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BANGKO SENTRAL NG PILIPINAS
Manila, Philippines

CONTENTS

The Governor's Foreword

The Philippine economy emerged from the global economic turmoil with a solid performance in 2010. Sound macroeconomic policies, the sharp recovery of exports, strong external payments position, and upbeat confidence in the new government underpinned the favorable economic performance during the year. Output growth was achieved amid a low-inflation environment. The country's external payments position remained strong, allowing for the healthy build-up of international reserves, helping ensure external debt sustainability, and strengthening the country's resilience against external shocks. Continuing reforms in the banking system have sustained its soundness and stability, enabling it to perform a catalytic role for a more dynamic and participatory economic development.

Real Gross Domestic Product (GDP) rebounded by 7.3 percent, the highest growth recorded in 34 years. Economic expansion was led by the services and industry sectors. On the demand side, exports and investments were the main growth drivers supported by strong private consumption.

Inflation remained low and stable. Headline inflation averaged 3.8 percent, well within the Government's target range of 3.5-5.5 percent for the year, but higher than the 3.2 percent average in the previous year. Lower food inflation due to favorable supply conditions in the domestic market was more than offset by higher non-food inflation due to the surge in the prices of electricity and petroleum products.

The relatively benign inflation environment afforded the BSP the flexibility to keep policy rates steady during the year. The BSP's main policy lever, the overnight reverse repurchase (RRP) rate, was kept at 4 percent as inflation pressures remained subdued. At the same time, with economic recovery underway and financial markets starting to normalize, the BSP gradually unwound the liquidity-enhancing measures it implemented in 2008-2009 to ensure that ample liquidity was available during the global financial crisis. The peso rediscount rate was aligned with the overnight RRP rate while the peso rediscounting budget was lowered from ₱60 billion to the pre-crisis level of ₱20 billion. Requirements for the availment of the rediscounting facility were likewise brought back to their pre-crisis terms.

At the same time, liquidity and credit remained supportive of growth. As of December 2010, money supply continued to grow at 10.6 percent and bank lending expanded at the rate of 8.9 percent. Average bank lending rate declined to 7.22 percent as of end-December 2010 from 8.19 percent in end-December 2009 as banks passed on the BSP's interest rate reductions to their borrowers.

The economy's external sector also exhibited solid performance with the balance of payments (BOP) yielding a surplus of US$14.4 billion in 2010, buoyed by strong overseas remittances and business process outsourcing receipts as well as the notable recovery of exports. Cumulative remittances from overseas Filipinos (OFs) coursed through the banks increased by 8.2 percent to US$18.8 billion providing strong support to domestic demand as it accounted for close to 10 percent of the country's GDP. Foreign investment and other financial flows likewise contributed to the large external payments surplus. As a result, the gross international reserves (GIR) of the BSP rose to US$62.4 billion as of end-December 2010, a 41 percent increase from the previous year. At this level, the end-2010 GIR was sufficient to cover 10.3 months' worth of imports of goods and payments of services and income, or alternatively, it could cover more than five times the country's short-term external debt based on residual maturity which include all outstanding short-term debt maturing during the year plus principal payments on medium- and long-term loans falling due in the next 12 months. .

The strong external liquidity has kept the Philippine peso broadly stable and competitive. In tandem with its regional peers, the peso appreciated by 5.6 percent to an average of ₱45.12/US$1 in 2010 from an average of P47.64/US$1 in 2009. As measured by the real effective exchange rate (REER) index, the peso maintained its external competitiveness vis-à-vis competitor currencies in the narrow basket (composed of the currencies of Indonesia, Malaysia, and Thailand).

Meanwhile, the country's external debt service capacity remained comfortable, with the debt service ratio dropping to 8.8 percent in end-2010 from 10.4 percent in end-2009. This was achieved in spite of the increase in the country's external debt to US$60.0 billion as of end-2010 from the US$53.3 billion posted in end-2009.

The Philippine financial system remained fundamentally sound and stable. In its Philippine Financial System Stability Assessment Update in January 2010, the International Monetary Fund described the Philippine banking system as well-capitalized and its asset quality as generally high. Banks' capital adequacy ratio stood at 15 percent, comfortably above the 10 percent prescribed by the BSP and the 8 percent set by international standards. Non-performing loans remained low at just over 3 percent of total loans. The strength of the banking system was boosted by the BSP's sustained efforts to enhance the delivery of financial services in the economy by opening further the doors to financial innovation, and by promoting greater market discipline and more competition.

The BSP as operator of the Philippine Payments and Settlements System (*PhilPaSS*) continued to provide safe, sound and efficient payment and settlement of financial transactions in real time. Both the volume and value of transactions coursed through the PhilPaSS increased during the year as the real sector and financial markets bounced back from the slack in business activity resulting from the global financial turmoil in the previous year.

The Philippine stock market index posted a high of 4,397.3 index points in November 2010 while the country's debt spreads continued to narrow as investors' risk appetite for emerging market assets increased.

Beyond the preservation of monetary and financial stability, the BSP continued its advocacies to promote inclusive growth and help alleviate poverty. The BSP's proactive stance in microfinance was evident in the implementation of various initiatives to support the development of a sustainable microfinance business environment in the country. It expanded further the access to mainstream financial products and services by the unbanked and underserved population. In recognition of this commitment to promote microfinance, the Philippines earned anew the overall best regulatory environment for microfinance, along with Cambodia and Pakistan.[1] In terms of the overall microfinance business environment, the Philippines moved up to number two position in 2010 from the number three slot in 2009.

The BSP's support of the Credit Surety Fund Program (CSFP) was another of its major initiatives to advance financial inclusion during the year. The CSFP provides surety to micro, small and medium enterprise-borrowers that generally are not able to provide collateral to the banks. The BSP assisted in expanding the reach of the CSFP with the launching of the program in Albay, Dipolog City, and Occidental Mindoro, resulting in a total of 14 CSFs launched as of end-December 2010.

Meanwhile, through its Economic and Financial Learning Program (EFLP), the BSP continued to promote greater public awareness of economic and financial issues and provide information to enable households and businesses to make well-informed economic and financial decisions. The BSP also extended its campaign to promote a culture of saving among overseas Filipinos (OFs) and their families and encouraged the use of these savings in productive investments. In 2010, nine financial learning campaigns (FLCs) attended by 960 participants were conducted within the Philippines, while two international FLCs attended by 360 participants were held in Bahrain and Qatar.

The BSP continued to promote a supportive environment for remittances by encouraging banks to further reduce their remittance charges. As of end-December 2010, 12 banks that handle OF workers' remittances agreed to use the BSP's PhilPaSS (the infrastructure support for real time gross settlement) as their link to sending remitted money to the beneficiaries' accounts in other banks thus reducing transfer costs.

Looking ahead, the BSP expects the economy to continue to sustain its growth momentum, driven by robust domestic demand supported by a manageable inflation environment. The country's strong external payments dynamics is seen to provide cushion against possible external shocks in the year ahead.

Nevertheless, the BSP is mindful of the challenges ahead. First, the upward pressures on global commodity prices could fan inflation. Geopolitical tensions in the Middle East and North Africa have resulted in the spike in the prices of oil in the world market given the substantial share of the region in the global production of crude oil and other petroleum products. Rising energy costs could push up the cost of domestic food products, transport fares and utility charges. Moreover, the possibility of supply disruptions due to extreme weather disturbances could lead to sharp increases in the prices of agricultural products. Second, the possible sustained inflow of capital into the country, as risk appetites perk up could complicate liquidity management and contribute to potential inflationary pressures. The challenge is made more acute should sharp capital flow reversals occur with shifts in investor sentiment. Third, the dual pace of recovery across the globe continues to pose a challenge. Growth in emerging countries remains buoyant and is outpacing the growth in the advanced economies which has moderated on concerns over the still high unemployment rate and renewed stresses in the euro area. Given global

[1] Economist Intelligence Unit's (EIU) Global Microscope on the Microfinance Business Environment 2010

interlinkages, this could lead to slower or sub-par growth across countries over the medium term.

To help achieve a more sustainable and durable economic growth in the years ahead, the BSP will remain committed to its role as the steward for price and financial stability.

In the area of monetary policy, the BSP remains firmly committed to its mandate of safeguarding price stability. Towards this end, the BSP stands ready to implement a measured policy response to prevent inflation from spiraling away from the government's target. The BSP will continue to improve upon its suite of forecasting models, monitor asset price movements more closely, widen its surveillance of the operating environment and improve its communications strategies to better manage inflation expectations.

On the external front, the BSP will focus on further strengthening the country's external payments position and maintaining a comfortable level of reserves. The BSP will continue to promote external debt sustainability by keeping the country's outstanding external debt manageable and within the economy's capacity to service.

In the area of banking regulation and supervision, the BSP is studying the various components of Basel III to determine how these are best applied to domestic conditions, particularly those pertaining to regulatory capital requirements. The BSP will also continue to strengthen its macro-prudential supervision, including related operational enhancements. These refinements include the enhancement of risk-based supervision technologies, improvement of existing macro/micro surveillance tools, passage of the amendments to the BSP charter, harmonization of corporate governance standards with other financial regulators, and support for continuing capital market reforms.

The BSP will work to ensure confidence in the country's payments and settlements system by continuing to benchmark its systems and processes against international best practices.

Finally, the BSP will continue to help create an environment of growth marked by financial inclusion. As such, our advocacy programs in microfinance, economic and financial education, and consumer protection shall be pursued with greater vigor.

AMANDO M. TETANGCO, JR

31 March 2011

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.

THE NEW BSP SEAL

The new BSP logo is a perfect round shape in blue that features three gold stars and a stylized Philippine eagle rendered in white strokes. These main elements are framed on the left side with the text inscription “Bangko Sentral ng Pilipinas” underscored by a gold line drawn in half circle. The right side remains open, signifying freedom, openness, and readiness of the BSP, as represented by the Philippine eagle, to soar and fly toward its goal. Putting all these elements together is a solid blue background to signify stability.

The BSP adopted the new logo on 18 June 2010 in compliance with the New Flag Act of 1998, which prohibits any objects to hang over the Philippine flag. Previous to the new logo, the picture of the flag is below the mountains and the sun. The new logo is the fourth seal for the central bank since its inception 61 years ago in 1949.

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

Cesar V. Purisima[2]
Member

Juanita D. Amatong
Member

Nelly F. Villafuerte
Member

Alfredo C. Antonio
Member

Ignacio R. Bunye
Member

Peter B. Favila
Member

[2] Monetary Board (MB) Member Purisima was appointed cabinet representative to the MB on 13 July 2010 and took his Oath of Office on 15 July 2010.

The Management Team

Amando M. Tetangco, Jr.
Governor

Executive Management

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

Vicente S. Aquino
Executive Director II

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Resource Management Sector

Juan De Zuñiga, Jr.
Deputy Governor

Willie S. Asto
Managing Director

Gerardo S. Tison
Managing Director

Teresita S. Bulseco
Managing Director

Security Plant Complex

Manuel H. Torres
Assistant Governor

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Ma. Cyd N. Tuaño-Amador
Assistant Governor

Wilhelmina C. Mañalac
Managing Director

Pedro P. Tordilla, Jr.
Managing Director

Augusto C. Lopez-Dee
Managing Director

Violeta F. Mejia
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

* DG Juan D. de Zuñiga, Jr. was appointed as Deputy Governor of the Resource Management Sector on 6 December 2010 in view of the retirement of Deputy Governor Armando L. Suratos. DG de Zuñiga is also the concurrent General Counsel of the BSP.

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

AC	Advisory Committee
AOAMS	Acquired and Other Assets Management System
AFF	Agriculture, Fishery and Forestry
AFI	Alliance for Financial Inclusion
ASTD	American Society for Training and Development
ADDIE	Analysis, Design, Development, Implementation to Evaluation
AMLC	Anti-Money Laundering Council
ALAC	Asia, Latin America and the Caribbean
AONCR	Areas Outside National Capital Region
ASEAN	Association of Southeast Asian Nations
ACMF	ASEAN Capital Market Forum
ACBF	ASEAN Central Bank Forum
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
ASEAN+3	ASEAN plus China, Japan and Korea
ABMF	ASEAN+3 Bond Market Forum
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ABF	Asian Bond Fund
ABMI	Asian Bond Markets Initiative
ABS	Asset-Backed Securities
AMCs	Asset Management Companies
ADB	Asian Development Bank
ADF	Asian Development Fund
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
BOT	Bank of Thailand
BI	Bank Indonesia
BIS	Bank for International Settlements
BPR	Bank Performance Rating
BAIPHIL	Bankers Institute of the Philippines
BSPD	Banknotes and Securities Printing Department
BCBS	Basel Committee on Banking Supervision
BSPI-IMS	BSPI Integrated Management System
BESS	BSP Employee Self-Service
BUDS	BSP Unified Directory System
BAS	Bureau of Agricultural Statistics
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
BPO	Business Process Outsourcing
BPR	Business Process Reengineering
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
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CTRM	Committee on Tariff and Related Matters
CTO	Compensatory Time-Off
CIRO	Currency Issue and Retirement Office
CMSS	Currency Management Sub-sector
CES	Consumer Expectations Survey
CDIS	Coordinated Direct Investment Survey
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
COCOPEA	Coordinating Council of Private Educational Associations
CAO	Corporate Affairs Office
CMC	Corporate Monitoring Committee
CAM	Credit Appraisal Monitoring
CCRs	Credit Card Receivables
CDS	Credit Default Swap
CGIF	Credit Guarantee and Investment Facility
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
DvP	Delivery versus Payment
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
EFLP	Economic and Financial Learning Program
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
EMEAP-WGPSS	EMEAP Working Group on Payments and Settlements System
eDvP	Expanded DvP
EFCDU	Expanded Foreign Currency Deposit Unit
EDC	Export Development Council
EDYRF	Exporters' Dollar and Yen Rediscount Facility
EMEs	Emerging Market Economies
ESM	European Stabilization Mechanism
XGSI	Exports of Goods and Receipts from Services and Income
FGCE	Financial Computable General Equilibrium
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
FTP	Financial Transactions Plan
FSAM	Financial Sector Accounting Matrix
FSF	Financial Sector Forum
FSI	Financial Stability Institute
FSR	Financial Stability Report
FOF	Flow of Funds
FBT	Food, beverage and tobacco
FBP	Foreign Borrowings Plan
FCY	Foreign Currency
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
GMLX	Greater Manila Local Exchanges
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNP	Gross National Product
HFT	Held for Trading
HRDD	Human Resource Development Department
HRQMS	Human Resource Quality Management System
HRSS	Human Resource Sub-sector
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
IBL	Interbank Loans
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
LCY	Local Currency
LGUs	Local Government Units
LIBOR	London Interbank Offered Rate
LTMM	Long-Term Macroeconomic Model
MFSO	Macroeconomic and Finance Surveillance Office
MTPs	Major Trading Partners
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
MEM	Multi-Equation Model
NDCC	National Disaster Coordinating Center
NPCC	National Price Coordinating Council
NCR	National Capital Region
NG	National Government
NHA	National Housing Authority
NPC	National Power Corporation
NSM	National Statistics Month
NSO	National Statistics Office
NDA	Net Domestic Assets
NFIA	Net Factor Income From Abroad
NDS	New Design Series
NGC	New Generation Currency
NFA	Net Foreign Assets
NIR	Net International Reserves
NEER	Nominal Effective Exchange Rate
NBFIs	Non-bank Financial Institutions
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
OHSAS	Occupational Health and Safety Assessment Series
OSPD	Office of Supervisory Policy Development
OCR	Ordinary Capital Resources
OECS	Organization Enhancement and Capability Strengthening
ODNA	Organizational Diagnosis and Needs Assessment
OHS	Organizational Health Survey
OBUs	Other Banking Units
ODCs	Other Depository Corporations
ODCS	Other Depository Corporations Survey
OTC	Over-The-Counter
OFWs	Overseas Filipino Workers
OFs	Overseas Filipinos
OWWA	Overseas Workers Welfare Administration
PMS	Performance Monitoring System
PRS	Performance Review Sessions
PSR	Performance and Salary Review
PCE	Personal Consumption Expenditure
PAS	Philippine Accounting Standards

PCHC	Philippine Clearing House Corporation
PCFS	Philippine Consumer Finance Survey
PDEX	Philippine Dealing and Exchange Corporation
PDIC	Philippine Deposit Insurance Corporation
PDDTS	Philippine Domestic Dollar Transfer System
PES	Philippine Economic Society
PFRS	Philippine Financial Reporting Standards
PICC	Philippine International Convention Center
PPS-FES	Philippine Payments System-Front End System
PhilPaSS	Philippine Payments and Settlements System
PSA	Philippine Statistical Association
PSDP	Philippine Statistical Development Plan
PSS	Philippine Statistical System
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PAR	Portfolio-at-Risk
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
PPP	Public-Private Partnership
QBs	Quasi-Banks
QMS	Quality Management Systems
QSS	Quantitative Support Staff
ROPA	Real and Other Properties Acquired
REER	Real Effective Exchange Rate
RTGS	Real Time Gross Settlement
RLX	Regional Local Exchanges
RMASS	Regional Monetary Affairs Subsector
RP	Repurchase Rate
RRP	Reverse Repurchase
RRBCAF	Revised Risk-Based Capital Adequacy Framework
Repo	Repurchase Agreement
RFPs	Requests for Proposals
RRELs	Residential Real Estate Loans
RMS	Resource Management Sector
RTBs	Retail Treasury Bonds
RRP	Reverse Repurchase
RMO	Risk Management Office
RWA	Risk Weighted Assets
SPC	Security Plant Complex
SPEI	Selected Philippine Economic Indicators
ST	Short-Term
SBL	Single Borrower’s Limit

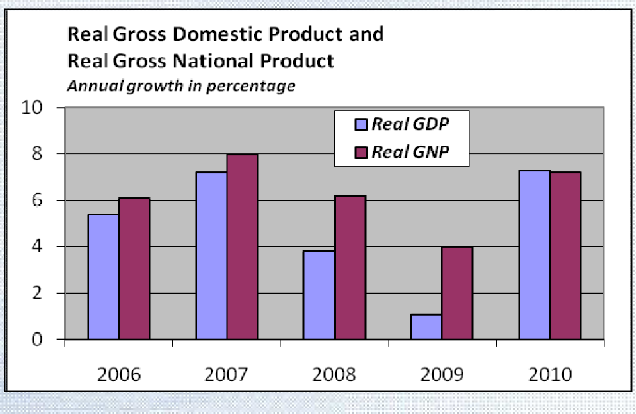
SEM	Single-Equation Model
SEANZA	South East Asia, New Zealand and Australia
SEACEN	South East Asian Central Banks
SDA	Special Deposit Account
SDR	Special Drawing Rights
SRF	Standardized Reporting Format
SONA	State of the Nation Address
STEP	Structured Team Enhancement Program
SME	Subject Matter Expert
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
T-bonds	Treasury Bonds
UITFs	Unit Investment Trust Funds
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
U/KBs	Universal/Commercial Banks
WB	World Bank
WESM	Wholesale Electricity Spot Market
WTO	World Trade Organization
WC-CMD	Working Committee on Capital Market Development
WC-CAL	Working Committee on Capital Account Liberalization
WC-FSL	Working Committee on Financial Services Liberalization
WGFS	Working Group on Financial Services
WDIs	Workplace Development Interventions

PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

Domestic economy posts vibrant growth

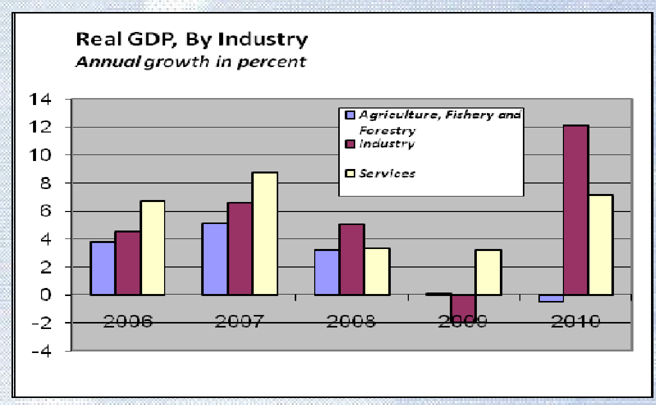
The domestic economy posted vibrant growth in 2010 as it emerged from the global economic turmoil. Real gross domestic product (GDP) grew by 7.3 percent, which well exceeded the government's official growth target of 5.0-6.0 percent for the year. The domestic economy's growth in 2010 was an acceleration from the 1.1 percent GDP growth posted in 2009. Economic expansion was led by the services and industry sectors. On the demand side, exports and capital formation were the main growth drivers, supported by personal consumption expenditure (PCE). Net factor income from abroad (NFIA) decelerated to 6.0 percent in 2010 after growing by 28.0 percent in 2009 as compensation income from abroad slowed down amid the peso's strengthening in 2010. Nonetheless, real gross national product (GNP) expanded by 7.2 percent in 2010, higher than the 4.0 percent growth registered in 2009 (Table 1).



Aggregate Output and Demand

Services and industry sectors are key contributors to output growth

The services and industry sectors were the key contributors to the expansion of the Philippine economy in 2010. The services sector, which constituted half of total GDP, rose by 7.1 percent. This translated to a 3.5-percentage point contribution to the 7.3 percent GDP growth in 2010. Trade led the growth of the services sector as consumption picked up momentum during the year. Notable expansions were also posted in private services, ownership of dwellings and real estate as well as finance.



Mining and quarrying spurs the rebound of the industry sector

The industry sector, which accounted for 33.6 percent of total GDP, mounted a comeback in 2010. The sector recorded a 12.1 percent expansion, which was a reversal of its 0.9 percent contraction in 2009. The industry sector contributed 3.9 percentage points to the 7.3 percent 2010 GDP growth rate, with the mining and quarrying subsectors as the main driver, reflecting increased demand for the country's mineral products. Manufacturing and construction likewise expanded briskly during the year due to the rebound in external trade as well as the strong pick-up in the domestic real estate market.

Meanwhile, the agriculture, fishery and forestry (AFF) sector contracted by 0.5 percent in 2010 after it posted zero percent growth in 2009. As a result the AFF sector, which comprised 16.8 percent of overall GDP, deducted 0.1 percentage point from the 7.3 percent GDP growth in 2010. The contraction of the AFF sector was brought about by lower crop yields and depressed farm production due to the effects of the El Niño weather phenomenon experienced during the year.

Exports lead demand-side growth

On the demand side, growth was propelled by exports, which grew by 25.6 percent in 2010 after contracting by 13.4 percent in 2009 as global demand for Philippine products regained lost ground (Table 1a). Capital formation likewise performed strongly as it grew by 17.0 percent in 2010 after contracting by 5.7 percent the year before. The robust growth in capital formation stemmed from increased investments in durable equipment. Moreover, PCE posted a 5.3 percent growth in 2010 as a result of increased consumer spending on food, household furnishing and clothing. Government consumption likewise grew in 2010, albeit at a decelerated pace of 2.7 percent compared to the 10.9 percent growth in 2009, as government reduced its spending to manage the fiscal position.

Labor, Employment and Wages

Employment growth remains stable

Employment conditions remained generally stable in 2010. Based on the four rounds of the Labor Force Survey of the National Statistics Office (NSO) in 2010, the average unemployment rate declined to 7.3 percent in 2010 from 7.5 percent a year ago (Table 2). This developed despite the increase in the labor force participation rate (LFPR) to 64.1 percent in 2010 from 64.0 percent in the previous year. The number of unemployed persons rose by 28,000 to reach 2.9 million in 2010, significantly lower compared to an increase of 115,000 unemployed persons posted a year ago. Of the four survey rounds in 2010 (i.e. January, April, July and October), the lowest unemployment rate was recorded at 6.9 percent in July, while the highest unemployment rate was posted in April at 8.0 percent.

Meanwhile, employment growth averaged 2.8 percent, translating to a job creation of about a million (986,000) in 2010. This brought the total employment level to 36.0 million. Job creation was strongest in the industry sector at 6.0 percent (304,000), due to the recovery in the manufacturing sub-sector and the robust growth in construction and mining and quarrying sub-sectors. Furthermore, employment in the services sector expanded by 4.2 percent (751,000) in 2010, coming from the wholesale and retail trade, public administration and defense, compulsory social security, and real estate, renting and business activities. In contrast, employment in the AFF sector contracted by 0.6 percent (-68,000) due to severe drought brought about by the El Niño weather phenomenon. This is the second year that employment in agriculture has been adversely affected by extreme weather conditions. By status of employment, wage and salary workers, which comprised the bulk of employed persons, expanded by 5.0 percent, while self-employed workers grew by 1.5 percent. In contrast, employers and unpaid family workers dropped by 3.1 percent and 1.5 percent, respectively.[3]

The underemployment rate improved to 18.7 percent in 2010 from the 19.1 percent recorded last year. By sector, the AFF accounted for 45.3 percent of the total

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[3] An employer is a person working in his own business, farm, profession or trade who has one or more regular 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 classified as an employer. (http://www.bles.dole.gov.ph/)

underemployed, while the services and industry sectors captured 39.3 percent and 15.4 percent, respectively.

Prices

Inflation remains within target range

Inflation averaged 3.8 percent in 2010, well within the 3.5-5.5 percent target range for the year but higher than the 3.2 percent average in the previous year (Table 3). Lower food inflation in 2010 relative to the level in 2009, due to favorable supply conditions in the domestic market, was more than offset by higher non-food inflation due, in turn, to the surge in the prices of electricity and petroleum products.

Food inflation decelerates while non-food inflation accelerates

The average inflation rate for food, beverage, and tobacco (FBT) decelerated to 3.0 percent in 2010 from the 5.8 percent posted in 2009. FBT inflation followed a downtrend in the first two quarters of 2010 as supply recovered from the impact of the previous year's typhoons. In the third quarter, FBT inflation inched up as the prices of sugar and major cereal grains rose during the quarter. The downtrend resumed in the fourth quarter with lower prices of fruits and vegetables and reduced meat inflation.

Meanwhile, non-food inflation accelerated in 2010 to 4.6 percent from the 0.7 percent recorded in the previous year, with inflation turning positive for fuel, light, and water (13.2 percent from -2.6 percent) and services (4.5 percent from -0.3 percent). The price of electricity rose generally throughout the year, reflecting higher generation costs and power rates from the Wholesale Electricity Spot Market (WESM) and the National Power Corporation (NPC). Similarly, the impact of higher global crude oil prices on domestic pump prices of petroleum products led to higher inflation for fuel and transportation and communication services.

On a geographical basis, headline inflation in the National Capital Region (NCR) was significantly higher at 4.0 percent than the 1.6 percent registered a year ago. In contrast, the average inflation in areas outside NCR (AONCR) at 3.7 percent was lower compared to the year ago level of 3.9 percent.

Core inflation eases

Core inflation, an indicator of the long-term trend of inflation also eased, averaging 3.7 percent during 2010 compared to 4.1 percent in the previous year. Two out of three alternative measures of core inflation estimated by the BSP also declined during the year.

Core Inflation Measures Year-on-Year Change		
	2000=100	
	2009	2010
Official Measure[1]	4.1	3.7
Trimmed Mean[2]	3.6	3.0
Weighted Median[3]	3.6[r]	2.6
Net of Volatile Items[4]	2.9	4.9

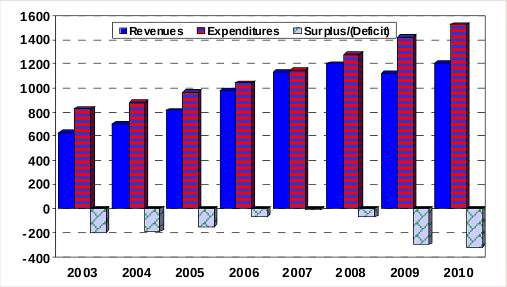
[1] The official definition excludes 18.4 percent of the CPI basket as follows: rice, corn, fruits and vegetables, and fuel items (gas, LPG, kerosene, gasoline and diesel).
[2] The trimmed mean represents the average inflation rate of the (weighted) middle 70 percent in a lowest-to-highest ranking of 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 widened to ₱314.5 billion in 2010 from ₱298.5 billion in 2009. This level, which represents 3.7 percent of GDP, was lower by ₱10.6 billion than the programmed deficit of ₱325.0 billion for the year. Revenues increased by 7.5 percent to reach ₱1,207.9 billion, but fell short of the programmed level for 2010 by 6.7 percent. Expenditures likewise increased to ₱1,522.4 billion during the year but fell below the programmed level by 6.0 percent (Table 4).

National Government: Cash Operations
In billion pesos



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and related offices increased by 11.4 percent to reach ₱1,093.6 billion in 2010. The total tax revenues collected during the review period constituted 94.8 percent of the programmed level of ₱1,153.2 billion for 2010. Meanwhile, non-tax revenues by the Bureau of the Treasury (BTr) declined by 19.3 percent to ₱114.3 billion during the review period. Total non-tax revenues reached ₱114.3 billion, which was below the programmed level by 19.1 percent for 2010.

Total NG expenditures increased by 7.1 percent year-on-year to reach P1,522.4 billion in 2010, although this was lower than the 2010 programmed level of ₱1,619.4 billion. Allotments to the local government units (LGUs) reached ₱279.6 billion exceeding the year-ago level by 5.6 percent. Meanwhile, interest payments for 2010 increased by 5.5 percent to ₱294.2 billion, accounting for 90.0 percent of the programmed level of ₱327.0 billion.

The deficit was financed mainly from domestic sources, which covered 61.6 percent of the total financing requirement of the NG.

Box Article 1:

Development of Chain-Type Measures of GDP and Price Indices in the Philippines

The adoption of a new methodology known as **chain-type measures of Gross Domestic Product (GDP) and price indices**, using Laspeyres, Paasche, and Fisher indices[1] in the estimation of the country's real GDP growth rate and inflation, is currently in process under the collaborative project on the Development of Chain-Type Measures of GDP and Price Indices in the Philippines. The project is spearheaded by the BSP which, as the lead institution, is working with other major statistical agencies of the Philippines including the Technical Secretariat of the National Statistical Coordination Board, National Statistics Office (NSO), Bureau of Agricultural Statistics (BAS), and the Statistical Research and Training Center (SRTC). Dr. Vicente B. Valdepeñas, Jr. is the Project Consultant.

The current estimation of the country's GDP uses the ***fixed-base-year method at 1985 prices***, which measures real output based on prices in the base year. This method leads to a substitution bias that tends to overstate the growth rate as the current period moves further away from the base year and understates it for periods prior to the base year.

The new method will measure changes in the real national output (GDP) by chaining together year-by-year quantity changes of GDP using the prices of adjacent years. The chain-type methodology mitigates the substitution bias, thus generating a more accurate estimate of the real growth rate of GDP. Furthermore, the contribution to growth of the components of GDP could be computed and analyzed starting from any given reference period. A parallel switch to chain-type measures of price changes will also turn out more accurate estimates and analysis of inflation and price indices. For the BSP, a more accurate methodology at estimating real GDP and prices is a key concern as these indicators are important inputs to the process of inflation forecasting and monetary policy formulation.

The adoption of chain-type indices is one of the recommendations in the United Nations (UN) 1993 and 2008 System of National Accounts (SNA). A growing number of countries have successfully made the transition to the ***chain-type measures*** in computing national accounts statistics. At present, the United States and Canada use the chained Fisher Index, while Australia, Austria, New Zealand, Belgium, Denmark, Finland, Sweden, Italy, Netherlands and UK use the chained Laspeyres Index.

In the Philippines, the Philippine Statistical Development Plan (PSDP) 2005-2010 identified the generation of chain-type indices in its research and development agenda. In 2008, as proposed by the Technical Committee on Price Statistics (TCPS) then chaired by BSP Deputy Governor Diwa C. Guinigundo, an initial study on chain-type measurement was funded by the SRTC. In September 2009, the inter-agency Technical Working Group on Consumer Price Indices and Related Indices (TWG on CPI) of the TCPS recommended further studies on chain-type methodologies to include both operational and conceptual issues.

In 2010, with the implementation of the chain-type collaborative project, four workshops aimed at building the capacity of the technical staff of concerned agencies directly involved in the chaining of GDP and price statistics, were conducted. Workshop 1 focused on methodology, framework, data assessment, review of country experiences on chain-type GDP and price index estimation. Workshop 2 was a rigorous, two-day lecture on chaining methodologies, i.e., Paasche, Laspeyres and Fisher indices. Workshop 3 included presentations by the BAS and the NSO of historical series of price indicators computed using the chained methodologies that had been discussed at previous workshops. The BAS presented computations on chained producer price indices and chained value/volume estimates for Agriculture. Meanwhile, the NSO presented chained price indices for manufacturing, foreign trade, construction, and compensation. In the first three workshops, Philippine Institute for Development Studies (PIDS) Visiting Senior Research Fellow Dr. Jesus C. Dumagan, former NSCB Assistant Secretary-General Estrella V. Domingo, NSO Administrator Carmelita N. Ericta, SRTC Director Gervacio G. Selda, Jr., BAS Deputy Director Maura S. Lizarondo, and SRTC Research Division Chief Mary Ann C. Magtulis served as resource persons.

The last activity in 2010 (Workshop 4) was a five-day training workshop on the estimation of chain-type GDP. Mr. Charles Aspden, former head for national accounts of the Australian Bureau of Statistics (ABS) and the Organization for Economic Cooperation and Development (OECD), was the main resource person. Among the topics discussed were the rationale of chain-type measures, the properties of price and volume indices, quarterly chain-type estimates, seasonally adjusted chain-type estimates and the derivation of volume estimates.

The project is expected to be completed in 2011 with the following target outputs: 1) annual estimates of chained GDP, 2) annual estimates of chained price indices, 3) preliminary estimates of quarterly chained GDP and monthly chained price indices, and 4) project report and recommendations for institutionalization that will be submitted to the Monetary Board and to the NSCB Executive Board.

Endnote:

[1] Laspeyres indices are index numbers used to measure changes in prices (quantities) of goods sold (produced), using as weights quantities (prices) of the previous period, while the Paasche Index uses the current year data as weights. The Fisher Index is the geometric mean of these two (Laspeyres and Paasche) indices. Using these indices, three chain-type measures could be estimated: Chained Laspeyres, Chained Paasche, and Chained Fisher Indices.

Monetary and Financial Conditions

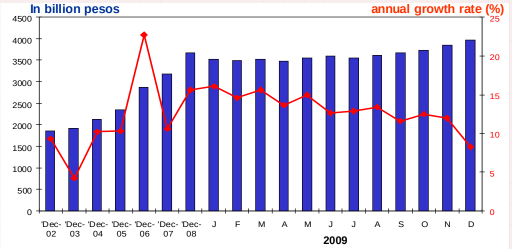
Monetary Conditions

Monetary Aggregates

Domestic liquidity conditions remain consistent with demand expansion

Domestic liquidity conditions in 2010 remained consistent with the pace of demand expansion in the country. M3 increased by 10.6 percent year-on-year in December, bringing the full-year average M3 growth to 9.7 percent from the 13.3 percent posted in 2009 (Table 5). The steady increase in net foreign assets (NFA) at 16.4 percent in 2010 continued to drive the growth in domestic liquidity. Sustained foreign exchange inflows from the current account receipts such as remittances, exports and outsourcing revenues, and portfolio investments underpinned the growth in the BSP's NFA position of 20.2 percent in 2010, generally unchanged compared to the 20.4 percent growth recorded in the previous year. Meanwhile, the NFA of other depository corporations (ODCs) contracted by 2.4 percent during the year from a growth of 48.4 percent in 2009 due to the large increase in banks' foreign liabilities coupled with the slower pace of growth in their foreign assets. The expansion in the ODCs' foreign liabilities was related to higher placements and time deposits made by the head offices of foreign banks in their branches in the Philippines as funds in search of higher yields have been flowing into the Philippines given the overall bullish sentiment arising from the strengthening economic momentum.

