ISSN 1655-5112

ANNUAL REPORT
Volume I

2009

Bangko Sentral ng Pilipinas
Manila, Philippines

CONTENTS

Part Three: Financial Condition of the BSP

The Governor's Foreword

While the Philippine economy was buffeted by the spillovers from the global economic slowdown, signs of recovery have emerged in the second half of 2009. The Philippine economy managed to hold its ground through the worst global recession in post-war history as it entered the crisis from a position of relative strength, underpinned by strong macroeconomic fundamentals. Providing further support to the economy were the limited exposure of the banking system to troubled structured financial products, much improved bank soundness, comfortable international reserves level, and lower public debt due to fiscal consolidation pursued in the preceding years. Moreover, resilient remittances and timely policy responses helped cushion the impact of the global financial crisis on the domestic economy.

The Philippines posted a respectable GDP growth of 0.9 percent in 2009, avoiding a recession and making it one of the few countries in Asia whose growth remained in positive territory. While this figure was lower than the 3.8 percent GDP growth posted in 2008, it was within the government's forecast growth of 0.8-1.8 percent in 2009. Expansions in public and private consumption buoyed up the country's GDP.

Providing support to the growth in consumer demand was the marked decline in inflation. Favorable developments in food and energy-related items led to the sustained inflation downtrend in the first three quarters of 2009. Despite the significant uptick in food inflation toward the end of the year due to weather disturbances, inflation averaged 3.2 percent in 2009, well within the 2.5-4.5 percent target range for the year and lower than the 9.3 percent average in the previous year.

The sustained slowdown in inflation for much of 2009 allowed the BSP to adopt an appropriately accommodative monetary policy stance. Liquidity-easing measures were undertaken in 2008 and 2009, including the reduction in bank reserve requirements by two percentage points, opening of the US dollar repurchase window, increase in the peso rediscounting budget to ₱60 billion, and provision of greater accessibility to these facilities to banking institutions. Moreover, the Monetary Board (MB) reduced the BSP's policy rates by a total of 150 basis points in 2009 to provide liquidity for the orderly functioning of the financial markets and help support the economy against possible fragilities in the operating environment. The corresponding decline in bank lending rates had provided a clear indication that the banks have been passing on the interest rate reductions of the BSP to their borrowers. Starting in August, however, the MB opted to maintain the policy rates noting that inflation expectations have remained within target. The MB also allowed the substantial monetary stimulus measures to work their way fully through the financial system.

The country's external payments dynamics have also remained favorable. The overall balance of payments position recorded a surplus of US$5.3 billion in 2009 as the current account registered net inflows during the year. Although exports, particularly of electronics, were severely affected by the global downturn, the current account balance remained positive, cushioned by resilient remittances, increased services receipts from business process outsourcing, reduced imports of capital and intermediate goods and the significant decline in food and commodity prices. The healthy external liquidity condition has allowed the BSP to build up its gross international reserves (GIR) to a record-high level of US$44.2 billion at year end. At this level, the end-2009 GIR was sufficient to cover nine months' worth of imports. The corresponding reserve adequacy ratios were around ten times the country's short-term external debt based on original maturity and five times based on residual maturity. The record accumulation of foreign exchange reserves provided a sufficient level of resources to service external debt. Moreover, the strong external liquidity position has kept the Philippine peso generally competitive. The peso appreciated by 2.4 percent on a year-to-date basis following the return of risk appetites in the second half of 2009. Strong dollar inflows from overseas Filipinos' remittances also buoyed up the peso.

The banking system has weathered the global financial crisis relatively well because of its low exposures to securitization and off-balance sheet activities. Moreover, critical reforms instituted over the years to clean up banks' balance sheets, strengthen bank capitalization, improve governance structures, enhance risk management systems, and adhere to international accounting standards, have been successful in steadily expanding and strengthening the system. Growth indicators such as asset levels, loans and deposits continued to post robust increases. Bank earnings also improved during the first half of 2009 as global financial conditions stabilized. The capital adequacy ratio remained high at 15 percent and non-performing loans also remained generally low at 3 percent of total loans.

By all accounts, it seems that the worst of the crisis has passed and economic activity has been gaining traction. Nevertheless, the BSP is mindful of the potential sources of vulnerabilities that could affect the durability and strength of the global recovery. First is the uneven pace of recovery across the globe. The unsynchronized nature of the upturn could potentially lead to sub-par global growth over the medium term. The challenge is to sustain growth and time the exit strategies very carefully. Second, the potential heavy influx of capital flows, as risk appetites perk up, can lead to exchange rate overshooting and liquidity management problems. There is, therefore, a need to explore the use of other tools, including macroprudential tools, to complement monetary policy to address this type of problem without having to complicate the disengagement from the liquidity-enhancing measures implemented during the crisis. Third, the rebound of the global economy, and in turn, global demand, could create upward pressure on commodity prices. And lastly, is the timing of the exit strategy itself. This process needs to be carefully laid out and well-coordinated across sectors to prevent unwarranted market volatility.

Against such a challenging backdrop, the BSP will continue to pursue initiatives across a broad front to nurture a self-sustaining recovery, and beyond that, to enable the economy to realize its full development potential.

The BSP will remain attentive to emerging risks to the inflation outlook and re-examine policy settings to ensure that these remain consistent with the goal of safeguarding price stability, while being supportive of economic growth. The BSP has already laid out its disengagement plans – its exit strategies – for the monetary measures implemented during the crisis. These include the alignment of the peso rediscount rate to the BSP's policy rate, reduction of the peso rediscounting budget from ₱60 billion to ₱40 billion, restoration of the loan value of all eligible rediscounting papers from 90 percent to 80 percent of the borrowing bank's credit instrument, and restoration to two percentage points from ten percentage points of the non-performing loan ratio requirement for banks wishing to avail of the rediscounting facility.

The BSP will also remain supportive of policies that will help cushion the economy from external vulnerabilities. Thus, the BSP will continue to maintain a market-determined exchange rate, keep a comfortable level of reserves as self-insurance, and ensure a manageable external debt profile.

While supportive macroeconomic conditions are necessary for financial stability, they are, however, not sufficient in ensuring financial stability. The BSP will therefore continue to pursue banking reforms that will further improve the regulatory and supervisory framework, enhance risk management systems, improve banks' corporate governance structures, strengthen disclosure practices, and enhance macroprudential surveillance capabilities to help minimize the build-up of systemic risks in the financial system. The payments and settlements system will continue to be enhanced.

To strengthen the BSP's ability to achieve monetary and financial stability, the BSP is working for the passage of proposed amendments to its charter. These amendments are aimed at providing the BSP the operational flexibility and adequate legal framework to adapt to changes in the economic environment.

The BSP is also involved in key advocacies such as microfinance, credit surety fund, and financial education and learning through the Economic and Financial Learning Center (EFLC) network. These programs aim to empower the citizenry by, among other things, encouraging the efficient flow of information and credit. Through these advocacies, the well-being of Filipinos is uplifted and beyond that, the economic and social fabric of the nation is also strengthened.

In sum, the Philippine economy had exhibited resilience during the turbulent period in 2009, primarily because its economic fundamentals had stayed intact going into, during, and moving out of the global downturn. However, there are still obstacles along the way. While downside risks to sustained growth remain, the BSP is steadfastly committed to continue calibrating its monetary policy actions, taking into consideration the inflation outlook, and pursuing financial reforms in order for the recovery to take root more firmly and growth to thrive more robustly.

AMANDO M. TETANGCO, JR

31 March 2010

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[1]
Member

Raul A. Boncan[2]
Member

Juanita D. Amatong
Member

Nelly F. Villafuerte
Member

Alfredo C. Antonio
Member

Ignacio R. Bunye
Member

[1] Monetary Board (MB) Member Favila was appointed cabinet representative to the MB on 21 July 2008 and took his Oath of Office on 4 August 2008. MBM Favila was appointed as full time MBM on 9 March 2010 (to serve the unexpired term of MBM Raul A. Boncan) and he took his oath of office on 15 March 2010.
[2] Retired as member of the MB effective 8 March 2010.

The Management Team

Amando M. Tetangco, Jr.
Governor

Executive Management

Juan De Zuñiga, Jr.
Assistant Governor and General Counsel

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

Ma. Cyd N. Tuaño-Amador
Assistant Governor

Ma. Aurora L. Cruz[1]
Managing Director

Wilhelmina C Mañalac
Managing Director

Pedro P. Tordilla, Jr.
Managing Director

Violeta F. Mejia[2]
Sub-Sector-in-Charge

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Ma. Corazon J. Guerrero
Assistant Governor

Ma. Dolores B. Yuvienco
Assistant Governor

Johnny Noe E. Ravalo
Managing Director

Leny I. Silvestre
Managing Director

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[1] MD Cruz's reached the mandatory age of retirement on 4 November 2008, but her service to the BSP as Managing Director was extended for one year, which ended on 3 November 2009. She was designated as a BSP Consultant for six (6) months effective 4 November 2009.

[2] Assumed the position of Sub-Sector-In-Charge on 4 November 2009 and concurrent Director, Cash Department.

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

AOAMS	Acquired and Other Assets Management System
AFF	Agriculture, Fishery and Forestry
ASTD	American Society for Training and Development
ADDIE	Analysis, Design, Development, Implementation to Evaluation
AMLC	Anti-Money Laundering Council
AONCR	Areas outside National Capital Region
ACBF	ASEAN Central Bank Forum
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
ASEAN+3	ASEAN plus China, Japan and Korea
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ABMI	Asian Bond Markets Initiative
ABS	Asset-Backed Securities
ADB	Asian Development Bank
ADF	Asian Development Fund
ASEAN	Association of South East Asian Nations
ALs	Auto Loans
ABPMs	Automated Banknote Processing Machines
BOP	Balance of Payments
BSP	Bangko Sentral ng Pilipinas
BSPI	Bangko Sentral ng Pilipinas Institute
BDI	Bank Distress Index
BIS	Bank for International Settlements
BPR	Bank Performance Rating
BSPD	Banknotes and Securities Printing Department
BCBS	Basel Committee on Banking Supervision
BSPI-IMS	BSPI Integrated Management System
BOC	Bureau of Customs
BIR	Bureau of Internal Revenue
BTr	Bureau of the Treasury
BES	Business Expectations Survey
BPS	Business Partnership Survey
BPI	Business Process Improvement
CAR	Capital Adequacy Ratio
CPPS	Career Plan Preference Survey
CD	Cash Department
CEMLA	Center for Latin American Monetary Studies
CMFP	Center for Monetary and Financial Policy
CAS	Central Accounting System
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
CTRM	Committee on Tariff and Related Matters
CES	Consumer Expectations Survey
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey

COCOPEA	Coordinating Council of Private Educational Associations
CMC	Corporate Monitoring Committee
CCRs	Credit Card Receivables
CDS	Credit Default Swap
CGIF	Credit Guarantee and Investment Fund
CSFP	Credit Surety Fund Program
CBTS	Cross-Border Transactions Survey
DMFAS	Debt Management and Financial Analysis System
DSB	Debt Service Burden
DSR	Debt Service Ratio
DDA	Demand Deposit Account
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
DMB	Deposit Money Banks
DCS	Depository Corporations Survey
DM	Deputies Meeting
DBCC	Development Budget Coordinating Committee
DSGE	Dynamic Stochastic General Equilibrium
EWS	Early Warning System
EIU	Economist Intelligence Unit
EFLC	Economic and Financial Learning Center
e-DvP	Enhanced Delivery-versus-Payment
EFTIS	Electronic Fund Transfer Instruction System
EMBI	Emerging Market Bond Index
ESEs	Environmental Scanning Exercises
EOH&SMS	Environmental, Occupation Health and Safety Management System
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
FECs	Financial Education Campaigns
FIE	Fixed Income Exchange
FLC	Financial Learning Campaign
FLP	Financial Learning Program
FRP	Financial Reporting Package
FRPTI	Financial Reporting Package for Trust Institutions
FSF	Financial Sector Forum
FSI	Financial Stability Institute
FSR	Financial Stability Report
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
GATS	General Agreement on Trade in Services
GTz	German Technical Cooperation
GIMF	Global Integrated Monetary and Fiscal Model
GOCCs	Government Owned and Controlled Corporations
GS	Government Securities
GSED	Government Securities Eligible Dealers
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNP	Gross National Product
HFT	Held for Trading
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
ICAAP	Internal Capital Adequacy Assessment Process
I-CSS	Internal Customer Satisfaction Survey
IRAs	Internal Revenue Allotment
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIP	International Investment Position
IMF	International Monetary Fund
IMC	Investment Management Committee
IMP	Internally-Managed Portfolio
JPEPA	Japan-Philippines Economic Partnership Agreement
KM	Knowledge Management
LFPR	Labor Force Participation Rate
LBP	Land Bank of the Philippines
LTV	Loan-To-Value
LDR	Loans-to-Deposits Ratio
LAN	Local Area Network
LGUs	Local Government Units
MFSO	Macroeconomic and Finance Surveillance Office
MS	Management System
MORB	Manual of Regulations for Banks
MORNBFI	Manual of Regulations for Non-Bank Financial Institutions
MLT	Medium and Long-Term
MTPDP	Medium-Term Philippine Development Plan
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding

MSMEs	Micro-, Small- and Medium-Scale Enterprises
MROD	Mint and Refinery Operations Department
MB	Monetary Board
MFSC	Monetary and Financial Stability Committee
MEM	Multiple-Equation Model
MSS	Monetary Stability Sector
MIPS	Multi-transaction Interbank Payments System
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
OCR	Ordinary Capital Resources
OECS	Organization Enhancement and Capability Strengthening
ODNA	Organizational Diagnosis and Needs Assessment
OHS	Organizational Health Survey
ODCs	Other Depository Corporations
ODCS	Other Depository Corporations Survey
OTC	Over-The-Counter
OFWs	Overseas Filipino Workers
OFs	Overseas Filipinos
PMS	Performance Monitoring System
PRS	Performance Review Sessions
PCE	Personal Consumption Expenditure
PAS	Philippine Accounting Standards
PCHC	Philippine Clearing House Corporation
PCFS	Philippine Consumer Finance Survey
PDIC	Philippine Deposit Insurance Corporation
PDDTS	Philippine Domestic Dollar Transfer System
PES	Philippine Economic Society
PFRS	Philippine Financial Reporting Standards
PPS-FES	Philippine Payments System-Front End System
PSA	Philippine Statistical Association
PSS	Philippine Statistical System
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PSALM	Power Sector Assets and Liabilities Management Corporation
P/E	Price-Earnings
PM	Project Management
PCA	Prompt Corrective Action
PICs	Public Information Campaigns

PPS	Public Perception Survey
QBs	Quasi-Banks
QMS	Quality Management Systems
ROPA	Real and Other Properties Acquired
REER	Real Effective Exchange Rate
RTGS	Real Time Gross Settlement
RMASS	Regional Monetary Affairs Subsector
RP	Repurchase Rate
Repo	Repurchase Agreement
RFPs	Requests for Proposals
RRELs	Residential Real Estate Loans
RMS	Resource Management Sector
RTBs	Retail Treasury Bonds
RRP	Reverse Repurchase
RWA	Risk Weighted Assets
SPC	Security Plant Complex
SPEI	Selected Philippine Economic Indicators
ST	Short-Term
SEM	Single-Equation Model
SEANZA	South East Asia, New Zealand and Australia
SEACEN	South East Asian Central Banks
SDA	Special Deposit Account
SDR	Special Drawing Rights
SRF	Standardized Reporting Format
STEP	Structured Team Enhancement Program
SME	Subject Matter Expert
SES	Supervision and Examination Sector
SRP	Supervisory Review Process
SIPS	Systemically Important Payment Systems
TF	Task Force
TCPS	Technical Committee on Price Statistics
TWGs	Technical Working Groups
TBs	Thrift Banks
TLP	Total Loan Portfolio
T-bills	Treasury Bills
UITFs	Unit Investment Trust Funds
UNCTAD	United Nations Conference on Trade and Development
U/KBs	Universal/Commercial Banks
WB	World Bank
WTO	World Trade Organization
WC-CMD	Working Committee on Capital Market Development
WC-FSL	Working Committee on Financial Services Liberalization
WDIs	Workplace Development Interventions

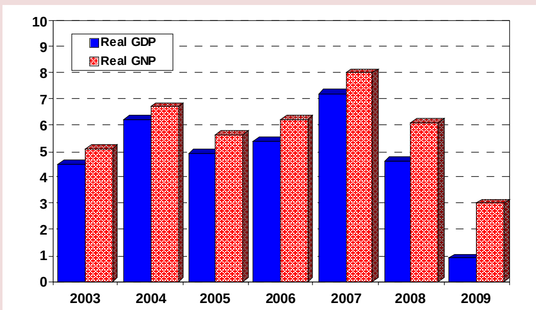
PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

The domestic economy continues to grow

The domestic economy continued to grow amidst the global economic turmoil in 2009. Economic expansion was led by the services, and agriculture, fishery and forestry (AFF) sectors. On the demand side, government consumption and personal consumption expenditure (PCE) were the main growth drivers. In particular, real Gross Domestic Product (GDP) grew by 0.9 percent in 2009, within the government's growth target of 0.8-1.8 percent in 2009. However, this was lower than the 3.8 percent GDP growth posted in 2008. Real Gross National Product (GNP) likewise grew by 3.0 percent in 2009, although lower than the 6.2 percent posted in 2008 (Table 1).

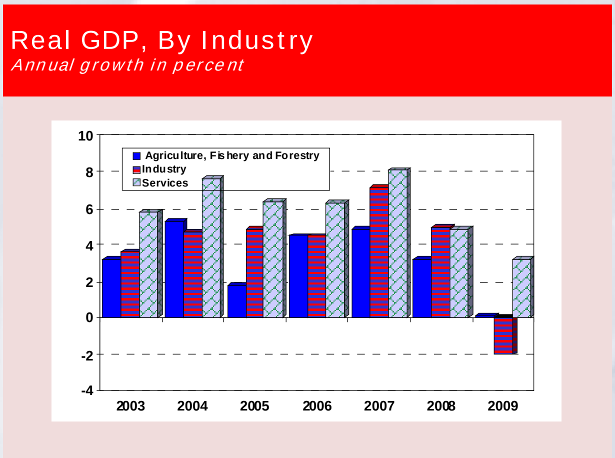
Real Gross Domestic Product and Real Gross National Product
Annual growth in percent



Aggregate Output and Demand

The services and AFF sectors are key contributors to output growth

The services and AFF sectors were the key contributors to the expansion of the Philippine economy in 2009. The services sector, which constituted half of the total GDP, rose by 3.2 percent in 2009. This translated to a 1.5 percentage point contribution to the 0.9 percent GDP growth in 2009. Finance led the growth of the services sector due to the upswing in consumer finance and micro-, small- and medium-scale enterprise (MSME) loans as well as trading of securities. Notable expansions were also registered in private services, trade, and transportation, communication and storage. In the services sector, only ownership of dwellings and real estate posted a decline in 2009.



The industry sector, which accounted for 31.8 percent of total GDP, contracted by 2.0 percent in 2009 after growing by 5.0 percent in 2008. This sector contributed negative 0.6 percent to the 0.9 percent 2009 GDP growth rate. Nonetheless, growth was recorded in mining and quarrying, and construction supported mainly by higher government spending in public infrastructures. However, manufacturing, and electricity, gas and water both posted contractions during the year in review. Decreased demand for Philippine-made products weighed down manufacturing in 2009.

Meanwhile, the AFF sector registered a modest growth of 0.1 percent in 2009, lower than the 3.2 percent growth in 2008. The AFF sector, which accounted for 18.1 percent of overall GDP, contributed 0.01 percentage point to the 0.9 percent GDP growth in 2009. Despite the damage and losses caused by tropical typhoons in the latter part of 2009, the AFF sector managed to post growth due to its strong performance in the first and third quarters of 2009.

Government consumption leads demand-side growth

On the demand side, growth was supported by government consumption, which grew by 8.5 percent in 2009 from 3.2 percent in 2008. The robust expansion in government consumption was due to the higher spending by the government to mitigate the effects of the global economic slowdown. Construction also grew by 3.9 percent in 2009, owed chiefly to the various public infrastructure projects in the country. Likewise contributing to the growth of the economy, PCE accelerated at a rate of 3.8 percent during the year in review as a result of an increase in consumer spending. In contrast, exports contracted in 2009 due to the decline in demand as the global financial crisis curbed consumption, especially in advanced economies.

Labor, Employment and Wages

Employment growth remains stable amidst crisis

Employment conditions remained generally stable in 2009 amidst the global financial crisis and the extreme local weather disturbances that occurred in the second half of the year. Employment growth averaged 2.9 percent in 2009, based on the four rounds of the Labor Force Survey of the National Statistics Office (NSO) during the year. This is an improvement from the 1.6 percent growth recorded in 2008 (Table 2). The growth of employment translated into about a million (972,000) employed persons to reach 35.1 million in 2009. Employment growth was driven mainly by the services sector (5.4 percent) with modest gains in the industry sector (0.9 percent), while the AFF sector remained almost flat (0.1 percent). Classified by status of employment, wage and salary workers, which comprised the bulk of employed persons, grew by 4.7 percent, while unpaid family workers, employers and self-employed workers rose by 1.3 percent, 0.8 percent and 0.7 percent, respectively. [1]

Meanwhile, the average unemployment rate in the four survey rounds in 2009 increased marginally by 0.1 percentage point to 7.5 percent in 2009. The level of unemployed persons grew by 115,000 from the year-ago level, to reach 2.8 million in 2009. This developed as the growth in the labor force outpaced that of employment. The labor force grew by 3 percent, representing an influx of 1.1 million new entrants and re-entrants during the year. This was nearly a two-fold increase from the 592,000 posted in 2008 and was also reflective of the rise in the labor force participation rate (LFPR) to 64 percent in 2009 from 63.6 percent in the previous year.

The underemployment rate continued to decline to 19.1 percent in 2009 from 19.3 percent in 2008. Meanwhile, the total number of overseas Filipino workers rose by 11.7 percent to 1,284,133 workers for the period January-November 2009 from 1,149,429 workers in the same period last year.

[1] Employer is defined as a person working in his own business, farm, profession or trade who has one or more regularly paid employees, including paid family members. Domestic helpers, family drivers and other household helpers who assist in the family-operated business, regardless of time spent in this activity, are not hired employees in the enterprise/business. A retail store operator who is wholly assisted in the operation of his store by unpaid relatives living with him and who employs carpenters to construct a new building for his store (with store operator supervising the work) is not an employer. However, if an operator happens to be the owner or partner of a big firm which has its own construction unit to take care of its needs, the operator is an employer. (source: http://www.bles.dole.gov.ph)

Prices

Inflation for 2009 falls within target

Inflation averaged 3.2 percent in 2009, well within the 2.5-4.5 percent target range for the year and lower than the 9.3 percent average in the previous year (Table 3). Despite the uptick in prices in the fourth quarter of 2009, favorable developments in food and energy-related items in the first three quarters of 2009 sustained the inflation downtrend which started in the fourth quarter of 2008.

Food and non-food inflation rates slow down

The average inflation for food, beverage, and tobacco (FBT) also decelerated to 5.8 percent in 2009, cutting the previous year's 12.9 percent price increase by more than half. Food prices followed a continuous downtrend from March 2009 to July 2009 due mainly to favorable supply conditions, particularly the sustained growth in agriculture and lower global food prices year-on-year. However, food inflation went up significantly toward the end of the year as weather disturbances drove the prices of agricultural products upward.

Non-food inflation likewise went down in 2009 to 0.8 percent, from 6.0 percent in the previous year with negative inflation for fuel, light, and water (-2.6 percent) and services (-0.2 percent). However, similar to food inflation, non-food inflation, which was negative from July to October, started rising in November as fuel prices increased due largely to the lifting of the price ceiling on these items in the middle of the month.

On a geographical basis, headline inflation in both the National Capital Region (NCR) and in areas outside NCR (AONCR) went down to 1.6 percent and 3.9 percent, respectively. These were significantly lower than the average inflation of 6.9 percent in the NCR and 10.4 percent in AONCR recorded in the previous year.

Core inflation also decelerates

Core inflation, an indicator of the long-term trend of inflation, also eased, averaging 4.1 percent during 2009 compared to 6.2 percent in the previous year. Alternative measures of core inflation estimated by the BSP also went down during the year.

Core Inflation Measures	Year-on-Year Change 2000=100	
	2008	2009
Official Measure[1]	6.2	4.1
Trimmed Mean[2]	7.6	3.6
Weighted Median[3]	7.3	3.7
Net of Volatile Items[4]	7.8	2.9

[1] 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).
[2] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of year-on-year inflation rates for all CPI components.
[3] The weighted median represents the middle inflation rate (corresponding to a cumulative CPI weight of 50 percent) in a lowest-to-highest ranking of year-on-year inflation rates.
[4] The net of volatile items method excludes the following items: educational services, fruits and vegetables, personal services, rentals, recreational services, rice, and corn. These items represent 37.6 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.

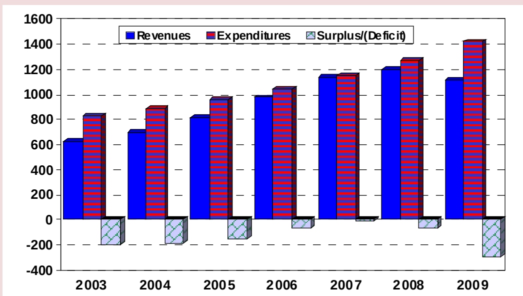
Sources of Basic Data: NSO, BSP-DER

Operations of the National Government

NG's operations yield a larger deficit

The National Government's (NG) deficit rose to ₱298.5 billion in 2009, equivalent to 3.9 percent of GDP, from a shortfall of only ₱68.1 billion in 2008. This deficit was higher by ₱48.5 billion than the programmed deficit of ₱250 billion for the year. Revenues declined by 6.6 percent to ₱1,123.2 billion, falling short of the target by 9.4 percent. At the same time, expenditures increased to ₱1,421.7 billion during the year, about 4.5 percent below the programmed level (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, declined by 6.4 percent to reach ₱981.6 billion during the period January-December 2009, about 90.7 percent of the programmed level of ₱1,082.6 billion. Non-tax revenues, notably of the Bureau of the Treasury (BTr), declined by 7.9 percent to ₱141.6 billion during the same period. Likewise, the total non-tax revenues was below the programmed level by 9.6 percent to reach ₱141.6 billion for 2009.

Total NG expenditures increased by 11.9 percent, although lower than the programmed level. Contributing to the increase in expenditures were the special shares of local government units (LGUs) from proceeds of specific national taxes. Meanwhile, interest payments increased by 2.4 percent to ₱278.9 billion during the review period.

The deficit was financed mainly from domestic sources, which covered 56 percent of the total financing requirement of the NG. The share of domestic borrowings was lower than the targeted 68 percent of the financing mix. Moreover, net repayments by the NG of its foreign borrowings amounted to ₱152.5 billion for 2008.

Monetary and Financial Conditions

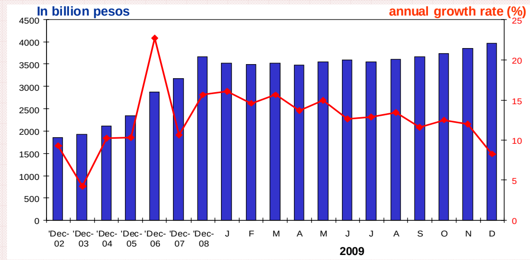
Monetary Conditions

Monetary Aggregates

Domestic liquidity growth remains strong

Domestic liquidity (M3) growth remained strong in 2009, supported by liquidity-enhancing measures implemented by the BSP in view of the global financial turmoil. M3 as of end-December 2009 was 8.3 percent higher than a year ago (Table 5). M3 growth rate averaged 13.2 percent in 2009, from 8.1 percent in the previous year, fueled by the sustained growth in net foreign assets (NFA), at 24.2 percent from 14.5 percent in 2008. The growth in net domestic assets (NDA), on the other hand, was more modest, averaging 2.3 percent in 2009, from 3.1 percent in the previous year.

Domestic Liquidity (Depository Corporations Survey * Concept)

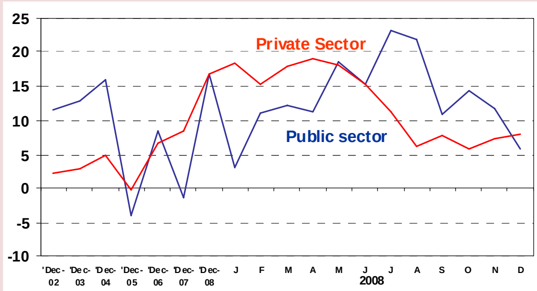


* Depository Corporations Survey (DCS) is a consolidation of the balance sheets of the deposit-generating financial institutions namely the Monetary Authorities (MA) or the BSP and the Other Depository Corporations (ODCs) composed of banks.

Sustained foreign exchange inflows from remittances of overseas Filipinos (OFs) and foreign investments (direct and portfolio) underpinned the growth in NFA. The rise in NFA in turn allowed the BSP to build up its international reserves, and deposit money banks (DMBs) to settle a significant portion of their foreign liabilities.

Meanwhile, NDA growth followed a general downtrend in 2009. From a high of 9.4 percent at the start of the year, NDA growth decelerated to negative 4.5 percent in December. This was due largely to the more negative balance of the net other items account, which diluted overall domestic liquidity growth. Net domestic credit, meanwhile, remained strong as the growth in credit extended to the public sector averaged 13.3 percent in 2009 from 5.6 percent in the previous year. Private sector credit reflected double-digit growth from January to July 2009 to average 16.4 percent during the 7-month period. However, the growth in private sector credit started to slow down in August 2009 to reach 5.7 percent in October 2009, before posting moderate recovery in the last two months of 2009. The slowdown in credit extended to the private sector could be due partly to the continued contraction in manufacturing and construction loans, given the still weak global demand for the country's exports and the ongoing corrections in the property sector.

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

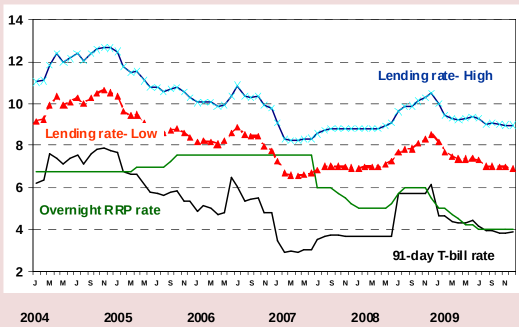


Interest Rates

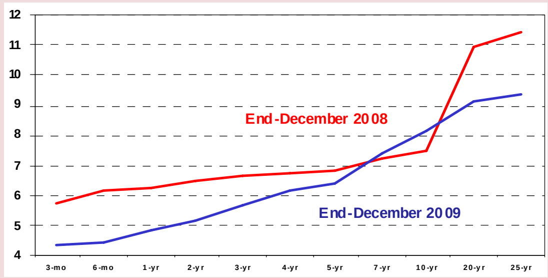
Interest rates on government securities show marked easing

Domestic interest rates declined across all tenors in the primary market during the year, reflecting the easing of risk aversion among investors as global economic and financial conditions showed signs of recovery from the crisis, and inflation slowed down markedly (Table 6). The downtrend in domestic interest rates could also be attributed to the significant monetary easing undertaken by the BSP. It may be recalled that the BSP reduced its key policy rates by a cumulative of 200 basis points between December 2008 and July 2009. Similarly, secondary market interest rates decreased across a wide range of maturities, except for the 7- and 10-year tenors, due mainly to improved investor sentiment resulting from the favorable inflation outlook, the upgrade of the country's credit rating by Moody's Investors Service, and expectations of further policy rate cuts by the BSP, particularly in the first half of the year.

