ISSN 1655-5112

ANNUAL REPORT
VOLUME I

2011

BANGKO SENTRAL NG PILIPINAS
Manila, Philippines

CONTENTS

Foreword

Philippine macroeconomic conditions remained sound in 2011 despite the challenging external environment. Prudent policy management along with the benign inflation environment and strong external payments position boosted confidence in the economy. Monetary policy was able to strike an effective balance of safeguarding price stability while providing support to economic growth. Meanwhile, government spending was focused on addressing social and infrastructure priorities within the context of fiscal discipline.

Output expansion in 2011—with real gross domestic product (GDP) growing by 3.7 percent—was modest but was close to trend growth as private consumption sustained its robust growth, buoyed in part by the steady inflows of overseas Filipino (OF) remittances and strong outsourcing receipts. Household consumption contributed 4.2 percentage points to GDP growth while capital formation continued to grow, albeit at a slower pace. Exports contracted during the year, owing to the global economic slowdown as well as the supply chain disruptions following the natural disasters in Japan. Public underspending, reflected in the weakening of both overall government consumption and public construction, also pulled down economic growth.

The country's external payments position remained strong, allowing for the steady build-up of international reserves, helping ensure external debt sustainability and fortifying the country's resilience against external shocks. Continuing reforms in the banking system have sustained its soundness and stability, enabling it to perform its catalytic role in economic development.

Inflation continued to be within the government's target. Headline inflation in 2011 averaged 4.7 percent using the 2006-based Consumer Price Index (CPI) series, well within the 2011 target range of 3-5 percent, although higher than the 3.9 percent average recorded in the previous year. Inflation rose primarily on account of higher inflation outturns for food. Most food commodity items posted higher prices due to supply constraints brought about by adverse weather conditions.

Monetary policy settings were appropriately calibrated to the outlook for price and output conditions. Policy tightening in early 2011 helped forestall inflation pressures as unfavorable weather conditions and protracted tensions in the Middle East and North Africa (MENA) contributed to mounting pressures on food and oil prices. The BSP also raised reserve requirements by two percentage points as a preemptive move to help manage liquidity given prospects of sustained foreign exchange inflows. Subsequently, the BSP found scope to maintain monetary policy settings, especially as downside risks to global growth intensified, dampening global commodity prices and helping temper demand-side inflation pressures. Monetary policy settings were viewed to be well-placed to respond to evolving global and domestic economic conditions given subdued inflation pressures.

At the same time, liquidity conditions continued to be in line with the economy's growth trajectory. The money supply increased by 8.5 percent on average in 2011 from 9.8 percent in 2010. Credit growth also provided adequate support to domestic economic activity as bank lending grew on average by 17.7 percent compared to 8.4 percent in the previous year.

Credit activity was supported by generally lower domestic interest rates in 2011, reflecting ample liquidity in the banking system. Strong demand for government papers also kept the benchmark 91-day Treasury bill (T-bill) low. Meanwhile, news of a strong external payments position and an improved fiscal performance fueled expectations of a credit rating upgrade, helping pull down interest rates in the secondary market. Average bank lending rates also declined given the steady growth in domestic liquidity amid a benign inflation outlook.

The economy's external sector continued to exhibit a solid performance despite persistent uncertainties in the global front. The balance of payments (BOP) yielded a surplus of US$10.2 billion in 2011, albeit lower than the surplus of US$14.3 billion in 2010. Strong OF remittances and business process outsourcing receipts, as well as robust foreign investment and other financial flows, contributed to the firm external payments position. As a result, gross international reserves (GIR) of the BSP rose to US$75.3 billion as of end-2011, an increase of 20.7 percent from the previous year's level. The end-2011 GIR was sufficient to cover 11.1 months' worth of imports of goods and payments of services and income, or alternatively, it could cover 10.5 times the country's short-term external debt based on original maturity and 6.8 times based on residual maturity.

Steady foreign exchange inflows bolstered by the generally strong macroeconomic fundamentals as well as the successive credit ratings upgrade on the Philippines amid mounting concerns over the sovereign debt crisis in the euro area and easing global economic recovery propped up the local currency. The peso appreciated by 4.2 percent year-on-year (y-o-y) to average ₱43.31/US$1 in 2011. On a real, trade-weighted basis, the peso gained external price competitiveness against a broad basket of currencies of competing Asian countries. However, the peso was less competitive compared to the basket of currencies of major Philippine trading partners (MTPs).

Meanwhile, the country's external debt rose by 2.8 percent to US$61.7 billion as of end-2011 from US$60.0 billion in the previous year, pushing the debt service burden-to-exports of goods and receipts from services ratio up to 8.9 percent from

8.7 percent in 2010. Nonetheless, the country's external debt service capacity remained comfortable, with the ratio falling within the 20-25 percent international benchmark.

The Philippine banking system remained resilient in 2011 despite the difficult global economic environment. Healthy growth rates were sustained in lending, deposits, and profitability, while the non-performing loans (NPL) ratio continued to improve, moving closer to its pre-Asian financial crisis level. Likewise, the system's capital adequacy ratio (CAR) of 17.3 percent[1] remained comfortably above the BSP's and the Bank for International Settlements' minimum requirements. The strength of the banking system was boosted by the BSP's sustained efforts to improve the supervisory process, strengthen risk management practices, and facilitate the efficient provision of financial services. During the review period, policy initiatives were focused on further liberalizing bank branching policy, aligning prudential standards with international norms, and enhancing the implementation of existing banking rules and regulations.

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 due largely to the higher volume of transactions processed and settled through the *PhilPaSS* Remit system.

The Philippine stock market index rallied in 2011 to an all-time high of 4,550.5 index points in August 2011, supported by positive market sentiment owing to low inflation outturns, better-than-expected fiscal performance, and the sovereign credit ratings upgrade by Fitch Ratings and Moody's. Nonetheless, the country's debt spreads remained elevated on heightened global risk aversion. After declining in the early part of 2011, both the EMBI+Philippines spread and Philippine credit default spread widened in the last two quarters of the year due to persistent concerns over the protracted European debt crisis and uncertain global economic prospects. Heightened risk aversion caused investors to sell risky emerging market assets, including the ROP, and seek safe-haven US dollar-denominated instruments.

Beyond the preservation of monetary and financial stability, the BSP continued its advocacies to mainstream financial inclusion in its domestic policy agenda. The BSP's proactive stance in microfinance was evident in the continued implementation of various initiatives in areas of policy and regulation, advocacy, and training and capacity building to support the development of a sustainable microfinance business environment in the country. In recognition of its continued commitment to promote microfinance, the Philippines was awarded for the third consecutive year in 2011 as

[1] On a consolidated basis, as of end-June 2011.

the best in the world in terms of regulatory framework for microfinance by the Economist Intelligence Unit (EIU) Global Microscope on Microfinance. The country has also been consistently in the top 10 countries in the overall category which considers other criteria such as supportive institutional framework and stability.

Likewise, the BSP was involved actively in the establishment of the Credit Surety Fund Program (CSFP) in various provinces in the country. The CSFP, which is aimed at enhancing the delivery of credit to all productive sectors of the economy, provides surety to micro, small and medium enterprise-borrowers that generally are not able to provide collateral to the banks. In 2011, the BSP assisted in expanding the reach of the CSFP with the launching of the program in Pangasinan, South Cotabato, Oriental Mindoro, Beguet, and Sarangani, bringing the total number of CSFs established to 19 as of end-December.