Domestic Liquidity (Depository Corporations Survey * Concept)



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

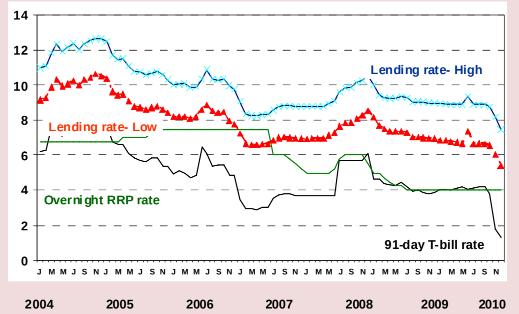
The expansion in net domestic assets (NDA) of 2.1 percent in 2010 (from 3.0 percent in 2009) also contributed to the growth in domestic liquidity. Credits extended to the private sector increased at a broadly stable pace of 8.8 percent, in line with the continued uptrend in bank lending activity and the strong pick-up in domestic demand. In addition, credits extended to the public sector grew by 9.2 percent in 2010, bolstered largely by the 8.6 percent expansion in credits extended to the NG.

Interest Rates

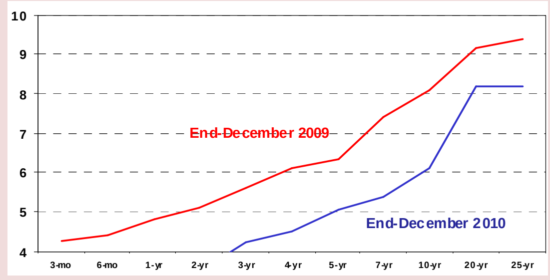
Interest rates on government securities ease

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 continued to show signs of recovery from the crisis, and inflation slowed down (Table 6). Similarly, secondary market interest rates for all maturities decreased due to the favorable inflation outlook and the ample liquidity in the financial system.

Domestic Interest Rates

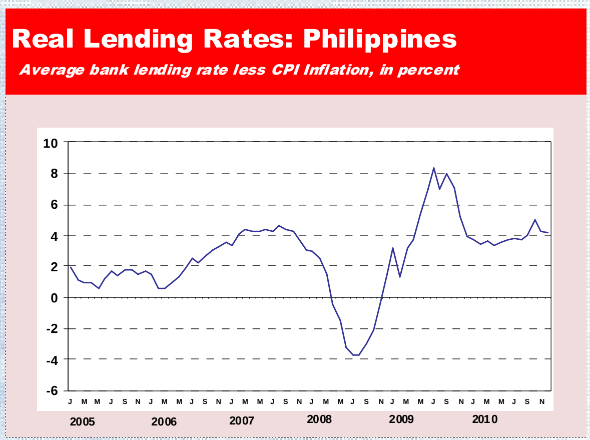


Secondary Market Yield Curve
End-of-period, in percent



Lending and deposit rates decrease

Bank lending and borrowing rates decreased during the year. The decline in bank lending rates reflected the pass-through to bank borrowers of the BSP's policy rate cuts in the previous year. In real terms, lending and borrowing rates also decreased relative to their rates a year ago due largely to the decline in nominal interest rates.



The Monetary Board keeps the BSP policy rates steady

The Monetary Board (MB) maintained the BSP's key policy rate at 4 percent for the overnight or reverse repurchase (RRP) facility and 6 percent for the overnight lending or repurchase (RP) facility throughout the year. This was based on the assessment that the monetary policy settings remained appropriate as inflation forecasts continued to be within the target ranges over the policy horizon. In addition, inflation expectations were well-anchored as inflationary pressures eased while the growth rates in credit and liquidity were broadly at pace with economic activity.

2010	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	4.00	0.25	375.0
Feb	4.00	0.25	375.0
Mar	4.00	0.25	375.0
Apr	4.00	0.25	375.0
May	4.00	0.25	375.0
Jun	4.00	0.25	375.0
Jul	4.00	0.25	375.0
Aug	4.00	0.25	375.0
Sep	4.00	0.25	375.0
Oct	4.00	0.25	375.0
Nov	4.00	0.25	375.0
Dec	4.00	0.25	375.0

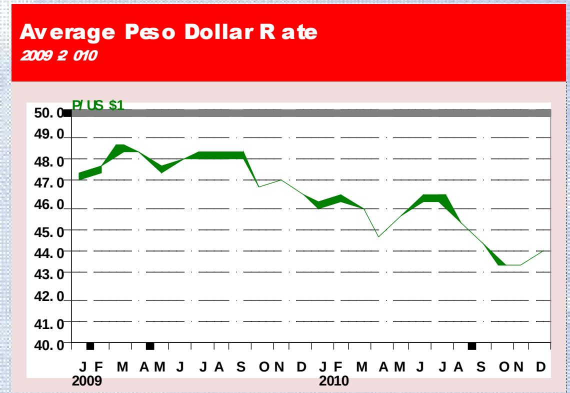
The differential between the BSP's policy rate and the US federal funds target rate remained at 375 basis points throughout the year, reflecting the unchanged monetary policy stances of both the BSP and the US Fed. Meanwhile, the before- and after-tax differentials between the 91-day RP T-bill rate and the US interest rates narrowed slightly during the review period due to the relatively larger decline in the 91-day RP T-bill rate over the slight easing in the 90-day US-London Interbank

Offered Rate (LIBOR) and the 90-day US T-bill rate. Adjusted for risk premium – which is measured as the differential between the 10-year ROP note and the 10-year US Treasury note – the average differential between the BSP's policy rate and the US federal funds target rate, however, rose to 205 basis points from the 2009 average of 82 basis points. This increase was on account of the significant decrease in the risk premium brought about by the marked decline in the yield of the 10-year ROP note. The reduction in the yield of the 10-year ROP note was attributed to the upgrade of the Philippine sovereign credit rating by international credit rating agencies.

Exchange Rates

Peso appreciates due to the confluence of structural and cyclical factors

The peso averaged ₱45.12/US$1 for the period 4 January-30 December 2010, appreciating by 5.6 percent from the ₱47.64/US$1 average in 2009 (Table 7).[4] Likewise, in terms of end-of-period levels, the peso appreciated by 5.6 percent to ₱43.89/US$1 at end-December 2010 from the ₱46.36/US$1 average posted a year ago. The peso's resiliency was due to both structural and cyclical factors. The country's favorable external payments position, which was driven by strong export performance, robust inflow of overseas Filipinos' (OF) remittances, solid business process outsourcing (BPO) revenues and tourist receipts, the weakening of the U.S dollar against most currencies (caused, in turn, by the more accommodative policy stance in the US to support economic activity and bring down unemployment) coupled with the continued low growth exhibited by advanced economies, helped improve risk appetite for emerging markets assets (which has led to an acceleration of capital inflows in Asia including the Philippines), providing support to the peso.



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

The peso started the year on an appreciating trend, drawing strength from the massive capital reallocation to emerging market economies and inflows from OF remittances which piled up during the Christmas holiday. However, the peso depreciated during the last week of January due to heightened risk aversion stemming from concerns that the global economy's recovery may be slowing, prompting investors to the safety of the greenback. Likewise, the looming fiscal problems in Greece, which raised uncertainty on the ability of the Euro zone to finance its sovereign debt weighed down on the peso.[5]

The peso regained its strength beginning the first week of April as the Wall Street rally spurred positive investor sentiment and improved risk appetite for emerging markets' assets. However, the peso's appreciating trend was not sustained as it weakened in the next three months due to a confluence of external and domestic factors. The uncertainty of the outcome of the Philippine national elections in May, along with the delay in the official canvassing of election returns combined with issues on poll fraud caused jitters on the domestic front. Moreover, concerns over the country's deteriorating fiscal position after the NG failed to meet its tax revenue and budget deficit targets also exerted downward pressures on the peso.[6] On the external front, contagion fears emerged due to market apprehensions over the effectiveness of the European Stabilization Mechanism (ESM).[7] In addition, the slight easing of global production indices affected adversely the peso.[8]

The downward trend of the peso subsequently reversed in August on sustained appetite for emerging markets' assets emanating from better-than-expected US employment conditions[9] and positive prospects on the

[5] In January 2010, it was noted that Greece's budget deficit reached 12.7 percent of GDP in 2009, more than four times the European Union's limit of 3 percent.

[6] According to the Bureau of Treasury (BTr), the NG's January to June fiscal deficit reached ₱196.7 billion, ₱51.0 billion higher than its programmed ceiling of ₱142.5 billion

[7] At a special summit on May 8-9, EU leaders agreed on a new European Stabilization Mechanism (ESM). The proposal comprises two parts. First, is the extension of the €50 billion balance-of-payments facility for non-EMU members to euro zone members. The fund will be enhanced by €60 billion for eurozone members and carry IMF conditionality. This facility is financed by the issuance of EU bonds backed by the €141 billion EU budget. The second part includes a new €440 billion special-purpose vehicle (SPV) guaranteed proportionally by participating eurozone member states. According to the two-thirds versus one-third formula, the IMF will provide up to €250 billion of the total €750 billion facility. (Roubini Global Economics)

[8] The Purchasing Managers' Index (PMI) eased to 57.0 in May from 57.7 in the previous month as business activity in both the manufacturing and the services sectors lost some momentum (European Central Bank, Monthly Bulletin, June 2010). Meanwhile, in the U.S., total non-farm payroll employment declined by 125,000 in June due to the removal of 225,000 temporary workers from Federal government payrolls (U.S. Bureau of Labor Statistics, June 2010). Moreover, Australia's Performance of Construction Index fell by 6.8 points in June to 46.4, indicating signs that interest rate increases in the country is eroding demand for new dwelling (Australian Industry Group, July 2010. A reading below 50 shows the industry is contracting).

[9] According to the United States Department of Labor Secretary Hilda Solis, the US economy gained 67,000 private sector jobs in August.

domestic economy.[10] The peso's strength was in part supported by strong inflows from exports, OF remittances, and BPO revenues.[11] The strong performance of Philippine sovereign bonds (driven by increased investor demand) likewise supported the peso.[12]

The peso posted strong gains beginning in October 2010 until the first week of November 2010, reaching its highest daily average of ₱42.52/US$1 for the year on 5 November 2010. The sustained inflow of OF remittances, along with the strong showing of portfolio investments remained the key drivers of the peso's strength. The weakening of the US dollar against Asian currencies, also provided support for the peso.[13] Likewise, Standard & Poor's (S&P) upgrade of the country's foreign currency proved to be positive for the peso.[14] However, the peso weakened thereafter as investors move to cut long positions on Asian currencies, including the peso, as a result of their growing uncertainty on authorities' policy actions in November.[15] The strengthening of the US dollar, reflecting favorable US economic data and tight dollar liquidity in the domestic FX market in December, also weighed down on the peso.[16]

On a year-to-date basis, the peso appreciated against the US dollar by 5.4 percent to close at ₱43.84/US$1 on 30 December 2010, moving in tandem with other Asian currencies. Among selected Asian currencies, the peso is in the midrange in terms of year-to-date levels of appreciation vis-à-vis the US dollar, with the Japanese yen leading other Asian currencies as it appreciated by 14.2 percent, with the South Korean won posting the least gain at 2.7 percent.[17]

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[10] Source: Reuters.
[11] Based on BSP data, in the first seven months of 2010 OF remittances posted a 7.1 percent increase relative to the same period a year ago. BPO-related transactions under other business services (growth rate of 18.8 percent) and computer and information services (14.8 percent) as well as in construction services (164.0 percent) all posted higher net inflows in the first half of 2010. Meanwhile, based on NSO data, the Philippines' July exports increased by 35.9 percent from its year ago level.
[12] Philippine sovereign bonds gained on Tuesday, 17 August 2010, outperforming the steady broad market, as high yields relative to U.S. Treasuries and the government's plan to issue more local currency debt spurred investor demand. (Source: Reuters)
[13] Rueters
[14] In November 2010, Standard & Poors Rating Services upgraded the Philippines foreign currency rating to BB.
[15] Asian countries moved to keep their currencies from strengthening in the form of tax on capital and interest gains (Thailand) and imposition of limits on forwards (Korea), among others. In the case of the Philippines, the BSP's policy action not to roll over its forward dollar position to smoothen excessive volatility in the peso, forced banks that are short in dollars to cover their dollar positions. (Rueters).
[16] Advance monthly sales for retail and food services for November 2010 is estimated to expand by 0.8 percent according to the US Census Bureau.
[17] Based on the last done deal in the afternoon.

Selected Asian Currencies	Appr/Depr(-), in % 31 Dec 2009 vs 30 Dec 2010
Japanese Yen	14.2
Malaysian Ringgit	11.2
Thai Baht	10.7
New Taiwan Dollar	9.9
Singaporean Dollar	8.7
Philippine Peso*	***5.4***
Indonesian Rupiah	4.7
Indian Rupee	3.6
Chinese Yuan	3.4
South Korean Won	2.7
* Peso closing level on 30 December 2010	

In terms of volatility, the peso remained broadly stable. For the period 1 January to 30 December 2010, the coefficient of variation (as measured by the standard deviation over the average rate) stood at 2.5 percent. The peso was less volatile compared to other currencies in the Asian region including the Japanese yen (4.6 percent), Thai baht (3.7 percent), Malaysian ringgit (3.3 percent), Korean won (3.0 percent), and the Singapore dollar (3.1 percent).

VOLATILITY OF SELECTED CURRENCIES
As 30 December 2010, 4PM

	PHP	EUR*	JPY	THB	IDR	MYR	KRW	SGD	TWD	CNY	INR	GBP*	AUD*	NZD*
In Percent														
2010	**2.47%**	4.52%	4.63%	3.67%	1.53%	3.29%	3.01%	3.05%	2.37%	1.07%	1.96%	3.04%	5.29%	3.75%
2009	**1.51%**	5.16%	3.80%	2.49%	8.17%	2.59%	7.81%	3.23%	2.19%	0.08%	3.00%	5.96%	11.89%	12.18%
2008	**6.51%**	6.96%	4.65%	4.87%	9.24%	4.42%	14.97%	3.55%	3.42%	2.05%	8.13%	9.73%	13.17%	12.40%
2007	**4.56%**	6.36%	6.20%	4.00%	1.69%	3.47%	3.63%	4.32%	3.10%	3.76%	4.35%	1.85%	6.26%	4.38%
2006	**2.25%**	3.01%	1.78%	2.89%	1.84%	1.40%	1.75%	1.74%	1.25%	0.92%	1.77%	3.76%	2.31%	4.23%
In Nominal Units														
2010	**1.115**	0.0599	4.06	1.16	139	0.106	34.8	0.0416	0.747	0.073	0.896	0.0471	0.049	0.0271
2009	**0.719**	0.0720	3.56	0.86	850	0.091	99.8	0.0470	0.723	0.005	1.455	0.0933	0.094	0.0774
2008	**2.886**	0.1024	4.83	1.61	895	0.147	164.6	0.0502	1.080	0.142	3.541	0.1804	0.112	0.0885
2007	**2.106**	0.0902	7.06	1.35	155	0.117	34.3	0.0635	1.002	0.280	1.797	0.0369	0.054	0.0323
2006	**1.156**	0.0378	2.07	1.10	169	0.051	16.7	0.0277	0.406	0.074	0.802	0.0693	0.017	0.0275

* Volatility of these are expressed in terms of US dollar.
Prices are sourced from Bloomberg LP (last price and PDS close).

Volatility in nominal units = standard deviation
Volatility in percent = standard deviation / average rate

In nominal terms, the peso strengthened against the major trading partners (MTPs) currencies and both the competitor currencies in both the broad and narrow series, as the peso's nominal effective exchange rate (NEER) indices increased by 9.1 percent, 1.8 percent, and 0.5 percent, respectively.[18]

On a real, trade-weighted basis, the peso generally lost external price competitiveness in 2010 as measured by the real effective exchange rate (REER) index of the peso

[18] The NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

(Table 7a).[19] Along with the nominal appreciation of the peso, the widening inflation differentials translated into an increase in the REER index of the peso against MTP currencies by 10.8 percent.[20] Similarly, the peso lost international competitiveness against the competitor currencies in the broad series as the REER index increased by 0.7 percent due to the nominal appreciation of the peso against the currencies in this basket. However, the peso gained external competitiveness vis-à-vis competitor currencies in the narrow series, with the REER index decreasing by 1.2 percent due mainly to the narrowing inflation differential against the countries in this basket.

[19] 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.
[20] The basket of the major trading partners is composed of the currencies of US, Japan, the Euro area and the United Kingdom. The broad basket of competitor countries comprises the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong while the narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand only.

Box Article 2:

Coping with Surges in Capital Flows: The Philippine Case

The Philippines saw a resurgence in capital flows in the latter part of 2010. Two factors were behind this occurrence: (i) the Philippines' strength of recovery in 2010 and its upbeat growth prospects for 2011, owing to strong macroeconomic fundamentals, sound banking system and sustainable external payments dynamics; and (ii) the uneven pace of economic rebound between advanced countries and emerging market economies (EMEs), implying substantial differences in interest rates and currency strength. As the global recovery further gained traction, investors in search of higher yields turned to EMEs, including the Philippines, which have better growth prospects than advanced countries.

Surges in foreign exchange inflows are no longer new to the country. Post-Asian crisis data show that within the 2000-2010 period, FDIs and portfolio investments peaked in 2007 at US$3 billion and US$3.5 billion, respectively, before declining in 2008, at the height of the global financial crisis, when portfolio investment recorded a net outflow of US$1.8 billion. In 2010, portfolio investments swelled once more to US$4.6 billion. Providing stability to foreign exchange flows, however, were exports (specifically, proceeds from business process outsourcing) and remittances, which have grown steadily over the years and have remained resilient despite the global economic slowdown following the financial crisis. These inflows, which make up a large part of the current account, are structurally-driven and are therefore less susceptible to external shocks such as sudden stops and capital flow reversals.

Sources of Foreign Exchange Flows (In US$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign Direct Investment (net)	2,240	195	1,542	491	688	1,854	2,921	2,916	1,544	1,948	1,374 a/
Foreign Porfolio Investment (net)	-149	69	212	676	487	2,103	2,602	3,520	-1,784	388	4,610 b/
Exports of Goods & Services	40,724	34,385	37,831	38,728	42,837	44,788	52,970	59,278	57,970	47,858	46,945 c/
Remittances	6,050	6,031	6,886	7,578	8,550	10,689	12,761	14,450	16,427	17,348	18,763 d/

a/ Jan-Nov 2010
b/ Jan-Dec 2010
c/ Jan-Sep 2010
d/ Jan-Dec 2010

Nevertheless, the sudden and prolonged surges in foreign exchange flows can threaten the conduct of monetary policy. Moreover, if these capital flows are not managed appropriately, they can have negative implications, such as real exchange rate misalignments, credit and asset price booms, inflationary pressures, overheating, and financial imbalances that can culminate into a full-blown financial crisis.

Coping with capital flow surges: BSP responses

In dealing with the surges in capital flows, a central bank needs to establish at the onset the sustainability, reversibility and volatility of these flows. The primary objective is to minimize the volatility in the domestic financial market and work towards managing the economy in a way that will encourage long-term capital inflows. For transitory flows, central banks can engage easily in reserve accumulation and sterilization to mop up excess liquidity in the domestic system. On the other hand, for persistent and insignificant flows, central banks would generally need to undertake greater exchange rate flexibility and other reform measures.

Meanwhile, some countries opt to impose capital controls as a means of regulating the inflow of foreign exchange and to change the composition of inflows. For its part, after opening the domestic financial system to global integration in the 1990s, the BSP has remained consistent in its liberalization efforts. To cope with capital flow surges, the BSP employs a menu of options which involves the combination of the following policies:

- *Reserve accumulation*. The BSP takes advantage of strong foreign exchange inflows by building up its international reserves to create buffers against external shocks. As of December 2010, the gross international reserves of the BSP reached US$62.4 billion, which can cover 10.5 months' worth of imports of goods and payments of services and income. In terms of debt adequacy, this level is equivalent to 10.9 times the country's short-term external debt based on original maturity and 5.8 times based on residual maturity.

- *Macroprudential tools*. The BSP has put in place several macroprudential tools to regulate banks' ability to fuel credit boom and engage in excessive leverage, such as, imposing limits to real estate loans exposure, requiring provisions to loan losses, enforcing requirements to banks' capital adequacy and regulating derivatives activities. Most of these regulatory limits and requirements were in response to the Asian financial crisis in 1997. These prudent regulatory measures have curbed the formation of potential bubbles in the equities and properties markets during the 2007 and 2010 episodes of foreign exchange surges.

- *Liquidity management*. The BSP implemented new measures on 10 May 2007 to help prevent potential inflationary pressures in the face of sustained foreign exchange inflows during that time. These liquidity management measures included: (i) encouraging the Government Service Insurance System, the Social Security System and other government-owned and controlled corporations to deposit funds with the BSP; (ii) allowing trust entities under BSP supervision to deposit funds with the BSP; and (iii) allowing special deposit account (SDA) placements of banks to be considered as alternative compliance with the liquidity floor requirements for government deposits.

Growth in domestic liquidity has, thus, remained non-inflationary. After recording a 23-percent expansion in 2006, liquidity growth decelerated in 2007 to 11 percent, partly reflecting the impact of the measures implemented by the BSP to siphon off liquidity.

Domestic Liquidity

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Growth rate	9.5	4.2	10.3	10.3	22.7	10.6	15.6	8.3	10.6
Share to GDP	46.6	44.6	43.5	43.0	47.6	47.8	49.4	51.8	51.6

- *Foreign exchange regulatory reforms.* The BSP approved a set of reforms to the foreign exchange regulatory framework to make the regulatory environment more responsive to the needs of an expanding and more dynamic economy that has become increasingly integrated with global markets. The first phase of reforms, which was implemented on 2 April 2007, pertained to changes in the following: (i) in the current account, an increase in the allowable limit in foreign exchange purchases by residents to cover payments for non-trade purposes without supporting documents from US$5,000 to US$10,000; (ii) in the capital account, an increase in the allowable outward investments by residents without prior BSP approval and registration, from US$6 million per investor per year to US$12 million; and (iii) on prudential regulation, an imposition of a symmetrical limit of 20 percent of unimpaired capital with an absolute limit of US$50 million on both the overbought (OB) and oversold (OS) positions of banks.

The second phase of reforms, which was rolled out on 20 December 2007, focused on promoting greater integration with international capital markets, diversifying risks in support of an expanding economy with global linkages, and streamlining the documentation and reporting requirements on the sale of foreign exchange by banks. The policy reforms included: (i) increasing further the allowed foreign exchange purchases by residents for non-trade current account transactions and outward investments without the need for BSP approval to US$30,000; (ii) expanding the authority of foreign currency deposit units (FCDUs) of thrift banks and rural/cooperative banks to deposit and borrow; (iii) expanding the use of foreign exchange swaps involving the Philippine peso; and (iv) enhancing other rules concerning both the current and capital accounts to improve the efficiency of the foreign exchange market.

In the latest wave of capital flow surges in 2010, the BSP approved on 28 October 2010 further amendments to the foreign exchange regulatory framework to keep foreign exchange transactions attuned with current economic conditions. The policy amendments consisted of increasing foreign exchange transaction ceilings as follows: (i) over-the-counter FX purchases by residents for non-trade current account purposes from US$30,000 to US$50,000; (ii) FX purchases by residents to cover advance payment requirements from a maximum of US$100,000 to US$1 million; (iii) FX purchases by residents for outward investments and/or investments in Philippine debt papers issued offshore from US$30 million to US$60 million; and (iv) currency reconversion by non-resident tourists at ports of exit from US$200 to US$5,000. Moreover, there was greater flexibility in managing foreign exchange exposures and facilitating foreign investment payments by allowing the private sector to prepay foreign currency loans without prior BSP approval, and permitting banks to act on foreign investor requests for FX conversion and outward remittance of peso funds.

In liberalizing outward flows of foreign exchange, the BSP believes that the burden of sterilizing net inflows will be reduced. Moreover, it is expected to facilitate greater portfolio diversification. The further liberalization of foreign exchange transactions is also expected to help alleviate upward pressures on the peso in the short term and allow freer and more efficient capital flows in the long term.

- *Capital market deepening*. The BSP supports initiatives related to the development of domestic and regional bond markets, particularly the creation of a wider array of financial products that would stir market activity and enhance greater market depth, breadth and liquidity. Furthermore, a developed capital market will help to attract longer-term investments and not just short-term portfolio or hot money.

Way forward

The best insurance against capital reversals is achieving sound macroeconomic fundamentals which entail having stable inflation, a healthy financial sector and fiscal discipline. Such conditions are prerequisites to developing a deeper capital market and stimulating private investment, both of which are important in channeling foreign capital inflows to the more productive sectors of the economy.

For its part, the BSP has already laid down essential reforms in the prudential regulation of banks as well as the liberalization of transactions in the foreign exchange market. Moving forward, the BSP will continue to find ways to upgrade its foreign exchange regulatory framework; improve the functioning of the foreign exchange market; and support the development of the capital market.

Financial Conditions

Performance of the Banking System

Philippine banking system remains sound and stable

The Philippine banking system remained sound, stable, and liquid in 2010 as it continuously mobilized deposits to fund new loans. Banks' credit quality improved as indicated by lower non-performing loans (NPL) ratios while capital adequacy ratios were (CAR) above the BSP and Bank for International Settlements (BIS) standards. The BSP continued to pursue a broad set of reform initiatives aimed at developing a more stable, more efficient, and more depositor and customer-friendly banking system in order to help achieve a balanced and sustainable economic growth. Reform initiatives focused on the further enhancement of existing regulatory framework, the promotion of corporate governance, the full implementation of consolidated and risk-based supervision approach consistent with modern banking and finance standards, and the advancement of capital market reform initiatives.

Selected Banking Indicators

	2010 p/	**2009**	**Growth Rate (%)**
Deposits (₱ Billion)	3,827.7	3,432.0	11.5
Resources (₱ Billion)	7,230.9	6,511.8	11.0
Loans Outstanding (₱ Billion, Gross of RRPs)	2,591.0	2,379.0	8.9
Number of Banking Institutions (Head offices)	758	785	
NPL to Total Loans (%)	3.6	3.6	
Capital Adequacy Ratio (%)	16.2 (Jun)	15.8	

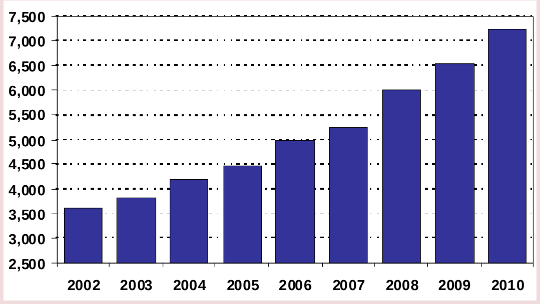
p/ Preliminary

Resources

Total resources of the banking system post an uptrend

The total resources of the banking system rose by 11.0 percent to ₱7.2 trillion as of end-December 2010 (Table 8). The increase could be traced to the growth in currency and deposits, indicative of the public's continued trust in the banking sector. Universal and commercial banks (U/KBs) accounted for the bulk (almost 90 percent) of the total resources of the banking system.

Banking System: Total Resources
In billion pesos



Deposit Generation

Savings and time deposits remain as banks' main sources of funds

The banking system's total deposits[21] as of end-December 2010 increased by 11.5 percent to ₱3.8 trillion from the ₱3.4 trillion recorded during the same period in 2009 (Table 9). Savings and time deposits remained as banks' main sources of funds. The growth of deposits was indicative of sustained depositor confidence in the banking system. In particular, savings deposits registered a 10.1 percent growth and continued to account for nearly half of the funding base. Demand and time deposits grew by 14.2 percent and 11.9 percent year-on-year, respectively.

Lending Operations

Lending growth expands

Outstanding loans of commercial banks, net of banks' RRP placements with the BSP, continued to expand, posting an 8.9 percent growth as of end-December 2010. The expansion was slower than the 10.0 percent registered as of the end of the previous year. Bank lending including RRPs likewise expanded by 8.9 percent, but was also slower compared to the 9.1 percent growth posted at the end of 2009. Preliminary data showed that both production and consumption loans grew by 10.1 percent and 8.9 percent, respectively. The continued expansion in bank lending, particularly to the productive sectors of the economy, reflected the solid growth in real sector activity and supported the BSP's assessment that demand conditions remained firm. In addition, the increasing trend in the total loan portfolio (TLP), while indicating a well-functioning credit activity in the market, also reflected the general liquidity of the banking system.

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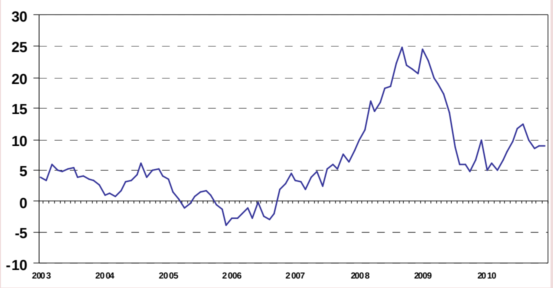
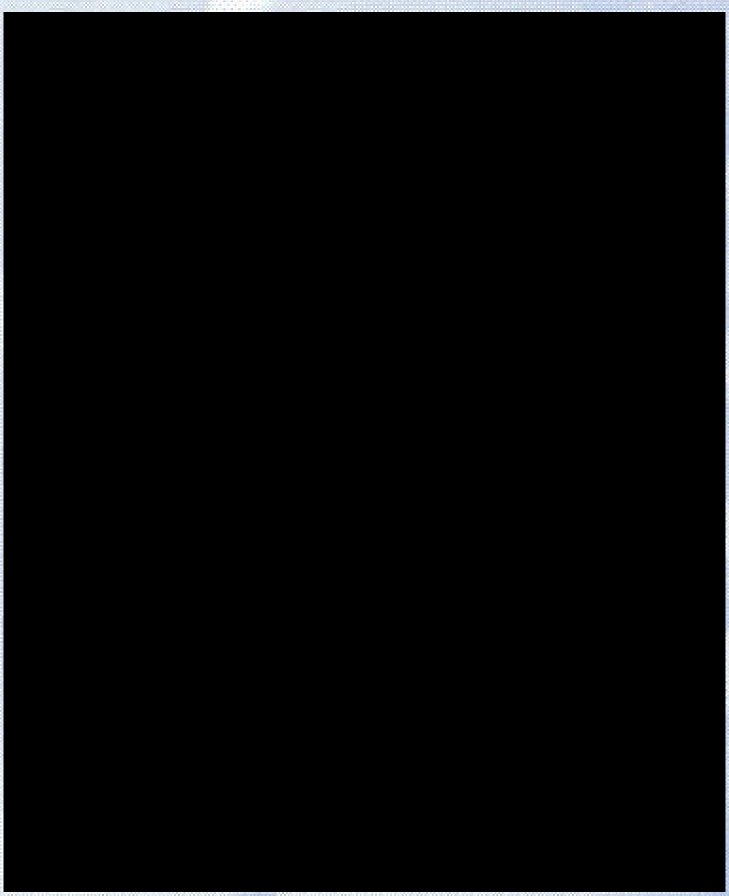
[21] Total peso-denominated deposits.

Loans Outstanding: Universal/Commercial Banks
Annual growth in percent



Loans for production activities, which comprised around 81 percent of commercial banks' total loan portfolio, posted a 10.1 percent growth. The expansion was slightly higher than the 9.9 percent growth registered year-on-year (y-o-y). The growth of production loans was driven by increased lending to hotels and restaurants (21.0 percent); construction (15.6 percent); electricity, gas and water (15.5 percent); agriculture, hunting and forestry (13.4 percent); and real estate, renting and business services (12.2 percent). Loans to the manufacturing sector, which accounted for almost 15 percent of total loans, registered a solid growth of 18.2 percent compared to a contraction of 16.7 percent posted in 2009. Similarly, credit for household consumption sustained its strong growth at 8.9 percent during the year, driven by the solid expansion in auto loans.



Residential real estate loans expand, with TBs accounting for more than half of loan growth

As of end-September 2010, the combined residential real estate loans (RRELs) of U/KBs and thrift banks (TBs) rose by 10.1 percent to ₱178.8 billion from the previous year's ₱162.5 billion. The ratio of RRELs to TLP remained stready at 6.5 percent from last year's level. By industry, TBs held a bigger slice of the total residential real estate exposure at 51.3 percent (₱91.8 billion) while U/KBs held the remaining 48.7 percent (₱87.0 billion). In terms of loan quality, the combined ratio of non-performing RRELs to total RRELs of U/KBs and TBs increased to 7.5 percent from last year's 7.3 percent. The y-o-y increase in the ratio occurred as the expansion in non-performing RRELs at 13.2 percent was faster than the rise in total RRELs.

Growth in credit card receivables continues, giving rise to the expansion in household consumption

The combined credit card receivables (CCRs) of U/KBs and TBs as of end-September 2010, inclusive of credit card subsidiaries, rose by nearly 3 percent to ₱133.9 billion compared to the level at the end of the previous year, boosting further the growth in household consumption level. Meanwhile, the ratio of CCRs to TLP declined slightly to 4.8 percent from the previous year's 5.2 percent. The non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries, went up by 8.6 percent to ₱18.1 billion from last year's ₱16.6 billion. The ratio of non-performing CCRs to total CCRs settled at 13.5 percent from last year's 12.8 percent, as the expansion in non-performing CCRs was accompanied by the growth in total CCRs.

Auto loans increase due partly to the attractive marketing strategy of banks and car financing firms

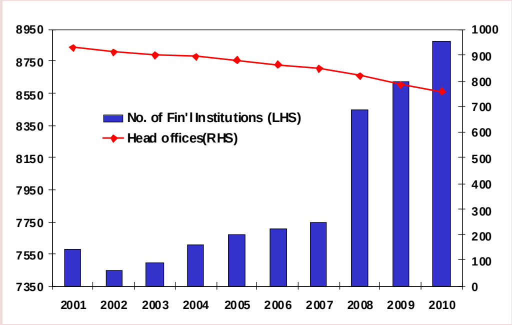
The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries increased markedly by 23.0 percent to ₱111.5 billion as of end-September 2010 from the previous year's ₱90.6 billion, due partly to the attractive marketing strategy of banks and car financing firms. The proportion of total ALs to TLP, exclusive of interbank loans (IBL), was slightly higher at 4.0 percent than last year's ratio of 3.6 percent. In terms of loan quality, the non-performing ALs to total ALs improved to 4.6 percent from the previous year's 5.2 percent.