Domestic Interest Rates



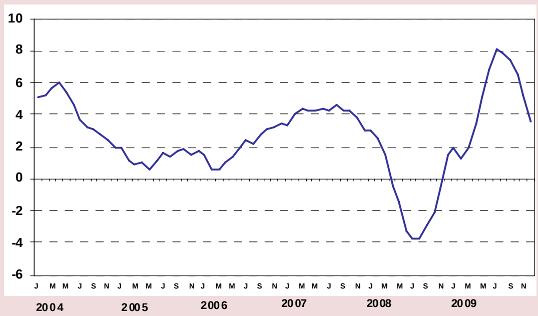
Secondary Market Yield Curve
End-of-period, in percent



Lending and deposit rates decrease in nominal terms but increase in real terms

Bank lending and borrowing rates decreased during the year in review. The decline in bank lending rates reflected the pass-through to bank borrowers of the BSP's policy rate cuts. In real terms however, the same lending and borrowing rates increased relative to their rates a year ago due mainly to low inflation.

Real Lending Rates: Philippines
Average bank lending rate less CPI Inflation, in percent



The Monetary Board reduces the BSP policy rates significantly

The Monetary Board (MB) reduced the BSP policy rates from January until July 2009 by a total of 150 basis points. The decision to reduce the BSP policy rates was on account of the marked downward tilt in the balance of risks to the inflation outlook, as shown by the low core inflation, moderate global and domestic demand, and well within-target inflation expectations.

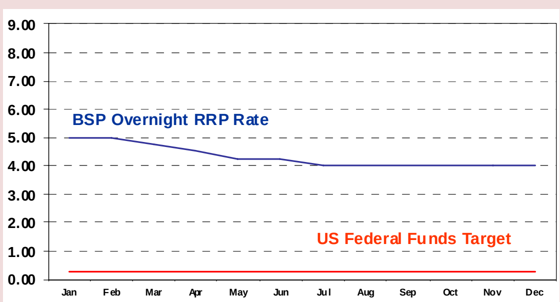
In August, the MB opted to maintain the BSP policy rates at 4 percent and at 6 percent for the reverse repurchase (RRP) rate and the repurchase (RP) rate facilities, respectively. The MB deemed the monetary policy settings to be appropriate and noted that inflation expectations remained within target. The MB also allowed the substantial monetary stimulus undertaken in the early part of the year to work its way fully through the financial system. This was in view of the lagged impact on the real economy of monetary policy actions. The MB continued to maintain the BSP policy rates in October, November and December 2009, as inflation expectations remained well-anchored and inflation forecast remained within target range.

2009	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	5.00	0.25	475
Feb	5.00	0.25	475
Mar	4.75	0.25	450
Apr	4.50	0.25	425
May	4.25	0.25	400
Jun	4.25	0.25	400
Jul	4.00	0.25	375
Aug	4.00	0.25	375
Sep	4.00	0.25	375
Oct	4.00	0.25	375
Nov	4.00	0.25	375
Dec	4.00	0.25	375

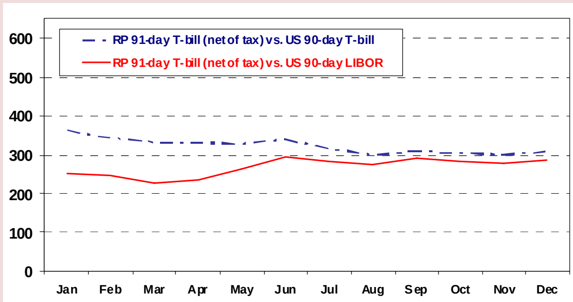
The differential between domestic and foreign interest rates increases

The differential between the BSP's policy rate and the US federal funds target rate decreased during the year due to the decline in the BSP RRP rate while the US federal funds target rate stayed constant. Meanwhile, the before- and after-tax differentials between the 91-day RP T-bill rate and US interest rates widened significantly during the review period due to the relatively larger decline in the 90-day US LIBOR and the 90-day US T-bill rate over the substantial easing in the 91-day RP T-bill rate.

BSP Policy Rate vs.
US Federal Funds Target Rate
2009, in percent



Domestic and Foreign Interest Rate Spreads
2009, in basis points

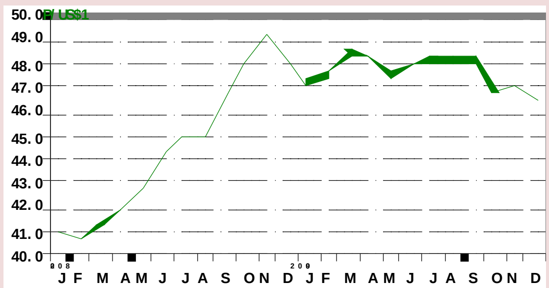


Exploring Rates

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

The peso averaged ₱47.64/US$1 for the period 5 January-29 December 2009, depreciating by 6.6 percent from the ₱44.47/US$1 2008 average, as the full impact of the global financial turmoil and the continued risk aversion against emerging market economies was felt (Table 7).[2] However, in terms of end-of-period levels, the peso appreciated by 2.4 percent to ₱46.36/US$1 at end-December 2009, from the ₱47.49/US$1 end-December 2008 level. The resiliency of the domestic economy, along with the continued inflow of OF remittances, contributed to the peso's appreciation.

Average Peso Dollar Rate
2008 2 009



The peso appreciated by 1.4 percent to average ₱47.75/US$1 in the first quarter of 2009 from ₱48.44/US$1 in the last quarter of 2008. However, the peso depreciated by 14.2 percent compared with the ₱40.95/US$1 average in the first quarter of 2008. Sustained OF remittances as well as generally improving market sentiment provided support to the peso during the quarter. Concerns though on deep contractions in major

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

economies and the effect of weak global demand on the export-driven Asian economies dragged down the peso during the quarter.

In the second quarter, the peso depreciated slightly by 0.3 percent to average ₱47.88/US$1 from ₱47.75/US$1 in the previous quarter. The peso depreciated at a faster pace of 8.9 percent when compared with the ₱43.61/US$1 average in the second quarter of 2008. Concerns about the prospects of a weaker growth, widening fiscal deficit, possible credit downgrades and the political noise created by the prospects of amendments to the Philippine constitution, dragged the peso down during the review quarter.

For the third quarter, the peso continued to depreciate by 0.6 percent to average ₱48.15/US$1 from ₱47.88/US$1 in the previous quarter. The peso depreciated by 5.5 percent when compared with the ₱45.51/US$1 average in the third quarter of 2008. The peso continued to weaken in the early part of the third quarter on doubts about the sustainability of the global recovery and the health of the global financial system.

As investor sentiments improved, the peso appreciated by 3.0 percent to average ₱46.77/US$1 in the fourth quarter of 2009 from ₱48.15/US$1 in the previous quarter. Year-on-year, the peso appreciated by 3.6 percent to ₱48.44/US$1. The peso strengthened against the U.S. dollar during the review period on improved risk appetite for high-yielding assets due to expectations that the global economy is starting to recover. Strong dollar inflows from OF remittances as well as sustained foreign direct and portfolio investments likewise provided support to the peso.

Year-to-date movements saw most Asian currencies appreciating vis-à-vis the US dollar as of 29 December 2009, led by the Indonesian rupiah's 18.2 percent gain, followed by the South Korean won's 8.2 percent appreciation.[3] Meanwhile, the Japanese yen depreciated by 2.6 percent.

[3] Based on the last done deal in the afternoon.

Selected Asian Currencies	Appr/Depr(-) 29 Dec 2009 vs 24 Dec 2008
Indonesian Rupiah	18.2
South Korean Won	8.2
Indian Rupee	4.9
Thailand Baht	4.1
Philippine Peso	***2.9***
New Taiwan Dollar	2.5
Singaporean Dollar	1.8
Malaysian Ringgit	1.2
Chinese Yuan	0.0
Japanese Yen	- 2.6

On a real, trade-weighted basis, the peso lost some external price competitiveness in 2009 as measured by its real effective exchange rate (REER) indices (Table 7a).[4] For the REER index of the peso against the broad[5] and narrow[6] basket series, both indices increased by 1.2 percent and 0.2 percent, respectively, indicating that the peso lost some price competitiveness against its competitor countries in the Asian region. However, the peso gained some external price competitiveness as the REER indices of the peso against major trading partner (MTP) currencies decreased by 3.2 percent.[7]

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

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

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

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

Box Article 1:

Addressing the Effects of the Global Financial Crisis

The global financial crisis posed considerable challenges to policymakers in both advanced and emerging economies, initially because of the widespread volatility that occurred in financial markets, and subsequently because of the broader impact exerted on economic activity in most countries by the turbulence.

In the Philippines, the immediate impact of the current global turmoil was felt largely in the domestic financial markets, while the effect on the banking system had been modest. It also became clear to policymakers, however, that there would also be negative effects on real sector activity.

The crisis interventions made by the BSP consisted mainly of policy rate reductions and liquidity support (Table 1). Policy rate reductions (to the extent that the inflation outlook permitted) were implemented to bring down the cost of borrowing, reduce the financial burden on firms and households, and shore up business and consumer confidence for economic expansion. The BSP reduced its policy interest rates by a total of 200 basis points from December 2008 to July 2009, bringing down the overnight reverse repurchase (RRP) or borrowing rate to 4 percent and the overnight repurchase (RP) or lending rate to 6 percent.

At the same time, liquidity support measures were put in place to provide sufficient liquidity to keep the financial markets functioning smoothly and able to fund the growth requirements of the economy, amidst the global credit crunch. In November 2008, the BSP reduced the regular reserve requirement by 2 percentage points and doubled the rediscounting budget to ₱40 billion. In March 2009, the BSP further raised the rediscounting budget to ₱60 billion and liberalized the rediscounting guidelines as well. The BSP also launched the Credit Surety Fund (CSF) program in the second half of 2008 to provide micro, small-, and medium-scale enterprises with access to credit from banks without the need for collateral by means of a surety cover. To address dollar liquidity sourcing concerns, the BSP opened a US dollar repo facility to enhance dollar liquidity in the foreign exchange market and ensure the availability of credit for imports and other legitimate funding requirements. Likewise, the limit for the foreign exchange swap facility was increased to provide additional dollar liquidity.

Apart from implementing policy rate reductions and liquidity provision measures, the BSP's responses to the global financial crisis included regulatory forbearance, intensified surveillance and communication and provision of legislative support to the proposal to increase the maximum deposit insurance. In terms of regulatory forbearance, financial institutions were allowed to reclassify financial assets from categories measured at fair value to those measured at amortized cost.[1] The BSP also approved an adjustment in the items eligible as asset cover for purposes of the calculation of the 100 percent asset cover requirement for banks' foreign currency deposit units. At the same time, the BSP sought to continually reassure financial markets of the banking system's stability and of the BSP's readiness to address any potential tightness in liquidity that may result from increased risk aversion among investors.

Table 1. Monetary Policy Measures Implemented by the BSP during the Global Financial Crisis[1/]	
Policy rate reductions	
18 December 2008	50 bps reduction
29 January 2009	50 bps reduction
5 March 2009	25 bps reduction
16 April 2009	25 bps reduction
28 May 2009	25 bps reduction
7 July 2009	25 bps reduction
Liquidity support	
17 October 2008	• Opening of US dollar repo facility
	• Enhancement of the existing peso repo facility through relaxed valuation and broader acceptable collateral
7 November 2008	• Increase in rediscounting budget (from ₱20B to ₱40B)
14 November 2008	• Decrease in reserve requirement by two percentage points
2 March 2009	• Increase in rediscounting budget (from ₱40B to ₱60B) • Aligning the rediscounting rate with the RRP rate • Easing the NPL ratio requirement and increasing loan value of all eligible rediscounting papers[2/]

[1/] A 50 bps reduction in the RRP rate facilitated the transition from the use of the 91-day T-bill rate as reference rate.
[2/] Other measures to liberalize rediscounting guidelines (such as the dispensing of the requirement of execution of a surety agreement by any stockholder owning more than 50 percent of the voting stocks and imposing a ceiling on the NFA papers that a bank can rediscount) were introduced but need not be included because the basis for the introduction of these measures were not necessarily related to the global financial crisis.

The combined policy responses of policymakers worldwide helped to calm down financial markets and provide support to economic activity. In addition to putting up stimulus packages, governments, particularly in advanced economies, crafted measures to avert a potential systemic collapse of their financial systems. These measures included deposit and debt guarantees as well as the recapitalization and clean-up of huge levels of toxic assets held by troubled financial institutions. These actions were broadly successful in providing a much-needed boost to market and business confidence. Financial strains in both the advanced and emerging economies (as measured for example by the International Monetary Fund's (IMF) financial stress index) gradually receded from levels observed in the early months of 2009.

In the Philippines, investor sentiment significantly improved, facilitating the recovery of domestic financial markets. The peso began to stabilize by April 2009 and share prices in the Philippine Stock Exchange moved up and hurdled past the 2,900 resistance level in early October. Philippine government bond spreads also narrowed as the perception on the country's credit risk improved. At the same time, economic activity began to recover in Q4 2009 as the risk of a prolonged global slowdown due to the crisis receded.

Endnote:

[1] BSP Circular No. 628 dated 31 October 2008 allowed the reclassification of non-derivative financial assets from categories measured at fair value (held for trading) to those measured at amortized cost, but excluding those that are designated at fair value through profit or loss (available for sale/held to maturity or unquoted debt securities classified as loans). Reclassification was allowed to be done only in rare circumstances and if there was a change in intention. Retroactive reclassification was not allowed.

Financial Conditions

Performance of the Banking System

Philippine banking system remains sound and stable

The Philippine banking system remained fundamentally sound and stable in 2009 amid the global financial crisis. Growth indicators such as asset levels, loans and deposits continued to post robust increases. The banking sector's asset quality also exhibited sustained 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.

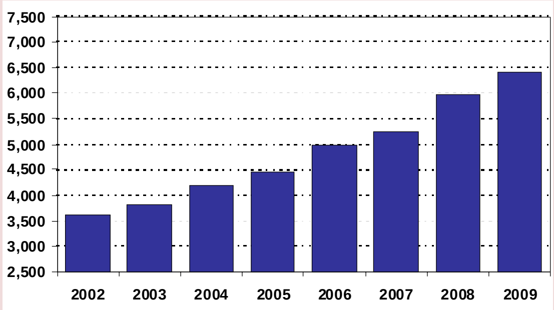
Selected Banking Indicators		
	2009 p/	**2008**
Assets (₱ Billion) Annual growth (%)	6,421.5 7.5	5,973.8 13.9
Deposits (₱ Billion) Annual growth (%)	3,428.6 7.7	3,182.4 14.4
Loans Outstanding (₱ Billion, Gross of RRPs) Annual growth (%)	2,378.9 9.1	2,181.1 17.5
Number of Banking Institutions (Head Offices)	785	818
NPL to Total Loans (%)	3.7	4.1
Capital Adequacy Ratio (%)	15.7 (Jun)	18.8
Return on Assets (ROA)	1.1 (Sep)	0.8
Return on Equity (ROE)	9.4 (Sep)	6.9
p/ Preliminary		

Resources

Total resources of the banking system post an uptrend

The total resources of the banking system rose by 7.5 percent to ₱6.422 trillion as of end-December 2009 from its year-ago level of ₱5.974 trillion (Table 8). The increase was due mainly to the rise in debt securities. 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



Deposit Generation

Savings and demand deposits increase

The banking system's outstanding deposit liabilities as of end-December 2009 increased by 7.7 percent to ₱3,428.6 billion from ₱3,182.4 billion during the same period in 2008 (Table 9). Savings deposits, which continued to account for almost half of the banks' funding base, increased by 13.8 percent relative to its year-ago level. Demand deposits posted a year-on-year growth of 19.1 percent but time deposit contracted by 6.6 percent.

Lending Operations

Lending expands

Outstanding loans of U/KBs (net of RRP placements) continued to grow and expanded by 10.0 percent year-on-year at end-December 2009, albeit slower than the 20.5 percent recorded during the same period in 2008. Bank lending including RRPs likewise expanded by 9.1 percent, but was also slower compared to the 17.5 percent growth posted at the end of the previous year. Preliminary data showed that both production and consumption loans grew by 9.9 percent and 11.0 percent, respectively.

Loans Outstanding: Universal/Commercial Banks
Annual growth in percent

The growth of lending was pulled down by the contraction in other sectors led by manufacturing and construction. Sectors which contributed significantly to the growth of production loans were transportation, storage and communication (85.2 percent); financial intermediation (45.5 percent); electricity, gas and water (28.1 percent); health and social work (25.9 percent); and public administration (25.8 percent). Manufacturing loans, which accounted for 13.8 percent of total loans, contracted by 16.7 percent amid the still weak global demand for exports.

Loans Outstanding of UBs/KBs
December 2009

	Loans (P B)		Share to Total Loans (%)	Annual Growth Rate (%)
	2009	2008		
1. Production Activity				
Agriculture, Hunting & Forestry	333.8	309.3	14.0	7.9
Manufacturing	327.0	392.8	13.8	-16.7
Electricity, Gas & Water	144.2	112.6	6.1	28.1
Construction	25.1	34.4	1.1	-27.0
Wholesale & Retail Trade	239.3	228.7	10.1	4.6
Trans, Storage & Com.	150.1	81.0	6.3	85.2
Financial Intermediation	190.0	130.6	8.0	45.5
Real Estate, Renting & Business Services	317.6	282.9	13.4	12.3
Other Community, Social & Personal Services	71.1	72.6	3.0	-2.1
Others	123.5	103.3	5.2	19.6
Sub-Total	***1,921.7***	***1,748.2***	***100.0***	***9.9***
2. Household Consumption Activity				
Credit Card	115.0	107.9	4.8	6.6
Auto Loans	45.4	35.6	1.9	27.5
Others	16.2	15.6	0.7	3.8
Sub-Total	**176.6**	**159.1**	**7.4**	**11.0**
3. Under RRPs Arrangement	232.2	230.1	9.8	0.9
4. Non-Resident	48.4	43.8	2.0	10.5
Total Loans Outstanding				
Gross of RRPs	2,378.9	2,181.1		9.1
Net of RRPs	2,146.7	1,951.0		10.0

Source: BSP

Residential real estate loans expand

As of end-December 2009, the combined residential real estate loans (RRELs) of U/KBs and thrift banks (TBs) rose by 5.7 percent to ₱162.6 billion from last year's ₱153.9 billion, while the ratio of RRELs to total loan portfolio (TLP) remained unchanged at 6.0 percent. TBs accounted for the bigger slice of the total residential real estate exposure at 55.4 percent (₱90.0 billion) while U/KBs held the remaining 44.6 percent (₱72.6 billion). In terms of loan quality, the ratio of non-performing RRELs to total RRELs of U/KBs and TBs went down to 6.7 percent from 7.0 percent during the same period in 2008.

Growth in credit card receivables continues

The combined credit card receivables (CCRs) of U/KBs and TBs, inclusive of credit card subsidiaries as of end-

December 2009 rose by 4.5 percent to reach ₱136.6 billion compared to the level during the same period in 2008, reflecting modest growth in consumer spending. The ratio of CCRs to the TLP remained unchanged at 5.0 percent while the non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries grew by 13.0 percent to ₱17.3 billion from ₱15.3 billion in 2008. Meanwhile, the ratio of non-performing CCRs to total CCRs settled at 12.6 percent from 11.7 percent in the previous year as the increase in non-performing CCRs outweighed the expansion in total CCRs.

Auto loans increase following aggressive marketing schemes of banks and car financing firms

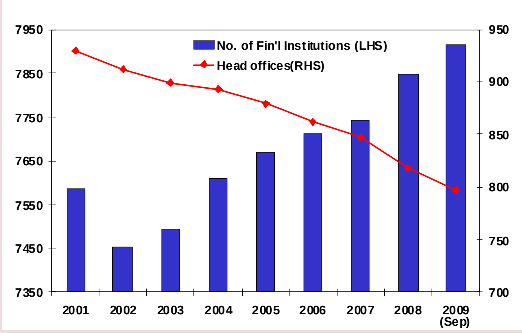
The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries amounted to ₱94.6 billion as of end-December 2009, an increase of 20.4 percent from that ₱78.6 billion registered in December 2008. The aggressive marketing strategy of banks and other car financing firms in promoting car loans may have encouraged purchases of cars. The proportion of total ALs to TLP, exclusive of interbank loans (IBL), went up to 3.4 percent from last year’s 3.0 percent. In terms of loan quality, the non-performing ALs to total ALs rose slightly to 5.2 percent from last year’s 4.9 percent.

Institutional Developments

Consolidation in the banking industry continues

The number of banking institutions (head offices) fell further to 785 as of end-December 2009 from the year-ago level of 818, indicating the continued consolidation of banks as well as the exit of weaker players in the banking system. By banking classification, banks (head offices) consisted of 38 U/KBs, 73 TBs, and 674 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 8,620 from 8,448 during the same period last year, reflecting mainly the increase in commercial and rural banks’ branches/agencies (Table 9a).

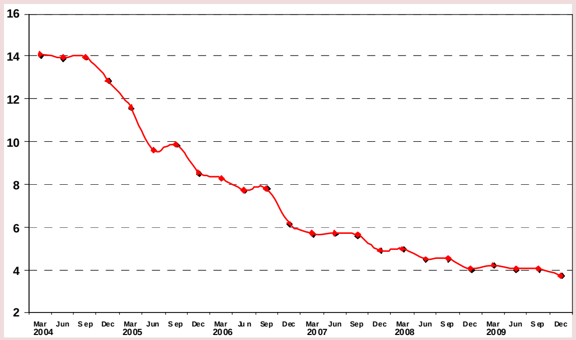
Number of Financial Institutions



Asset quality continues to improve as NPLs decline while total loan portfolio increases

The banking system's asset quality continued to improve as the NPL ratio eased further to 3.7 percent as of end-December 2009 compared to 4.1 percent a year ago. The continued adoption of prudent lending standards helped banks in maintaining minimal levels of bad debts. The lower NPL ratio was attributed to the 1.4 percent decline in NPLs combined with the 7.4 percent expansion in the industry's TLP. NPL levels further dropped to ₱116.2 billion from the previous year's level of ₱117.9 billion, while TLP expanded to ₱3,118.1 billion from ₱2,902.2 billion for the same period last year.

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



Meanwhile, the NPL ratio of U/KBs fell further to 3.0 percent as of end-December 2009, an improvement from the 3.5 percent ratio posted during the same period in 2008. This NPL ratio was the lowest recorded since it peaked at 18.8 percent in end-October 2001. Moreover, the real and other properties acquired (ROPA) of U/KBs dropped by 6.1 percent to ₱135.4 billion as of December 2009 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 3.9 percent as of December 2009 from 4.5 percent a year ago.

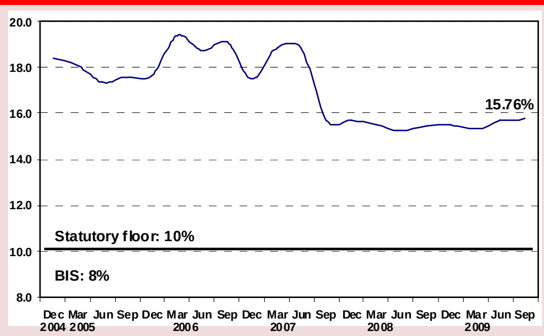
However, the Philippine banking system's NPL ratio of 3.7 percent was higher than Malaysia's 1.8 percent and Korea's 1.5 percent, but lower than Indonesia's 3.8 percent and Thailand's 4.8 percent.[8] The lower NPL ratios in Malaysia and South Korea may be traced to the creation of publicly-owned asset management companies (AMCs), which purchased the bulk of their NPLs, a practice which was not resorted to in the Philippines.

The loan exposure of banks remained adequately covered as the banking system's declining NPLs pushed up the NPL coverage ratio to 92.4 percent as of end-December 2009, from 87.1 percent in the same month of the previous year. The ratio was indicative of banks' continued compliance with the loan-loss provisioning requirements of the BSP to ensure adequate buffers against unexpected losses.

CAR remains above statutory floor

Meanwhile, the banking system remained adequately capitalized as of end-September 2009, with the average CAR remaining strong at 14.8 percent on a solo basis and 15.8 percent on a consolidated basis, higher than the comparable December 2008 ratios. The slight improvement in the banking system's CARs was driven by the almost matching growth rate of qualifying capital and risk weighted assets (RWA). The industry's CAR continued to exceed the statutory level set by the BSP at 10.0 percent and the BIS standard at 8.0 percent.

Banking System: Capital Adequacy Ratio
In percent



[8] Sources: Various central bank websites and GFSR October 2009, Indonesia (Banking system, December 2009); Malaysia (Banking system, December 2009); Thailand (Financial institutions, December 2009); and Korea (Financial system, March 2009).

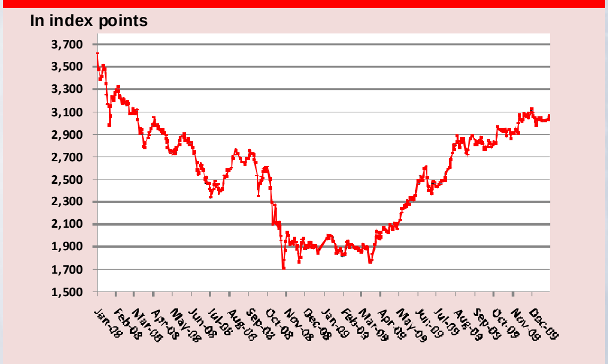
The Philippine banking system's CAR remains comparatively higher than those of Malaysia (14.7 percent), and Korea (12.9 percent) but lower than that of Indonesia (17.4 percent). Meanwhile, Thailand posted the highest CAR in the region at 18.7 percent.[9]

Stock Market Developments

Stock trading rebounds as risk appetites improve

The local bourse rebounded in 2009 as the global economy began to show signs of recovery resulting from the extraordinary fiscal and monetary stimulus measures introduced to support economic growth amidst the global crisis. With recovery seemingly underway, investors' risk appetite returned and the Philippine equities market subsequently rallied, especially since mid-March 2009. However, towards the end of the year market sentiments were partly dampened by growing uncertainty over the sustainability of global economic recovery.

Daily Philippine Stock Exchange index
(January 2008 – December 2009)

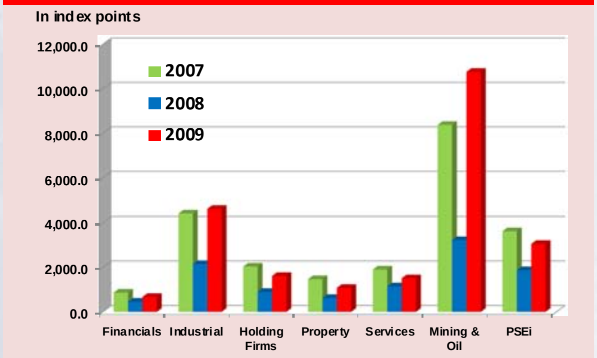


Composite index rises sharply

Benefiting from the return of global risk appetite, the PSEi climbed by 63.0 percent (year-on-year) to close at 3,052.7 index points in end-December 2009 (Table 10). Compared to pre-crisis levels, however, the market has yet to reach its peak performance of 3,873.5 index points posted in October 2007. All sub-indices outperformed their 2008 levels, with the mining and oil sector leading the rally as it rose by over 230 percent due to rising prices of gold and base metals in the world market. This was followed by the industrial index (115.7 percent), holding firms index (79.6 percent), property index (72.6 percent), financials index (46.6 percent) and the services index (31.9 percent).

[9] Sources: Various central bank websites and GFSR October 2009, Malaysia (Banking System, December 2009); Korea (Banking System, March 2009); Thailand (Average Full Branch, December 2009) and Indonesia (KBs, December 2009).

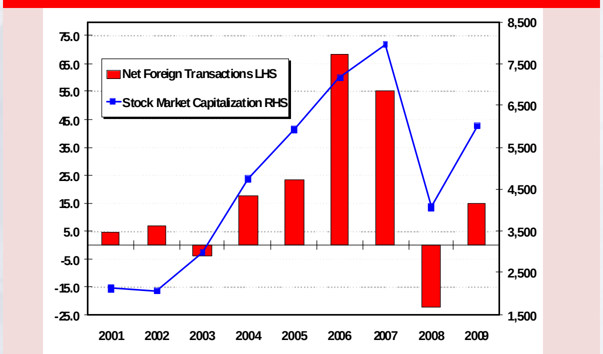
PSEi and Sectoral Indices



Foreign investors resume net buying

Foreign investors posted net purchases in the local bourse amounting to ₱14.9 billion in 2009, reflecting the decline in risk aversion. This was a reversal of the net selling of ₱22.2 billion registered in 2008, indicating the shift from investments in safer havens such as US Treasuries towards the high-yielding assets of emerging markets like the Philippines. However, foreign transactions as a proportion of total value traded continued to decline from 48.7 percent to 32.5 percent during the period in review. This underscored domestic investors' growing involvement in the stock market.[10]

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



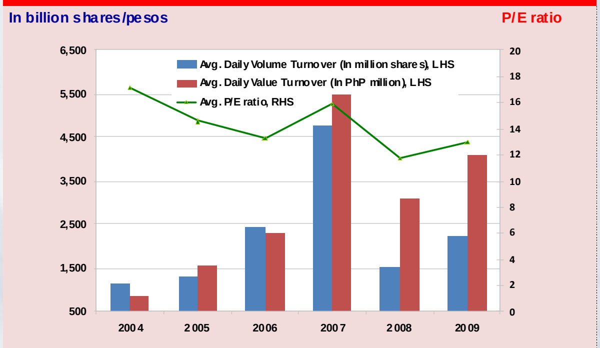
Other stock market indicators pick up

With improving trading sentiments vis-à-vis the previous year, total market capitalization, which measures the aggregate value of the issued shares of listed firms in the

[10] From 2003 to 2006, foreign transactions as a percent of the total value traded averaged at 55.3 percent, highlighting foreign investors' significant contribution to the development of the local stock market.

PSE, rose by 48.2 percent to ₱6,029.1 billion in 2009.[11] Market turnover also jumped, with the average daily volume turnover up by 46.6 percent to 2.2 billion shares and the average daily value turnover rising by 31.7 percent to ₱4.1 billion. Further attesting to the improvement in investor confidence is the rise in the price-earnings (P/E) ratio from an average of 11.7 times in 2008 to 13.0 times in 2009.[12] This indicates that investors may be expecting higher earnings growth in the future compared to year-ago expectations.