Meanwhile, through its Economic and Financial Learning Program, 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. In 2011, seven financial learning campaigns (FLCs) attended by 870 participants were conducted within the Philippines. Ten Fin-Ed Expos were also conducted by the BSP with participants from the academe and local workforce. To help promote a culture of saving among overseas Filipinos and their families, two international financial learning campaigns were held in Florence and Bari, Italy.

The BSP continued to promote the efficient and speedy transfer of OF remittances to beneficiaries in remote areas of the country. After being fully operational in Q3 2010, the BSP *PhilPaSS* Remit System increased the number of its participating banks from 12 to 15 in 2011.

Given the foregoing, the major challenge for policymakers is to head off the risks associated with the global slowdown this year and keep the economy on a steady course. The global economic downturn is expected to affect the domestic economy through the trade, investment, remittance, and financial markets channels. The country's exports already contracted by 3.8 percent in 2011. Nonetheless, the Philippine economy has sufficient buffers to shield it from the worst part of the downturn. Economic expansion in the country has become more broad-based with strong private consumption providing fundamental support to the economy. In addition, the Philippines enjoys and expects to continue to draw support from demographic dividends. Its young, economically-active and educated population should provide a boost to durable growth over the long term. Moreover, notwithstanding lingering global economic uncertainties, OF remittances have continued to exceed growth projections.

Another anchor of optimism is the manageable inflation outlook over the policy horizon and well-anchored inflation expectations. Demand-side price pressures are also likely to be kept at bay with the modest growth of the domestic economy. This will provide the BSP some scope to support domestic activity to the extent that the inflation outlook will allow. Furthermore, the subdued inflation environment will help protect the public's purchasing power, thereby helping boost domestic consumption.

Nonetheless, upside risks to the inflation outlook remain. While non-oil commodity prices appeared to have stabilized, reflecting the broadly weaker global economic prospects, geopolitical tensions in the MENA region continue to be a key risk factor for global oil prices. The impact of strong capital inflows on domestic liquidity and expected electricity rate adjustments also poses upside risks to inflation.

A continuing challenge to macroeconomic management is the sustained surge in foreign capital flows, which could fuel destabilizing imbalances in the financial markets as well as contribute to potential inflationary pressures. The challenge is made more acute as the ongoing sovereign debt and banking crises in the euro area are anticipated to cause shifts in risk appetites, potentially raising the possibility of capital flow reversals.

Amid these policy challenges and strong external headwinds, the BSP will ensure that an enabling monetary and financial environment is maintained to support the economy's growth momentum, while safeguarding price stability.

In the area of monetary policy, the BSP remains firmly committed to its mandate of promoting low and stable inflation while allowing room for the economy to grow. The most recent assessment of the Monetary Board (MB) suggests that the risks to the inflation outlook appear broadly balanced and overall inflation dynamics are expected to be favorable. Going forward, the BSP shall continue to watch over emerging price and output developments to ensure that monetary policy settings remain supportive of non-inflationary economic growth. The BSP will likewise continue to improve upon its suite of forecasting models, monitor asset price movements more closely, and widen its surveillance of the operating environment to ensure that monetary policy settings are appropriately calibrated to the outlook for inflation and domestic demand.

On the external front, the BSP will focus on further strengthening the country's external payments position and maintaining a comfortable level of reserves as insurance against external shocks. The BSP will also continue to support a market-determined exchange rate but will guard against excessive foreign exchange volatility that could undermine economic growth. Lastly, 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 will continue to work at improving risk management systems, strengthening the supervisory process, and instituting good governance. The challenge for supervisory authorities is to sustain the reform momentum with a view to not only strengthening its resilience against external shocks but also enhancing its role as a catalyst for durable, solid growth and inclusiveness. In this regard, the BSP has already announced the adoption of the Basel III capital adequacy standards for the country's universal and commercial banks (U/KBs) beginning January 2014, four years ahead of the timeline set by the Basel Committee on Banking Supervision. The accelerated timetable reflects the banking system's strong capital position and track record to undertake far-reaching reforms that strengthen the foundations of the financial system.

The BSP will also 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, while the BSP's efforts in promoting an inclusive financial system have generated favorable results thus far, more needs to be done to broaden the access to the financial sector by the "unbanked and underserved" sectors of society. As such, we remain committed to our advocacy programs in microfinance, economic and financial education, and consumer protection.

AMANDO M. TETANGCO, JR
Governor

__ March 2012

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:

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

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

Our Vision

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

Our Mission

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

The Monetary Board

Amando M. Tetangco, Jr.[2]
Chairman and Governor

Cesar V. Purisima
Member

Alfredo C. Antonio
Member

Ignacio R. Bunye
Member

Peter B. Favila
Member

Felipe M. Medalla[3]
Member

Armando L. Suratos[4]
Member

[2] Mr. Tetangco first assumed office on 4 July 2005 and was reappointed as BSP Governor for a second six-year term effective 2 July 2011.
[3] MB Member Medalla took his Oath of Office on 4 July 2011.
[4] MB Member Suratos took his Oath of Office on 13 September 2011.

The Management Team

Amando M. Tetangco, Jr.
Governor

Executive Management

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

Vicente S. Aquino
Assistant Governor

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Edna C. Villa
Managing Director

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

Iluminada T. Sicat
Acting Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Ma. Dolores B. Yuvienco
Assistant Governor

Johnny Noe E. Ravalo
Managing Director

Leny I. Silvestre
Managing Director

Chuchie G. Fonacier
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

ABMI	Asian Bond Market Initiative
ABPMs	Automated Banknote Processing Machines
AC	Advisory Committee
ACMF	ASEAN Capital Market Forum
ADB	Asian Development Bank
AE(s)	Advanced Economy(ies)
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFF	Agriculture, Fishing, and Forestry
AFIF	ASEAN Financial Integration Framework
AFS	Appreciation of Financial Statements Seminar
ALs	Auto Loans
AMCs	Asset Management Companies
AMRO	ASEAN+3 Macroeconomic Research Office
AOAMS	Acquired and Other Assets Management System
AONCR	Areas Outside National Capital Region
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus China, Japan and Korea
BCBS	Basel Committee on Banking Supervision
BCM	Business Continuity Management
BDI	Bank Distress Index
BES	Business Expectations Survey
BESS	BSP Employee Self-Service
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BNM	Bank Negara Malaysia
BOC	Bureau of Customs
BOP	Balance of Payments
bp(s)	basis point(s)
BPI	Business Process Improvement
BPO	Business Process Outsourcing
BPR	Business Process Reengineering
BSC	Balanced Scorecard
BSP	Bangko Sentral ng Pilipinas
BSPD	Banknotes and Securities Printing Department
BSPI	Bangko Sentral ng Pilipinas Institute
BTr	Bureau of the Treasury
BUDS	BSP Unified Directory System