Institutional Developments

Consolidation in the banking industry continues

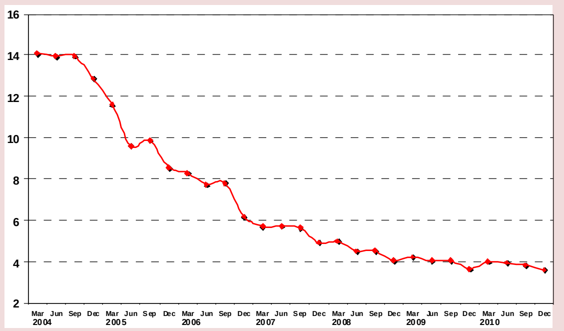
The number of banking institutions (head offices) fell further to 758 as of end-December 2010 from the year-ago level of 785. This was due to the continued consolidation of banks as well as the exit of weaker players in the banking system. By banking classification, banks (head offices) consisted of 38 U/KBs, 73 TBs, and 647 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 8,869 from 8,620 at end-2009, reflecting mainly the increase in commercial and RBs' branches/agencies (Table 9a).

Number of Financial Institutions



The banking system's asset quality continued to improve as the NPL ratio was sustained at 3.6 percent as of end-December 2010, the same ratio registered a year ago. Banks' continued adoption of prudent lending standards helped minimize the incidence of problem loans. The low NPL ratio was maintained as the 2.7 percent expansion in the industry's TLP made up for the 1.4 percent growth in the NPLs. TLP expanded to ₱3,229.1 billion at end-December 2010 from ₱3,144.5 billion during the same period in 2009, while the NPL level grew to ₱116.1 billion during the period from the previous year's level of ₱114.5 billion. The level of NPLs has recently been declining on account of the leeway provided by the BSP in allowing banks to explore innovative and expedient ways to dispose of their non performing assets. This trend is expected to continue in view of the improving credit underwriting standards and risk management systems of banks.

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



Meanwhile, the NPL ratio of U/KBs fell further to 2.9 percent as of end-December 2010, a slight improvement from the 3.0 percent posted during the same period in 2009. Moreover, this is the lowest recorded NPL ratio for the U/KBs since the onset of the 1997 Asian Financial Crisis.

However, the Philippine banking system's NPL ratio of 3.8 percent was comparatively higher than Thailand's 3.6 percent, Indonesia's 2.6 percent, Malaysia's 2.0 percent and Korea's 1.1 percent.[22] The lower NPL ratios of Malaysia and South Korea can be attributed to the creation of publicly-owned asset management companies (AMCs), which purchased the bulk of their NPLs, a scheme that 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 97.3 percent as of end-December 2010, from 92.3 percent in the same period of the previous year. The ratio was indicative of banks' continued compliance with the loan-loss provisioning

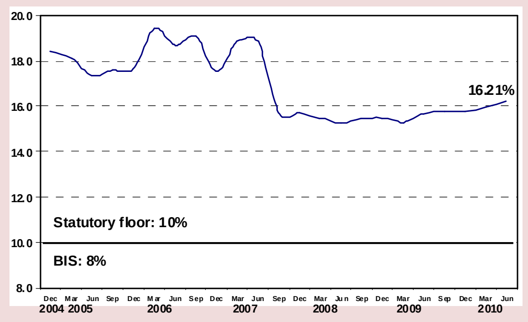
[22] Sources: Various central bank websites and financial stability reports, Indonesia (commercial banks, December 2010); Malaysia (banking system, December 2010); Thailand (financial institutions, December 2010); and Korea (commercial banks, June 2010).

requirements of the BSP to ensure adequate buffers against unexpected losses.

CAR remains above statutory floor

Meanwhile, the banking system remained adequately capitalized as major players in the banking industry successfully raised fresh equity through the issuance of various debt instruments. The average CAR as of end-June 2010 remained healthy at 15.2 percent on a solo basis and 16.2 percent on a consolidated basis. The ratios posted slight improvement from the previous quarter as higher growth in qualifying capital offset the expansion in risk-weighted assets, particularly for CAR measured on solo basis. The industry's CAR continued to exceed both the statutory level set by the BSP at 10.0 percent and the BIS international standard at 8.0 percent.

Banking System: Capital Adequacy Ratio
In percent



The Philippine banking system's CAR continued to be slightly higher than those of Malaysia (14.6 percent) and Korea (14.6 percent), but moderately lower than Thailand (16.7 percent). Indonesia posted the highest CAR in the region at 17.2 percent.[23]

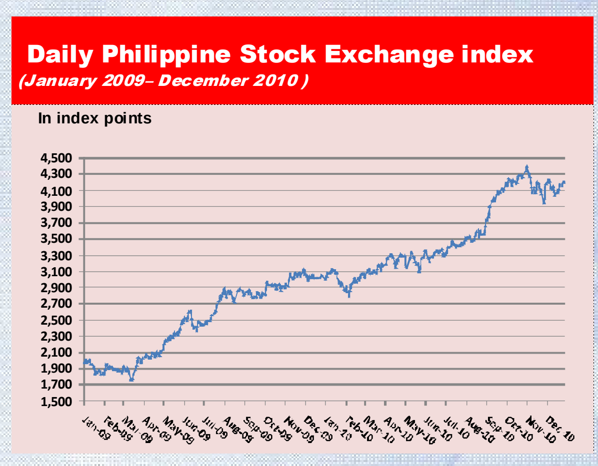
Stock Market Developments

Local stock market rebounds amidst a positive outlook on the Philippine economy…

The year 2010 saw an impressive recovery in the Philippine stock market on the back of strong macroeconomic fundamentals and firmer signs of recovery overseas. However, partly tempering the uptick were concerns over Europe's sovereign debt crisis and the gradual withdrawal of global stimulus efforts implemented in 2009. The Philippine Stock Exchange index (PSEi) averaged 3,550.9 index points during the year in review, around 41.5 percent higher than the

[23] Sources: Various central bank websites and financial stability reports, Malaysia (banking system, December 2010); Korea (commercial banks, June 2010); Thailand (average full branch, December 2010) and Indonesia (commercial banks, December 2010).

average of 2,508.7 index points posted in 2009. (Table 10)



…but upbeat mood moderates in the last few months of 2010 on concerns over negative external developments

From a cautious start in January 2010, the local bourse trended upwards from mid-February to October on the back of the robust performance of the Philippine economy, better corporate earnings by several listed firms, easing domestic inflation that allowed the BSP to keep its policy rates unchanged, and rising confidence in the Aquino Administration. The positive outlook for the Philippine economy also helped the index post several historic highs from September to November, notwithstanding lingering investor concern over the sovereign debt crisis in Europe. In the last two months of 2010, however, negative developments overseas reduced investor risk appetite for Philippine equities, encouraging profit-taking.[24] The index drifted from an all-time high of 4,397.3 index points on 4 November to below the 4,000 level in end-November. Nonetheless, towards the end of the year, the composite index rose on year-end window dressing to close at 4,201.1 index points on 30 December, higher by 37.6 percent than the closing index in 2009.

PSEi sub-indices outperforms year-ago levels

All sector sub-indices outperformed their 2009 levels, with the holding firms index leading the rally as it closed 110.3 percent higher than its year-ago level. This was followed by the industrial index (56.0 percent), property index (47.0 percent), financials index (43.5 percent), mining and oil index (29.6 percent) and the services index (5.4 percent).

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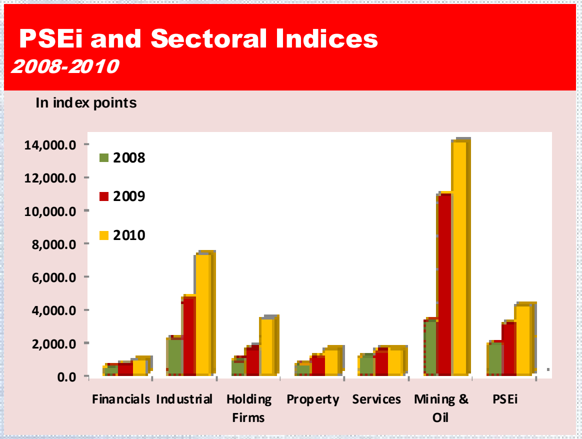
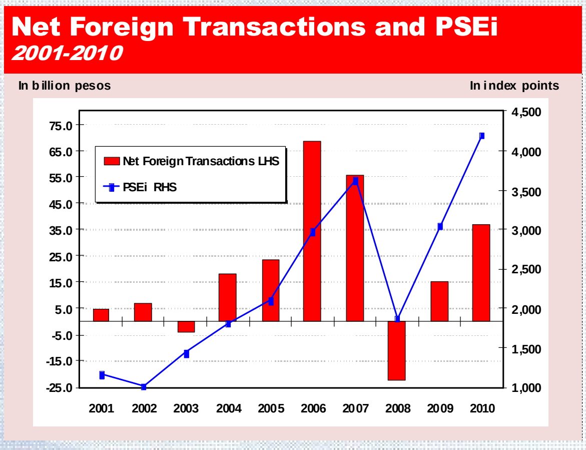
[24] The following external developments caused investors uneasiness: Fitch Ratings' downgrade of Ireland's sovereign ratings by three levels, Moody's putting Spain on watch for a downgrade, and the acceleration in China's inflation to its fastest pace in more than two years.



Foreign investors are net buyers

Reflecting improved risk appetite, foreign investors in 2010 were net purchasers of local equities amounting to ₱37.2 billion, more than double the level recorded in the preceding year. As a proportion of total value traded, foreign transactions went up to 41.7 percent from 32.5 percent a year ago, highlighting foreign investors' significant role in the rebound of the local bourse during the period in review.

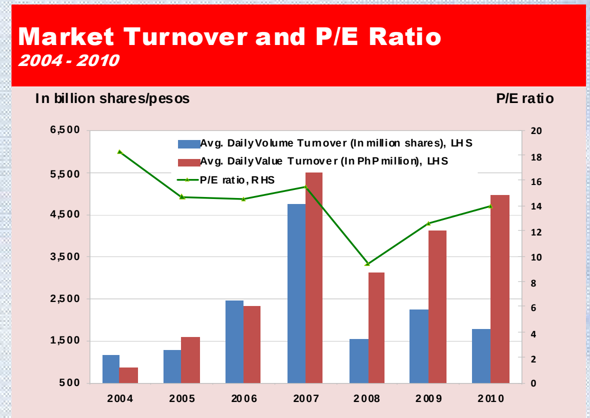


Other stock market indicators show mixed trends

Reflecting the substantial jump in share prices, total market capitalization rose to ₱8,866.1 billion in end-December 2010, about 47.1 percent higher than the level posted in 2009.[25] Market turnover, however, showed mixed trends, with the average daily value turnover rising by 21.0 percent year-on-year to about ₱5 billion while the average daily volume turnover dipped by 20.9 percent to 1.8 billion shares. Meanwhile, the price-earnings (P/E) ratio improved to 14.0 during the period in review from the

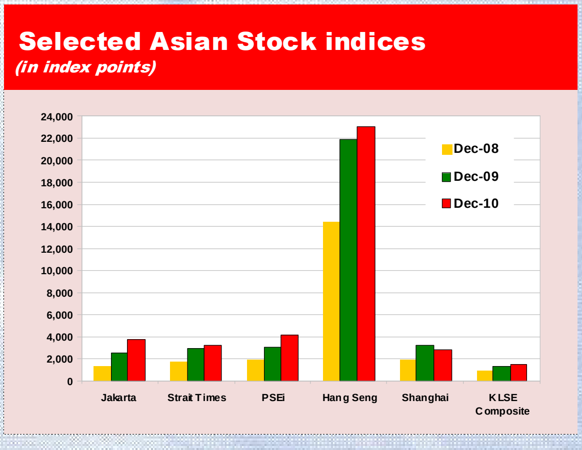
[25] Total market capitalization measures the aggregate value of the issued shares of listed firms in the Philippine Stock Exchange.

12.6 posted last year.[26]



Regional stock markets rally also

Other Asian bourses showed rebounds similar to that in the Philippine equities market, except for China. The Jakarta Composite index continued to lead the rally as it rose by 46.1 percent. This was followed by Thailand's SET index with 40.6 percent, the Philippines' PSEi with 37.6 percent, Malaysia's KLSE composite with 19.3 percent, Singapore's Strait Times with 10.1 percent, and Hong Kong's Hang Seng with 5.3 percent. In contrast, China's Shanghai composite dipped by 14.3 percent relative to year-ago levels, reflecting the negative impact of its monetary tightening efforts on the equities market.



[26] The P/E ratio looks at the relationship between the stock price and the company's earnings. It is computed as the ratio of market capitalization over the last four quarters' net income. Essentially, it gives an idea of what investors are willing to pay for the company's earnings. A higher P/E ratio is taken as an indication that the investors have high hopes for the future and have bid up the price of stocks in expectation of receiving higher future earnings. Conversely, a lower P/E ratio may indicate a "vote of no confidence" by investors or it could mean that investors have overlooked or have yet to act on the market's true worth.

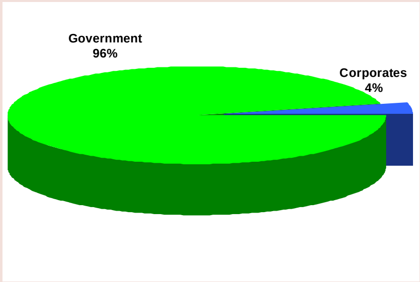
Debt Securities Market Developments

Size and Composition

Shift in funding reliance reduces overall LCY bond issuances

Local currency (LCY) bonds issued by both public and private sectors amounted to ₱1,244 billion in 2010, down by 4 percent from the ₱1,296 billion registered in 2009.[27] The decline can be traced to lower private sector issuance of LCY bonds and public sector's relatively benign issuance compared to the previous year. Private sector issuances dropped by 69 percent to ₱48.3 billion from the previous year's ₱155.4 billion. Meanwhile, public sector issuances at ₱1,196 billion registered a slower growth of 5 percent in new issuances compared to last year's 16.6 percent growth. The overall decline in LCY bond issuances can be attributed to the shift in funding preferences by both sectors toward issuing foreign currency (FCY) denominated bonds in the light of the relatively low interest rate environment in the global market and improved investors' confidence on the country's economic prospects. The slower growth of LCY bond issuances by the public sector also reflect, in part, the government's easing of its fiscal stimulus program during the year.

Domestic Debt Securities Issuances
By Issuer
(As of end-December 2010)



Public sector issuances dominate the market

In terms of market share, public sector dominated the domestic bond market, accounting for 96 percent of total bond issuances. Bonds issued by the Bureau of the Treasury (BTr) accounted for the bulk, which were mostly in the form of treasury bills (T-bills) and fixed rate treasury bonds (T-bonds), accounting for 35 percent and 33 percent, respectively. Other issuances include retail treasury bonds (RTBs) and those of government owned

[27] This refers to the peso-denominated bond issuances by both public and private sectors. Public sector issuances of LCY bonds include issuances in the primary market and rollovers of maturing series which were issued by the BTr and agencies owned and controlled by the government. This also excludes issuances by the central bank. Sources: BTr and BSP DES.

and controlled corporations (GOCCs) which comprised the rest of total public LCY issuances.

Meanwhile, private sector bond issuances accounted for 4.0 percent of total bond issuances and consisted largely of bonds, notes, and certificates of deposits. During the year, private issuances were mostly from the financial sector, particularly banks, securities companies, and government-owned finance companies. There were also issuances from other non-financial corporations involved in real estate, telecommunication, energy and infrastructure firms.

Primary Market[28]

Demand for GS in the primary market remains substantial

The NG increased its programmed borrowings in the primary auctions conducted for both T-bills and T-bonds in 2010 by 5.8 percent to reach ₱374.5 billion from the ₱354.0 billion offering in 2009. During the year, the NG awarded almost 89 percent of the programmed amount for T-bills (₱168.9 billion) and 82 percent for T-bonds (₱151.2 billion). Demand for government securities (GS) was generally robust, with market tenders (at ₱554.2 billion for T-bills and ₱377.8 billion for T-bonds) exceeding the offered amount.

During the first half, dealers were seen quoting high bid rates on the back of lingering budget deficit concerns. Investors preferred short-dated debt instruments during this period as market players adopted a "wait-and-see" stance particularly on the country's fiscal situation, the

[28] The discussion covers the primary market for government issuances only.

national elections in May, and the BSP's policy rate adjustments.[29]

Yields on T-bills and T-bonds reach record lows

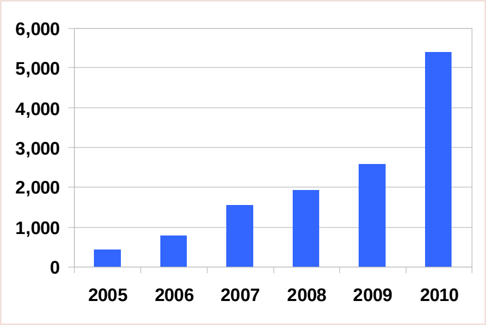
Demand for debt papers picked up towards the second half of the year, with yields on T-bills and T-bonds posting record lows, enabling the NG to successfully conduct auctions during this period. There was also market preference for longer-dated bonds in the second half, reflective of the improving market confidence on the long-term economic prospects of the country following reports of higher-than-expected GDP performance, strengthened external payment position, well-anchored inflation expectations and improved prospects for economic reform. The upgrade in the country's credit ratings by S&P in November, combined with ample liquidity in the system, likewise contributed to the robust demand for GS.

Secondary Market

Trading at the secondary market rises substantially

Secondary market trading of both government and corporate securities at the Fixed Income Exchange (FIE) more than doubled in 2010. The total value of transactions stood at ₱5,396 billion, or 109 percent higher than the previous year's level.

PDEx Trade Volume
(In billion pesos)



Following the general uptrend in 2009, trading remained strong at the start of the year, driven by the relatively liquid secondary market and increased corporate listings. However, trading at the FIE slowed down in April and May as investors were unwilling to take big positions prior to the NG's auction of multi-currency retail T-bonds scheduled in April and the elections in May 2010. Global and local sovereign budget deficit concerns likewise

[29] During the year, the BSP has kept its 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.

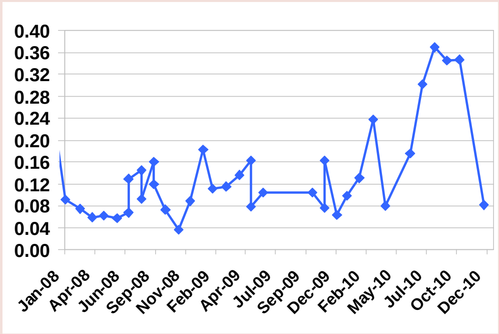
prompted a broad retreat from holding emerging market assets that were perceived to be risky.

Transactions picked-up by end-June as investors searched for high yields given the relatively low-interest environment in most of advanced economies. Favorable economic reports, both from the local and global markets, likewise prompted investors to pour money into the country's debt market. However, transactions slowed down in November following global and local sovereign budget deficit concerns and inflationary pressures in some of emerging markets in the region, leading to a temporary retreat in the last two months of the year.

On the other hand, corporate listings at the FIE increased in 2010. Joining the list of tradable corporate debts were fixed-rate bond and retail bond issuances of Robinsons Land, Filinvest Land, JG Summit Holdings, Power Sector Assets and Liabilities (PSALM), and from Tanduay Distillers. These new listings reflected local issuers' increasing confidence in the FIE's infrastructure.

The significant increase in the buying and selling of bonds at the secondary market was also reflected in the rise in the government bond turnover ratio to 2.45x in 2010 from 1.35x in the previous year.[30] On a monthly basis, the ratio remained less than 1.0x but showed an improvement compared to the previous year's level. Activity in the secondary market was initially low during the first half but was able to recover by the second half as it reached its peak in October at 0.35x.

PDEx Government Bond Turnover Ratio



[30] The ratio only covers turnover for government bonds. This excludes corporate bonds due to lack of available data on outstanding corporate bonds. The bond turnover ratio is computed as the ratio of the volume of sales of T-bonds over the average 2-month outstanding.

International Bond Market

Government issuances of global dollar bonds well-received

In 2010, the NG was successful in tapping the international capital market, opening the year with a US$1.5 billion dual-tranche offering in January. This was followed by the NG's issuance of JPY100 billion worth of 10-year samurai bonds via private placement in late February and US$500 million from the sale of retail, multi-currency bonds to small investors and institutional buyers in April. In September, the NG raised another US$1.0 billion worth of global peso-bond, Asia's first global local currency bond deal. The NG concluded the year by issuing US$2.01 billion of new 2021 bonds and US$0.95 billion of reopened 2034 bonds in a debt swap offer aimed at stretching the country's debt maturity profile.

Private sector corporations tap international bond market

Private corporations were likewise successful in accessing the international debt market for its funding needs. Overall, private corporates issued a total of US$1.8 billion worth of dollar-denominated bonds in 2010, taking advantage of the relatively low interest rate environment in the international bond market.[31]

Credit Risk Assessment

Credit rating on Philippine sovereign debt upgraded

The credit ratings and outlook of the country's sovereign debt were upgraded in 2010. On 12 November 2010, S&P raised the Philippines' long-term foreign currency rating from BB- to BB or two notches below investment grade with a stable outlook. The S&P rating was at par with Fitch's ratings which stood at BB, also two levels below investment grade. Meanwhile, Moody's ratings on Philippine debt papers stood at Ba3, three rungs below investment grade. Along with S&P, Moody's and Fitch's gave a stable outlook on the country's credit ratings.

The upgrade by S&P was buoyed by the country's improved balance of payments position which has increasingly eased earlier concerns over fiscal and external debt issues and has likewise served as a buffer against adverse shifts in terms of trade or investor sentiment. However, the credit rating agency also recognized the need for further improvement in the country's fiscal situation, underpinning the importance of fiscal reforms to generate higher revenues.

[31] Department of Economic Statistics (DES) Sources of Corporate Funds Report, December 2010.

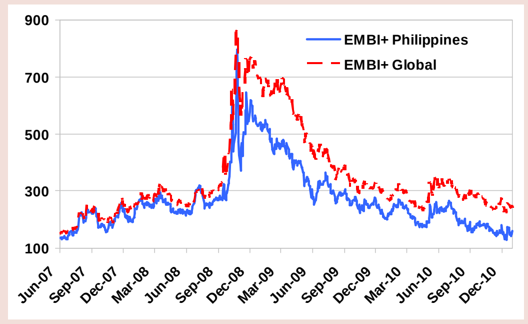
Philippine Sovereign Credit Ratings *As of December 2010*				
Rating Agency	**Rating Period**	**Local Currency LT/ST**	**Foreign Currency LT/ST**	**Outlook**
S&P	Nov-10	BB+/B	BB/B	Stable
	Jul-09	BB+/B	BB-/B	Stable
Moody's	Jul-09	Ba3/n.a.	Ba3/n.a.	Stable*
	Feb-09	B1/n.a.	B1/n.a.	Stable
Fitch	Aug-10	BB+/n.a.	BB/B	Stable
	May-09	BB+/n.a.	BB/B	Stable

Source: S&P, Moody's, and Fitch Ratings
*Updated to positive on 6 January 2011

Spread on Philippine sovereign bonds and CDS narrows

With the country's credit rating upgraded, the market has also placed a lower premium in holding Philippine debt papers as reflected in the steady narrowing of the country's sovereign debt spreads. The extra-yield investors demand to hold Philippine bonds instead of US Treasuries, as indicated by the JP Morgan Emerging Market Bond Index (EMBI)+Philippine spread, averaged 199 basis points (bps), significantly tighter than the previous year's 337 bps. Over the year, spreads narrowed steadily from a high of 270 bps in February to 159 bps at end-2010. Spreads also tightened significantly from the peak levels seen during the height of the crisis in 2008. Throughout the year, the EMBI+Philippine spread generally hovered below the JP Morgan EMBI+Global spreads, which in turn narrowed from its year's peak of 355 bps to 248 bps by end of 2010.[32]

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



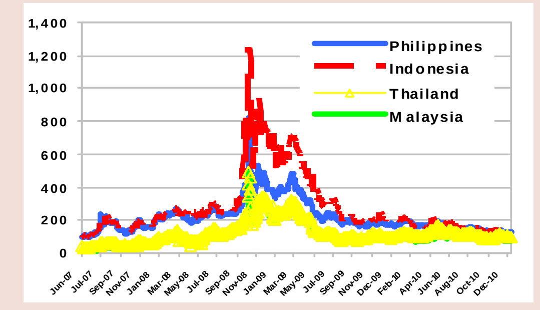
Also reflecting the country's improved credit outlook, the Philippine's credit default swap (CDS) spreads, or the

[32] 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. Source: Bloomberg

cost of protecting the country's bonds against default, narrowed to 128 bps by end of the year.[33] It is also worth noting that the Philippines was able to borrow at rates lower compared to thye rates fetched by the other sovereigns with similar credit ratings. In particular, the spread on the CDS for Philippine government bonds averaged 157 bps during the year, much tighter than the 251 bps average CDS spread of similarly-rated Vietnam, and slightly lower than the 162-bps of the much higher-rated, Indonesia. On the other hand, the Philippine CDS has remained wider than Malaysia's 88 bps and Thailand's 112 bps.

Spreads shrank to their lowest as a wave of strong economic data, both from the international and domestic markets, fueled investor appetite for emerging market assets. In particular, higher-than expected domestic economic growth, benign inflation, public expectations of sustained low interest rate in the medium term, and robust investment inflows and remittances contributed to the tightening of sovereign spreads. There was also ample liquidity in the market which prompted investors to put their surpluses in bonds, pushing yield spreads to tighten. Moreover, the record-low interest rates in the US and Europe and the higher yields in emerging market (EM) papers increased carry-trade transactions, driving the demand for EM debt, including ROP bonds. The US Fed's implementation of their second round of quantitative easing measures and the BOJ's similar step to relax its monetary policy drove investors to hunt for higher yields, resulting in the narrowing of spreads of emerging market debts.

Senior 5-year CDS Spreads
(In basis points)



[33] 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$128,000 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.

Spreads widen occasionally over European sovereign debt concerns, political issues in Thailand and Korea and inflationary pressures in emerging markets

On the other hand, a number of negative developments have somehow tempered the tightening trend in debt spreads during the year. Widening pressures were seen, especially during the second quarter, over the rising burden of sovereign financing, raising concerns on the sustainability of public sector finances. Election jitters alongside the brewing European sovereign debt crisis likewise added to market risk aversion in holding emerging market debt, including ROPs. Political tensions in Thailand and in the Korean peninsula reduced the demand for emerging markets' riskier assets, resulting in an occasional widening of debt spreads during the year. Furthermore, market worries over the growing inflationary pressures in some emerging markets in Asia also exerted widening pressures on debt spreads.

External Sector

Balance of Payments

Full year 2010 BOP posts record-high surplus

The cumulative BOP for the full year of 2010 yielded an all-time high surplus of US$14.4 billion. This level was more than double the US$6.4 billion surplus achieved a year ago. Both the continued healthy current account and the sturdy capital and financial account contributed to the strong BOP performance. A favorable trade environment, clearer signs of strengthening global rebound and sustained investor appetite for emerging market assets contributed to the robust external payments position (Table 11).

The current account continues to be in surplus

The current account remained in surplus in 2010 at US$8.5 billion, equivalent to 4.5 percent of GDP. This was slightly lower than the US$9.4 billion surplus in 2009 on account mainly of the higher deficit in trade-in-goods and lower net services receipts, even as higher net current transfers and income receipts were posted.

Net current transfers receipts grew year-on-year by 1.9 percent, due mainly to the 7.2 percent growth in remittances of non-resident OFs, which amounted to US$16.2 billion in 2010.[34] The major driving factors that helped accelerate the growth in remittances were the diversity of the destinations (which makes remittances more resilient even in the midst of shocks occurring in select host economies) and skills of overseas Filipinos combined with the expanding network of bank and non-bank service providers both locally and abroad to capture a larger share of the global remittance market.

[34] Total cash remittances coursed through the banking system totaled US$18.8 billion.

The income account recorded a surplus of US$308 million, a reversal of the US$193 million deficit in 2009. The marked improvement was mainly due to the 11.8 percent rise in gross earnings of resident OFWs, which reached US$5.1 billion in 2010. This more than made up for the higher net payments of investment income at US$4.8 billion, arising largely from higher interest payments on bonds issued by the NG (by 12.1 percent) and some private corporations (by 7.0 percent).

On the other hand, the trade-in-goods deficit widened by 17.4 percent to reach US$10.4 billion, with both exports and imports registering double-digit growth rates of 34.8 percent and 31.5 percent, respectively, as external trade rebounded. The major export growth drivers for the full year 2010 were coconut products (88.3 percent), other agro-based products (33.8 percent), mineral products (27.2 percent), petroleum products (26.6 percent) and manufactures (35.1 percent), boosted largely by higher shipments of electronics, garments, machinery and transport equipment, chemicals, wood manufactures, and processed food and beverages (Table 11a). Meanwhile, across-the-board increments at double-digit rates were registered in major import commodity groups (Table 11b).

Net services receipts declined by 7.9 percent to US$1.9 billion in 2010, due mainly to higher net payments for transportation, travel, insurance, royalties and license fees, government and personal, cultural and recreational services, combined with lower net receipts from communication services. These were partly mitigated by the higher net receipts registered in BPO-related services, specifically other business services (by 22.3 percent) and computer and information services (by 23.2 percent). The BPO industry roadmap for the medium-term (2011-2016) estimates growth in revenues to rise to US$25 billion (equivalent to 10 percent share of the global market) and in its workforce at 1.3 million by 2016.

Gains were also posted in other services sub-accounts such as construction (72.4 percent) and financial services (34.5 percent).

Capital and financial account reverses into positive territory

The capital and financial account registered US$7.9 billion of net inflows for 2010, a substantial turnaround from the US$1.6 billion of net outflows in 2009. This developed as net portfolio and net other investments reversed to positive territory during the year. Net inflows improved as investors in search of higher yields channeled their funds to emerging markets, following signs of further recovery in the global economy, particularly in Asia. Other factors such as the country's solid macroeconomic fundamentals and resilience during the global crisis, the stable banking sector, and favorable growth outlook also boosted foreign investor interest.

Significant developments in the capital and financial account during the review period consisted of the following:

The portfolio investment account realized US$4.0 billion of net inflows during the year, a sharp reversal of the US$625 million of net outflows in 2009.

The major inflows in 2010 included the following:

a) Non-residents' subscriptions to the bonds/notes flotation of the NG (US$6.6 billion),[35] local banks (US$422 million), and local private corporations (US$2.5 billion);
b) Non-residents' placements in peso-denominated government securities (US$2.8 billion);
c) Net resale by residents through secondary market trading of Philippine debt papers originally issued abroad by the NG (US$375 million); and
d) Non-residents' net placements in equity securities issued by local banks (US$162 million) and local corporations (US$319 million).

These inflows were partly offset by the following outflows:

a) Residents' net subscriptions to bonds/notes issued by non-residents (US$3.3 billion);
b) Redemption of bonds/notes issued by the NG (US$1.4 billion), the BSP (US$200 million), as well as some private (US$852 million) and public (US$646 million) corporations;
c) Net purchases by residents in the secondary market of Philippine debt papers issued abroad by corporations (US$579 million) and the banks (US$126 million); and
d) Net placements of residents in money market instruments issued abroad (US$107 million).

Similarly, the other investment account recovered in 2010, posting net inflows of US$2.8 billion from net outflows of US$2.7 billion in the previous year. This was achieved due mainly to the following factors:
a) Net repayments of loans extended by local banks (US$2.9 billion) to non-residents;

[35] Includes the reopening of 10- and 14-year Global Bonds (US$650 million and US$850 million, respectively) in January 2010; issuance of 10-year Samurai Bonds (US$1.1 billion) in February; issuance of 10-year peso-denominated Global Bonds (US$995 million) in September; and US$2.8 billion Global Bonds (US$1.9 billion due in 2021 and US$946.8 million due in 2034) for Bond Exchange, replacing US$2.3 billion Global bonds.

b) Non-residents' placements of currency and deposits with local banks (US$1.9 billion);
c) Trade credits extended by non-residents to private corporations (US$1.0 billion); Net loan availments from non-residents by the local banks (US$1.2 million), and public and private corporations (US$804 million); and
d) Local banks' other liabilities from non-residents (US$332 million).

These were partly offset by outflows arising from local banks' accrual of accounts receivables from non-residents (US$3.3 billion) and net placements by residents of currency and deposits in banks abroad (US$1.9 billion).

Meanwhile, the direct investment account yielded net inflows amounting to US$1.2 billion, lower by 23.6 percent compared to the net inflows posted a year ago. This developed as non-residents' direct investments in the country declined from US$2.0 billion in 2009 to US$1.7 billion in 2010. Specifically, equity capital investments in new and existing projects moderated during the year as investor sentiment was generally marked by cautiousness amid uncertainties surrounding the sovereign debt crisis in some parts of Europe and as inflation concerns escalated in some fast growing emerging markets. Net inflows of equity capital investments amounted to US$848 million, more than 50 percent lower than the net inflows posted in 2009 when large-scale investments were recorded arising from the privatization of a local power corporation and the acquisition of shares of a local beverage manufacturing firm.

Non-residents' reinvested earnings in local direct enterprises rose to US$291 million during the year, higher by almost 90 percent than the level recorded in 2009. The other capital account also registered higher net inflows of US$574 million from last year's US$77 million net inflows. Residents' investments abroad likewise rose appreciably by 35.7 percent to US$487 million during the review period.

Trading in financial derivatives posted a net loss of US$191 million in 2010 from the US$32 million net gain registered in 2009.

The capital account registered a net inflow of US$98 million in 2010, slightly lower by 5.8 percent than the US$104 million net inflows posted a year ago.

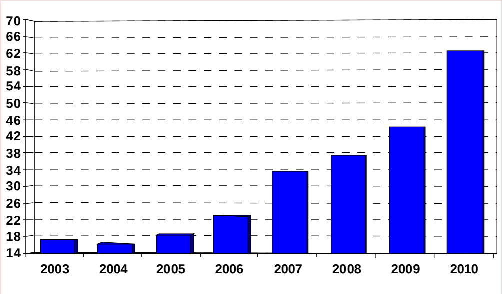
International Reserves

GIR continues to increase

The gross international reserves (GIR) of the BSP, including reserve position in the International Monetary Fund (IMF), rose to US$62.4 billion as of end-December 2010, a 41 percent increase from the previous year. At this level, the GIR was sufficient to cover about 10.3 months' worth of imports of goods and payments of services and income. Likewise, the corresponding reserve adequacy ratios at this level was around 10.9 times the country's short-term external debt based on original maturity and 5.8 times based on residual maturity (Table12).[36]

The significant accumulation of reserves over the 12-month period was due to inflows from the net foreign exchange operations of the BSP and income from its investments abroad, deposits by the NG, 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 review year. These receipts were, in turn, offset by outflows arising mainly from payments of maturing foreign currency-denominated obligations of the NG and the BSP.