Market Turnover and P/E Ratio
2004 - 2009



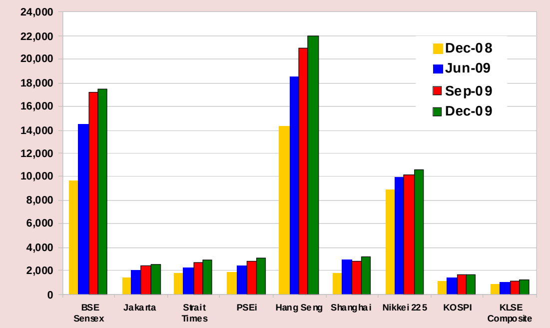
Regional stock markets also rally

The rebound in the local bourse mirrored developments in other exchanges across the globe. In Asia, the rebound was led by the Jakarta Composite, which increased by 87.0 percent from year-ago levels. This was followed by India's Sensex at 81.0 percent, the Shanghai composite at 80.0 percent, Singapore's Strait Times at 64.5 percent, Thailand's SET index at 63.2 percent, the PSEi at 63.0 percent, Hong Kong's Hang Seng at 52.0 percent, Korea's KOSPI at 49.7 percent, Malaysia's KLSE composite at 45.2 percent and the Nikkei 225 at 19.0 percent. Typically, countries with a faster pace of recovery led the stock market rally.

[11] Only three firms were listed at the PSE in 2009. Of these, two were by way of introduction, namely Agrinurture, Inc., and Century Peak Metal Holdings Corporation. Listing by way of introduction refers to an application for listing of securities that are already issued or will be issued upon listing, where no public offering will be undertaken. Listing by way of introduction may be appropriate in the following circumstances: (1) where securities for which listing is sought are already listed or traded or will simultaneously be listed on another stock exchange or, subject to the approval of the Exchange, is listed on another trading market; (2) where the securities of an unlisted issuer are distributed by way of property dividend by a listed issuer to shareholders of that listed issuer; (3) where a holding company is formed and its securities are issued in exchange for the securities of one or more listed issuers and the listing of the listed issuer or issuers is withdrawn at the same time as the securities of the issuer are listed; or (4) where listing of securities in an exchange [or public offering of securities] is mandated by law.

[12] The P/E ratio is computed as the ratio of market capitalization over the last four quarters' net income. It is a financial ratio used for valuation. A higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

Selected Asian Stock indices
(in index points)



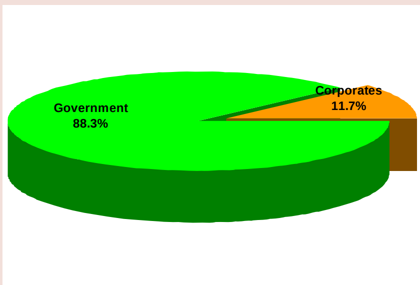
Debt Securities Market Developments

Size and Composition

Domestic bond market shows robust growth

The country's local bond market displayed robustness in 2009 as the combined bond issuances by the government and corporates grew by 23.0 percent to ₱1,291 billion, a turnaround from the contraction in 2008. Corporate issuances amounted to ₱150.9 billion, which more than doubled compared to the previous year's level. Government bond issuances likewise posted a 16.6 percent growth to ₱1,140 billion, on a year-on-year basis.[13] The rise in bond market issuances was driven primarily by the higher corporate financing requirement to fund ongoing infrastructure and energy projects. The increase in government borrowings to support its fiscal stimulus programs also contributed to the higher bond issuance in 2009.

Domestic Debt Securities Issuances
By Issuer
(As of end-December 2009)



[13] This led total outstanding government bonds to amount to ₱2,540 billion as of end-2009, up by 2.6 percent from the previous year. Data for outstanding corporate bonds were unavailable as of this writing.

In terms of market share, government securities (GS) continued to dominate the domestic bond market, accounting for 88.3 percent of total bond issuances. Government issuances were mostly in the form of Treasury Bills (T-bills), Benchmark Bonds, and Fixed-Rate Treasury Bonds (T-bonds), accounting for 44.9 percent, 30.2 percent, and 13.0 percent, respectively. Retail Treasury Bonds (RTBs), Zero Coupon T-bonds, and other special and guaranteed corporate issues comprised the rest of government bond issuances during the year.

Private sector issuances accounted for 11.7 percent of total bond issuances and were mostly in the form of bonds and notes, asset-backed securities, and Tier-2 bonds. The growth in corporate issuances during the year was led by San Miguel Brewery, Energy and Development Corp., SM Investment Corp., and by various commercial banks.[14]

Primary Market[15]

Demand for GS in the primary market remains substantial

In the primary market, the NG raised its programmed borrowings for 2009 to ₱354 billion from ₱303 billion in 2008. However, the NG did not award fully its offerings as dealers quoted high bid rates in some of the T-bills and T-bond auctions. During the year, the NG awarded 81 percent (₱132.3 billion) of the programmed amount for T-bills and 74 percent (₱141.1 billion) for T-bonds. Nonetheless, the demand for GS remained substantial as tenders were oversubscribed for both short- and long-term dated GS. Market tenders reached ₱393.4 billion for T-bills and ₱370.7 billion for T-bonds against their corresponding programmed amount of ₱162.5 billion and ₱191.5 billion.[16]

[14] Data for corporate issuances for this report were sourced from Bloomberg. Previous issue of annual reports used data from PhilRatings. They exclude bonds issued by government-owned and controlled corporations (GOCCs) and private corporations' foreign currency denominated bond issuances.
[15] The discussion covers the primary market for government issuances only.
[16] Oversubscription is the gap between the amount tendered and the amount offered for a given instrument.

Results of GS Auctions, 2009
In billion pesos

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	**162.5**	**393.4**	**132.3**	**261.1**
First Quarter	42.0	94.0	29.1	64.9
Second Quarter	38.5	61.1	26.8	34.3
Third Quarter	49.5	144.9	45.5	99.4
Fourth Quarter	32.5	93.5	30.9	62.5
T-bonds	**191.5**	**370.7**	**141.1**	**229.6**
First Quarter	40.5	88.4	39.9	48.5
Second Quarter	51.0	99.2	40.5	58.6
Third Quarter	67.5	141.2	47.7	93.5
Fourth Quarter	32.5	42.0	13.0	29.0
TOTAL	**354.0**	**764.1**	**273.4**	**490.7**

Source: Bureau of the Treasury

Improving market sentiment brought about by the country's better-than-expected economic growth in 2008 and the low interest rate environment amid easing inflation levels revived investors' appetite for Philippine debt papers. The increase in market liquidity as well as expectations of a further reduction in the BSP's key policy rates led to a drop in government bond yields during the year.[17] The decline in bond yields was evident in the short- to medium-term GS, reflecting investors' preference for short-term (ST) dated securities. For instance, investors swamped the issuance of the RTBs in September as tenders for the ₱15.0 billion programmed RTBs amounted to ₱70.4 billion or about five times oversubscribed. This led the NG to award more than the programmed RTBs at ₱25.0 billion.

Government's cost of borrowing increases due to rising fiscal concerns

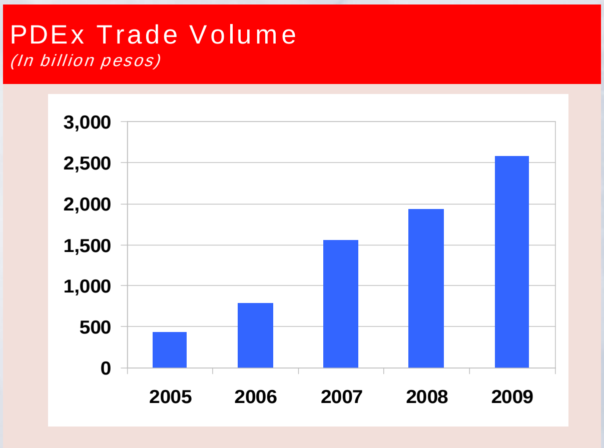
However, the downturn in bond yields was tempered by investors' concern over the long-term fiscal implications of the current economic stimulus program as well as concerns over the reversal of the monetary easing measures by the BSP. From August to December, the market started demanding higher premiums for medium- and long-term government bonds as concerns on the government's fiscal health persisted following increased NG spending arising from the rehabilitation effort in the aftermath of a string of typhoons in September and October. The additional supply of debt papers coming from the corporate sector also pushed rates higher as market players tend to flock to new issuances and sell their current holdings.

[17] For the period January-July 2009, the BSP reduced its key policy rates five times or by a total of 150 basis points. It has kept key policy interest rates steady at 4 percent for the overnight borrowing or reverse repurchase (RRP) facility and 6 percent for the overnight lending or repurchase (RP) facility during the remainder of the year.

Secondary Market

Trading at the secondary market rises substantially

Trading of both government and corporate securities at the secondary market increased by 33.4 percent to ₱2,582 billion in 2009, surpassing last year's ₱1,935 billion. The rise in the volume of transactions at the Fixed Income Exchange (FIE) was driven largely by the increase in corporate listings during the year. Joining the list of PDEx tradable corporate debts were San Miguel Brewery's ₱38.8 billion fixed-rate bonds and similar issuances from Energy Development Corporation at ₱12.0 billion and SM Investment Corporation at ₱10.0 billion, among others. The listings of these corporations brought the total volume of corporate debt traded in the PDEx to ₱438.8 billion by the end of 2009. The increase in new listings likewise enabled investors to achieve liquidity, price transparency, and market order in trading corporate bonds at the secondary market. The listings also reflected local issuers' increasing confidence in the Exchange's infrastructure.

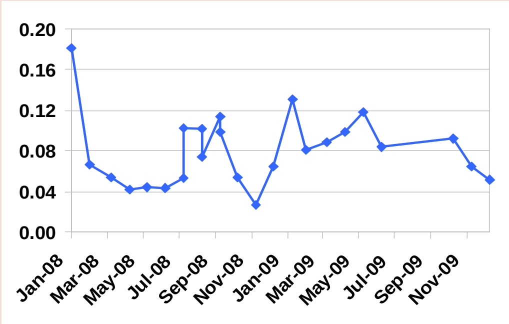


Government bond turnover in the secondary market rose to 1.06x in 2009 from 0.85x in the previous year.[18] On a monthly basis, the ratio remained less than 1.0x but this was a modest improvement compared to 2008. Activity in the secondary market was relatively high during the first half of the year due to the low interest rate environment. However, bond turnover started to slowed down in the second half as the market priced in a possible central bank rate hike on the back of rising inflationary pressures. Talks of exiting from an accommodative monetary policy led market players to reduce transactions at the secondary market as

[18] The ratio only covers turnover for government bonds. This excludes corporate bonds due to lack of available current data on outstanding corporate bonds. The bond turnover ratio is computed as the ratio of the volume of sales of T-bonds and T-Bills over the average amount of T-bonds and T-bills outstanding at the end of the previous and current year.

expectations of an increase in interest rate would reduce bond prices, thereby discouraging trade among dealers.

PDEx Government Bond Turnover Ratio



International Bond Market

Government issuances of global dollar bonds well-received

The National Government (NG) successfully issued a total of US$3.5 billion global dollar bonds in the international market in 2009. In January, the government issued US$1.5 billion worth of 10-year dollar-denominated bonds to fund the NG's capital expenditures needed to sustain growth amid the effects of the global financial crisis on the domestic economy. This was followed by a US$750 million, 11-year dollar bond issuance in July. The NG returned to the global bond market in October issuing US$1.0 billion 25-year US dollar bond which fetched a record-low interest rate, more favorable than the two previous issuances. The proceeds were channeled to the rehabilitation of public infrastructure ruined by the typhoons that hit the country going into the 4th quarter. Meanwhile, government owned and controlled corporations (GOCCs) issued a total of US$2.3 billion during the year to fund various development projects. The GOCC issues were led by Power Sector Asset and Liabilities Management (PSALM) Corp. and Land Bank of the Philippines, issuing US$2.2 billion and US$107.5 million dollar denominated bonds, respectively.

Private sector corporations tap international bond market

Private sector corporations likewise tapped the international bond market in sourcing funds for their development projects. The issues were led by SM Investment Corporation at US$500.0 million followed by RCBC at US$85.0 million.

Credit Risk Assessment

Credit watchdogs upgrade Philippine sovereign debt

The credit ratings and outlook of the country's sovereign debt were upgraded in 2009 on the back of the relatively high degree of resiliency exhibited by the country's financial system and external payments position amid the global financial and economic crisis.

On 23 July, Moody's Investors Service upgraded the Philippine's long-term foreign and local credit ratings from B1 to Ba3, three notches closer to investment grade. The country's outlook was likewise changed from positive to stable, indicating little chance of a rating change within the next 12 months. Moody's discounted the country's fiscal shortfall as this was a result of an economic slowdown which was not exclusive to the Philippines. However, the credit rating agency noted the country's debt overhang which was higher than those of others rated Ba3 and emphasized that a return to a path leading to fiscal consolidation remained critical.

Meanwhile, Standard and Poor's (S&P) and Fitch Ratings reaffirmed the country's foreign and local currency ratings during the year. These rating agencies have noted that any risk of a credit downgrade, especially with regard to the country's fiscal situation, was offset by its strong external position. Liquidity in the country's external position has underpinned the improvement in the ratings in 2009 despite it being a difficult year.

By end of 2009, the Philippine long-term foreign currency sovereign debt was rated BB- by Standard & Poor's, three notches below investment grade, with a stable outlook. The rating was at par with Moody's Ba3 while Fitch's rating on Philippine debt stood at BB, two rungs below investment grade and with a stable outlook.

Philippine Sovereign Credit Ratings
As of December 2009

Rating Agency	Local Currency LT/ST	Foreign Currency LT/ST	Outlook
S&P	BB+/B	BB-/B	Stable
Moody's	Ba3/n.a.	Ba3/n.a.	Stable
Fitch	BB+/-	BB/B	Stable

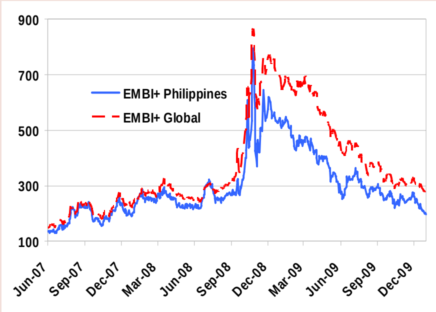
Source: S&P, Moody's, and Fitch Ratings

Spread on Philippine sovereign bonds and CDS narrows

The improvement in the country's credit ratings was also reflected in the general narrowing of the Philippine sovereign debt spreads. The extra yield investors demand to hold Philippine bonds instead of US Treasuries, as indicated by the JP Morgan EMBI+ Philippine spread, which has steadily narrowed from the year's high of 547 basis points (bps) to 198 bps at end-2009. This was tighter by 75 percent or 598 bps than the peak of 796 bps registered on 24 October 2008 and 343 bps narrower than the end-2008 level.

The EMBI+ Philippine spread remained below the JP Morgan EMBI+Global spreads which track the extra yield investors demand to own developing nations' bonds instead of US Treasuries. After reaching a historic high in October 2008, the EMBI+Global spreads narrowed sharply by 68 percent to 274 bps by end-2009, or 591 bps lower than the 865 bps posted on 24 October 2008.[19]

JP Morgan EMBI+ Sovereign Bond Spreads
(In basis points)



Also reflecting improved sentiment, the Philippine credit default swap (CDS) spreads, or the cost of protecting the country's bonds against default, narrowed to 173 bps by the end of the year.[20] Against neighboring economies, the Philippine CDS has remained below Indonesia's CDS level which stood at 192 bps but higher than Malaysia's 88 bps and Thailand's 95 bps.

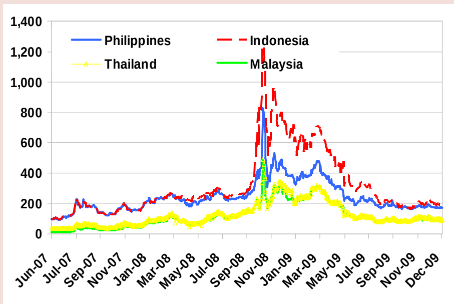
The significant decline in sovereign spreads was driven by a steady stream of positive macroeconomic news. In

[19] Emerging Market Bond Index Plus (EMBI+) Global, as calculated by JPMorgan, tracks total returns for traded external debt instruments in the emerging markets. The index comprises a set of broker-traded debt instruments widely followed and quoted by several market makers. Instruments in the EMBI+ must have a minimum face value outstanding of $500 million and must meet strict criteria for secondary market trading liquidity.

[20] A credit default swap (CDS) is an insurance-like contract that protects against default or restructuring. In this case, it costs an average of US$173,000 to protect holdings of US$10.0 million of Philippine sovereign debt from default. The buyer of a CDS will be paid with the face value or the cash equivalent in exchange of the underlying securities should a company/government fail to adhere to its debt obligations. An increase indicates deterioration in the perception of credit quality.

particular, investors' expectations of a faster recovery and stronger growth prospects for the country coupled with the low inflation environment, public expectations of sustained low interest rate in the medium-term, robust remittances by OFs, and improved corporate earnings, all contributed to the tightening of the country's credit spreads. Moreover, the commitment of advance economies that they would maintain their stimulus measures until recovery is on a firm footing alleviated market concerns of a reversal in stimulus policies. These developments reassured investors that the global economy had in fact turned around, thereby fueling demand for higher-yielding emerging market assets.

Senior 5-year CDS Spreads
(In basis points)



Despite the general narrowing of sovereign debt spreads, average spreads for 2009 remained broadly higher than in 2008, although close to levels observed prior to the collapse of the Lehman Brothers in September 2008. This reflected that emerging markets were still vulnerable to a sudden change in global economic growth. The spreads likewise point to the rising burden of sovereign financing, raising concerns on the sustainability of public sector finances. Apprehensions on reduced bank lending and weak labor sector in both advanced and developing economies also contributed to the negative investor sentiment. Reports on the Philippine fiscal position exceeding the target and "supply overhang" from a stream of prospective new debt offerings, both locally and abroad, also weighed down the country's debt spreads.

External Sector

Balance of Payments

BOP surplus surges

The full year 2009 balance of payments (BOP) surplus rose significantly to US$5.3 billion from the year-ago surplus of only US$89 million (Table 11). Propelled by the robust performance of the current account, the country's external payments position improved as the global economic recovery gains headway and as the relative strength of the country's underlying macroeconomic fundamentals encouraged capital inflows into the domestic economy.

Current account performs robustly

The current account recorded a higher surplus of US$8.6 billion for 2009, equivalent to 5.3 percent of GDP. The more-than-twofold increase over the US$3.6 billion surplus recorded in 2008 was brought about by the favorable performance of all the components of the current account, except the income account.

Net current transfers receipts rose year-on-year by 4.7 percent to US$16.0 billion, mainly on account of the 4.2 percent growth in remittances of non-resident OFs to US$15.1 billion in 2009.[21]

The merchandise trade deficit narrowed to US$8.9 billion, a notable improvement (31.1 percent) relative to the US$12.9 billion shortfall recorded last year. This developed as the drop in imports exceeded the contraction in exports. With weak global trade prevailing until October 2009, exports of goods for the full year 2009 contracted by 22.3 percent as all major export commodity groups posted declines, except for sugar and products (Table 11a). Meanwhile, imports fell by 24.1 percent due to the contraction in all major commodity groups given weak global prices of most commodities, particularly mineral fuels and lubricants, and raw material inputs for electronics exports (which comprised 30.4 percent of total import payments), following the soft demand for electronic products for the most part of the year (Table 11b).

The trade-in-services account recorded net receipts of US$1.5 billion in 2009, 32.7 percent higher than the US$1.2 billion surplus recorded in 2008. This developed due largely to the gains registered in BPO-related transactions as reflected in higher net receipts from

[21] Total cash remittances coursed through the banking system from all OFWs (residents as well as non-residents) totaled US$17.3 billion.

miscellaneous business, professional and technical services as well as computer and information services which expanded by 16.0 percent and 11.0 percent, respectively. On the other hand, lower net payments for transportation and insurance services also contributed to the strong performance of the trade-in-services account. The decline in net payments for transportation services was due primarily to the lower payments for freight as a result of reduced merchandise imports.

By contrast, the income account reversed to a deficit of US$69 million compared to the year-ago surplus of US$111 million. The reversal was caused by higher net income payments by residents to affiliated enterprises (by 19.9 percent) and to portfolio investors (by 35.6 percent), as well as lower net interest income receipts on currency and deposit placements by the monetary authorities and corporations due to the decline in global interest rates. These developments negated the 12.0 percent growth in earnings of resident OFWs which reached US$4.6 billion during the year.

Capital and financial account posts higher net outflows

Net outflows in the capital and financial account widened to US$2.0 billion in 2009 from US$1.8 billion in 2008. This developed as the other investment account reversed to a net outflow from a net inflow recorded a year ago, notwithstanding the robust gains posted by direct and portfolio investments.

The direct investment account in 2009 continued to record a net inflow of US$1.6 billion, 23.7 percent higher than the level posted a year ago. Non-residents' investments grew year-on-year by 26.2 percent as all direct investment components recorded positive balances. The country continued to attract foreign investments in 2009 as investors recognized the relative strength of the country's underlying macroeconomic fundamentals, with inflation continuing to be low and falling within target, the external payments position remaining favorable and economic growth showing resilience as a result of the strength in domestic demand. In particular, net equity capital flows reached US$1.8 billion, nearly 50 percent higher than the year-ago level. Reinvested earnings also posted net inflows of US$84 million as investors opted to plough back corporate earnings to local enterprises given clearer signs of a global economic rebound. Meanwhile, the other capital account recorded net inflows of US$58 million. The level, however, was lower by almost 80 percent compared to 2008 mainly on account of higher trade credits extended by local subsidiaries/affiliates to their parent companies abroad.

The portfolio investment account reversed to a net inflow of US$1.4 billion from a net outflow of US$3.8 billion in the same period a year ago. This positive development resulted from a combination of transactions by:

a. Non-residents, particularly:
   - subscription to the bond flotation by the NG (US$3.3 billion), PSALM (US$2.2 billion), and private corporations (US$500 million);
   - placements in government securities (US$1.2 billion); and
b. Resident banks' maturing bonds/notes placements abroad (US$279 million).

However, a number of factors softened the favorable impact of these inflows:

a. Bond repayments by the NG (US$936 million), private corporates (US$417 million), and other corporations (US$708 million);[22]
b. Net withdrawal by non-residents of their equity securities placements with private corporations (US$1.1 billion); and
c. Net purchase by residents through secondary market trading of Philippine debt papers originally issued abroad by the NG (US$721 million) and some private corporations (US$716 million).

Meanwhile, the other investment account posted a net outflow of US$5.1 billion in 2009, a turnaround from the US$771 million net inflow in 2008. Contributory factors to the net outflow include:

a. Net loan repayments by local banks (US$1.0 billion) and some private corporates (US$740 million);[23]
b. Non-residents' net withdrawal of currency and deposit placements in local banks (US$134 million) and some private corporations (US$404 million); and
c. Loans extended abroad by resident banks to non-residents (US$2.2 billion).

[22] The amount includes prepayment of bonds made by the public (US$585 million) and private (US$88 million) sectors.
[23] The amount Includes loan prepayments made by the private sector amounting to US$454 million.

International Reserves

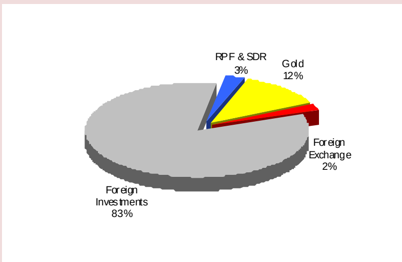
GIR continues to increase

The gross international reserves (GIR) of the BSP, including its reserve position in the International Monetary Fund (IMF), rose to US$44.24 billion as of end-December 2009 (Table 12). This was higher by about 18 percent than the US$37.6 billion posted in the previous year. At this level, the end-2009 GIR was sufficient to cover about 9 months' worth of imports of goods and payments of services and income during the review period. Likewise, the corresponding reserve adequacy ratios at this level are around 10 times the country's short-term external debt based on original maturity and 4 times based on residual maturity.[24]

The continued accumulation of reserves over the 12-month period was due mainly to inflows from the net foreign exchange operations of the BSP and income from its investments abroad, deposits by the NG and the PSALM of proceeds from their bond issues and other foreign borrowings, as well as revaluation gains on the BSP's gold holdings on account of the increase in the price of gold in the international market during the year. Also contributing to the higher year-end GIR level were the allocations of Special Drawing Rights (SDRs) which were made available by the IMF to its member countries including the Philippines in August and September 2009 to boost reserves and provide liquidity to the global financial system. These receipts were, in turn, offset by outflows arising mainly from payments of maturing foreign currency-denominated obligations of both the NG and the BSP.

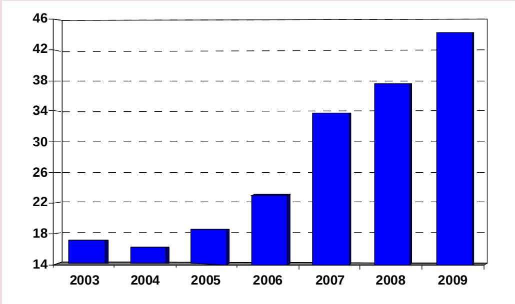
Composition of Reserves

Percent share, end-December 2009



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

Gross International Reserves
In billion US dollars



The bulk of the reserves were held in foreign investments, which accounted for about 83.0 percent of total GIR, and gold holdings (12.0 percent of total GIR). The combined holdings of foreign exchange as well as SDR of the BSP and its reserve position in the IMF made up the balance of 5.0 percent.

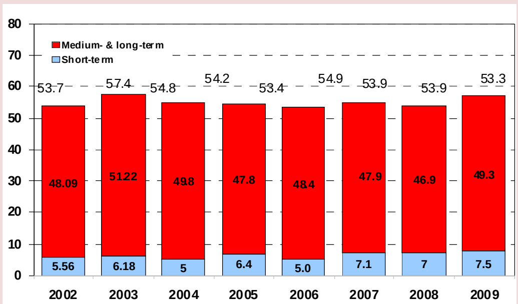
The net international reserves (NIR), including revaluation of reserve assets and reserve-related liabilities, rose to US$44.23 billion from the year-ago level of US$36.03 billion. The NIR refers to the difference between the BSP's GIR and total ST liabilities.

External Debt

External debt declines

The country's outstanding external debt reached US$53.3 billion as of end-2009, down by US$601 million or 1.1 percent from its year-ago level of US$53.9 billion (Table 13).

External Debt
By maturity
In billion US dollars



Year-on-year, the decline in the debt stock was on account of net repayments of banks (including BSP) and other private sector borrowers (US$3.8 billion), as well as increased resident investments in Philippine debt papers issued abroad (US$1.2 billion), which negated the higher borrowings of non-bank public sector (by US$4.4 billion).

Maturity profile remains predominantly medium to long term

The country's medium and long term (MLT) loans rose by US$2.4 billion to US$49.3 billion during the period under review from the previous year's US$46.9 billion. The expansion was due mainly to increased borrowings of the non-bank public sector, specifically the NG (US$2.6 billion). These MLT loans have a weighted average maturity of 20.2 years in 2009. Public sector loans registered longer average of maturities of 21.7 years compared to 11.8 years of private sector loans. Meanwhile, the share to total external debt of MLT loans reached 92.5 percent in 2009 from 87.0 percent in 2008.

By contrast, short-term obligations declined by US$3.0 billion to US$4.0 billion from year-ago level of US$7.0 billion. The decrease was due largely to (1) BSP's payment of US$1.5 billion loans; and (2) lower liabilities reported by banks (US$1.5 billion). As a result, the share of ST obligations to total debt stock dropped to 7.5 percent as of end-2009 from 13.0 percent as of end-2008.

Medium and Long-Term External Debt By maturity profile As of end-2009	
	No. of Years
Total MLT Debt	20.2
Public Sector	21.7
Private Sector	11.8

Public sector debt rises

Public sector debt rose by US$1.5 billion to US$41.8 billion in 2009. Similarly, the share to total borrowings by the public sector climbed to 78.5 percent as of end-2009 from 74.9 percent as of end-2008. The expansion was attributed mainly to net availments amounting to US$2.8 billion, which was offset partly by the increase in residents' holdings of Philippine debt papers (US$1.4 billion).

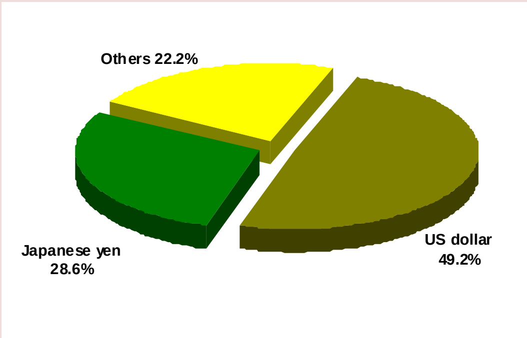
By contrast, private sector debt dropped by US$2.1 billion to US$11.4 billion from US$13.5 billion in 2008. Likewise, the share to total borrowings of debt owed by the private sector declined to 21.5 percent from 25.1 percent in 2008.

Creditor profile shows official lenders account for nearly 46 percent of the total external debt

By creditor profile, official lenders (multilateral institutions and bilateral creditors) accounted for 45.7 percent of the total debt, followed by foreign holders of bonds and notes (36.6 percent) and foreign banks as well as other financial institutions (12.2 percent). The rest of the creditors (5.5 percent) were mostly foreign suppliers.

More than US$26 billion (49.2 percent) of the total debt stock were denominated in US dollars while US$15.2 billion (28.6 percent) were in Japanese yen. US dollar-denominated multi-currency loans from international financial institutions comprised 12.0 percent of the total external debt stock while the remaining 10.3 percent of the total external debt were denominated by 18 other currencies led by the euro.

External Debt
By currency, percent share, end-2009



DSR is below international benchmark indicating sufficient foreign exchange earnings to service debts

The external debt ratio, or outstanding external debt as a percentage of aggregate output or GNP rose slightly to 29.2 percent in 2009 from 29.0 percent in 2008. Similarly, the ratio of external debt-to-GDP climbed to 33.1 percent for the period under review vis-à-vis 32.3 percent in 2008.

In 2009, the country's debt service burden (DSB) reached US$6.8 billion (i.e., principal amortizations and interest payments) as against US$7.4 billion in 2008 (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 10.4 percent vis-à-vis 9.7 percent in 2008. The current DSR is below the 20-25 percent international benchmark, indicating that the country has sufficient foreign exchange earnings to service maturing principal and interest payments during the current period.

Selected External Debt Indicators 2008-2009, in percent		
	2008	2009
External debt to GNP	29.0	29.2
External debt to GDP	32.3	33.1
DSB to XGSI	9.7	10.4
DSB to CAR	9.2	9.8
DSB to GNP	4.0	3.7

Source: Department of Economic Statistics

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

The BSP's inflation targeting framework is disciplined by the inflation outlook but is flexible enough to allow authorities to respond to external shocks that could threaten the domestic economy. Supported by a manageable inflation environment, the BSP was able to respond to the unprecedented challenges posed by the global financial crisis by pursuing liquidity-enhancing measures and interest-rate easing measures while remaining faithful to its core mandate of maintaining price stability.