CAL	Capital Account Liberalization
CAM	Credit Appraisal Monitoring
CAR(s)	Capital Adequacy Ratio(s)
CBTS	Cross-Border Transactions Survey
CCRs	Credit Card Receivables
CDIS	Coordinated Direct Investment Survey
CDS	Credit Default Swap
CEMLA	Center for Latin American Monetary Studies
CES	Consumer Expectations Survey
CHED	Commission on Higher Education
CIRO	Currency Issue and Retirement Office
CIRs	Consumer complaints, inquiries, and requests
CMFP	Center for Monetary and Financial Policy
CMIM	Chiang Mai Initiative Multilateralization
CMO	Crisis Management Office
CMSS	Currency Management Sub-sector
COA	Commission on Audit
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CPO	Corporate Planning Office
CSC	Civil Service Commission
CSFP	Credit Surety Fund Program
CuMC	Currency Management Committee
DBCC	Development Budget Coordinating Committee
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DCS	Depository Corporations Survey
DD	Deputy Director
DepEd	Department of Education
DER	Department of Economic Research
DES	Department of Economic Statistics
DET	Data entry template
DFA	Department of Foreign Affairs
DMFAS	Debt Management and Financial Analysis System
DOF	Department of Finance
DSGE	Dynamic Stochastic General Equilibrium
DTI	Department of Trade and Industry
DW I / II	Data Warehouse I / II
EDYRF	Exporters' Dollar and Yen Rediscount Facility
EFLC(s)	Economic and Financial Learning Center(s)

EFLP	Economic and Financial Learning Program
EFTIS	Electronic Fund Transfer Instruction System
EIU	Economist Intelligence Unit
EMBI	Emerging Market Bond Index
EMEAP	Executives' Meeting of East Asia and Pacific Central Banks
EMs	Emerging Market(s)
EMS	Executive Management Sector
ERM	Enterprise Risk Management
ESE(s)	Environmental Scanning Exercise(s)
EU	European Union
EWS	Early Warning System
FBT	Food, beverage, and tobacco
FCAG	Financial Consumer Affairs Group
FCDU	Foreign Currency Deposit Unit
FCGE	Financial Computable General Equilibrium
FDI(s)	Foreign Direct Investment(s)
FIE	Fixed Income Exchange
FLC	Financial Learning Campaign
FMED	Facilities Management and Engineering Department
FOF	Flow of Funds
FRP	Financial Reporting Package
FSAM	Financial Sector Accounting Matrix
FSC	Financial Stability Committee
FSL	Financial Services Liberalization
FTA(s)	Free Trade Agreement(s)
FTO	Fine troy ounces
FTP	Financial Transactions Plan
FX	Foreign Exchange
GDB(s)	Good Delivery Bar(s)
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNI	Gross National Income
GOCC(s)	Government-Owned and Controlled Corporation(s)
GPFI	Global Partnership for Financial Inclusion
GS	Government Securities
HA	Harrison Assessment
HO	Head Office
HRDD	Human Resource Development Department
HRMD	Human Resource Management Department
HRQMS	Human Resource Quality Management System

HSO	Health Services Office
IACFDIS	Inter-Agency Committee on Foreign Direct Investments
IACTS	Inter-Agency Committee on Trade Statistics
IBL(s)	Interbank Loan(s)
ICAAP	Internal Capital Adequacy Assessment Process
ICS	Integrated Correspondence System
IMC	Investment Management Committee
IMF	International Monetary Fund
IOS	International Organization for Standardization
IRD	International Relations Department
IT	Information Technology
ITSS	Information Technology Sub-Sector
KM	Knowledge Management
LCY	Local Currency
LFS	Labor Force Survey
LGU(s)	Local Government Unit(s)
LHS	Left-hand side
LRA	Land Registration Authority
LTMM	Long-Term Macroeconomic Model
MB	Monetary Board
MEM	Multi-Equation Model
MENA	Middle East and North Africa
MORB	Manual of Regulations for Banks
MORNBFI	Manual of Regulations for Non-Bank Financial Institutions
MROD	Mint and Refinery Operations Department
MSMEs	Micro-, Small- and Medium-Scale Enterprises
MSS	Monetary Stability Sector
MTPs	Major Trading Partners
NAB	New Arrangements to Borrow
NCR	National Capital Region
NDA	Net Domestic Assets
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NG	National Government
NGO(s)	Non-Government Organization(s)
NIR	Net International Reserves
NPCC	National Price Coordinating Council
NPLs	Non-Performing Loans
NSO	National Statistics Office
OAG	Office of the Assistant Governor

ODA	Official Development Assistance
ODCs	Other Depository Corporations
OECD	Organisation for Economic Co-operation and Development
OECS	Organization Enhancement and Capability Strengthening
OF(s)	Overseas Filipino(s)
OFW(s)	Overseas Filipino Worker(s)
OSPD	Office of Supervisory Policy Development
OWWA	Overseas Workers Welfare Administration
P/E	Price-Earnings
PBS	Philippine Banking System
PCA	Prompt Corrective Action
PCFS	Philippine Consumer Finance Survey
PDEx	Philippine Dealing and Exchange Corporation
PDIC	Philippine Deposit Insurance Corporation
PDMO	Project Development and Management Office
PES	Philippine Economic Society
PFRS	Philippine Financial Reporting Standards
PFSI	Philippine Financial Stress Index
PhilPaSS	Philippine Payments and Settlements System
PIC	Public Information Campaign
PMEP	Project Management Excellence Program
PPP	Public-Private Partnership
ppt(s)	percentage point(s)
PSA	Philippine Statistical Association
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PSI	Patient Satisfaction Index
PSIC	Philippines Standard Industrial Classification
PSO	Payments and Settlements Office
QMS	Quality Management System
QS	Qualification standards
RB(s)	Rural Bank(s)
REER	Real Effective Exchange Rate
RHS	Right-hand side
RMASS	Regional Monetary Affairs Sub-Sector
RMO	Risk Management Office
RMS	Resource Management Sector
RMU(s)	Risk Management Unit(s)
RP	Repurchase Rate
RRELs	Residential Real Estate Loans

RRP	Reverse Repurchase
RTBs	Retail Treasury Bonds
S&P	Standard & Poor's
SDA(s)	Special Deposit Account(s)
SDR	Special Drawing Rights
SEACEN	South East Asian Central Banks
SEAG	SEACEN Advisory Group
SEC	Securities and Exchange Commission
SEM	Single-Equation Model
SES	Supervision and Examination Sector
SGA	System-wide Governance Assessment
SLC	Senior Level Committee
SMO	Systems and Methods Office
SPC	Security Plant Complex
SRF	Standardized Reporting Format
SRP	Supervisory Review Process
STEP	Structured Team Enhancement Program
TB(s)	Thrift Bank(s)
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TCPS	Technical Committee on Price Statistics
TCR	Total Credit Report
TD	Treasury Department
TF	Task Force
TLP	Total Loan Portfolio
TWG(s)	Technical Working Group(s)
U/KBs	Universal and Commercial Banks
UF	Users' Forum
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia & the Pacific
UP	University of the Philippines
VaR	Value-at-Risk
WB	World Bank
WC-CAL	Working Committee on Capital Account Liberalization
WC-FSL	Working Committee on Financial Services Liberalization
WESM	Wholesale Electricity Spot Market
WG	Working Group
WTO	World Trade Organization
y-o-y	Year-on-year

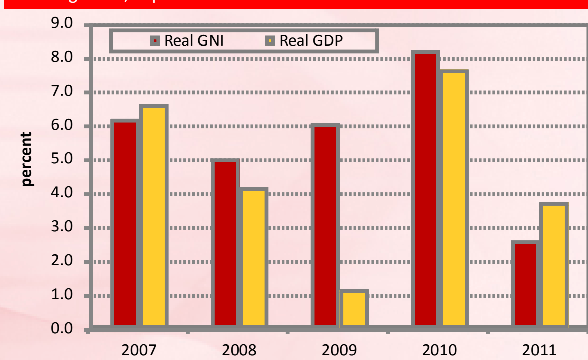
PART ONE: THE PHILIPPINE ECONOMY

The Domestic Economy

The domestic economy grows modestly

The Philippine economy posted modest growth in 2011 due to the challenging external environment and lower-than-programmed fiscal spending. Real GDP grew by 3.7 percent, below the government's official growth target of 4.5 to 5.5 percent for the year and a deceleration from the 7.6 percent GDP growth posted in 2010. Economic expansion was led by the services sector on the production side and by household consumption on the demand side. Net primary income from the rest of the world contracted by 0.9 percent in 2011 after growing by 10.0 percent in 2010 as income from abroad slowed down, reflecting the global economic downturn. Real gross national income (GNI) grew by 2.6 percent in 2011, lower than the 8.2 percent growth registered in 2010 (Table 1).