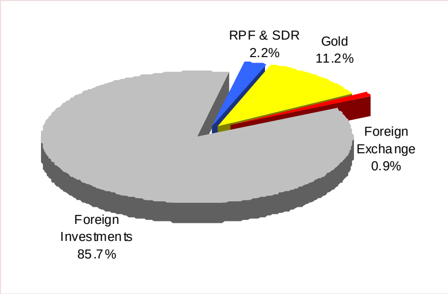
Gross International Reserves
In billion US dollars



Majority of the BSP's reserves, or 85.7 percent of the total GIR (including gold), were held in foreign investments while 11.2 percent were in gold holdings. The remaining 2.7 percent of total reserves were the combined holdings of foreign exchange as well as Special Drawing Rights (SDR) of the BSP and its reserve position in the IMF.

[36] 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.

Composition of Reserves
Percent share, end-December 2010



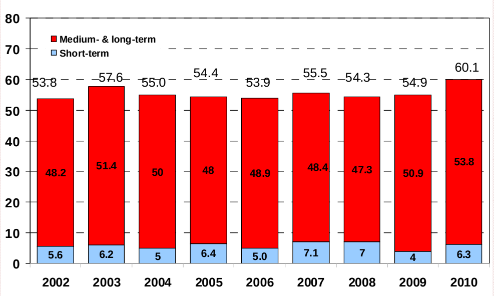
The net international reserves (NIR), including revaluation of reserve assets and reserve-related liabilities, rose to US$62.4 billion from the year-ago level of US$44.2 billion. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

External Debt

External debt remains manageable

The country's outstanding external debt reached US$60.1 billion as of end-December 2010, up by US$5.2 billion or 9.5 percent from its year-ago level of US$54.9 billion (Table 13).

External Debt
By maturity
In billion US dollars



The growth in the debt stock was on account of net availments amounting to US$5.2 billion as both the public (US$1.6 billion) and private (US$2.5 billion) sectors incurred new borrowings. Part of the growth came from upward foreign exchange revaluation adjustments (US$1.8 billion). These were partly offset by residents' additional acquisition of Philippine debt papers (US$775 million).

Maturity profile remains predominantly medium to long term

The country's medium and long term (MLT) loans reached US$53.8 billion, up by US$2.9 billion or 5.7 percent, during the period under review as against US$50.9 billion a year ago. The increase was due mainly to increased borrowings, particularly for energy projects, and upward foreign exchange revaluation adjustments resulting from the weakening of the US dollar against the Japanese yen. These MLT loans have a weighted average maturity of 22.4 years for the period under review. Public sector loans registered longer average of maturities of 24.2 years compared to 11.7 years for private sector loans. Meanwhile, the share to total external debt of MLT loans dropped to 89.5 percent compared to the previous year's 92.7 percent.

Similarly, short-term (ST) obligations rose by US$2.3 billion or 57.3 percent to US$6.3 billion in 2010 from US$4.0 billion in 2009. The expansion was attributed to the increase in liabilities reported by banks for funding purposes under the repurchase agreements and net availments for importations under Documents against Acceptance (DA)/Open Account (OA) arrangements. As a result, the share of ST obligations to total debt stock reached 10.5 percent in 2010 as against 7.3 percent in 2009.

Medium and Long-Term External Debt
By maturity profile
As of end-December 2010

	No. of Years
Total MLT Debt	22.4
Public Sector	24.2
Private Sector	11.7

Public and private sector debts increase

Public sector debt rose by US$3.0 billion to reach US$46.2 billion from the previous year's US$43.2 billion. The increase resulted mainly from net availments arising from NG's gross bond issuances and upward foreign exchange revaluation adjustments. These were partly negated by the rise in residents' holdings of Philippine debt papers. In contrast, the share to total borrowings by the public sector declined to 76.9 percent as of end-2010 from 78.8 percent as of end-2009.

Similarly, private sector debt increased by US$2.2 billion to reach US$13.9 billion for the review period from US$11.6 billion in 2009. The expansion was largely on account of additional borrowings, which were partly offset by the increase in residents' investments in private bonds. Meanwhile, the share to total borrowings of debt owed by the private sector rose to 23.1 percent as of end-2010 from the previous year's 21.2 percent.

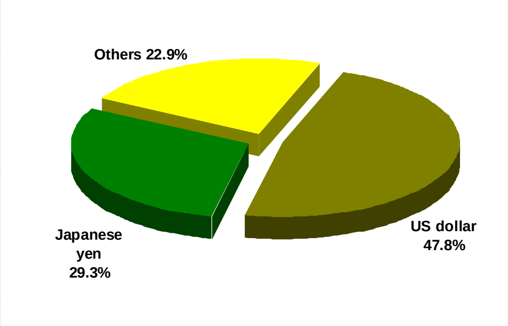
Creditor profile shows official lenders account for nearly 46 percent of the total external debt

By creditor profile, official lenders (multilateral institutions and bilateral creditors) accounted for 44.6 percent of the total debt stock, followed by foreign holders of bonds and notes (36.4 percent) and foreign banks as well as other financial institutions (12.0 percent). The rest of the creditors (7.0 percent) were mostly foreign suppliers.

The country's debt stock continued to be denominated mainly in two major currencies, the US dollar, whose share to total currencies was at 47.8 percent, and the Japanese yen, whose share was at 29.3 percent. US dollar-denominated multi-currency loans from international financial institutions comprised 10.5 percent of the total external debt stock while the remaining 12.4 percent of the total external debt were denominated in other currencies, which included the Special Drawing Rights and the euro.

External Debt

By currency, percent share, end-December 2010



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, declined to 27.8 percent in 2010 from 29.6 percent in 2009. Similarly, the ratio of external debt-to-GDP dropped to 31.8 percent for the period under review vis-à-vis the 32.9 percent posted in 2009.

In 2010, the country's debt service burden (DSB) reached US$7.3 billion (i.e., principal amortizations and interest payments) as against US$7.0 billion in 2009 (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 8.8 percent vis-à-vis 10.4 percent in 2009. 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 2009-2010, in percent		
	2009	**2010**
External debt to GNP	29.6	27.8
External debt to GDP	32.9	31.8
DSB to XGSI	10.4	8.8
DSB to CAR	9.8	8.4
DSB to GNP	3.8	3.4

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

The Monetary Board (MB) maintains policy rates in 2010…

The favorable outlook for inflation has allowed the BSP to maintain the RRP and RP rates at 4.0 and 6.0 percent, respectively, since July 2009. The MB deemed current monetary policy settings to be appropriate, given the favorable inflation profile and the public's expectations about inflation. Inflation projections continued to indicate a manageable inflation environment, with inflation expected to settle within the target ranges of 3.5 - 5.5 percent for 2010 and 3.0 - 5.0 percent for 2011 and 2012. In addition, various measures of core inflation pointed to a broadly stable underlying trend for consumer prices.

… and implements its exit strategy from crisis intervention measures.

At the same time, when financial market conditions stabilized, the MB decided to phase out liquidity-enhancing crisis response measures in the first semester. As global credit markets continued to normalize, the risk of contagion from global financial stresses to domestic financial markets was reduced markedly, paving the way for the normalization of policy.

On 28 January 2010, the MB aligned the peso rediscount rate with the overnight RRP rate effective 1 February 2010

On 11 March 2010, the MB reduced the peso rediscounting budget from ₱60 billion to ₱40 billion. It also restored the loan value of all eligible rediscounting papers from 90 percent to 80 percent of the borrowing bank's credit instrument, as well as brought back the non-performing loan ratio requirement for rediscounting access to two percentage points (from ten percentage points) above the latest available industry average NPL for banks wishing to avail of the rediscounting facility.

With economic conditions steadily showing signs of further improvement and financial markets remaining generally stable, the MB decided to continue with its disengagement from liquidity provision measures as it reduced further the peso rediscounting budget from ₱40 billion to the pre-crisis level of ₱20 billion effective 3 May 2010.

The withdrawal of these liquidity-enhancing measures also helped to minimize the potential inflationary risks associated with keeping liquidity in the system which may no longer be needed given improved financing conditions.

The BSP adopts a fixed medium-term inflation target

Meanwhile, the MB also announced in July 2010 the shift to a fixed medium-term inflation target from a variable annual inflation target. For 2012 - 2014, the inflation target range was set at 4.0 ± 1.0 percent. The adoption of a fixed medium-term target is expected to help promote a long-term view on inflation, increase the predictability of monetary policy and better anchor inflation expectations. In turn, this should facilitate and promote better-informed decisions by the public relating to consumption and investment, as it helps reduce uncertainty in the economy

On the whole, the MB was of the view that the monetary policy settings in 2010 represented a sound policy balance that was supportive of both inflation control and economic expansion. Nevertheless, the MB continued to watch closely for indications of underlying inflationary pressures as firmer signs of recovery in a broad range of indicators pointed to sustained momentum in domestic economic activity.

Financial System Stability

The BSP sustains banking reform initiatives

Amid improving global and domestic economic conditions, the BSP sustained its advocacy for financial reforms towards improving the conduct of banking and enhancing the delivery of financial services in the economy by opening further the doors to financial innovation, instilling greater market discipline and promoting greater competition. Toward this end, financial reforms were adopted to further strengthen corporate governance, improve banking services, align risk-based capital adequacy framework with international standards, enhance prudential regulations and promote healthy market competition to encourage more bank lending activities.

Strengthened corporate governance

The BSP amends existing regulations governing qualifications of trust officers

Amendment to existing regulations governing the qualifications and appointment/designation of trust officers. The revision underscores the extension of prohibition to spouses or relatives within the second degree of affinity from holding officership positions across a range of functional categories within a bank/financial institution. The amendments were made to heighten public confidence in the banking system. (Circular No. 669 dated 11 November 2010)

Enhanced banking services

The BSP issues rules and regulations on check clearing processes…

The BSP issued revised rules and regulations on check clearing and settlement processes (for both Integrated Greater Manila Local Exchanges (Integrated GM LX) and Regional Local Exchanges (RLX)). The new guidelines, among others, included prohibitions on temporary overdrawings against demand deposit accounts and uncollected deposits, as well as amendments to existing rules to govern banks' participation in the clearing process and overdrafts. The amended regulations were intended to ensure the operational efficiency of banks as well as mitigate settlement risk on financial transactions. (Circular Nos. 681 dated 8 February 2010 and 705, dated 29 December 2010)

The BSP allowed banks to provide micro-agri loans to borrowers who are engaged in farming for at least two years but have other sources of non-farm income. Under the new loan regulations, micro-agri loan applications that meet the standards set by the BSP (i.e., offering bank has a track record of at least two years in implementing sustainable microfinance programs, has an acceptable portfolio-at-risk (PAR) levels and an appropriate micro-agri loan product manual) shall be classified as microfinance loans. Accordingly, these loans will be granted the same benefits (e.g., exemption from the required traditional collateral and documentary requirements, shortened/ eased application procedures) accorded, as well as limitations (i.e., not to exceed ₱150,000; with short-term maturity and frequent amortizations; should be based on the borrowers' capacity to pay as determined through household cash flow analysis; and are typically unsecured, or secured with non-collateral substitutes like group guarantee or household/personal assets prescribed to regular microfinance loans). (Circular No. 680 dated 03 February 2010)

The BSP issued guidelines to govern the marketing, sale and servicing of microinsurance products by rural, cooperative and thrift banks intending to serve as distribution points for such products offered by licensed insurance providers. Among others, the guidelines prescribed banks intending to avail of the option to market or sell microinsurance products to ensure that such products presented and marketed are clearly distinguishable from bank products. Likewise, concerned banks must (1) comply with pertinent laws and rules on the sale of microinsurance products as set by the Insurance Commission (IC); (2) ascertain that all the necessary approvals and licenses from the IC are in place; and (3) verify that the authorized insurance provider has adequate consumer protection mechanisms. The new guidelines were put in place to eliminate informal insurance schemes as well as put an end to the unauthorized sale of insurance products. (Circular No. 683 dated 23 February 2010)

Aligned capital adequacy framework with international standards

…approves implementing guidelines on the Revised Risk-Based Capital Adequacy Framework

The BSP approved the implementing guidelines on the Revised Risk-Based Capital Adequacy Framework (RRBCAF) for stand-alone TBs, RBs and cooperative banks (coop banks). The new framework sets the risk-based CAR of stand-alone TBs, RBs and coop banks to no less than 10 percent. Qualifying capital is computed in accordance with the provisions of Part II. Risk-weighted assets are the sum of (1) credit risk-weighted assets (Part III), and (2) operational risk-weighted assets (Part IV). Banks with exposure to derivatives should include counterparty credit risk-weighted assets and/or market risk-weighted assets relative to such exposures, which should be computed based on the relative provisions of the RRBCAF for the Banking System, issued under Circular No. 538 dated 4 August 2006, as amended. Pilot runs of the CAR reports based on the revised framework will be conducted starting with the end-December 2010 report until end-December 2011 report. (Circular No. 688 dated 26 May 2010)

Enhanced prudential regulation

The BSP amended the rules and regulations governing the organization, membership, establishment, administration, activities, supervision and regulation of coop banks. The revisions were intended to align existing rules with the provisions of R.A. No. 9520 (The Philippine Cooperative Code of 2008) as well as with those covering other types of banks. The revisions were made to help create a strong, vibrant and more competitive cooperative banking sector that will provide the much-needed financial services in the countryside. (Circular No. 682 dated 15 February 2010)

The BSP amended the definition of interbank call loan IIBCL) transactions under Section X343 of the Manual of Regulations for Banks (MORB) and Section 4343Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). For the MORB, only IBCL transactions which are settled through the banks' respective demand deposit accounts (DDAs) with the BSP via PhilPaSS shall be subject to the reserve requirement prescribed for IBCL in

Subsec. X253.1. In the case of the MORNBFI, only IBCL transactions which are settled through the quasi banks' (QBs) respective DDAs with the BSP via PhilPaSS shall be eligible to zero percent reserve requirement. (Circular No. 689 dated 16 June 2010)

The BSP revised the guidelines on the transfer of FCDU/EFCDU profits(losses) to the regular banking unit (RBU) book and to the Selected Accounts and Schedules of the Financial Reporting Package (FRP). This is intended to help FCDUs/EFCDUs comply with the 100 percent asset cover requirement. (Circular No.691 dated 23 June 2010)

…amends guidelines on the remittance of foreign exchange dividends earned by banks from a subsidiary or an affiliate abroad

The BSP amended the guidelines governing the remittance of foreign exchange dividends earned by banks from a subsidiary or an affiliate abroad. Said revisions would treat reinvestments of dividend proceeds or deposit/placements in accounts of the investor bank with foreign correspondent banks abroad as compliance with the requirements that dividends earned should be remitted no later than 60 days after the date of payment. (Circular No. 692 dated 23 July 2010)

The BSP amended regulations on the establishment of other banking offices and notes to microfinance. Among others, said regulatory revision streamlines existing provisions on the establishment, regulatory requirements and allowable transactions (including non-transaction banking-related activities) for other banking units (OBUs) catering to the banking needs of micro-finance clients and OFs and their beneficiaries. The regulatory revision was made to foster greater financial inclusion and facilitate broader access to financial services. (Circular No. 69 dated 14 October 2010)

The BSP revised existing regulations on the minimum capital requirement for RBs. The new guidelines on the minimum capitalization requirement for RBs shall likewise apply to RBs and cooperatives intending to establish an FCDU. (Circular No. 696 dated 29 October 2010)

… revises regulations on single borrower's limit

The BSP amended regulations on single borrower's limit (SBL). The regulatory changes essentially increases the allowable credit limit granted to a single borrower by 10 percent of net worth of such bank, provided that the additional liabilities are properly secured by readily marketable securities. The same regulatory changes also call for another 25 percent increase in the credit ceiling provided that the additional credit accommodation are associated with the development and infrastructure projects under the Public-Private Partnership (PPP) program of the government. Said regulations were intended to enhance the pro-active participation of the private sector in the NG's PPP program (Circular No. 700 dated 6 December 2010)

Promoted market competition

… and allows thrift banks to issue foreign letters of credit and pay/accept/negotiate import/export draft/bills of exchange

The BSP amended the MORB to strengthen regulations on the grant of authority of thrift banks to issue foreign letters of credit and pay/accept/negotiate import/export draft/bills of exchange. The revised regulation requires bank personnel who will be appointed to handle the said operations should have an actual experience and/or specific training in import and export financing operations (prior to engaging in said activities). (Circular No. 686 dated 20 April 2010)

During the year, the BSP achieved with relative success its targets set in maintaining stability in the financial system. These were evident in the following:

1) Asset weighted CAMELS average (ACA) rating of banks which reached 3.20. While slightly lower than the 3.30 target, banks ACA rating this year was, nonetheless, an improvement from the 3.14 recorded a year ago; [37]

2) Stock of banks under prompt corrective action (PCA) status which was kept unchanged from last year's 207. While remaining above the 10 percent target, the share of PCA banks to total operating banks this year at 27.31 showed a slight improvement compared to the 27.36 percent recorded in 2009 (despite the closures of a number of non-viable banks); and

3) Adherence to examination program. Notwithstanding existing resource constraints, the BSP was able to examine 424 banks and 38 non-banks during the year. This represented a compliance rate of 82.9 percent over the 557 banks/non-banks programmed for examination during the year.

[37] The BSP assigns each bank a composite rating on a scale of five (best) to one (worst) based on the score for each of the following component factors: C - capital adequacy, A - asset quality, M - management, E – earnings, L – liquidity and S - sensitivity to market risk. The CAMELS is a summary of a bank's condition that can serve as basis for supervisory actions.

Box Article 3:

Implications of the Global Financial Regulatory Reforms for Monetary and Financial Stability

The Global Regulatory Reforms and Basel III

The recent global financial crisis highlighted the need for a major reform of the global financial regulatory system.

- The financial crisis was triggered primarily by excess global liquidity, leading to excessive leverage as well as insufficient capital and inadequate liquidity buffers of financial institutions;

- A procyclical deleveraging process and the interconnectedness among systemically important financial institutions (that were considered too-big-to-fail) also played a major role;

- Other factors include major shortcomings in risk management, corporate governance, market transparency, compensation practices, and the quality of supervision.

In response to the weaknesses made apparent by the crisis, efforts were made to overhaul existing regulatory framework. At the centerpiece of this process is the agreement on the Basel III capital framework.[1]

Basel III was designed to address these shortcomings and, more importantly, to enhance both bank-specific soundness and wider banking sector stability.

- Substantially raises the quality and quantity of capital, with greater focus on common equity to absorb losses.

- Requires a more comprehensive coverage of the risks, especially related to capital markets activities. Trading book exposures, for example, will be subject to a stressed value-at-risk requirement.

- Introduces stronger supervision, risk management and disclosure standards.

In addition to these microprudential measures, Basel III introduces fundamentally new elements into the global regulatory framework, including capital buffers that can help protect the banking sector against credit bubbles and that can be drawn down during times of stress. This could also help moderate upward pressure on real estate prices, for example, which is becoming a concern in some countries in Asia.

Issues and Challenges

While the agreement on Basel III capital reforms marks the completion of a key milestone in the global financial reform process, more work needs to be done, particularly in implementing the rules in a timely and consistent manner. However, it will also be important to address some important issues and challenges related to the implementation of these measures including their implications on monetary and financial stability.

Growth Effect

Studies have attempted to estimate the growth effect of the recent Basel proposals on liquidity and capital. A thorough review of the potential impact of the Basel III standards conducted by the Macroeconomic Assessment Group (MAG) and the Long term Economic Impact Group (LEI) of the Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) shows that the new standards are expected to have only a modest impact on economic growth over the transition period, while the LEI results show that the economic benefits associated with the higher capital and liquidity requirements will substantially exceed the costs.[2]

Challenges for Developing Economies[3]

Meanwhile, there is the issue that the package of reforms focused essentially on issues affecting advanced economies with developed financial markets, whose economic and financial arrangements differ substantially from developing countries. Hence, developing economies are concerned about the relevance of these reforms to the challenges facing emerging economies.

<u>On higher capital and liquidity standards.</u> For many developing economies in Asia, their largely underdeveloped local currency bond markets could pose a major challenge in meeting higher capital and liquidity standards. New and higher liquidity standards could be problematic for those countries with underdeveloped domestic debt markets coupled with limited availability of liquid assets.

<u>On identifying systemically important financial institutions</u>. Defining what constitutes SIFIs could also be a challenge for many developing countries in the region given the scarcity of necessary data and methodologies needed for thorough assessment. At the same time, the strong presence of foreign banks, which may not pose global risk but could pose domestic risks, complicates the process of defining systemic importance.

<u>On developing domestic and regional credit rating systems</u>**.** Much work is required in developing domestic and regional institutions for credit rating systems in Asia. Moreover, such efforts are hampered by the high set-up cost associated with building infrastructures. For example, database and human resource requirements to cover all local markets could be challenging for the region.

<u>On strengthening global accounting and financial standards</u>. Gaps in infrastructure support (in terms of data, methodologies, and information technology) still remain significant among developing Asian countries and there is a continuing need to build accounting infrastructures across the region in line with international standards.

<u>On the conduct of macroprudential supervision</u>. The conduct of macroprudential surveillance could also be challenging due largely to weak national monitoring systems in many developing economies across the region, arising in turn, from data, methodology, and information technology gaps.

Implications for Monetary Policy and Financial Stability

It has been argued that the adjustment costs associated with the adoption of stronger capital and liquidity standards in advanced economies could lead to weaker growth in the short term in these countries, resulting to further surges in capital flows in the region.

Developing countries in the region are thus taking measures to try to address these vulnerabilities. In this regard, financial stability concerns should be integrated more systematically into monetary policy decision-making process.

Integrating Financial Stability in the Conduct of Monetary Policy

Developing a monetary policy framework that integrates financial stability is a difficult task. In the meantime, a quicker solution would have to be the extension of policy horizons for price stability to the medium term in order to take into account financial imbalances which build up over time.

In the Philippines, the following measures were undertaken by the BSP in an effort to include financial stability considerations in the formulation of monetary policy:

- <u>Establishing a Financial Stability Committee</u>**.** The BSP created a Financial Stability Committee in September 2010 to define the appropriate market vision and work plan to mitigate adequately the build-up of systemic risk under a Financial Stability objective.

- <u>Promoting inter-agency coordination through the Financial Stability Forum (FSF).</u> To promote overall coordination of macroeconomic and financial sector policies in the Philippines the FSF was established. The FSF aims to harmonize policies across its four original member agencies in promoting financial stability.[4]

- <u>Extending the BSP's policy horizon</u>**.** The BSP extended its policy horizon for price stability from 2 years to 3 years to help promote a long-term view on inflation, increase the predictability of monetary policy and better anchor inflation expectations. The adoption of a fixed medium-term target could also provide an integrated perspective on macroeconomic and financial risks.

Conclusion

Despite the challenges brought into fore by the proposed regulatory reforms, the importance of these prudential reforms in improving further the ability of the banking system to absorb shocks arising from financial and economic stress cannot be overemphasized. The long-term benefits arising from strengthening financial stability and reducing the likelihood and severity of financial crises far outweigh the costs involved.

It is important to note that, efforts in the past, including the cleaning up of bad assets in the banking system, aligning accounting practices with international standards, enhancing risk management systems, and strengthening bank capitalization, have enabled the Philippine banking system to weather the recent global crisis.

However, the success of Basel III in the attainment of financial stability requires active engagement of national supervisors in the process of implementing effectively and enforcing the new regulatory standards. Achieving this requires a well thought out and clear strategy to move to Basel III. The Basel III requirements start to take effect from the beginning of 2013 and will be phased progressively in by 2019. Consequently, there is enough time within this schedule to design a Basel III strategy that relies on:

1) **Assessing the implications of the Basel III reforms for the local banking system**. This requires comparing the strength of the current regulatory and supervisory baseline with the Basel III requirements. This will involve analyzing the potential impact of Basel III on individual banks and the financial system as a whole. In addition, open communication and close coordination with relevant regulatory authorities and the domestic banking industry could provide a wider perspective on these potential impacts.

2) **Identifying the skills, knowledge and experience needed for overseeing Basel III implementation.** Investing in capacity-building to upgrade the skills of current staff and attracting qualified staff are very important components of any Basel III implementation strategy.

3) **Establishing the domestic Basel III priorities**. These priorities should be reflected in an implementation roadmap with specific target dates, which should be clearly communicated. The establishment of these priorities and their deadlines should also take into account any legislative changes as well as amendments to prudential rules and regulatory guidance needed to implement Basel III.

Endnotes:

[1] The Basel III which sets more stringent capital and liquidity requirements for banks was approved on 11- 12 November 2010 during the Leaders' Summit of the G20 countries in Seoul, Korea.
[2] "Interim Report: Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements." Macroeconomic Assessment Group. 18 August 2010. The MAG published a follow-up work (on 17 December 2010) that started with an average capital position of 5.7% for large banks, which was based on the results of the BCBS's quantitative impact study, and assumed a fully phased-in Basel III framework according to the Committees' transitional arrangements. Under these conditions, raising the global common equity capital ratio to 7 percent would result in a maximum decline in the level of GDP, relative to baseline forecasts, of 0.22 percent. In terms of growth rates, annual growth would be 3 basis points below its baseline level over this period, with the benefits of increased capital well surpassing the costs.
[3] Arner, Douglas and Park, Cyn-Young. "Global Regulatory Reforms: Implications for Developing Asia." September 2010. ADB Working Paper Series on Regional Economic Integration.
[4] Original members include the BSP, Securities and Exchange Commission, Philippine Deposit Insurance Corporation, and Insurance Commission. As an enhancement to the current FSF, the inclusion of a representative from the NG, including large government controlled or state-owned corporations in the FSF is being explored given the importance of the country's fiscal balance on financial market conditions.

Payments and Settlements System

The BSP continues to provide intermediary services through PhilPaSS

The BSP as operator of the Philippine Payments and Settlements System (*PhilPaSS*) continued to provide safe, sound and efficient payment and settlement of financial transactions in real time.

Volume and Value of PhilPaSS Transactions 2010 vs 2009			
	2010	**2009**	**Annual Change (%)**
Volume	916,304	749,591	22.2
Value (In trillion pesos)	206.6	188.5	9.6
Transaction Fees (In million pesos)	151.2	133.3	13.4
Source: Payments and Settlements Office			

Volume of PhilPaSS transactions rises

In 2010, the number of transactions processed and settled in *PhilPaSS* grew by 22.2 percent to 916.3 thousand. Similarly, the value of transactions stood at ₱206.6 trillion, 9.6 percent higher compared to the ₱188.5 trillion recorded in 2009. The significant increase in the number and volume of transactions stemmed mainly from OF remittances transactions processed and settled through the *PhilPaSS* REMIT system. As of end-December 2010, the total number of OF remittances transactions was recorded at 112.6 thousand with a corresponding value of ₱4.0 billion.[38]

The increase in volume of transactions was attributed to the rise in the following: secondary market trades via the Delivery versus Payment (DvP) (64.8 percent); interbank call loans (24.2 percent); tertiary market trades via expanded DvP (eDvP) (16.2 percent); cash deposits (15.9 percent) and FX trade settlements via PvP (8.3 percent). Likewise, the rise in the volume of transactions translated into higher value of transactions as shown in the following: secondary market trades via the DvP (141.5 percent); interbank call loans (7.2 percent); tertiary market trades via eDvP (7.0 percent); cash deposits (25.3 percent) and FX trade settlements via PvP (14.8 percent).

As a result of the increased volume of transactions that passed through the *PhilPaSS*, total revenues from transactions fees (system and software re-installation, EFTIS user-registration, and other miscellaneous fees)

[38] The PhilPaSS-Remit system is a project undertaken by the BSP in coordination with the Association of Bank Remittance Officers, Inc. (ABROI) to enhance the remittance environment for OFs and their families. The project was implemented on 4 May 2010 and is currently participated in by 12 banks.

reached ₱151.2 million, 13.4 percent or 17.9 million higher than year-ago levels.

In connection with the conduct of payments and settlements, the BSP was able to fully meet the targets in 2010 for the following areas: 1) maintenance of RTGS-PhilPaSS demand deposit accounts (DDA) of banks and non-banks with BSP; 2) supervision and monitoring of RTGS- PhilPaSS operations; and 3) release of real-time DDA balance to PhilPaSS participants.

However, average daily transactions for OF remittances processed and settled through the PhilPaSS REMIT system reached only 667, lower than the target of 6,500 average daily transactions, due to system enhancement being undertaken by banks. Moreover, contracts with tie-up remittance partners constrained participating banks from shifting immediately the processing and settling of their transactions through PhilPaSS.

The BSP continues to enhance the efficiency of the existing system

In 2010, the BSP actively participated in various projects, activities, and initiatives to enhance the efficiency of the existing payment system, such as:

- Implementing the settlement of BSP-SPC Checkless Disbursement System through the *PhilPaSS*;
- Hosting of the 22nd Executives Meeting of the East Asia and the Pacific Working Group on Payments and Settlements System (EMEAP-WGPSS) held in March 2010 in Cebu;
- Conducting the first *PhilPaSS* Client Satisfaction Survey to determine the participants' level of satisfaction on the system's reliability and efficiency of operations;
- Conducting a survey on the possibility of setting up a maximum amount that can be written on checks when used as payments and any excess of which should be settled online;
- Creating an inter-agency task force that will conduct a study on the possible application of Check Truncation Technology in the Philippines; and
- Conducting two fora for system users from participating banks to enhance their knowledge in using *PhilPaSS.*

Moving forward, the BSP will continue to implement projects and initiatives to further enhance the country's payment system. These include the following:

- Launch a campaign to encourage other entities who are engaged in remittance business and recipient of OF remittances to participate in the *PhilPaSS* REMIT System;

- Implement Circular 681 or the Revised Check Clearing and Settlement Processes to improve the processes involved in check clearing and settlement operations;

- Expand the *PhilPaSS* accessibility through the use of alternative solutions for payments-related transactions initiated by the various BSP departments and offices;

- Improve the efficiency of the existing check processing and clearing operations through the introduction of Check Truncation Technology and set up limit on the use of checks as payments;

- Acquire participant's browser which will be used to expand the delivery of payments and settlements services up to the branch level of banks to enable their clients to initiate payment transactions to PhilPaSS;

- Coordinate with the Philippine Stock Exchange (PSE) for the settlement of PSE trades in PhilPaSS;

- Conduct a study on the possibility of the BSP serving as back-up settlement bank for FX trades; and

- Plan and implement an improved PhilPaSS awareness campaign through advertising, promotional materials, lectures, and briefings via various communication and media channels (print, TV, and radio).

Key Operations of the BSP

Loans and Credit

The BSP gradually disengages from crisis intervention measures….

As financial market conditions continued to stabilize in 2010, the BSP started a calibrated withdrawal of crisis-relief measures, which were introduced in 2009. It reduced the peso rediscounting budget from ₱60 billion to ₱40 billion effective 15 March 2010 and to the pre-crisis level of ₱20 billion effective 3 May 2010.

The peso rediscount rate was also set equal to the overnight reverse repurchase rate (RRP) effective 1 February 2010. It may be recalled that, effective 2 March 2009, the BSP approved a peso rediscount rate that was 50 basis points lower than the overnight RRP rate as part of a package to liberalize banks' access to the BSP's rediscounting facility and ensure the orderly operation of domestic financial markets should global financial conditions worsen.

Effective 15 March 2010, the BSP also restored the loan value of all eligible rediscounting papers from 90 percent to 80 percent of the borrowing bank's credit instrument, but not higher than 70 percent of the appraised value of the underlying collateral. It also brought back the NPL ratio requirement of two percentage points (from 10 percentage points) above the latest available industry average NPL for banks wishing to avail of the rediscounting facility.

As of 31 December 2010, the total loan portfolio of the BSP reached ₱102.0 billion, ₱39.1 billion or 27.7 percent lower than the previous year's ₱141.1 billion. Similarly, the total loans outstanding under the regular rediscounting facility was also lower at ₱17.6 billion from ₱55.8 billion in 2009.

Total loans granted in 2010 amounted to ₱53.8 billion, with ₱53.6 billion granted under the regular rediscounting facility. Out of the ₱53.6 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 ₱41.1 billion, ₱10.6 billion, and ₱1.9 billion, respectively.

Total loan collections for the year reached ₱92.9 billion with the bulk or ₱91.7 billion accounted for by rediscounting. Meanwhile, total gross income from lending operations of the BSP Head Office reached ₱4.1 billion in 2010.

… 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 and the Philippine Deposit Insurance Corporation (PDIC). Among its accomplishments were:

1) An ISO certification for "Provision of Risk-Managed Lending Operations and Real-Time Delivery of Credit of Banks".

2) The launching of the Credit Surety Fund Program (CSFP) in three (3) more provinces in 2010, as targeted, bringing the total number of credit surety funds established to 14.

The CSFP is a credit enhancement scheme that allows micro, small and medium enterprises (MSMEs) that are members of cooperatives to borrow from banks even without collateral. Loans granted by banks under the program are eligible for rediscounting with the BSP through the Department of Loans and Credit.

3) The conduct of Credit Appraisal Monitoring (CAM) training programs covering 10 participating cooperatives to enhance their capacity to assess loan applications of MSMEs under the CSFP.

4) The completion of a masterlist of collateral holdings.

5) The provision of technical assistance to various banks regarding the BSP's rediscounting facility and the proper use of the eRediscounting System.

Most targets related to loans and credit were met or exceeded in 2010. Notably, loans granted to commercial banks and thrift banks under the eRediscounting System were collected in full at maturities on account of the automatic debit repayment system adopted by the BSP.

Asset Management

The BSP ensures proper administration, monitoring, preservation, and safeguarding of its acquired assets…

The BSP ensures that the assets it has acquired through foreclosures, *dacion en pago* agreements,[39] and real properties not used in operations are administered, maintained, and preserved to enhance their value prior to eventual disposal. To avail of the BSP's loan facilities, private banks mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties. In the event of failure of these banks and mortgagors to pay their loans, borrower banks may opt to execute the *dacion en pago* agreement with the BSP. In the absence of such arrangements, these real properties are foreclosed and management is transferred to the BSP for sale or subsequent disposal.

The BSP improves the administration and maintenance of foreclosed properties through policies and procedures that include close monitoring of the payment of taxes and other government fees to take advantage of early

[39] "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.

payment discounts and ensure that BSP's ownership over the acquired properties is properly safeguarded.

In June 2010, an integrated computerized system called the Acquired and Other Assets Management System (AOAMS) designed for managing acquired assets and monitoring income, expenses, and receivables became operational. The AOAMS is a useful tool in monitoring foreclosed properties and re-appraising the value of acquired assets.

… implements a restructuring scheme beneficial to both BSP and buyers of its acquired assets…

The BSP implemented a restructuring scheme for delinquent accounts of buyers of BSP acquired assets[40] who were adversely affected by natural calamities, job disruption, or business slowdown, which included the waiver of additional interest and penalties on unpaid amortization. It has restructured 27 deliquent accounts amounting to ₱17.66 million, with restructured terms ranging from 2 to 16 years. Amortization payments of buyers of properties or whose permanent residences are located in places declared by the National Disaster Coordinating Council (NDCC) as calamity areas were also suspended.

