Information Campaign; and 3) Financial Learning Campaign (FLC)

<sup>19</sup> Hedging Conferences for Exporters were conducted at the following venues: Davao City in February, Cebu City in March, and Angeles City, Pampanga in April.

<sup>20</sup> There were also five Exporters' Fora in April 2008 for each of the following sectors: garments, accessories, handicrafts and decors; electronics, machinery and transport equipment; semi-processed food and agri-based products; BPO service providers; and mining, mineral and petroleum.

<sup>21</sup> These included yearly reports such as the Annual Report, Philippine FOF, CPIS, and Survey of IT-Enabled Services; semestral reports on the Status of the Philippine Financial System and Regional Economic Developments in the Philippines; quarterly reports such as the BOP, BES, CES, Inflation Report, Report on Economic and Financial Development, Letter to the President; and monthly report on Selected Philippine Economic Indicators (SPEI).

***... participates actively in inter-government agency committees...***

The BSP also contributed to international publications to ensure the dissemination of BSP staff's research to the public. The BSP co-authored the study on Determinants of House Prices in Nine Asia-Pacific Economies which was published as a BIS Working Paper in October 2008.

The BSP actively participated in inter-agency committees such as the Development Budget Coordination Committee (DBCC), the National Price Coordinating Council (NPCC) and the Committee on Tariff and Related Matters (CTRM) and the Export Development Council (EDC).

The BSP was also involved in various committees on statistics such as: the Technical Committee on Price Statistics (TCPS); the Inter-Agency Committee on Trade Statistics (IACTS); the Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS); the Inter-Agency Committee on labor, income and productivity statistics (IACLIPS) and the technical working group (TWG) on OF statistics; and Inter-Agency Committee and the TWG on tourism statistics. The BSP organized an inter-agency committee that coordinated the launching of the financial learning campaign (FLC) international road shows, and sent representatives for the inter-agency consultative meetings on the 2nd Global Forum on Migration and Development.

***...and international conferences.***

In the international front, the BSP participated in conferences and meetings organized by regional/multilateral organizations to discuss economic and financial developments and policy issues. In selected seminars, the results of BSP research were presented. The study on Determinants of House Prices in Nine Asia-Pacific Economies which the BSP co-authored was presented at the Asian Finance Association/Nippon Finance Association International Conference in Tokyo, Japan and the 13th Asian Real Estate Society Annual Meeting and International Conference in Shanghai, China, where it won the Best Paper Award. The BSP also hosted international conferences such as the Joint BSP-BIS High-Level Conference on Transparency and Communication in Monetary Policy on 1 February 2008. The BSP also provided technical support to the Philippine delegation in various regional and multilateral meetings, conferences, and international road shows, particularly in the areas of monetary policy, banking and finance.

## **Supervisory Policy Development and Banking Statistical Activities**

***The BSP continues to align regulatory and supervisory frameworks with internationally accepted standards and banking practices ...***

The BSP continued to review existing rules and regulations as well as banking practices to progressively align BSP's regulatory and supervisory frameworks with internationally accepted standards and best practices. Consistent with this objective, the policies implemented in 2008 were geared towards the following:

- 1) Continued adoption of international accounting standards in the treatment of transactions involving warrants paired with ROP bonds and in the reclassification of assets between categories;
- 2) Promotion of corporate governance and bank protection through stricter regulations pertaining to the appointment of banks' compliance officers;
- 3) Development of policies to support consolidated and risk-based supervision;
- 4) Enhancement of supervisory tools through improved reportorial requirements on microfinance loans and selected branch accounts; and application of FRP to financial institutions;
- 5) Adoption of prudential regulations on the rationalization of the limit imposed on real estate loans of universal and commercial banks, the use of valid identification cards in financial transactions, the application of directors, officers, stockholders, and related interests (DOSRI) rules and regulations to government borrowings, the penalties imposed on banks/ non-bank financial institutions (NBFIs) engaged in trust and/or investment management activities, and branching guidelines;
- 6) Strengthening of market discipline and investor protection through the issuance of guidelines on treatment of net unrealized losses in compliance with the foreign currency deposit unit (FCDU) asset cover requirement; and the prohibition of the sale, discounting, assignment or negotiation by banks and quasi-banks of their credit rights in special deposit account (SDA) placements and reverse repurchase agreements (RR/P) with the BSP.

***... publishes various reports on the banking system***

Apart from the continuing enhancements of the existing regulatory and supervisory frameworks, the BSP also published various reports on the condition and performance of the banking system, provided technical assistance to BSP officials (i.e., preparation of policy



speeches, presentation materials and briefing notes), served as secretariat to the Financial Sector Forum (FSF),<sup>22</sup> actively participated in various industry working groups and international conventions/seminars and training initiatives, both local and foreign, to be in step with the developments in the financial services industry.<sup>23</sup>

**... and develops further the financial system databases.**

Likewise, the BSP developed further the financial system databases to support the increasing demand for real-time access to varied banking information and for a more in-depth analysis of banking trends and developments.

### Branch Operations

**The BSP continues to provide central banking services in the countryside.**

The BSP's three (3) regional offices and eighteen (18) branches continued to provide basic central banking services such as currency withdrawals and deposits in the countryside that helped facilitate monetary and financial transactions in the regions in 2008. More provincial-based banks availed of the rediscounting window as reflected in the 71.1 percent increase in the total peso rediscount loans in 2008 compared to the previous year. The regional offices and branches of the BSP likewise continued to play a pro-active role in the conduct and implementation of various BSP advocacy programs. By enhancing the operation of the Economic Financial Learning Centers in the regional branches and offices, the BSP was also able to provide an effective learning hub in these areas. These offices also served as listening posts of the BSP in terms of monitoring regional economic developments and concerns related to money, credit and banking. The regional offices and branches also continued to be actively involved in the processing of the business and consumer expectations survey, conduct of various public information campaigns, and generation of the biannual report on regional economic developments.

<sup>22</sup> The Financial Sector Forum (FSF) has four participating agencies namely the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC). The voluntary cooperative endeavor of the concerned agencies to provide an institutionalized framework for coordinating the supervision and regulation of the financial system, while preserving each agency's mandate.

<sup>23</sup> The reports include the Financial Stability Report (FSR); the implementation of R.A. No. 9178 "Barangay Micro Business Enterprises (BMBEs) Act of 2002"; the implementation of R.A. No. 7721 (An Act Liberalizing the Entry and Scope of the Operations of Foreign Banks in the Philippines and for other Purposes); the risk-based capital adequacy ratios (CAR) of banks; the non-performing loans (NPL) of banks; the Early Warning System (EWS); the quarterly updates on BSP's supervised/regulated financial institutions (FIs); the Philippine offshore banking system; Philippine foreign currency deposit system; the exposures to the real estate sector; auto loans (ALs) and credit card receivables (CCRs); and the rules and regulations issued in connection with the adoption of the Rural Banks Act and the Thrift Banks Act.

## **Advocacy Programs**

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

### **Microfinance**

#### ***Growth and dynamism in the microfinance industry continues.***

In 2008, the Philippine microfinance industry continued its growth and dynamism as evidenced by the growing number of new players, wider range of products and services, and increasing number of technological innovations and applications. As the BSP continued to be responsive to the changing needs of microfinance, focus has turned to a more holistic approach in developing inclusive financial system. Beyond microfinance, an inclusive financial system aims to expand access to financial services by effectively mainstreaming the unserved population into the financial system. The end goal is to see more institutions utilize multi-channels to deliver a wide range of financial services to more Filipinos, including those who were previously excluded from the system and who remained unbanked.

With the objective of building an inclusive financial system, the BSP maintained its three-pronged program to: 1) provide an enabling policy and regulatory environment; 2) increase the capacity of the BSP and the banking sector in microfinance and SME finance operations; and 3) promote and advocate for the development of a sound, sustainable and inclusive financial system.

Positive results of these efforts were reflected in the increasing number of banks engaged in microfinance operations. Policy initiatives in 2008 were directed on improving further past issuances/regulations and expanding the same, when necessary. Issuances and guidelines were also focused on innovations in microfinance products and service delivery. Several initiatives on training and capacity-building were undertaken to expand skills, knowledge, understanding and appreciation of microfinance and SME finance. Moreover, the BSP provided support, inputs and relevant assistance to various groups, namely, commercial banks, local and international private groups, local government units, foundations, policymakers, regulators and microfinance clients.

As of end-June 2008, there were 230 banks (largely dominated by rural banks) with microfinance operations.



These banks were reaching more than 802,092 borrowers with loan portfolio of more than ₱6.5 billion. Banks have also generated deposits from micro-borrowers totaling ₱1.6 billion as of end-June 2008.

### **Consumer protection**

***The BSP promotes consumer rights awareness and expands access to financial services.***

In addition to microfinance, the BSP also aims to promote consumer rights awareness for better protection of the general public and expand access to financial services, particularly for the small and medium entrepreneurs unreached by the existing banking network.

During the period under review, the BSP conducted nine (9) financial education campaigns (FECs) on credit card awareness and microfinance in the Cebu Regional Office, Dumaguete Branch, University of Cebu and San Jose-Recoletos University. Participants included government employees, students, teachers and university officials and staff, and OFs and their beneficiaries. Topics included Managing Credit Card Debt, *Ingat* Tips (Consumer Protection), Pawnshops and Remittance Agents, Investment Protection Tips and Basics on Savings and Investments. Apart from the local activities, the BSP also took part in international roadshows and conferences.

### **Economic and financial education**

#### **Economic and Financial Learning Centers (EFLCs)**

***The BSP opens the Economic and Financial Learning Center ...***

The BSP formally inaugurated the Economic and Financial Learning Center (EFLC) main branch at the BSP Complex on 3 October 2008. The EFLC is the focal point of contact with the public on information concerning economic and financial matters. It houses the BSP Library and Statistical Center and features interactive learning tools and facilities for the public. Likewise, the EFLC launched its Economic and Financial Lecture Series to address current economic and financial issues. A total of four in-house lectures were held during the last quarter of the year. Topics included the economic financial crisis, remittances, regional inflation and the role of the BSP in the Philippine economy.

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

***... continues to conduct public information campaigns in various parts of the country***

The BSP conducted a series of public information campaigns in various cities within and outside Metro Manila to promote greater transparency of monetary policy-making in the Philippines, help manage inflation expectations, enhance public awareness on recent

economic developments, microfinance, and on the role of the BSP in the Philippine economy.

The BSP has conducted 71 public information briefings all over the country since 2000. These briefings have been attended by more than 5,000 representatives from the academe, business and labor sectors, the banking community, government and non-government organizations, as well as members of the press.

In 2008, the BSP continued to collaborate with universities and colleges outside Metro Manila in response to suggestions of other sectors (i.e., media, business, government, banking and academe) to reach out more to students.<sup>24</sup>

### **Users' Forum**

***... continues to conduct the Users' Forum***

The BSP continued to conduct a Users' Forum every October of each year in celebration of the National Statistics Month. This forum aims to: (a) raise the level of public appreciation in current economic and financial issues; (b) educate the public and enhance awareness on BSP-produced statistics at the regional level; and (c) further strengthen the feedback mechanism on the conduct of the Financial Learning Program (FLP) as well as on the BSP's performance. In 2008, the BSP conducted the Users' Forum of BSP-produced statistics in the cities of Roxas, Laoag and Lucena. The Forum reached out to a diverse audience from the academe, media, government, banking and business sectors.

### **PICs against Counterfeiting**

***... continues to pursue information campaigns to preserve and maintain currency integrity***

The BSP continued to pursue an intensified/expanded information campaign to preserve and maintain currency integrity in various sectors.

Lectures/seminars on currency familiarization and counterfeit detection of Philippine/other acceptable foreign currencies were conducted for 14,487 cashiers/tellers/cash handlers of banks and other establishments.

The BSP likewise conducted briefings on the features of genuine BSP notes and coins, Clean Note Policy, Coin

<sup>24</sup> Participants included students, teachers and university officials and staff in the following universities/colleges: Don Mariano Marcos Memorial State University (Bacnotan, La Union), Bicol University (Daraga, Legazpi City, Albay), Cavite State University (Indang, Cavite), Aklan State University (Banga, Aklan), Bataan Peninsula State University (Balanga City, Bataan), Bulacan State University (Malolos, Bulacan), Palawan State University (Puerto Princesa, Palawan), West Visayas State University (Iloilo City, Iloilo), Cagayan de Oro College-PHINMA Education Network (Cagayan de Oro City, Cagayan de Oro), and University of Southeastern Philippines (Davao City, Davao).

Re-circulation Program and Reward System (where the BSP encourages the public to furnish information on persons/groups responsible for the manufacture/passing of counterfeit currencies) in the transportation sector which covered 2,965 transport operators, drivers and conductors in 14 cities<sup>25</sup> and 4 municipalities in Iloilo and Aklan.

As part of its advocacy, the BSP staff served as resource persons as well, appearing as guests in television programs and radio interviews on issues concerning the Philippine currency.

### **Financial Learning Campaign for Overseas Filipinos (OFs) and their Beneficiaries.**

*... carries out financial learning campaigns for overseas Filipinos and their beneficiaries*

The FLC aims to: (1) cultivate financial education among OFs and their beneficiaries; and (2) promote financial planning, savings, and investments among OFs and their beneficiaries by informing them of alternative uses of their remittances, including savings, investments in financial instruments and business ventures. By providing them with appropriate financial information, the FLC hopes to enhance the ability of OFs and their beneficiaries to cope with the current global financial crisis.

In 2008, the BSP, along with the Overseas Workers Welfare Administration (OWWA), organized and conducted 12 FLCs for about 1,652 participants in key Philippine cities and regions.<sup>26</sup> The FLC participants included returning OFs, OFs visiting the Philippines, those intending to work abroad, OF families, and other beneficiaries.

In addition, the BSP widened the reach of its advocacy program and, at the same time, improve on the financial education of OFs and their families by, among others, holding international roadshows in Hong Kong and Singapore. The BSP, in cooperation with the Department of Foreign Affairs, Department of Trade and Industry, National Reintegration Center for OFWs, and OWWA, has launched three international FLC roadshows in Hong Kong and Singapore in September-October 2008.

*... organizes conferences to promote greater public awareness on hedging facilities*

### **Conference on Hedging Facilities for Exporters**

In 2008, the BSP, in coordination with the regional offices in Davao City and Cebu City and its branch in Angeles

<sup>25</sup> These cities include Marikina, Mandaue, Lapu-Lapu, Bacolod, Puerto Princesa, Navotas, Dipolog, Calamba, Tuguegarao, Davao, Dumaguete, Iloilo, Vigan and General Santos.

<sup>26</sup> FLCs were conducted in Iloilo City, Roxas City, Kalibo, Aklan, Zamboanga City, General Santos City (Palimbang, South Cotabato, Sultan Kudarat), Cauayan (Isabela), Tuguegarao City, Gumaca (Quezon), Lipa (Batangas), and Batac (Ilocos Norte).