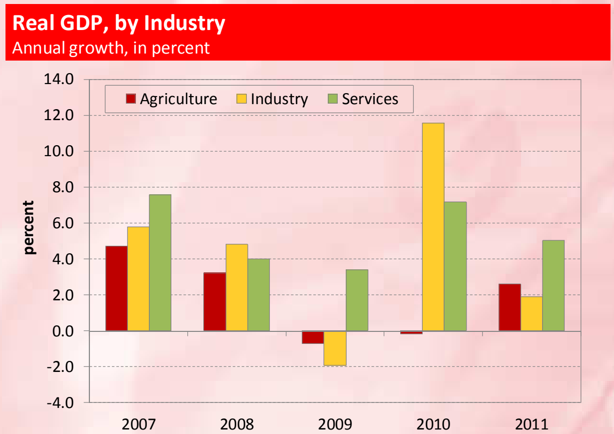
Real Gross National Income (GNI)
and Real Gross Domestic Product (GDP)
Annual growth, in percent



Aggregate Output and Demand

Services boost output growth

The services sector, which accounted for more than half of total GDP, rose by 5.0 percent to contribute 2.8 percentage points to GDP growth in 2011. Real estate, renting, and business activities boosted the growth of the services sector on account of steady demand for real properties from overseas Filipinos and their beneficiaries. Notable expansions were also posted in financial intermediation and other services as well as in transportation, communication, and storage.



Industry sector output, representing a third of total GDP, expanded at a slower pace of 1.9 percent in 2011 after growing by 11.6 percent in the previous year. Nonetheless, the industry sector contributed 0.6 percentage point to output growth. Manufacturing led the growth of the industry sector as the production of food and beverages, furniture, and chemicals continued to grow during the year. The mining and quarrying sub-sector also supported domestic output growth, reflecting the sustained global demand for the country's mineral products.

The agriculture, fishing, and forestry (AFF) sector expanded by 2.6 percent in 2011 from a 0.2 percent contraction in 2010 as palay, sugarcane, and corn production recovered from the dry spell in 2010. Fishing, however, was severely affected by the series of typhoons late in the year. The agriculture sector, which composed about a tenth of total GDP, contributed 0.3 percentage point to GDP growth in 2011.

Household consumption drives demand

On the demand side, household final consumption underpinned output growth with a 6.1 percent expansion, propelled largely by increased household spending for food, education, and miscellaneous goods and services. Fixed capital formation likewise grew during the year, although at a slower pace of 2.7 percent (from 19.1 percent), led by the expansion in investments in intellectual property products[5] and durable equipment. Meanwhile, exports contracted by 3.8 percent after growing by 21.0 percent in the previous year, reflecting the decline in global demand due to the economic slowdown in major advanced economies as well

[5] This account includes investments in intellectual property products such as computer software and databases; entertainment, literary, or artistic originals; research and development; and mineral exploration.

as the supply chain disruption following the Japan earthquake and tsunami in March 2011. Government consumption likewise fell by 0.7 percent on account of the government's below-program spending on infrastructure in the early part of 2011.

Labor, Employment, and Wages

Employment conditions improve generally

The country's employment situation improved generally in 2011. Employment growth outpaced the growth in the labor force, resulting in a slightly lower unemployment rate for the year. Based on the four rounds of the Labor Force Survey (LFS) of the National Statistics Office (NSO) in 2011 (i.e., January, April, July, and October), the average unemployment rate declined to 7.0 percent in 2011 from 7.3 percent in 2010 (Table 2). Of the four survey rounds, the October survey registered the lowest unemployment rate at 6.4 percent, while the highest unemployment rate was recorded in January at 7.4 percent. Meanwhile, the number of unemployed persons in 2011 declined by 45,000 to 2.8 million from the 2.9 million recorded in 2010.

New jobs generated in 2011 reached 1.2 million, bringing the total employment level to 37.2 million. Full-year employment growth reached 3.2 percent, higher compared to the 2.8 percent growth in 2010. The labor force participation rate was also higher at 64.6 percent relative to the 64.1 percent posted in 2010.

The services sector registered the strongest job creation rate at 3.8 percent (equivalent to an increase of 713,000 employed persons), driven by the employment growth in wholesale and retail trade, and real estate, renting, and business activities. Employment in the AFF sector posted a 2.6 percent growth (310,000 employed persons), in line with the recovery of agricultural production. Employment growth in the industry sector slowed down to 2.4 percent in 2011 from 6.0 percent in 2010, due to lower employment generated in the manufacturing and construction sub-sectors.

The growth of wage and salary workers decelerated to 4.6 percent in 2011 from 5.1 percent in 2010, while unpaid family workers grew by 3.6 percent, a reversal of the 1.4 percent decline a year ago.

Meanwhile, the number of employers fell at a slightly slower pace of 2.8 percent from the 3.1 percent decline in 2010. Employment growth among the self-employed was unchanged at 1.2 percent.[6]

However, the underemployment rate rose to 19.3 percent in 2011 from 18.8 percent a year ago, representing an additional 401,000 underemployed persons. Of the total underemployed population, 43.4 percent were in the agricultural sector, while the industry and services sectors accounted for 15.9 percent and 40.7 percent, respectively.

Prices

Inflation for 2011 falls within target

Year-on-year (y-o-y) headline inflation in 2011 averaged 4.7 percent using the 2006-based Consumer Price Index (CPI) series, well within the government's 2011 target range of 3-5 percent, but higher than the 3.9 percent average in the previous year (Table 3). Inflation rose in 2011 on account of a higher inflation outturn for food as most commodity groups posted increased prices due to supply constraints brought about by weather disturbances.

Food and non-food inflation accelerate

The average inflation rate for food accelerated to 5.7 percent in 2011 from 4.1 percent in 2010. Food inflation followed an uptrend in the first two quarters of 2011, reflecting supply constraints triggered by adverse weather conditions. However, it declined towards the second half of the year as lower prices of selected food items, particularly rice and sugar due to ample domestic supply, tempered the price increases in most food products.

Similarly, the average non-food inflation in 2011 increased to 4.3 percent from 3.6 percent in the previous year due largely to higher inflation for transport (6.1 percent from 3.6 percent) with the surge in global oil prices. Other contributors to the higher non-food inflation were education (4.7 percent from 4.4 percent), clothing and footwear (3.7 percent from 2.7 percent), restaurant and miscellaneous goods and services (2.8 percent from 2.6 percent), and recreation and culture (1.4 percent from 0.6 percent).