BSP reduces policy rates …

Given a favorable inflation outlook over the policy horizon and easing demand-side pressures, the BSP reduced its policy rates by 150 basis points in the first seven months of 2009, bringing the cumulative monetary easing to 200 basis points since December 2008. The rate reductions were intended to help stimulate economic growth and/or dampen the slowdown in economic activity by reducing the cost of borrowing, thereby reducing the financial burden of firms and households. Lower policy rates also helped mitigate the negative feedback loop between weakening economic conditions and a more cautious financial sector. The action also helped support business and consumer confidence.

…puts in place liquidity- enhancing measures to help ensure smooth functioning of financial markets …

At the same time, the BSP implemented additional liquidity-enhancing measures to provide additional liquidity that will help ensure the orderly functioning of financial markets should global financial conditions worsen. The rediscounting budget ceiling was also increased further to ₱60 billion from ₱40 billion.[25] In addition, the Monetary Board (MB) also approved changes in the rediscounting guidelines that would further liberalize banks' access to the BSP's rediscounting facility, effective 2 March 2009. In particular, the rediscounting guidelines were revised to: (a) increase the loan value of all eligible rediscounting papers to 90 percent (from 80 percent) of the borrowing bank's credit instrument, but not to exceed 70 percent of the appraised value of the underlying collateral; (b) align the rates for the peso rediscounts with the BSP's RRP rate, less 50 basis points; (c) increase the NPL ratio requirement ceiling to ten percentage points above the latest available industry average from the current ceiling of two percentage points above the industry average.[26]

…and subsequently keeps policy rates steady

Policy rates were kept unchanged since August 2009 with the assessment that the prevailing monetary settings were appropriate given the manageable inflation outlook and the encouraging signs of an economic rebound. In addition, the MB noted that the substantial monetary easing that has been implemented since the latter part of 2008 will continue to provide support to domestic economic activity. Maintaining the current policy stance was considered to be appropriate and would allow prior substantial monetary stimulus measures to fully work their way through the system.

Meanwhile, the MB also noted that while forecasted inflation remains manageable, upside risks have slowly started to tilt upward. In particular, upside risks to the inflation outlook have persisted while downside risks have diminished. Risks to domestic inflation were assessed to be slightly tilted upwards given the supply tightness in key agricultural products due to the impact of the major calamities that hit the country in the fourth quarter. The impact of the El Niño weather condition on domestic food supply was also expected to put additional pressure on inflation in the near term. Meanwhile, downside price pressures were expected to stem from the modest improvement in domestic demand, and well-contained inflation expectations. Large foreign exchange inflows, including from overseas Filipinos' remittances and foreign investments, also helped stabilize the value of the peso, in the process containing price pressures from imported

[25] On 7 November 2008, the rediscounting budget was increased from ₱20 billion to ₱40 billion.
[26] There were other changes made to the rediscounting guidelines but only the above measures pertained to improving access to the facility and/or increasing the amount of rediscounting loans that could be availed during the crisis period. The other changes were: (1) the lifting of the requirement to execute a Surety Agreement (SA) by any single stockholder, natural or juridical, owning more than 50 percent of the voting stocks of a bank with approved rediscounting lines with the BSP; and (2) the imposition of a ceiling on the outstanding papers that a bank may rediscount equal to the rediscounting bank's single borrower's limit (25 percent of its net worth) or ₱3 billion, whichever is lower.

commodities. Given this assessment, the MB maintained the RRP and RP rates at 4.0 and 6.0 percent, respectively.

Financial System Stability

BSP sustains reform initiatives

The BSP sustained its reform initiatives to ensure that the financial system remains responsive to the challenges brought forth by the global financial crisis. During the year, policy reforms were focused on promoting market discipline by improving financial reporting, further strengthening prudential and regulatory standards and improving safeguards in banking services, while providing the needed incentives to sustain lending activities.

Streamlined and aligned financial reporting standards with international standards

BSP amends financial reporting consistent with international standards…

The BSP amended the Financial Reporting Package for Trust Institutions (FRPTI) issued under BSP Circular No. 609 dated 26 May 2008 to include the following salient features: (a) refinement of the manual of accounts and line item instructions; (b) revision of the additional information sections; and (c) blocking and unblocking of the cells in the reporting template. (BSP Circular No. 641 dated 22 January 2009)

The BSP likewise simplified the Financial Reporting Package report format for rural and cooperative banks. The simplified report format consists of the balance sheet, income statement and schedules reflecting the accounts and transactions within the generally authorized activities of rural and cooperative banks, whether in solo or consolidated basis. (BSP Circular No. 644 dated 10 February 2009)

The BSP amended the guidelines governing the preparation of audited financial statements (AFS) for trust institutions. The new guidelines required trust institutions to adopt the provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) Package, among others. The transitory rules and regulations to govern the accounting treatment of specific accounting items in line with the preparation of the AFS for the financial reporting period beginning 1 January 2008 include: (1) application of the provisions of PFRS/PAS to accounts outstanding as of end-December 2008; (2) prohibition against reclassification of previously recognized financial instruments, except those allowed under existing regulations; and (3) allowing the use of fair value of ROPA and Investment Properties as of the date of transition to PFRS/PAS as the deemed cost of said properties. The deadline for filing the AFS of trust institutions for the financial reporting period beginning 1 January 2008 with the BSP is extended up to 30 June 2009, in view of the longer time period needed to prepare the AFS due to the adoption of the new accounting standards. (BSP Circular No. 653 dated 5 May 2009)

Strengthened prudential and regulatory standards

… introduces new guidelines on ICAAP and SRP

The BSP issued new guidelines on internal capital adequacy assessment process (ICAAP) and BSP's supervisory review process (SRP) which shall apply to all universal and commercial banks on a group-wide basis. The new guidelines aims to ensure that banks maintain appropriate level and quality of capital commensurate with the risks covered by the framework and all other material risks to which banks are exposed. (BSP Circular No. 639 dated 15 January 2009)

… amends FRP on e-money transactions

The BSP amended the Financial Reporting Package (FRP) on the creation of accounts for electronic money (e-money) transactions issued under BSP Circular No. 512 dated 3 February 2006.[27] Electronic money issuer or EMI-banks are required to report their outstanding e-money issued in the FRP report format (both solo and consolidated basis) under BSP Circular No. 512 dated 3 February 2006, as amended, as well as in the simplified FRP report format issued under BSP Circular No. 644 dated 10 February 2009 for rural and cooperative banks starting with the reporting period ending 30 September 2009. (BSP Circular No. 658 dated 23 June 2009)

… includes passports issued by foreign governments as valid identification document

The BSP amended BSP Circular No. 608 dated 20 May 2008 to include passports issued by foreign governments as valid identification document when engaging in any financial transaction with covered institutions to strengthen "banks' know-your client policy" in support of the anti-money laundering drive. (BSP Circular No. 657 dated 16 June 2009)

The BSP amended BSP Circular No. 523 dated 23 March 2006 to require a bank, upon initiation of prompt corrective action (PCA), to enter into a Memorandum of Understanding (MOU) committing to the PCA plan. The MOU will be subject to the approval of the MB. (BSP Circular No. 664 dated 15 September 2009)

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[27] The amended FRP defined the following accounts: (1)accounts payable arising from purchase of financial assets under the trade date accounting – refers to the payable arising from the purchase of financial asset under trade date acco*unting pending actual settlement/receipt of the underlying securities which shall require corresponding asset/liquid asset cover*; and (2) accounts payable - electronic money (E-Money) – refers to obligations arising from the issuance of e-money by authorized electronic money issuer-Banks (EMI-Banks).

Put in place safeguards on activities involving derivatives and UITFs

…issues guidelines to promote expanded and safe activities involving derivatives and UITFs

Guidelines on derivatives activities of non-bank financial institutions with quasi-banking authority were relaxed to provide quasi-banks (QBs) with expanded opportunity to enter in any financial derivatives solely for hedging purposes, provided that the QB: 1) understands, measures, monitors and controls the risks associated with such activities; 2) adopts effective risk management practices whose sophistication are commensurate to the risks being monitored and controlled; and 3) maintains capital commensurate with the risk exposures assumed. Moreover, QBs may apply for prior BSP approval of additional derivatives authority to engage in all other financial derivatives as long as the QB has and maintains a risk management system commensurate to the additional authority/ies. (BSP Circular No. 668 dated 02 October 2009)

Guidelines on the allowable investments of unit investment trust funds (UITFs) as enumerated in Subsection X410.9 and 4410Q.9 of the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), were further expanded to include the following: 1) loans arising from repurchase agreements which are transacted through an exchange recognized by the SEC, subject to the condition that the repo contracts may be pre-terminated lawfully by the trust institutions administering the UITF and acting as lender, with due notice to its counterparty and the market operator; and 2) other tradable investments outlets/categories as the BSP may allow. (BSP Circular No. 675 dated 22 December 2009)

Eased foreign exchange requirements of banks

The BSP extended the effectivity of BSP Circular No. 629 on the treatment of net unrealized losses in the Foreign Currency Deposit Unit (FCDU)/Expanded Foreign Currency Deposit Unit (EFCDU) Book for purposes of determining compliance with the FCDU/EFCDU asset cover requirement until 30 September 2009. (BSP Circular No. 651 dated 1 April 2009)

Strengthened rules on corporate governance

…revises regulations governing qualifications and appointment/ designation of trust officers

The BSP revised the regulations governing the qualifications and appointment/designation of trust officers to include the following additional requirements: at least 5 years experience in trust operations; or at least 3 years of actual experience in trust operations and completed at least 1 year training program in trust operations acceptable to the BSP; or at least 5 years of actual experience as an officer of a bank or related activities with at least 1 year training program in trust operations acceptable to the BSP. The appointment/designation of trust officers, regardless of rank, requires prior approval of the MB. (BSP Circular No. 665 dated 4 September 2009)

…and amends rules and regulations on the selection of external auditors

The BSP amended the rules and regulations on the selection of external auditors and/or auditing firms of covered entities subject to BSP supervision to include only those in the BSP list. Under the amended rules and regulations, the external auditor should be changed, or the lead and concurring partner should be rotated every 5 years or earlier. The rotation of the lead and concurring partner shall have an interval of at least 2 years. (BSP Circular No. 660 dated 25 August 2009)

Box Article 2:

Macro- and Micro-prudential Tools for Financial Stability

The recent global financial crisis brought to fore the need to strengthen existing micro-prudential tools and policies and develop a complementary macro-prudential framework to achieve financial stability. As early as 2000, the Bank for International Settlement (BIS) already recognized that there is a need to “complement the micro-prudential perspective of promoting financial stability with increased awareness of, and attention to, the macro-prudential facet” to improve the resilience and stability of the financial system.[1] Recent policy debates suggest that the adoption of an operational macro-prudential framework combined with stronger and enhanced micro-prudential policies will help in the mitigation of systemic risk and moderation of the procyclicality of the system.

The vulnerability of the financial system affects consumption and investment decisions whenever there are misalignments in prices, a consequence of financial distress. When financial markets are problematic, the flow of funds from savers to ultimate users is weakened and the capacity of the financial sector to generate credit is impaired. The resulting impact on economic activity can be severe and long lasting, and can undermine the effectiveness of traditional macroeconomic policy tools, such as monetary and fiscal levers (Crockett, 2000). These highlight the widespread call to utilize both macro- and micro-prudential policy instruments to minimize financial instability.

A macro-prudential framework incorporates new supervisory tasks and bodies responsible for the macro-prudential regulation of systemic risk that would dampen or limit the inherent procyclicality of the financial system. Among the objectives of a macro-prudential approach is to limit the risk of episodes of system-wide financial distress so as to contain their cost to the macro-economy.[2]

In contrast, the micro-prudential approach seeks to limit the risk of failure of individual institutions, regardless of their impact on the overall economy (such as size, and the degree of leverage and interconnectedness with the rest of the system). Thus, on the one hand, peer group analysis is micro, and seeks to identify outliers, without regard if average performance is appropriate (Borio, 2009). On the other hand, a macro-prudential perspective includes tailoring prudential oversight to the systemic importance of institutions or limiting risk concentration across the system.

Basel II: A Micro-prudential Framework

The Basel II risk-based capital framework, which aims to address the risk-taking behavior of firms, is a micro-prudential framework already in operation.

In particular, the Basel II framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision, specifically one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with the advances in markets and risk management practices.

Concerns about the Basel II have surfaced as it undermines borrowers’ creditworthiness in recessions when the capital requirement increases significantly for banks and, in turn, might lead to a severe contraction in the supply of credit. This could contribute significantly to the pro-cyclicality of the financial system.

The Basel Committee on Banking Supervision (BCBS) approved a final package of measures to strengthen the 1996 rules governing trading book capital and to enhance the three pillars of the Basel II framework at its 8-9 July 2009 meeting. The package is part of the Basel Committee's broader programme to strengthen the regulatory capital framework. The programme aims to introduce new standards to: (1) promote the build-up of capital buffers that can be drawn in periods of stress; (2) strengthen the quality of bank capital; and (3) introduce a leverage ratio as a backstop to Basel II.

The Philippines has adopted the Basel II in August 2006 and the implementing guidelines addressing Pillars 1 and 3 as contained in BSP Circular No. 538 (Revised Risk-Based Capital Adequacy Framework).[3] This Circular states that the risk-based capital adequacy ratio (CAR) of universal banks (UBs) and commercial banks (KBs) and their subsidiary banks and quasi-banks, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than 10 percent.

The Pillar 2 guidelines on Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SRP) under BSP Circular No. 639 will take effect on 1 January 2011. The said guidelines are applicable to all U/KBs and their subsidiary banks and quasi-banks, though the latter is applied at the group/consolidated level. Stand-alone TBs, rural and cooperatives banks (RBs/Coop Banks) and quasi-banks shall remain covered by the old risk-based capital adequacy framework. BSP Circular No. 639 requires banks to have a process for assessing their capital adequacy relative to their risk profile. The ICAAP is expected to form an integral part of a bank’s risk management processes to enable the board and senior management to assess the risks inherent in their activities and material to the bank. The ICAAP should be reviewed by the board and senior management at least once a year or as deemed necessary. It should be submitted to the BSP every 31 January of each year. The BSP is expected to amend the provisions of BSP Circular No. 538 to incorporate some of the recent enhancements to the Basel II.

Existing Macro-prudential Policy Instruments in the Philippines

The Philippines is still in the process of developing its own macro-prudential framework. Discussions on the design and operationalization of a macro-prudential framework are still ongoing.

Nonetheless, the BSP has already begun utilizing its own macro-prudential policy instruments to stabilize the financial system. The measures used by the BSP to influence directly the credit cycle include among others: (1) imposing limits on different forms of credit exposures (by borrowing sector and by instrument), which include a 20 percent ceiling on banks’ loans to the real estate sector; (2) requiring prior approval of the BSP for borrowings denominated in foreign currency if borrower is public sector and/or to be serviced using foreign currency purchased from the banking system; and (3) placing a ceiling equivalent to a loan-to-value (LTV) ratio of 70 percent for real estate loans, which is aimed at mitigating the adverse impact of sudden and sharp declines in real estate prices on banks’ loan portfolio.

Specific measures were also put in place to limit the build-up of systemic risk, as follows: (1) implemented a target capital ratio of 12 percent, which is a prerequisite for banks that want to open a new branch; (2) restricted the distribution of bank profits made, by requiring prior approval of the regulators; (3) required banks to maintain a 100 percent asset cover for their foreign exchange liabilities, with 30 percent in the form of liquid assets; and (4) imposed limits to open foreign exchange net positions and foreign assets of banks.

The BSP is likewise considering the adoption of several measures to reduce interconnectedness in the financial system, including the adoption of: (1) maximum leverage ratio applicable to all banks; and (2) liquidity ratio to be included in the liquidity guidelines currently under development.

Furthermore, the BSP utilizes tools to aid macro-prudential risk assessments, such as: (1) the Financial Stability Report, which enhances understanding of financial stability risks and vulnerabilities; (2) macro-stress tests, which assess the vulnerability of banks to shocks; and (3) Senior Bank Loan Officers' Survey, which monitors changes in overall credit standards of banks.

The BSP also maximizes its membership at the Financial Sector Forum (FSF) with regard to the coordination of supervision and regulatory policies. The Governor of the BSP chairs the FSF and the members of the FSF include the heads of the Securities and Exchange Commission, the Philippine Deposit Insurance Corporation and the Insurance Commission.

Endnotes:

[1] Crockett, Andrew (2000). 'Marrying the micro- and macro-prudential dimensions of financial stability'. Remarks to the Eleventh International Conference of Banking Supervisors. Basel, Switzerland. 20-21 September 2000.
[2] Borio, Claudio (2009). 'Implementing the macroprudential approach to financial regulation and supervision'. Banque de France Financial Stability Review No. 13: 31-41.
[3] Pillar 1 covers regulations on minimum capital requirements while Pillar 3 covers market discipline.

Payments and Settlements System

The BSP continues to provide intermediary services through PhilPaSS

The BSP continued to provide intermediary services to financial institutions through its operation of the Philippine Payments System (PhilPaSS) which provides for the safe, efficient and timely delivery of large value financial transactions in real time.

Volume and Value of PhilPaSS Transactions 2009 vs 2008

	2009	2008	Annual Change (%)
Volume	610,440	574,022	6.3
Value (In trillion pesos)	188.3	222.6	-15.4
Transaction Fees (In million pesos)	133.3	113.6	17.3

Source: Payments and Settlements Office

Volume of PhilPaSS transactions rises

In 2009, the volume of transactions that passed through the Philippine Payments System totaled 610.4 thousand, 6.3 percent higher, but valued 15.4 percent lower, than the previous year's level to reach ₱188.3 trillion. The rise in the volume of transactions for 2009 was due largely to the significant increase in the BSP Cash Department's (CD) transactions following the direct routing to PhilPaSS of CD's deposit transactions, representing a 3-month value of cash deposits.

This expansion in the volume of transactions however, was not accompanied by an increase in value following the decline in the value of transactions that passed through the following arrangements: interbank (22.9 percent); Treasury (18.2 percent); and Electronic Fund Transfer Instruction System (EFTIS) (8.6 percent).

Gross revenue from PhilPaSS amounted to ₱133.3 million derived mainly from transaction fees, system/ software reinstallation, EFTIS user-registration and other miscellaneous fees.

BSP continues to enhance the efficiency of the existing system

During the year, the BSP continued to enhance the efficiency of the existing system by engaging in various projects and in-house support activities/initiatives. These include:

- Inclusion of rural/thrift banks (that were formerly non-PhilPaSS members) in PhilPaSS operations;
- Rationalization of the tax fees charged on PhilPaSS transactions;

- Allowing of online deposits and payments of maturing loan obligations to the Department of Loans and Credit (DLC) of the BSP;
- Changing of the transaction code/s description to enable banks to use EFTIS as a PhilPaSS back-up facility; and
- Studying of the possibility of using the PhilPaSS as the settlement arm of OFW remittances.[28]

There are still pending projects lined up which are expected to improve further the country's payments system. These projects intend to:

- Course the electronic payments of claims through the Payee-Thrift Banks;
- Adopt the use of electronic cash order slip (eCO);
- Activate EFTIS as a back-up facility for PhilPaSS in times of contingencies;
- Adopt intraday transfer of Real Time Gross Settlement (RTGS) transactions to core Financial Accounting System (cFAS);
- Install automatic alert notice of transaction for thrift and rural banks;
- Extend delivery-versus-payment (DvP) settlement window from 2:00 PM to 4:00 PM;
- Enhance the capability of the Philippine Payment System – Front-End System (PPS-FES) users to transmit instructions; and
- Improve program routing.

[28] A Memorandum of Agreement was signed on 2 December 2009 by the Bankers Association of the Philippines, Chamber of Thrift Banks, Association of Bank Remittance Officers Inc., and Rural Bank Association of the Philippines with the BSP with respect to the use of *PhilPaSS* for the settlement of banks' OFW remittances.

Box Article 3:

Innovations in the Philippine Payments System

I. Introduction

The Philippine Payments and Settlements System is a vital component of the country's economic and financial infrastructure. It serves as an avenue through which financial obligations/transactions arising from economic activities between parties involved, are safely settled/delivered on time. The payments and settlements system's safe and efficient functioning contributes to the promotion of financial stability and the sustainability of economic growth. The passage of Republic Act No. 7653 or the New Central Bank Act, on 10 June 1993 provided, among others, the establishment of efficient facilities for payment services in the country. Like any other central banks, the BSP plays a key role in ensuring the smooth functioning of the payments system. It owns and operates the RTGS system, commonly known as the Philippine Payments and Settlements System (PhilPaSS). The RTGS was implemented on 12 December 2002 to improve the delivery of large-value transactions and financial services in the country.

Since the introduction of the RTGS, innovations and systems enhancements continued to be implemented, making the payments and settlements services in the country more efficient, effective and time saving.

II. The Philippine Payments and Settlements System (PhilPaSS)

A. Interbank Settlement Payments

The primary function of a payments and settlements system is to provide for an arrangement that will facilitate fund transfers between members. In order to perform this task, a payments system requires: 1) a mechanism for transmitting payment messages between members; 2) arrangements for settling claims within members/participants; and 3) common operating procedures and rules. The main providers of the country's payment services are the banking institutions. Currently, there are three systemically important payment systems (SIPS) in the country namely: Multi-transaction Inter-bank Payments System (MIPS, which was later upgraded to MIPS2); check clearing system; and the Philippine Domestic Dollar Transfer System (PDDTS)-U.S. dollar gross systems.

- **Multi-transaction Interbank Payments System (MIPS)**

The Bankers Association of the Philippines, in coordination with the BSP and the Philippine Clearing House Corporation (PCHC), conceived and developed the Multi-transaction Interbank Payments System (MIPS), a delivery system with secure and electronically-transmitted instructions.[1] MIPS was adopted for the settlement of interbank loan transactions in October 1995, replacing the previous paper-based instructions. Large value interbank transactions and bank transfers, which include overnight interbank lending/borrowing and bank-to-bank transfers, are cleared through this system. With MIPS, payments instructions no longer pass through the clearing house but are instead debited directly against local-banks' demand deposit accounts maintained with the BSP.

The BSP launched the initial phase of the RTGS in March 2001 and had its full implementation on 12 December 2002. Currently, the RTGS operates through an upgraded, electronic MIPS2.[2] MIPS2 allows a more direct interface to the BSP's own computer and accounting systems and achieves settlement finality through the gross settlement transactions, thus, reducing systemic risks. The transactions were limited to interbank call and term loans and GS under the repurchase agreements with the BSP, which are settled on a gross, trade-by-trade basis (BSP Circular No. 266 of 2002), subject to the availability of balances in the deposit reserves maintained by banks with the BSP. The operation of the system involves counterparties in putting their transactions through the MIPS terminal provided by PCHC. The PCHC is responsible for verifying and authenticating the transactions prior to its electronic transmission to the BSP for settlement. Banks/financial institutions secure a status report of the transactions from MIPS2 while the balances of their demand deposits were being advised through an hourly electronic broadcast by the BSP/Comptrollership Department. Banks and non-banks performing quasi-banking functions (NBQBs) with demand deposit accounts (DDA) with the BSP can participate in MIPS2 for their interbank transactions by executing the Participation Agreement.

As of 2009, the number of PhilPaSS participating-members have expanded to 35 commercial banks, 37 thrift and savings banks, 3 specialized banks, 12 NBQBs, 11 rural banks, third-party system providers (Megalink, Philippine Clearing House Corporation, Philippine Securities and Settlement Corporation, Philippine Dealing System Settlement Highway, and the Bureau of the Treasury), PDTC depository account and custody account, and BSP Departments and Offices (namely, Payments System Office, Provident Fund, and Treasury Department). This is an expansion from only 85 member-participants in 2004.

- **Intra-day Liquidity Facility (ILF)**

The Intra-day Liquidity Facility (ILF) was established in support of BSP Circular No. 266. The ILF is intended to prevent failed settlements through the MIPS2 for interbank transactions not covered by BSP Circular No. 266 and which are still being settled on a net basis. These interbank transactions include primary auctions and secondary trading of GS; peso netting for USD-PHP swaps; and lending activities including collections and repayment. The ILF, which is considered part of the BSP's open market operations, operated like a repurchase arrangement backed up by eligible, peso-denominated securities issued by the NG.

- **Philippine Domestic Dollar Transfer System (PDDTS)**

The Philippine Domestic Dollar Transfer System (PDDTS), which replaced the foreign exchange (FX) clearing and settlement system, is a local clearing and electronic communication system operated by the BAP, the PCHC and Citibank, Manila. Under this facility, US dollar funds are allowed to move from one Philippine bank to another on the same day without the need to go through correspondent banks in the U.S. It is primarily designed to handle OF remittances.

B. Securities Settlement System

Following the transfer of the fiscal agency functions from the BSP to the Department of Finance (DOF), the conduct of auction, over-the-counter (OTC) sale and book-entry of GS were transferred to the Bureau of the Treasury through the Registry of Scripless Securities (RoSS) effective 4 November 1996. The RoSS handles the transfer of ownership or encumbrance on the scripless securities from the securities account of the Government Securities Eligible Dealers (GSED) to the securities account of the counterparty GSED or non-GSED.[3] Securities that were floated since 20 November 1995 were registered in the RoSS. All banks/financial institutions with DDA with the BSP may act as settlement banks in connection with the government securities trade transactions of RoSS account owners.

C. Recent System Innovations

With the continued advancement in information technology, changes in the governing laws, regulations and institutions in the global economy, new payment instruments as well as delivery and processing arrangements for small- and large-value financial transactions that are time-critical, have evolved. Innovations have become inevitable for any country desiring to keep pace with the growing economic and financial transactions brought about by e-commerce.

Since the installation of the RGTS through PhilPaSS in 2002, system enhancements and developments have been implemented by the BSP to achieve greater efficiency and security. These system enhancements are, as follows:

- Implementation of the Electronic Cash Withdrawal System (ECWS) in the BSP Cash Department to eliminate the use of checks by banks when withdrawing from their DDAs with the BSP;
- Inclusion of withdrawals via ECWS in the Daily PhilPaSS Summary Report to help in classifying/identifying ECWS transactions of banks;
- Improvements in the reports generation of the ECWS to provide information on the nature/reason for a transaction's rejection;
- Automation of the End-of-Day processing and posting of PhilPaSS fees in the respective core Financial Accounting System-Demand Deposit Accounts (cFAS-DDAs) of PhilPaSS participants to allow for the immediate processing of transactions at the end of the day;
- Enhancement of the Electronic Fund Transfer Instruction System Demand Deposit Account (EFTIS DDA) Module to provide banks an online-access to details of quarterly interest payments credited to their DDAs;
- Update of the PhilPASS Front-End System (PPS-FES) with SWIFT's validation rule regarding message types in order to eliminate manual intervention over transactions of SWIFT and non-SWIFT user banks;
- Switch to the use of the AS400 DDA Inquiry Module in order to hasten the monitoring and confirmation of balances that are transferred from cFAS to the Central Accounting System (CAS);
- Adoption of a direct settlement of the BSP's Cash Department deposit transaction in PhilPaSS;
- Rationalization of the PhilPaSS pricing structure based on the amount of transaction and the automatic collection of annual supervisory fees; and
- Reduction of payment risks through:
    a. implementing strict membership criteria;
    b. restricting high risk members;
    c. applying caps or limits on intra-day exposures to the system by participants along the lines of counterparty exposure limits;
    d. setting-up built-in system limits to prevent single party from breaching any limit, delaying the availability of funds until settlement is reached with finality; and
    e. establishing risk-sharing arrangements, which allow liquidity sharing or loss sharing with appropriate contributions from the members.

These enhancements have contributed to the improvement of the performance of PhilPaSS since the RTGS was implemented in 2002. Financial transactions that passed through PhilPaSS grew by more than a hundred fold to 610,440 transactions in 2009 from 5,685 transactions in 2002. Similarly, the value of transactions grew by more than 78 times from ₱2.4 trillion to ₱188.3 trillion during the same period.

D. Policy Outlook

The BSP will continue to take the lead in enhancing further the country's payments system. In the near term, PhilPaSS will be used as the settlement arm of OF remittances since it can provide a safer and more cost-efficient channel for the delivery or deposit of funds to intended beneficiaries with accounts maintained with a bank. A Memorandum of Agreement has been signed by the Bankers Association of the Philippines, Chamber of Thrift Banks, Association of Bank Remittance Officers Inc., and Rural Bank Association of the Philippines with the BSP on the use of PhilPaSS for the settlement of banks' OF remittances in December 2009. The project is expected to be completed and operational within the second quarter of 2010.

Other projects in the pipeline which are intended to improve further the current payments system include:

1) coursing the electronic payments of claims through the Payee-Thrift Banks;
2) using electronic cash order slip (eCO);
3) activating EFTIS as a back-up facility for PhilPaSS in times of contingencies;
4) adopting intraday transfer of RTGS transactions to core Financial Accounting System (cFAS);
5) installing automatic alert notice of transaction for thrift and rural banks;
6) extending delivery-versus-payment (DvP) settlement window from 2:00 PM to 4:00 PM;
7) enhancing the capability of the PPS-FES users to transmit instructions; and
8) improving program routing.

Endnotes:

[1] The PCHC is a private corporation established by Bankers Association of the Philippines on 10 March 1977 with the primary objective of conducting automated cheque clearing operations. It is responsible for receiving, processing and sorting clearing items delivered by all participating banks through its designated carriers, and providing the BSP with the exchange results for settlement. Its Board of Directors is drawn from participating banks and institutions represented by their bank presidents and senior officers.

[2] On 13 October 2000, the BSP Monetary Board amended the rules governing the settlement of transactions involving interbank loans and government securities under the repurchase agreements with the BSP, whereby, transactions are settled gross, on a trade-for-trade basis with finality subject to the availability of balances in the deposit reserves maintained by banks with the BSP.

[3] Non-GSED are institutions allowed to engage in the buying and selling of securities but only limited from and to GSED. These institutions have applied as members of the RoSS and have accomplished an Oath of Undertaking that they will abide by all the rules and provisions of the system.

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Key Operations of the BSP

Loans and Credit

BSP increases rediscounting budget and further liberalizes rediscounting guidelines…

On 2 March 2009, changes were made in the BSP's rediscounting facility to ensure the orderly functioning of the financial markets and avert a possible tightening in domestic liquidity conditions due to the global financial crisis. The BSP's rediscounting budget was raised to ₱60 billion, after a similar adjustment to ₱40 billion on 6 November 2008. Likewise, the rediscounting guidelines were liberalized in March 2009 to improve banks' access to the rediscounting window. The interest rate for the peso rediscounts was also aligned to the BSP's RRP or borrowing rate, less 50 basis points.

The rediscounting guidelines that were liberalized to improve access to the facility included: (1) raising the ceiling of the NPL ratio requirement to ten percentage points above the latest available industry average from the current ceiling of two percentage points above the industry average; and (2) increasing the loan value of all eligible rediscounting papers from 80 percent to 90 percent of the borrowing bank's credit instrument, but not higher than 70 percent of the appraised value of the underlying collateral.