City, organized follow-up conferences on hedging facilities to promote greater public awareness particularly among exporters on financial matters, especially in managing their business risks. The topics included country experiences on raising export competitiveness, exchange rate policy, examples of hedging programs offered by banks, and the BSP's regulations on hedging transactions. The audience consisted of a mix of representatives from the exporters and/or exporters' associations, banks and other financial institutions, and other organizations (e.g., other business establishments/indirect exporters, other government agencies, the academe and the media).

### Financial Education Campaign for Schoolchildren

**... completes the final review of the teaching guides on financial learning**

In 2008, the BSP completed the final review of the teaching guides on financial learning and prepared these guides for printing and reproduction. More than 37,000 teachers from public elementary schools involved in the three subject areas, namely: *Sibika at Kultura* and *Heograpiya, Kasaysayan at Sibika* (Social Studies), *Edukasyong Pangkabuhayan at Pantahanan* (Work Education) and *Edukasyong Pagpapakatao* (Character Education) were allotted one copy each of the Teaching Guide. The Department of Education (DepEd) provided the list of the number of teachers in each subject per school.

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

### Outreach Programs

**... and continues to drive the Tulong Barya para sa Eskwela.**

*Tulong Barya para sa Eskwela.* A component of the National Coin Recirculation Program, *Tulong Barya Para sa Eskwela* was re-launched in July 2008 and ran until 31 December 2008. The program's implementation in the schools was directly managed by the DepEd while the

BSP gathered support from the private sector including banks, malls, and retailers.

The *Tulong Barya para sa Eskwela* met its twin objectives of promoting coin recirculation through the regular use of coins and raising funds for the benefit of public elementary schools.

## Institutional Building

***The BSP completes institutionalization of a results- and stakeholder-oriented organizational performance monitoring and evaluation system.***

### ***Corporate Planning***

With the adoption of the BSP Organizational Model, Objectives Framework and Scorecard in 2007 and the Monetary Board approval of the BSP Planning Process in April 2008, the BSP focused on institutionalizing a results- and stakeholder-oriented organizational performance monitoring and evaluation system consistent with a continuous- and strategy-focused approach to planning.

The BSP Scorecard provided the springboard for strategic reporting through a series of regular performance review sessions (PRS) at the corporate and sectoral levels. The PRS provided the venue for management to assess the organization's progress towards achieving set objectives and targets, as well as identify cooperative efforts to ensure that the benefits of our strategic choices can be realized.

In 2008, three major initiatives to support the Bank's operational effectiveness objectives were pursued:

1) Implementation of the Performance Monitoring System (PMS) to help determine performance at the corporate and sectoral levels given established objectives and metrics; provide points of analysis, basis to recommend interventions and decision points to be acted upon; and facilitate a more efficient and effective way of monitoring and updating of the scorecards.

2) Development of the BSP Project Management (PM) Framework. With the BSP strategies being mostly project-driven, the BSP stands to benefit from institutionalizing a project management framework and recognizing project management as an organizational core competency. Preparatory works towards this end, such as the baseline assessment of BSP's PM maturity level and comparative experiences of other banks, were already conducted. The project is targeted to be completed by 2009; and

3) Development of the BSP integrated corporate governance framework to assess the BSP's progress in achieving its desired corporate governance objectives through adherence to good governance principles in

**The BSP implements in-house computer application systems to improve its operations.**

decision-making, systems and procedures, and work ethics.

**Information Technology**

The BSP completed and implemented in-house application systems as follows:

- 1) Various systems to improve the operation of the Philippines' Real Time Gross Settlement (RTGS) Systems or Philippine Payments and Settlements System (PhilPaSS);
- 2) Standard Reports for IMF report requirements, as requested by the Department of Economic Statistics (DES); and
- 3) Computerized IT Helpdesk to log and monitor reported computer-related incidents.

Apart from the management of host computers, hardware, communications and network infrastructure of the Bank, the BSP also administered 68 application systems on production, most of which were enhancements resulting from BSP and/or departmental policy changes, and/or supplementary user requirements.

**Human Resource Sub-Sector**

**The BSP continues the streamlining of processes and the build-up of a more efficient workforce.**

In line with the Bank's thrust to streamline processes and build a more efficient workforce, the BSP implemented the following MB-approved policies:

- 1) Guidelines on Reorganization in the BSP, which aims to: a) provide a standard approach in determining the appropriate number of groups, divisions, units in an office or department; and b) rationalize the staffing of divisions performing line and staff functions and the supervisory level for divisions.
- 2) Policy Framework on Outsourcing in the BSP, which seeks to institutionalize outsourcing as a strategy to: a) focus on BSP core functions; b) streamline the operations of the BSP; c) improve operational efficiency; and d) facilitate the pursuit of a knowledge-based organization.

In addition, the BSP continued identifying the competencies for all jobs in the BSP as an integral part of the shift to a competency-based HR system in January 2008.<sup>27</sup> It also obtained the approval of six competency

<sup>27</sup> Competency profiling is the process used to identify the cluster of knowledge, skills, and attitudes underlying



models<sup>28</sup> and completed the profiling of jobs for a number of services.

### **Conference, Seminars and Workshops**

***The BSP continues to create a learning culture and develops a highly-skilled and responsible workforce ...***

In 2008, the BSP adopted the Balanced Performance Scorecard and the Resource Management Sector's Metrics in the achievement of its goals and targets. Using these as bases, the BSP strategically lined up its programs and projects for 2008 to ensure the realization of its role as a dynamic partner and reliable resource provider in learning activities.

During the second quarter, the BSP implemented innovative learning and development strategies to deliver world class training and education events while, at the same time, realizing cost savings.

To make learning more accessible to a greater number at the least possible cost, the BSP conducted training right in the work venues (Regional Offices and Branches, and Security Plant Complex) of the learners. Quality learning programs through customized and/or relevant courses are produced by working closely with clients, subject matter experts and training partners. This also involved strengthening the BSP's business relationships through networking and technical cooperation with international training collaborators and central bank counterparts. This strategy brought in additional resource persons and more training opportunities for the BSP personnel abroad, resulting in the acquisition of knowledge, information and skills from a global perspective.

***... implements cost-saving measures for its training programs and reviews existing systems to enhance their effectiveness***

In line with systems enhancement and productivity improvement, the BSP implemented cost-saving measures, reporting 82.7 percent utilization rate on current operating items for the fourth quarter of 2008. It continued to review existing systems for enhancement, which brought out the implementation of the Scholarship Assessment Center and the enhanced training evaluation forms to assess the recipients' reactions to training courses to include a measure of variance. An enhanced and technology-aided foreign training proposal form is also in the pipeline.

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the successful performance of the human resource of an organization. Under this system, all human resource activities such as recruitment, promotion, training and development, and performance evaluation are anchored on competencies.

<sup>28</sup> These competency models include the following: BSP Core Competencies, Managerial and Leadership, Bank Examination, Currency Operations, Economic Research, and Payments and Settlements Competency in January 2008. Other eight competency models on Production, Loans and Credit Operations, International Operations, Internal Affairs, Data and Statistics, Internal Audit, Procurement Services, and Administrative Services were likewise approved by the Monetary Board in June 2008.

Another identified goal for 2008 was to make learning both attractive and accessible for the most number of people. To achieve this goal, the BSP introduced the Soundview Executive Summaries for MSEP Graduates via E-Learning, a cutting-edge learning resource which hopes to implement a knowledge-sharing practice in the BSP.

Meanwhile, as part of its initiatives to disseminate information about learning events and activities more efficiently, the BSP launched its enhanced webpage through the BSP intranet.

### ***In-House Training***

***... focuses on capability building and enhancement of technical skills, leadership and behavioral competencies***

The BSP's 2008 Work Plan covered a wide-array of courses focusing on capability building and enhancement of the BSP personnel in terms of technical skills, leadership and behavioral competencies. Technical topics relevant to core central banking functions included: economic and financial forecasting, economic statistics, econometric modeling, risk-based supervision, risk management, forensic examination of counterfeit notes, information and communication technology, and property management and appraisal.

Skills building courses, i.e., oral and written communication, computer proficiency, research and writing proficiency, project management, and cost-benefit analysis were offered year-round to support the BSP's drive toward performance excellence. These were supplemented by courses aligned with the BSP's core values and corporate culture.

New and enhanced courses were introduced in the areas of technical and skills development, leadership and management, organizational development and corporate values and culture to meet current and future business needs. The courses were designed in collaboration with the requesting department/offices, subject matter experts and stakeholders.

### ***External Training***

***... facilitates active participation of BSP employees' in both local and foreign trainings***

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



management, administrative functions, training, and public relations.

Foreign training provided opportunities for bank officials and personnel to enhance their knowledge and skills on central banking functions, which are currently scarce locally. The BSP's continued partnership and networking with international organizations and financial agencies allowed increased training allocations and invitations in public offerings sponsored by different multinational and international organizations.<sup>29</sup> The topics of these foreign trainings, included central banking, macroeconomic and monetary policy, financial risk management, Basel II, payments systems, banking supervision, accounting and audit, cash management, anti-money laundering, asset liability management, reserve management, exchange rates, financial derivatives, and debt management , among others.

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

***... continues its scholarship programs for its employees as well as their dependents***

#### **Scholarships**

For 2008, scholarships for masteral degree studies in foreign universities were granted by the BSP through the BEST Program or were co-sponsored with foreign agencies.<sup>30</sup> Master's degree programs pursued in foreign universities were mainly on central banking core functions, e.g. public policy, economic policy, finance and law.

Under the local scholarship programs, the BSP granted master's degree scholarships under the CSC Local Scholarship Program and under the Off-Campus Master's Degree Program on public management, finance and statistics.

<sup>29</sup> These include the IMF Institute, (situated in both Washington D.C., USA and Singapore), the South East Asian Central Banks (SEACEN) Research and Training Centre, the Financial Stability Institute of the Bank for International Settlements, the Center for Central Banking Studies of the Bank of England, the International Banking and Finance Institute of Banque de France, Deutsche Bundesbank, the Federal Reserve Bank System, Comptroller of the Currency (USA), the World Bank Institute, South East Asia, New Zealand and Australia (SEANZA), Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), Asia Pacific Rural and Agricultural Credit Association-Center for Training and Research in Agricultural Banking (APRACA-CENTRAB), Center for Latin American Monetary Studies (CEMLA) and other central banks in the regions.

<sup>30</sup> These foreign agencies include the following: Joint Japan/World Bank Graduate Scholarship Program (2 grantees), Japan-IMF Scholarship Program for Asia (1 grantee), Japanese Grant Aid for HRD (JICE-JDS) (3 grantees), Japan International Cooperation Agency (1 grantee), AusAID (2 grantees), New Zealand Aid (1 grantee) and Korea Advanced Institute of Science and Technology Scholarship Program (1 grantee).

The BSP also extended the scholarship benefits to the employees' dependents. The BSP pre-qualified 45 dependents of BSP employees to take the competitive examination for the Scholarship Program for Deserving Children of BSP Employees for SY 2008-2009. The examination that was conducted simultaneously in the Main Office and BSRO – Davao produced nine successful scholarship grantees in 2008.

The 2008 BSP's scholarship program produced a total of 13 graduates: five under the BEST Program from various foreign schools in the US and the UK graduating from courses in law, finance and applied economics; three from local schools (University of the Philippines, De La Salle University and University of Asia and the Pacific) under the BEST local scholarship; three under the Foreign Agency-Assisted Scholarship from Sophia University, International University of Japan and National Graduate Institute for Policy Studies (finance and economics); and two under the CSC-LSP Master's Degree Completion from UP (finance).

#### ***Global Professional Certification Programs***

***... continues to facilitate the review and applications for certification examinations of BSP personnel***

Professional certification is a mark of excellence and commitment as a professional, and improves/enhances the image and capability of the BSP in the performance of its functions and responsibilities. Recognizing the importance of acquiring professional certification to elevate the performance level of staff in their respective fields, the BSP facilitates the review and application for certification examinations of BSP personnel on specialized areas, particularly in financial analysis, internal audit, information systems analysis, financial risk management and financial services analyst. For 2008, the BSP facilitated the review and/or certification examination of 43 BSP personnel. Eleven employees received global certifications within the year. Four received their Certification as Financial Services Auditor (CFSA) while two became Chartered Financial Analysts (CFA) during the fourth quarter.

#### ***Regional Co-hosting***

***... continues to co-host various training events with foreign institutions***

The BSP, together with SEACEN Research and Training Centre, conducted the SEACEN-FSI-IMF Course on Economic Policies for Financial Stability held at the Edsa Shangri-la Hotel, Manila last 25 August – 4 September 2008. It was attended by 36 central bankers from various SEACEN member countries. Speakers from the IMF, Financial Stability Institute (FSI), central banks in the

Asia-Pacific region and other international organizations enlightened the participants on how macroeconomic and micro-prudential policies safeguard financial stability.

Another co-hosting activity by the BSP was with CCBS-BOE and De Nederlandsche Bank on the Regional Seminar-Workshop on Governance held last March 2008 and attended by 20 participants from the BSP. The speakers were from the BOE and the De Nederlandsche Bank. Topics discussed included: Current Key Issues for Senior Central Bankers, Key Governance Issues, Developing an Integrity Management and Financial Sector Integrity Management Framework, Governance Aspects of Monetary Policy, and Strategic Management in Central Banks.

### **Special Projects**

#### *E-Learning*

**... and undertakes projects on E-learning, customer satisfaction survey, integrated management system, and scholarship assessment.**

As part of the E-Learning program of the BSP, the Soundview Executive Book Summaries was launched, initially for graduates of the Management Skills Enhancement Program (MSEP). This is a resource consisting of summaries of books on management and leadership authored by well-known writers in their fields.

The BSP Learning Management Module (BSP LMM) Request for Proposal has been completed. This will provide for the launching, and enrolment of BSPI personnel to e-learning courses. The BSP LMM will involve the utilization of technology that would strategically support and reinforce learning in real-time to a greater number of participants; gain access to a wider range of self-guided courses; reduce the time and the resources required in the effective delivery of training; and build a learning culture through knowledge sharing.

A number of BSP employees were enrolled in on-line courses offered by UNITAR. The topics included: Capital Market Development, Risk Management, Corporate Governance, Public Debt Management, Money Market, and International Negotiations.

#### *Integrated Management System*

The BSP completed the documentation of its processes last November 2008, through the BSP Institute Integrated Management System (BSPI-IMS). This aimed to provide its clients with the highest quality of service through training deliveries. There are six standard manuals included in the BSPI-IMS: Quality Manual, Job

Description, Reference, Procedures, Work Instruction and Forms Manual. These manuals serve as guides in improving work practices within the department to ensure customer satisfaction based on its requirements. Quality Policy and Objectives have also been established to guarantee continuity in the delivery of world-class service by its competent personnel.