---

[6] The LFS defines **employer** as a person (or entity) who employs one or more paid employees in the operation of their businesses or trades. (See http://www.bles.dole.gov.ph/Glossary/definition.asp)

Average inflation in the National Capital Region (NCR) and areas outside NCR (AONCR) likewise edged higher to 4.0 percent and 4.9 percent in 2011, respectively, from 3.7 percent and 3.8 percent in 2010.

Using the 2006-based CPI series, y-o-y headline inflation in 2011 rose to 4.8 percent from 3.8 percent in 2010. By geographical location, average inflation in the NCR and AONCR was also higher at 4.0 percent and 5.0 percent, respectively, from 3.7 percent and 3.8 percent in the previous year.

Using the 2006-based CPI series, two out of three alternative measures of core inflation estimated by the BSP went up during the year.

Core Inflation Measures
Year-on-Year Change in percent

	2000=100	
	2010	**2011**
Trimmed Mean[2]	3.0	3.5
Weighted Median[3]	2.6	2.4
Net of Volatile Items[4]	4.9	4.7

[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.

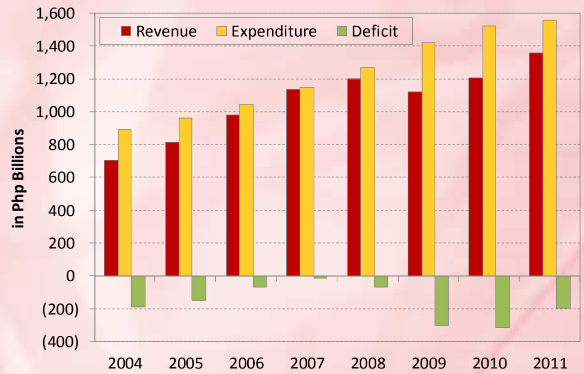
Sources of Basic Data: NSO, BSP-Department of Economic Research (DER)

Operations of the National Government

NG deficit declines

The deficit of the National Government (NG) narrowed to ₱197.8 billion in 2011 from ₱314.5 billion in 2010. This level, representing 2.0 percent of GDP, was 34.1 percent or ₱102.2 billion lower than the full-year programmed deficit of ₱300.0 billion. Revenues increased by 12.6 percent y-o-y to reach ₱1,359.9 billion but was below the 2011 programmed level by 3.6 percent. Expenditures likewise rose to ₱1,557.7 billion during the year but fell short of the programmed level by 9.0 percent.

Cash Operations of the National Government
in Php Billions



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), and related offices increased by 9.9 percent to ₱1,202.1 billion in 2011, representing 94.4 percent of the programmed level of ₱1,273.2 billion for the year. Meanwhile, total non-tax revenues rose by 38.1 percent y-o-y to ₱157.9 billion but were 14.4 percent below the 2011 program. In particular, non-tax revenues of the Bureau of the Treasury (BTr) grew by 38.5 percent to ₱75.2 billion during the year.

Total NG expenditures rose by 2.3 percent y-o-y to ₱1,557.7 billion, lower than the 2011 programmed level of ₱1,711.3 billion. Allotments to local government units (LGUs) were higher at ₱315.1 billion, exceeding the year-ago level by 12.7 percent. Meanwhile, interest payments decreased by 5.2 percent to ₱279.0 billion, reflecting the low interest rates prevailing in the primary market in 2011.

The deficit was financed mainly from domestic sources, which covered 55.6 percent of the total financing requirement of the NG.

Box Article 1

Headwinds in the US and Europe: Their Impact on the Philippine Economy and Policy Directions in 2012

The Philippine economy will face significant challenges in the near term relating to the ongoing sovereign debt and bank crises in Europe and the continuing anemic growth in the US economy. Should headwinds in the US and Europe worsen, global growth prospects could continue to tip further to the downside, adversely affecting the country's trade, financial, and investment sectors. Likewise, earnings from the country's booming outsourcing industry, tourism, as well as the remittances of nine million Filipino workers overseas could decline along with official development assistance from the US and Europe. Amid these threats to growth, the BSP is committed to proactively pursue and implement necessary policy measures to provide an adequate cushion to the domestic economy.

Impact on the Philippine Economy

Given the strong economic and financial linkages of the Philippines with the US and Europe, policymakers remain mindful of the potential risks that the headwinds in advanced economies (AEs) will have on the domestic economy. In particular, authorities continue to monitor the possible transmission channels of potential adverse impacts, such as: (a) trade; (b) investments; (c) finance; (d) remittances; and (e) official development assistance (ODA).

Trade

Amid increasing intra-regional trade transactions over the recent decade, the US and Europe remain two of the country's major trading partners. For the period January-October 2011, Philippine exports to the US and Europe accounted for about 28 percent of the country's total exports of goods. Nonetheless, the strong domestic demand in the country could mitigate the impact of a potential weak external demand and export slowdown.

Destination of Philippine Exports
Percent share to total

	2000	Jan-Oct 2011
USA	29.8	14.7
Europe	18.4	13.2
Japan	14.7	18.2
ASEAN	15.7	18.4
China	1.7	12.5

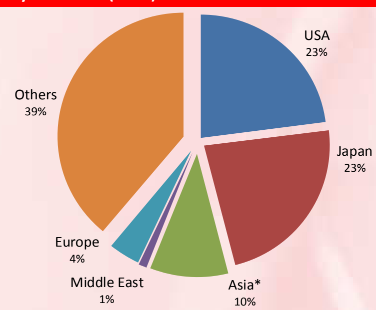
Source: NSO

Meanwhile, in terms of trade in services, the US and Europe likewise are among the two major clients of the country, particularly in the business process outsourcing (BPO) and tourism industries. In 2009, about 75 percent of total BPO receipts were from the US and 7.0 percent were from Europe. On the other hand, in 2010, 17 percent and 10 percent of tourists visiting the Philippines were from the US and Europe, respectively. The economic slowdown in the US and persistent sovereign debt overhang in Europe could, therefore, have an adverse impact on these industries.

Investments

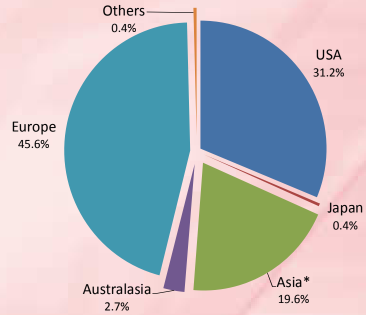
Along with heightened global risk aversion, the investment channel could also be a powerful transmission channel of the weak economic activity in the US and financial turbulence in Europe. In 2010, the US accounted for 23 percent of gross FDIs in the Philippines while gross FDIs from Europe constituted 4 percent of the total FDI. In terms of gross foreign placements in portfolio investments in 2009, US share to total was 31.2 percent while Europe represented 45.6 percent of total gross portfolio investment receipts. These figures show the significant investment linkage of the Philippines with the two AEs. Lingering and deepening economic uncertainties in these countries could trigger a wait-and-see attitude among investors and thus could halt possible decisions to engage in new investments or business expansion programs over the near term.