As of 31 December 2009, the total loan portfolio of the BSP reached ₱141.1 billion, ₱15.3 billion or 12.1 percent higher than the previous year's ₱125.9 billion. Similarly, the total loans outstanding under the regular rediscounting facility was also higher at ₱55.8 billion from ₱33.0 billion in 2008.

Total loans granted for 2009 amounted to ₱193.5 billion, with ₱185.1 billion granted under the regular rediscounting facility. Out of the ₱185.1 billion released to banks for both peso rediscounting and the exporters' dollar and yen rediscount facility (EDYRF), loans granted to commercial banks, thrift banks, and rural banks reached ₱170.3 billion, ₱11.5 billion, and ₱3.3 billion, respectively.

Total loan collections for the year reached ₱178.3 billion with the bulk or ₱162.4 billion accounted for by rediscounting. Meanwhile, total gross income from lending operations of the BSP Head Office reached ₱4.6 billion in 2009.

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

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. Among the projects undertaken were:

1) The approval of the Integrated Management System (IMS), including the timeline for its implementation.

The IMS is a knowledge-based management system that captures the processes and linkages from the time the electronic rediscounting line of a bank is established and the other loan windows are availed of, up to the time payments are completed.

2) The spearheading of an initiative to increase the awareness of economic players on the importance of access to credit amid the global financial turmoil through the organization of a banking forum. The forum, entitled "Sustaining Growth Through Better Access to Credit", provided a venue for the productive exchange of ideas concerning the economy, the existing structures that are in place to address liquidity problems, the measures taken by the BSP to prevent a credit crunch, and the necessity of putting in place dynamic linkages between fiscal and monetary policies.

3) The launching of the Credit Surety Fund (CSF) program in ten (10) more provinces and cities in 2009 following the initial launch in Cavite in 2008.

The CSF program is a credit enhancement scheme that allows micro-, small- and medium-scale 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.

4) The participation of the BSP in the Strengthening Program for Rural Banks (SPRB) to promote mergers, consolidations and acquisitions through the grant of financial assistance and regulatory support to eligible rural banks. The incentive program was jointly conceptualized by the BSP and the Philippine Deposit Insurance Corporation.

Asset Management

The BSP continues to fine-tune its framework for administering, monitoring, and preserving its acquired assets…

The BSP continues to administer, maintain, and preserve its acquired assets to enhance their value prior to eventual disposal. Private banks, when availing of the loan facilities of the BSP, mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties. Upon failure of these banks and mortgagors to pay their loans, borrower banks may opt to execute *dacion en pago* agreement[29] with the BSP. Without such arrangement, the BSP forecloses these real properties. The management of said properties are then transferred to the BSP for proper disposal.

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

1) Amendment of the Negotiated Sale Rules and Procedures on Installment Sales with:

   (a) The adoption of the ₱5,000 deposit policy for the sale of BSP properties falling under the Housing and Urban Development Coordinating Council (HUDCC) socialized housing category to government employees holding permanent appointments and setting the payment period to 25 years or up to the retirement age of the government employee, whichever comes earlier; and

   (b) The acceptance of payments through availment of Pag-IBIG Fund housing loan or bank loan and Community Mortgage Program of the Social Housing Finance Corporation, subject to certain terms and conditions;

2) Amendment of the Guidelines on Accreditation and Grant of Commission on Real Estate Brokers granting a fixed amount of ₱2,500 broker's commission for the sale to government employees of properties qualified under the socialized housing program and payment thereof only after the deposit of ₱5,000 has been remitted and the Contract to Sell has been executed; and

3) The adoption of the 90-day or 3-month deadline for the purchaser to submit the signed Contract to Sell in

[29] "Dacion en pago" refers to a payment scheme whereby property, whether real or personal, tangible or intangible, is alienated in favor of the creditor, which could either be a financial institution or a special purpose vehicle, in satisfaction of a non-performing loan.

the negotiated sale of acquired properties. Non-compliance with said deadline shall automatically cancel the Notice of Approval and the forfeiture of the downpayment.

The BSP also set up valuation reserves for acquired assets for which the accumulated allowance for market decline stood at ₱2.0 billion as of end-2009.

Meanwhile, the Acquired and Other Assets Management System (AOAMS), which is 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, is scheduled to be operational by mid-2010.

… continues to dispose acquired assets through various schemes

The book value of the BSP's acquired assets as of end-December 2009 stood at ₱11.9 billion, ₱0.5 billion or 4.2 percent lower than the previous year's level. Meanwhile, the total number of acquired real property titles decreased by 2.6 percent or 873 titles to 33,228 titles in 2009.

In 2009, the BSP disposed of 1,645 acquired properties with a total price of ₱454.0 million. These properties were disposed of through the following schemes:

1) Public auction;
2) Sale of acquired assets on a negotiated basis;
3) Sale through the BSP's Provident Fund Office;
4) Redemption/Repurchase;
5) Participation in housing fairs sponsored by the National Government through the Housing and Urban Development Coordinating Council; and
6) Sale through the Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC) of properties occupied by informal settlers.

International Reserves Management

Gross international reserves sustain double-digit growth

The GIR of the BSP sustained its double-digit growth in 2009. The increase in reserves was supported by resilient OF remittances as well as the steady inflow of foreign investments on prospects of a global economic recovery, along with relatively low interest rates in advanced economies, which drove investors' appetite for risky assets. The significant inflow of foreign exchange allowed the BSP to repay both its short-term advances from the BIS and its maturing gold financial swaps.

The BSP continued to fine-tune its risk management initiatives to safeguard its assets amidst changing global financial conditions. The key strategies executed during the year were as follows: (1) more stringent parameters for securities lending; (2) weekly update of counterparty limits; (3) temporary suspension of selected counterparties; (4) minimization of risks under the BSP's External Fund Management Program; (5) compliance monitoring; and (6) BSP-wide initiative for risk management.

To enhance further the management strategy for international assets, the Investment Management Committee (IMC) of the BSP confirmed on 3 February 2009 the appropriate benchmark levels and currency composition of the internally-managed portfolio (IMP).[30] The active management of the investment portfolio was started in March 2009 while the liquidity portfolio was managed passively throughout the year. The BSP continued to manage its gold reserves in compliance with existing guidelines, allowing it to realize robust gains towards the end of 2009.

International Operations

Evaluation of foreign borrowing proposals continues

The BSP continued to evaluate foreign borrowing proposals from both the public and private sectors to help manage the country's foreign debt. The BSP's external debt management framework aims to maintain the stock of foreign debt at a sustainable level, ensure that loan proceeds are utilized for priority activities, and service maturing obligations in a timely manner.

BSP implements capacity building/systems improvement program

Moreover, as part of its capacity building/systems improvement program, the BSP continued to implement the Debt Management and Financial Analysis System (DMFAS) project, which was developed by the United Nations Conference on Trade and Development (UNCTAD). The DMFAS is a computerized external debt monitoring system aimed at making the country's external debt monitoring system at par with most countries. The project is on Phase II with the signing of the project document on 4 February 2008. Technical trainings for BSP users and IT staff were conducted in 2009 in view of the implementation of Phase II of the project. As of end-2009, the bulk of BSP data on external debt was migrated from the old system to the DMFAS. The review on the

[30] In 2008, the MB approved the creation of the IMC, tranching of reserves and change in currency composition, redefinition of the benchmark and revision of investment guidelines for the IMP.

completeness and accuracy of external debt data that were migrated to DMFAS is ongoing.

Further enhancements to the computerized systems for BSP-registered foreign direct and portfolio investments were likewise implemented in 2009. These systems aim to improve the generation of reports on external debt by the BSP as well as the monitoring and analysis of transactions on investment accounts.

Notes and Securities Printing

The BSP's Banknotes and Securities Printing Department (BSPD) delivered a total of 1,994.7 million pieces of banknotes in 2009 to the BSP's Cash Department.

Meanwhile, a total of 2.992 million passport booklets were delivered to the Department of Foreign Affairs (DFA).

Mint and Refinery

The BSP's mint and refinery operations in 2009 delivered a total of 1,322.1 million pieces of circulation coins to the BSP's Cash Department.

The mint also produced and delivered 101 and 4,900 sets of presidential medals and state decorations and commemorative medals, respectively.

The refinery produced a total of 2,332 pieces of "good delivery" gold bars, containing 0.933 million troy ounces of gold. Each bar had a minimum assay of 99.61 percent. A total of 903.51 thousand troy ounces of gold in 2009 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 rises

Total currency notes issued by the BSP amounted to ₱676.2 billion (2,830.2 million pieces) as of 31 December 2009, 15.0 percent higher than the year-ago level of ₱588.0 billion. Meanwhile, total coins issued stood at ₱17.7 billion (15,816.8 million pieces) reflecting an increase of 9.9 percent from the year-ago level of ₱16.1 billion.

Currency Retirement

The number and amount of unfit notes retired through ABPMs increase

A total of ₱15.0 billion (341.0 million pieces) verified cancelled unfit notes were retired in 2009, lower by ₱2.7 billion or 15.3 percent compared to the previous level of ₱17.7 billion (368.7 million pieces). Meanwhile, a total of ₱108.1 billion (303.3 million pieces) were retired on-line through the Automated Banknote Processing Machines (ABPMs), higher by ₱23.6 billion or 27.9 percent compared to the previous year's level of ₱84.5 billion (254.3 million pieces).

Economic Research, Statistical, and Information Dissemination Activities

In 2009, there were sustained efforts to provide high-quality economic research, generate and report relevant and timely statistics, and improve the public's access to information through the initiatives and projects of various departments and offices in the BSP. These undertakings aided the monetary authorities in making better-informed decisions; assisted economists, statisticians, and analysts in their research; improved data availability, quality and transparency; and promoted a better public understanding of the role of the BSP in the economy.

Research activities to support monetary policy-making expand

During the year, policy papers reviewing the BSP's monetary policy stance were prepared every six weeks for the Advisory Committee and the Monetary Board of the BSP. These policy papers contained analyses of the economic and financial developments as well as prospects here and abroad, assessment of the inflation outlook in line with the inflation targeting framework for monetary policy, and their implications for the BSP's monetary policy stance.

Technical notes, position papers, policy briefs, and other research papers produced in 2009 covered a wide range of issues. Topics included capital flows; asset prices; financial stability implications of household credit accumulation; reserve management; monetary transmission mechanism; inflation measurement; equilibrium real interest rate; effects of inflation news announcements on interest and exchange rates; impact of and policy responses to the global financial crisis; global recovery and imbalances; international monetary and financial system reforms; review of the BSP's monetary policy instruments; proposed amendments to the BSP Charter; tax status of central banks; the BSP's capitalization program; pending bills on tourism and international money transfers; the BSP's role in payments and settlements; financial market developments;

macroprudential indicators; financial system stress testing; regional financial integration and cooperation; trade policy and development; establishment of special economic and tourism zones; and public finance and debt management.

As one of the BSP's initiatives to mark the 60th anniversary of central banking in the Philippines, the DER launched the publication of the BSP Economic Newsletter in May 2009. The newsletter, which is issued monthly, features short essays on current and relevant economic and financial topics. It aims to provide to the BSP community and the public a readily accessible, up-to-date, concise and reader-friendly compendium of studies on current economic and financial issues. The articles featured in the Economic Newsletter were drawn from the various research papers by the Department of Economic Research (DER), the Center for Monetary and Financial Policy (CMFP), and the Department of Economic Statistics (DES).

Enhancement of econometric modeling and forecasting capability continues

To support monetary policy formulation and macroeconomic analysis, the BSP expanded its econometric modeling and forecasting activities by improving its existing models and utilizing new ones. In 2009, the re-estimation of the single-equation model (SEM) for forecasting inflation was completed and parallel runs of the old and new SEM started. The BSP continued to refine its multiple-equation model (MEM), updated its Dynamic Stochastic General Equilibrium (DSGE) model, and conducted policy simulations using these models.

Environmental scanning exercises on relevant economic developments continue

During the Environmental Scanning Exercises (ESEs) conducted in 2009, 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. The two ESE topics for 2009 were the following: (1) Lessons from Past and Present Financial Crises: How to Survive the Great Economic Downturn, which aimed to come up with strategies that will allow the Philippine economy to survive the current financial turbulence, ride out the economic headwinds and move onward to a more durable, long-term economic growth; and (2) Moving Beyond the Crisis: Development of an Operational Framework for Macro-prudential Policies in the Philippines, which aimed to develop a macro-prudential approach to regulation and supervision to broaden the coverage of prudential management, focusing less on individual entities and more on the interconnectedness of the components of the financial system.

Risk assessment toolkit expands

Results of the Early Warning System (EWS) on currency crisis and the EWS on Debt Sustainability were reported regularly to the Advisory Committee and the Monetary Board during their meetings on the monetary policy stance. The BSP also started using the Bank Distress Index (BDI) to identify the banking crisis episodes in the country and to anticipate possible systemic risks that could arise from liquidity constraints faced by certain banks.

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.

Conduct of regular surveys continues

The BSP continued to conduct its regular surveys which provide valuable information to policymakers and researchers. Surveys related to intercompany accounts, bank accounts abroad and transactions using the build-operate-transfer schemes were conducted on a monthly basis through the Cross-Border Transactions Survey (CBTS). On a quarterly basis, the Business Expectations Survey (BES), Consumer Expectations Survey (CES), and the Foreign Direct Investment (FDI) and Related Data Survey were conducted. For the BES, the sampling frame was updated and the regional coverage was expanded to include Region III. Annual surveys such as the Coordinated Portfolio Investment Survey (CPIS) and the Survey on IT-Enabled Services were likewise carried out.

BSP introduces new surveys and prepares for new initiatives

In 2009, the BSP finalized the questionnaire of the Philippine Consumer Finance Survey (PCFS). Consequently, PCFS surveys were conducted in four regions in the country, the results of which are expected to be published in April 2010. The PCFS is the first household-based survey on consumer finance in the Philippines.

The BSP also conducted the following surveys in 2009: the Business Partnership Survey (BPS) which aims to gather the views on the quality of BSP's relationship with its business partners; and the 2009 Public Perception Survey (PPS) which seeks to obtain the public perception of the BSP's performance in terms of effectiveness, integrity, responsiveness and transparency.

The BSP prepared for the conduct of the Coordinated Direct Investment Survey (CDIS) which targets to improve the quality of direct investment position statistics in the international investment position and by the immediate counterpart economy.

… constructs new time series data

The BSP constructed a time series on monetary statistics in accordance with the IMF's Standardized Reporting Format (SRF). Specifically generated were the Report Form for the Central Bank Balance Sheet and the Report Form for the Central Bank Analytical Accounts for the period 2001 to September 2009. The BSP also constructed the SRF of the other depository corporations for the period 2007 to September 2009. The SRF, in an IMF-prescribed reporting format, shows the different types of financial instruments, currency denominations of accounts, residency classification and type of asset/liability, and identifies the financial instruments as components of broad money.

… strengthens further its working relationship with stakeholders and various organizations

The BSP held the 2009 Stakeholders' Awards in appreciation of its partners from the business and government sectors who continued to support the BSP's statistical undertakings and information needs. Other endeavors to support the statistical awareness of the public included the conduct of the 14th BSP-Department of Education (DepEd) Oratorical Contest, the grant of monetary support for the conduct of the Philippine Statistics Quiz and the National Statistics Month (NSM), and the creation of a Special Committee to review the Philippine Statistical System (PSS).

In addition, the BSP reinforced its working relationship with the academe and other organizations by organizing the BSP Professorial Chair Lecture Series, as well as hosting the Philippine Economic Society (PES) annual meeting and some events of the Philippine Statistical Association (PSA). To enhance public awareness on the role of the BSP in the Philippine economy, six Public Information Campaigns (PICs) were conducted in various cities nationwide.[31] The BSP also provided resource speakers to universities, colleges and other institutions that requested briefings on the economy and the BSP's policy thrusts.[32] Meanwhile papers on the "Dynamic Stochastic General Equilibrium (DSGE) Model for the BSP" and "Economic Crisis in the Philippines (1950s-1970s)" were presented to BSP employees to help them gain broader understanding in the assessment

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[31] Three PICs were held in the BSP's regional offices in Davao, La Union and Cebu as part of the related activities/events during the re-launching of EFLCs in these offices. The remaining three sessions were organized in Bacolod, Lucena and Dumaguete.

[32] These included universities, colleges and other institutions as follows: National Wage and Productivity Commission (NWPC), Filipino Association for Mariners Employments, Inc. (FAME), Philippine Association of Realtors, Financial Executive Institute of the Philippines (FINEX), Professional Regulation Commission (PRC), UP School of Economics (UPSE), University of Santo Tomas (UST), Electronic Financial User's Circle, Inc., Manulife Investors, and Council of Economic Educators (CECON).

of the BSP's economic models and the country's economic situation.

… introduces new publications and continues to publish reports and studies in support of its transparency and learning objectives

In line with the BSP's mandate of fostering greater transparency in its operations and enhancing public awareness to support price stability, the BSP introduced new publications and continued to publish its regular and special reports on the economic and financial developments of the country.[33] To mark the 60th anniversary of central banking in the Philippines, a BSP book project was started covering topics on *Financial Cooperation in East Asia: Why Facing the Global Turmoil Together Makes Sense* and *Economic Crises in the Philippines 1950s-1970s*. Another initiative to mark the 60th anniversary of central banking in the Philippines was the monthly publication of the *BSP Economic Newsletter* which featured short essays on current and relevant economic and financial issues. Meanwhile, the *Bangko Sentral (BS) Review* continued to serve as a key venue for publication of the research being done by BSP staff. The BS Review issue for 2009 contains articles on inflation persistence, the monetary policy transmission mechanism, the recent history of central banking in the Philippines, and IMF reforms on voice and participation. The *BSP Working Paper Series* aims to stimulate discussions and solicit comments and suggestions from the public through peer review or refereeing. The 2009 issue of the *BSP Working Paper Series* included the *Macroeconomic Model for Policy Analysis and Insight: a DSGE Model for the BSP*. The BSP also contributed to international publications to ensure the dissemination of BSP staff's research to the public. In line with this, the BSP prepared a South East Asian Central Banks (SEACEN) collaborative research project on *Investment in SEACEN countries in the Post-Asian Crisis Period*.

… and participates actively in inter-government agency committees and international conferences

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

[33] These included yearly reports such as the BSP Annual Report, Philippine Flow of Funds (FOF), Coordinated Portfolio Investment Survey (CPIS), Financial Stability Report (FSR), Year-End Report to the President, and Survey of IT-Enabled Services; semestral reports on the BS Review, Status of the Philippine Financial System and Regional Economic Developments in the Philippines; quarterly reports on the BOP, BES, CES, Inflation Report, Report on Economic and Financial Development, Report to ABMI on the Movement and Progress of the Bond Market for the Philippines; monthly reports on Selected Philippine Economic Indicators (SPEI); monthly press releases on inflation, domestic liquidity, and bank lending; Highlights of the Monetary Board Meetings on Monetary Policy every six week; and BSP Working Paper Series, International Investment Position and BSP Economic Newsletter.

The BSP was also involved actively in the activities of 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 (IAC) on labor, income and productivity statistics (IACLIPS), the technical working group (TWG) on OF statistics, realized investments, IT and IT-enabled services, revised arrival/departure card, CPI, and related indices; IAC and TWG on tourism statistics, BSP-DTI working group on data exchange, and various committees of the PSA.

The BSP organized an inter-agency committee that coordinated the launching of the financial learning campaign (FLC) international road shows for OFs and their beneficiaries, and sent representatives for the inter-agency consultative meetings on the *Global Forum on Migration and Development*. The BSP also participated actively in the discussion on the proposed amendments to the BSP Charter.

In the international front, the BSP participated in conferences and meetings organized by regional and multilateral organizations to discuss economic and financial developments and policy issues. In selected conferences, 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 highlighted as one of the contributions to policy issues concerning the Asian Consultative Council (ACC) during a wrap-up conference held in Shanghai, China. The BSP presented the BIS publication entitled *Measurement of Inflation and the Philippine Monetary Policy Framework* during the Annual Meeting of the Deputy Governors in Basel, Switzerland. The BSP also organized international conferences and workshops such as the *2nd Asian Research Network* in cooperation with the BIS, the *BSP International Research Conference on Remittances*, the *Workshop on DSGE Modeling and Econometric Techniques* as supported by SEACEN-CCBS/BOE-BSP, and *Seminar-Workshop on Inflation Measurement: Central Bank Perspectives* in collaboration with SEACEN-BIS-IFC. 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.

Box Article 4:

The 2009 Philippine Consumer Finance Survey

Micro data on the finances of individual households have increasingly gained importance over the past few years, particularly during the height of the subprime mortgage crisis in the US. In response to the growing need for quantitative measures of household finances, the Bangko Sentral ng Pilipinas (BSP) embarked on a project in 2007 that will provide data on the current financial situation of consumers in support of monetary policy formulation and financial system stability. The Philippine Consumer Finance Survey (PCFS) was developed with technical assistance provided by the US Federal Reserve Board through Dr. Arthur B. Kennickell and Dr. Kevin B. Moore.

The PCFS is the only household-based survey in the Philippines that collects data on wealth, debt, savings and investments of Filipino families. Wealth data being covered by the survey are: ownership of residence and other real estate property; peso and foreign currency deposits; investments in stocks, bonds, unit investment trust funds, and mutual funds; and ownership of consumer durables like cars and other motor vehicles, appliances, and jewelry. The survey also gathers information on household debt such as mortgages, credit cards, and uncollateralized loans. From these data, the net worth of Filipino families could be estimated.

Savings as a flow data could be derived from data on income and expenditures of households, which are also included in the survey. The income data covers wages from employment, profits and other earnings from businesses owned by households, and domestic and foreign assistance/transfers from abroad. Other sources of financial security of households like pensions and insurance are likewise covered by the survey.

Demographic and cultural characteristics such as family size, education, and health, including savings and investment preferences of Filipinos, are also included in the PCFS.

Data from the PCFS will provide relevant inputs to monetary policy, particularly on the impact of shocks, different inflation regimes and interest rate policies on households' financial conditions. It could also be used as inputs in the development of more relevant banking and financial policies to increase the public's demand for and utilization of banking and other financial services. Specific information that can be culled from the survey would likewise be useful in formulating policies and programs on pension and social security, insurance and tax, consumer financial literacy and a range of other policy issues. Thus, the PCFS is of immense importance not only to the Monetary Board but also to other government institutions, the private sector, the academe and research institutions, and the general public who stand to benefit from the wealth of information available from the survey.

The PCFS, which will be released by the third quarter of 2010, collects information from a total sample of 10,000 households covering NCR (5,000) sample households, Region I (1,500 sample households), Region VII (2,000 sample households) and Region XI (1,500 sample households). Using a probability sample of households, the National Statistics Office (NSO) provided the list of sample households from the 2003 Master Sample of housing units in the Philippines. Taking into account its sensitive and technical nature, the survey benefited from an earlier pilot study done by the BSP in cooperation with the Ateneo-Economic Policy Reform and Advocacy Project and the Asia Pacific Policy Center that successfully pre-tested the questionnaire and demonstrated the likelihood of enlisting respondents' participation in the survey.

Supervisory Policy Development and Banking Statistical Activities

The BSP continues to align regulatory and supervisory frameworks with internationally accepted standards and best 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 2009 were geared towards the following:

1) Continued adoption of international standards through the issuance of guidelines on banks' Internal Capital Adequacy Assessment Process (ICAAP) and the BSP's Supervisory Review Process (SRP);

2) Promotion of corporate governance through approval of rules on interlocking directorship;

3) Enhancement of supervisory tools through refinements in the Financial Reporting Package for trust institutions, rural and cooperative banks, and accounts for electronic money transactions;

4) Adoption of prudential regulations on: the grant of authority to thrift banks to issue foreign letters of credit and transact import/export drafts/bills of exchange, adoption of a separate individual limit of 25 percent of the net worth of the lending bank/quasi-bank to loans of said financial institutions to their subsidiaries and affiliates engaged in energy and power generation; Loan Collection and Disbursement Points of Microfinance-Oriented Banks and Microfinance/Barangay Microbusiness Enterprise (BMBE)-Oriented Branches of Banks; and equity investments;

5) Support of market transparency through issuance of guidelines in the preparation of audited financial statements for trust institutions and in the accounting treatment of securities offered and accepted in debt exchange offerings of Government-Owned and Controlled Corporations;

6) Adoption of regulatory forbearance to help financial institutions through the global crisis by extending the effectivity of the treatment of net unrealized losses in the foreign currency deposit unit/expanded foreign currency deposit unit (FCDU/EFCDU) and suspension for one year of the requirement on the use of the audited financial statement (AFS) by accredited

external auditors for banks' internal credit rating system;[34]

7) Promoted investor protection by prescribing the allowable investments of Unit Investment Trust Funds; and

8) Continued to implement anti-money laundering regulations through the issuance of regulations on the use of valid identification cards.

… publishes various reports on the condition and performance of 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) and Bank Supervision Policy Committee (BSPC), 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.

… 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 ensure timely delivery of banking services and effectively conducts its advocacies in the countryside

The BSP, through its three regional offices and eighteen branches facilitated the timely delivery of banking services and effective conduct of BSP's advocacies in the countryside.

The BSP ensured proactively that sufficient banknotes and coins were available in the region, especially during unusual demands for currency arising from seasonal requirements. The regional offices and branches continued to assist in the implementation of the BSP's credit program. Credit Surety Fund, which was launched in several provincial areas, was actively supported and assisted by the regional offices and branches of the BSP. The BSP likewise sustained its proactive stance in economic and financial learning campaign by enhancing further the operation of the Economic and Financial

[34] Banks were given the flexibility not to deduct unrealized mark-to-market losses in computing for the 100 percent asset cover of their FCDUs, to reduce the need for banks to source US dollars from the foreign exchange market to cover their mark-to-market losses. Suspension of requirement on the use of AFS gave corporate borrowers a reprieve in their expenses since the accredited/selected external auditors charge a higher fee for their services.

Learning Centers (EFLC) in the regional offices and branches. The EFLC, which serves as an effective learning hub for students and researchers, was re-launched in Davao, La Union and Cebu in 2009.

Advocacy Programs

The BSP remained committed in pursuing its advocacy campaigns in the areas of microfinance, consumer protection and economic and financial education in 2009.

Microfinance

….BSP's microfinance regulatory framework earns international recognition

The Philippines topped the Economist Intelligence Unit's (EIU) First Annual Global Microfinance Index in terms of microfinance regulatory framework, along with Cambodia. This index measured the state of regulatory framework, investment climate and institutional development of 55 countries. In terms of the overall microfinance index, the Philippines ranked third in the world following the usual microfinance leaders, Peru and Bolivia.

The progress achieved in aligning to international standards the country's microfinance regulatory framework was owed to the BSP's continued effort to institutionalize microfinance and proactively pursue initiatives for sustainable microfinance development. This policy thrust paved the way for further efforts to build an inclusive financial system that aimed to expand access to financial services by mainstreaming the unserved and underserved population in the financial system. The end goal is to increase the availability of a wider range of financial services to greater number of Filipinos, including those who were previously excluded and unbanked.

For 2009, the BSP's initiatives and programs were three-pronged, namely: 1) provide the 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 development of a sound sustainable and truly inclusive financial system.

The policy and regulatory initiatives in 2009 demonstrate a dynamic and progressive approach in addressing the various innovations and changes that took place in the microfinance industry. Circulars were issued to address technological and product innovations, while initiatives focused on areas of financial learning and consumer protection. This approach hopes to further create a sustainable policy and regulatory environment for financial inclusion in the country.

The BSP remains committed to increasing the skills, capacity, understanding and appreciation of its end-users and the banking sector on microfinance. Cooperation agreement with the International Finance Corporation (IFC) and German Technical Cooperation (GTz) was signed to provide the framework for the technical assistance aimed at further strengthening the foundation of SME lending in the Philippines. The agreement covers the design and conduct of appropriate training program and the development of a manual of examination procedures for SME lending to complement the existing manual. Financial Learning Seminars for all banks and clients were likewise conducted around the country which covered the following topics: benefits of financial learning to banks, budgeting and planning, savings and investment, roles and responsibilities of clients in the use of credit and consumer protection.

The BSP provided support, inputs and relevant assistance to various groups (e.g., local and international private institutions, foundations, policy makers, regulators and microfinance clients) interested in microfinance, financial inclusion and mobile banking.

As of 30 September 2009, there were 214 banks (largely dominated by rural banks) with microfinance operations. These banks were reaching more than 894,855 borrowers with outstanding loan portfolio of more than ₱6.4 billion.

Consumer protection

Financial education campaigns focus on consumer rights awareness and greater access to financial services

The BSP continued to conduct financial education campaigns (FECs) which aim to enhance consumer rights awareness for better protection of the general public and expanding access to financial services, particularly for the small and medium entrepreneurs which remained unreached by the existing banking network.

The BSP handled eight FECs on credit card awareness, investments and consumer care, in La Union, Cebu and Davao BSP Regional Offices, Polytechnic University of the Philippines and Marinduque Dental Society in 2009. Participants of the FECs included government employees, students, teachers and university officials and staff, OFs and their beneficiaries. The BSP likewise distributed flyers, frequently asked questions (FAQs), brochures, primers on consumer assistance, special deposit account, bank charges, credit card, common types of fraud and scams and safety measures to avoid becoming victims of fraud and scams. Apart from the local activities, the BSP also took part in international roadshows and conferences.

Economic and financial education

Economic and Financial Learning Center (EFLC)

EFLC opens door to the public

The BSP's EFLC, which was inaugurated on 3 October 2008, opened its door to the public in March 2009, providing full public access to all the facilities of the Center.

The EFLC is the BSP's focal point of contact with the public on information concerning economic and financial matters. The EFLC aims to provide information services, programs and materials to introduce the work of the BSP and its role in the Philippine economy and to promote greater understanding of essential economic and financial concepts and issues. As the BSP's in-house communication channel, it maintains a collection of books and other reference materials, electronic resources, audio-visual materials and other learning tools, exhibits and information kiosks to service the information requirements of researchers. The EFLC houses the BSP library and Statistical and Learning Center and features interactive learning tools and facilities for the public.

The EFLC received nearly 2,000 researchers including students, teachers and other members of the academe as well as employees from the public and private sectors during the period in 2009. It also received an average rating of 4.7 percent (in a scale of 1 to 5, with 5 being the highest rating) based on the results of the client feedback/satisfaction survey conducted during the last quarter of the year. The survey's areas of evaluation included adequacy of resources to meet client requirements, environment, convenience of operating hours, staff and the overall visit.

The EFLC conducted outreach information dissemination and advocacy programs which include the public information campaigns on the role of the BSP in the Philippine economy and the users' forum for BSP-produced statistics.

Re-launching of EFLCs in BSP's Regional Offices

The BSP relaunches its regional EFLCs in Davao, La Union and Cebu

The regional EFLC situated in the BSP's offices in Davao, La Union and Cebu were re-launched in 2009. The facilities and operations of these regional EFLCs were enhanced while closer coordination with EFLC-Manila was established to enable them to develop, implement and deliver information, programs and services customized to the needs of their respective stakeholders. This is to improve the coverage and effectiveness of the

BSP's information dissemination programs and activities.