### ***Risk Management***

***The BSP establishes the Risk Management Office.***

In the second half of the year, the Risk Management Office was organized to act as the Bank's coordinating body and process oversight in aggregating the various financial and non-financial risk exposures of the Bank, identifying appropriate risk control measures, recommending risk management policies and developing and maintaining a culture of risk awareness within the Bank.

By the last quarter of the year, the Risk Management Office was fully staffed with six personnel, and twelve Risk Management Units were created in the Monetary Stability Sector, Resource Management Sector and Security Plant Complex to perform risk monitoring and control at operations level. The objectives and methodologies for enterprise risk management were rolled out in seventeen separate plenary sessions with top management, Risk Management Units, three regional branches and non-operating offices of the Bank within the last quarter.

To equip them with the proper tools in developing and implementing the risk management methodology for the Bank, the staff attended four seminars on risk management and a customized course on developing communication skills for promoting a risk awareness culture and administering the plenary sessions.

### ***Crisis Management***

***The BSP continues to ensure continuity of business in times of crises.***

The BSP continued to mount its activities towards effective leadership in ensuring the continuity of business, especially time-sensitive operations, in times of crises through its Crisis Management Office (CMO). Such activities included the following:

- 1) Reconstitution of the BSP Security and Safety Committee, which aimed at strengthening the BSP's emergency management to assure business continuity, which was approved after a comprehensive review of past and existing related organizations;

2) Development, orientation and hands-on training (in coordination with ITSS) of the BSP's Unified Directory System (BUDS), an on-line, real time reporting system designed for the regular updating and submission of the Departmental Call Tree, Institutional Call Tree, Departmental Business Continuity and Disaster Brigade Teams;

3) Continuous bank-wide education and awareness initiatives on topics related to business continuity and emergency management through regular lotus notes broadcast, Disaster Preparedness Training for Disaster Brigade Teams, briefings and workshops that resulted in the preparation and testing of the Departmental Business Continuity Plans (DBCPs) of BSP departments/offices;

4) Issuance of the Guidelines on the Maintenance of Portable Emergency Lights with Cell Phone Charger; and

5) Participation in various international conferences, seminars and workshops on crisis management, business continuity and disaster recovery.

### **Systems and Methods**

***The BSP continues to pursue service excellence.***

In the pursuit of the BSP's commitment to institute service excellence at par with world class standards, the following programs were accomplished through the Systems and Methods Office (SMO) in coordination with other departments/offices:

1. Completed the design and development of five Management Systems (MS) for OSMB, FMED, BSPI, PrO, and ITSS;

2. Completed the Independent Quality Assessments (IQA) of 18 quality management systems (QMS) Projects and 21 Regional Monetary Affairs Sub-Sector (RMASS) Units to measure and monitor the effective implementation of QMS;

3. Worked towards achieving an effective implementation of the Environmental, Occupation Health and Safety Management System (EOH&SMS) in BSP offices and branches through the IQA. The IQAs ensured the compliance of the BSP to applicable environmental laws and international agreements, conventions and protocols, protected the environment and the community where it operates, and promoted sustainable development and product stewardship; and

4. Implemented simplified rating schemes for EOH&SMS and QMS, which further encouraged BSP

departments and offices to actively pursue the development, deployment and implementation of their management systems.

Moreover, the updated BSP Service Manual, which guides employees towards better service delivery, was completed and signed during the 15th anniversary celebration of the BSP. The manual is maintained in the BSP intranet.

## **International Economic Cooperation**

***The BSP continues to participate actively in international economic cooperation activities .***

In 2008, the BSP continued to participate actively in international economic cooperation activities under bilateral, regional and multilateral fora. These included efforts to reinforce global financial cooperation and integration, improve economic surveillance, and promote regional bond market development and free trade agreements. The BSP also communicated to officials and stakeholders of the IMF and the World Bank its position on various issues and proposals to improve the effectiveness of these multilateral organizations in promoting global financial stability and economic growth and development.

### **Economic Surveillance and Policy Dialogue**

***Economic surveillance and policy dialogue remain integral components of international economic and financial cooperation.***

At the regional and multilateral levels, economic surveillance and policy dialogue remained an integral component of international economic and financial cooperation. At the multilateral fora, surveillance issues were discussed at the meeting of the IMF and the BIS.

At the regional level, the BSP participated in a range of surveillance capabilities complementing those being undertaken by international and other regional financial institutions. Regional economic surveillance was undertaken by the Executives' Meeting of the East Asia-Pacific Central Banks (EMEAP), SEACEN, and under the Finance Ministers' processes of the Association of Southeast Asian Nations (ASEAN), and ASEAN plus China, Japan and Korea (ASEAN+3). EMEAP continued its monitoring activities under the Monetary and Financial Stability Committee (MFSC). The BSP likewise submitted the updated ASEAN Surveillance Data Template to the ASEAN Secretariat for the ASEAN Surveillance Report. The Philippines also participated in the 43<sup>rd</sup> SEACEN Governors' Conference on 20-23 March 2008 in Jakarta, Indonesia, where the SEACEN Governors exchanged views on issues relating to economic and financial developments and financial deepening in Asia.



## Liquidity Support Through the Chiang Mai Initiative

***The global financial turmoil calls for strengthening of regional cooperation.***

The global financial turmoil called for further strengthening of regional cooperation efforts in 2008, particularly in the area of short-term liquidity support. To ensure regional market stability, ASEAN+3 countries agreed to accelerate the establishment of an advanced framework of regional liquidity support arrangement in the form of the multi-lateralized Chiang Mai Initiative (CMI).<sup>31</sup> To further enhance the effectiveness of the CMI, the ASEAN+3 Finance Ministers tasked their Deputies to set up a new taskforce to further study various possible options toward an advance framework of the regional liquidity support arrangement. The taskforce is expected to look into the details and operational aspects of the following options for multilateralizing the CMI: (1) reserve earmarking arrangement, (2) self-management reserve pooling arrangement, (3) centrally-managed reserve pooling arrangement, and (4) institutionalized arrangement.

To promote a more effective and efficient pooling and utilization of regional liquidity support among other member countries, the ASEAN+3 Finance Ministers agreed in principle that a self-managed reserve pooling arrangement (SRPA) is an appropriate form for multilateralizing the CMI.<sup>32</sup>

During the 11<sup>th</sup> AFMM+3, held on 4 May 2008 in Madrid, Spain, it was agreed that the total size of the SRPA would be at least US\$80 billion, with the ASEAN contributing 20 percent (US\$16 billion) to the pool while the remaining 80 percent (US\$64 billion) will be divided among China, Japan and Korea.

After the AFMM+3 considered the recommendations of the Working Group on the Size of the SRPA (WG1), which the BSP co-chaired with the Bank of Korea, the Task Force on CMI Multilateralization embarked on reorganization, forming working teams to further study the

<sup>31</sup> The CMI was established in May 2000 to provide, in a timely manner, financial resources to any ASEAN+3 countries participating in the CMI, which is in need of balance of payments or short-term liquidity support. This facility is important because a regional financing arrangement would help complement financial support from an IMF program. The current CMI has two components, namely: (1) the ASEAN Swap Arrangement (ASA), and (2) the network of bilateral swap arrangements (BSAs) between participating member countries of the ASEAN+3. The Philippines concluded BSAs with China, Japan and Korea amounting to US\$10 billion in recent years. Collectively, the BSA network consists of 16 agreements among eight ASEAN+3 countries which totaled US\$84 billion as of end-2008.

The CMI has proven to be a commendable initiative in the aftermath of the Asian financial crisis. It provided the region with its own liquidity arrangement that can be called upon when the need arises. However, the size of the swaps is still limited compared to the foreign exchange reserves held by the ASEAN+3 countries. In addition, the swaps are bilateral in nature, and linked to an IMF program. Only 20 percent of the total facility is quick-disbursing and can only be drawn and renewed once without linkage to an IMF program.

<sup>32</sup> The SRPA framework was taken up during the 10<sup>th</sup> ASEAN+3 Finance Ministers meeting in Kyoto, Japan on 5 May 2007.



remaining issues, particularly the pooling structure, borrowing quota and credit-risk sharing. The BSP remains actively involved in the discussions on the key elements of the multilateralized CMI.

To address calls for regional response to the impact of the market turmoil surrounding the US subprime mortgages to the ASEAN+3 region, the BSP co-hosted with the Department of Finance (DOF), the Special ASEAN+3 Senior Finance and Central Bank Officials' Meeting on 20 November 2008 in Makati City, Philippines. The meeting agreed to recommend the acceleration of the establishment of the multilateralized CMI and enhance its key elements to mitigate risk-averse sentiments and bolster the confidence of the markets toward the region.

### **Regional Bond Market Development**

***The Philippines actively pursues efforts to develop efficient and liquid bond markets in Asia.***

The Philippines is actively involved in pursuing efforts under the Asian Bonds Markets Initiative (ABMI), which was endorsed at the ASEAN+3 Finance Ministers meeting in Manila, Philippines on 7 August 2003. The ABMI aims to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments. It would also contribute to the mitigation of currency and maturity mismatches in financing. Currently, the ABMI is focused on facilitating access to bond markets and enhancing market infrastructure for the development of local and regional bond markets through the following initiatives: (1) facilitating the issuance of local currency-dominated bonds; (2) promoting the demand of local currency-denominated bonds; (3) improving the regulatory framework; and (4) improving the related infrastructure for bonds markets.

The new ABMI Roadmap has been endorsed to the 11th AFMM+3. The new ABMI Roadmap rearranged the functions of the current working groups in order to ensure consistency with the above-mentioned four key pillars of bond market development, thus enabling its effective implementation. The current working groups were transformed into four new Task Forces in line with the four key areas (pillars).

Under the new ABMI Roadmap, the BSP chairs the Task Force 4 (TF4) on Improving Related Infrastructure for the Bonds Markets, with the Korea Ministry of Strategy and Finance as co-chair. The BSP will lead efforts in promoting bond market development activities under TF4, which include the following: (1) developing infrastructure for securities settlements; (2) increasing the liquidity of

bond markets; (3) fostering credit culture; and (4) developing the professional services of financial analysts.

### **Financial Services Negotiations**

***The BSP plays an active role in negotiations on trade in financial services.***

The BSP played an active role as the lead agency on trade in banking services, undertaking international trade negotiations in 2008. On bilateral trade agreements, the BSP participated in the hearings of Senate Resolution No. 131 or the Ratification of the Japan-Philippines Economic Partnership Agreement (JPEPA). The JPEPA was approved by the Senate on 8 October 2008 and entered into force on 11 December 2008.

Under the regional free trade agreements (FTA), the BSP co-chaired with DOF, the Working Committee on Financial Services Liberalization (WC-FSL) under the ASEAN Framework Agreement on Services (AFAS). The WC-FSL coordinates the financial services negotiations among ASEAN member countries under the auspices of the Finance Ministers Meeting. The BSP participated in the negotiations in the FTA under the AFAS as well as the ASEAN with its dialogue partners (DPs).<sup>33</sup> A commitment in banking services was offered under the AANZFTA, which concluded negotiations in August 2008. The banking commitment in the AANZFTA would encourage investments in the financial services sector.

Under the multilateral trading negotiations, the BSP also participated in World Trade Organizations (WTO) related activities, providing inputs on queries on banking services of other WTO-member countries as well as those of other government agencies. The BSP continued to support efforts toward the Philippines' ratification of the WTO 5th Protocol, which embodies the results of the 1997 negotiations on financial services in the WTO.

### **Human Capital Management**

***The BSP continues to support regional cooperation in human capital management...***

The BSP also continued to support the regional cooperation in human capital management to strengthen domestic capacity in central banking. The BSP strongly supported the training and research activities of the SEACEN Research and Training Center, focusing on macroeconomic and monetary policy management, bank supervision and financial stability, payment and settlement management systems, and central bank governance and support services. The BSP hosted the joint SEACEN-Financial Stability Institute-IMF Course on

<sup>33</sup> Negotiations with DPs include the ASEAN-Australia/New Zealand FTA (AANZFTA), ASEAN-China FTA, ASEAN-India FTA, ASEAN-Korea FTA, ASEAN-European Union FTA and the ASEAN-Japan FTA.

Economic Policies for Financial Stability on 25 August – 5 September 2008 Manila, Philippines.

*Participation in International Forums and Initiatives*

The BSP participated in a wide range of international activities and discussions related to emerging economic and financial issues in the regional and global forums.

*International Monetary Fund (IMF)*

**... maintains  
close dialogue  
with the IMF**

The BSP represents the Government of the Philippines in the IMF Board of Governors. The BSP continues to actively participate in the constituency by providing technical comments and position papers on issues such as voice and quota reform process, proposed liquidity instrument, exchange rate surveillance, role of the Fund, debt management, among others. In 2008, the BSP accomplished the relatively smooth facilitation of the transfer of the Philippines from the Asia and the Pacific Constituency Office to the South East Asia Voting Group (SEAVG).

The Government of the Philippines maintains close dialogue with the IMF under the framework of the annual Article IV consultations. The Article IV consultations, which are required in connection with the surveillance role of the IMF under Article IV of the IMF Articles of Agreement, are held annually between the IMF staff and Philippine economic managers to review economic developments and policies, and assess the impact of global trends and events on the domestic economy. The Philippines Article IV consultation mission for 2008 was held on 5-14 November 2008. This mission is the first consultation since the Philippines exited from the Post-Program Monitoring of the IMF. In its assessment, the IMF mission noted that the Philippines is in good condition to weather the global financial storm owing in large part to the country's strong fiscal track-record as evidenced by the reduced deficit, improved revenue collection and strengthened finances of public enterprises. In addition, the mission also observed the key challenge of supporting growth while capping the deficit at 2 percent of GDP to further bolster investor confidence.

*Bank for International Settlements (BIS)*

**... participates in  
meetings and  
discussions on the  
latest financial  
developments with  
the BIS**

In 2008, the BSP participated in both the Annual BIS Governors' and Deputy Governors' meetings (June and February, respectively) and in the Governors' Bi-Monthly Meeting (November). The meetings discussed, among

**... supports APEC efforts to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific Region**

others, issues related to the global financial crisis and its impact on emerging market economies. The BSP has been a member of the BIS since 2003.

*Asia – Pacific Economic Cooperation (APEC)*

The BSP continued to support APEC efforts to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific region. The BSP participated in inter-agency meetings to discuss national efforts towards APEC initiatives such as structural reform, trade and investment programs, and measures to address the global financial crisis. The BSP also assisted in the preparation of the Philippine Individual Action Plan under the APEC Peer Initiative, an activity wherein APEC member economies submit to APEC their respective current capital and trade regimes as well as plans for liberalization or improvements for trade facilitation.