Gross Foreign Direct Investments, by Country of Source (2010)



Source: BSP
* Asia, excluding Japan

Gross Foreign Placements in Portfolio Investments, by Country of Source (2009)



Source: BSP
* Asia, excluding Japan

Finance

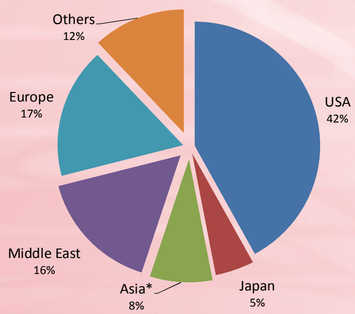
The possibility of the sovereign default in Europe spilling over to the broader international financial system and ultimately, affecting Philippine banks, is considered a relatively remote possibility to date. Lending support to this is the relatively low direct exposure of the Philippine banking system (PBS) to Europe (includes sovereign, financial institution, and corporate debt), reflecting less reliance of Philippine banks on European funding. Preliminary results of the BSP's survey as of 31 October 2011 showed that there was a decline in Philippine banks' exposure to European debt by 9.5 percent to US$1.9 billion from the US$2.1 billion recorded as of 30 June 2011. This figure represented 1.2 percent of the total assets of the PBS as of the survey period. The bulk or 90.1 percent of the US$1.9 billion are exposures to European financial institutions, a decline from the June 2011 level of 93.0 percent.

While the risk of financial contagion from the euro debt crisis is a key concern, the PBS maintains an adequate buffer to absorb potential losses from its exposure to Europe as reflected in the system's robust capital position. The capital adequacy ratio (CAR) of PBS stood at 16.3 percent on a solo basis and 17.3 percent on a consolidated basis as of end-June 2011.

Overseas Filipino Remittances

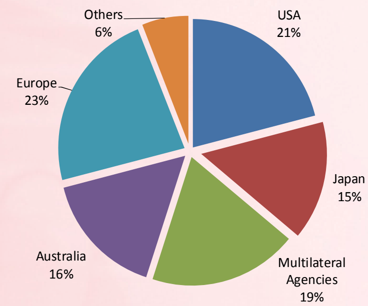
The weakness in the US and Europe could also adversely affect labor demand for overseas Filipino workers (OFWs) and thus, the remittance receipts of the country. Historically, however, OF remittances proved to be resilient in the face of external shocks. While the crisis in the US and Europe started in early 2011, remittances from the US still accounted for 42 percent of the country's total remittance receipts while Europe's share was at 17 percent.

Total Remittances, by Country of Source (2011)



Source: BSP
* Asia, excluding Japan

Total Grants Received by the Philippines, by Source (2009)



Source: Organisation for Economic Co-operation and Development (OECD)
* Asia, excluding Japan

Official Development Assistance

Data from the Organisation for Economic Co-operation and Development (OECD) showed that Europe contributed the biggest share in total transfers in 2009, accounting for 23 percent of total ODA.[7] The US followed with 21 percent, while multilateral agencies such as the World Bank (WB), Asian Development Bank (ADB), United Nations (UN), and the European Union (EU) provided a total of 19 percent. Given the current challenges confronting the US and Europe, development aid to developing countries, including the Philippines, could suffer a decline.

[7] If grants from the EU, which are under multilateral agencies, are added, then total ODA grants from Europe would be more than 23 percent of the total ODA to the Philippines in 2009.

Monetary and Financial Conditions

Monetary Conditions

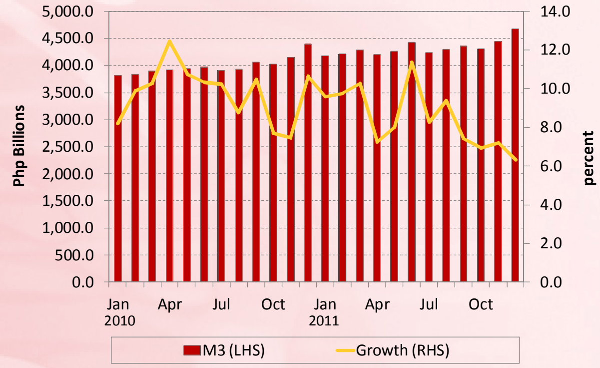
Monetary Aggregates

Domestic liquidity expands in line with the economy's growth trajectory

Domestic liquidity conditions in 2011 continued to be in line with the economy's growth trajectory. M3 grew by 6.3 percent y-o-y in December, bringing the full-year M3 growth rate to 8.5 percent in 2011 from 9.8 percent in 2010. The steady growth of net foreign assets (NFA), particularly those of the BSP's, drove the expansion in domestic liquidity. Sustained foreign exchange inflows stemming from current account receipts, such as remittances, outsourcing revenues, and portfolio investments, underpinned the growth of the BSP's NFA position of 34.4 percent in 2011 from 20.2 percent in the previous year. The NFA of other depository corporations (ODCs) contracted further by 96.2 percent during the year, following a 4.5 percent drop in 2010, due to the sharp increase in banks' foreign liabilities coupled with a considerable reduction in their foreign assets. The expansion in ODCs' foreign liabilities was related to the higher placements and time deposits made by foreign banks to local banks. Foreign assets of ODCs continued to fall due in part to the contraction in loans receivables from foreign banks.

Meanwhile, net domestic assets (NDA) decreased by 6.9 percent, moderating liquidity growth in 2011. Credits extended to the NG declined by 0.9 percent, a sharp reversal of the 9.6 percent expansion recorded in 2010 as public spending was reined in, consistent with the government's fiscal rationalization measures. Meanwhile, credits extended to the private sector increased at a faster rate of 13.6 percent in 2011 in line with the continued uptrend in bank lending activity.

Domestic Liquidity (M3)
DCS Concept

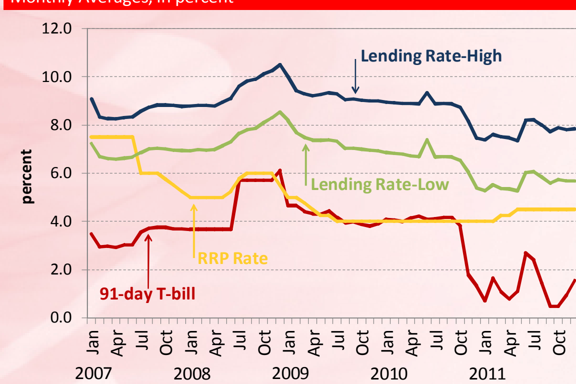


Interest Rates

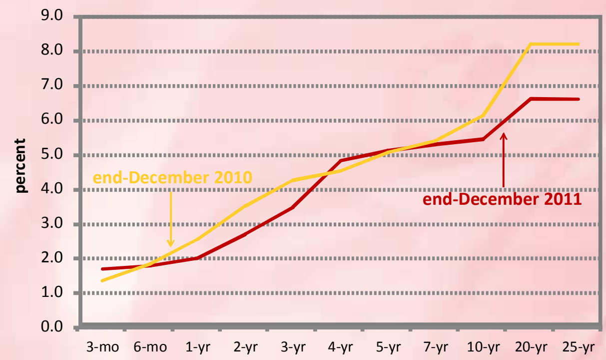
Interest rates on government securities drop markedly

Interest rates declined significantly across all tenors in the primary market during the year, reflecting ample liquidity in the system and strong demand for government papers owing to the country's generally strong macroeconomic fundamentals amid a highly uncertain external environment. Partial awards by the BTr of programmed offerings as investors posted bids that were deemed too high also helped keep primary rates at low levels. Consequently, secondary market interest rates decreased generally, except for the 3-month, 4-year and 5-year instruments, due largely to sufficient liquidity and the relatively favorable prospects for the domestic economy.