Aside from pursuing the physical improvement and standardization of the library and education facilities of the regional EFLCs, the EFLC-Manila expanded its information technology network capabilities to ensure that all online materials and databases in the BSP headquarters are also made available at the regional offices/branches. Moreover, the inventory of reading materials and references in these regional EFLCs were beefed up to improve the information delivery to local stakeholders.

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

PICs in schools and key economic sectors continue

As part of the effort to promote greater transparency of monetary policymaking in the Philippines, enhance public awareness on the role of the BSP in the Philippine economy, and help manage inflation expectations and reputational risks, the BSP conducted a series of PICs on recent economic and financial developments in the country and the role of the BSP in the economy. The PICs also provided opportunity to obtain feedback on how to improve the delivery of the BSP's services in various cities nationwide.

The BSP conducted six PICs in 2009. In particular, the BSP collaborated with Carlos Hilado Memorial College (Bacolod City), Southern Luzon State University (Lucena City) and Negros Oriental State University (Dumaguete City). PICs were also conducted in Davao City, San Fernando, La Union and Cebu City which included participants from various sectors (i.e. media, business, government, banking and the academe).

The BSP has conducted 72 public information briefings all over the country since 2000. These briefings have been attended by more than 5,300 representatives from the academe, business and labor sectors, the banking community, government and non-government organizations, as well as members of the press.

Users' Forum for BSP-Produced Statistics

Conduct of Users' Forum continues for better appreciation of BSP-produced statistics

The BSP conducted the annual Users' Forum in October 2009 in celebration of the 20th National Statistics Month. The Users' Forum aims to: (a) raise the level of public appreciation in current economic and financial issues; and (b) educate the public and enhance appreciation on BSP-produced statistics and their uses. In 2009, the BSP conducted the Users' Forum of BSP-Produced Statistics in the cities of Tuguegarao and Dagupan. The Forum reached out to a diverse audience, namely, the academe, members of media, government, banking and business sectors.

PICs on currency familiarization and counterfeit detection

Conduct of information campaigns on maintenance of currency integrity continues

The BSP sustained its intensified/expanded information campaign to preserve and maintain currency integrity.

In 2009, 348 lectures/seminars on currency familiarization and counterfeit detection of Philippine/other acceptable foreign currencies were conducted for 12,374 cashiers/tellers/cash handlers of banks and other establishments.

The BSP likewise conducted 38 briefings on the features of genuine BSP notes and coins, Clean Note Policy, Coin Re-circulation Program and Reward System across sectors covering 3,005 treasurers, cashiers and collection agents of government offices, law enforcers, students and school officials, tellers and the general public in 13 provinces (i.e., NCR, Isabela, Cagayan, Ilocos Norte, Quezon, La Union, Palawan, Camarines Sur, Negros Oriental, Bohol, Iloilo, Leyte, Cotabato and Davao).

Financial Learning Campaign (FLC) for Overseas Filipinos and their Beneficiaries.

BSP intensifies FLCs overseas

The BSP continued to conduct FLCs for OFs and their beneficiaries locally and overseas to: (1) cultivate financial education among OFs and their beneficiaries; and (2) promote financial planning, savings, and investments among OFs/their beneficiaries by informing them of alternative uses of their remittances, including savings, investments in financial instruments and business ventures. By providing them with appropriate financial information, the FLC hopes to empower OFs and their beneficiaries to make the right economic and financial decisions with respect to their savings and investments.

In 2009, FLCs were conducted in 10 locations in the Philippines, namely, Manila, Calamba (Laguna), Tagaytay, Cebu, Bacolod, Tacloban (Leyte), Iloilo, Kalibo (Aklan), San Jose (Antique), Davao. Likewise, the coverage of the FLCs was expanded to include major OFs destination in the Middle East (Riyadh and Jeddah, Kingdom of Saudi Arabia), Europe (Milan and Rome, Italy) and Asia (Seoul, South Korea). More than 6,000

OFs and their beneficiaries have attended FLCs since 2006.

Financial Education Campaign (FEC) for Schoolchildren

BSP distributes teaching guides to more than 60 percent of elementary schools

The BSP sustained its efforts to promote financial education among the schoolchildren in partnerships with other government agencies and the private sector.

After the completion of printing of teaching guides in 2008, a private sector partner of the BSP on the FEC delivered/distributed these teaching guides to more than sixty percent of the public elementary schools in 2009. Meanwhile, the BSP through the assistance of Regional Directors of DepEd from Regions 1, 4-A, 7, 11, NCR and CAR, visited 13 sample schools in six regions to monitor/evaluate their use of the teaching guides on financial literacy. A financial education program survey for teachers was likewise conducted in three of the 17 regions to assess the effectiveness of the program.

On 23 June 2009, a Memorandum of Agreement (MOA) was signed with the Coordinating Council of Private Educational Associations (COCOPEA) to assist in the implementation of the FEC. COCOPEA is the biggest umbrella organization of private schools associations consisting of 1,300 member schools. Compact disks (CDs) copies of the teaching guides were provided to all member schools of COCOPEA in 2009. The target is to teach financial education to around 1 million students in private schools for the school year 2009-2010.

Moreover, the BSP, in coordination with the DepEd's Bureau of Elementary Education, finalized and implemented the guidelines on the "Search for Outstanding Financial Education Teachers". The awarding ceremony is scheduled in 2010.

On 3 July 2009, a MOA was signed with partner banking institutions to implement "Banking on your Future Program", a savings promotion campaign targeting public elementary school children for school year 2010-2011. The program aimed to augment classroom learning via extracurricular activities initiated by the banking sector.

Outreach Programs

Tulong Barya Para sa Eskwela. The BSP, in coordination with private sector partners and stakeholders, continued its promotion of *Tulong Barya Para sa Eskwela,* a component of the National Coin Recirculation Program. This program was extended until February 2010. As of 18 September 2009, the number of coins recirculated totaled 4,508,916 pieces based on the report of the DepEd.

The BSP turned over 12 houses for St. Paul *Gawad Kalinga* Village. It organized meal-for-a-cause program for the purchase of bassinets, droplights, weighing scales and other equipment for the nursery section of Dr. Jose Fabella Memorial Hospital. The BSP also conducted summer workshop on arts and solicited donations for the benefit of the home for the elderly and an orphanage. Likewise, it coordinated with its employees' associations in the conduct of relief operations and debriefing sessions for the victims of typhoons Ondoy and Pepeng that ravaged the country during the latter part of the year.

Institutional Building

Corporate Planning

BSP completes the first full cycle of its performance monitoring review

The year 2009 marked the completion of the first full cycle of the BSP's performance monitoring review with the conduct of the 2008 4th quarter Sectoral Performance Review Session (PRS) on 23 January 2009 and the BSP's 2008 Year-end Organizational PRS on 20 February 2009. This year's 1st, 2nd and 3rd quarter sectoral PRS were conducted on 28 April, 24 July and 28 October 2009, respectively, while the 2009 first semester organizational PRS was held on 14-16 August at the Baguio Country Club.

The Corporate Governance Framework. The BSP integrated corporate governance initiative under the project "Strengthening Good Governance in the Bangko Sentral ng Pilipinas" (approved under MB Resolution No. 494 dated 2 April 2009), resulted in the undertaking of the following activities in 2009:

1) Formulation of the Governance Assessment tool (Survey Questionnaire); 2) Training for the Governance Assessors in Tagaytay on 7-10 September 2009; 3) Conduct of survey in the Head Office, Security Plant Complex, 3 regional offices and six branches (Lucena, Dagupan, Bacolod, Iloilo, General Santos, Zamboanga) between 23 September-1 October 2009. Response rate

for the survey was 85 percent (target number of respondents: 1,155 employees); and 4) Conduct of Documents Review for governance-related processes and policies.

BSP Project Management Framework. In its Resolution No. 243 dated 12 February 2009, the Monetary Board approved the BSP Project Management (PM) Excellence Program which aims to promote a culture of excellence in the Bank to ensure that projects deliver consistently on their business objectives. The key components of the program are the development of a PM methodology, conduct of in-house training program for the project managers and team members (targeted at 1,000 employees and officers of BSP) and deployment of a project portal to facilitate the effective management of PM knowledge and promote project visibility.

*On the Promotion of Strategic Management Thinking***.** The 2009 BSP annual planning activities commenced with the conduct of a Discussion Forum on 05 June 2009, with the theme "Key Challenges to Central Banking in the Midst of the Global Financial Crises". The forum provided a venue for planning participants to discuss with the external experts the emerging patterns and signals in the domestic and global environment that may impact on the BSP's value propositions and operations with the end in view of understanding the forces of change and developing effective responses to change.

In addition, the year 2009 saw the BSP's continued implementation of a program to cascade its vision and mission statements, with a special session on values and culture through the quarterly week-long Induction Course for New Employees.

Information Technology

BSP implements in-house application systems and considers outsourced projects

The BSP implemented in-house application systems and considered outsourced projects as follows:

1) Sixteen (16) in-house application systems and 11 outsourced projects were considered. Of the 16 in-house application systems, two projects were implemented, three projects are for implementation in 2010, and nine projects are currently under systems development, while two projects were deferred. For the 11 outsourced projects, the Information Technology Sub-Sector (ITSS) provided support in the definition of business requirements, preparation of Requests for Proposal (RFPs), and deployment, among others.

2) Fifty six (56) application systems on production were managed, most of which were enhanced based on user requests.

3) Host computers, hardware, communications and network infrastructure were managed to ensure their availability, capacity and system performance.

4) IT Security Awareness briefings were conducted, with total attendees of 4,996 officers and staff as of end-December 2009.

5) ITSS was certified on ISO 9001 and ISO 14001 on 26-27 March 2009 and OHSAS 18001 on 2 April 2009 covering IT infrastructure, security, operations and support management.

6) The 2010-2014 BSP Information Systems Strategic Plan (ISSP) was presented to and approved by the Computerization Steering Committee (CSC) on 11 December 2009.

7) The MB approved the reorganization of ITSS on 18 December 2009 under MB Res. No. 1842.

Bangko Sentral ng Pilipinas Institute

BSPI focuses on reviewing its policies and processes to ensure the quality of the services it provides

For 2009, the BSP Institute (BSPI) focused on reviewing its policies and processes in order to ensure the quality of the services it provides.

1) Guidelines on the Subject Matter Expert (SME) accreditation of the BSP were approved on 18 September 2009. The accreditation process provides a set of standards on the SMEs who will be engaged to conduct the BSPI's in-house training programs. This ensures that only SMEs who pass the training standards of the BSPI would qualify to conduct training at the Bank.

2) A review of the BSP's internal processes was started, with the objectives of streamlining them and eliminating lags by means of the Value Stream Map. The results of this undertaking would then be used in the creation of the BSPI Integrated Management System.

3) During the fourth quarter of 2009, a planning workshop was conducted to cascade the RMS and BSPI Balanced Scorecard to all personnel. Aside from raising awareness on the sectoral and department scorecards, another objective of the workshop was to aid the BSPI personnel in creating a division and individual scorecards

that are linked to the goals of the department and the sector.

4) The BSPI also continued to strengthen its relationship with the Carnegie Mellon University and its new partner, the Boston University. In particular, it conducted interface/briefings of interested applicants to various scholarships offered by the Bank with officials of foreign schools on the academic and acceptance requirements of the following universities or academic institutions: National University of Singapore; JICE-JDS, Manila Office; Williams College, USA; and Carnegie Mellon University, Australia. The BSP was also able to negotiate a 70 percent-30 percent sharing arrangement in the cost of tuition fees for BSP scholars who will pursue MS Public Policy and MS Information Technology at the Carnegie Mellon University in Australia under the South Australian Government Scholarship Program. Three scholarship slots under this program were given to BSP.

5) In line with the thrust to further increase access training by employees, a computer training room was built at the Security Plant Complex (SPC). This ensured the participation of a greater number of SPC personnel in computer training programs.

6) In keeping with the goal of raising the bar of excellence in the BSP and being at par with global standards, the BSPI facilitated the review and/or examination of twenty-seven (27) bank personnel on various global certifications.

7) In support of the core competency requirements of the training staff, the BSP continued to implement competency development program, based on the framework adopted by the American Society for Training and Development (ASTD) of Analysis, Design, Development, Implementation and Evaluation (ADDIE). The conduct of the competency development program consisting of five modules aims to produce staff that are adept in the Instructional System Design in accordance with the said framework. At the end of 2009, the BSPI has already completed the conduct of the various phases of ADDIE modules for 32 personnel. All participants were required to submit projects that have relevance to their respective areas of assignments, or would lead to the improvement of the course design and implementation, or would provide significant information for strategic decision on training-related matters by way of innovations of the current system.

Human Resource Development Department

BSP implements holistic approach in reinforcing its capability in building strategic business partnerships

Human resource development activities in 2009 were geared towards a holistic approach in reinforcing the BSP's capability in building strategic business partnerships.

Innovative programs were initiated to address the career and development concerns of BSP employees. A dual-career track progression system for employees was jump-started to provide wider career options within the BSP by looking into other possible career paths of employees, apart from the conventional upward movement.

The value of workplace development interventions (WDIs) was highlighted by introducing non-formal types of learning, such as *Development Movies* and *Development Hour*, and meeting employees outside regular office hours to discuss and share ideas on a featured movie or book. The WDIs were initially intended to focus on the five core values of BSP to enable employees, especially the new hires, to apply these values in the workplace.

Alongside the micro approach to development, 2009 also marked the strengthening of a culture-building program by the Organizational Health Survey (OHS). The OHS paved the way for the establishment of baseline data that was cascaded on a top-down approach so that everybody would be apprised of the current health and organizational climate in the Bank. During the fourth quarter, the Organization Development (OD) Committee engaged the services of an OD consultant who would be tasked to develop a framework that would steer the BSP towards a value-based and performance-driven culture.

Organization Planning and Design

- Reorganization Studies

  Three reorganization studies were completed and approved by the MB in 2009, namely: (i) the Department of Loans and Credit; (ii) the Information Systems Technology Sub-sector, which included the renaming of the Information Systems Support and Development Department into the Applications Systems Management Department; and (iii) the International Department, which is now a Sub-sector composed of two (2) new departments: the International Operations Department and the International Relations Department (MB Res. Nos. 457 dated 19 March 2009, 675 dated 30 April 2009, and 1842 dated 18 December 2009, respectively).

The reorganization of the Anti-Money Laundering Council Secretariat, Internal Audit Office, Procurement Office and the Payments and Settlements Office were also completed in 2009. These proposed reorganizations will be submitted to the MB once their budgetary implications have been finalized.

- Staffing Studies

  The study of request for staffing changes by the different departments/offices of the Bank has been completed, which led to the creation of 10 positions, including the realignment of positions in the Administrative Division of the Management Services Sub-sector, and additional positions in the Office of the Governor, Manpower Pool, Provident Fund Office and the Facilities Engineering and Management Department.

- Special Studies

  Special studies on streamlining personnel requirements were also completed, including:

  - Review of Positions Identified For Abolition Upon Vacancy;
  - Consolidation of the Procurement of the Bank's Requirements for Outsourced Personnel; and
  - Evaluation of Requests for Hiring/Re-hiring of Outsourced Personnel.

Competency Modeling and Job Analysis

- During the first quarter of 2009, 11 competency models were approved by the MB for various job families in the Bank: architectural, engineering and facilities management, asset management, financial services, human resource development services, human resource management services, information technology services, medical and dental services, legal services, provident fund services, security, investigation, and transport services, and training services.

- A review of the BSP's internal qualification standards for certain positions in the Monetary Stability Sector was conducted with a view to rationalize them. Moreover, the performance evaluation system was revised and cascaded to the staff of the BSP.

Selection and Placement

- Some 1,741 requests/proposals from different departments/offices in the BSP for the filling of vacancies by way of promotion, lateral transfer, new appointment, reinstatement or reemployment were received and evaluated. Moreover, some 1,314 positions were filled, of which 394 were contractual. Applicants to these filled positions came from a pool of 5,168 candidates from within and outside the BSP, whose qualifications were assessed against the requirements. Likewise, 1,079 applicants were referred to pertinent departments/offices from a pool of 1,713 applicants

Talent Development

- In the area of talent development, the revised Individual Development Plan and the Competency Assessment Form were initially rolled-out to HRDD staff. Simultaneously, individual talent interviews and validation with heads of divisions were conducted. Reinforcing the idea that talent development could be effective in both classroom and non-classroom settings, WDIs, such as the Development Movies and Development Hour, were introduced to highlight the BSP's core values.

- Other interventions to support WDIs included the Handbook of Development Activities, guidelines on job-rotation and cross-posting program, coaching and mentoring program, catalog of training opportunities per position, i-learn online (e-coaching) and management development program. Concept papers were started on incentive scheme for WDIs, qualification standards, BSP scholarship program, talent development framework, linkages between individual development and performance, impact of qualification standards in the implementation of competency-based HR system.

Career and Succession Management

Successful execution and provision of the following career management related events and programs:

- One Breakfast with the Governor – the first ever in the Bank – for 214 new employees as part of the Bank's on-boarding activities;
- Two career fairs (My BSP, My Career: Explore the Possibilities) promoting awareness on internal career

mobility in the Head Office and the SPC, attended by 1,496 employees, 172 of whom submitted their applications for vacant positions within the Bank;

- Three Second Level/Professional Review Classes for 115 BSP employees in the Head Office and Regional/Branch Offices to address their need for this eligibility;
- One Third Level Eligibility Review Class for 47 BSP Officers, 16 of whom successfully passed the first on-site Written Exam administered by the Career Executive Service Board in BSP;
- One run for the Career Plan Preference Survey (CPPS) participated in by 290 employees in support of the Bank's Succession Management Program;
- Weekly new employee orientation/briefing in support of the Bank's on-boarding initiatives to facilitate a smooth integration of new talents to the organization and for them to have the right BSP-values at the start of their career. A total of 284 employees were oriented by CSMD in 2009;
- Career management briefing to all participants of the New Employee Induction Course in close coordination with BSPI;
- Career guidance and counseling services to 114 employees affected by various reorganizations as well as those who faced varied career concerns due to transition, performance, personal issues; and
- Issuance of communication materials on career –
    - Six Career Breakthrough Stories featured in the HRDD website; and
    - 22 Career broadcasts on clear vacancies.

Crisis Management

BSP continues to mount activities towards effective crisis leadership

The BSP continued to mount activities towards effective leadership, ensuring the continuity of business, especially time-sensitive operations, as follows:

1) 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); and

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

Systems and Methods

BSP continues to institute service excellence at par with world class standards

In pursuit of the BSP's commitment to institute service excellence at par with world class standards, various programs were completed/pursued in 2009 towards this end.

1) Design and development of three quality management systems (QMS) of several departments and offices, in accordance with the international standards of ISO 9001, namely: (1) Facilities Management and Engineering Department, (2) Corporate Affairs Office, and (3) DLC;

2) Two bank-wide certified management systems, namely, the Environmental, Occupation Health and Safety Management System (EOH&SMS) and Administrative Operations QMS (AO QMS) passed certification audits under the ISO 14001 standards and Occupational Health and Safety Assessment Series (OHSAS) 18001 and ISO 9001, respectively;

3) Conducted Independent Quality Assessments in the Head Office and three Regional Offices and Branches;

4) Conducted Work Environment Measurements as part of maintaining a healthy work environment in the BSP;

5) Conducted Awareness Briefing Sessions on EOH&SMS; and

6) Embarked on a training on business process improvement (BPI) and business process reengineering (BPR) to equip its personnel with the knowledge and skills to perform process improvement and reengineering projects.

International Economic Cooperation

BSP continues to participate actively in international economic cooperation activities

The BSP continued to participate actively in international cooperation activities, including bilateral, regional and multilateral fora in 2009. These meetings discuss ways on how to address the global financial turmoil, promote regional and financial cooperation and integration, improve economic surveillance, support regional bond market development and negotiate free trade agreements. The BSP also promoted its position on various issues and proposals emanating from the IMF and the World Bank.

Economic Surveillance and Policy Dialogue

BSP spearheads the continuing enhancement of EMEAP's surveillance mechanism

As the current Chairman of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Monetary and Financial Stability Committee (MFSC),[35] the BSP spearheads the continuing enhancement of EMEAP's surveillance mechanism through coordination of initiatives for closer monitoring of global and regional economic and financial developments, as well as preparation of weekly tables and charts on financial market developments in EMEAP economies. The BSP also participated actively in the discussion in the ASEAN and ASEAN+3 (consisting of the 10 ASEAN member states plus China, Japan and Korea) Finance Ministers' Meeting on the establishment of the ASEAN Macroeconomic and Finance Surveillance Office (MFSO) and the ASEAN+3 Macroeconomic Research Office (AMRO). The MFSO will be a new high-level surveillance unit of the ASEAN that is expected to take the lead in producing quality surveillance output and discussing on surveillance and financial integration, while the AMRO will be established as an independent regional surveillance unit of the ASEAN+3 process that will monitor and analyze regional economies and support decision-making under the ASEAN+3 Chiang Mai Initiative Multilateralization.

Regional Financial Arrangements

Call to stronger regional cooperation efforts results in the adoption of an agreement among ASEAN+3 countries

The call to stronger regional cooperation efforts, particularly in the area of short-term liquidity support amid the global financial turmoil resulted in the adoption of an agreement among the ASEAN+3 countries to accelerate the establishment of an advanced framework for regional liquidity support arrangement in the form of the Chiang Mai Initiative Multilateralization (CMIM). In accordance with the agreement on the main components of the CMIM during the ASEAN+3 Finance Ministers' Meeting on 3 May 2009 in Bali, Indonesia, the Finance Ministers and Central Bank Governors of the ASEAN+3 and the Monetary Authority of Hong Kong, China, signed the CMIM Agreement on 24 December 2009, outlining the terms and conditions of the multilateral swap facility amounting to US$120 billion. The multilateralization of the Chiang Mai Initiative (CMI) is considered to be a major step forward in the efforts to strengthen official financial cooperation in the Asian region. The Philippines has

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[35] The MFSC, which is composed of EMEAP Deputies, was established in 2007 to assist the EMEAP Governors in promoting monetary and financial stability in the region by highlighting issues, identifying areas of vulnerabilities and recommending broad policy options in the areas of regional macro-monitoring, risk management, crisis management and crisis resolution.

committed US$4.55 billion[36] to the CMIM and may avail of up to US$11.6 billion in US dollar swaps under the facility. The CMIM agreement is expected to take into force in March 2010.

Regional Bond Market Development

The BSP helps pursue actively efforts to develop efficient and liquid bond markets in Asia

The BSP is actively involved in pursuing efforts under the Asian Bond Markets Initiative (ABMI), which aims to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments and contributing 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 local and regional bond market development through initiatives in the following areas:

- facilitating issuance of local currency-denominated bonds;
- promoting the demand of local currency-denominated bonds;
- improving regulatory framework; and
- improving related infrastructure for the bond markets.

In 2009, relevant progress was achieved by the four ABMI taskforces that were established to implement specific initiatives on the following key areas: (a) Task Force (TF) 1: Facilitating Issuance of Local Currency-Denominated Bonds; (b) TF 2: Promoting the Demand of Local Currency-Denominated Bonds; (c) TF 3: Improving the Regulatory Framework; and (d) TF 4: Improving the Related Infrastructure for Bond Markets.

The BSP participated in the activities under the TF 1 particularly in the discussion of the Articles of Agreement and Operational Policies that will implement the Credit Guarantee and Investment Fund (CGIF). The CGIF, as endorsed during the 12th ASEAN+3 Finance Ministers' Meeting on 3 May 2009 in Bali, Indonesia, by the Finance Ministers will be a trust fund of the Asian Development Bank (ADB) with an initial capital of US$500 million. The objective of the CGIF is to support the issuance of local currency-denominated corporate bond in the region, thereby contributing to the development of the regional bond markets.

[36] Consisting of an initial commitment of US$3.68 billion and followed by an additional US$870 million when the level of the country's GIR reaches US$45.5 billion.

In parallel, the BSP, along with the Korea Ministry of Strategy and Finance co-chairs TF 4, which covers the following areas of cooperation: (a) developing infrastructure for securities settlement; (b) increasing the liquidity of bond markets; (c) fostering credit culture; and (d) developing the professional services of financial analysts, with priority being given to the first two activities in 2009.

Support to Financial Integration and Financial Services Liberalization

The BSP remains active in the initiatives towards financial integration

The BSP remained active in the initiatives towards financial integration under the ASEAN Finance Ministers' Process. The BSP participated in the discussions of the Working Committee on Financial Services Liberalization (WC-FSL) under the ASEAN Framework Agreement in Services (AFAS), including the fifth round of financial services negotiations under the AFAS. The ratification of the 4th Protocol to implement the Fourth Package of Commitments on Financial Services under AFAS, including submission of instrument of notification, was completed by all ASEAN Member Countries in 2009.

The BSP also participated in free trade area (FTA) agreement negotiations with ASEAN dialogue partners. In 2009, negotiations of different FTAs, including those with China, Japan, the Republic of Korea, India (Trade in Goods Agreement), Australia and New Zealand have been completed. Negotiations on the Trade in Services Agreement of the ASEAN-India and second round of offers under the ASEAN-China Trade in Services Agreement are ongoing.

The BSP assumed chairmanship of the ASEAN Working Committee on Capital Account Liberalization, which oversees the implementation of the strategic schedule for capital account liberalization under the ASEAN Economic Community Blueprint. Under the BSP's chairmanship in 2009, the Working Committee on Capital Account Liberalization (WC-CAL) completed the assessment and identification of rules for the liberalization of foreign direct investment and formulated the guidelines/format for accomplishing the assessment and identification of rules for the liberalization of portfolio investment.

The BSP also participated in the discussions/activities of the Working Committee on Capital Market Development (WC-CMD), which oversees capital market development initiatives in the ASEAN towards achieving financial integration. During the 13th ASEAN Finance Ministers' Meeting in April 2009, the Ministers endorsed the

Implementation Plan to Promote the Development of an Integrated Capital Market to Achieve the Objectives of the ASEAN Economic Community (AEC) Blueprint 2015, which offers a comprehensive set of strategic initiatives and specific implementation actions and milestones on the three broad themes which include creating an enabling environment for regional integration, creating market infrastructure and strengthening the implementation process.

The BSP co-chairs with Bank Negara Malaysia the Task Force on Milestones towards ASEAN Monetary and Financial Integration (TF Milestones), a task force under the ASEAN Central Bank Forum (ACBF) aimed at helping develop milestones for further financial integration. The TF Milestones spearheads the conduct of preparatory activities for a study which will provide a thorough and critical assessment of the current state of financial services liberalization, capital market development, and capital account liberalization in the ten ASEAN countries which is expected to be completed by the end of 2010. The BSP also participated in the First ASEAN Seminar on Financial Integration and Brain Storming Session, which provided a venue for consultations with the private sector, exchanging views and providing updates on the progress of activities in relation to the proposed study.

Under the multilateral trading negotiations, the BSP also participated in World Trade Organization (WTO)-related activities by providing inputs on queries on banking services of other WTO member-economies 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.

The BSP also participated in the implementation of the Japan-Philippines Economic Partnership Agreement, which came into force on 11 December 2008. The BSP co-chairs the Working Group on Financial Services (WGFS) with the Financial Services Agency of Japan. The WGFS is expected to promote regulatory cooperation in the field of financial services.

Research and Training Initiatives under the South East Asian Central Banks (SEACEN)

BSP continues to support regional cooperation in human capital management…

The BSP also continued to support regional cooperation in human capital management to strengthen domestic capacity in central banking. The BSP supported strongly 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 co-hosted the following learning activities with the SEACEN Centre: (i) SEACEN-Centre for Central Banking Studies (CCBS)/ Bank of England (BOE) Workshop on Macroeconomic Modeling for Monetary Policy and Management on 23-28 March 2009, Manila; (ii) SEACEN/International Finance Corporation (IFC)/BIS Workshop on Inflation Measurement: Central Bank Perspective on 12-16 October 2009, Tagaytay City; and (iii) SEACEN/CCBS/BOE-BSP Workshop on DSGE Modeling and Econometric Techniques on 23-27 November 2009 in Manila, Philippines.

Participation in International Forums and Initiatives

The BSP participated in a wide range of international activities, contributing to policy discussions on emerging issues in the regional and global forums.

Asian Development Bank (ADB)

… provides inputs to various ADB Board discussions

The BSP acts as the Alternate Governor to the ADB Board of Governors. The BSP actively provided inputs to various ADB Board discussions, particularly on the vote to triple ADB's capital base from US$55 billion to US$165 billion. The 200 percent increase allows ADB to respond quickly and proactively to the immediate needs of its developing member-countries while maintaining a focus on long-term development objectives.

The BSP participated in the 42nd ADB Annual Meeting in Bali, Indonesia, wherein various initiatives were approved to tackle the crisis, namely: the approval of an additional US$10 billion of ADB assistance in 2009-2010, bringing the total ADB assistance for these two years to about US$32 billion; the inclusion of a new US$3 billion Countercyclical Support Facility to disburse funds quickly and efficiently for urgent needs and are available to member countries who qualify for Ordinary Capital Resources (OCR) loans; and front-loading of Asian Development Fund (ADF) resources to provide US$3.4 billion in 2009 for low-income countries.

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 participate actively in the South East Asia Voting Group by providing technical comments and position papers on issues related to the quota reform process, liquidity measures and credit instruments, and Fund governance, among others.

The BSP participated in the IMF-World Bank (WB) Annual Meeting from 30 September-7 October 2009 where issues on the global economic outlook, crisis response and governance reforms were discussed. The series of meetings and seminars highlighted the ongoing recovery of the global economy, with particular focus on the strong recovery in the Asian region. As the global economy is now starting to recover, exit strategies from extraordinary policy support were also discussed.

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 2009 was held on 16-25 November 2009. In its assessment, the IMF mission noted the gaining economic recovery of the country. Leading indicators suggest further expansion in the period ahead where Fund staff projects growth to reach ¾ percent in 2009 and accelerate to 3¼ percent in 2010, led by private consumption. The Fund also noted the timely and decisive measures undertaken by the BSP to ease monetary policy which provided support to growth and ensured healthy liquidity conditions consistent with the inflation-targeting framework. Lessons learned during the Asian financial crisis have set in place the necessary reforms to promote bank soundness and provided the needed cushion for the financial system to weather the current turmoil, as capitalization remained high while NPLs remained low. The IMF also remarked on the improved strength of corporations as they entered the global crisis with lower leverage and short-term debt.

The BSP also successfully nominated a Filipino, Ms. Amelia Cabal, to the three-member External Audit Committee, in charge of oversight of the IMF's external audit, internal audit, financial accounting and reporting, risk management and internal control functions.