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

**... contributes activities of the Monetary and Financial Stability Committee and in the enhancement of the integrated crisis management/resolution network of the EMEAP**

The BSP contributed in the activities of the Monetary and Financial Stability Committee (MFSC) and in the enhancement of the integrated crisis management/resolution network of the EMEAP.

The BSP participated in the 13th EMEAP Governors' Meeting, which was held on 27-29 July 2008 in Xi'an, China. The meeting was attended by 11 EMEAP member central banks and monetary authorities. The EMEAP Governors reviewed the changing economic and financial linkages between East Asia and the Pacific region, as well as the US and Euro Area, and discussed the challenges facing central banks in the region in fighting inflation amidst heightened uncertainties in the international environment. The Governors confirmed the progress report by the MFSC on cooperation in the areas of financial markets, banking supervision, payments and settlements systems, and relevant information technology in the region.

The BSP also participated in the 34<sup>th</sup> EMEAP Deputies' Meeting held on 3-5 May 2008 in Singapore and the 35<sup>th</sup> EMEAP Deputies' Meeting held on 30 November – 2 December 2008 in Jeju, Korea, which were held back-to-back with the 3<sup>rd</sup> and 4<sup>th</sup> Meetings of the EMEAP-MFSC, respectively. The MFSC meetings discussed recent economic and financial developments in the EMEAP member countries, the streamlining of the mandate/functions of the existing EMEAP working groups, and the operationalization of the Integrated Crisis Management/Resolution Network. The BSP also attended

the meetings of the Pan-Asian Index Fund (PAIF) Supervisory Committee, which supervises the management of the Asian Bond Fund.

The BSP spearheaded the drafting of the guidelines on the content management of the EMEAP Public Website, which was approved during the 34<sup>th</sup> EMEAP Deputies' Meeting in Singapore.

*Center for Monetary Studies in Latin America (CEMLA)*

**... and participates in CEMLA meetings on the latest economic issues.**

The BSP participated in the Meeting of the Central Bank Governors of Asia, Latin America and the Caribbean (LAC) held in Washington, D.C. on 9 October 2008. The Governors had an extensive discussion on the experience and policy responses of Asian and LAC central banks on important issues related to the two regions, including: (a) Commodity Prices, Inflationary Pressures and Monetary Policy Dilemmas; and (b) Challenges to Ensure the Effectiveness of Policies against Inflation.

## PART THREE: FINANCIAL CONDITION OF THE BSP

### The BSP Balance Sheet

***The BSP's net worth increases due to the expansion in assets.***

Based on preliminary and unaudited financial statements, the BSP's assets as of end-November 2008 reached ₱2.3 trillion, 16.4 percent or ₱329.8 billion higher than the year-ago level, while its liabilities grew by ₱295.3 billion or 16.3 percent year-on-year to ₱2.1 trillion. With higher growth in assets, the BSP's net worth went up to ₱231.9 billion or 17.4 percent higher compared to the year-ago level of ₱197.5 billion.

The year-on-year expansion in BSP assets was mainly due to the continued growth in international reserves, which accounted for 76.5 percent of total assets. The expansion in international reserves of ₱397.7 billion was largely a result of higher earnings coming from investment income abroad. The higher asset balance was likewise attributed to the ₱26.4 billion rise in loans and advances.

The same period also saw a rise in BSP's liabilities, owing primarily to the ₱73.6 billion rise in foreign loans payables and the ₱64.5 billion expansion in currency issued during the period under review. The expansion in liabilities was also traceable to the increases in higher balances in its deposit facilities as part of its liquidity management measures.

## **The BSP Net Income**

***The BSP posts net operating income.***

Based on preliminary and unaudited data, the BSP yielded a net income of ₱12.6 billion during the period January to November 2008, compared to the ₱62.5 billion loss reported during the same period of the previous year.

Total revenues amounted to ₱82.9 billion, ₱200 million higher than the ₱82.7 billion posted during the previous year. Total interest earnings, which continued to be the major source of revenues, were higher than the previous year's level by ₱5.9 billion, largely on account of higher interest earnings from the bank's holdings of domestic securities and international reserves. Meanwhile, miscellaneous income posted a decline during the period due to lower proceeds from trading gain.

During the same period, total expenditures amounted to ₱78.2 billion, which was ₱17.0 billion or 27.8 percent higher than the level posted in the same period of the previous year. The year-on-year expansion in the total expenses of the BSP was due mainly to higher interest expense, which rose by 35.1 percent, owing to increased interest payments on special deposit accounts, NG deposits and deposit liabilities. Meanwhile, total taxes and licenses remitted to the NG during the eleven-month period amounted to ₱640.0 million.



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**1 GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN**  
for periods indicated  
in million pesos, at constant 1985 prices

	2006	2007	2008	Percent Change		
				2006	2007	2008
Agriculture, Fishery and Forestry	239,499	251,272	259,293	3.7	4.9	3.2
Industrial Sector	415,985	445,486	467,750	4.8	7.1	5.0
Mining and Quarrying	18,813	23,678	23,817	-6.1	25.9	0.6
Manufacturing	306,837	317,197	330,943	4.6	3.4	4.3
Construction	50,267	61,866	66,936	9.6	23.1	8.2
Electricity, Gas and Water	40,068	42,745	46,054	6.4	6.7	7.7
Services	621,389	671,883	705,045	6.7	8.1	4.9
Transportation, Communication & Storage	111,412	120,698	125,189	6.3	8.3	3.7
Trade	215,960	233,774	244,763	6.1	8.2	4.7
Finance	71,891	81,310	85,299	11.2	13.1	4.9
Other Dwellings & R. Estate	59,734	63,234	67,667	5.7	5.9	7.0
Private Services	107,316	116,374	122,979	6.9	8.4	5.7
Government Services	55,077	56,493	59,147	4.4	2.6	4.7
<b>Gross Domestic Product</b>	<b>1,276,873</b>	<b>1,368,641</b>	<b>1,432,088</b>	<b>5.5</b>	<b>7.2</b>	<b>4.6</b>
Net Factor Income From Abroad	115,132	134,173	162,053	6.0	16.5	20.8
<b>Gross National Product</b>	<b>1,392,005</b>	<b>1,502,814</b>	<b>1,594,141</b>	<b>5.5</b>	<b>8.0</b>	<b>6.1</b>

Totals may not add due to rounding.  
All figures are estimates as of January 2009.  
Source: NSCB

1a GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES

for periods indicated  
in million pesos, at constant 1985 prices

	2006	2007	2008	Percent Change		
				2006	2007	2008
Personal Consumption Expenditures	999,728	1,058,176	1,106,264	5.5	5.8	4.5
Government Consumption Expenditures	85,208	92,293	96,302	11.1	8.3	4.3
Gross Domestic Capital Formation	224,105	249,121	259,677	5.0	11.2	4.2
Fixed Capital Formation	217,305	242,890	251,780	3.8	11.8	3.7
Construction	94,188	114,266	121,501	7.6	21.3	6.3
Durable Equipment	106,641	111,412	113,337	1.3	4.5	1.7
Breeding Stock & Orchard Development	16,476	17,212	16,941	-0.7	4.5	-1.6
Changes in Stocks	6,800	6,231	7,898	64.1	-8.4	26.8
Exports	641,570	677,697	677,722	13.4	5.6	0.0
Less: Imports	656,021	626,745	619,755	1.9	-4.5	-1.1
Statistical Discrepancy	-17,718	-81,902	-88,122	-134.9	362.3	7.6
<b>Gross Domestic Product</b>	<b>1,276,873</b>	<b>1,368,641</b>	<b>1,432,088</b>	<b>5.5</b>	<b>7.2</b>	<b>4.6</b>
Net Factor Income From Abroad	115,132	134,173	162,053	6.0	16.5	20.8
<b>Gross National Product</b>	<b>1,392,005</b>	<b>1,502,814</b>	<b>1,594,141</b>	<b>5.5</b>	<b>8.0</b>	<b>6.1</b>

Totals may not add up due to rounding.  
All figures are estimates as of January 2009.  
Source: NSCB

## 2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for the periods indicated

	2006	2007	2008	Percent Change	
				2007	2008
<b>Employment Status <sup>1</sup></b>					
Labor Force (In Thousands)	35,464	36,213	36,806 <sup>P</sup>	2.1	1.6
Employed	32,636	33,560	34,090 <sup>P</sup>	2.8	1.6
Unemployed	2,829	2,653	2,716 <sup>P</sup>	-6.2	2.4
Underemployed	7,371	6,757	6,575 <sup>P</sup>	-8.3	-2.7
Employment Rate (%)	92.0	92.7	92.6 <sup>P</sup>		
Unemployment Rate (%)	8.0	7.3	7.4 <sup>P</sup>		
Underemployment Rate (%)	22.6	20.1	19.3 <sup>P</sup>		
<b>Overseas Employment (Deployed)</b>					
Land-Based	1,062,567	1,077,623	1,376,823	1.4	27.8
Sea-Based	788,070	811,070		2.9	
	274,497	266,553		-2.9	
<b>Strikes</b>					
Number of new strikes declared	12	6	5 <sup>b</sup>	-50.0	
Number of workers involved	1,415	915	1,115 <sup>b</sup>	-35.3	
<b>Legislated Wage Rates <sup>2</sup></b>					
<b>In Nominal Terms</b>					
Non-Agricultural					
National Capital Region (NCR)	350.00	362.00	382.00	3.4	5.5
Regions Outside NCR (ONCR)	287.00	300.00	320.00	4.5	6.7
Agricultural					
NCR					
Plantation	313.00	325.00	345.00	3.8	6.2
Non-Plantation	313.00	325.00	345.00	3.8	6.2
ONCR					
Plantation	262.00	275.00	295.00	5.0	7.3
Non-Plantation	242.00	255.00	275.00	5.4	7.8
<b>In Real Terms (at 2000 prices)</b>					
Non-Agricultural					
National Capital Region (NCR)	245.61	245.42	247.89	-0.1	1.0
Regions Outside NCR (ONCR)	205.88	208.33	206.85	1.2	-0.7
Agricultural					
NCR					
Plantation	219.64	220.34	223.88	0.3	1.6
Non-Plantation	219.65	220.34	223.88	0.3	1.6
Regions Outside NCR (ONCR)					
Plantation	187.95	190.97	190.69	1.6	-0.1
Non-Plantation	173.60	177.08	177.76	2.0	0.4

<sup>1</sup> Explanations on the employment status data are as follows: a) all figures comprise the average of four quarterly data for the year b) Starting 2006, figures are based on the new definition of unemployment per NSCB Resolution No. 15 dated October 20, 2004 and the labor force statistics per NSCB Resolution No. 1 series of 2005.

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

<sup>a</sup> No breakdown available, Jan-Nov data only

<sup>b</sup> Jan-Oct data only

<sup>P</sup> Preliminary

Sources: BLES, NSO, NCMB, POEA, NWPC

### 3 CONSUMER PRICE INDEX IN THE PHILIPPINES, METRO MANILA AND ALL AREAS OUTSIDE METRO MANILA

for periods indicated  
2000=100

Commodity Group	Philippines		Metro Manila		All Areas Outside Metro Manila							
	2007	2008	2007	2008	2007	2008						
	Percent Change		Percent Change		Percent Change							
	2007	2008	2007	2008	2007	2008						
All Items	141.8	155.0	2.8	9.3	144.4	154.4	2.6	6.9	140.6	155.2	2.8	10.4
Food, Beverages & Tobacco	134.9	152.3	3.3	12.9	131.8	145.1	3.3	10.1	135.8	154.6	3.2	13.8
Non-Food	148.7	157.6	2.3	6.0	152.9	160.7	2.3	5.1	146.3	155.9	2.4	6.5
Clothing	124.8	130.1	2.3	4.2	130.1	136.7	2.7	5.1	123.0	127.8	2.2	3.9
Housing & Repairs	133.9	139.6	1.5	4.3	133.3	136.6	1.2	2.5	134.4	142.0	1.8	5.7
Fuel, Light & Water	182.1	193.9	3.2	6.5	212.2	218.2	3.0	2.8	168.9	183.2	3.3	8.5
Services	166.2	180.5	2.8	8.6	169.4	185.5	3.0	9.5	164.4	177.6	2.6	8.0
Miscellaneous	122.5	126.1	1.6	2.9	121.6	123.9	1.2	1.9	122.8	126.9	1.7	3.3

Source: NSO

#### 4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated  
in million pesos

	Actual		Program	Actual Vs.	Annual
	2007	2008	2008	Program	Change
				(%)	(%)
<b>Revenues</b>	<b>1,136,560</b>	<b>1,202,905</b>	<b>1,225,163</b>	<b>-1.8</b>	<b>5.8</b>
Tax Revenues	932,937	1,049,179	1,093,424	-4.0	12.5
Bureau of Internal Revenue	713,605	778,571	810,000	-3.9	9.1
Bureau of Customs	209,439	260,248	274,057	-5.0	24.3
Other Offices	9,893	10,360	9,367	10.6	4.7
Non-tax Revenues	203,623	153,726	131,739	16.7	-24.5
of w/c: Bureau of the Treasury	67,932	63,681	57,275	11.2	-6.3
<b>Expenditures</b>	<b>1,149,001</b>	<b>1,271,022</b>	<b>1,300,163</b>	<b>-2.2</b>	<b>10.6</b>
of which:					
Allotments to Local Government Units	193,712	222,995	170,584	30.7	15.1
Interest Payments	267,800	272,218	290,103	-6.2	1.6
Equity and Net Lending	13,479	16,084	17,291	-7.0	19.3
<b>Surplus/Deficit (-)</b>	<b>-12,441</b>	<b>-68,117</b>	<b>-75,000</b>	<b>9.2</b>	<b>-447.5</b>
<b>Financing</b>	<b>99,108</b>	<b>160,108</b>	<b>92,696</b>	<b>72.7</b>	<b>61.5</b>
External Borrowings (Net)	56,162	-9,202	24,639	-137.3	-116.4
Domestic Borrowings (Net)	42,946	169,310	68,057	148.8	294.2
<b>Total Change in Cash: Deposit/Withdrawal (-)</b>	<b>106,951</b>	<b>47,477</b>	<b>4,274</b>	<b>1,010.8</b>	<b>-55.6</b>
Budgetary	86,667	91,991	17,696	419.8	6.1
Non-Budgetary <sup>1</sup>	20,284	-44,514	-13,422	-231.6	-319.5