As of end-2010, the existing valuation reserves fund set up to minimize the impact of a change in the value of acquired assets brought BSP's accumulated allowance for market losses stood at ₱1.6 billion.

The book value of the BSP's acquired assets as of end-December 2010 stood at ₱11.25 billion, ₱0.68 billion or 5.7 percent lower than the previous year's level. Meanwhile, the total number of acquired real property titles in 2010 decreased by 4.7 percent or 1,549 titles to 31,679 titles compared to the previous year.

… and continues to dispose of acquired properties through various schemes.

The BSP disposes its acquired properties through various schemes, such as: (1) public auction; (2) sale of acquired assets on a negotiated basis; (3) sale through the BSP's Asset Management Department-Provident Fund Office (AMD-PFO) Housing Program III to BSP personnel and employees of other government agencies assigned at the BSP (e.g., Commission on Audit, Civil Service Commission, Philippine Postal Corporation); (4) redemption/repurchase; (5) participation in housing fairs sponsored by the NG through the Housing and Urban Development Coordinating Council; and (6) sale through the Community Mortgage Program of the Social

[40] The Committee on Disposal of Real Properties approves the application of buyers with restructured obligations of up to ₱2 million. In excess of ₱2 million, applications are submitted to the Monetary Board for approval.

Housing Finance Corporation of properties occupied by informal settlers.

In 2010, seven (7) properties with a minimum bid price of ₱40.3 million were offered for public auction by the BSP. However, the auction failed due to the absence of bidders.

The BSP disposed of 2,071 acquired properties at a total price of ₱583.14 million, exceeding its target of ₱500 million by 16.6 percent and generating an estimated net income of ₱295.25 million.

However, the BSP was only able to meet 79.5 percent of its target in terms of collection of sales contract receivables

International Reserves Management

Gross international reserves sustain double-digit growth

The GIR of the BSP rose to US$62.4 billion as of end-2010, 41 percent higher than the level in the previous year. Strong external liquidity as well as the BSP foreign exchange operations and bond issuances of the NG supported the significant growth in GIR. The BSP, through the Investment Management Committee (IMC), continued to review and evaluate new asset classes and investment guidelines to enhance further its reserves management practices.

The management of the BSP's international assets is classified into three, namely: internally-managed portfolio, externally-managed portfolio and gold operations. Under the internally-managed portfolio, enhancements introduced in 2010 included the following: (i) revisions in the methodology of computing the appropriate portfolio size; (ii) rebalancing of portfolio every month-end to align with changes in the benchmark; (iii) adoption of a composite benchmark with a better risk-return profile; and (iv) implementing further currency diversification. These enhancements were carried out to improve risk management and minimize costs in managing the portfolio.

On 11 November 2010, the Monetary Board approved the transfer of additional funds to the externally-managed portfolio, as well as other long-term measures to increase the diversification of reserves, enhance the portfolio's income and facilitate a more efficient management of the reserves with the use of new investment tools. With regards to the BSP's gold reserves, the sale of gold was increased to take advantage of higher gold prices during the year.

In terms of managing international liabilities, the BSP continued to monitor and administer its outstanding liabilities. Moreover, existing Memorandum of Understanding on bilateral and regional arrangements continued to be administered.

Market risk exposures were closely monitored and became the basis in evaluating and implementing investment strategies. The careful balancing of market opportunities and risks, in line with the BSP's motives for reserve holding, led to an effective management of international assets and liabilities which enabled the BSP to reach a record-high GIR level in 2010.

As a result, the BSP was able to adhere to its reserve management objectives of liquidity, capital preservation, and profitability. The BSP was able pay all of its maturing foreign-denominated obligations and no capital loss was reported. In terms of profitability, the internally-managed portfolio underperformed slightly by 10 bps while the externally-managed portfolio outperformed the benchmark by 40 bps. Moreover, the sale of gold enabled the BSP to realize significant capital gains in 2010.

International Operations

The BSP further liberalizes access to the FX resources of the banking system

In November 2010, the BSP liberalized further the access to the foreign exchange (FX) resources of the banking system for legitimate trade and non-trade transactions as part of the BSP's thrust to promote and maintain a regulatory environment that is supportive of economic growth, taking into consideration domestic circumstances and international developments. The revised FX policies are likewise intended to manage the effects of capital surges and help maintain the competitiveness of the Philippine peso. Limits on amounts of FX that may be sold were increased. The BSP likewise lifted the prior approval requirement for prepayment of foreign loans of the private sector (including bonds and notes) that are duly registered with the BSP, subject to certain conditions. Reforms were also introduced to facilitate diversification of investments by residents.

The BSP issues press release on the need to submit annual foreign borrowings plan (FBP)

The BSP also issued a press release to the public on the need to submit their annual foreign borrowings plan (FBP). Said press release sought to inform a wider audience and provide assistance to new enterprises that have no previous foreign borrowing experience. Data gathered from these FBPs provide valuable inputs for policy setting, projecting capital flows and assessing their implications on key macroeconomic variables and debt indicators.

Two metrics that are being monitored in connection with the international operations of the BSP are the average bid-ask spread in FX transactions in the Philippine Dealing and Exchange Corporation (PDEX) and the ratio of FX transactions to GDP. The target of maintaining the average bid-ask spread in FX transactions in the PDEX for 2010 of around ₱0.03 was met. The combination of strong growth, low inflation and the continued build-up of reserves contributed to a relatively stable peso. The average ratio of FX transactions to GDP of 125 percent in 2010 exceeded the 93 percent target, on account of the sustained inflow of remittances from Overseas Filipino Workers (OFWs); the resurgence in capital inflows due to strong macroeconomic fundamentals and increased confidence in the country; and assumption into office of the new administration.

Notes and Securities Printing

The BSP produced 870.05 million pieces of banknotes in 2010, of which 213.85 million pieces bear the signatures of President Benigno S. Aquino III and BSP Governor Amando M. Tetangco, Jr.. This was launched in Malacañang on 25 November 2010 wherein the Governor presented the President with uncut banknotes. The BSP also launched the NGC banknotes bearing the signatures of President Aquino and Governor Tetangco on 17 December 2010 and delivered a total of 10.0 million pieces. The new generation banknotes have upgraded security features to make it easier for the public to protect themselves from receiving fake money. Security features include watermarks, security thread and security fibers.

Meanwhile, a total of 1.53 million ePassport booklets were delivered to the Department of Foreign Affairs (DFA) in 2010.

On the efficiency and quality of banknotes and securities printing operations, the BSP showed mixed performance in the attainment of its targets as indicated by the following:

1. Timely completion of specific projects. The BSP exceeded its target in the completion of its specific projects such as the continuous press operation and digitalization of printing films.

2. The target for the delivery of the balance for the 2009 orders for banknotes was reached but fell short of the

expected delivery of 2010 orders of banknotes (91.1 percent). The sufficient supply of banknotes did not warrant meeting the target. Instead, priority was given to the remediation of the 20-Piso and 1000-Piso NGCs.

3. Utilization of production capacity. The target utilization rate was accomplished for the balance of the 2009 orders. For the 2010 orders, the target for utilization rate for judicial forms was attained. For ePassports, however, the utilization rate approached the target at 96.7 percent. Notwithstanding the slight underutilization, the BSP was able to meet the DFA's requirement of 9,000 booklets per day and the subsequent increase in its orders to 10,500 booklets/day starting November 2010.

4. Conformance with approved standard specifications on quality of raw materials and finished goods. Standards on quality of raw materials and finished goods were met for banknotes but fell below standards for security documents due to the defects in the supply of ecovers such as unglued inlay, "dead chips" and bubbles.

5. Reduction in rejection rate. The target was met for banknotes but not for ePassports due to the poor quality of supply of ecovers.

Mint and Refinery

The BSP's mint and refinery operations in 2010 delivered a total of 582.02 million pieces of circulation coins to the CMSS which had previously placed an order of 1,287.97 million pieces of coins for 2010.

The mint also produced and delivered 354 sets of presidential medals and state decorations and 2,500 commemorative medals.

The refinery produced a total of 2,286 pieces of "good delivery" gold bars, which contained 894.69 thousand troy ounces of gold. Each bar had a minimum assay of 99.58 percent. In 2010, a total of 918.11 thousand troy ounces of gold were purchased by the BSP gold-buying stations from various sources, including small-scale miners, in accordance with Section 17 of Republic Act (R.A.) No. 7076, otherwise known as "People's Small-Scale Mining Act of 1991." The BSP continued to maintain its five existing buying stations located in Quezon City, Baguio City, Davao City, Naga City and Zamboanga City.

On the efficiency and quality of mint and refinery operations, of the six metrics, only the target for the conformance with approved standard specifications of finished coins was met. Two of the metrics came close to the targets, namely: 1) timely transfer of high quality Good Delivery Bars (GDBs) to Bullion Vault at 99.0 percent; and 2) conformance with the accepted quality of GDBs to international bullion markets at 99.98 percent. The remaining three metrics fell below the target, namely: (1) delivery of finished coins to CIRO at 45 percent due mainly to delays in the shipment of coin blanks in the first two quarters of the year; (2) production of finished coins at 44 percent, which was also on account of shipment; and (3) supply and delivery of presidential medals and state decorations at 64 percent due to the unavailability of presentation boxes.

Currency Issuance and Retirement

Currency Issuance

Currency notes issuance rises

Total currency notes issued by the BSP amounted to ₱746.7 billion (2,956.8 million pieces) as of 31 December 2010, 10.4 percent higher than the year-ago level of ₱676.2 billion (2,830.2 million pieces). Meanwhile, total coins issued stood at ₱19.0 billion (16,422.7 million pieces) reflecting an increase of 7.3 percent from the year-ago level of ₱17.7 billion (15,816.8 million pieces).

Currency Retirement

The number and amount of unfit notes retired through ABPMs increase

A total of ₱35.7 billion (603.3 million pieces) of verified cancelled unfit notes were retired by the CIRO in 2010 through the currency disintegrator, significantly higher by ₱20.7 billion or 138.5 percent compared to the previous level of ₱15.0 billion or 341.0 million pieces. Meanwhile, a total of ₱204.5 billion (443.0 million pieces) was retired on-line thru the Automated Banknote Processing Machines (ABPMs), higher by ₱96.5 billion or 89.3 percent compared to the previous year's level of ₱108.1 billion (303.3 million pieces).

On currency management, the BSP was able to exceed the following targets for 2010: (1) percentage of successful anti-counterfeiting operations to number of valid reported cases; (2) ratio of fit note deposits to total deposits; (3) ratio of verified fit note deposits to total fit note deposits; (4) ratio of verified coin deposits to total coin deposits; (5) percentage of total volume of currency served to total volume of currency requested; and (6) ratio of verified unfit note deposits for retirement to total unfit note deposits. Meanwhile, the target ratio of verified/cancelled unfit note deposits retired to total unfit notes for retirement was met given the commitment to attain zero backlog at the end of each month.

Economic Research, Statistical, and Information Dissemination Activities

In 2010, efforts continued to gear towards providing high-quality economic research, generating and reporting relevant and timely statistics, and upgrading and improving access of the public to information. These undertakings helped the monetary authorities in making better-informed decisions, assisted economists and investors, statisticians, analysts and students in their research and information requirements; improved data availability, quality and transparency; and promoted better awareness of the public on the role of the BSP in the economy and in the international financial community.

In-depth research activities support monetary policy decision-making

The Advisory Committee (AC), tasked to advise the MB on issues relating to the formulation and implementation of the monetary policy, held nine meetings in 2010. During these meetings, monetary policy papers prepared and presented to the AC and to the MB contained analyses of the economic and financial developments and outlook in the Philippines and abroad, assessment of the outlook for prices in line with the inflation targeting framework, and discussions on selected issues which had bearings on the conduct of monetary policy. Policy papers were updated regularly to monitor the trends of economic and financial indicators, to analyze data/information developments and their policy implications, and to evaluate various scenarios and policy options.

Research outputs expand their coverage and have wider public reach

Completed and published in 2010 were the following research papers: *A Geometric Price Index for the Philippines: A Preliminary Assessment* (*BSP Working Paper Series*, March 2010); *Identifying and Measuring Asset Price Bubbles in the Philippines* (*BSP Working Paper Series*, June 2010); *Does the Bank Credit Channel of Monetary Policy Matter in the Philippines?*; and *Remittances and Competitiveness: The Case of the Philippines.*

Reports and studies support 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 continued to publish its regular and special reports on the economic and financial developments of the country.[41] Other

[41] 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; biannual report on the Status of the Philippine Financial System and Regional Economic Developments in the Philippines; quarterly reports on the BOP, BES, CES, Inflation Report, Report

research outputs were disseminated internally to the BSP staff and to the public, including the following: *SEACEN paper on International and Cross-Border Lending in the Philippines: Quantitative Assessment and Policy Implications*; *Identifying and Measuring Asset Price Bubbles in the Philippines* (presented to Philippine Economic Society and to the Philippine Statistical Association); *Macroeconometric Model for Policy Analysis and Insight: A Dynamic Stochastic General Equilibrium Model of the BSP* (presented in the National Convention on Statistics and Macroeconomic Modeling Workshop); *Does the bank credit channel of monetary policy matter in the Philippines?* (11^{th} National Convention on Statistics; *Remittances and Competitiveness: the Case of the Philippines* (with Professor Karel Jansen) (PSA Annual Conference, *Migration and Remittances: Their Role in Philippine Development*).

The BSP also continued to conduct research on topical macroeconomic issues such as risk aversion, credit rating analysis and upgrade, unwinding of crisis intervention measures, policy review of the current settings of the reserve requirement and the rediscount budget, medium-term inflation target, Philippine potential output growth, foreign exchange swap transactions, non-negotiable certificates of indebtedness, inflation persistence, and reserves management strategy, and real estate price index.

In addition, technical notes, position papers, policy briefs, and other research papers produced in 2010 covered a wide range of issues. Topics included capital flows and capital controls; asset prices; equilibrium exchange rate; competitive depreciation of exchange rate; sovereign debt crisis and its contagion and vulnerabilities; rationale of foreign exchange intervention; financial system scenario analysis and stress testing; capital market reforms; dynamics of the financial crisis; liquidity and crisis management frameworks; liability management transactions; microprudential policies and reforms; financial regulatory reforms and growth rebalancing in Asia; debt markets, balance sheet operations of central banks, domestic financial intermediation in emerging economies, financial interconnectedness, over-the-counter derivatives, foreign bank operations, Islamic banking, macro-financial linkages; climate change, and global peso bonds.

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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 weeks; BSP Working Paper Series, International Investment Position, and BSP Economic Newsletter.

Meanwhile, the *BSP Economic Newsletter* continues to be issued on a bi-monthly basis, featuring short essays, which provides 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 published in the newsletter were drawn from the research papers by the Department of Economic Research (DER), the Center for Monetary and Financial Policy (CMFP), and the Department of Economic Statistics (DES). The topics discussed in the Newsletter included the following: *A Note on the Independence and Governance of Asia-Pacific Central Banks* (Jan – Feb 2010), *The Greece Turmoil and its Possible Implications on the Philippine Economy* (Mar – Apr 2010), *A Geometric Price Index for the Philippines: A Preliminary Assessment* (May – Jun 2010), *Protectionism Amid the Recent Global Financial Turmoil* (Jul – Aug 2010), *Medium-Term Inflation Target for the Philippines* (Sep – Oct 2010), and *Some Thoughts on Diversifying International Reserves* (Nov - Dec 2010).

Moreover, the BSP submitted its accomplishment reports under the Arroyo Administration (2004-2010) and Aquino Administration (July – December 2010) to the Presidential Management Staff (PMS) to highlight the BSP's achievements in maintaining monetary and financial stability; operating an efficient payments and settlements; and promoting various advocacies, including its economic and financial learning campaign and microfinance. The BSP also identified programs, projects and activities that it will undertake to implement and ascertain the attainment of President Benigno S. Aquino's State of the Nation Address (SONA) commitments in the areas of good governance and improvement of public welfare.

Preparation of comments/position papers on various House and Senate Bills, and speeches and presentations were accomplished while technical assistance to international/local meetings, congressional hearings attended by BSP officials, briefings and economic updates to stakeholders, such as banks (e.g. Deutsche Bank, HSBC, etc.), fund managers (e.g. Nomura, JP Morgan, Morgan Stanley, etc.) and other organizations (e.g. JBIC) were provided. In coordination with the Economic and Financial Learning Center (EFLC), brown bag sessions were conducted including those that were rendered as part of the activities during the 2010 BSP Anniversary. The forum on *Capital Flow Waves: Surges, Stops, Flight and Retrenchment* presented by Dr. Francis Warnock was conducted on 7 December 2010.

Tools for forecasting and for policy analysis undergo sharpening…

The BSP pursued proactively economic modeling and research initiatives to develop further its forecasting and policy analysis capability in support of forward-looking monetary policy. The revisions to refine the BSP's multi-equation model (MEM) and the Single-Equation Model (SEM) remained part of the continuing activities in forecasting. The SEM and the MEM are the BSP's workhorses inflation forecasting models since the adoption of inflation targeting as the official monetary policy framework in 2002. In addition, the Dynamic Stochastic General Equilibrium (DSGE) model was updated and used to complement the medium-term inflation forecasts generated by the BSP models. Moving forward, the completed terms of reference of the Estimation of the Philippine Financial Social Accounting Matrix (FSAM) will serve as database for the Financial Computable General Equilibrium (FGCE) model that will be developed by the BSP. On the real and external sectors, balance of payment projections with underlying forecasts on exports and imports, remittances and GIR were regularly generated. Annual industry dialogues/consultations with exporters were conducted so as to provide inputs in its assessment of the Balance of Payments projections.

…while new methods for policy analysis are under construction

There are on-going efforts to revise the methodology for the computation of the REER and NEER; revise the Long-Term Macroeconomic Model (LTMM) and estimate/construct a Financial Sector Accounting Matrix (FSAM) for the Philippine economy. The revision of the methodology for REER/NEER is intended to make the estimates more theoretically consistent, reflective of current economic structure and aligned with international practice. The revision of the LTMM is intended to improve the theoretical underpinnings of the model and the linkages between and among the monetary, external and fiscal blocks of the model; to embody the forward-looking nature of inflation targeting; and to make the model more consistent with the realities of the Philippine economy and reflective of revisions in data compilation procedures.

The BSP provides a link to local and international research institutions

The BSP ensured its appropriate presence in both domestic and international research community as it served as a link among existing research institutions, to provide a fora where researches were discussed and evaluated. As such, the BSP hosted the Central Banking Macroeconomic Modeling Workshop and the BSP UP Professorial Chair Lectures. The BSP also participated in the BIS-BOJ Third Annual Research Workshop of the Asian Research Networks and the SEACEN Workshops on *Real Effectiveness of Policy Choices during the Global*

Financial Crisis and the *International Cross-Border Bank Lending and Implications to SEACEN Countries*.

Environmental scanning exercises and risks assessments fill the information gaps for policy making and for identifying additional research issues

Environmental Scanning Exercises (ESEs) were conducted in 2010 which provided the venues for resource persons from the banking community, government, private sector and the academe to participate actively in the exchange of knowledge and position on timely issues which could influence monetary policy-making. The two ESE topics for 2010 were the following: (1) *Effective Management of Capital Flows: Towards Macroeconomic and Financial Stability*, which aimed to come up with an array of policy measures to manage the surge in capital inflows in the country which could pose macroeconomic and financial stability challenges; and (2) *Strengthening the Three Pillars of the BSP through the Proposed BSP Charter Amendments* which aimed to revisit, review and propose amendments to the BSP charter to keep up with current market developments.

Results of the Early Warning System (EWS) on currency crisis and the EWS on Debt Sustainability were reported regularly to the AC and the MB during their meetings on the monetary policy stance. The BSP also computes the Bank Distress Index (BDI) as the need arises 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 measure regularly 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 conducted its regular surveys which provide valuable information to policymakers and researchers. The 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 FD) and Related Data Survey were conducted. For the BES, the sampling frame was updated and the regional coverage was expanded to include all regions in the Philippines. In addition to the national report, regional reports on business expectations are now being generated every quarter. The annual Coordinated Portfolio Investment Survey (CPIS) was likewise carried out.

The BSP introduces the consumer finance and direct investment surveys

Due for publication in April 2011 are the results of the surveys covering the four regions in the country on the Philippine Consumer Finance Survey (PCFS). The PCFS is the first household-based survey on consumer finance in the Philippines.

The BSP also conducted the Coordinated Direct Investment Survey (CDIS) which aims to collect inward and outward direct investment positions and transactions by country of source/destination of investment. The CDIS is envisioned to be an annual survey.

New time series data on monetary statistics follow IMF format

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–September 2009. The BSP also constructed the SRF of the other depository corporations for the period 2007–September 2009. The SRF, 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.

The BSP held the 2010 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 5th BSP-Department of Education (DepEd) National Oratorical Contest, the grant of monetary support for the conduct of the Philippine Statistics Quiz and the National Statistics Month.

The BSP also conducted the following surveys in 2010: the Business Partnership Survey (BPS) which aims to gather the views on the quality of BSP's relationship with its business partners; the Public Perception Survey (PPS) which seeks to obtain the public's perception of the BSP's performance in terms of effectiveness, integrity, responsiveness and transparency.

The BSP participates actively in inter-government agency committees and international conferences

To enhance further the working relationship with various organizations, the BSP also participated in inter-agency committees which involved presentations and discussions of economic programs/policies and macroeconomic assumptions at the Development Budget Coordination Committee (DBCC) and the National Price Coordinating Council (NPCC).

In addition, the BSP reinforced its working relationships with the academe and other organizations by organizing the BSP Professorial Chair Lecture Series, as well as by hosting the Philippine Economic Society (PES) annual meeting. The BSP also co-sponsored the Philippine Statistical Association's Annual Conference with the theme *Migration and Remittances: Their Role in Philippine Development*.

The BSP was also involved 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, trade in goods and trade in services 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 also participated actively in the Cabinet Committee on Tariff and Related Matters and to the Technical Committee on Tariff and Related Matters.

On the external front, the BSP in partnership with the BIS, organized and hosted the 7th Meeting on Monetary Policy Operating Procedures in September 2010 to discuss and share experiences and information with other central bankers on their respective monetary operations during the global financial crisis.

Targets were met for the following activities: implementation of experts' recommendation on monitoring market information and indicators to intensify market surveilance were met; continuing improvement of forcasting methodology through the review, re-estimation and updating of multi-equation and single equation models; preparation of technical notes and position papers for policy research studies on foreign exchange liberalization and capital market development were submitted per timetable recommended by the International Monetary Fund ASEAN Bond Market Initiative; and preparation of questionaires, positions papers, speeches, presentations in connection with BSP officials participation in regional and international fora. Percentage compliance to BSP's advance release calendar for key statistics, reports and press releases were likewise on target. Furthermore, the targeted response rate, representing the percentage of the number of responding entities to total number of invited entities to Environmental Scanning Exercises, Exporters' Forum, CES, BES, CBTS, CPIS and FDI has been exceeded.

Box Article 4:

Reserve Accumulation in the Philippines

Investors' search for higher returns supported the steady increase of foreign exchange inflows to emerging market economies (EMEs).[1] In addition, the dramatic drop in asset valuations of EMEs following the collapse of Lehman Brothers provided a strong rationale for global portfolios to reallocate into EMEs in 2009.[2] EMEs are likewise beneficiaries of capital inflows owing to their upbeat economic prospects while, in contrast, advanced economies continue to face a fragile economic growth constrained by higher unemployment rate and in some cases also burdened with sovereign debt problems. Finally, a healthier external sector among the EMEs is expected to generate improved foreign exchange receipts as the export sector rebounds from the slump it experienced during the height of the global financial turmoil.

Table 1. GDP 2011 Forecast

	IMF	Bank of America	Nomura	HSBC
World	4.5	4.4	4.3	4.3
Advanced Economies	2.5	2.4	2.2	2.3
US	3.0	3.2	2.5	3.4
Eurozone	1.5	1.6	1.9	1.5
Developing Asia	8.5	7.9	8.1	7.6
China	9.6	9.1	9.8	8.9
India	8.4	8.5	8.0	8.0
Indonesia	6.2	6.3	6.5	6.4
Malaysia	5.3	5.2	5.2	5.1
Philippines	4.5	5.4	5.4	5.0
Thailand	4.0	3.8	4.8	5.3

Sources: Various publications

These positive factors resulted in a dramatic rise in international reserve holdings of EMEs, including the Philippines, in recent years (see Table 2). The country's GIR, for example, reached a historic high of US$62.1 billion as of end-December 2010, US$17.9 billion higher than the previous year's level of US$44.2 billion, and more than thrice the amount of reserves in 2005. The higher reserves stemmed mainly from sustained foreign exchange inflows from merchandise exports, services receipts and direct and portfolio investments. Likewise, the country's international reserves were boosted by the sustained robustness of remittances of overseas Filipinos, which reached US$18.8 billion in 2010, 8.2 percent higher than the previous year's level. These favorable developments more than offset the dollar demand in the country, particularly for payment for maturing foreign exchange obligations of the NG and the BSP. The end-2010 GIR level could cover 10.2 months worth of imports of goods and payments of services and income. It was also equivalent to 10.8 times the country's short-term external debt based on original maturity and 5.7 times based on residual maturity.[3]

Table 3. International Reserves: Selected Asian Countries (in billion US$)*

	2005	2006	2007	2008	2009	2010
China	821.5	1,068.5	1,530.3	1,949.3	2,416.0	2,847.3
South Korea	210.4	238.9	262.2	201.1	269.9	291.6
Hong Kong	124.2	133.2	152.6	182.5	255.8	268.7
India	132.0	170.8	267.0	247.4	265.2	267.8
Singapore	116.2	136.3	163.0	174.2	187.8	225.8
Thailand	50.7	65.3	85.2	108.7	135.5	165.7
Malaysia	69.9	82.1	101.0	91.1	95.4	101.7**
Indonesia	33.1	41.1	55.0	50.0	63.6	96.2
Philippines	18.5	23.0	33.8	37.6	44.2	62.1

*Reserve figures exclude gold holdings, except for the Philippines.
**As of end-November 2010
Sources: IMF, Bloomberg, BSP

Motivations for Holding International Reserves

The motivations of central banks in holding reserves include the following:

a. *Transaction motive*. Maintain international stability and convertibility of the domestic currency and help meet FX liquidity requirements of the country;

b. *Precautionary motive*. Serve as contingency buffer in instances of insufficient domestic FX supply (crisis prevention);

c. *Insurance motive*. Fund FX shortages during market stresses (crisis mitigation);

d. *Investment motive*. Generate returns; and

e. Other motivations such as the establishment of endowment funds for future generations (e.g., to fund future liabilities, especially in countries with growing aging populations); acceleration of repayment of external or domestic liabilities; recapitalization of state-owned financial institutions; and financing public-sector investment projects.

Asian central banks' purchases of foreign exchange reserves as a form of insurance against and precaution from unexpected shortages of foreign exchange were, in part, a response to the 1997-98 Asian financial crisis. During that period, Asian countries suffered severe foreign exchange liquidity crunch as foreign investors took their funds out of the region. Borrowings from multilateral institutions, particularly the IMF, were punctuated by too many conditionalities indicative of their reluctance to lend to the weakened economies in the region. Thus, the lesson learned from this episode was that the country's international reserves are the first line of defense in times of extreme stress in the foreign exchange market.

According to Goldman Sachs, such reserve buffer did moderate the rise in the country risk premium and the extent of exchange rate falls during the recent global financial turmoil. This may have, in part, forestalled full-blown crises in some countries and, more generally, it may have allowed EM policymakers to support their local economies in ways that they were possibly unable to in previous crisis episodes. The increased reserves complemented appropriate policy frameworks and macroeconomic fundamentals of EM economies that enabled them to withstand the negative repercussions of the recent global financial crunch.[4]

Issues on Reserve Currencies

The emergence of large and growing reserves in the Philippines and other EMs has led to widespread calls for more active reserve management, such as the establishment of sovereign wealth funds that shift the objective of holding additional reserves from liquidity management toward profit-seeking investment.[5] In addition, focus has been given on revisiting the appropriate reserve currencies and their respective weights in the reserve portfolio. It may be noted that the latest IMF data as of the third quarter of 2010 on central banks' global international reserve holdings[6] show that total reserves rose by 13 percent year-on-year to almost US$9 trillion, with allocated reserves[7] accounting for 56 percent of the total. With respect to allocated reserves, the US dollar share to total reserves continued to account for 61 percent, followed by EUR, which accounted for 27 percent. However, With the US accused of debasing its currency through the implementation of another round of bond buying activities (quantitative easing II) while the Eurozone is mired by debt problems, other countries may be encouraged to search for alternative reserve assets – which could be filled by assets denominated in SDR – to mitigate the inherent concentration risk of these two major currencies.

The SDR's liquidity is a major requirement to expand the supply of SDR, develop new SDR-denominated assets, and encourage use of SDR as a unit of account. In promoting the SDR's liquidity, there may be a need for the SDR to adjust not only its currency weights but also its currency components to be economically representative, and corollary to that, the need for criteria to be adopted for such adjustments.[8] Aside from liquidity, the development of SDR-denominated assets requires the establishment of market infrastructures such as the presence of market-makers (offering two-way quotes), clearing and settlement systems, and hedging facilities.

Endnotes:

[1] A Bloomberg news dated 24 August 2010 reported that HSBC Holdings Plc believed that yield advantages will continue to attract capital inflows into the bond markets of Indonesia, Malaysia and the Philippines.
[2] Barclays Bank Plc, Emerging Market Flows, 5 July 2010.
[3] Short-term debt based on residual maturity refers to outstanding external debt with original maturity of one year or less, plus principal payments on medium- and long-term loans of the public and private sectors falling due within the next 12 months.
[4] Goldman Sachs, Global Economics Weekly, 10 March 2010.
[5] Park, Donghyun, Developing Asia's New Sovereign Wealth Funds and Global Financial Stability, ADB Briefs, October 2008.
[6] The IMF publishes the currency allocation of reserves in US dollar amounts, i.e. it states the amount of EUR reserves in US$ rather than EUR. The disadvantage of this is that valuation effects (i.e. changes in the exchange rate from quarter to quarter) could affect the result. A sharp EUR/US$ appreciation will, for example, create an upside bias in the share of EUR reserves, while a depreciation would result in a downside bias.
[7] Reserves whose currency composition has been identified.
[8] For instance, the growing importance of the BRIC (Brazil, Russia, India and China) countries in the global economy raises the question of whether future SDR revisions should consider including their respective currencies in the SDR basket.

Supervisory Research 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 research undertakings and due diligence implemented for 2010 were geared towards the following:

Quantitative Technical Support for Policy Formulation

Beginning in 2010, the BSP established the Quantitative Support Staff (QSS) tasked with continuing research studies that would provide technical support in the enforcement of regulatory/supervisory approaches. Specifically, the QSS will carry out research studies pertaining to the Basel II advanced approaches, macro-surveillance of the banking system (e.g., statistical analysis, macro stress testing, model building, etc.), and other research agenda as approved by the management, using sophisticated quantitative techniques/analysis. The QSS came up with the following research areas:

1) *Access to Banking Services in the Philippines*. The study provides a wider view of the trend of financial access indicators of the Philippines and its different regions over time. The contribution of each type of banks to the provision of banking services confirms the dominance of the U/KBs in the domestic banking system but the indicators also highlighted the important role of RBs in reaching out to the countryside, and the concentration of operations of TBs in Metro Manila. A major issue pertains to the "optimal banking structure" for the Philippines that would help improve access to banking services, and the appropriate supervisory strategy that would support this structure.

2) *A Framework for Supervisory Review*. Requirements under Pillar 2 present onerous challenges to both banks and bank supervisors in advanced jurisdictions and to the unsophisticated financial system. Not to be taken as an independent exercise, the implementation of the Pillar 2 principles should necessarily be embedded in the existing supervisory structures and functions. The study proposes a process flow for the BSP's conduct of the supervisory review process (SRP) in accordance with the guidelines in Circular No. 639 issued on 15 January 2009. The proposed flow is based on practices in other jurisdictions, but respects the current structure of supervision in the

BSP and its existing supervisory tools, and emphasizes that supervisory judgment plays a key role in the measure of the SRP's soundness.

3) *How Far Away Are Our Banks from Defaulting*? The study describes the distance-to-default (DD) measure – a measure of default risk derived from high frequency market information and accounting data, and its application to selected Philippine banks. As the measure also computes for the implied probabilities of default (PD), it also attempts to explore potential uses of the DD measure particularly in monitoring financial stability.

4) *Dodging Falling Knives: Predicting Rural Bank Distress*. The study is an attempt to build an EWS for detecting rural bank distress. It supports the findings by Jagtiani, et. al. (2003) that simple models may even perform better than more complex models in predicting banks in distress. The need for a means to identify rural banks that is at risk of going into distress so that the conduct of on-site examinations (which demands a lot of resources from the supervisors) can be prioritized. Having the ability to identify potentially at-risk banks will also enable the BSP to carry out appropriate supervisory actions during the period between examinations.

5) *BSP Stress Testing Methodologies Used in the IMF-World Bank FSAP Update*. The methodologies of the stress testing exercises used by the BSP in the FSAP Update were developed by the QSS of the Office of Supervisory Policy Development (OSPD), Supervision and Examination Sector (SES). Subsequently, the QSS developed the stress testing spreadsheet that automates the conduct of the stress testing exercises so that it could easily be used by anyone in the SES. This is seen as a first step towards the goal of demystifying stress tests. This paper is the next step towards this goal since it aims to serve as a "Manual" for the stress testing spreadsheet. This way, the reader would be in a better position to improve or modify the existing stress tests if he chooses to use it in his supervisory work.

6) *Addressing Risks in Promoting Financial Stability.* The BSP is involved in a one-year SEACEN research project entitled "Promoting Financial Stability in the Philippines." It aims to examine various issues and the required institutional support for an effective financial stability framework in the Philippines. It likewise looks into existing regulatory structures,

policy initiatives and supervisory tools with a view of identifying the necessary regulatory reforms and supervisory enhancements for BSP's effective supervision of the banking system and promotion of financial stability in the near term.

Due Diligence for Credit Rating Agencies and Foreign Investor Groups

The BSP is involved in due diligence and briefing activities of international credit rating agencies and foreign investor groups were the BSP presents key issues and developments in the banking system

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 by ensuring the availability of cash and maintaining ideal currency stock. These offices and branches also assisted in the conduct of the BSP's advocacies in the countryside. In addition, they conducted gold buying operations.

The BSP ensured proactively that sufficient banknotes and coins were available in the region, especially during unusual demands for currency arising from seasonal requirements. Regional offices and branches maintain an ideal currency stock level equivalent to four months and two months cash requirements of banks, respectively. In 2010, RMASS targeted a ratio of currency to ideal currency stock level of 102 percent. As of 31 December 2010, the ratio stood at 116.8 percent, indicating a high level of general readiness to meet demand for banknotes and coins.