Bank for International Settlements (BIS)

…participates in the BIS meetings and conferences on the latest financial developments

In 2009, the BSP participated in both the Annual BIS Governors' and Deputy Governors' meetings (June and February, respectively) and in the BIS Conference on the Asian Research Program (August). The meetings discussed, among others, issues related to risks and challenges of the global financial crisis, exit strategies from extraordinary policy support and reform of the global financial system. In line with the Asian Research Program to tackle topics on exchange rates, microstructure of financial markets, lessons from the financial crisis, forecasting, monetary policy and financial stability, the BSP hosted the BIS Asian Office and the Financial Stability Institute Workshop of the Asian Research Network on Financial Markets and Institutions on 19 January 2009, Workshop of the Asian Research Network on Monetary Policy and Exchange Rates held in Cebu on 20 January 2009 and the Financial Stability Institute (FSI) - Southeast Asia, New Zealand, Australia (SEANZA) Seminar on Liquidity Risk in Banking Organizations on 5-7 May 2009. The BSP has been a member of the BIS since 2003.

Asia-Pacific Economic Cooperation (APEC)

…supports APEC efforts to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific region

The BSP continued to support APEC efforts to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific region. The BSP participated in the in-economy visit of the review team for the Philippines' Individual Action Plan and joined the Philippine delegation during the APEC Peer Review in 2009. The APEC Peer Review is an activity wherein APEC member-economies submit to the APEC their respective current capital and trade regimes as well as plans for liberalization or improvements for trade facilitation. The results of the review revealed that the Philippines has made good progress in the areas of trade facilitation, government procurement, investment facilitation, business mobility, tariff liberalization and implementation of WTO commitments.

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

…hosts meetings of the EMEAP

The BSP hosted the 36th EMEAP Deputies' Meeting (DM) and related meetings on 15-17 May 2009 in Manila to discuss the: (i) continuing refinement of the Global Integrated Monetary and Fiscal (GIMF) Model and other surveillance-related issues; (ii) establishment of the EMEAP integrated crisis management framework;

(iii) progress in the areas of financial markets, banking supervision, payment and settlement systems and information technology; and (iv) updates on the performance of the Asian Bond Fund portfolio.

The BSP also hosted the 5th EMEAP Monetary and Financial Stability Committee (MFSC) Workshop on 12-13 October 2009 which covered updates on ongoing surveillance works and progress of Working Groups and MFSC Study Teams in various initiatives relating to regional cooperation and financial stability.

The 37th EMEAP Deputies' Meeting (DM) and other related meetings were concluded on 13-15 November 2009 in Chiang Mai, Thailand and were attended by a BSP delegation headed by the Deputy Governor of the Monetary Stability Sector. The 6th MFSC Meeting, which was held on 14 November 2009, marked the inaugural meeting of the MFSC under the new chairmanship of Deputy Governor Diwa C. Guinigundo. As the current MFSC Chair, the BSP plays a lead role in monitoring key financial indicators and identifying relevant issues for discussions and other initiatives for EMEAP.

Center for Monetary Studies in Latin America (CEMLA)

…and participates in CEMLA meetings on latest economic issues

The BSP participated in the Meeting of the Central Bank Governors of Asia, Latin America and the Caribbean (LAC) held in Istanbul, Turkey on 2 October 2009. The Governors had an extensive discussion on the experience and policy responses of Asian and LAC central banks on important issues relevant to the two regions, including: (a) Commodity Prices and Monetary Policy Impact; and (b) Challenges to Central Banks in Emerging Markets in the Aftermath of the Global Financial Crisis. The BSP also took part in the 45th Meeting of the IMF and International Bank for Reconstruction and Development (IBRD) Governors of Latin America, Spain and the Philippines, the 88th Meeting of the Central Bank Governors of Latin America and Spain and the CEMLA Assembly, which were held on 2-3 October 2009 in Turkey.

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-November 2009)

The BSP's net worth increases following expansion in assets

Based on preliminary and unaudited financial statements, the BSP's assets as of end-November 2009 reached ₱2.6 trillion, 11.1 percent or ₱260.0 billion higher than the year-ago level, while its liabilities grew by ₱249.9 billion or 11.8 percent year-on-year to ₱2.4 trillion. With higher growth in assets, the BSP's net worth went up to ₱242.1 billion or 4.4 percent higher compared to the year-ago level of ₱231.9 billion.

The year-on-year expansion in BSP assets was mainly due to the continued growth in international reserves, which accounted for 79.8 percent of total assets. The expansion in international reserves amounting to ₱284.2 billion was largely a result of higher earnings coming from foreign deposits and investments. The higher asset balance was likewise attributed to the ₱17.3 billion rise in loans and advances.

The same period also saw a rise in BSP's liabilities, owing primarily to the ₱221.2 billion rise in deposit liabilities and the ₱62.8 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 special deposit facilities as part of its liquidity management measures.

The BSP Net Income (January-November 2009)

The BSP posts net operating income

Based on preliminary and unaudited data, the BSP yielded a net income of ₱10.3 billion during the period January to November 2009, slightly lower compared to the ₱12.6 billion gain reported during the same period in the previous year. This was primarily due to the ₱6.9 billion loss in foreign exchange rate fluctuations compared to the ₱8.3 billion gains posted during the same period in 2008.

Total revenues reached to ₱91.1 billion, ₱8.2 billion higher than the ₱82.9 billion posted a year ago. Miscellaneous income, which is the major source of revenue for this review period increased by ₱16.1 billion compared to the previous year's level due to higher trading gains. Meanwhile, total interest earnings were lower than the year-ago level by ₱8.0 billion, largely on account of reduced interest earnings from international reserves.

During the same period, total expenditures amounted to ₱74.0 billion, which was ₱4.2 billion or 5.4 percent lower than the level posted in the same period in 2008. The year-on-year contraction in the total expenses of the BSP was due mainly to lower interest expense, which declined by 14.3 percent, owing to decreased interest payments on special deposit accounts, NG deposits and reverse repurchase agreements, following the significant reduction in the policy rates during the first half of the year.

List of Statistical Tables

1 GROSS NATIONAL PRODUCT (GNP) BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos; at constant 1985 prices

	2007	2008	2009	Percent Change 2007	2008	2009
Agriculture, Fishery and Forestry	251,311	259,406	259,573	4.8	3.2	0.1
Industrial Sector	443,067	465,017	455,784	6.8	5.0	-2.0
Mining and Quarrying	23,713	24,157	29,258	26.0	1.9	21.1
Manufacturing	315,709	329,317	312,439	3.3	4.3	-5.1
Construction	60,899	65,674	69,509	21.1	7.8	5.8
Electricity, Gas and Water	42,745	45,869	44,579	6.7	7.3	-2.8
Service Sector	672,115	694,529	716,621	8.1	3.3	3.2
Transportation, Communication and Storage	120,698	125,814	128,121	8.3	4.2	1.8
Trade	233,863	236,705	243,537	8.2	1.2	2.9
Finance	81,310	83,356	89,305	13.1	2.5	7.1
Owners Dwelling and Real Estate	63,223	66,853	66,197	5.8	5.7	-1.0
Private services	116,374	122,024	126,691	8.4	4.9	3.8
Government services	56,646	59,778	62,770	2.7	5.5	5.0
Gross Domestic Product	1,366,493	1,418,952	1,431,978	7.1	3.8	0.9
Net Factor Income from Abroad	129,098	168,845	202,704	12.1	30.8	20.1
Gross National Product	1,495,591	1,587,797	1,634,682	7.5	6.2	3.0

Numbers may not add up to total due to rounding.
Source: NSCB

1a GROSS NATIONAL PRODUCT (GNP) BY EXPENDITURE SHARES

for periods indicated
in million pesos; at constant 1985 prices

Item	2007	2008	2009	Percent Change 2007	Percent Change 2008	Percent Change 2009
Personal Consumption Expenditures	1,058,176	1,107,569	1,149,828	5.8	4.7	3.8
General Government Consumption Expenditures	90,811	93,746	101,753	6.6	3.2	8.5
Gross Domestic Capital Formation	252,018	256,244	230,906	12.4	1.7	-9.9
Fixed Capital Formation	241,107	248,094	239,495	10.9	2.9	-3.5
Construction	112,420	117,551	122,109	19.4	4.6	3.9
Durable Equipment	111,412	113,536	100,616	4.5	1.9	-11.4
Breeding Stocks and Orchard Development	17,275	17,008	16,770	3.7	-1.5	-1.4
Changes in Stocks	10,911	8,150	-8,589	60.5	-25.3	-205.4
Exports	676,098	663,324	569,294	5.4	-1.9	-14.2
Less: Imports	628,562	643,572	606,283	-4.1	2.4	-5.8
Statistical Discrepancy	-82,048	-58,360	-13,519	-336.0	28.9	76.8
Gross Domestic Product	**1,366,493**	**1,418,952**	**1,431,978**	**7.1**	**3.8**	**0.9**
Net Factor Income from Abroad	129,098	168,845	202,704	12.1	30.8	20.1
Gross National Product	**1,495,591**	**1,587,797**	**1,634,682**	**7.5**	**6.2**	**3.0**

Numbers may not add up to total due to rounding.
Source: NSCB

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for periods indicated

	2007	2008	2009	Percent Change 2008	Percent Change 2009
Employment Status [1]					
Labor Force (In Thousands)	36,213	36,805	37,892	1.6	3.0
Employed	33,560	34,089	35,061	1.6	2.9
Unemployed	2,653	2,716	2,831	2.4	4.2
Underemployed	6,757	6,579	6,692	-2.6	1.7
Employment Rate (%)	92.7	92.6	92.5		
Unemployment Rate (%)	7.3	7.4	7.5		
Underemployment Rate (%)	20.1	19.3	19.1		
	January -November				
Overseas Employment (Deployed)	982,286	1,149,429	1,284,133	17.0	11.7
Land-Based	735,772	906,680	986,666	23.2	8.8
Sea-Based	246,514	242,749	297,467	-1.5	22.5
	January -September				
Strikes					
Number of new strikes declared	4	5	4	25.0	-20.0
Number of workers involved	472	1,115	1,510	136.2	35.4
Legislated Wage Rates [2]					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	362.00	382.00	382.00	5.5	0.0
Regions Outside NCR (ONCR)	300.00	320.00	320.00	6.7	0.0
Agricultural					
NCR					
Plantation	325.00	345.00	345.00	6.2	0.0
Non-Plantation	325.00	345.00	345.00	6.2	0.0
ONCR					
Plantation	275.00	295.00	295.0	7.3	0.0
Non-Plantation	255.00	275.00	275.0	7.8	0.0
In Real Terms (at 2000 prices)					
Non-Agricultural					
National Capital Region (NCR)	245.42	247.89	238.45	1.0	-3.8
Regions Outside NCR (ONCR)	208.33	206.85	198.39	-0.7	-4.1
Agricultural					
NCR					
Plantation	220.34	223.88	215.36	1.6	-3.8
Non-Plantation	220.34	223.88	215.36	1.6	-3.8
Regions Outside NCR (ONCR)					
Plantation	190.97	190.69	182.89	-0.1	-4.1
Non-Plantation	177.08	177.76	170.49	0.4	-4.1

[1] *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 2000 census based population was adopted to the the labor force statistics as per NSCB Resolution No. 1 series of 2005.*

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

[p] *Preliminary*

.. *Not available*

Sources: BLES, NSO, NCMB, POEA,NWPC

3 CONSUMER PRICE INDEX (CPI) 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			
	CPI		Percent Change		CPI		Percent Change		CPI		Percent Change	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
All Items	**155.0**	**160.0**	**9.3**	**3.2**	**154.4**	**156.9**	**6.9**	**1.6**	**155.2**	**161.3**	**10.4**	**3.9**
Food, Beverages & Tobacco	152.3	161.1	12.9	5.8	145.1	152.5	10.1	5.1	154.6	164.0	13.8	6.1
Non-Food	157.6	158.8	6.0	0.8	160.7	159.8	5.1	-0.6	155.9	158.2	6.6	1.5
Clothing	130.1	133.4	4.2	2.5	136.7	138.7	5.1	1.5	127.8	131.6	3.9	3.0
Housing & Repairs	139.6	143.6	4.3	2.9	136.6	140.4	2.5	2.8	142.0	146.1	5.7	2.9
Fuel,Light & Water	193.9	188.8	6.5	-2.6	218.2	215.1	2.8	-1.4	183.2	177.3	8.5	-3.2
Services	180.5	180.1	8.6	-0.2	185.5	178.1	9.5	-4.0	177.6	181.2	8.0	2.0
Miscellaneous	126.1	129.4	2.9	2.6	123.9	126.6	1.9	2.2	126.9	130.3	3.3	2.7

Source: NSO

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT
for periods indicated
in million pesos

	Actual 2008	Actual 2009	Program 2009	Actual Vs. Program (%)	Annual Change (%)
Revenues	**1,202,905**	**1,123,211**	**1,239,153**	**-9.4**	**-6.6**
Tax Revenues	1,049,179	981,631	1,082,622	-9.3	-6.4
Bureau of Internal Revenue	778,571	750,287	798,455	-6.0	-3.6
Bureau of Customs	260,248	220,307	273,292	-19.4	-15.3
Other Offices	10,360	11,037	10,875	1.5	6.5
Non-tax Revenues	153,726	141,580	156,531	-9.6	-7.9
of w/c: Bureau of the Treasury	63,681	69,912	60,088	16.3	9.8
Expenditures	**1,271,022**	**1,421,743**	**1,489,153**	**-4.5**	**11.9**
of which:					
Allotments to Local Government Units	222,995	264,645	n.a.	n.a.	18.7
Interest Payments	272,218	278,866	311,238	-10.4	2.4
Equity and Net Lending	16,084	6,423	26,631	-75.9	-60.1
Surplus/Deficit (-)	**-68,117**	**-298,532**	**-250,000**	**-19.4**	**-338.3**
Financing	**160,108**	**229,843**	**269,033**	**-14.6**	**43.6**
External Borrowings (Net)	-9,202	152,477	107,277	42.1	1,757.0
Domestic Borrowings (Net)	169,310	77,366	161,756	-52.2	-54.3
Total Change in Cash: Deposit/Withdrawal (-)	47,477	-66,027	4,537	-1,555.3	-239.1
Budgetary	91,991	-68,689	19,033	-460.9	-174.7
Non-Budgetary [1]	-44,514	2,662	-14,496	118.4	106.0

[1] Refers to accounts not included in the NG budget, e.g., sale, purchase or redemption of government securities, but included in the cash operations report to show the complete relations in the movements of the cash accounts.
n.a. not available
Source: Btr

5 DEPOSITORY CORPORATIONS SURVEY[p]
as of periods indicated
in million pesos

Item	LEVELS Dec-08	Nov-09	Dec-09	FLOWS Dec09-Nov09	Dec09-Dec08	GROWTH RATES (%) Dec09-Nov09	Dec09-Dec08
1. NET FOREIGN ASSETS	**1,930,644**	**2,481,493**	**2,442,877**	**-38,616**	**512,233**	**-1.6**	**26.5**
A. Bangko Sentral ng Pilipinas	**1,685,738**	**2,052,921**	**2,027,624**	**-25,297**	**341,886**	**-1.2**	**20.3**
Net International Reserves	**1,717,014**	**2,080,708**	**2,053,770**	**-26,938**	**336,756**	**-1.3**	**19.6**
Foreign Assets	1,789,184	2,081,705	2,053,965	-27,740	264,781	-1.3	14.8
Foreign Liabilities	72,170	997	195	-802	-71,975	-80.4	-99.7
Medium & Long-Term Foreign Liabilities	**31,276**	**27,787**	**26,146**	**-1,641**	**-5,130**	**-5.9**	**-16.4**
B. Other Depository Corporations	**244,906**	**428,572**	**415,253**	**-13,319**	**170,347**	**-3.1**	**69.6**
Foreign Assets	696,311	782,820	782,459	-361	86,148	0.0	12.4
Foreign Liabilities	451,405	354,248	367,206	12,958	-84,199	3.7	-18.7
2. NET DOMESTIC ASSETS	**2,738,011**	**2,432,609**	**2,614,894**	**182,285**	**-123,117**	**7.5**	**-4.5**
A. Net Claims on Residents (Net Domestic Credits)	**3,691,351**	**3,869,135**	**3,962,960**	**93,825**	**271,609**	**2.4**	**7.4**
Net Claims on the Public Sector (Public Sector)	**1,199,165**	**1,282,778**	**1,268,729**	**-14,049**	**69,564**	**-1.1**	**5.8**
National Government	890,974	983,805	970,135	-13,670	79,161	-1.4	8.9
Credits	1,222,966	1,339,416	1,358,635	19,218	135,669	1.4	11.1
CB BOL	0	0	0	0	0	-	-
Foreign exchange Receivables	0	0	0	0	0	-	-
T-IMF accounts	-57,954	-60,123	-57,430	2,693	524	4.5	0.9
Deposits	-274,038	-295,488	-331,069	-35,581	-57,032	-12.0	-20.8
Local Government and Other Public Entities	308,191	298,973	298,594	-379	-9,597	-0.1	-3.1
Claims on Other Sectors (Private Sector)	2,586,357			**107,874**	**202,045**	**4.2**	**8.1**
B. Net Other Items	**-953,340**	**-1,436,526**	**-1,348,066**	**88,460**	**-394,725**	**6.2**	**-41.4**
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	**4,668,654**	**4,914,102**	**5,057,772**	**143,670**	**389,118**	**2.9**	**8.3**
A. M4	**4,610,405**	**4,857,746**	**4,997,462**	**139,717**	**387,058**	**2.9**	**8.4**
Broad-Money Liabilities (M3)	**3,668,433**	**3,852,675**	**3,971,529**	**118,855**	**303,097**	**3.1**	**8.3**
Currency Outside Depository Corporations and Transferable Deposits (Narrow Mone	1,070,833	1,148,053	1,221,861	73,809	151,029	6.4	14.1
Other Deposits (Quasi-Money)	2,541,080	2,632,681	2,665,267	32,586	124,188	1.2	4.9
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	56,521	71,941	84,401	12,460	27,880	17.3	49.3
Transferable & Other Deposits in Foreign Currency (FCDs-Res)	**941,972**	**1,005,071**	**1,025,933**	**20,862**	**83,961**	**2.1**	**8.9**
B. Liabilities Excluded from Broad-Money (Other Liabilities)	**58,250**	**56,356**	**60,310**	**3,953**	**2,060**	**7.0**	**3.5**
Bills Payable	56,355	54,461	58,414	3,953	2,060	7.3	3.7
Restricted Deposits	1,895	1,895	1,895	0	0	0.0	0.0
Narrow Money	**1,070,833**	**1,148,053**	**1,221,861**	**73,809**	**151,029**	**6.4**	**14.1**
Currency Outside Depository Corporations (Currency in Circulation)	429,510	405,933	458,149	52,216	28,638	12.9	6.7
Transferable Deposits (Demand Deposits)	641,322	742,120	763,713	21,593	122,390	2.9	19.1
Other Deposits (Quasi-Money)	**2,541,080**	**2,632,681**	**2,665,267**	**32,586**	**124,188**	**1.2**	**4.9**
Savings Deposits	1,424,526	1,568,853	1,621,887	53,035	197,362	3.4	13.9
Time Deposits	1,116,554	1,063,829	1,043,380	-20,449	-73,174	-1.9	-6.6

[p] *Preliminary*
Source: BSP

Note: Details may not add up to total due to rounding off.

6 SELECTED DOMESTIC INTEREST RATES [1]

for periods indicated
In percent per annum

	Nominal Interest Rates			Real Interest Rates [7]		
	2009	2008	2007	2009	2008	2007
Borrowing Rates of Banks						
Interbank Call Loans	4.8055	5.4324	6.8604	1.6055	-3.8676	4.0604
Savings Deposits [2]	2.0890 [p]	2.2240	2.1960	-1.1110	-7.0760	-0.6040
Time Deposits [2]						
(All Maturities)	2.6820	4.0550	3.4060	-0.5180	-5.2450	0.6060
Manila Reference Rates [3]						
(All Maturities)	5.2500	5.3125	6.1875	2.0500	-3.9875	3.3875
Lending Rates						
All Maturities [4]	8.5720 [p]	8.7570	8.6790	5.3720	-0.5430	5.8790
High [5]	9.2470	9.4519	8.5903	6.0470	0.1519	5.7903
Low [6]	7.3105	7.5425	6.8475	4.1105	-1.7575	4.0475
Bangko Sentral Rates						
R/P (Overnight)	6.6098	7.7968	7.9956	3.4098	-1.5032	5.1956
R/P (Term)	6.6777	7.8833	8.3960	3.4777	-1.4167	5.5960
RR/P (Overnight)	4.3897	5.4405	6.7690	1.1897	-3.8595	3.9690
RR/P (Term)	4.4468	5.7038	7.1932	1.2468	-3.5962	4.3932
Rediscounting	3.9230	4.7960	3.7320	0.7230	-4.5040	0.9320
Rate on Government Securities						
Treasury Bills (All Maturities)	4.4560	6.3550	4.2100	1.2560	-2.9450	1.4100
91-Days	4.1860	5.3890	3.4060	0.9860	-3.9110	0.6060
182-Days	4.3950	6.1930	4.1840	1.1950	-3.1070	1.3840
364-Days	4.5910	6.4920	4.9170	1.3910	-2.8080	2.1170
Government Securities in the Secondary Market [8]						
3 Months	4.2769	5.7523	4.1885	1.0769	-3.5477	1.3885
6 Months	4.4119	6.0981	4.9088	1.2119	-3.2019	2.1088
1-Year	4.8104	6.2142	5.6654	1.6104	-3.0858	2.8654
2-Years	5.1077	6.4385	5.7615	1.9077	-2.8615	2.9615
3-Years	5.6058	6.5962	5.8569	2.4058	-2.7038	3.0569
4-Years	6.1115	6.7269	5.9550	2.9115	-2.5731	3.1550
5-Years	6.3615	6.8135	6.0396	3.1615	-2.4865	3.2396
7-Years	7.3923	7.2038	6.1385	4.1923	-2.0962	3.3385
10-Years	8.1115	7.4365	6.5827	4.9115	-1.8635	3.7827
20-Years	9.1477	10.9673	8.3288	5.9477	1.6673	5.5288
25-Years	9.3846	11.4635	8.4500	6.1846	2.1635	5.6500

[1] *All figures are weighted average rates, unless stated otherwise*
[2] *Covers all commercial banks*
[3] *Refers to the New MRR based on combined transactions on time deposits and promissory notes of sample banks*
[4] *Ratio of all commercial banks' total interest incomes to their total outstanding peso-denominated loans*
[5] *Refers to the average of all highs quoted by reporting commercial banks*
[6] *Refers to the average of all lows quoted by reporting commercial banks*
[7] *Nominal interest rate less inflation rate*
[8] *End of Period*
[p] *Preliminary*
Source: BSP

7 CROSS RATES OF THE PESO

period averages

pesos per unit of foreign currency

		US Dollar	Japanese Yen	Pound Sterling	Hongkong Dollar	Swiss Franc	Canadian Dollar	Singapore Dollar	Australian Dollar	Bahrain Dollar	Saudi Rial	Brunei Dollar	Indo Rupiah	Thai Baht	UAE Dirham	EURO
2008	**Ave**	**44.4746**	**0.4320**	**82.0696**	**5.7126**	**41.0514**	**41.7991**	**31.4224**	**37.6375**	**118.0549**	**11.8607**	**31.3116**	**0.0046**	**1.3403**	**12.1101**	**65.1686**
	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
2009	**Ave**	**47.6372**	**0.5099**	**74.5944**	**6.1458**	**43.9625**	**41.8951**	**32.7944**	**37.6693**	**126.3797**	**12.7028**	**32.6818**	**0.0046**	**1.3888**	**12.9717**	**66.3788**
	Jan	47.2072	0.5228	68.3791	6.0863	41.9307	38.5783	31.6926	31.9690	125.2496	12.5869	31.5865	0.0043	1.3530	12.8531	62.6701
	Feb	47.5846	0.5150	68.6566	6.1374	40.9202	38.3061	31.4078	30.9305	126.2495	12.6869	31.3044	0.0040	1.3502	12.9563	60.9572
	Mar	48.4580	0.4964	68.7991	6.2502	41.9488	38.3577	31.6871	32.1378	128.5719	12.9211	31.5838	0.0041	1.3543	13.1945	63.2114
	Apr	48.2165	0.4884	70.8814	6.2217	42.0289	39.2999	32.0682	34.4199	127.9166	12.8574	31.9619	0.0044	1.3613	13.1279	63.5988
	May	47.5242	0.4924	73.2826	6.1318	42.9126	41.2267	32.5209	36.2725	126.1061	12.6732	32.4100	0.0046	1.3723	12.9421	64.8667
	Jun	47.9053	0.4962	78.3786	6.1811	44.3482	42.6001	32.9966	38.3961	127.0813	12.7747	32.8833	0.0047	1.4038	13.0506	67.1473
	Jul	48.1460	0.5096	78.8394	6.2127	44.6167	42.7801	33.2248	38.6618	127.7212	12.8389	33.1105	0.0048	1.4148	13.1094	67.7776
	Aug	48.1607	0.5068	79.7093	6.2141	45.0516	44.2948	33.4091	40.1519	127.7601	12.8434	33.2936	0.0048	1.4163	13.1133	68.6511
	Sep	48.1394	0.5262	78.6075	6.2116	46.2807	44.4555	33.8202	41.4127	127.7048	12.8368	33.7018	0.0049	1.4234	13.1079	70.0747
	Oct	46.8513	0.5189	75.7799	6.0456	45.8379	44.4608	33.5153	42.4340	124.2858	12.4939	33.3958	0.0049	1.4031	12.7575	69.3940
	Nov	47.0324	0.5261	78.2038	6.0690	46.4707	44.4452	33.8758	43.2589	124.7635	12.5420	33.7543	0.0050	1.4140	12.8052	70.1715
	Dec	46.4211	0.5202	75.6159	5.9884	45.2026	43.9356	33.3148	41.9865	123.1458	12.3779	33.1956	0.0049	1.3989	12.6422	68.0249

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

December 1980 = 100

	NOMINAL			REAL		
	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]
2007	**14.01**	**31.78**	**66.09**	**76.21**	**119.69**	**166.27**
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
2008	**13.79**	**36.40**	**74.58**	**80.10**	**136.23**	**181.78**
Jan	15.01	38.10	78.48	83.62	138.90	187.77
Feb	15.08	38.04	78.22	83.90	137.13	185.32
Mar	14.45	37.30	76.36	80.74	135.55	181.76
Apr	14.23	36.83	75.46	80.92	134.71	179.22
May	13.97	36.41	74.41	80.24	135.34	181.41
Jun	13.61	35.42	72.68	79.59	134.55	180.03
Jul	13.35	34.64	70.99	79.74	133.45	177.13
Aug	13.65	35.03	71.40	82.05	136.31	180.60
Sep	13.25	34.56	70.07	78.73	132.71	173.96
Oct	13.07	35.44	71.20	77.61	133.82	174.68
Nov	12.93	37.23	77.49	77.40	140.99	189.35
Dec	12.87	37.76	78.20	76.70	141.27	190.07
2009	**12.86**	**36.22**	**74.23**	**77.52**	**137.81**	**182.15**
Jan	13.13	38.11	78.84	78.06	142.69	190.72
Feb	13.25	39.33	82.01	78.71	147.15	197.35
Mar	13.06	38.97	81.19	77.69	145.86	195.45
Apr	13.09	37.25	77.06	78.16	139.61	184.66
May	13.05	36.24	74.50	78.02	137.22	183.45
Jun	12.81	35.61	72.72	76.83	136.98	181.41
Jul	12.68	35.36	72.05	77.14	136.93	180.09
Aug	12.63	34.99	71.20	76.90	136.04	178.73
Sep	12.47	34.70	70.67	75.46	133.17	174.91
Oct	12.71	34.70	70.22	77.19	131.80	172.81
Nov	12.60	34.43	69.66	77.09	132.52	171.82
Dec	12.84	34.90	70.62	78.99	133.75	174.40

[1] US, Japan, European Monetary Union, United Kingdom

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

[3] Indonesia, Malaysia, Thailand

Source: BSP

8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS[p]

as of end - December 2008 - 2009

in million pesos

	LEVELS		GROWTH RATE
	2008	2009	(%)
TOTAL	3,182,402	3,428,980	7.7
Demand Deposits	641,322	763,713	19.1
Savings Deposits	1,424,526	1,621,887	13.9
Time Deposits	1,116,554	1,043,380	-6.6

[p] *Preliminary*

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]
as of periods indicated
in billion pesos

Institutions	2008	2009	% Change
Total	**7,411.8**	**7,954.3 [p]**	**7.3**
Banks	5,973.8	6,421.5 [p]	7.5
Universal and Commercial Banks [2]	5,219.1	5,694.1 [p]	9.1
Thrift Banks [2]	590.8	556.1 [p]	-5.9
Rural Banks	163.9	171.3 [a]	4.5
Non-Banks [3]	1,438.0	1,532.8 [a]	6.6

[1] *Excludes the Bangko Sentral ng Pilipinas; amount includes allowance for probable losses.*
[2] *Based on the new Financial Reporting Package data beginning March 2008 and includes revaluation adjustments.*
[3] *Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non Stocks Savings and Loan Assns., Venture Capital Corps., and Credit Card Companies which are under BSP supervision. Also includes Private and Government Insurance Companies (i.e., SSS and GSIS).*
[a] *As of end-September 2009*
[p] *Preliminary*
Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

as of periods indicated

Institutions	2008 [r]	2009	% Change
Total	**23,213**	**23,845**	**2.7**
Head Offices	7,397	7,375	-0.3
Branches/Agencies	15,816	16,470	4.1
Banks	8,448	8,620	2.0
Head Offices	818	785	-4.0
Branches/Agencies	7,630	7,835	2.7
Universal and Commercial Banks	4,447	4,520	1.6
Head Offices	38	38	0.0
Branches/Agencies	4,409	4,482	1.7
Thrift Banks	1,327	1,333	0.5
Head Offices	77	73	-5.2
Branches/Agencies	1,250	1,260	0.8
Savings and Mortgage Banks	843	864	2.5
Head Offices	31	29	-6.5
Branches/Agencies	812	835	2.8
Private Development Banks	299	304	1.7
Head Offices	18	18	0.0
Branches/Agencies	281	286	1.8
Stock Savings and Loan Associations	158	138	-12.7
Head Offices	24	23	-4.2
Branches/Agencies	134	115	-14.2
MicroFinance Banks	27	27	0.0
Head Offices	4	3	-25.0
Branches/Agencies	23	24	4.3
Rural Banks	2,674	2,767	3.5
Head Offices	703	674	-4.1
Branches/Agencies	1,971	2,093	6.2
Non-Banks [2]	14,765	15,225	3.1
Head Offices	6,579	6,590	0.2
Branches/Agencies	8,186	8,635	5.5

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

[2] *Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non Stocks Savings and Loan Assns., Venture Capital Corps., and Credit Card Companies which are under BSP supervision. Also includes Private and Government Insurance Companies (i.e., SSS and GSIS).*

[r] *Starting December 2009, data include other banking offices per Circular 505 and 624 dated 22 December 2005 and 13 October 2008, respectively; December 2008 data were revised for comparability of coverage with that of December 2009. (Other banking offices refer to any office or place of business in the Philippines other than the head office, branch or extension office, which primarily engages in banking activities other than the acceptance of deposits and/or servicing of withdrawals thru tellers or other authorized personnel.)*