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

Source: Bureau of the Treasury

5 DEPOSITORY CORPORATIONS SURVEY <sup>P</sup>								
as of periods indicated in million pesos								
Item	LEVELS			FLOWS		GROWTH RATES (%)		
	Dec-07	Nov-08	Dec-08	Dec08-Nov08	Dec08-Dec07	Dec08-Nov08	Dec08-Dec07	
<b>1. NET FOREIGN ASSETS</b>	<b>1,659,261</b>	<b>1,873,121</b>	<b>1,930,644</b>	<b>57,523</b>	<b>271,383</b>	<b>3.1</b>	<b>16.4</b>	
<b>A. Bangko Sentral ng Pilipinas</b>	<b>1,364,929</b>	<b>1,692,740</b>	<b>1,685,738</b>	<b>-7,002</b>	<b>320,809</b>	<b>-0.4</b>	<b>23.5</b>	
<b>Net International Reserves</b>	<b>1,397,378</b>	<b>1,722,614</b>	<b>1,717,014</b>	<b>-5,600</b>	<b>319,636</b>	<b>-0.3</b>	<b>22.9</b>	
Foreign Assets	1,397,665	1,797,177	1,789,184	-7,993	391,519	-0.4	28.0	
Foreign Liabilities	287	74,563	72,170	-2,393	71,883	-3.2	25,046.3	
<b>Medium &amp; Long-Term Foreign Liabilities</b>	<b>32,449</b>	<b>29,874</b>	<b>31,276</b>	<b>1,402</b>	<b>-1,173</b>	<b>4.7</b>	<b>-3.6</b>	
<b>B. Other Depository Corporations</b>	<b>294,332</b>	<b>180,381</b>	<b>244,906</b>	<b>64,525</b>	<b>-49,426</b>	<b>35.8</b>	<b>-16.8</b>	
Foreign Assets	746,458	679,662	696,311	16,649	-50,147	2.4	-6.7	
Foreign Liabilities	452,126	499,281	451,405	-47,876	-721	-9.6	-0.2	
<b>2. NET DOMESTIC ASSETS</b>	<b>2,421,539</b>	<b>2,561,558</b>	<b>2,738,011</b>	<b>176,453</b>	<b>316,472</b>	<b>6.9</b>	<b>13.1</b>	
<b>A. Net Claims on Residents (Net Domestic Credits)</b>	<b>3,161,647</b>	<b>3,558,277</b>	<b>3,691,351</b>	<b>133,074</b>	<b>529,704</b>	<b>3.7</b>	<b>16.8</b>	
<b>Net Claims on the Public Sector (Public Sector)</b>	<b>1,027,410</b>	<b>1,147,271</b>	<b>1,199,165</b>	<b>51,894</b>	<b>171,755</b>	<b>4.5</b>	<b>16.7</b>	
National Government	766,626	857,145	890,974	33,830	124,348	3.9	16.2	
Credits	1,082,482	1,217,028	1,222,966	5,939	140,484	0.5	13.0	
CB BOL	0	0	0	0	0	-	-	
Foreign exchange Receivables	0	0	0	0	0	-	-	
T-IMF accounts	-50,917	-57,106	-57,954	-848	-7,037	-1.5	-13.8	
Deposits	-264,939	-302,777	-274,038	28,739	-9,099	9.5	-3.4	
Local Government and Other Public Entities	260,784	290,127	308,191	18,064	47,407	6.2	18.2	
<b>Claims on Other Sectors (Private Sector)</b>	<b>2,134,237</b>	<b>2,411,006</b>	<b>2,492,186</b>	<b>81,180</b>	<b>357,949</b>	<b>3.4</b>	<b>16.8</b>	
<b>B. Net Other Items</b>	<b>-740,108</b>	<b>-996,720</b>	<b>-953,340</b>	<b>43,379</b>	<b>-213,232</b>	<b>4.4</b>	<b>-28.8</b>	
<b>3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)</b>	<b>4,080,800</b>	<b>4,434,679</b>	<b>4,668,655</b>	<b>233,976</b>	<b>587,855</b>	<b>5.3</b>	<b>14.4</b>	
<b>A. M4</b>	<b>3,925,410</b>	<b>4,373,219</b>	<b>4,610,405</b>	<b>237,187</b>	<b>684,995</b>	<b>5.4</b>	<b>17.5</b>	
<b>Broad-Money Liabilities (M3)</b>	<b>3,174,365</b>	<b>3,440,067</b>	<b>3,668,433</b>	<b>228,367</b>	<b>494,068</b>	<b>6.6</b>	<b>15.6</b>	
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	886,040	984,540	1,070,833	86,292	184,792	8.8	20.9	
Other Deposits (Quasi-Money)	2,243,005	2,403,894	2,541,080	137,186	298,075	5.7	13.3	
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	45,320	51,633	56,521	4,888	11,200	9.5	24.7	
<b>Transferable &amp; Other Deposits in Foreign Currency (FCDs-Res)</b>	<b>751,045</b>	<b>933,152</b>	<b>941,972</b>	<b>8,820</b>	<b>190,927</b>	<b>0.9</b>	<b>25.4</b>	
<b>B. Liabilities Excluded from Broad-Money (Other Liabilities)</b>	<b>155,390</b>	<b>61,460</b>	<b>58,250</b>	<b>-3,210</b>	<b>-97,140</b>	<b>-5.2</b>	<b>-62.5</b>	
Bills Payable	153,495	59,565	56,355	-3,210	-97,140	-5.4	-63.3	
Restricted Deposits	1,895	1,895	1,895	0	0	0.0	0.0	
<b>Narrow Money</b>	<b>886,040</b>	<b>984,540</b>	<b>1,070,833</b>	<b>86,292</b>	<b>184,792</b>	<b>8.8</b>	<b>20.9</b>	
Currency Outside Depository Corporations (Currency in Circulation)	347,671	349,948	429,510	79,562	81,839	22.7	23.5	
Transferable Deposits (Demand Deposits)	538,369	634,592	641,322	6,730	102,953	1.1	19.1	
<b>Other Deposits (Quasi-Money)</b>	<b>2,243,005</b>	<b>2,403,894</b>	<b>2,541,080</b>	<b>137,186</b>	<b>298,075</b>	<b>5.7</b>	<b>13.3</b>	
Savings Deposits	1,505,557	1,381,815	1,424,526	42,711	-81,031	3.1	-5.4	
Time Deposits	737,448	1,022,079	1,116,554	94,475	379,106	9.2	51.4	

<sup>P</sup> Preliminary

n.a. Not Available

<sup>r</sup> For consistency, in view of the change in definition and coverage of accounts, prior year's data were revised to include a) foreign currency deposits of government-owned/controlled corporations under transferable and other deposits in foreign currency, b) cash letters of credit and reserve balances of other financial corporations under transferable deposits, and c) marginal deposits under time deposits.

Source: Department of Economic Statistics



**6 SELECTED DOMESTIC INTEREST RATES**

For the periods indicated  
In percent per annum

	Nominal Interest Rates			Real Interest Rates <sup>7</sup>		
	2008	2007	2006	2008	2007	2006
<b>Borrowing Rates of Banks</b>						
Interbank Call Loans	5.4324	6.8604	7.8077	-3.8676	4.0604	1.6077
Savings Deposits <sup>1</sup>	2.2240	2.1960	3.5460	-7.0760	-0.6040	-2.6540
Time Deposits <sup>1</sup> (All Maturities)	4.0550	3.4060	4.9420	-5.2450	0.6060	-1.2580
Manila Reference Rates <sup>2</sup> (All Maturities)	5.3125	6.1875	6.7500	-3.9875	3.3875	0.5500
<b>Lending Rates</b>						
All Maturities <sup>3</sup>	8.7570	8.6790	9.7140	-0.5430	5.8790	3.5140
High <sup>4</sup>	9.4519	8.5903	10.1542	0.1519	5.7903	3.9542
Low <sup>5</sup>	7.5425	6.8475	8.2964	-1.7575	4.0475	2.0964
<b>Bangko Sentral Rates</b>						
R/P (Overnight) <sup>6</sup>	7.7968	7.9956	9.7500	-1.5032	5.1956	3.5500
R/P (Term) <sup>6</sup>	7.8833	8.3960	9.8125	-1.4167	5.5960	3.6125
RR/P (Overnight) <sup>6</sup>	5.4405	6.7690	7.5000	-3.8595	3.9690	1.3000
RR/P (Term) <sup>6</sup>	5.7038	7.1932	7.5904	-3.5962	4.3932	1.3904
Rediscounting	4.7960	3.7320	5.3990	-4.5040	0.9320	-0.8010
<b>Rate on Government Securities</b>						
Treasury Bills (All Maturities)	6.3550	4.2100	6.1960	-2.9450	1.4100	-0.0040
91-Days	5.3890	3.4060	5.3510	-3.9110	0.6060	-0.8490
182-Days	6.1930	4.1840	6.1490	-3.1070	1.3840	-0.0510
364-Days	6.4920	4.9170	6.9550	-2.8080	2.1170	0.7550

<sup>1</sup> Of all commercial banks

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

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

<sup>4</sup> Refers to the average of all highs quoted by reporting commercial banks

<sup>5</sup> Refers to the average of all lows quoted by reporting commercial banks

<sup>6</sup> Weighted average of transacted rates

<sup>7</sup> Nominal interest rate less inflation rate

<sup>P</sup> Preliminary

Source: Bangko Sentral ng Pilipinas (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
<b>2007 Ave</b>	<b>46.1484</b>	<b>0.3919</b>	<b>92.3479</b>	<b>5.9149</b>	<b>38.4496</b>	<b>43.0173</b>	<b>30.6124</b>	<b>38.5971</b>	<b>122.5060</b>	<b>12.3179</b>	<b>30.5111</b>	<b>0.0051</b>	<b>1.4331</b>	<b>12.5679</b>	<b>63.1489</b>
Jan	48.9143	0.4065	95.8111	6.2725	39.3756	41.6321	31.8211	38.3072	129.7467	13.0440	31.7179	0.0054	1.3873	13.3187	63.5771
Feb	48.3814	0.4015	94.7725	6.1939	39.0305	41.3271	31.5548	37.8359	128.3380	12.9020	31.4523	0.0053	1.4295	13.1748	63.2780
Mar	48.5172	0.4136	94.4978	6.2098	39.8396	41.4933	31.8232	38.4226	128.6987	12.9405	31.7192	0.0053	1.4869	13.2136	64.2540
Apr	47.8224	0.4023	95.1116	6.1195	39.4585	42.1660	31.5719	39.5728	126.8582	12.7526	31.4680	0.0053	1.4759	13.0233	64.6526
May	46.8141	0.3875	92.8791	5.9870	38.3245	42.7499	30.7444	38.5954	124.1816	12.4832	30.6438	0.0053	1.4260	12.7490	63.2659
Jun	46.1602	0.3765	91.7086	5.9077	37.4446	43.3150	30.0453	38.8230	122.4514	12.3088	29.9478	0.0051	1.4291	12.5689	61.9562
Jul	45.6251	0.3751	92.7695	5.8353	37.7608	43.4067	30.0855	39.5319	121.0356	12.1662	29.9866	0.0050	1.4972	12.4232	62.5667
Aug	46.0737	0.3936	92.7444	5.8936	38.2991	43.5070	30.2786	38.3617	122.2337	12.2848	30.1795	0.0049	1.4677	12.5452	62.7822
Sep	46.1315	0.4007	93.1168	5.9266	38.8688	44.8363	30.4991	38.8451	122.3950	12.3137	30.3986	0.0049	1.4403	12.5636	64.0563
Oct	44.3803	0.3830	90.7106	5.7226	37.7837	45.3861	30.2360	39.7530	117.7896	11.8696	30.1333	0.0049	1.4079	12.0865	63.0922
Nov	43.2176	0.3902	89.5467	5.5563	38.5646	44.8010	29.8806	38.8827	115.0287	11.5950	29.7776	0.0047	1.3772	11.7775	63.5045
Dec	41.7429	0.3721	84.5059	5.3535	36.6449	41.5872	28.8081	36.4336	111.3146	11.1548	28.7090	0.0045	1.3720	11.3709	60.8011
<b>2008 Ave</b>	<b>44.4746</b>	<b>0.4320</b>	<b>82.0696</b>	<b>5.7126</b>	<b>41.0514</b>	<b>41.7991</b>	<b>31.4224</b>	<b>37.6375</b>	<b>118.0549</b>	<b>11.8607</b>	<b>31.3116</b>	<b>0.0046</b>	<b>1.3403</b>	<b>12.1101</b>	<b>65.1686</b>
Jan	40.9381	0.3794	80.6191	5.2452	37.1439	40.5200	28.5977	36.0445	108.9997	10.9184	28.4982	0.0044	1.3241	11.1483	60.2229
Feb	40.6711	0.3793	79.8763	5.2160	37.2736	40.6790	28.8042	37.0259	108.1905	10.8481	28.7026	0.0044	1.2462	11.0767	59.9526
Mar	41.2524	0.4080	82.6259	5.3011	40.6703	41.2956	29.8056	38.1629	109.5017	11.0085	29.6983	0.0045	1.3114	11.2354	63.9347
Apr	41.8196	0.4078	82.8476	5.3681	41.3067	41.2532	30.6768	38.8830	110.9591	11.1505	30.5647	0.0046	1.3254	11.3874	65.9431
May	42.9020	0.4116	84.3039	5.5010	41.0905	42.9183	31.4236	40.7345	113.8311	11.4395	31.3090	0.0046	1.3383	11.6814	66.7637
Jun	44.2806	0.4142	87.0966	5.6717	42.6721	43.6120	32.3776	42.0844	117.4882	11.8083	32.2597	0.0048	1.3360	12.0566	68.8648
Jul	44.9563	0.4211	89.4501	5.7638	43.8001	44.3744	33.0921	43.2706	119.2674	11.9911	32.9707	0.0049	1.3428	12.2405	70.8947
Aug	44.8769	0.4107	85.1592	5.7480	41.5585	42.6804	32.0244	39.8032	119.0496	11.9670	31.9105	0.0049	1.3278	12.2184	67.4100
Sep	46.6922	0.4376	84.1501	5.9949	42.1640	44.1509	32.6927	38.3280	123.8610	12.4482	32.5786	0.0050	1.3622	12.7126	67.2060
Oct	48.0252	0.4800	81.3420	6.1897	42.0732	40.8528	32.5491	32.9715	127.3956	12.7950	32.4392	0.0049	1.3963	13.0761	63.9365
Nov	49.1862	0.5074	75.3922	6.3461	41.3617	40.4029	32.6794	32.3399	130.5041	13.1308	32.5712	0.0043	1.4037	13.3921	62.6132
Dec	48.0942	0.5269	71.9729	6.2054	41.5021	38.8501	32.3452	32.0015	127.6113	12.8227	32.2367	0.0043	1.3698	13.0956	64.2812