In addition, the regional offices and branches continued to assist in the implementation of the BSP's credit program. Credit Surety Fund (CSF), 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 EFLC in the regional offices and branches. The EFLC, which serves as an effective learning hub for students and researchers, was re-launched in San Fernando, Legazpi, Bacolod, Dagupan and General Santos cities. Support was likewise extended for other advocacies and outreach programs such as microfinance, anti-money laundering, Clean Note Policy, anti-counterfeiting, User's Forum, Awarding

Ceremony and Appreciation Lunch for Stakeholders in the Business Expectation and other surveys, briefings for pawnshops, lending investors and foreign exchange dealers, roadshows on promoting greater awareness of achieving external competitiveness.

Economic, social and political surveillance was conducted in the regions to keep BSP management abreast of important developments in the areas of money, credit and banking as well as, peace and order conditions in the provinces.

The BSP's regional offices and branches provided logistical support and assistance in the launching of the CSF in Albay, Dipolog City and Occidental Mindoro and in the capacity building program of the member cooperatives/coopreneurs of the CSF in Negros, Davao del Norte, Iloilo City, Bacolod City and Cebu City.

The four BSP regional gold buying stations (GBS) in Davao, Baguio, Naga and Zamboanga purchased about 592,388 troy ounces of gold, up by almost 19 percent from the previous year. The gold purchased was valued at ₱31.05 billion, 34.4 percent higher than the ₱23.1 billion recorded in 2009. The high price of gold in the international market contributed to the increase in purchases particularly by the Davao and Baguio Gold Buying Stations. However, bad weather conditions dampened gold buying operations in Naga while the prevailing peace and order situation in the Zamboanga Peninsula somewhat affected delivery of gold to the Zamboanga GBS.

Advocacy Programs

The BSP remained committed to pursuing its advocacy campaigns in the areas of microfinance, consumer protection, economic and financial education for the public including representatives from the academe, business community, banking sector, media and government agencies, as well as, OFs and their beneficiaries in 2010.

Microfinance

The BSP's microfinance regulatory framework earns anew international recognition

The Philippines earned anew the overall best regulatory environment for microfinance, along with Cambodia and Pakistan, according to the Economist Intelligence Unit's (EIU) Global Microscope on the Microfinance Business Environment 2010. In terms of the overall microfinance business environment, the Philippines moved up to the number two position in 2010 (scoring 71.8 out of 100) from the number three slot in 2009, following the microfinance leader, Peru. The global microscope index measures the state of regulatory framework, investment climate and institutional development of 54 countries around the world.

According to the EIU, the Philippines' ranking upgrade was due mainly to recent BSP regulations that were geared toward expanding the range of microfinance products that banks offer to their clients.

Such international recognition upholds that the BSP's regulatory approach and initiatives in microfinance and financial inclusion are making an impact on and benefiting the microfinance market.

The BSP's proactive stance in microfinance remained evident through implementation of various initiatives to enable and support the development of a sustainable microfinance business environment in the country. It has expanded further access to mainstream financial products and services by the unbanked and underserved population.

In 2010, the BSP's initiatives were classified within its three-pronged approach: 1) to provide the enabling policy and regulatory environment, 2) to increase the capacity of the BSP and the banking sector in inclusive finance operations (microfinance, SME finance, others); and (3) to promote and advocate for the development of a sound, sustainable and truly inclusive financial system.

Enabling the Policy and Regulatory Environment

The BSP issued directives which focused on the following: (1) expanding products and services that can be offered by banks to service the varying needs of the market; (2) widening access points where financial services can be delivered; (3) developing market infrastructure to increase transparency and competition in the industry; (4) promoting innovation to scale up growth and increase efficiency; and (5) addressing existing barriers to access.

In expanding products and services, the BSP issuances included guidelines in the provision of the following: (a) housing microfinance to address the need of the poor for affordable shelter (Circular 678 dated 06 January 2010), (b) micro-agri loans to address the financing needs of small farmers, especially the microfinance borrowers engaged in farming that have other sources of non-farm income (Circular 680 dated 3 February 2010),

(c) micro-insurance that allows rural, cooperative and thrift banks to market, sale and service micro-insurance products (Circular 683 dated 23 February 2010) to protect microfinance clients against death, injury, loss of property and contingent events and to minimize as well as eliminate, informal insurance schemes and unauthorized insurance products which are generally unsafe; and (d) microdeposit accounts to fit the need of small savers and to promote and encourage a savings culture among the poor and low-income people (Circular 694 dated 23 February 2010).

BSP increases access joints to financial services

Recognizing the need for increasing access points to financial services, the BSP issued Circular 694 dated 14 October 2010 to redefine the guidelines for the establishment of other banking offices (OBOs) and micro-banking offices (MBOs) and provide opportunity for banks to expand their network of brick and mortar offices. In addition, the BSP issued Circular 704 dated 22 December 2010 to expand further and improve the e-money ecosystem. This allows e-money issuers (EMIs) to outsource certain functions to e-money network service providers. The latter are non-financial institutions that provide automated systems and network infrastructure, including a network of accredited agents.

In an effort to improve market infrastructure, Circular 685 dated 7 April 2010 was issued to define procedures for the recognition of Microfinance Institution Rating Agencies (MIRAs), in order to create an enabling environment for the appropriate use of objective, credible and competent third-party ratings.

The BSP collaborated with the Department of Finance-National Credit Council (DOF-NCC), Insurance Commission (IC), Securities and Exchange Commission (SEC), Cooperative Development Authority (CDA) and private insurance associations to establish an enabling policy and regulatory environment for the safe and efficient provision of microinsurance. This resulted in the issuance of the National Strategy and Regulatory Framework for Microinsurance which defines the roles of various stakeholders, identifies key strategies to be pursued in enhancing access to insurance, provides directions toward mainstreaming informal insurance and insurance-like activities and promotes awareness and financial literacy on insurance.

Training and Capacity Building

To enhance further the skills, capacity, understanding and appreciation of the BSP and the banking sector on microfinance and other financial inclusion issues, the BSP, with technical assistance from International Finance Corporation (IFC) and German Technical Cooperation (GTZ), implemented a project to strengthen the capacity of the BSP examiners to supervise and examine, using risk-based approach, the SME lending operations of banks. In addition, the Microfinance Committee visited banks and clients in Agusan del Norte to look into their specific microfinance programs. Financial Learning Seminars (FLS) were likewise conducted for microfinance clients and the unbanked in Legazpi City, Bacolod City, Dagupan City and General Santos City. The discussions focused mainly on the concepts of microfinance and financial learning, budgeting and planning, savings and investments, roles and responsibilities of clients in the use of credit and consumer protection.

Promoting and Advocating for Sustainable Microfinance and Financial Inclusion

The BSP provided support, input and relevant assistance to various groups that were interested in microfinance, mobile banking and other financial inclusion initiatives, such as, participating in the Alliance for Financial Inclusion (AFI), G20 Global Partnership for Financial Inclusion and the Windsor Global Leadership Seminar of the Consultative Group to Assist the Poor (CGAP)/Department for International Development (DFID), jointly organizing the Microentrepreneur of the Year (MOTY) Awards 2010 and continuing to share experiences with international groups, policymakers and regulators.

As of end-December 2010, there were 203 banks (largely dominated by rural banks) with microfinance operations. These banks were serving 930,635 borrowers with outstanding loan portfolio of more than ₱6.9 billion and savings component of ₱3.2 billion.

Consumer protection

Financial education remains one of the BSP's core programs to promote consumer protection

Complaints handling, formulation of consumer protection sensitive policies and regulations, and financial education activities are the core programs of the BSP in its endeavor to promote consumer protection.

Consistent with its commitment to assist consumers in resolving their complaints against or disputes with BSP-supervised financial institutions, the BSP was able to close/resolve 89 percent (or 2,056 cases) of the 2,303 concerns, inquiries and/or requests (CIRs) it received for

2010. The BSP's consumer assistance mechanism for handling CIR proved to be effective and made possible the closure or resolution within 45 days of 96 percent of simple CIRs received. Complex cases understandably require special handling, but the success rate remained encouraging, with 84 percent of these cases closed/resolved within 90 days.

CIRs received by the BSP are not only processed for the purpose of resolving specific issues, but information gathered from the process are used as inputs in the formulation of regulations to further enhance consumer protection. Best practices in consumer protection as determined through environmental scanning, and when deemed appropriate, are likewise adopted for the Philippine financial market through amendments in regulations. Situations requiring immediate response were likewise prioritized through regulatory issuances and advisories. As of 2010, 12 advisories, 6 circular letters and 1 circular were issued and various studies made. These issuances and studies covered subject matters relative to e-banking, scams, deposit and investment, enhancement of the mobility of disabled persons, remittance, identity theft, lending and credit card transactions.

The BSP likewise conducted various learning sessions on credit card, retirement planning, and personal finance. The BSP continued to distribute primers and informational materials on consumer protection; various financial products and services; and fraud and scams. For 2010, local financial education programs were conducted in eight cities and two municipalities, nine universities/schools, and one government office.

Economic and financial education

The BSP steps up efforts to promote greater awareness and understanding of economic and financial issues

Cognizant of the BSP's commitment to promoting greater awareness and understanding of economic and financial issues to help the public acquire the knowledge and develop the skills needed to make well-informed economic and financial decisions and choices, the BSP spearheaded the Economic and Financial Learning Program (EFLP) which comprised of the following component programs:

- *Public Information Campaign (PIC) on the Role of the BSP in the Philippine Economy.* The PIC intends to enhance public awareness on the BSP's core functions and responsibilities and its role in the economy particularly those relating to the three pillars of central banking. It also aims to generate public understanding of policies and programs implemented by the BSP. In 2010, the PIC gathered a total of 977 participants, largely students, teachers and school officials in nine sessions in different parts of the country.

- *Financial Learning Campaign (FLC) for Overseas Filipinos and their Beneficiaries.* The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate participants on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures. The BSP conducted nine sessions in different parts of the country and were attended by 850 participants, mainly family members and other beneficiaries of overseas Filipinos. An international FLC-OF was likewise conducted in Manama, Kingdom of Bahrain and Doha, State of Qatar in 2010. The BSP coordinated with the Philippine embassy to ensure that the overseas Filipinos in these host countries attended the sessions.

- *Users' Forum (UF) on BSP-Produced Statistics.* The fora aim to explain to the public the methods and processes employed by the BSP in gathering and analyzing data that it compiles and monitors. It covers topics on monetary, banking, financial, and external sector statistics, expectations surveys and balance of payments. The UF was conducted as part of the BSP's celebration of the National Statistics Month (NSM) in October 2010 in Bacolod City and Dagupan City. These were attended by a total of 127 participants, mostly students, representatives from banks, government agencies and the business community.

- *Conference on Gearing Up for External Competitiveness (CGUEC).* Four conferences were conducted in the cities of Manila, Cebu, Angeles and Davao to a total of 637 representatives coming from exporters/importers organizations, FCDU borrowers, banks, and other government agencies, the academe and media. These conferences aim to: (a) raise awareness among exporters, importers, organizations of OFs, business process outsourcing firms (BPOs), and entities with foreign exchange exposures, on the various ways to manage their foreign exchange risks; and (b) highlight the factors that determine the country's external competitiveness.

- *Financial Education Expo (Fin-Ed Expo).* The Find-ED Expo aims to instill awareness on the availability and accessibility of financial education programs, increase personal financial consciousness on the values and benefits of being financially empowered and orient the public on available financial tools that will help in the promotion of their financial well-being. The BSP launched the initial Fin-Ed Expo in Cebu and subsequently conducted six more in key cities in the country targeting the academe and local workforce as participants.

In 2010, the participation rate of the abovementioned EFLC component programs ranged from 59 percent to 127 percent as against the target set for 2010 of 80 percent.[42] Based on the results of the participant/customer satisfaction survey, these component programs exhibited on average a range of 4.4-4.6 rating vis-à-vis the 4.0 target rating for 2010.[43] The survey covers the contents' timeliness and relevance, effectiveness of the audio visual presentations, effective delivery of the speakers and the overall management of the lectures, among others.

Financial Education Campaign (FEC) for Schoolchildren

The BSP recognizes teachers in promoting financial education to schoolchildren

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

The BSP organized a rewards program that will give recognition to teachers using the BSP financial education teaching guides. The mechanics for the best teachers were drawn up in coordination with the Department of Education (DepEd).

Pursuant to the initiatives of the 2009 Memorandum of Agreement signed with the Coordinating Council of Private Educational Associations (COCOPEA) to assist in the implementation of the FEC, the BSP together with the Bankers Institute of the Philippines (BAIPHIL) rolled out a series of seminars on personal finance targeted towards teachers and parents of elementary school children. In 2010, five briefings were held in various public elementary and secondary schools in the country.

[42] Participation rate is defined as the percent of actual number of participants to number of invitees.
[43] This was based on a scale of 1.0 to 5.0, 5.0 being the highest score.

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. As of 31 December 2010, a total of ₱6,968,947.57 had been deposited under the Tulong Barya Para sa Eskwela based on the reports from banking associations. The program was able to flush out 5,578,035,000 pieces of coins for the period 2008-2010. Total collection from this program for the period 2006-2010 amounted to ₱13.63 million.

Institutional Building

Corporate Planning

The BSP completes the second cycle of its performance monitoring review

The year 2010 marked the second full cycle of the BSP's performance monitoring review with the conduct of the 2009 4th quarter Sectoral Performance Review Session (PRS) on 26 January 2010 and the BSP's 2009 Year-end Organizational PRS on 17 March 2010. The 1st, 2nd and 3rd quarter sectoral PRS were conducted on 12 May, 19 July and 5 November 2010, respectively, while the 2010 first semester organizational PRS was held on 6-7 August 2010 at the Philippine International Convention Center (PICC).

The Corporate Governance Framework. The BSP's corporate governance initiative under the project "Strengthening Good Governance in the Bangko Sentral ng Pilipinas", the major activity of which was the conduct of the BSP's first System-wide Governance Assessment (SGA), was concluded in 2010 with notation from the Monetary Board of the final report containing assessment results and approval of recommendations included in a 3-year Governance Roadmap (approved under MB Resolution No. 1467 dated 21 October 2010).

The BSP Project Management (PM) Excellence Program. The BSP PM Excellence Program, which aims to promote a culture of excellence in the Bank to ensure that projects deliver consistently on their business objectives, launched a series of workshops for targeted officers and staff members across all sectors. Five workshop sessions were conducted in 2010 attended by a total of 148 participants from EMS, MSS, RMS and SES. Half-day executive briefings were also conducted in 2010 for heads of departments and offices to provide them with a working understanding of the key elements of the PM methodology.

Business Partnership Survey (BPS). Phase II of the BPS, which was aimed at gathering feedback from the Bank's business partners on how the BSP conducts business in terms of transparency, integrity and responsiveness, was conducted in 2010. The Phase II of the BPS covered the business partners of the following BSP departments: ASD, BSPI, Cash, CORAO, DER, DES, EFLC, FMED, Procurement, SES and Treasury.

*Discussion Forum for the Promotion of Strategic Management Thinking***.** The 2010 BSP annual planning activities commenced with the conduct of a Discussion Forum on 24 May 2010. The forum provided a venue for participants to discuss with 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 and developing effective responses to change. The participants in the forum were the BSP management team, which included the Governor, members of the Monetary Board, members of the Corporate Monitoring Committee (CMC) and directors/heads of departments/offices, together with one deputy director for each department/office.

Information Technology

The BSP implements in-house application systems and considers outsourced projects

To address issues and requirements pertaining to information technology, the BSP implemented in-house application systems, and considered outsourced projects as follows:

1) Thirty one in-house application systems and 10 outsourced projects were considered. Of the 31 in-house application systems, 11 projects were fully implemented, 10 projects were partially implemented, and 10 were not implemented due to the lack of specification from user. For the 10 outsourced projects, the Information Technology Sub-Sector (ITSS) provided maintenance support in AOMS, Debt Management and Financial Management System (DMFAS), among others.

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

3) IT Security Awareness briefings were conducted, with total attendees of 5,299 officers and staff.

4) Staff training and development were conducted in

2010. Of the 8,640 targeted training hours, 2,496 total training hours were completed.

5) The ITSS was certified on ISO 9001, ISO 14001 and OHSAS on 26-29 March 2010 covering IT infrastructure, security, operations and support management.

Bangko Sentral Training Programs

The BSP focuses on reviewing its policies and processes to ensure the quality of training services it provides and implements new programs

The BSP continued to implement and field training programs that are aimed at developing and creating the competitive advantage of its human capital. For 2010, the BSP focused on reviewing its policies and processes to ensure the quality of the training services it provides.

1) The Quality Management System (QMS) Manual was completed in December 2010. The QMS, among others, encouraged consistency in the application of policies, procedures and work instruction across the organizations, thereby reducing, if not eliminating, business risks.

2) The accreditation process for subject matter expert (SME) accreditation was intensified, which resulted to a pool of 77 SMEs for 104 in-house training courses. The accreditation process provides a set of standards for the SMEs who will be engaged to conduct the BSP's in-house training programs. This ensures that only SMEs who pass the training standards of the BSP would qualify to conduct trainings in the Bank.

3) The course on Quality Project Management (PM) was designed using the BSP PM methodology. The PM is in line with the BSP's initiative which requires the adoption of a common project management approach for the entire Bank. Initial offerings of the course were attended by individuals in charge of overseeing projects.

4) Best Practices in Event Management, a program series consisting of three levels - Basics, Intermediate, and Advanced - was designed. The objective of the program is to teach participants a structured approach to managing events.

5) A Media Communications Training was conducted in 2010. The training was a five-session program aimed to train participants to control and respond to interview questions.

6) A Knowledge Management Workshop was conducted for all officers with a rank of director and up.

7) 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 be used in the creation of the BSPI Integrated Management System.

Several programs were also conducted in coordination with foreign counterparts, as follows:

1) Four (4) co-hosting events were conducted in partnership with SEACEN: (a) The 2nd SEACEN-Bundesbank Advanced Course on Banking Supervision and Financial Stability-Basel II-The IRB Approach; (b) The 6th SEACEN/ABAC/ABA/PECC Public-Private Dialogue for the Asia-Pacific Region; (c) The 12th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies; and (d) The 23rd Meeting of SEACEN Directors of Supervision.

2) A Cash Management and Logistics Seminar was conducted by Dr. Fuhrmann of Deutsche Bundesbank's Centre for Technical Central Bank Cooperation. The program was attended by 34 personnel from the Currency Management Sub-sector and the Regional Monetary Affairs Sub-sector. The objective of the program is to enable cash management personnel to benchmark on the cash operations of the Deutsche Bundesbank.

3) A Seminar on Banking Supervision was conducted by Mr. Jorn Flegler and Mr. Gunter Ruter of Deutsche Bundesbank's Centre for Technical Central Bank Cooperation. The program was attended by 26 personnel from the Supervision and Examination Sector. The objective of the program is to transfer knowledge on various aspects of the stability of market structures and the global financial system.

4) A Memorandum of Understanding (MOU) between the BSP and the Technical Central Bank Cooperation was drafted. The memorandum covers the training and advisory assistance to be provided by Deutsche Bundesbank for BSP staff, including cost-sharing details.

5) Three (3) notable leadership programs were conducted under the Executive Development Lecture Series. The topics discussed were: (a) Mission Driven Leadership Competencies conducted by Dr. Pablo Cardona of the Instituto De Estudios Superiores De La Impresa (IESE) in Barcelona, Spain; (b) Developing the High Performance

Workplace conducted by Dr. Williams Rothwell who heads the 1st ranked graduate program in Human Resource Development in the United States of America; and (c) Beyond Survival: How to Lead and Thrive in Turbulent Times conducted by Mr. Roger Collantes, CEO of the Global Learning Solutions, Pte., a Singapore-based organization.

The BSP also continued to focus its effort at establishing new and strengthening existing networks and technical collaboration with foreign and local counterparts and business partners. This is aimed at achieving its objective of providing more training and scholarship opportunities to BSP employees. This strategy brought in notable resource persons, more training and scholarship opportunities for BSP personnel abroad, thus resulting in the acquisition of knowledge, information and skills from a global perspective.

A total of 625 training events, meetings, and conferences were facilitated in 2010, comprising of 262 in-house offerings, 148 local events, and 215 foreign events. These events were attended by a total of 7,648 participants. For 2010, the BSP targeted a total of 295 in-house offerings. Of these, 262 were conducted. The shortfall was due to the cancellation of some in-house courses, which were subject to review and evaluation, as well as the lack of participants.

Human Resource Development

The BSP delivers pivotal initiatives in addressing career and development needs of its talents

In 2010, the BSP delivered pivotal initiatives geared toward achieving the BSP's corporate objectives and addressing the career and development needs of the BSP talents, as follows:

1) Endeavored on the organization development blueprint through the Organization Enhancement and Capability Strengthening (OECS) project. Through the OECS project, which stemmed from the culture building efforts in 2009, the BSP conducted workshop on per culture area such as: values and behavior; work processes and systems; communication; and symbols, legends and legacies;

2) Continued its efforts on organization diagnosis and needs assessment of different organizational units such as: the Regional Monetary Affairs Sub-sector; the International Sub-sector; the Human Resource Sub-sector; the Comptrollership Sub-sector; the Monetary Policy Sub-sector; and the Corporate Affairs Office. Different activities were completed such as: (a) the

Structured Team Enhancement Program for Davao regional office, Angeles and Dumaguete branches; (b) the BSP Values in Action Campaign; (c) leadership series workshops dubbed as “Inspiring Leadership…Lead to Inspire”; and (d) Mobilization of the Knowledge Management (KM) technical Working Group;

3) Completed reorganization studies, which were approved by the Monetary Board, to address the structural requirement of some organization units, such as the: (a) Anti-Money Laundering Council Secretariat (MB Resolution No. 227 dated 18 February 2010); (b) Procurement Office (MB Resolution No. 938 dated 8 July 2010); (c) Security Plant Complex (MB Resolution No. 1185 dated 27 August 2010); (d) Payments and Settlements Office (MB Resolution No. 1186 dated 27 August 2010); and (e) Internal Audit Office (MB Resolution No.1778 dated 9 December 2010);

4)) Created positions in various organizational units, such as the: (a) Currency Management Sub-sector (MB Resolution No. 1157 dated 19 August 2010); (b) Risk Management Office (MB Resolution No. 1350 dated 23 September 2010); (c) Office of the Governor-Manpower Pool (MB Resolution No. 1346 dated 23 September 2010); (d) Office of the Secretary, Monetary Board (MB Resolution No. 1350 dated 23 September 2010); and (e) Security, Investigation, and Transport Department (MB Resolution No. 1562 dated 4 November 2010). In addition, the HRDD obtained the Monetary Board approval on the BSP 2011 Outsourced Personnel Requirement (MB Resolution No. 1733 dated 2 December 2010);

5) Completed the competency profiling in all the job families in the BSP. Under the MB Resolution No. 389 dated 18 March 2010, the following competency models were approved: (a) executive assistance; (b) business planning; (c) systems and methods; (d) stakeholder relations; (e) treasury operations; (f) operations support services; and (g) research and development;

6) Enhanced competency assessment instruments for 23 job families in the BSP, such as: (a) managerial and leadership; (b) bank examination; (c) payments and settlements; (d) currency operations; (e) production; (f) loans and credit; (g) international operations; (h) international affairs; (i) data and statistics; (j) internal audit; (k) procurement services; (l) administrative services; (m) asset management; (n) information technology services; (o) architectural, engineering and facilities management; (p) security, investigation and

transport; (q) financial services; (r) human resource management services; (s) human resource development services; (t) medical and dental services; (u) training services; (v) provident fund services; and (w) legal services. These instruments are used in the evaluation of competencies for performance and promotion of BSP talents;

7) Obtained the Monetary Board approval of the following: (a) rationalization of the BSP internal qualification standards (QS) for a series of managerial and bank officer positions (MB Resolution No. 259 dated 25 February 2010); (b) Security Plant Complex reorganization and the inclusion of the 49 new position titles in the QS Manual of the CSC with their corresponding minimum QS (MB Resolution No. 1185 dated 27 August 2010); (c) changes in the QS of certain higher Information Technology positions in the BSP (MB Resolution No. 936 dated 8 July 2010); and (d) revised minimum QS of higher level positions in the SES (MB Resolution No. 1649 dated 19 November 2010);

8) Embarked on providing brand position titles for certain jobs in the BSP and conducted a study on “No Late Campaign” initiative;

9) Crafted the talent development framework with linkages with the departments in the Human Resource Sub-sector (HRSS) for holistic development of BSP talents. The Individual Development Plan was approved by the HRSS and cascaded to the Administrative Officers and regional offices/branches;

10) Continued the Development Hour and Development Movies as innovative ways of learning through book reviews and film-showing targeting the competency needs of the BSP talents in the Security Plant Complex and regional offices/branches and the development of influencing skill of the talents from different departments occupying position of Assistant Manager;

11) Conducted programs which catered to the development needs of different groups, such as: (a) Expanded Latitude for BSP scholars; (b) Crossing Borders for research specialists in the regions and their counterparts in the head office; (c) Breakfast with the Governor for new hires; (d) Career Management Orientation for new hires; (e) Review for the Civil Service Commission exam for employee-aspirants of the second level eligibility; (f) pilot run of the Personalities in Harmony Projects in HRDD, which aims to help talents know themselves (i.e., strengths and weaknesses, preferences,

temperaments) to perform better on the job; and (g) conceptualization of the Future Leaders' Program, which is aimed at fast-tracking high performing and high-potential employees;

12) Conducted briefings on the Dual Track Career Progression System and revised the Technical/Highly Specialized Framework and its implementing guidelines. Once approved, these programs will serve as a guides for the BSP talents as they move in their career whether in the management or technical tracks;

13) Administered the Harrison Assessment, a suitability tool for management/leadership, to employees in the managerial positions and up, in support of selection and placement of managers and executives to leadership positions in the BSP. A Succession Plan Report submitted to sector heads resulted to placement/promotion of employees. In addition, career broadcast on clear vacancies were issued and career success stories were also posted in the BSP intranet; and

14) Started the review and revision of the Merit Selection Plan and system of ranking position, review of qualification standard (QS) for the position of manager and draft of procedure on transfer of personnel.

Human Resource Management

The BSP strengthens human resource programs and enhances employee relations activities

In 2010, the BSP continued to implement and strengthen an effective recruitment system, competitive compensation and benefits programs, enhanced employee relations activities and services, as well as relevant wellness programs, as follows:

1) Implemented the revised salary structure, which was approved by the Monetary Board, starting 1 January 2010;

2) Recommended the increase in grants of quarter allowances for regional office/branch heads and messengers' shoe allowance, grant of performance enhancement incentive for 2010, as well as the revision of the guidelines of the local travel allowance and the performance and salary review (PSR);

3) Drafted a position paper sent to the House of Representatives' Committee on Good Governance and Public Accountability and to the Chairman of the Task Force on Corporate Compensation, in anticipation of the potential impingement of Executive Order (EO) No. 7, which directs the rationalization of compensation in

government-owned and controlled corporations and government financial institutions;

4) Completed the implementation of the biometric time/leave recording system in the Main Office, Security Plant Complex and regional offices/branches and recommended the adjustment of work schedule and the adoption of a flexible work schedule for all positions to facilitate increased productivity and further promote employee work-life balance;

5) Revised the guidelines on the grant of compensatory time-off (CTO), in line with the Bank's thrust of adopting economic measures by rationalizing the incurrence of overtime expense;

6) Conducted various cultural, sports and wellness activities, to further encourage work-life balance among employees, including: (a) the BSP Sportsfest; (b) Summer Workshop for Children of BSP employees; (c) Anniversary Celebration; (d) Waste Trading Day; (e) "Buhay BSP" Photo Contest; (f) Family Day, which included the "Mutya ng BSP" and "Bahay ng Sektor" contests, annual Wellness Festival, Breastfeeding Awareness Festival, Wellness Offering during the Women's Month and various physical fitness sessions;

7) Spearheaded several initiatives, to promote the Bank's corporate social responsibility (CSR), including: (a) Feeding Day at the Home of Joy; (b) gift giving to children of BSP Gawad Kalinga Village; (c) collection and donation of old books for the "Tulong Eskwela" Program; and (d) collection of old eyeglasses for the "Sagip Mata" Program;

8) Continued to enhance its operational efficiency and customer service delivery, in its efforts to achieve operational excellence. The Human Resource Quality Management System (HRQMS), covering HR services from recruitment to retirement, passed the ISO 1st Surveillance Audit which complies with the ISO 9001 standards and thus maintains the international certificate for quality processes;

9) Completed the operation of HR-related functions in the BSP Employee Self-Service (BESS) Portal. The BESS Portal provides employees immediate access to their personal, employment, compensation and benefits records;

10) Developed a primer for new employees to assist them in the initial stages of their employment in the Bank;

11) Developed and implemented an electronic Appointment Tracker to enable officials and employees to monitor the status of personnel appointments;

12) Completed the new test materials to ensure the confidentiality and integrity of the Bank's pre-employment evaluation system and promote long-term cost efficiency; and

13) Promoted best practice on knowledge management by conducting regular echo sessions and discussions among staff members and continued to adopt coaching and mentoring practices as part of its personnel development initiatives.

Enterprise Risk Management

The BSP marks significant progress in the implementation of an enterprise risk management system

Significant progress in the implementation of an enterprise risk management (ERM) system was achieved during the year, prompted by the Monetary Board approval of the ERM framework and charter on 4 February 2010. Under the principle of a clear escalation policy where self-assessment of risks were encouraged without fear of blame, a high level of transparency and open communication developed across the Bank, through the application of standard methodologies led by the centralized Risk Management Office (RMO).

Designed after the ERM framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the risk management framework of the BSP covers eight (8) elements, i.e.: 1) internal environment, culture and ethical values ; 2) objective setting process supportive of the Bank's mission, and consistent with its risk appetite; 3) identification of internal and external events posing risks and opportunities; 4) assessment of inherent and residual risks based on likelihood and impact; 5) selection of risk responses and action plans; 6) establishment and implementation of control measures to implement the action plans; 7) effective communication and timely flow of information from top down, bottom up and across the Bank; and 8) continuous monitoring of risks and action plans through effective management information systems.

Proposed action plans during the year spontaneously flowed towards the four (4) objectives of the COSO framework of: 1) aligning high-level goals and strategies to support the institutional mission; 2) effectively and efficiently using resources in operations; 3) ensuring reliability of operational and financial reporting and; 4) complying with applicable laws and regulations.

During the year, the BSP gained membership in the International Operational Risk Working Group, and the Chief Risk Officer participated in its annual meeting hosted by the Central Bank of Brazil. The BSP through the RMO has further expanded its network in other Southeast Asian central banks through participation of its staff in the SEACEN course on enterprise risk management.

Conceptually, the highest level of development of an enterprise risk management system is one wherein action plans identified in the risk matrices are incorporated in strategic plans and strategic management. Year 2010 has been a good start in laying the foundation for achieving in year 2011 the pinnacle of ERM, where strong risk management consciousness is embedded in the day-to-day operations and strategy setting processes of the Bank.

Crisis Management

The 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) Conducted the first Business Continuity Awareness Week (BCAW) held on 11-17 November 2010, which included the following activities: (a) Business Management Workshop for BSP Business Continuity Management Team held on 12 November 2010, (b) Third Networking Forum of the IAEM-Asia (Philippines) held on 15 November 2010, and (c) First Continuity Conference held on 17 November 2010;

2) Implemented the enhancement of the BSP Unified Directory System (BUDS) and launched the first "Virtual Exhibit"; and

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

Systems and Methods

The 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 2010 towards this end.

1) Completed the design and development of four QMS of several departments and offices, in accordance with the international standards of ISO 9001, namely: (a) Corporate Planning Office, (b) Payment and Settlements Office, (c) Office of the General Counsel and Legal Services, and (d) BSPI;

2) Passed the certification audits of two bank-wide certified management systems, namely, the Environmental, Occupation Health and Safety Management System (EOH&SMS) and Administrative Operations QMS (AO QMS) 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, the Currency Management Sub-sector (CMSS), the SPC, three Regional Offices, and 18 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.

Major Infrastructure Projects

As of end-2010, the BSP completed various infrastructure projects that are expected to contribute to the efficient operation and performance of the Bank's functions.

Project title	Total Contract Amount* (in thousand pesos)
Completed Projects	
Construction of BSP Pampanga branch building	245,706
Construction of BSP Legazpi branch building	169,778
Rehabilitation and upgrading of the Monetary Board room and lounge (BSP main office)	30,188
Demolition works and removal of hazardous materials at BSPI offices and training center (BSP main office)	16,046
Construction of BSP Security Training Facility in Silang, Cavite (Phase 1A: Pistol and Rifle Firing Ranges)	8,541
Comprehensive building/facilities audit for the BSP Main Complex (Phase 1)	8,306

* Inclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Sources: Facilities Management and Engineering Department and Project Development and Management Office

Project title	Total Contract Amount* (in thousand pesos)	Percentage of Completion (in percent)
Ongoing Projects		
Construction of BSP Naga branch building	303,910	0.5
Construction of BSP Dumaguete branch building	262,302	1.0
Construction of multi-purpose building (BSP main office)	26,165	52.0
Rehabilitation of multi-storey building roof deck (BSP main office)	21,539	39.4
Construction of office of the deputy governor (Resource Management Sector) and E-library (BSP main office)	11,524	63.4
Construction of chemical storage building (Security Plant Complex)	9,945	99.5
Bank-wide inventory of building components identified as hazardous under national and international standards	4,250	60.0
Supply and installation of fabricated window panels at the BSP 5-storey building	3,540	22.8
Consultancy services for the design of external exhaust for the generator sets and piping system	530	55.0

* Inclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Sources: Facilities Management and Engineering Department and Project Development and Management Office

International Economic Cooperation and Integration Initiatives

The BSP continues to participate actively in international economic cooperation activities

The year 2010 saw a period of continued economic recovery manifested by the expansion of global activity, highlighted by the leading role of emerging economies in Asia. The lessons arising from the 2008 global financial crisis intensified efforts to strengthen the resilience of recovery, manage risks, address issues attendant to financial stability, and reform the international financial architecture. An important consequence is the recognition of the significance of international, regional and bilateral cooperation in guarding against future crises and establishing mechanisms to handle risks and vulnerabilities. The past year saw the Philippines' active involvement in such endeavors, with the BSP continuously pursuing international, regional and bilateral activities in the areas of monetary and financial cooperation and integration. In particular, the BSP represented the country in various engagements related to the conduct of global and regional economic surveillance; policy dialogue, including attendance to high-level and technical meetings/conferences as well as hosting of international conferences/workshops; provision of financial contributions and commitment to bilateral and regional pooling arrangements; involvement in regional bond market development; and participation in capacity-building programs.

A. International Cooperation Activities

Economic Surveillance and Policy Dialogue

Strengthening the monitoring of early signs of weaknesses in the world and regional economies is a powerful tool that can raise warning signals for mitigation and capacity building efforts. Multilateral financial institutions and various regional bodies improved their surveillance capabilities and intensified the conduct of policy dialogue and exchanges as platforms for elucidating common issues and identifying areas of further cooperation.