Selected Domestic Interest Rates
Monthly Averages, in percent



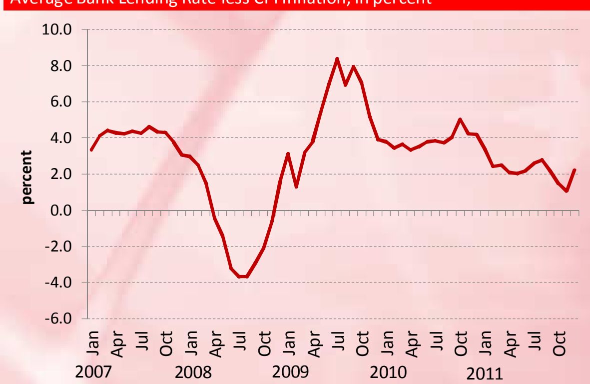
Secondary Market Yield Curve
in percent



Lending and time deposit rates ease

Bank lending and time deposit rates fell during the year. The decline in bank lending rates reflected the steady growth in domestic liquidity as the country's NFA continued to expand. In real terms, borrowing rates also decreased relative to their rates a year ago due to the decline in the nominal rates along with the higher inflation in 2011.

Real Lending Rates
Average Bank Lending Rate less CPI Inflation, in percent



The Monetary Board hikes BSP policy rates

The MB raised the BSP's key policy rates by a total of 50 basis points (bps) in 2011, bringing the overnight or reverse repurchase (RRP) rate to 4.5 percent and the overnight lending or repurchase (RP) rate to 6.5 percent as the MB deemed it prudent to rein in the public's inflation expectations.[8]

[8] Surveys conducted in the first half of 2011, including the Asia Pacific Consensus Forecasts, the Consumer Expectations Survey, and the BSP's survey of private sector economists, show elevated inflation forecasts for 2011 and higher expected inflation for 2012.

Exchange Rates

The peso exhibits mixed trends

The peso averaged ₱43.31/US$1 for the period 3 January - 29 December 2011, appreciating by 4.2 percent from the ₱45.11/US$1 average in 2010.[9] The steady inflow of OF remittances, net portfolio investments, and foreign direct investments (FDIs) buoyed the strength of the peso. However, in terms of end-of-period levels, the peso depreciated by 0.1 percent to ₱43.93/US$1 at end-December 2011, from ₱43.89/US$1 a year ago as the continued uncertainty in the global economic environment weighed down on investor risk appetite.

Average Peso-US Dollar Rate

The peso exhibited mixed trends during the year. In January, the peso grew weaker to average at ₱44.17/US$1 from the December 2010 average of ₱43.95/US$1, due in part to concerns over the political turmoil in the MENA region and the potential rise of inflationary pressures among emerging Asian economies. Nonetheless, the peso regained strength in the succeeding months as the country's strong fiscal and external payments position along with news of Moody's and Fitch's upgrades of the Philippine credit rating bolstered investor confidence. In particular, the peso was on a general appreciating trend from February to August 2011 due to sustained foreign exchange inflows given the relatively bullish outlook for emerging Asian economies, including the Philippines.[10]

---

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

[10] Except for the month of June, when the peso depreciated relative to the previous month due to heightened risk aversion arising from mounting concerns over a possible global economic slowdown and the debt crisis in Greece.

However, the peso's appreciating trend was reversed starting in September 2011 as the sovereign debt crisis in Europe appeared to have worsened. Concerns over the crisis stirred caution among investors, causing them to sell risky assets, including emerging Asian currencies, and seek safe-haven US-denominated instruments. The peso also came under pressure after the International Monetary Fund (IMF) revised downward its growth forecast for the Philippine economy[11] and following reports of a sharp drop in the country's exports in October 2011.[12]

On 29 December 2011, the peso closed at the same level relative to the closing average on 31 December 2010 at ₱43.84/US$1. Meanwhile, the rest of the Asian currencies depreciated against the US dollar, except for the Japanese yen and the Chinese yuan, which appreciated vis-à-vis the US dollar by 4.4 percent and 4.6 percent, respectively.[13]

Performance of Selected Asian Currencies against the US Dollar
Appreciation/(Depreciation), in percent
30 Dec 2010 vs. 29 Dec 2011

Currency	Appreciation/(Depreciation)
Chinese Yuan	4.6
Japanese Yen	4.4
Philippine Peso	-
Singaporean Dollar	(1.4)
Indonesian Rupiah	(1.6)
South Korean Won	(2.4)
Malaysian Ringgit	(3.6)
New Taiwan Dollar	(3.8)
Thai Baht	(5.2)
Indian Rupee	(16.2)

* Peso closing level on 29 December 2011

The peso's volatility declined slightly during the year. For the period 1 January to 29 December 2011, the coefficient of variation[14] eased to 1.2 percent from 2.5 percent in the previous year. In 2011, the peso was the least volatile currency among the ten Asian currencies included in the survey.

[11] On 12 December 2011, the IMF reduced its growth forecasts for the Philippine economy in 2011 and 2012 to 3.7 percent and 4.2 percent, respectively, following weak public investment and exports in the first nine months of 2011.
[12] Based on NSO data, total exports declined by 14.6 percent year-on-year in October 2011.
[13] Based on the last done deal in the afternoon.
[14] The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.

Volatility of Selected Currencies
As of End-December 2011

	PHP	EUR*	JPY	THB	IDR	MYR	KRW	SGD	TWD	CNY	INR	GBP*	AUD*	NZD*	BRL	CHF
In Percent																
2011	**1.23%**	3.36%	3.11%	1.45%	2.36%	2.17%	3.07%	2.49%	2.07%	1.38%	5.81%	1.95%	3.18%	4.30%	5.71%	6.06%
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%	3.02%	5.27%
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%	11.45%	4.88%
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%	14.99%	5.44%
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%	6.39%	3.13%
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%	2.58%	2.62%
In Nominal Units																
2011	**0.530**	0.0468	2.48	0.44	207	0.066	34.0	0.0313	0.609	0.089	2.712	0.0313	0.033	0.034	0.096	0.0538
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	0.027	0.053	0.0550
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	0.077	0.229	0.0530
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	0.089	0.276	0.0589
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	0.032	0.124	0.0376
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	0.028	0.562	0.0329

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

In 2011, the nominal effective exchange rate (NEER) indices increased (Table 7a). The average NEER index of the peso against the basket of currencies of the Philippines' major trading partners (MTPs) rose from 13.30 in 2010 to 13.37 in 2011. The NEER index of the peso against the broad and narrow currency baskets likewise increased.[15]

Meanwhile, the average real effective exchange rate (REER) index of the peso against the basket of currencies of MTPs rose from 84.08 in 2010 to 86.20 in 2011.[16] This suggests that on a real, trade-weighted basis, the peso lost external price competitiveness, reflecting the combined effects of the nominal appreciation of the peso and the widening inflation differential relative to the MTPs. However, the REER index against a broad basket of currencies of competing countries fell from 137.65 to 137.47, suggesting an improvement in external price competitiveness. The REER index against a narrow basket of currencies was generally stable in 2011 at 173.17 from 173.16 in 2010.

[15] The NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies. The basket of the major trading partners is composed of the currencies of the 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 comprises of the currencies of Indonesia, Malaysia, and Thailand only.