Source: BSP

**7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO**

average for periods indicated

December 1980 = 100

	N O M I N A L			R E A L		
	Major Trading Partners <sup>1</sup>	Competing Countries		Major Trading Partners <sup>1</sup>	Competing Countries	
		Broad <sup>2</sup>	Narrow <sup>3</sup>		Broad <sup>2</sup>	Narrow <sup>3</sup>
<b>2006</b>	<b>12.91</b>	<b>28.17</b>	<b>55.52</b>	<b>69.99</b>	<b>109.01</b>	<b>153.85</b>
Jan	12.74	28.13	55.99	67.88	107.09	153.57
Feb	13.05	28.25	55.92	70.07	107.89	153.49
Mar	13.16	28.43	55.97	70.78	109.00	153.67
Apr	13.02	27.91	54.68	69.79	106.30	148.13
May	12.52	27.36	53.87	67.13	104.73	148.90
Jun	12.38	27.39	54.36	66.92	106.77	152.28
Jul	12.57	27.54	54.29	68.84	108.22	152.87
Aug	12.78	28.07	55.16	70.13	110.82	156.62
Sep	13.08	28.62	56.29	71.25	111.72	157.78
Oct	13.26	28.90	56.86	72.51	111.56	157.45
Nov	13.18	28.72	56.55	72.40	112.04	156.32
Dec	13.16	28.66	56.33	72.12	112.00	155.07
<b>2007</b>	<b>14.01</b>	<b>31.78</b>	<b>66.09</b>	<b>76.21</b>	<b>119.69</b>	<b>166.27</b>
Jan	13.50	30.19	62.99	73.30	113.70	157.96
Feb	13.63	30.44	63.27	73.51	113.70	156.93
Mar	13.46	30.39	63.19	72.29	113.21	156.70
Apr	13.59	30.62	63.51	72.87	113.64	155.55
May	13.93	30.96	63.62	74.77	115.94	159.86
Jun	14.21	31.58	65.18	76.83	120.05	166.06
Jul	14.24	31.82	65.82	78.33	122.17	168.62
Aug	14.02	32.08	67.01	77.28	123.11	172.58
Sep	13.87	32.00	66.97	75.78	121.31	170.04
Oct	14.32	32.64	68.02	78.07	121.44	170.44
Nov	14.41	33.65	70.49	78.88	126.86	176.71
Dec	15.01	34.94	73.07	82.62	131.17	183.81
<b>2008</b>	<b>13.92</b>	<b>34.02</b>	<b>70.95</b>	<b>80.10</b>	<b>131.95</b>	<b>180.37</b>
Jan	15.14	35.70	74.70	83.57	134.79	186.29
Feb	15.22	35.64	74.42	83.85	132.97	183.80
Mar	14.59	34.93	72.65	80.72	131.53	180.37
Apr	14.36	34.48	71.77	80.87	130.79	178.03
May	14.10	34.07	70.78	80.19	131.28	180.45
Jun	13.73	33.13	69.14	79.52	130.48	178.76
Jul	13.46	32.41	67.54	79.66	129.47	175.83
Aug	13.77	32.79	67.97	81.98	132.30	179.34
Sep	13.38	32.33	66.74	78.71	128.74	172.55
Oct	13.21	33.07	67.78	77.70	129.41	173.20
Nov	13.08	34.57	73.60	77.54	135.72	187.41
Dec	13.02	35.08	74.28	76.86	135.97	188.35

<sup>1</sup> US, Japan, European Monetary Union, United Kingdom

<sup>2</sup> Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia, Hongkong

<sup>3</sup> Indonesia, Malaysia, Thailand

Source: BSP

**8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS <sup>P</sup>**

As of end - December 2007 - 2008

In million pesos

	LEVELS		GROWTH RATE (%)
	2007	2008	
<b>TOTAL</b>	2,781,374	3,182,402	14.4
Demand Deposits	538,369	641,322	19.1
Savings Deposits	1,505,557	1,424,526	-5.4
Time Deposits	737,448	1,116,554	51.4

<sup>P</sup> Preliminary

Source: Bangko Sentral ng Pilipinas (BSP)

**9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM <sup>1</sup>**  
as of periods indicated  
in billion pesos

<b>Institutions</b>	<b>2007</b>	<b>2008</b>	<b>% Change</b>
<b>Total</b>	<b>6,613.8 <sup>P</sup></b>	<b>7,284.6 <sup>P</sup></b>	<b>10.1</b>
Banks	5,244.7	5,907.7 <sup>P</sup>	12.6
Universal and Commercial Banks	4,578.3	5,219.1 <sup>P</sup>	14.0
Thrift Banks	501.8	510.4 <sup>P</sup>	1.7
Savings Banks	373.1	366.9 <sup>a</sup>	-1.7
Private Development Banks	81.6	77.4 <sup>a</sup>	-5.1
Stock Savings and Loan Associations	46.4	65.4 <sup>a</sup>	40.9
Micro Finance Banks	0.7	0.7 <sup>a</sup>	0.0
Rural Banks	164.6	178.2 <sup>b</sup>	8.3
Non-Banks <sup>2</sup>	1,369.1 <sup>P</sup>	1,376.9 <sup>b</sup>	0.6

<sup>1</sup> Excludes the Bangko Sentral ng Pilipinas but includes allowance for probable losses.

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

<sup>a</sup> As of end-February 2008

<sup>b</sup> As of end-September 2008

<sup>P</sup> Preliminary

Source: BSP

**9a NUMBER OF FINANCIAL INSTITUTIONS <sup>1</sup>**

as of periods indicated

Institutions	2007	2008	% Change
	Dec	Dec	
<b>Total</b>	<b>21,536</b>	<b>22,595</b>	<b>4.9</b>
Head Offices	7,367	7,397	0.4
Branches/Agencies	14,169	15,198	7.3
<b>Banks</b>	<b>7,744</b>	<b>7,848</b>	<b>1.3</b>
Head Offices	847	818	-3.4
Branches/Agencies	6,897	7,030	1.9
Universal and Commercial Banks	4,275	4,404	3.0
Head Offices	38	38	0.0
Branches/Agencies	4,237	4,366	3.0
Thrift Banks	1,336	1,296	-3.0
Head Offices	82	77	-6.1
Branches/Agencies	1,254	1,219	-2.8
Savings and Mortgage Banks	861	828	-3.8
Head Offices	33	31	-6.1
Branches/Agencies	828	797	-3.7
Private Development Banks	300	299	-0.3
Head Offices	20	18	-10.0
Branches/Agencies	280	281	0.4
Stock Savings and Loan Associations	161	150	-6.8
Head Offices	25	24	-4.0
Branches/Agencies	136	126	-7.4
MicroFinance Banks	14	19	35.7
Head Offices	4	4	0.0
Branches/Agencies	10	15	50.0
Rural Banks	2,133	2,148	0.7
Head Offices	727	703	-3.3
Branches/Agencies	1,406	1,445	2.8
<b>Non-Banks <sup>2</sup></b>	<b>13,792</b>	<b>14,747</b>	<b>6.9</b>
Head Offices	6,520	6,579	0.9
Branches/Agencies	7,272	8,168	12.3

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

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

Source: BSP

**10 STOCK MARKET TRANSACTIONS <sup>1</sup>**

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

	2007		2008		Percent Change			
	Volume	Value	Volume	Value	2007		2008	
					Volume	Value	Volume	Value
<b>Total</b>	<b>1,157,830.0</b>	<b>1,338,252.4</b>	<b>373,007.0</b>	<b>763,901.4</b>	<b>92.6</b>	<b>133.7</b>	<b>-96.8</b>	<b>-42.9</b>
Financial	7,485.1	182,428.5	4,095.4	92,458.3	50.9	68.0	-94.5	-49.3
Industrial	42,703.4	334,898.6	30,154.4	240,016.3	45.8	196.0	-92.9	-28.3
Holding Firms	258,072.3	204,170.2	40,572.6	85,632.2	321.5	187.5	-98.4	-58.1
Property	101,601.8	270,579.3	54,726.7	104,097.2	102.7	199.2	-94.6	-61.5
Services	104,718.0	244,748.5	46,980.0	196,846.5	13.1	58.3	-95.5	-19.6
Mining & Oil	643,077.6	101,047.9	196,470.6	44,836.8	77.2	190.6	-96.9	-55.6
SME	171.8	379.5	7.4	14.1	1,708.0	641.2	-99.6	-96.3
<b>Composite Index (Average)</b>	<b>3,442.9</b>		<b>2,587.4</b>		<b>42.7</b>		<b>-24.8</b>	

Source: PSE



## 11 PHILIPPINES: BALANCE OF PAYMENTS

for periods indicated  
in million U.S. dollars

	Jan - Dec		Change (%)
	2007 <sup>1/</sup>	2008 <sup>2/</sup>	
<b>Current Account</b>	<b>7,119</b>	<b>4,227</b>	<b>-40.6</b>
Goods and Services	-6,142	-11,144	-81.4
Export	59,278	58,396	-1.5
Import	65,420	69,540	6.3
Goods <sup>1/</sup>	-8,391	-12,582	-49.9
Credit: Exports	49,512	48,202	-2.6
Debit: Imports	57,903	60,784	5.0
Services	2,249	1,438	-36.1
Credit: Exports	9,766	10,194	4.4
Debit: Imports	7,517	8,756	16.5
Income	-892	146	116.4
Credit: Receipts	5,351	5,973	11.6
Debit: Disbursements	6,243	5,827	-6.7
Current Transfers	14,153	15,225	7.6
Credit: Receipts	14,573	15,780	8.3
Debit: Disbursements	420	555	32.1
<b>Capital and Financial Account</b>	<b>3,527</b>	<b>-1,914</b>	<b>-154.3</b>
Capital Account	24	53	120.8
Credit: Receipts	108	114	5.6
Debit: Disbursements	84	61	-27.4
Financial Account	3,503	-1,967	-156.2
Direct Investment	-620	1,283	306.9
Debit: Assets, Residents' Investments Abroad	3,536	237	-93.3
Credit: Liabilities, Non-Residents' Investments in the Phil.	2,916	1,520	-47.9
Portfolio Investment	4,623	-2,584	-155.9
Debit: Assets, Residents' Investments Abroad	-834	-1,000	-19.9
Credit: Liabilities, Non-Residents' Investments in the Phil.	3,789	-3,584	-194.6
Financial Derivatives	-288	-144	50.0
Debit: Assets, Residents' Investments Abroad	-170	-415	-144.1
Credit: Liabilities, Non-Residents' Investments in the Phil.	-458	-559	-22.1
Other Investment	-212	-522	-146.2
Debit: Assets, Residents' Investments Abroad	4,840	-3,764	-177.8
Credit: Liabilities, Non-Residents' Investments in the Phil.	4,628	-4,286	-192.6
Net Unclassified Items	-2,089	-2,224	-6.5
<b>Overall BOP Position</b>	<b>8,557</b>	<b>89</b>	<b>-99.0</b>
Debit: Change in Reserve Assets	8,550	1,595	-81.3
Credit: Change in Reserve Liabilities	-7	1,506	21,614.3
Use of Fund Credits	0	0	0.0
Short-term	-7	1,506	21,614.3

<sup>p/</sup> - preliminary

<sup>r/</sup> - Revised to reflect: a) late reports; b) post-audit adjustments; and c) final data from companies.

<sup>1/</sup> - Data on goods import for 2007 and 2008 were adjusted to reflect preliminary adjustments on the valuation of raw materials for electronics and garments exports.

Technical Notes:

1. Net balances in the current and capital and financial accounts are derived by deducting debit entries from credit entries.

2. Overall BOP position is determined by deducting change in reserve liabilities from change in reserve assets.

3. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.

4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1.

5. Basic balance represents a BOP position that excludes transactions that are volatile and are in the short run susceptible to being reversed. It is derived using the following formula: Overall BOP position less (Net portfolio investments + net short-term liabilities) less errors and omissions. In the old BOP series, all transactions in assets and liabilities of commercial banks were deemed to be long-term. With the refinements in the new series on the maturity structure of KBs' transactions, short-term financial transactions of KBs are now excluded from the basic balance.

Source: Bangko Sentral ng Pilipinas

**11a EXPORTS BY MAJOR COMMODITY GROUP**

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

Commodities	January-December						Growth Rates (%)		
	2007			2008 <sup>P/</sup>			2008		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
<b>Coconut Products</b>			<b>946</b>			<b>1348</b>			<b>42.5</b>
Copra	0	0	0	0	0	0	0.0	0.0	0.0
Coconut Oil	889	826	734	850	1223	1040	-4.4	48.1	41.7
Desiccated Coconut	131	1219	159	143	1685	240	9.2	38.2	50.9
Copra Meal/Cake	482	90	43	437	133	58	-9.3	47.8	34.9
Others			10			10			0.0
<b>Sugar and Products</b>			<b>88</b>			<b>77</b>			<b>-12.5</b>
Centrifugal & Refined	235	330	77	202	316	64	-14.0	-4.2	-16.9
Molasses	63	87	5	113	96	11	79.4	10.3	120.0
Others			5			3			-40.0
<b>Fruits and Vegetables</b>			<b>750</b>			<b>724</b>			<b>-3.5</b>
Canned Pineapple	196	623	122	190	709	135	-3.1	13.8	10.7
Pineapple Juice	74	423	31	72	435	31	-2.7	2.8	0.0
Pineapple Concentrates	42	840	35	32	859	28	-23.8	2.3	-20.0
Bananas	2199	182	401	2152	185	397	-2.1	1.6	-1.0
Mangoes	26	884	23	21	938	20	-19.2	6.1	-13.0
Others			137			114			-16.8
<b>Other Agro-Based Products</b>			<b>521</b>			<b>610</b>			<b>17.1</b>
Fish, Fresh or Preserved	99	2918	289	106	2906	308	7.1	-0.4	6.6
Of which: Shrimps & Prawns	2	6267	14	0	6935	3	-100.0	10.7	-78.6
Coffee, Raw, not Roasted	0	0	0	0	0	0	0.0	0.0	0.0
Abaca Fibers	28	523	15	13	1659	22	-53.6	217.2	46.7
Tobacco, Unmanufactured	19	2274	43	24	2647	63	26.3	16.4	46.5
Natural Rubber	35	1165	41	36	1446	53	2.9	24.1	29.3
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	0.0	0.0	0.0
Seaweeds, Dried	12	1793	21	13	1887	25	8.3	5.2	19.0
Rice	0	0	0	0	0	0	0.0	0.0	0.0
Others			112			139			24.1
<b>Forest Products 1/</b>			<b>34</b>			<b>34</b>			<b>0.0</b>
Logs	0	0	0	0	0	0	0.0	0.0	0.0
Lumber	208	72	15	215	55	12	3.4	-23.6	-20.0
Plywood	37	406	15	39	494	19	5.4	21.7	26.7
Veneer Sheets/Corestocks	6	566	4	3	548	2	-50.0	-3.2	-50.0
Others			1			1			0.0
<b>Mineral Products</b>			<b>2605</b>			<b>2482</b>			<b>-4.7</b>
Copper Concentrates	81	1696	137	84	1530	128	3.7	-9.8	-6.6
Copper Metal	175	7380	1294	181	7226	1309	3.4	-2.1	1.2
Gold 2/	140	665	93	130	828	108	-7.1	24.5	16.1
Iron Ore Agglomerates	5406	32	172	4569	25	114	-15.5	-21.9	-33.7
Chromium Ore	146	53	8	230	51	12	57.5	-3.8	50.0
Nickel	0	0	0	0	0	0	0.0	0.0	0.0
Others			901			811			-10.0
<b>Petroleum Products</b>			<b>1109</b>			<b>1240</b>			<b>11.8</b>
<b>Manufactures</b>			<b>42956</b>			<b>40979</b>			<b>-4.6</b>
Electronic Products			31085			28502			-8.3
Other electronics			1158			1426			23.1
Garments			2309			1952			-15.5
Textile Yams/Fabrics			209			194			-7.2
Footwear			31			31			0.0
Travel Goods and Handbags			104			95			-8.7
Wood Manufactures			770			918			19.2
Furnitures & Fixtures			241			221			-8.3
Chemicals			1032			1126			9.1
Non-Metallic Mineral Manufactures			223			211			-5.4
Machinery & Transport Equipment			1857			2103			13.2
Processed Food and Beverages			728			943			29.5
Iron & Steel			265			263			-0.8
Baby Carr., Toys, Games & Sporting Goods			152			143			-5.9
Basketwork, Wickerwork, & Other									
Articles of Plaiting Materials			56			42			-25.0
Misc. Manufactured Articles, n.e.s.			342			331			-3.2
Others			2393			2481			3.7
<b>Special Transactions</b>			<b>1458</b>			<b>1529</b>			<b>4.9</b>
<b>TOTAL EXPORTS, as per NSO Foreign Trade Statistics</b>			<b>50465</b>			<b>49026</b>			<b>-2.9</b>
Conceptual and coverage adjustments			-953			-824			13.5
<b>TOTAL EXPORTS, BPM5</b>			<b>49512</b>			<b>48202</b>			<b>-2.6</b>