As member of the *IMF*, the Philippines is a participant to its regular bilateral surveillance efforts which involved the conduct of the Article IV Consultation Mission held in December 2010. This served as a venue for policy dialogue between government authorities and Fund experts on the country's economic situation and outlook. Further, the country was represented by the BSP, as Governor for the Philippines, in a member of conferences and meetings organized by the IMF for discussions on its ongoing reforms related to the Fund's mandate, governance, financing and lending framework. The BSP likewise, provided inputs and comments on IMF issue papers elaborating on global economic concerns, reform of the global monetary system, financial stability and capital flows, among others.

The BSP provides inputs and comments on IMF issue papers elaborating on global economic concerns

The BSP is also a member of *BIS,* which fosters international monetary and financial cooperation and serves as a central bank for banks. The BSP attended a number of BIS meetings and participated in the discussions on financial and monetary developments in Asia via the Asian Consultative Council; financial regulatory reform proposals of the Basel Committee on Banking Supervision; central bank governance and design; and cross-border finance, among others.

As Alternate Governor for the Philippines in the *Asian Development Bank (ADB)* and the *World Bank*, the BSP participated in dialogues pertaining to increasing capitalization in the former and in the governance reforms being implemented by the latter. The BSP likewise took part in the Technical Working Group meeting of the *Intergovernmental Group of 24* which provides the platform for discussions on issues affecting developing and emerging economies prior to the annual meetings of the IMF and the World Bank. These information exchanges led to the formulation of a common position outlined in a communiqué presented during these meetings.

On the regional front, the *Association of Southeast Asian Nations (ASEAN)* has also further improved its capability to undertake economic surveillance to produce quality outputs that would better inform senior officials in the formulation of regional policies and integration framework. The BSP lent active involvement in the on-going establishment of a new high-level surveillance unit of the ASEAN to be called the ASEAN Macroeconomic and Finance Surveillance Office (MFSO).

The Philippines, together with the other members of the expanded ASEAN grouping with Japan, China and Korea (*ASEAN+3*), recognized the necessity of conducting independent surveillance in the region to formulate policy recommendations in support of the decision-making process under the Chiang Mai Initiative Multilateralization (CMIM) that took effect in March 2010. This led to the signing of the legal framework for the establishment of the ASEAN+3 Macroeconomic Research Office (AMRO). Both the MFSO and the AMRO are expected to be operational in 2011.

The *Executives Meeting of East Asia-Pacific Central Banks (EMEAP)* is another regular forum where the BSP plays an active role in terms of economic surveillance and policy discourse. As Chair of the Monetary and Financial Stability Committee (MFSC), the BSP continued to oversee close monitoring of financial and economic developments in the EMEAP region through the regular preparation of weekly financial market updates, and the conduct of meetings and workshops to discuss emerging issues. The BSP provides member central banks with a regular data template for surveillance purposes which was enhanced in the past year to better reflect financial market developments for more informed policy discussions. The BSP also chaired meetings and workshops that provided the venue for EMEAP members to exchange views on: (a) global and regional financial and economic developments as well as policy implications for EMEAP economies; (b) enhancement of macroeconomic surveillance and crisis management framework for the EMEAP region; and (c) research studies in the areas of financial markets, banking supervision, payment and settlement systems, and other monetary and financial stability related topics.

To further strengthen relations with other Asian central banks, the BSP conducted bilateral meetings with the Bank of Thailand (BOT) and Bank Indonesia (BI) in 2010. Held in January, the bilateral meeting with the BOT led to a dynamic and interactive exchange of information on economic and financial developments and monetary policies, and sharing of views on the policy and implementation challenges arising from exit strategies of central banks, and on the development of a financial inclusion policy. With BI, the dialogue between the two central banks held in October focused on sharing of experiences on economic and financial developments, banking consolidation, merger and acquisitions, and impact of remittances on the Philippine economy.

Interregional cooperation through exchange of information and experiences was also sustained. Along with other central banks in Asia, the BSP participated in the meeting of *central bank governors of Asia, Latin America and the Caribbean (ALAC)* to discuss issues which delve into volatility of capital flows and the responses of emerging market economies; and on regional monetary cooperation after the crisis. In a similar manner, the *Center for Monetary Studies in Latin America (CEMLA)* organized a forum where strengthening of interregional ties was discussed identifying collaborative endeavors between Asia and Latin America; while perspectives on common issues were exchanged such as on IMF reforms, and world economic and financial outlook

Financial Arrangements and Contributions

The country's participation in financing mechanisms intends to to support the preservation of the international financial stability

International cooperation also took the form of financial contributions and participation to fund pooling arrangements to foster confidence in the international monetary system, to serve as precautionary tool to arrest vulnerabilities in the external sector; and to address financial difficulties when they become evident. The Philippines' participation in these global and regional financing mechanisms was intended to support the preservation of the international financial stability.

On 4 June 2010, the Monetary Board approved the Philippines' subsidy contribution to the IMF's concessional lending to low-income countries in the amount of SDR1.9 million (approximately US$2.84 million). To be disbursed in five equal annual installments (approximately ₱25.1 million per year) from 2011 to 2015, the contribution signified the Philippines' support for developing countries which were seriously affected by the global financial crisis.

Meanwhile, in line with its commitment to help address threats to the international monetary system and given its sufficiently strong balance of payments and reserve position, the Philippines participated in the Fund's Financial Transactions Plan[44] (FTP) for two consecutive quarters in 2010. In addition, the BSP expressed its support on recent and current initiatives for governance and quota reforms at the IMF and welcomed the increase in the size of quota that will augment financing resources for the Fund and facilitate the shift in quota shares to dynamic emerging markets and developing countries. Under the 14th General Review of Quotas, the Philippines' quota will increase by 100 percent from SDR1,019.3 million to SDR2,042.9 million.

On 24 March 2010, the CMIM regional pooling scheme took effect with the Philippines contributing US$3.7 billion to the total pool of US$120 billion. On 15 September 2010, Philippine contribution was increased to US$4.6 billion in view of the rise in the country's international reserves. This is at par with the contribution of the other ASEAN5.

Regional Bond Market Development

Another important international cooperation initiative that significantly progressed in 2010 is the development of the Asian regional bond market. This is aimed at enabling private and public investors raise longer-term investments, reduce currency and maturity mismatches, and deepen financial integration in the region.

The Philippines actively participates in the ASEAN+3 Asian Bond Markets Initiative (ABMI)

With this in view, the Philippines actively participated in the *ASEAN+3 Asian Bond Markets Initiative (ABMI),* particularly leading the Task Force on Improving Related Infrastructure for the Bond Markets (TF 4) through the BSP as co-Chair with Korea. The TF 4 spearheaded a study funded by the ADB to review the findings of the Group of Experts on the legal and regulatory framework in establishing a Regional Settlement Intermediary. In addition, the BSP took part in the deliberations, approving the operational policies for the US$700 million *Credit Guarantee and Investment Facility (CGIF)*.[45] In terms of initiatives to improve the region's bond market regulatory framework, the BSP collaborated with self-regulatory organizations and securities dealers in the region to launch the *ASEAN+3 Bond Market Forum (ABMF)* in

[44] The FTP is the mechanism through which the Fund finances its lending and repayment operations in the General Resources Account. A member is selected for inclusion in the FTP plan based on a finding by the Executive Board that the member's balance of payments and reserve positions are sufficiently strong.

[45] The CGIF is geared towards providing guarantees to investment-grade ASEAN+3 issuers that will access local currency bond markets and promote efficient allocation of Asian savings within the region.

September 2010. The ABMF will function as a regional framework and platform to foster standardization of market practices and harmonization of regulations relating to cross-border transactions. The BSP nominates private sector participants to the ABMF.

Under the *ASEAN Working Committee on Capital Market Development (WC-CMD)*, the BSP worked with other ASEAN member countries on the formulation of a bond market development Scorecard which aims to identify market gaps in the region and serves as basis for developing a framework for ASEAN to take stock of progress in relation to agreed priorities. Member economies have identified scorecard indicators which will be discussed for adoption in 2011.

The BSP continues to support the EMEAP's *Asian Bond Fund (ABF)* Initiative which is aligned with developing regional bond markets and strengthening regional financial cooperation within the EMEAP region. In 2010, the BSP initiated amendments to the Trust Deed of the ABF Philippine Bond Index Fund to reflect the change in its benchmark from the iBoxx ABF Philippines Index to the iBoxx ABF Philippines 1-10 years Index. The change is envisaged to resolve the tracking error of the current index, improve the replicability of the index, and make the index more reflective of the local bond market environment. The BSP also participates actively in regular meetings of the EMEAP ABF Oversight Committee and the Pan Asian Index Fund Supervisory Committee to monitor the performance of, and discuss marketing strategies for, the ABF.

Strengthening Ties and Capacity Building

With a view toward strengthening ties with other central banks and member economies, as well as participate in capacity building programs, the BSP continued its involvement with the *South East Asian Central Banks (SEACEN)* and *South East Asia, New Zealand, Australia (SEANZA)*.

The BSP strongly supported the training and research activities of the SEACEN Research and Training Centre and co-hosted learning activities with the SEACEN Centre in Manila this year. Collaboration with SEACEN focused 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 in Manila in 2010: the 6th SEACEN/ABAC/ABA/PECC

Public-Private Dialogue for the Asia Pacific Region and the 23rd Meeting of SEACEN Directors of Supervision/12th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies.

The BSP likewise joined the 28th SEANZA Central Banking Course, hosted by Bank of Papua New Guinea, on 19-25 September 2010 which discussed the pillars of monetary policy and supervision of the financial system; current and future challenges to monetary policy makers with some country experiences; among others.

B. Regional Financial Integration Efforts

Towards the Attainment of the ASEAN Economic Community (AEC)

The BSP continued to chair the ASEAN Working Committee on Capital Account Liberalization (WC-CAL)

The BSP continued to chair the *ASEAN Working Committee on Capital Account Liberalization (WC-CAL)*, which oversees the implementation of the strategic schedule for capital account liberalization under the AEC Blueprint. In 2010, the WC-CAL has been on-track in achieving the priority actions prescribed by the strategic schedule under the AEC Blueprint for freer flow of capital. In particular, country reports and executive summary on the assessment and identification of rules for liberalization for freer flow of FD) have been completed. The amendment of legal and regulatory framework, where appropriate and possible, to support changes in rules in FDI commenced in January 2010 and is expected to be completed by December 2013. Meanwhile, the conduct of assessment and identification of rules for liberalization for freer flows of portfolio investments were initiated with the goal towards producing country papers and plans of action on rules to be liberalized from 2011-2015. Member countries continued their initiatives in the current account transactions liberalization, including the adoption of Article VIII of the IMF Articles of Agreement and the relaxation of limitations on foreign exchange purchase and other payments for invisible transactions and current transfers. Lastly, members conducted an assessment of the existing system of monitoring flows aimed at establishing an enhanced system for each ASEAN member country.

In order to foster harmonized initiatives on capital account liberalization and development, the BSP also worked in coordination with and continued to monitor the progress of activities of the *ASEAN Capital Market Forum (ACMF)*. Coordination meetings with the ACMF and other working committees under the ASEAN Finance Process were conducted in March and August to discuss alignment of individual work plans, where required. In 2010, major accomplishments related to the Implementation Plan for Capital Market Integration included the adoption of the ASEAN disclosure standards for multi-jurisdictional offerings of securities in ASEAN (ASEAN and Plus Standards) by Malaysia, Singapore and Thailand; signing of a Memorandum of Understanding among six ASEAN Exchanges, including the Philippines, to establish the electronic trading link of ASEAN stock exchanges and ASEAN bulletin board; and the signing by four countries of the Letter of Intent commissioning a vendor to work on the design of the exchange linkage.

On the *Working Committee on Financial Services Liberalization (WC-FSL)*, the BSP continued its active engagement in the discussions under the ASEAN Framework Agreement in Services (AFAS). These included the negotiations on the fifth round of financial services negotiations under AFAS, which was on its final stages as of end-December 2010 and is targeted to be submitted to the ASEAN Finance Ministers during its annual meeting in April 2011.

To ensure that the path towards the attainment of the AEC by 2015 is on track, the *Task Force on Milestones towards ASEAN Monetary and Financial Integration (TF Milestones*) under the ASEAN Central Bank Forum sustained its efforts to support the study providing a thorough and critical assessment of the current state of financial services liberalization, capital market development, and capital account liberalization in the ASEAN member countries. The study is expected to be completed by the first quarter of 2011. The TF Milestones is co-chaired by the BSP and the Bank Negara Malaysia.

Global and Regional Trade Negotiations

Under the ASEAN process, the Philippines continued to engage with Dialogue Partners in free trade negotiations, with the BSP taking lead on monetary and financial concerns. In 2010, ASEAN free trade agreements (FTA) with China, Australia-New Zealand, and India came into force. Related to the implementation of the Japan-Philippines Economic Partnership Agreement, which was in effect since 2008, the BSP currently co-chairs the Working Group on Financial Services (WGFS) with the Financial Services Agency of Japan to promote regulatory cooperation in the field of financial services and participated in various meetings in this regard.

On the global front, the BSP participated in World Trade Organization (WTO)-related activities, by responding to queries on banking services of other WTO member economies as well as those of other government agencies, including the updating of the Philippines' Notification on the Import Licensing Procedures and inputs for the preparation of the Philippines' Fourth Trade Policy Review under the WTO. 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

C. Hosting of International Cooperation Events

The BSP hosted and either chaired or co-chaired a number of conferences, workshops and meetings in the country and abroad to: (a) sustain the discussion on common issues related to the on-going recovery in emerging economies; (b) lend its perspectives on critical issues affecting the region, in general and the country, in particular; and (c) strengthen ties with other central banks and financial authorities by performing a leadership role in various bodies

Conference/Workshop/Meeting	Date & Venue	Extent of BSP Participation
BSP and Bank of Thailand Bilateral Meeting	15-17 January Palawan, Philippines	Host
Inception Meeting of the Combined Study on Assessing Financial Landscape and Milestones for Integration in ASEAN	1 February, Seoul, Korea	Co-Chair
4th ASEAN+3 ABMI TF4 Meeting	28 February Hanoi, Viet Nam	Co-Chair
15th Meeting of the ASEAN WC-CAL	3 March, Hanoi, Viet Nam	Chair
Joint Seminar of ASEAN Central Bank and Finance Deputies on ASEAN Financial Integration and Brainstorming Session of Central Bank Deputies	19-20 March Manila, Philippines	Host and Chair
6th MFSC Workshop	31 March, Hong Kong	Chair
7th MFSC Meeting	14 May Kuala Lumpur, Malaysia	Chair
Seminar on the Development of a Corporate Credit Information Database and Credit Guarantee System in ASEAN	11 June Manila, Philippines	Host
2nd Joint Seminar of ASEAN Central Bank and Finance Deputies on ASEAN Financial Integration and Brainstorming Session of Central Bank Deputies	18-19 June Yogyakarta, Indonesia	Co-Chair
Bank Indonesia Consultation Meetings with the BSP, Securities and Exchange Commission and Philippine Stock Exchange	22-23 June Manila, Philippines	Host
16th Meeting of the ASEAN WC-CAL	2 August Kuala Lumpur, Malaysia	Chair

Conference/Workshop/Meeting	Date & Venue	Extent of BSP Participation
Meeting of ABMI TF4	29 September, Tokyo, Japan	Co-Chair
Bilateral Meeting with Bank Indonesia	1 October Manila, Philippines	Host
7th MFSC Workshop	26 October Bohol, Philippines	Host and Chair
3rd Meeting of ASEAN Central Bank and Finance Deputies on ASEAN Financial Integration	4 November Bangkok, Thailand	Co-Chair
Study Visit of the Securities and Exchange Commission of Cambodia and the National Bank of Cambodia to the BSP	5 November Manila, Philippines	Host
8th MFSC Meeting	26 November, Hong Kong	Chair
29th Meeting of the ASEAN Working Committee on Financial Services Liberalization	2 December Cebu, Philippines	Host
17th Meeting of the ASEAN WC-CAL	3 December Cebu, Philippines	Host and Chair
Courtesy visit of IMF Deputy Managing Director Naoyuki Shinohara	8-9 December Manila, Philippines	Host
PHL-IMF Joint Workshop on Managing Opportunities and Risks in the Philippine Economy	9 December Manila, Philippines	Host

BSP Accomplishment Report on International Economic Cooperation

The BSP has exceeded its target set for 2010 in terms of positions (on monetary and financial cooperation issues) submitted to, and subsequently adopted by regional and international fora. The positions raised were results of comprehensive research and analysis aimed at fostering pro-active participation in international and regional associations and groupings. The BSP exceeded the target due to the diligent monitoring of issues raised and immediate compliance to submit the said positions.

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-November 2010)

The BSP's net worth declines

Based on preliminary and unaudited financial statements, the BSP's assets as of end-November 2010 reached ₱3,145.9 billion, 20.9 percent or ₱544.8 billion higher than the year-ago level. The BSP's liabilities grew by ₱593.1 billion or 25.1 percent year-on-year to ₱2,952.1 billion. Meanwhile, the BSP's net worth slightly declined to ₱193.8 billion compared to the year-ago level of ₱242.1 billion, as higher growth in liabilities compared to assets was registered during the period (Table 15).

[redacted]

The year-on-year expansion in BSP assets was primarily due to the steady build-up in international reserves, which accounted for almost 85 percent of total assets. The ₱587.8 billion expansion in international reserves was largely a result of the gains coming from the BSP's receipts from investment income abroad and its foreign exchange purchases due to strong capital inflows.

The same period also saw an increase in the BSP's liabilities attributed mainly to higher balances in its deposit liabilities, as part of the continued liquidity management operations by the BSP. In particular, SDA posted an increase of ₱606.9 billion to ₱1,179.5 billion from ₱572.6 billion registered a year ago. The expansion in liabilities was also traceable to the increases in currency issued and RRPs contracted during the period.

The BSP Net Income (January-November 2010)

The BSP registers a net loss

Based on preliminary and unaudited data, the BSP yielded a net loss of ₱48.2 billion for the period January-November 2010, as compared to the ₱10.3 billion net income posted during the same period last year. The shortfall was due mainly to the ₱80.3 billion foreign exchange losses incurred during the period (Table 16).

Income Statement
In billion pesos

		January-November 2010*	2009
Revenue		106.702	91.090
Less:	Expenses	74.639	73.952
Net Income Before FX Gains/Losses (-)		32.063	17.138
Add/Less:	Gains/Losses (-) on FX Rate and Price Fluctuations	-80.311	-6.875
Less:	Provision for Income Tax	0.000	0.003
Net Income Available for Distribution		**-48.248**	**10.260**

*Unaudited

For the same period, total revenues amounted to ₱106.7 billion or ₱15.6 billion higher than the level posted during the same period last year. Miscellaneous income, which accounted for the major source of revenue, increased by ₱31.6 billion to ₱66.9 billion compared to last year's level of ₱35.3 billion, due to higher trading gains from foreign exchange price fluctuations. Meanwhile, total interest income declined by 15.8 billion to ₱39.6 billion from the previous year's level of ₱55.4 billion, largely on account of modest interest earnings as domestic interest rates were generally lower during the period compared to a year ago.

During the same period, total expenditures amounted to ₱74.6 billion, which was ₱687 million higher than the level posted for the same period a year ago. The year-on-year expansion was due mainly to the higher interest expense, which rose slightly by 3.0 percent, owing to increased interest payments from higher placements in the SDA facility. Total taxes and licenses remitted to the NG for January-November amounted to ₱2.3 billion or ₱1.8 billion lower compared to the year-ago remittance of ₱4.1 billion.

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List of Statistical Tables

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2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for periods indicated

	2008	2009	2010	Percent Change 2009	Percent Change 2010
Employment Status [1]					
Labor Force (In Thousands)	36,805	37,892	38,905	3.0	2.7
Employed	34,089	35,061	36,047	2.9	2.8
Unemployed	2,716	2,831	2,859	4.2	1.0
Underemployed	6,579	6,692	6,758	1.7	1.0
Employment Rate (%)	92.6	92.5	92.7		
Unemployment Rate (%)	7.4	7.5	7.3		
Underemployment Rate (%)	19.3	19.1	18.7		
	January - September				
Overseas Employment (Deployed)	947,040	1,112,840	1,079,221	17.5	-3.0
Land-Based	753,527	868,302	840,182	15.2	-3.2
Sea-Based	193,513	244,538	239,039	26.4	-2.2
	January -June				
Strikes					
Number of new strikes declared	3	2	4	-33.3	100.0
Number of workers involved	810	1,200	2,187	48.1	82.3
Legislated Wage Rates [2]					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	382.00	382.00	404.00	0.0	5.8
Regions Outside NCR (ONCR)	320.00	320.00	320.00	0.0	0.0
Agricultural					
NCR					
Plantation	345.00	345.00	367.00	0.0	6.4
Non-Plantation	345.00	345.00	367.00	0.0	6.4
ONCR					
Plantation	295.00	295.0	295.0	0.0	0.0
Non-Plantation	275.00	275.0	275.0	0.0	0.0
In Real Terms (at 2000 prices)					
Non-Agricultural					
National Capital Region (NCR)	247.89	238.45	244.11	-3.8	2.4
Regions Outside NCR (ONCR)	206.85	198.39	192.08	-4.1	-3.2
Agricultural					
NCR					
Plantation	223.88	215.36	221.75	-3.8	3.0
Non-Plantation	223.88	215.36	221.75	-3.8	3.0
Regions Outside NCR (ONCR)					
Plantation	190.69	182.09	177.07	-4.5	-2.8
Non-Plantation	177.76	170.49	165.07	-4.1	-3.2

[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.

Sources: BLES, NSO, NCMB, POEA,NWPC

[redacted]

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	Actual		Program	Actual Vs. Program	Annual Change
	2009	2010	2010	(%)	(%)
Revenues	**1,123,211**	**1,207,926**	**1,294,412**	**-6.7**	**7.5**
Tax Revenues	981,631	1,093,643	1,153,212	-5.2	11.4
Bureau of Internal Revenue	750,287	822,623	860,441	-4.4	9.6
Bureau of Customs	220,307	259,241	280,686	-7.6	17.7
Other Offices	11,037	11,779	12,085	-2.5	6.7
Non-tax Revenues	141,580	114,283	141,200	-19.1	-19.3
of w/c: Bureau of the Treasury	69,912	54,315	60,088	-9.6	-22.3
Expenditures	**1,421,743**	**1,522,384**	**1,619,437**	**-6.0**	**7.1**
of which:					
Allotments to Local Government Units	264,645	279,552	n.a.	n.a.	5.6
Interest Payments	278,866	294,244	327,038	-10.0	5.5
Equity and Net Lending	6,423	11,407	17,765	-35.8	77.6
Surplus/Deficit (-)	**-298,532**	**-314,458**	**-325,025**	**3.3**	**-5.3**
Financing	**229,843**	**351,646**	**338,796**	**3.8**	**53.0**
External Borrowings (Net)	152,477	133,048	130,011	2.3	-12.7
Domestic Borrowings (Net)	77,366	218,598	208,785	4.7	182.6
Total Change in Cash: Deposit/Withdrawal (-)	-66,027	37,166	2,111	1,660.6	156.3
Budgetary	-68,689	37,188	13,771	170.0	154.1
Non-Budgetary [1]	2,662	-22	-11,660	99.8	-100.8

[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				FLOWS			GROWTH RATES (%)		
	Nov-09	Dec-09 [r]	Nov-10	Dec-10	Dec10-Nov10	Nov10-Nov09	Dec10-Dec09	Dec10-Nov10	Nov10-Nov09	Dec10-Dec09
1. NET FOREIGN ASSETS	**2,463,032**	**2,419,919**	**2,831,182**	**2,849,243**	**18,060**	**368,150**	**429,323**	**0.6**	**14.9**	**17.7**
A. Bangko Sentral ng Pilipinas	**2,053,835**	**2,027,592**	**2,651,185**	**2,710,724**	**59,539**	**597,350**	**683,132**	**2.2**	**29.1**	**33.7**
Net International Reserves	**2,080,708**	**2,053,768**	**2,672,814**	**2,732,391**	**59,577**	**592,106**	**678,623**	**2.2**	**28.5**	**33.0**
Foreign Assets	2,081,705	2,053,965	2,673,728	2,732,539	58,811	592,023	678,574	2.2	28.4	33.0
Foreign Liabilities	997	197	914	148	-766	-83	-49	-83.8	-8.3	-24.9
Medium & Long-Term Foreign Liabilities	**26,873**	**26,176**	**21,629**	**21,667**	**38**	**-5,244**	**-4,509**	**0.2**	**-19.5**	**-17.2**
B. Other Depository Corporations	**409,197**	**392,327**	**179,997**	**138,519**	**-41,479**	**-229,200**	**-253,809**	**-23.0**	**-56.0**	**-64.7**
Foreign Assets	763,445	759,533	741,722	690,804	-50,918	-21,723	-68,730	-6.9	-2.8	-9.0
Foreign Liabilities	354,248	367,206	561,724	552,285	-9,439	207,476	185,079	-1.7	58.6	50.4
2. NET DOMESTIC ASSETS	**2,454,729**	**2,640,268**	**2,426,120**	**2,651,665**	**225,545**	**-28,609**	**11,397**	**9.3**	**-1.2**	**0.4**
A. Net Claims on Residents (Net Domestic Credits)	**3,872,041**	**3,965,129**	**4,181,967**	**4,310,447**	**128,480**	**309,926**	**345,318**	**3.1**	**8.0**	**8.7**
Net Claims on the Public Sector (Public Sector)	**1,284,141**	**1,269,483**	**1,334,693**	**1,379,769**	**45,076**	**50,552**	**110,286**	**3.4**	**3.9**	**8.7**
National Government	985,168	970,889	988,754	1,027,840	39,086	3,586	56,951	4.0	0.4	5.9
Credits	1,340,828	1,359,385	1,402,222	1,390,508	-11,714	61,395	31,123	-0.8	4.6	2.3
CB BOL	0	0	0	0	0	0	0	-	-	-
Foreign exchange Receivables	0	0	0	0	0	0	0	-	-	-
T-IMF accounts	-60,178	-57,440	-52,684	-52,779	-95	7,494	4,661	-0.2	12.5	8.1
Deposits	-295,481	-331,056	-360,785	-309,890	50,895	-65,303	21,167	14.1	-22.1	6.4
Local Government and Other Public Entities	298,973	298,594	345,939	351,929	5,990	46,966	53,335	1.7	15.7	17.9
Claims on Other Sectors (Private Sector)	2,587,900	2,695,646	2,847,274	2,930,678	**83,404**	**259,374**	**235,032**	**2.9**	**10.0**	**8.7**
Other Financial Corporations	0	0	0	0	0	0	0	-	-	-
Others	2,587,900	2,695,646	2,847,274	2,930,678	83,404	259,374	235,032	2.9	10.0	8.7
B. Net Other Items	**-1,417,312**	**-1,324,861**	**-1,755,846**	**-1,658,781**	**97,065**	**-338,535**	**-333,921**	**5.5**	**-23.9**	**-25.2**
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	**4,917,761**	**5,060,187**	**5,257,303**	**5,500,908**	**243,606**	**339,542**	**440,721**	**4.6**	**6.9**	**8.7**
A. M4	**4,861,348**	**4,999,903**	**5,199,930**	**5,446,777**	**246,847**	**338,582**	**446,874**	**4.7**	**7.0**	**8.9**
Broad-Money Liabilities (M3)	**3,856,276**	**3,973,970**	**4,143,876**	**4,396,811**	**252,936**	**287,599**	**422,842**	**6.1**	**7.5**	**10.6**
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	1,143,915	1,216,918	1,262,449	1,345,935	83,486	118,534	129,017	6.6	10.4	10.6
Other Deposits (Quasi-Money)	2,640,421	2,672,652	2,798,895	2,960,294	161,399	158,474	287,642	5.8	6.0	10.8
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	71,941	84,400	82,532	90,583	8,051	10,591	6,183	9.8	14.7	7.3
Transferable & Other Deposits in Foreign Currency (FCDs-Res)	**1,005,072**	**1,025,933**	**1,056,054**	**1,049,965**	**-6,089**	**50,982**	**24,032**	**-0.6**	**5.1**	**2.3**
B. Liabilities Excluded from Broad-Money (Other Liabilities)	**56,412**	**60,284**	**57,373**	**54,131**	**-3,241**	**960**	**-6,153**	**-5.6**	**1.7**	**-10.2**
Bills Payable	54,517	58,389	55,478	52,236	-3,241	960	-6,153	-5.8	1.8	-10.5
Restricted Deposits	1,895	1,895	1,895	1,895	0	0	0	-	-	-
Deposits with Other Depository Corporations Under Liquidation	1,895	1,895	1,895	1,895	0	0	0	-	-	-
Narrow Money	**1,143,915**	**1,216,918**	**1,262,449**	**1,345,935**	**83,486**	**118,534**	**129,017**	**6.6**	**10.4**	**10.6**
Currency Outside Depository Corporations (Currency in Circulation)	405,652	457,593	416,889	478,489	61,600	11,237	20,895	14.8	2.8	4.6
Transferable Deposits (Demand Deposits)	738,263	759,324	845,560	867,446	21,886	107,297	108,122	2.6	14.5	14.2
Other Deposits (Quasi-Money)	**2,640,421**	**2,672,652**	**2,798,895**	**2,960,294**	**161,399**	**158,474**	**287,642**	**5.8**	**6.0**	**10.8**
Savings Deposits	1,579,997	1,632,981	1,744,361	1,797,193	52,833	164,364	164,212	3.0	10.4	10.1
Time Deposits	1,060,424	1,039,671	1,054,535	1,163,100	108,566	-5,889	123,429	10.3	-0.6	11.9

[p] Preliminary
Source: Department of Economic Statistics

6 SELECTED DOMESTIC INTEREST RATES [1]

for periods indicated
In percent per annum

	Nominal Interest Rates			Real Interest Rates [7]		
	2010	2009	2008	2010	2009	2008
Borrowing Rates of Banks						
Interbank Call Loans	4.2202	4.8055	5.4324	0.4204	1.6055	-3.8676
Savings Deposits [2]	1.6000	2.0680	2.2240	-2.2000	-1.1110	-7.0760
Time Deposits [2]						
(All Maturities)	2.9910	2.6820	4.0550	-0.8090	-0.5180	-5.2450
Manila Reference Rates [3]						
(All Maturities)	4.8125	5.2500	5.3125	1.0125	2.0500	-3.9875
Lending Rates						
All Maturities [4]	7.6650	8.5400	8.7570	3.8650	5.3720	-0.5430
High [5]	8.6981	9.2470	9.4519	4.8981	6.0470	0.1519
Low [6]	6.5469	7.3105	7.5425	2.7469	4.1105	-1.7575
Bangko Sentral Rates						
R/P (Overnight)	6.0000	6.6098	7.7968	2.2000	3.4098	-1.5032
R/P (Term)	N.T.	6.6777	7.8833	N.T.	3.4777	-1.4167
RR/P (Overnight)	4.0000	4.3897	5.4405	0.2000	1.1897	-3.8595
RR/P (Term)	4.0957	4.4468	5.7038	0.2957	1.2468	-3.5962
Rediscounting	3.9580	3.9230	4.7960	0.1580	0.7230	-4.5040
Rate on Government Securities						
Treasury Bills (All Maturities)	4.0340	4.4560	6.3550	0.2340	1.2560	-2.9450
91-Days	3.7280	4.1860	5.3890	-0.0720	0.9860	-3.9110
182-Days	3.9650	4.3950	6.1930	0.1650	1.1950	-3.1070
364-Days	4.2570	4.5910	6.4920	0.4570	1.3910	-2.8080
Government Securities in the Secondary Market [8]						
3 Months	1.3192	4.2769	5.7523	-2.4808	1.0769	-3.5477
6 Months	1.8077	4.4119	6.0981	-1.9923	1.2119	-3.2019
1-Year	2.5192	4.8104	6.2142	-1.2808	1.6104	-3.0858
2-Years	3.4846	5.1077	6.4385	-0.3154	1.9077	-2.8615
3-Years	4.2288	5.6058	6.5962	0.4288	2.4058	-2.7038
4-Years	4.5019	6.1115	6.7269	0.7019	2.9115	-2.5731
5-Years	5.0308	6.3615	6.8135	1.2308	3.1615	-2.4865
7-Years	5.3719	7.3923	7.2038	1.5719	4.1923	-2.0962
10-Years	6.1000	8.1115	7.4365	2.3000	4.9115	-1.8635
20-Years	8.1692	9.1477	10.9673	4.3692	5.9477	1.6673
25-Years	8.1727	9.3846	11.4635	4.3727	6.1846	2.1635

[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*
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
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
2010	**Ave**	**45.1097**	**0.5144**	**69.7563**	**5.8067**	**43.3050**	**43.7844**	**33.1059**	**41.4212**	**119.6651**	**12.0295**	**32.9847**	**0.0050**	**1.4232**	**12.2830**	**59.8705**
	Jan	46.0276	0.5046	74.4366	5.9303	44.5854	44.1656	32.9759	42.0623	122.1016	12.2761	32.8582	0.0050	1.3939	12.5370	65.7983
	Feb	46.3116	0.5135	72.5576	5.9624	43.2552	43.8398	32.8129	41.0011	122.8524	12.3502	32.6971	0.0050	1.3978	12.6107	63.4411
	Mar	45.7425	0.5056	68.9069	5.8940	42.8848	44.6427	32.6957	41.6759	121.3424	12.1981	32.5793	0.0050	1.4064	12.4549	62.1239
	Apr	44.6266	0.4776	68.4958	5.7490	41.7933	44.4378	32.3232	41.3243	118.3850	11.9003	32.2066	0.0049	1.3832	12.1510	59.9336
	May	45.5971	0.4966	66.8279	5.8557	40.2645	43.8025	32.7030	39.5683	120.9575	12.1591	32.5861	0.0050	1.4084	12.4152	57.1482
	Jun	46.3027	0.5089	68.2180	5.9455	40.9523	44.6243	33.1281	39.5009	122.8291	12.3475	33.0100	0.0051	1.4275	12.6071	56.5910
	Jul	46.3203	0.5286	70.7318	5.9565	43.9318	44.3394	33.6261	40.5152	122.8767	12.3522	33.5045	0.0051	1.4339	12.6124	59.1364
	Aug	45.1825	0.5286	70.8335	5.8160	43.4189	43.5194	33.3330	40.7052	119.8692	12.0487	33.2105	0.0050	1.4211	12.3019	58.3979
	Sep	44.3137	0.5249	68.9797	5.7063	44.2407	42.8151	33.1916	41.4590	117.5500	11.8173	33.0677	0.0049	1.4371	12.0662	57.9012
	Oct	43.4449	0.5300	68.8718	5.5999	44.8814	42.6863	33.3227	42.6098	115.2469	11.5855	33.1954	0.0049	1.4503	11.8294	60.3116
	Nov	43.4918	0.5278	69.5411	5.6094	44.2443	42.9965	33.5559	43.1251	115.3762	11.5981	33.4270	0.0049	1.4585	11.8421	59.5680
	Dec	43.9548	0.5267	68.6753	5.6550	45.2073	43.5435	33.6024	43.5076	116.5944	11.7209	33.4745	0.0050	1.4607	11.9677	58.0953