Source: BSP

10 STOCK MARKET TRANSACTIONS

for the periods indicated
volume in million shares, value in million pesos

	2008		2009		Percent Change 2008		Percent Change 2009	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Total	**373,007.3**	**763,901.4**	**540,823.4**	**994,156.5**	**-67.8**	**-42.9**	**45.0**	**30.1**
Financial	4,095.5	92,458.3	3,574.8	79,240.3	-45.3	-49.3	-12.7	-14.3
Industrial	30,154.6	240,016.3	45,858.3	453,606.4	-29.4	-28.3	52.1	89.0
Holding Firms	40,572.6	85,632.2	40,083.5	112,085.7	-84.3	-58.1	-1.2	30.9
Property	54,726.7	104,097.2	67,290.9	105,234.5	-46.1	-61.5	23.0	1.1
Services	46,980.0	196,846.5	131,637.5	161,345.0	-55.1	-19.6	180.2	-18.0
Mining & Oil	196,470.6	44,836.8	252,363.4	82,624.5	-69.4	-55.6	28.4	84.3
SME	7.4	14.1	15.0	20.0	-95.7	-96.3	102.7	42.0
Composite Index (PSEi)								
Average	**2,587.4**		**2,508.7**		**-24.8**		**-3.0**	
End of Period	**1,872.9**		**3,052.7**		**-48.3**		**63.0**	

Source: PSE

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

	2008 r/	2009 p/	Change (%)
Current Account	**3,633**	**8,552**	**135.4**
Goods and Services	-11,725	-7,339	37.4
Export	57,970	47,611	-17.9
Import	69,695	54,950	-21.2
Goods 1/	-12,885	-8,878	31.1
Credit: Exports	48,253	37,510	-22.3
Debit: Imports	61,138	46,388	-24.1
Services	1,160	1,539	32.7
Credit: Exports	9,717	10,101	4.0
Debit: Imports	8,557	8,562	0.1
Income	111	-69	-162.2
Credit: Receipts	5,973	5,712	-4.4
Debit: Disbursements	5,862	5,781	-1.4
Current Transfers	15,247	15,960	4.7
Credit: Receipts	15,780	16,637	5.4
Debit: Disbursements	533	677	27.0
Capital and Financial Account	**-1,802**	**-1,961**	**-8.8**
Capital Account	53	104	96.2
Credit: Receipts	114	170	49.1
Debit: Disbursements	61	66	8.2
Financial Account	-1,855	-2,065	-11.3
Direct Investment	1,285	1,589	23.7
Debit: Assets, Residents' Investments Abroad	259	359	38.6
Credit: Liabilities, Non-Residents' Investments in the Phil.	1,544	1,948	26.2
Portfolio Investment	-3,798	1,449	138.2
Debit: Assets, Residents' Investments Abroad	-619	882	242.5
Credit: Liabilities, Non-Residents' Investments in the Phil.	-4,417	2,331	152.8
Financial Derivatives	-113	32	128.3
Debit: Assets, Residents' Investments Abroad	-541	-403	25.5
Credit: Liabilities, Non-Residents' Investments in the Phil.	-654	-371	43.3
Other Investment	771	-5,135	-766.0
Debit: Assets, Residents' Investments Abroad	-4,334	3,077	171.0
Credit: Liabilities, Non-Residents' Investments in the Phil.	-3,563	-2,058	42.2
Net Unclassified Items	-1,742	-1,296	
Overall BOP Position	**89**	**5,295**	**5,849.4**
Debit: Change in Reserve Assets	1,597	3,785	137.0
Credit: Change in Reserve Liabilities	1,508	-1,510	-200.1
Use of Fund Credits	0	0	0.0
Short-term	1,508	-1,510	-200.1

r/ - Revised to reflect: a) late reports; b) post-audit adjustments; and c) final data from companies.
p/ - Preliminary
1/ - Data on goods import for 2008 and 2009 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 unclassifed items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1.
5. Basic balance represents a BOP position that excludes transactions that are volatile and are in the short run susceptible to being reversed. It is derived using the following formula: Overall BOP position less (Net portfolio investments + net short-term liabilities) less errors and omissions. In the old BOP series, all transactions in assets and liabilities of commercial banks were deemed to be long-term. With the refinements in the new series on the maturity structure of KBs' transactions, short-term financial transactions of KBs are now excluded from the basic balance.
Source: BSP

11a EXPORTS BY MAJOR COMMODITY GROUP

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

Commodities	January-December						Growth Rates (%)		
	2008			2009 P			2009		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			**1348**			**801**			**-40.6**
Copra	0	0	0	..	708	--	-	-	-
Coconut Oil	850	1223	1040	833	714	594	-2.0	-41.6	-42.9
Desiccated Coconut	143	1685	240	116	1252	146	-18.9	-25.7	-39.2
Copra Meal/Cake	437	133	58	400	120	48	-8.5	-9.8	-17.2
Others			10			13			30.0
Sugar and Products			**80**			**112**			**40.0**
Centrifugal & Refined	202	329	67	245	354	87	21.3	7.6	29.9
Molasses	113	96	11	199	111	22	76.1	15.6	100.0
Others			3			3			0.0
Fruits and Vegetables			**735**			**684**			**-6.9**
Canned Pineapple	190	709	135	169	815	137	-11.1	15.0	1.5
Pineapple Juice	72	435	31	79	527	41	9.7	21.1	32.3
Pineapple Concentrates	32	859	28	36	907	32	12.5	5.6	14.3
Bananas	2152	188	406	1664	207	344	-22.7	10.1	-15.3
Mangoes	21	940	20	20	784	16	-4.8	-16.6	-20.0
Others			116			113			-2.6
Other Agro-Based Products			**612**			**530**			**-13.4**
Fish, Fresh or Preserved	106	2906	308	91	2968	269	-14.2	2.1	-12.7
Of which: Shrimps & Prawns	..	6935	3	8	6624	54	-	-4.5	1700.0
Coffee, Raw, not Roasted	0	0	0	0	0	0	-	-	-
Abaca Fibers	13	1659	22	44	234	10	238.5	-85.9	-54.5
Tobacco,Unmanufactured	24	2647	63	30	3219	97	25.0	21.6	54.0
Natural Rubber	36	1448	53	25	1003	25	-30.6	-30.7	-52.8
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	-	-	-
Seaweeds, Dried	13	1887	25	11	1178	13	-15.4	-37.6	-48.0
Rice	0	0	0	0	0	0	-	-	-
Others			140			116			-17.1
Forest Products 1/			**34**			**33**			**-2.9**
Logs	..	87	--	..	51	--	-	-41.4	-
Lumber	215	55	12	293	33	10	36.3	-40.0	-16.7
Plywood	39	494	19	33	658	22	-15.4	33.2	15.8
Veneer Sheets/Corestocks	3	548	2	1	679	1	-66.7	23.9	-50.0
Others			1			--			-
Mineral Products			**2498**			**1469**			**-41.2**
Copper Concentrates	84	1599	134	153	977	150	82.1	-38.9	11.9
Copper Metal	181	7226	1309	151	4542	688	-16.6	-37.1	-47.4
Gold 2/	130	893	116	128	904	116	-1.5	1.2	0.0
Iron Ore Agglomerates	4569	25	114	3097	30	92	-32.2	20.0	-19.3
Chromium Ore	230	52	12	471	23	11	104.8	-55.8	-8.3
Nickel			0			0			-
Others			813			413			-49.2
Petroleum Products			**1240**			**293**			**-76.4**
Manufactures			**40999**			**33523**			**-18.2**
Electronic Products			28502			22173			-22.2
Other electronics			1426			1417			-0.6
Garments			1952			1536			-21.3
Textile Yarns/Fabrics			194			147			-24.2
Footwear			31			22			-29.0
Travel Goods and Handbags			95			66			-30.5
Wood Manufactures			918			821			-10.6
Furnitures & Fixtures			221			138			-37.6
Chemicals			1130			973			-13.9
Non-Metallic Mineral Manufactures			211			156			-26.1
Machinery & Transport Equipment			2116			1889			-10.7
Processed Food and Beverages			943			987			4.7
Iron & Steel			263			124			-52.9
Baby Carr., Toys, Games & Sporting Goods			143			128			-10.5
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			42			38			-9.5
Misc. Manufactured Articles, n.e.s.			331			291			-12.1
Others			2480			2617			5.5
Special Transactions			**1530**			**890**			**-41.8**
TOTAL EXPORTS, as per NSO Foreign Trade Statistics			**49077**			**38335**			**-21.9**
Conceptual and coverage adjustments			**-824**			**-825**			**-0.1**
TOTAL EXPORTS, BPM5			**48253**			**37510**			**-22.3**

.. Less than one thousand metric tons
-- Less than one million US$
P Preliminary
Components may not add up to total due to rounding
Source: NSO

1 Volume in 000 cubic meters; unit price in US$/cu.m.
2 Volume in 000 troy ounces; unit price in US$/oz t.

11b IMPORTS BY MAJOR COMMODITY GROUP

for the periods indicated

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

Commodities	January - December						Growth Rates (%)		
	2008 [r]			2009 [p]			2009		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Capital Goods			**9309**			**7637**			**-18.0**
Power Generating & Specialized Machines			2607			2119			-18.7
Office & EDP Machines			2804			2278			-18.8
Telecommunication Eqpt. & Elect. Mach.			1978			1801			-8.9
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			664			662			-0.3
Aircraft, Ships & Boats			760			313			-58.8
Prof. Sci. & Cont. Inst.; Photo-graphic Eqpt. & Optical Goods			497			463			-6.8
Raw Materials & Intermediate Goods			**31518**			**25252**			**-19.9**
Unprocessed Raw Materials			1910			2351			23.1
Wheat	1703	374	637	3028	235	711	77.8	-37.2	11.6
Corn	23	1016	23	303	314	95	1217.4	-69.1	313.0
Unmilled cereals excl. rice & corn			11.00			8.00			0.0
Crude materials, inedible			1040			1353			30.1
Pulp & waste paper			56			48			-14.3
Cotton	13	1488	19	17	1218	21	30.8	-18.1	10.5
Syn. fibers	31	2220	68	33	2070	68	6.5	-6.8	0.0
Metalliferous ores			402			850			111.4
Others			495			366			-26.1
Tobacco, unmanufactured			199			184			-7.5
Semi-Processed Raw Materials			29608			22901			-22.7
Feeding stuffs for animals	1620	382	619	1912	315	602	18.0	-17.5	-2.7
Animal & vegetable oils & fats			229			152			-33.6
Chemical			4794			4163			-13.2
Chemical compounds			1260			1129			-10.4
Medicinal & pharmaceutical chemicals			657			723			10.0
Urea	525	383	201	627	268	168	19.4	-30.0	-16.4
Fertilizer excl. urea	826	431	356	626	238	149	-24.2	-44.8	-58.1
Artificial resins			1090			766			-29.7
Others			1230			1228			-0.2
Manufactured goods			4370			3243			-25.8
Paper & paper products	727	720	523	704	674	475	-3.2	-6.4	-9.2
Textile yarn, fabrics & made-up articles			665			467			-29.8
Non-metallic mineral mftures.			274			275			0.4
Iron & steel	1903	846	1610	1347	682	918	-29.2	-19.4	-43.0
Non-ferrous metals			609			435			-28.6
Metal products			432			438			1.4
Others			257			235			-8.6
Embroideries			812			637			-21.6
Mat/Acc for the mftr. of elect. eqpt.			18732			14091			-24.8
Iron ore, not agglomerated	1278	41	52	290	46	13	-77.3	12.2	-75.0
Mineral Fuels & Lubricant			**12395**			**7335**			**-40.8**
Coal, Coke	5281	66	349	5614	66	371	6.3	0.0	6.3
Petroleum Crude [1/]	73.23	102.40	7499	49.66	66.45	3300	-32.2	-35.1	-56.0
Others [1/]	42.23	107.66	4547	53.62	68.34	3664	27.0	-36.5	-19.4
Consumer Goods			**6614**			**5405**			**-18.3**
Durable			2392			2332			-2.5
Passenger cars & motorized cycle			1312			1289			-1.8
Home appliances			282			275			-2.5
Misc. manufactures			798			768			-3.8
Non-Durable			4222			3073			-27.2
Food & live animals chiefly for food			4064			2936			-27.8
Dairy products	262	2679	703	293	1558	456	11.8	-41.8	-35.1
Fish & fish preparation	159	679	108	240	614	147	50.9	-9.6	36.1
Rice	2433	733	1782	1755	538	944	-27.9	-26.6	-47.0
Fruits & vegetables			245			227			-7.3
Others			1226			1162			-5.2
Beverages & tobacco mfture.			65			53			-18.5
Articles of apparel, access.			93			84			-9.7
Special Transactions			**719**			**586**			**-18.5**
Articles temporarily imported & exported			257			265			3.1
Others			462			321			-30.5
TOTAL IMPORTS [2/]			**60555**			**46215**			**-23.7**
Conceptual and Coverage Adjustments [3/]			583			173			-70.3
TOTAL IMPORTS, BPM5			**61138**			**46388**			**-24.1**

[1/] Volume in million barrels; unit price in U.S.$/barrel
[2/] Include valuation adjustments to NSO data.
[3/] Include deductions for aircrafts acquired under operational lease agreement.
[p/] Preliminary
[r/] Revised based on the adjustments made by NSO that was released on 14 May 2009.
Note: Valuation adjustments include:
a.) Adjustments to NSO's raw material imports for electronics exports for 2008 and 2009.
b.) Adjustments to NSO's raw material imports for garments for 2008 and 2009.

Components may not add up to total due to rounding

Source: NSO

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 [1] (7)	Short-Term External Debt Cover (in percent) Original Maturity (8)	Residual Maturity [2] (9)
2007	Jan	23,694.35	130.46	2,975.85	4.54	19,995.27	588.23	4.33	473.04	263.07
	Feb	24,542.16	131.73	2,987.63	1.69	21,004.00	417.11	4.45	489.96	264.15
	Mar	24,684.41	132.21	3,008.36	1.70	20,804.08	738.06	4.45	482.31	268.98
	Apr	25,089.60	133.61	3,040.19	1.71	21,428.90	485.19	4.49	490.22	263.88
	May	25,599.28	132.44	2,992.37	0.62	21,855.14	618.71	4.56	500.18	270.35
	Jun	26,382.95	132.68	2,928.24	0.62	23,022.74	298.67	4.68	443.63	254.64
	Jul	28,019.00	134.13	3,024.09	1.40	24,607.95	251.43	4.91	471.15	271.45
	Aug	30,485.13	134.26	3,122.51	0.25	27,002.87	225.24	5.34	512.61	296.09
	Sep	30,902.16	136.36	3,034.47	0.26	27,498.73	232.34	5.37	446.24	277.67
	Oct	32,498.08	137.96	3,365.23	1.84	28,724.38	268.67	5.60	469.29	295.49
	Nov	32,719.24	139.30	3,330.72	0.74	28,978.05	270.43	5.57	472.48	295.94
	Dec	33,751.05	138.28	3,540.61	0.74	29,715.21	356.21	5.65	476.44	300.70
2008	Jan	34,809.73	139.75	3,857.71	1.06	30,511.44	299.77	5.77	491.39	310.00
	Feb	36,287.80	141.08	4,059.50	0.08	31,756.01	331.13	5.96	512.25	333.28
	Mar	36,624.01	144.06	3,834.39	0.08	32,274.85	370.63	5.96	550.65	330.45
	Apr	36,355.57	142.32	3,584.75	13.37	32,228.27	386.86	5.86	546.62	339.64
	May	36,233.12	141.97	3,795.61	12.61	31,884.16	398.77	5.78	544.78	338.56
	Jun	36,712.28	143.20	3,962.94	12.71	32,223.58	369.85	5.77	417.33	278.50
	Jul	36,900.99	142.08	3,904.11	12.61	32,545.36	296.83	5.69	419.47	279.76
	Aug	36,742.72	137.61	3,568.84	11.49	32,672.28	352.50	5.62	408.39	275.02
	Sep	36,697.45	135.55	3,848.44	11.32	32,292.70	409.44	5.56	442.19	291.97
	Oct	35,951.58	130.46	3,516.51	10.90	31,832.29	461.42	5.47	404.00	269.83
	Nov	36,828.14	130.03	3,808.98	10.25	32,374.42	504.46	5.68	413.85	276.45
	Dec	37,550.82	135.02	4,357.93	10.65	32,065.86	981.36	5.95	536.36	329.31
2009	Jan	39,248.21	130.78	4,567.67	10.31	33,682.15	857.30	6.36	560.61	342.72
	Feb	38,924.57	128.63	4,687.30	9.91	33,213.97	884.76	6.46	598.75	321.37
	Mar	39,041.28	131.06	4,547.47	10.10	33,414.96	937.69	6.67	600.64	319.12
	Apr	39,316.25	131.31	4,422.69	10.11	33,941.45	810.69	6.92	604.87	323.48
	May	39,589.38	135.70	4,879.20	10.33	33,810.59	753.56	7.15	609.07	325.17
	Jun	39,489.54	136.15	4,711.71	10.35	33,937.41	693.92	7.30	686.42	354.17
	Jul	40,169.45	136.25	4,856.05	10.36	34,440.94	725.85	7.71	723.38	350.86
	Aug	41,492.50	137.36	4,830.02	1,031.85	35,023.95	469.32	8.22	747.21	361.87
	Sep	42,528.88	138.97	5,010.06	1,153.39	35,797.90	428.56	8.63	837.51	387.26
	Oct	43,173.48	139.50	5,275.41	1,157.80	36,169.46	431.31	8.76	964.12	423.52
	Nov	44,167.54	141.23	5,633.88	1,172.10	36,801.90	418.43	8.96	986.32	430.52
	Dec	44,242.64	137.51	5,459.75	1,141.17	36,655.12	849.09	8.98	988.00	424.51

[1] *Number of months of average imports of goods and payment of services and income that can be financed by reserves.*
[2] *Refers to adequacy of reserves to cover outstanding short-term external debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.*
Source: BSP

13 TOTAL EXTERNAL DEBT [1]

as of dates indicated
in million US dollars

	December 31, 2008				September 30, 2009				December 31, 2009			
	Short-term		Medium		Short-term		Medium		Short-term		Medium	
	Trade	Non-Trade	& Long-Term	Total	Trade	Non-Trade	& Long-Term	Total	Trade	Non-Trade	& Long-Term	Total
Grand Total	**1,949**	**5,052**	**46,855**	**53,856**	**2,329**	**2,748**	**48,057**	**53,135**	**1,901**	**2,101**	**49,253**	**53,255**
Public Sector	-	1,821	38,523 [a]	40,343	-	830	40,139 [a]	40,969	-	308	41,509 [a]	41,817
Banks	-	1,821	3,056	4,877	-	830	2,845	3,675	-	308	2,862	3,170
Bangko Sentral ng Pilipinas	-	1,500	305	1,805	-	600	209	809	-	-	201	201
Others	-	321	2,751	3,072	-	230	2,636	2,866	-	308	2,660	2,968
Non-Banks	-	-	35,466	35,466	-	-	37,294	37,294	-	-	38,647	38,647
CB-BOL	-	-	36	36	-	-	27	27	-	-	26	26
NG and Others	-	-	35,430	35,430	-	-	37,268	37,268	-	-	38,621	38,621
Private Sector	1,949	3,231	8,333	13,512	2,329	1,918	7,918	12,165	1,901	1,793	7,744	11,438
Banks	-	2,925	327 [b]	3,253	-	1,631	385	2,016	-	1,475	401	1,876
Foreign Bank Branches	-	1,310	44	1,354 [d]	-	813	46	859 [d]	-	744	44	789 [d]
Domestic Banks	-	1,615	284	1,899 [c]	-	818	339	1,157 [c]	-	731	357	1,088 [c]
Non-Banks	1,949	306	8,005 [e]	10,260	2,329	287	7,533 [e]	10,149	1,901	318	7,343 [e]	9,562

[1] *External debt data were revised from 1990 onwards to reflect the reclassificatiion 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 Philipppine 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.*

2 Inclusions	Dec 31, 2008	Sep 30, 2009	Dec 31, 2009
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	124	215	178
b Accounts restructured under CB Circular No.1179	43		
c Liabilities of private development bank and rural banks	8	8	8
Exclusions			
d Due to Head Office/Branches Abroad accounts of branches and offshore banking units of foreign banks operating in the Philippines	2989	2832	2533
e Obligations under various capital lease agreements;	996	1068	1038
Loans without BSP approval/registration	6966	6261	6445

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS

for periods indicated

in million US dollars

	2008	2009 p/
Debt Service Burden (DSB) [1]	7,365	6,840
Principal	4,139	4,270
Interest	3,226	2,570
Export Shipments (XS)	48,253	37,510
Exports of Goods and Receipts from Services and Income (XGSI) [2]	76,277	66,086
Current Account Receipts (CAR) [3]	79,723	69,960
Gross National Product (GNP)	185,505	182,648
Ratios (%) :		
DSB to XS	15.26	18.24
DSB to XGSI	9.66	10.35
DSB to CAR	9.24	9.78
DSB to GNP	3.97	3.74

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

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

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

p/ Preliminary

r/ Revised to reflect latest data adjustments

Source: BSP

15 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

as of periods indicated
in million pesos

	2008 Nov	2009 [u] Nov	Percent Change (%)
Assets	**2,341,030.2**	**2,601,054.5**	**11.1**
International Reserves	1,790,831.5	2,075,047.7	15.9
Domestic Securities	307,921.2	251,596.4	-18.3
Loans and Advances	131,063.5	148,389.3	13.2
Bank Premises and Other Fixed Assets	12,205.2	12,436.1	1.9
Derivative Instruments in a Gain Position	3,493.1	4,335.8	24.1
Other Assets	95,515.7	109,249.3	14.4
Liabilities	**2,109,089.3**	**2,358,935.1**	**11.8**
Currency Issue	434,585.0	497,371.6	14.4
Deposits	1,097,905.5	1,319,152.5	20.2
Reserve Deposits of Other Depository Corporations (ODCs)[1]	415,210.7	475,535.0	14.5
Reserve Deposits of Other Financial Corporations (OFCs)[2]	2,389.8	457.2	-80.9
Special Deposit Accounts[3]	423,226.1	572,576.9	35.3
Treasurer of the Philippines[4]	192,473.7	151,334.0	-21.4
Other Foreign Currency Deposits	4,976.7	8,452.8	69.8
Foreign Financial Institutions	48,292.4	51,528.2	6.7
Other Deposits[5]	11,336.1	59,268.6	422.8
Foreign Loans Payable	79,696.9	4,598.6	-94.2
Net Bonds Payable	35,051.0	33,840.5	-3.5
Allocation of SDRs	8,453.3	63,608.1	652.5
Derivative Instruments in a Loss Position	653.2	1,566.0	139.7
Net Revaluation of International Reserves	136,132.3	186,260.2	36.8
Reverse Repurchase Agreements[3]	310,720.9	243,474.9	-21.6
Other Liabilities	5,891.0	9,062.7	53.8
Net Worth	**231,941.0**	**242,119.4**	**4.4**
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	221,941.0	232,119.4	4.6

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

[1] *ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).*

[2] *OFCs are trust units of banks.*

[3] *Includes accrued interest payables.*

[4] *Includes foreign currency deposits.*

[5] *Mostly GOCC deposits.*

[u] *Based on the unaudited BSP balance sheet as of end-November 2009 prepared by the Financial Accounting Department of the BSP.*

Source: Bangko Sentral ng Pilipinas

16 INCOME POSITION OF THE BANGKO SENTRAL NG PILIPINAS
for the periods indicated
in billion pesos

	2008 Nov	2009 [u] Nov	Percent Change (%)
Revenues	**82.9**	**91.1**	**9.9**
Interest Income	63.4	55.4	-12.6
International Reserves	45.7	34.9	-23.6
Domestic Securities	13.1	14.5	10.7
Loans and Advances	3.4	4.2	23.5
Others	1.2	1.8	50.0
Miscellaneous Income	19.2	35.3	83.9
Net income from Branches	0.3	0.4	33.3
Expenses	**78.2**	**74.0**	**-5.4**
Interest Expenses	65.7	56.3	-14.3
Reserve Deposits of ODCs and OFCs [1]	12.4	13.4	8.1
Special Deposit Accounts	27.8	25.7	-7.6
National Government Deposits	8.2	3.9	-52.4
Reverse Repurchase Agreements	12.7	8.5	-33.1
Loans Payable	3.5	3.8	8.6
Other Foreign Currency Deposits	0.4	0.0	-100.0
Other Liabilities	0.8	1.1	37.5
Cost of Minting	3.0	3.8	26.7
Other Expenses	9.5	13.8	45.3
Net Income Before Gain/(Loss) on FXR Fluctuations	**4.7**	**17.1**	**263.8**
Gain/Loss(-) on FXR Fluctuations	8.3	-6.9	-183.1
Provision for Income Tax	0.4	0.0	-100.0
Net Income	**12.6**	**10.3**	**-18.3**
Capital Reserves	0.0	0.0	
Net Income Available for Distribution	**12.6**	**10.3**	**-18.3**

Note: Breakdown may not add up to totals due to rounding.
[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs) while OFCs are trust units of banks.
[u] Based on the unaudited BSP income statement as of November 2009 prepared by the Financial Accounting Department of the BSP.
Source: Bangko Sentral ng Pilipinas

17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at November 30	
	2009 PHP000	2008 PHP000
Foreign currency financial assets		
Deposits with foreign banks	276,983,080	19,378,371
Other cash balances	452,080	339,269
Investment securities-available for sale	1,476,820,414	1,584,702,764
Gold	265,536,190	185,909,955
International Monetary Fund special drawing rights	55,255,896	501,095
Gross international reserves	2,075,047,660	1,790,831,454
Loans and advances	694,497	1,513,045
Securities purchased under USD repo facility	0	1,668,531
Other foreign currency receivables	35,336,738	24,048,267
Derivative instruments in gain position	4,335,790	3,493,124
Total foreign currency financial assets	2,115,414,685	1,821,554,421
Local currency financial assets		
Investment in government securities-available for sale	251,596,360	307,921,235
Loans and advances	147,694,757	129,550,463
Due from administrator of funds	28,975,518	28,449,099
Other receivables	19,293,217	15,234,878
Total local currency financial assets	447,559,852	481,155,674
Total financial assets	2,562,974,537	2,302,710,095
Acquired assets held for sale	412,251	331,935
Investment property	9,930,896	10,031,635
Bank premises, furniture, fixtures and equipment	12,436,137	12,205,193
Intangibles	366,786	359,686
Inventories	9,712,274	9,103,308
Revaluation of foreign currency accounts	0	0
Deferred tax assets	4,280,662	6,095,170
Miscellaneous assets	940,911	193,209
Total other assets	38,079,917	38,320,136
Total assets	2,601,054,454	2,341,030,231

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

Source: Financial Accounting Department

17. BSP: CONDENSED STATEMENT OF CONDITION
(continuation)

Liabilities and Capital	As at November 30	
	2009 PHP000	2008 PHP000
Foreign currency financial liabilities		
Short-term deposits	70,136,518	20,054,647
Loans payable	4,598,593	79,696,894
Bonds payable	33,840,528	35,051,048
Allocation of International Monetary Fund special drawing rights	63,608,095	8,453,323
Derivative instruments in a loss position	1,565,951	653,194
Other liabilities	3,324,544	945,576
Total foreign currency financial liabilities	177,074,229	144,854,682
Local currency financial liabilities		
Government deposits	118,734,744	184,403,415
Deposits of banks and quasi banks	506,176,195	421,928,949
Deposits of the International Monetary Fund and other FIs	51,528,209	48,292,404
Securities sold under agreements to repurchase	816,051,782	733,947,028
Total local currency financial liabilities	1,492,490,930	1,388,571,796
Total financial liabilities	1,669,565,159	1,533,426,478
Other liabilities		
Currency in circulation	497,371,566	434,585,040
Retirement benefit obligations	1,538,234	1,725,984
Miscellaneous liabilities	3,504,584	3,219,433
Dividends payable	695,337	0
Revaluation of foreign currency accounts	186,260,211	136,132,344
Total other liabilities	689,369,932	575,662,801
Total liabilities	2,358,935,091	2,109,089,279
Capital accounts		
Capital	10,000,000	10,000,000
Surplus	51,340,412	32,017,460
Reserve for unrealized gains/(losses) on investments	-11,945,368	0
Capital reserves	182,464,233	177,322,568
Undivided profits/(loss) from operations	10,260,086	12,600,924
Total capital accounts	242,119,363	231,940,952
Total liabilities and capital accounts	2,601,054,454	2,341,030,231

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

Source: Financial Accounting Department

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

Period ended November 30	2009 Budget PHP000	2009 Actual PHP000	2008 Actual PHP000
Operating Income:			
Income from foreign currency financial assets			
Interest income	38,212	36,546	46,795
Fees, miscellaneous foreign currency income & trading gains foreign	2,212	34,512	19,417
Total income from foreign currency financial assets	40,425	71,059	66,212
Expenses on foreign currency financial liabilities			
Interest expense	6,762	3,829	4,041
Other foreign currency expenses	431	409	371
Total expenses on foreign currency liabilities	7,193	4,238	4,412
Foreign currency income	33,232	66,821	61,800
Income from local currency financial assets			
Interest income & trading gains local	20,051	18,829	16,636
Total Income from local currency financial assets	20,051	18,829	16,636
Expenses on local currency financial liabilities			
Interest expense	77,462	52,502	61,647
Final tax on interest income/discounts	478	3,989	495
Total expenses on local currency financial assets	77,939	56,491	62,141
Local currency income/(loss)	(57,888)	(37,662)	(45,505)
Total operating income	(24,656)	29,159	16,295
Currency printing and minting cost	5,485	3,828	3,023
Operating expenses:			
Personnel services, development and training	7,754	7,135	6,430
Traveling	338	243	225
Taxes and licenses	109	79	95
Currency and gold operations	157	134	117
Acquired Assets	259	76	84
Other services	2,300	1,580	1,411
Depreciation	483	477	458
Fidelity insurance	76	41	63
Light, fuel & water	110	148	143
Repairs & maintenance	417	249	207
Communication services	247	112	129
Supplies	66	26	36
Others[2]	901	527	376
Total operating expenses	10,917	9,247	8,363
Net operating income before impairments	(41,058)	16,083	4,908

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

[2] Includes provisions for contingencies which when utilized are classified under the appropriate budget item.

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

with Budget Information[1]

(continuation)

Period ended November 30	2009 Budget PHP000	2009 Actual PHP000	2008 Actual PHP000
Impairment losses on loans and advances[3]	(42)	(69)	(247)
Market decline of acquired assets [4]	(291)	(78)	(55)
Net operating income after impairment	(41,391)	15,936	4,607
Other operating income	1,232	1,202	55
Net realized gains/(loss) on fX rates fluctuations	0	(6,875)	8,298
Profit/(loss) before income tax	(40,159)	10,263	12,960
Income tax paid	0	3	359
Profit/(loss) for the year	(40,159)	10,260	12,601

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

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