-- Less than one thousand metric tons

-- Less than one million US\$

P/ Preliminary

Components may not add up to total due to rounding

Source: National Statistics Office

<sup>1</sup> Volume in 000 cubic meters; unit price in US\$/cu.m.

<sup>2</sup> Volume in 000 troy ounces; unit price in US\$/oz t.

**11b IMPORTS BY MAJOR COMMODITY GROUP**

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

Commodities	January - December						Growth Rates (%)		
	2007 <sup>1/</sup>			2008 <sup>2/</sup>			2008		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
<b>Capital Goods</b>			<b>9711</b>			<b>9302</b>			<b>-4.2</b>
Power Generating & Specialized Machines			2467			2597			5.3
Office & EDP Machines			3309			2805			-15.2
Telecommunication Eqpt. & Elect. Mach.			2043			1979			-3.1
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			667			664			-0.4
Aircraft, Ships & Boats			699			761			8.9
Prof. Sci. & Cont. Inst.; Photo- graphic Eqpt. & Optical Goods			527			497			-5.7
<b>Raw Materials &amp; Intermediate Goods</b>			<b>32930</b>			<b>31266</b>			<b>-5.1</b>
Unprocessed Raw Materials			1652			1895			14.7
Wheat	1796	217	389	1663	375	623	-7.4	72.8	60.2
Corn	152	292	44	23	1006	23	-84.9	244.5	-47.7
Unmilled cereals excl. rice & com			6.77			11.09			0.0
Crude materials, inedible			1039			1039			0.0
Pulp & waste paper			63			56			-11.1
Cotton	17	1235	21	13	1489	19	-23.5	20.6	-9.5
Syn. fibers	45	1803	82	31	2223	69	-31.1	23.3	-15.9
Metalliferous ores			408			402			-1.5
Others			465			493			6.0
Tobacco, unmanufactured			173			199			15.0
Semi-Processed Raw Materials			31278			29371			-6.1
Feeding stuffs for animals	1719	279	480	1577	382	602	-8.3	36.9	25.4
Animal & vegetable oils & fats			168			228			35.7
Chemical			3978			4786			20.3
Chemical compounds			1111			1258			13.2
Medicinal & pharmaceutical chemicals			584			658			12.7
Urea	506	222	112	523	384	201	3.4	73.0	79.5
Fertilizer excl. urea	796	182	145	825	431	356	3.6	136.8	145.5
Artificial resins			982			1089			10.9
Others			1044			1224			17.2
Manufactured goods			4145			4342			4.8
Paper & paper products	678	684	464	724	721	522	6.8	5.4	12.5
Textile yarn, fabrics & made-up articles			853			665			-22.0
Non-metallic mineral mftures.			233			272			16.7
Iron & steel	1862	656	1221	1889	842	1591	1.5	28.4	30.3
Non-ferrous metals			653			606			-7.2
Metal products			462			429			-7.1
Others			259			257			-0.8
Embroideries			1039			826			-20.5
Mat/Acc for the mfr. of elect. eqpt.			21333			18535			-13.1
Iron ore, not agglomerated	3738	36	135	1278	41	52	-65.8	13.9	-61.5
<b>Mineral Fuels &amp; Lubricant</b>			<b>9593</b>			<b>12331</b>			<b>28.5</b>
Coal, Coke	5527	43	237	4783	59	284	-13.5	37.2	19.8
Petroleum Crude <sup>1/</sup>	76.40	75.04	5733	73.23	102.40	7499	-4.1	36.5	30.8
Others <sup>1/</sup>	42.42	85.40	3623	42.23	107.68	4548	-0.4	26.1	25.5
<b>Consumer Goods</b>			<b>4668</b>			<b>6584</b>			<b>41.0</b>
Durable			2032			2391			17.7
Passenger cars & motorized cycle			1066			1313			23.2
Home appliances			239			282			18.0
Misc. manufactures			727			796			9.5
Non-Durable			2636			4192			59.0
Food & live animals chiefly for food			2481			4034			62.6
Dairy products	288	2211	638	260	2677	697	-9.7	21.1	9.2
Fish & fish preparation	156	580	91	148	617	91	-5.1	6.4	0.0
Rice	1806	329	594	2486	717	1783	37.7	117.9	200.2
Fruits & vegetables			174			245			40.8
Others			984			1218			23.8
Beverages & tobacco mfture.			61			65			6.6
Articles of apparel, access.			93			93			0.0
<b>Special Transactions</b>			<b>738</b>			<b>719</b>			<b>-2.6</b>
Articles temporarily imported & exported			262			257			-1.9
Others			476			462			-2.9
<b>TOTAL IMPORTS<sup>2/</sup></b>			<b>57640</b>			<b>60202</b>			<b>4.4</b>
Conceptual and Coverage Adjustments <sup>3/</sup>			263			582			121.3
<b>TOTAL IMPORTS, BPMS</b>			<b>57903</b>			<b>60784</b>			<b>5.0</b>

<sup>1/</sup> Volume in million barrels; unit price in U.S.\$/barrel

<sup>2/</sup> Include valuation adjustments to NSO data.

<sup>3/</sup> Include deductions for aircrafts acquired under operational lease agreement.

<sup>1/</sup> Revised

<sup>2/</sup> Preliminary

Note: Valuation adjustments include:

a.) Adjustments to NSO's raw material imports for electronics exports for 2007 and 2008.

b.) Adjustments to NSO's raw material imports for garments for 2007 and 2008.

Components may not add up to total due to rounding

Source: National Statistics Office

**12 GROSS INTERNATIONAL RESERVES**

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 <sup>1</sup> (7)	Short-Term External Debt Cover (in percent)	
									Original Maturity (8)	Residual Maturity <sup>2</sup> (9)
<b>2006</b>	Jan	20,401.77	126.45	2,658.62	5.19	17,117.26	494.25	4.17	325.39	149.17
	Feb	20,481.81	125.54	2,612.17	0.36	17,242.78	500.96	4.14	326.66	150.17
	Mar	20,645.34	126.05	2,797.31	0.36	17,208.85	512.77	4.11	335.81	150.87
	Apr	20,852.48	129.19	3,042.94	5.53	17,203.83	470.99	4.13	339.18	151.69
	May	20,949.91	130.72	2,849.39	0.89	17,503.48	465.43	4.09	340.76	156.58
	Jun	21,123.47	129.42	2,903.60	0.88	17,647.94	441.63	4.10	364.32	165.19
	Jul	21,274.11	129.90	2,940.65	5.33	17,910.27	287.96	4.08	373.36	170.88
	Aug	21,540.69	130.31	2,868.37	0.55	18,214.70	326.76	4.05	388.26	181.38
	Sep	21,593.36	129.25	2,746.44	0.55	18,265.57	451.55	4.07	380.23	187.46
	Oct	22,309.58	130.03	2,869.16	6.49	18,819.30	484.60	4.16	392.84	199.98
	Nov	22,649.27	132.27	2,991.66	2.34	19,321.35	201.65	4.17	398.82	211.93
	Dec	22,966.72	131.70	2,941.30	2.33	19,611.41	279.98	4.23	458.51	250.07
<b>2007</b>	Jan	23,694.35	130.46	2,975.85	4.54	19,995.27	588.23	4.34	473.04	258.87
	Feb	24,542.16	131.73	2,987.63	1.69	21,004.00	417.11	4.46	489.96	256.91
	Mar	24,684.41	132.21	3,008.36	1.70	20,804.08	738.06	4.47	482.31	256.70
	Apr	25,089.60	133.61	3,040.19	1.71	21,428.90	485.19	4.52	490.22	262.44
	May	25,599.28	132.44	2,992.37	0.62	21,855.14	618.71	4.59	500.18	262.93
	Jun	26,382.95	132.68	2,928.24	0.62	23,022.74	298.67	4.70	443.63	229.26
	Jul	28,019.00	134.13	3,024.09	1.40	24,607.95	251.43	4.94	471.15	243.60
	Aug	30,485.13	134.26	3,122.51	0.25	27,002.87	225.24	5.37	512.61	259.91
	Sep	30,902.16	136.36	3,034.47	0.26	27,498.73	232.34	5.40	446.24	243.34
	Oct	32,498.08	137.96	3,365.23	1.84	28,724.38	268.67	5.63	469.29	258.15
	Nov	32,719.24	139.30	3,330.72	0.74	28,978.05	270.43	5.61	472.48	259.84
	Dec	33,751.05	138.28	3,540.61	0.74	29,715.21	356.21	5.69	476.44	260.51
<b>2008</b>	Jan	34,809.73	139.75	3,857.71	1.06	30,511.44	299.77	5.79	491.39	270.85
	Feb	36,287.80	141.08	4,059.50	0.08	31,756.01	331.13	5.97	512.25	293.66
	Mar	36,624.01	144.06	3,834.39	0.08	32,274.85	370.63	5.95	550.65	296.10
	Apr	36,355.57	142.32	3,584.75	13.37	32,228.27	386.86	5.85	546.62	297.80
	May	36,233.12	141.97	3,795.61	12.61	31,884.16	398.77	5.77	544.78	300.84
	Jun	36,712.28	143.20	3,962.94	12.71	32,223.58	369.85	5.75	417.33	265.90
	Jul	36,900.99	142.08	3,904.11	12.61	32,545.36	296.83	5.66	419.47	266.99
	Aug	36,742.72	137.61	3,568.84	11.49	32,672.28	352.50	5.61	408.39	266.85
	Sep	36,697.45	135.55	3,848.44	11.32	32,292.70	409.44	5.54	442.19	286.01
	Oct	35,951.58	130.46	3,516.51	10.90	31,832.29	461.42	5.43	433.20	274.25
	Nov	36,828.15	130.03	3,808.98	10.25	32,374.42	504.47	5.56	443.77	281.67
	Dec	37,550.82	135.02	4,357.93	10.65	32,065.86	981.36	5.67	452.47	287.09

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

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

Source: BSP

13 TOTAL EXTERNAL DEBT <sup>1</sup> as of dates indicated in million US dollars												
	September 30, 2007				December 31, 2007				September 30, 2008			
	Short-term Trade	Non- Trade	Medium & Long- Term	Total	Short-term Trade	Non- Trade	Medium & Long- Term	Total	Short-term Trade	Non- Trade	Medium & Long- Term	Total
<b>Grand Total</b>	2,436	4,490	47,502 <sup>a</sup>	54,427	2,469	4,614	47,854 <sup>a</sup>	54,938	3,115	5,185	45,183 <sup>a</sup>	53,482
<b>Public Sector</b>	82	38	37,082	37,201	43	69	37,562	37,674	-	1,291	37,056	38,347
Banks	82	38	2,808	2,927	43	69	2,880	2,992	-	1,291	2,780	4,071
Bangko Sentral ng Pilipinas	-	-	265	265	-	-	337	337	-	900	335	1,235
Others	82	38	2,543	2,662	43	69	2,542	2,654	-	391	2,445	2,836
Non-Banks	-	-	34,274	34,274	-	-	34,683	34,683	-	-	34,276	34,276
CB-BOL	-	-	39	39	-	-	40	40	-	-	32	32
NG and Others	-	-	34,235	34,235	-	-	34,643	34,643	-	-	34,243	34,243
<b>Private Sector</b>	2,354	4,452	10,420	17,226	2,426	4,545	10,292	17,264	3,115	3,893	8,127	15,135
Banks	173	4,242	3,317 <sup>b</sup>	7,732	173	4,342	2,837 <sup>b</sup>	7,352	-	3,425	382 <sup>b</sup>	3,807
Foreign Bank Branches	12	2,374	2,557 <sup>c</sup>	4,943 <sup>c</sup>	17	2,643	2,205	4,866 <sup>c</sup>	-	1,672	44	1,716 <sup>c</sup>
Domestic Banks	161	1,868	761	2,790 <sup>d</sup>	156	1,699	631	2,486 <sup>d</sup>	-	1,753	338	2,091 <sup>d</sup>
Non-Banks	2,182	209	7,103 <sup>e</sup>	9,494	2,253	203	7,455 <sup>e</sup>	9,911	3,115	468	7,745 <sup>e</sup>	11,328

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

<sup>2</sup> Inclusions

	Sep 30, 2007	Dec 31, 2007	Sep 30, 2008
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	81	106	120
b Accounts restructured under CB Circular No.1179	43	43	43
c Liabilities of private development bank and rural banks	10	10	8

Exclusions

	2007	2007	2008
d Due to Head Office/Branches Abroad accounts of branches and offshore banking units of foreign banks operating in the Philippines	2,601	2,812	3,656
e Obligations under various capital lease agreements; Loans without BSP approval/registration	718	754	931
	6,146	7,097	7,302

Source: BSP

**14 SELECTED FOREIGN DEBT SERVICE INDICATORS**

for periods indicated  
in million US dollars

	2007 <sup>r/</sup>	Jan-Sep	
		2007 <sup>r/</sup>	2008 <sup>p/</sup>
<b>Debt Service Burden (DSB) <sup>1</sup></b>	<b>7,680</b>	<b>6,006</b>	<b>5,994</b>
Principal	4,132	3,223	3,295
Interest	3,548	2,783	2,699
<b>Export Shipments (XS)</b>	<b>49,512</b>	<b>36,724</b>	<b>38,229</b>
<b>Exports of Goods and Receipts from Services and Income (XGSI) <sup>2</sup></b>	<b>76,049</b>	<b>55,770</b>	<b>59,769</b>
<b>Current Account Receipts (CAR) <sup>3</sup></b>	<b>79,202</b>	<b>58,074</b>	<b>62,352</b>
<b>Gross National Product (GNP)</b>	<b>157,087</b>	<b>110,403</b>	<b>137,881</b>
<b>Ratios (%) :</b>			
<b>DSB to XS</b>	<b>15.51</b>	<b>16.35</b>	<b>15.68</b>
<b>DSB to XGSI</b>	<b>10.10</b>	<b>10.77</b>	<b>10.03</b>
<b>DSB to CAR</b>	<b>9.70</b>	<b>10.34</b>	<b>9.61</b>
<b>DSB to GNP</b>	<b>4.89</b>	<b>5.44</b>	<b>4.35</b>

<sup>1</sup> 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.