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]
2008	**13.79**	**36.40**	**74.58**	**80.17**	**136.32**	**181.78**
Jan	15.01	38.10	78.48	83.70	139.08	187.77
Feb	15.08	38.04	78.22	83.98	137.18	185.32
Mar	14.45	37.30	76.36	80.82	135.67	181.76
Apr	14.23	36.83	75.46	80.99	134.84	179.22
May	13.97	36.41	74.41	80.31	135.46	181.41
Jun	13.61	35.42	72.68	79.67	134.71	180.03
Jul	13.35	34.64	70.99	79.81	133.44	177.13
Aug	13.65	35.03	71.40	82.12	136.39	180.60
Sep	13.25	34.56	70.07	78.80	132.70	173.96
Oct	13.07	35.44	71.20	77.68	133.87	174.68
Nov	12.93	37.23	77.49	77.45	141.04	189.35
Dec	12.87	37.76	78.20	76.72	141.40	190.07
2009	**12.83**	**41.79**	**87.53**	**77.32**	**146.46**	**188.17**
Jan	13.11	44.17	93.25	77.91	152.32	197.58
Feb	13.24	45.74	97.25	78.64	157.46	204.99
Mar	13.04	45.32	96.24	77.56	156.05	202.76
Apr	13.07	43.12	91.03	78.02	148.52	190.75
May	13.02	41.82	87.84	77.84	146.08	189.68
Jun	12.78	41.04	85.68	76.63	145.59	187.47
Jul	12.64	40.72	84.82	76.95	145.20	185.77
Aug	12.59	40.26	83.78	76.69	144.11	184.34
Sep	12.42	39.91	83.13	75.20	141.02	180.34
Oct	12.66	39.84	82.52	76.90	139.48	178.00
Nov	12.54	39.52	81.86	76.79	140.06	176.76
Dec	12.79	40.04	82.98	78.71	141.63	179.56
2010	**13.64**	**40.02**	**81.91**	**84.40**	**141.00**	**175.52**
Jan	13.07	39.86	82.41	80.03	139.98	176.02
Feb	13.18	39.89	82.36	80.74	139.08	174.90
Mar	13.41	39.80	81.92	82.14	139.56	174.69
Apr	13.87	40.17	82.51	85.33	140.32	174.56
May	13.91	40.01	81.92	85.59	141.44	177.96
Jun	13.81	39.64	80.59	85.28	141.39	175.80
Jul	13.47	39.30	79.70	84.34	140.56	172.65
Aug	13.68	39.80	80.82	85.83	142.74	175.88
Sep	13.86	40.35	82.07	85.95	142.26	176.03
Oct	13.75	40.58	82.98	84.75	140.79	175.94
Nov	13.81	40.50	82.89	85.99	142.12	175.58
Dec	13.89	40.41	82.72	86.89	141.76	176.21

[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 2009 - 2010

in million pesos

	LEVELS		GROWTH RATE
	2009	2010	**(%)**
T O T A L	3,431,976	3,827,739	11.5
Demand Deposits	759,324	867,446	14.2
Savings Deposits	1,632,981	1,797,193	10.1
Time Deposits	1,039,671	1,163,100	11.9

[p] *Preliminary*

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]

as of periods indicated
in billion pesos

Institutions	2009	2010	% Change
Total	**8,201.6**	**9,042.1** [p]	**10.2**
Banks	6,511.8	7,230.9 [p]	11.0
Universal and Commercial Banks [2]	5,779.1	6,423.7	11.2
Thrift Banks [2]	554.6	629.0 [p]	13.4
Rural Banks	178.2	178.2 [a]	0.0
Non-Banks [3]	1,689.8	1,811.2 [b]	7.2

[1] *Excludes the Bangko Sentral ng Pilipinas; amount includes allowance for probable losses.*

[2] *Based on the new Financial Reporting Package that was implemented beginning March 2008, asset is valued gross of amortization, depreciation and allowance for probable losses; prior to 2008, data were based on Consolidated Statement of Condition which valued asset gross of allowance for probable losses and net of amortization and depreciation.*

[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-December 2009*

[b] *As of end-September 2010*

[p] *Preliminary*

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

as of periods indicated

Institutions	2009	2010	% Change
Total	**23,821**	**24,874**	**4.4**
Head Offices	7,356	7,390	0.5
Branches/Agencies	16,465	17,484	6.2
Banks	8,620	8,869	2.9
Head Offices	785	758	-3.4
Branches/Agencies	7,835	8,111	3.5
Universal and Commercial Banks	4,520	4,679	3.5
Head Offices	38	38	0.0
Branches/Agencies	4,482	4,641	3.5
Thrift Banks	1,333	1,419	6.5
Head Offices	73	73	0.0
Branches/Agencies	1,260	1,346	6.8
Savings and Mortgage Banks	864	939	8.7
Head Offices	29	29	0.0
Branches/Agencies	835	910	9.0
Private Development Banks	304	313	3.0
Head Offices	18	19	5.6
Branches/Agencies	286	294	2.8
Stock Savings and Loan Associations	138	140	1.4
Head Offices	23	22	-4.3
Branches/Agencies	115	118	2.6
MicroFinance Banks	27	27	0.0
Head Offices	3	3	0.0
Branches/Agencies	24	24	0.0
Rural Banks	2,767	2,771	0.1
Head Offices	674	647	-4.0
Branches/Agencies	2,093	2,124	1.5
Non-Banks [2]	15,201	16,005	5.3
Head Offices	6,571	6,632	0.9
Branches/Agencies	8,630	9,373	8.6

[1] Refers to the number of financial establishments which includes the head offices and branches; excludes the Bangko Sentral ng Pilipinas. Starting December 2009, data include other banking offices per Circular 505 and 624 dated 22 December 2005 and 13 October 2008, respectively. (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.)

[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).

Source: BSP

10 STOCK MARKET TRANSACTIONS

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

	2008		2009		2010		Percent Change 2009		Percent Change 2010	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**373,007.3**	**763,901.4**	**540,824.2**	**994,155.9**	**429,566.1**	**1,207,383.7**	**45.0**	**30.1**	**-20.6**	**21.4**
Financial	4,095.5	92,458.3	3,574.8	79,240.3	4,087.7	159,896.9	-12.7	-14.3	14.3	101.8
Industrial	30,154.6	240,016.3	45,858.3	453,606.4	37,986.4	375,977.2	52.1	89.0	-17.2	-17.1
Holding Firms	40,572.6	85,632.2	40,083.5	112,085.7	73,904.8	231,100.0	-1.2	30.9	84.4	106.2
Property	54,726.7	104,097.2	67,290.9	105,234.5	70,098.7	171,800.5	23.0	1.1	4.2	63.3
Services	46,980.0	196,846.5	131,637.5	161,345.0	36,705.2	192,723.4	180.2	-18.0	-72.1	19.4
Mining & Oil	196,470.6	44,836.8	252,363.4	82,624.5	206,783.2	75,884.6	28.4	84.3	-18.1	-8.2
SME	7.4	14.1	15.8	19.5	0.3	1.2	113.5	38.3	-98.1	-94.0
Composite Index (PSEi)										
Average	**2,587.4**		**2,508.7**		**3,550.9**		**-3.0**		**41.5**	
End of Period	**1,872.9**		**3,052.7**		**4,201.1**		**63.0**		**37.6**	

Source: PSE

11 PHILIPPINES: BALANCE OF PAYMENTS

for periods indicated
in million U.S. dollars

	2009 r/	2010 *p/*	Change (%)
Current Account	**9,358**	**8,465**	**-9.5**
Goods and Services	-6,728	-8,438	-25.4
Export	48,624	63,927	31.5
Import	55,352	72,365	30.7
Goods [1/]	-8,842	-10,384	-17.4
Credit: Exports	37,610	50,684	34.8
Debit: Imports	46,452	61,068	31.5
Services	2,114	1,946	-7.9
Credit: Exports	11,014	13,243	20.2
Debit: Imports	8,900	11,297	26.9
Income	-193	308	259.6
Credit: Receipts	5,712	6,093	6.7
Debit: Disbursements	5,905	5,785	-2.0
Current Transfers	16,279	16,595	1.9
Credit: Receipts	16,910	17,419	3.0
Debit: Disbursements	631	824	30.6
Capital and Financial Account	**-1,627**	**7,948**	**588.5**
Capital Account	104	98	-5.8
Credit: Receipts	166	170	2.4
Debit: Disbursements	62	72	16.1
Financial Account	-1,731	7,850	553.5
Direct Investment	1,604	1,226	-23.6
Debit: Assets, Residents' Investments Abroad	359	487	35.7
Credit: Liabilities, Non-Residents' Investments in the Phil.	1,963	1,713	-12.7
Portfolio Investment	-625	4,018	742.9
Debit: Assets, Residents' Investments Abroad	2,715	3,442	26.8
Credit: Liabilities, Non-Residents' Investments in the Phil.	2,090	7,460	256.9
Financial Derivatives	32	-191	-696.9
Debit: Assets, Residents' Investments Abroad	-403	-429	-6.5
Credit: Liabilities, Non-Residents' Investments in the Phil.	-371	-620	-67.1
Other Investment	-2,742	2,797	202.0
Debit: Assets, Residents' Investments Abroad	1,967	2,273	15.6
Credit: Liabilities, Non-Residents' Investments in the Phil.	-775	5,070	754.2
Net Unclassified Items	-1,310	-2,010	
Overall BOP Position	**6,421**	**14,403**	**124.3**
Debit: Change in Reserve Assets	4,911	14,401	193.2
Credit: Change in Reserve Liabilities	-1,510	-2	99.9
Use of Fund Credits	0	0	0.0
Short-term	-1,510	-2	99.9

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 2009 and 2010 were adjusted to reflect preliminary adjustments on the valuation of raw materials for electronics and garments exports.

Technical Notes:

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

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

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

4. Change in KBs NFA as a BOP entry is derived by deducting foreign assets from foreign liabilities, consistent with the principle described in technical note No. 1. This includes assigned capital of foreign banks in local branches that are converted to pesos. Starting March 2008, the computation of the change in banks' NFA includes the NFA of Thrift Banks.

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 (%)		
	2009 r/			2010 p/			2010		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			**801**			**1508**			**88.3**
Copra	..	708	--	..	787	--	-	11.2	-
Coconut Oil	833	714	595	1349	939	1266	61.9	31.5	112.8
Desiccated Coconut	116	1252	146	109	1398	153	-6.0	11.7	4.8
Copra Meal/Cake	403	120	48	720	109	78	78.7	-9.2	62.5
Others			13			12			-7.7
Sugar and Products			**112**			**52**			**-53.6**
Centrifugal & Refined	245	354	87	73	511	38	-70.2	44.4	-56.3
Molasses	199	111	22	76	147	11	-61.8	32.4	-50.0
Others			3			3			0.0
Fruits and Vegetables			**701**			**651**			**-7.1**
Canned Pineapple	169	814	137	139	896	124	-17.8	10.1	-9.5
Pineapple Juice	79	527	41	68	528	36	-13.9	0.2	-12.2
Pineapple Concentrates	36	907	32	31	1200	37	-13.9	32.3	15.6
Bananas	1744	207	360	1590	201	319	-8.8	-2.9	-11.4
Mangoes	20	786	16	20	755	15	0.0	-3.9	-6.3
Others			114			120			5.3
Other Agro-Based Products			**529**			**708**			**33.8**
Fish, Fresh or Preserved	90	2967	269	116	2916	337	28.9	-1.7	25.3
Of which: Shrimps & Prawns	8	6621	54	8	6707	50	0.0	1.3	-7.4
Coffee, Raw, not Roasted	..	4167	--	..	1807	--	-	-56.6	-
Abaca Fibers	27	365	10	11	1179	13	-59.3	223.0	30.0
Tobacco,Unmanufactured	30	3219	97	33	3157	106	10.0	-1.9	9.3
Natural Rubber	25	1003	25	36	1526	56	44.0	52.1	124.0
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	-	-	-
Seaweeds, Dried	11	1178	13	17	2231	38	54.5	89.4	192.3
Rice	0	0	0	0	0	0	-	-	-
Others			116			159			37.1
Forest Products 1/			**33**			**28**			**-15.2**
Logs	..	51	--	4	51	--	-	0.0	-
Lumber	293	33	10	377	28	11	28.7	-15.2	10.0
Plywood	33	658	22	24	630	15	-27.3	-4.3	-31.8
Veneer Sheets/Corestocks	1	679	1	2	811	2	100.0	19.4	100.0
Others			--			--			-
Mineral Products			**1470**			**1870**			**27.2**
Copper Concentrates	153	977	150	224	1163	261	46.4	19.0	74.0
Copper Metal	151	4542	688	108	7272	783	-28.5	60.1	13.8
Gold 2/	128	904	116	148	865	128	15.6	-4.3	10.3
Iron Ore Agglomerates	3097	30	92	3443	32	110	11.2	6.7	19.6
Chromium Ore	471	23	11	102	62	6	-78.3	169.6	-45.5
Nickel			0			0			-
Others			415			582			40.2
Petroleum Products			**293**			**371**			**26.6**
Manufactures			**33605**			**45407**			**35.1**
Electronic Products			22182			31079			40.1
Other electronics			1417			1473			4.0
Garments			1541			1722			11.7
Textile Yarns/Fabrics			147			169			15.0
Footwear			22			9			-59.1
Travel Goods and Handbags			66			71			7.6
Wood Manufactures			821			1029			25.3
Furnitures & Fixtures			138			152			10.1
Chemicals			978			1574			60.9
Non-Metallic Mineral Manufactures			156			162			3.8
Machinery & Transport Equipment			1950			2574			32.0
Processed Food and Beverages			987			1098			11.2
Iron & Steel			124			163			31.5
Baby Carr., Toys, Games & Sporting Goods			128			168			31.3
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			38			43			13.2
Misc. Manufactured Articles, n.e.s.			291			337			15.8
Others			2618			3583			36.9
Special Transactions			**890**			**835**			**-6.2**
TOTAL EXPORTS, as per NSO Foreign Trade Statistics			**38436**			**51432**			**33.8**
Conceptual and coverage adjustments			**-826**			**-748**			**9.4**
TOTAL EXPORTS, BPM5			**37610**			**50684**			**34.8**

.. 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 (%)		
	2009 [r/]			2010 [p/]			2010		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Capital Goods			**7675**			**9571**			**24.7**
Power Generating & Specialized Machines			2151			2948			37.1
Office & EDP Machines			2276			2455			7.8
Telecommunication Eqpt. & Elect. Mach.			1801			1895			5.2
Land Transport Eqpt. excl. Passenger Cars									
& Motorized Cycle			662			970			46.6
Aircraft, Ships & Boats			321			704			119.4
Prof. Sci. & Cont. Inst.; Photo-			463			596			28.6
graphic Eqpt. & Optical Goods									
Raw Materials & Intermediate Goods			**25254**			**33151**			**31.3**
Unprocessed Raw Materials			2366			2503			5.8
Wheat	3068	234	719	1871	240	449	-39.0	2.4	-37.6
Corn	303	314	95	88	823	73	-70.8	162.0	-23.5
Unmilled cereals excl. rice & corn			8.00			20.00			150.0
Crude materials, inedible			1360			1845			35.7
Pulp & waste paper			49			58			19.1
Cotton	17	1216	21	17	1760	30	2.0	44.7	47.6
Syn. fibers	33	2067	68	43	2058	89	32.3	-0.5	31.7
Metalliferous ores			849			1239			45.9
Others			373			429			14.9
Tobacco, unmanufactured			184			117			-36.6
Semi-Processed Raw Materials			22888			30647			33.9
Feeding stuffs for animals	1913	315	602	1595	388	619	-16.6	23.3	2.8
Animal & vegetable oils & fats			152			183			20.4
Chemical			4197			5210			24.1
Chemical compounds			1131			1378			21.8
Medicinal & pharmaceutical chemicals			723			783			8.4
Urea	690	265	183	529	283	149	-23.4	6.6	-18.3
Fertilizer excl. urea	649	238	155	825	285	235	27.1	19.7	52.1
Artificial resins			768			1178			53.2
Others			1237			1486			20.2
Manufactured goods			3254			4222			29.7
Paper & paper products	707	675	477	920	649	597	30.2	-3.9	25.1
Textile yarn, fabrics & made-up articles			468			512			9.3
Non-metallic mineral mftures.			276			364			31.7
Iron & steel	1352	681	920	1615	757	1222	19.5	11.1	32.8
Non-ferrous metals			437			626			43.0
Metal products			439			573			30.5
Others			236			329			39.5
Embroideries			637			649			1.9
Mat/Acc for the mftr. of elect. eqpt.			14032			19763			40.8
Iron ore, not agglomerated	290	46	13	14	60	1	-95.2	32.0	-93.6
Mineral Fuels & Lubricant			**7361**			**9531**			**29.5**
Coal, Coke	5760	66	382	6355	70	447	10.3	6.1	17.0
Petroleum Crude [1/]	50.66	65.08	3297	69.29	77.93	5399	36.8	19.7	63.8
Others [1/]	53.80	68.45	3683	40.28	91.45	3684	-25.1	33.6	0.0
Consumer Goods			**5424**			**7398**			**36.4**
Durable			2332			2956			26.7
Passenger cars & motorized cycle			1288			1763			36.9
Home appliances			275			288			4.5
Misc. manufactures			769			906			17.8
Non-Durable			3092			4441			43.6
Food & live animals chiefly for food			2954			4266			44.4
Dairy products	293	1558	457	327	2190	715	11.3	40.5	56.5
Fish & fish preparation	240	615	148	167	710	119	-30.5	15.3	-19.9
Rice	1776	536	953	2379	630	1499	33.9	17.5	57.4
Fruits & vegetables			227			252			11.1
Others			1169			1681			43.8
Beverages & tobacco mfture.			54			65			20.1
Articles of apparel, access.			84			110			30.6
Special Transactions			**586**			**864**			**47.5**
Articles temporarily imported & exported			264			275			4.0
Others			321			589			83.3
TOTAL IMPORTS [2/]			**46300**			**60514**			**30.7**
Conceptual and Coverage Adjustments [3/]			152			554			264.5
TOTAL IMPORTS, BPM5			**46452**			**61068**			**31.5**

[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*

Note: Valuation adjustments include:

a.) Adjustments to NSO's raw material imports for electronics exports for 2009 and 2010.

b.) Adjustments to NSO's raw material imports for garments for 2009 and 2010.

Components may not add up to total due to rounding

Source: NSO

12 GROSS INTERNATIONAL RESERVES

end-of-period
in million US dollars

		GIR	Reserve Position in the Fund	Gold	SDRs	Foreign Investments	Foreign Exchange	Import Cover [1]	Short-Term External Debt Cover (in percent) Original Maturity	Residual Maturity [2]
		(1=2 to 6)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2008	Jan	34,809.73	139.75	3,857.71	1.06	30,511.44	299.77	5.87	491.39	310.00
	Feb	36,287.80	141.08	4,059.50	0.08	31,756.01	331.13	6.06	512.25	333.25
	Mar	36,624.01	144.06	3,834.39	0.08	32,274.85	370.63	6.06	550.65	330.42
	Apr	36,355.57	142.32	3,584.75	13.37	32,228.27	386.86	5.96	546.62	339.58
	May	36,233.12	141.97	3,795.61	12.61	31,884.16	398.77	5.89	544.78	338.37
	Jun	36,712.28	143.20	3,962.94	12.71	32,223.58	369.85	5.87	417.33	278.42
	Jul	36,900.99	142.08	3,904.11	12.61	32,545.36	296.83	5.74	419.47	279.68
	Aug	36,742.72	137.61	3,568.84	11.49	32,672.28	352.50	5.63	408.39	273.99
	Sep	36,697.45	135.55	3,848.44	11.32	32,292.70	409.44	5.57	442.19	289.98
	Oct	35,951.58	130.46	3,516.51	10.90	31,832.29	461.42	5.48	404.00	271.01
	Nov	36,828.14	130.03	3,808.98	10.25	32,374.42	504.46	5.70	413.85	278.14
	Dec	37,550.82	135.02	4,357.93	10.65	32,065.86	981.36	5.96	536.36	333.16
2009	Jan	39,248.21	130.78	4,567.67	10.31	33,682.15	857.30	6.37	560.61	348.07
	Feb	38,924.57	128.63	4,687.30	9.91	33,213.97	884.76	6.47	598.75	342.19
	Mar	39,041.28	131.06	4,547.47	10.10	33,414.96	937.69	6.65	600.64	346.48
	Apr	39,316.25	131.31	4,422.69	10.11	33,941.45	810.69	6.87	604.87	351.98
	May	39,589.38	135.70	4,879.20	10.33	33,810.59	753.56	7.08	609.07	353.51
	Jun	39,489.54	136.15	4,711.71	10.35	33,937.41	693.92	7.23	686.42	390.87
	Jul	40,169.45	136.25	4,856.05	10.36	34,440.94	725.85	7.62	723.38	394.17
	Aug	41,492.50	137.36	4,830.02	1,031.85	35,023.95	469.32	8.09	747.21	408.11
	Sep	42,528.88	138.97	5,010.06	1,153.39	35,797.90	428.56	8.48	837.51	440.17
	Oct	43,173.48	139.50	5,275.41	1,157.80	36,169.46	431.31	8.72	964.12	478.11
	Nov	44,167.54	141.23	5,633.88	1,172.10	36,801.90	418.43	8.86	986.32	482.18
	Dec	44,242.64	137.51	5,459.75	1,141.17	36,655.12	849.09	8.72	1,105.51	500.54
2010	Jan	45,591.72	136.32	5,399.34	1,131.35	38,129.63	795.08	8.80	1,139.22	513.54
	Feb	45,764.36	134.43	5,579.01	1,115.56	38,628.93	306.43	8.65	1,143.54	493.95
	Mar	45,599.54	133.05	5,951.86	1,104.12	37,891.20	519.31	8.43	872.72	453.55
	Apr	46,943.90	131.96	6,312.47	1,095.07	39,058.22	346.18	8.51	898.45	466.50
	May	47,689.64	129.32	6,674.68	1,073.09	39,508.84	303.71	8.46	912.72	471.71
	Jun	48,704.40	129.72	6,859.99	1,076.42	40,127.37	510.90	8.53	885.86	475.63
	Jul	49,049.18	133.31	6,676.52	1,105.26	40,792.67	341.42	8.43	892.13	494.50
	Aug	49,905.99	132.46	7,057.09	1,098.20	41,306.24	312.00	8.41	907.71	492.75
	Sep	53,754.25	136.61	7,394.73	1,132.61	44,784.85	305.45	8.86	936.16	517.81
	Oct	57,153.59	256.78	6,811.80	1,148.06	48,640.52	296.43	9.42	995.36	542.36
	Nov	60,565.58	248.38	6,913.20	1,110.43	52,036.67	256.90	9.98	1,054.78	578.08
	Dec	62,373.09	250.70	7,010.28	1,120.80	53,440.59	550.72	10.28	1,086.26	575.08

[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, 2009				December 31, 2010			
	Short-term		Medium &	Total	Short-term		Medium &	Total
	Trade	Non-Trade	Long-Term		Trade	Non-Trade	Long-Term	
Grand Total	**1,901**	**2,101**	**50,854**	**54,856**	**2,960**	**3,335**	**53,753**	**60,048**
Public Sector	-	308	42,927 [a]	43,235	-	262	45,935 [a]	46,197
Banks	-	308	4,280	4,588	-	262	4,393	4,665
Bangko Sentral ng Pilipinas	-	-	1,515	1,515	-	-	1,459	1,459
Others	-	308	2,765	3,073	-	262	2,934	3,196
Non-Banks	-	-	38,647	38,647	-	-	41,542	41,542
CB-BOL	-	-	26	26	-	-	18	18
NG and Others	-	-	38,621	38,621	-	-	41,524	41,524
Private Sector	1,901	1,793	7,927	11,621	2,960	3,073	7,818	13,851
Banks	-	1,475	584	2,059	-	2,891	640	3,531
Foreign Bank Branches	-	744	44	788 [c]	-	893	44	937 [c]
Domestic Banks	-	731	540	1,271 [b]	-	1,997	597	2,594
Non-Banks	1,901	318	7,343 [d]	9,562	2,960	183	7,177 [d]	10,320

1 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.

	Dec 31, 2009	Dec 31, 2010
Inclusions		
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	178	234
b Liabilities of private development bank and rural banks	8	-
Exclusions		
c Due to Head Office/Branches Abroad accounts of branches and offshore banking units of foreign banks operating in the Philippines	2533	4268
d Obligations under various capital lease agreements;	1038	995
Loans without BSP approval/registration	6445	8433

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS
for periods indicated
in million US dollars

	2009 r/	2010 p/
Debt Service Burden (DSB) [1]	6,950	7,326
Principal	4,321	4,771
Interest	2,629	2,555
Export Shipments (XS)	37,610	50,684
Exports of Goods and Receipts from Services and Income (XGSI) [2]	67,099	83,657
Current Account Receipts (CAR) [3]	71,246	87,439
Gross National Product (GNP)	184,939	216,144
Ratios (%) :		
DSB to XS	18.48	14.45
DSB to XGSI	10.36	8.76
DSB to CAR	9.75	8.38
DSB to GNP	3.76	3.39

[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
Source: BSP

15 BALANCE SHEET OF THE BANGKO SENTRAL NG PILIPINAS

As of the periods indicated
In million pesos

	2009 Nov	2010 u Nov	Percent Change (%)
Assets	**2,601,054.5**	**3,145,877.8**	**20.9**
International Reserves	2,075,047.7	2,662,762.8	28.3
Domestic Securities	251,596.4	252,431.6	0.3
Loans and Advances	148,389.3	112,434.6	-24.2
Bank Premises and Other Fixed Assets	12,436.1	12,587.0	1.2
Derivative Instruments in a Gain Position	4,335.8	6,454.0	48.9
Other Assets	109,249.3	99,207.8	-9.2
Liabilities	**2,358,934.9**	**2,952,115.6**	**25.1**
Currency Issue	497,371.6	526,933.3	5.9
Deposits	1,319,152.5	1,976,921.7	49.9
Reserve Deposits of Other Depository Corporations (ODCs)[1]	475,535.0	496,905.1	4.5
Reserve Deposits of Other Financial Corporations (OFCs)[2]	457.2	544.7	19.1
Special Deposit Accounts[3]	572,576.9	1,179,465.9	106.0
Treasurer of the Philippines[4]	151,334.0	187,453.9	23.9
Foreign Financial Institutions	51,528.2	41,839.9	-18.8
Other Foreign Currency Deposits	8,452.7	22,290.7	163.7
Other Deposits[5]	59,268.6	48,421.6	-18.3
Foreign Loans Payable	4,598.6	2,636.0	-42.7
Net Bonds Payable	33,840.4	22,861.7	-32.4
Allocation of SDRs	63,608.1	56,461.4	-11.2
Derivatives Liability	-	54.1	
Derivative Instruments in a Loss Position	1,566.0	8,030.7	412.8
Net Revaluation of International Reserves	186,260.2	66,679.3	-64.2
Reverse Repurchase Agreements[3]	243,474.9	282,245.9	15.9
Other Liabilities	9,062.7	9,291.6	2.5
Net Worth	242,119.4	193,760.9	-20.0
Capital	10,000.0	10,000.0	0.0
Surplus/Reserves	232,119.4	183,760.9	-20.8

No 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 2010 prepared by the Financial Accounting Department (FAD) of the BSP.

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

	2009 Nov	2010 [u] Nov	Percent Change (%)
Revenues	**91.1**	**106.7**	**17.1**
Interest Income	55.4	39.6	-28.5
International Reserves	34.9	24.3	-30.4
Domestic Securities	14.5	10.1	-30.3
Loans and Advances	4.2	3.6	-14.3
Others	1.8	1.6	-11.1
Miscellaneous Income	35.3	66.8	89.2
Net income from Branches	0.4	0.3	-25.0
Expenses	**73.9**	**74.6**	**0.9**
Interest Expenses	56.3	59.3	5.3
Reserve Deposits of ODCs and OFCs [1]	13.4	13.2	-1.5
Special Deposit Accounts	25.7	33.2	29.2
National Government Deposits	3.9	3.0	-23.1
Reverse Repurchase Agreements	8.5	7.2	-15.3
Loans Payable	3.8	2.3	-39.5
Other Foreign Currency Deposits	0.0	0.0	
Other Liabilities	1.1	0.4	-63.6
Cost of Minting	3.8	3.3	-13.2
Other Expenses	13.8	12.0	-13.0
Net Income Before Gain/(Loss) on FXR Fluctuations	**17.2**	**32.1**	**86.6**
Gain/Loss(-) on FXR Fluctuations	-6.9	-80.3 [a]	-1,063.8
Provision for Income Tax	0.0	0.0	
Net Income	**10.3**	**-48.2** [a]	**-568.0**
Capital Reserves	0.0	0.0	
Net Income Available for Distribution	**10.3**	**-48.2** [a]	**-568.0**

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.

[a] This represents realized gains or losses from fluctuations in FX rates arising from foreign currency-denominated transactions of the BSP including: 1) rollover/re-investments of matured FX investments with foreign financial institutions and FX-denominated government securities; 2) servicing of matured FX obligations of the BSP; and 3) maturity of derivatives instruments. Because of the structure of the BSP's balance sheet, the BSP generally incurs foreign exchange losses during periods of appreciation of the peso while during periods of depreciation of the peso, the BSP realizes foreign exchange gains. Foreign exchange gains or losses are of secondary concern to the BSP given that the BSP's mandate is to maintain price stability. Over the years, however, the BSP has built up its networth to a level that is more than adequate to absorb potential shocks from FX losses arising from its liquidity management operations.

[u] Based on the unaudited BSP income statement as of November 2010 prepared by the Financial Accounting Department of the BSP.

17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at November 30 2010 PHP000	2009 PHP000
Foreign currency financial assets		
Deposits with foreign banks	384,280,854	276,983,080
Other cash balances	345,567	452,080
Investment securities-available for sale	1,923,908,852	1,476,820,414
Gold	305,190,240	265,536,190
International Monetary Fund special drawing rights	49,037,285	55,255,896
Gross international reserves	2,662,762,798	2,075,047,660
Loans and advances	483,460	694,497
Securities purchased under USD repo facility	0	0
Other foreign currency receivables	27,764,517	35,336,738
Derivative instruments in gain position	6,454,039	4,335,790
Total foreign currency financial assets	2,697,464,814	2,115,414,685
Local currency financial assets		
Investment in government securities-available for sale	252,431,555	251,596,360
Loans and advances	111,951,185	147,694,757
Due from administrator of funds	28,504,530	28,975,518
Other receivables	16,153,752	19,293,217
Total local currency financial assets	409,041,022	447,559,852
Total financial assets	3,106,505,836	2,562,974,537
Acquired assets held for sale	124,247	412,251
Investment property	9,886,875	9,930,896
Bank premises, furniture, fixtures and equipment	12,586,977	12,436,137
Intangibles	281,964	366,786
Inventories	11,101,779	9,712,274
Revaluation of foreign currency accounts	0	0
Deferred tax assets	4,452,120	4,280,662
Miscellaneous assets	938,000	940,911
Total other assets	39,371,962	38,079,917
Total assets	3,145,877,798	2,601,054,454

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	
	2010 PHP000	2009 PHP000
Foreign currency financial liabilities		
Short-term deposits	107,347,458	70,136,518
Loans payable	2.635.967	4,598,593
Bonds payable	22,861,706	33,840,528
Allocation of International Monetary Fund special drawing rights	56,461,415	63,608,095
Derivative instruments in a loss position	8,030,715	1,565,951
Other liabilities	3,144,076	3,324,544
Total foreign currency financial liabilities	200,481,337	177,074,229
Local currency financial liabilities		
Government deposits	120,979,132	118,734,744
Deposits of banks and quasi banks	527,290,649	506,176,195
Deposits of the International Monetary Fund and other FIs	41,839,863	51,528,209
Securities sold under agreements to repurchase	1,461,711,753	816,051,782
Total local currency financial liabilities	2,151,821,397	1,492,490,930
Total financial liabilities	2,352,302,734	1,669,565,159
Other liabilities		
Currency in circulation	526,933,277	497,371,566
Retirement benefit obligations	1,560,887	1,538,234
Miscellaneous liabilities	4,640,751	3,504,584
Dividends payable	0	695,337
Revaluation of foreign currency accounts	66,679,268	186,260,211
Total other liabilities	599,814,183	689,369,932
Total liabilities	2,952,116,917	2,358,935,091
Capital accounts		
Capital	10,000,000	10,000,000
Surplus	70,540,650	51,340,412
Reserve for unrealized gains/(losses) on investments	-5,776,858	-11,945,368
Capital reserves	167,245,116	182,464,233
Undivided profits/(loss) from operations	-48,248,027	10,260,086
Total capital accounts	193,760,881	242,119,363
Total liabilities and capital accounts	3,145,877,798	2,601,054,454

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	2010 Budget PHP000	2010 Actual PHP000	2009 Actual PHP000
Operating Income:			
Income from foreign currency financial assets			
Interest income	30,499	25,723	36,546
Fees, miscellaneous foreign currency income & trading gains foreign	504	63,926	34,512
Total income from foreign currency financial assets	31,003	89,649	71,059
Expenses on foreign currency financial liabilities			
Interest expense	2,770	2,410	3,829
Other foreign currency expenses	454	417	409
Total expenses on foreign currency liabilities	3,224	2,827	4,238
Foreign currency income	27,779	86,822	66,821
Income from local currency financial assets			
Interest income & trading gains local	16,414	13,829	18,829
Total Income from local currency financial assets	16,414	13,829	18,829
Expenses on local currency financial liabilities			
Interest expense	75,515	56,880	52,502
Final tax on interest income/discounts	2,563	2,016	3,989
Total expenses on local currency financial assets	78,078	58,896	56,491
Local currency income/(loss)	(61,664)	(45,067)	(37,662)
Total operating income	(33,885)	41,755	29,159
Currency printing and minting cost	4,882	3,339	3,828
Operating expenses:			
Personnel services, development and training	9,005	7,219	7,135
Traveling	522	251	243
Taxes and licenses	100	87	79
Currency and gold operations	233	140	134
Acquired Assets	384	261	76
Other services	2,710	1,598	1,580
Depreciation	488	509	477
Fidelity insurance	69	54	41
Light, fuel & water	206	175	148
Repairs & maintenance	513	216	249
Communication services	221	112	112
Supplies	95	48	26
Others[2]	1,119	484	527
Total operating expenses	12,955	9,555	9,247
Net operating income before impairments	(51,722)	28,861	16,083

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

[2] The budget column 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	2010 Budget PHP000	2010 Actual PHP000	2009 Actual PHP000
Impairment losses on loans and advances[3]	(15)	(21)	(69)
Market decline of acquired assets [4]	(123)	(0)	(78)
Net operating income after impairment	(51,861)	28,839	15,936
Other operating income	3,083	3,224	1,202
Net realized gains/(loss) on fX rates fluctuations	0	(80,311)	(6,875)
Profit/(loss) before income tax	(48,777)	(48,248)	10,263
Income tax paid	0	0	3
Profit/(loss) for the year	(48,777)	(48,248)	10,260

[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