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

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

<sup>p/</sup> Preliminary

<sup>r/</sup> Revised to reflect latest data adjustments

Source: BSP

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

	2007 Nov	2008 <sup>u</sup> Nov	Percent Change (%)
<b>Assets</b>	<b>2,011,189.1</b>	<b>2,341,030.2</b>	<b>16.4</b>
International Reserves	1,393,084.5	1,790,831.5	28.6
Domestic Securities	322,644.8	307,921.2	-4.6
Loans and Advances	104,657.2	131,063.5	25.2
Revaluation of International Reserves	83,834.6	-	
Bank Premises and Other Fixed Assets	12,296.3	12,205.2	-0.7
Derivative Instruments	-	3,493.1	
Other Assets	94,671.7	95,515.7	0.9
<b>Liabilities</b>	<b>1,813,688.6</b>	<b>2,109,089.3</b>	<b>16.3</b>
Currency Issue	370,099.5	434,585.0	17.4
Deposits	<u>1,093,655.2</u>	<u>1,097,905.5</u>	<u>0.4</u>
Reserve Deposits of Banks & Other FIs	412,128.4	415,210.7	0.7
Special Deposit Accounts	447,604.9	423,226.1	-5.4
Other Deposits of Banks & Other FIs	2,611.1	2,389.8	-8.5
Treasurer of the Philippines <sup>1</sup>	138,672.7	192,473.7	38.8
Other Foreign Currency Deposits	28,216.7	4,976.7	-82.4
Foreign Financial Institutions	51,986.4	48,292.4	-7.1
Other Deposits <sup>2</sup>	12,435.1	11,336.1	-8.8
Foreign Loans Payable	6,068.4	79,696.9	1,213.3
Net Bonds Payable	34,355.5	35,051.0	2.0
Allocation of SDRs	7,953.0	8,453.3	6.3
Derivative Instruments	19,313.2	653.2	-96.6
Net Revaluation of International Reserves	-	136,132.3	
BSP Debt Instruments	273,603.0	310,720.9	13.6
Other Liabilities	8,640.8	5,891.0	-31.8
<b>Net Worth</b>	<b>197,500.5</b>	<b>231,941.0</b>	<b>17.4</b>
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	187,500.4	221,941.0	18.4

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

<sup>1</sup> Includes foreign currency deposits.

<sup>2</sup> Mostly GOCC deposits.

<sup>u</sup> Based on the unaudited BSP balance sheet as of end-November 2008 prepared by the Financial Accounting Department of the BSP.

Source: Financial Accounting Department



**16 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS**  
For the periods indicated  
In billion pesos

	2007 Nov	2008 <sup>u</sup> Nov	Percent Change (%)
<b>Revenues</b>	<b>82.7</b>	<b>82.9</b>	<b>0.2</b>
Interest Income	<u>57.5</u>	<u>63.4</u>	<u>10.3</u>
International Reserves	44.4	45.7	2.9
Domestic Securities	9.5	13.1	37.9
Loans and Advances	3.5	3.4	-2.9
Others	0.2	1.2	500.0
Miscellaneous Income	24.9	19.2	-22.9
Net income from Branches	0.3	0.3	0.0
<b>Expenses</b>	<b>61.2</b>	<b>78.2</b>	<b>27.8</b>
Interest Expenses	<u>48.6</u>	<u>65.7</u>	<u>35.2</u>
Legal Reserve Deposits of Banks	9.6	12.4	29.2
Special Deposit Accounts	16.1	27.8	72.7
National Government Deposits	5.3	8.2	54.7
BSP Debt Instruments	13.5	12.7	-5.9
Loans Payable	3.9	3.5	-10.3
Other Foreign Currency Deposits	0.3	0.4	33.3
Other Liabilities	-	0.8	
Cost of Minting	2.7	3.0	11.1
Other Expenses	9.9	9.5	-4.0
<b>Net Income Before Gain/(Loss) on FXR Fluctuations</b>	<b>21.5</b>	<b>4.7</b>	<b>-78.1</b>
Gain/Loss(-) on FXR Fluctuations	-84.0	8.3	109.9
Provision for Income Tax	-	0.4	
<b>Net Income</b>	<b>-62.5</b>	<b>12.6</b>	<b>120.2</b>
Capital Reserves	-	-	
<b>Net Income Available for Distribution</b>	<b>-62.5</b>	<b>12.6</b>	<b>120.2</b>

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

<sup>u</sup> Based on the unaudited BSP income statement as of November 2008 prepared by the Financial Accounting Department of the BSP.

Source: Financial Accounting Department

## 17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at November 30	
	2008 PHP000	2007 PHP000
<b>Foreign currency financial assets</b>		
Deposits with foreign banks	19,378,371	446,635,750
Other cash balances	339,269	247,134
Investment securities-available for sale	1,584,702,764	803,751,695
Gold	185,909,955	142,418,100
International Monetary Fund special drawing rights	<u>501,095</u>	<u>31,827</u>
Gross international reserves	<u>1,790,831,454</u>	<u>1,393,084,506</u>
Loans and advances	1,513,045	133,051
Securities purchased under USD repo facility	1,668,531	0
Other foreign currency receivables	24,048,267	5,351,971
Derivative instruments in gain position	<u>3,493,124</u>	<u>0</u>
	<u>1,821,554,421</u>	<u>1,398,569,528</u>
<b>Local currency financial assets</b>		
Investment in government securities-available for sale	307,921,235	322,644,818
Loans and advances	129,550,463	104,524,171
Due from administrator of funds	28,449,099	34,769,244
Other receivables	<u>15,234,878</u>	<u>18,417,753</u>
<b>Total local currency financial assets</b>	<u>481,155,674</u>	<u>480,355,986</u>
<b>Total financial assets</b>	<u>2,302,710,095</u>	<u>1,878,925,514</u>
Acquired assets held for sale	331,935	11,091,908
Investment property	10,031,635	0
Bank premises, furniture, fixtures and equipment	12,205,193	12,296,265
Intangibles	359,686	0
Inventories	9,103,308	18,793,992
Revaluation of foreign currency accounts	0	83,834,623
Deferred tax assets	6,095,170	6,095,170
Miscellaneous assets	<u>193,209</u>	<u>151,734</u>
<b>Total other assets</b>	<u>38,320,136</u>	<u>132,263,692</u>
<b>Total assets</b>	<u>2,341,030,231</u>	<u>2,011,189,206</u>

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

Source: Financial Accounting Department

## 17. BSP: CONDENSED STATEMENT OF CONDITION

(continuation)

Liabilities and Capital	As at November 30	
	2008 PHP000	2007 PHP000
<b>Foreign currency financial liabilities</b>		
Short-term deposits	20,054,647	29,477,493
Loans payable	79,696,894	6,068,443
Bonds payable	35,051,048	34,355,483
Allocation of International Monetary Fund special drawing rights	8,453,323	7,953,036
Derivative instruments in a loss position	653,194	19,313,211
Other liabilities	<u>945,576</u>	<u>1,598,276</u>
<b>Total foreign currency financial liabilities</b>	<b><u>144,854,682</u></b>	<b><u>98,765,942</u></b>
<b>Local currency financial liabilities</b>		
Government deposits	184,403,415	137,408,626
Deposits of banks and quasi banks	421,928,949	427,177,882
Deposits of the International Monetary Fund and other FIs	48,292,404	51,986,351
Securities sold under agreements to repurchase	<u>733,947,028</u>	<u>721,207,893</u>
<b>Total local currency financial liabilities</b>	<b><u>1,388,571,796</u></b>	<b><u>1,337,780,752</u></b>
<b>Total financial liabilities</b>	<b><u>1,533,426,478</u></b>	<b><u>1,436,546,695</u></b>
<b>Other liabilities</b>		
Currency in circulation	434,585,040	370,099,467
Retirement benefit obligations	1,725,984	1,696,858
Miscellaneous liabilities	3,219,433	5,207,283
Dividends payable	0	138,472
Revaluation of foreign currency accounts	<u>136,132,344</u>	<u>0</u>
<b>Total other liabilities</b>	<b><u>575,662,801</u></b>	<b><u>377,142,080</u></b>
<b>Total liabilities</b>	<b><u>2,109,089,279</u></b>	<b><u>1,813,688,775</u></b>
<b>Capital accounts</b>		
Capital	10,000,000	10,000,000
Surplus	32,017,460	42,664,364
Capital reserves	177,322,568	207,296,054
Undivided profits/(loss) from operations	<u>12,600,924</u>	<u>-62,459,988</u>
<b>Total capital accounts</b>	<b><u>231,940,952</u></b>	<b><u>197,500,430</u></b>
<b>Total liabilities and capital accounts</b>	<b><u>2,341,030,231</u></b>	<b><u>2,011,189,206</u></b>

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

Source: Financial Accounting Department

**18 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES  
OF THE BANGKO SENTRAL NG PILIPINAS**  
with Budget Information<sup>1</sup>

Period ended November 30	2008 Budget PHP000	2008 Actual PHP000	2007 Actual PHP000
<b>Operating Income:</b>			
<b>Income from foreign currency financial assets</b>			
Interest income	48,754,408	46,795,210	44,546,559
Fees, miscellaneous foreign currency income & trading gains foreign	557,330	19,416,508	24,357,432
<b>Total income from foreign currency financial assets</b>	<b>49,311,738</b>	<b>66,211,718</b>	<b>68,903,991</b>
<b>Expenses on foreign currency financial liabilities</b>			
Interest expense	4,470,681	4,041,161	4,763,631
Other foreign currency expenses	341,575	371,044	299,549
<b>Total expenses on foreign currency liabilities</b>	<b>4,812,256</b>	<b>4,412,205</b>	<b>5,063,180</b>
<b>Foreign currency income</b>	<b>44,499,482</b>	<b>61,799,513</b>	<b>63,840,811</b>
<b>Income from local currency financial assets</b>			
Interest income & trading gains local	21,070,342	16,636,391	13,016,442
<b>Total income from local currency financial assets</b>	<b>21,070,342</b>	<b>16,636,391</b>	<b>13,016,442</b>
<b>Expenses on local currency financial liabilities</b>			
Interest expense	67,843,632	61,646,716	43,870,272
Final tax on interest income/discounts	731,545	494,562	654,672
<b>Total expenses on local currency financial assets</b>	<b>68,575,177</b>	<b>62,141,279</b>	<b>44,524,944</b>
<b>Local currency income/(loss)</b>	<b>(47,504,835)</b>	<b>(45,504,887)</b>	<b>(31,508,502)</b>
<b>Total operating income</b>	<b>(3,005,353)</b>	<b>16,294,626</b>	<b>32,332,310</b>
<b>Currency printing and minting cost</b>	<b>4,422,647</b>	<b>3,023,324</b>	<b>2,708,616</b>
<b>Operating expenses:</b>			
Personnel services, development and training	6,821,549	6,430,316	5,797,592
Traveling	319,388	225,196	228,285
Taxes and licenses	100,390	95,221	137,122
Currency and gold operations	139,885	117,141	154,914
Other services	2,768,844	1,495,263	1,796,742
Depreciation	441,567	457,512	430,578
Fidelity insurance	76,496	62,744	46,671
Light, fuel & water	191,085	142,961	148,375
Repairs & maintenance	436,928	207,004	198,621
Communication services	222,506	128,862	96,214
Supplies	60,723	35,686	40,982
Others <sup>2</sup>	1,339,540	460,495	835,301
<b>Total operating expenses</b>	<b>10,150,056</b>	<b>8,363,137</b>	<b>8,114,654</b>
<b>Net operating income before impairments</b>	<b>(17,578,055)</b>	<b>4,908,165</b>	<b>21,509,039</b>

<sup>1</sup> The statement presentation was restated for comparability with the budget format.

<sup>2</sup> Includes provisions for contingencies which when utilized are classified under the appropriate budget item.

**18 BSP:CONDENSED STATEMENT OF INCOME AND EXPENSES  
OF THE BANGKO SENTRAL NG PILIPINAS**  
with Budget Information<sup>1</sup>  
(continuation)

Period ended November 30	2008 Budget PHP000	2008 Actual PHP000	2007 Actual PHP000
Impairment losses on loans and advances <sup>3</sup>	(50,000)	(246,591)	(553,807)
Market decline of acquired assets <sup>4</sup>	<u>(198,708)</u>	<u>(54,732)</u>	<u>(254,881)</u>
<b>Net operating income after impairment</b>	<b>(17,826,763)</b>	<b>4,606,842</b>	<b>20,700,351</b>
<b>Other operating income</b>	<b>902,896</b>	<b>929,789</b>	<b>936,696</b>
<b>Prior period income<sup>5</sup></b>		<b>(874,586)</b>	<b>(115,075)</b>
<b>Net realized gains/(loss) on fX rates fluctuations</b>	<b>0</b>	<b>8,298,339</b>	<b>(83,981,961)</b>
<b>Profit/(loss) before income tax</b>	<b>(16,923,867)</b>	<b>12,960,383</b>	<b>(62,459,988)</b>
Income tax paid	<u>0</u>	<u>359,459</u>	<u>0</u>
<b>Profit/(loss) for the period</b>	<b><u>(16,923,867)</u></b>	<b><u>12,600,924</u></b>	<b><u>(62,459,988)</u></b>

<sup>3</sup> Represents additions to the contra-asset account allowance for probable losses.

<sup>4</sup> 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

<sup>5</sup> Actual transactions are distributed to the specific income accounts affected.