[16] The REER index represents the Nominal Effective Exchange Rate (NEER) index of the peso, adjusted for inflation rate differentials with the countries whose currencies comprise the NEER index basket. A decrease in the REER index indicates some gain in the external price competitiveness of the peso, while an increase indicates the opposite.

Financial Conditions

Performance of the Banking System

The Philippine banking system continues to be sound and stable

The Philippine banking system remained resilient in 2011 despite the challenging global economic environment that persisted throughout the year. Healthy growth rates were sustained in lending, deposits, and profitability, while the non-performing loans (NPL) ratio continued to improve, moving closer to their pre-Asian financial crisis levels. Likewise, the system's capital adequacy ratio (CAR) of over 15 percent remained comfortably above the BSP's and the Bank for International Settlements' (BIS) minimum requirements.

Selected Banking Indicators

	2011 p/	2010	Growth Rate (%)
Deposits (₱ Billion)	4,067.8	3,827.7	6.3
Resources (₱ Billion)	7,641.2	7,230.2	5.7
Loans Outstanding (₱ Billion, Gross of RRPs)	3,014.9	2,591.0	16.4
Number of Banking Institutions (Head offices)	730 (Sep)	758	
NPL to Total Loans (%)	2.9	3.6	
Capital Adequacy Ratio (%)	17.2 (Jun)	16.9	

p/ Preliminary

Resources

Total resources of the banking system sustain uptrend

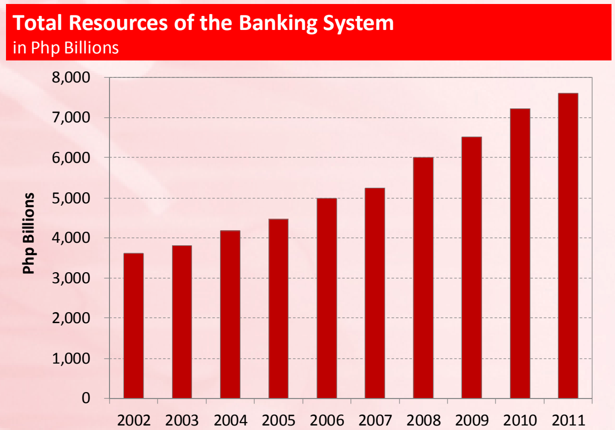
The total resources of the banking system rose by 5.7 percent to ₱7.6 trillion as of end-December 2011. The increase could be traced to the growth in currency and deposits, indicative of the public's continued trust in the banking sector. U/KBs accounted for the bulk (almost 90 percent) of the total resources of the banking system.

Deposit Generation

Savings and time deposits remain the banks' primary sources of funds

Total deposits[17] with the banking system as of end-December 2011 increased by 6.3 percent to ₱4.1 trillion from ₱3.8 trillion during the same period in 2010 (Table 8). Savings and time deposits remained the banks' primary sources of funds. The expansion of deposits was indicative of sustained depositor confidence in the banking system.

[17] Total peso-denominated deposits.

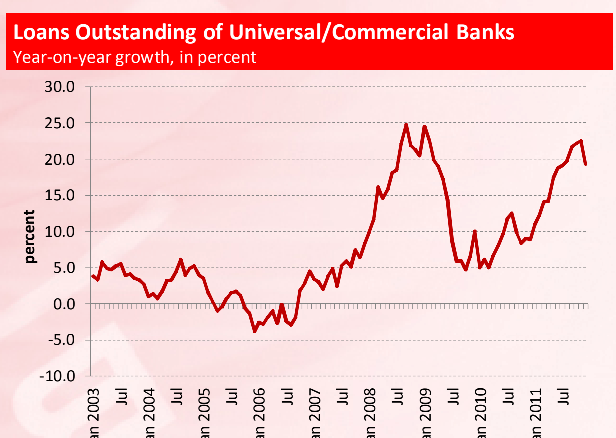


Savings deposits registered a growth of 12.4 percent, accounting for nearly half of the funding base. Demand deposits grew by 12.3 percent while time deposits contracted by 7.7 percent y-o-y.

Lending Operations

Bank lending expands steadily

Bank lending grew steadily at double-digit rates throughout 2011. As of end-December 2011, outstanding loans of commercial banks, net of banks' RRP placements with the BSP, posted a 19.3 percent growth, faster than the 8.9 percent registered as of end-2010. Bank lending, including RRPs, likewise expanded by 16.4 percent from the 8.9 percent growth posted in end-2010. Amid weaker global economic prospects during the year, robust credit growth provided adequate support to domestic production, investment, and spending.



Loans for production activities, which comprised around 84 percent of commercial banks' total outstanding loan portfolio, grew by 20.1 percent, higher than the 10.1 percent growth registered in 2010. The growth of production loans was driven mainly by increased lending to fishing (61.2 percent); mining and quarrying (60.1 percent); wholesale and retail trade (57.8 percent); electricity, gas and water (54.5 percent); and other community, social & personal services (37.9 percent). Loans to the manufacturing sector, which accounted for almost 17 percent of total loans, posted a solid growth of 32.2 percent compared to the 18.2 percent registered in 2010.

Similarly, credit for household consumption sustained its strong growth at 17.3 percent in 2011, driven by the strong growth in lending across all types of consumption loans.

Loans Outstanding of U/KBs
As of end-December 2011

	Loans (₱ Billions)	Share to Total Loans (%)	Annual Growth (%)
Agriculture, Hunting & Forestry	236.1	7.8	(37.6)
Manufacturing	510.9	16.9	32.2
Electricity, Gas & Water	257.4	8.5	54.5
Construction	35.4	1.2	22.5
Wholesale & Retail Trade	403.1	13.4	57.8
Transport, Storage & Communication	173.4	5.8	19.8
Financial Intermediation	225.6	7.5	16.8
Real Estate, Renting & Business Services	445.9	14.8	25.1
Public Administration & Defense	79.6	2.6	18.1
Other Community, Social & Personal Services	87.4	2.9	37.9
Hotels & Restaurants	36.8	1.2	7.9
Others	49.5	1.6	23.8
Production Activity	**2,541.2**	**84.3**	**20.1**
Credit Card	130.6	4.3	9.1
Auto Loans	71.6	2.4	26.5
Others	23.4	0.8	46.3
Household Consumption Activity	**225.6**	**7.5**	**17.3**
Under RRPs Arrangement	**224.2**	**7.4**	**(11.2)**
Non-Residents	**24.0**	**0.8**	**(22.6)**
Total Loans Outstanding			
Gross of RRPs	**3,014.9**	**100.0**	**16.4**
Net of RRPs	**2,790.7**		**19.3**

Source: BSP

As of end-June 2011, the combined residential real estate loans (RRELs) of U/KBs and TBs rose by 14.2 percent to ₱198.4 billion from last year's ₱173.7 billion. The strong real estate market activity given the number of new projects

Residential real estate loans expand, with U/KBs accounting for more than half of loan growth

unveiled as well as banks' intensified promotional campaigns buoyed more real estate purchases during the review period. Meanwhile, the ratio of RRELs to total loan portfolio (TLP) stood at 6.2 percent from last year's 6.4 percent. By industry, U/KBs held a bigger slice of the total residential real estate exposure at 52.2 percent (₱103.7 billion) while TBs took hold of the remaining 47.8 percent (₱94.7 billion). In terms of loan quality, the ratio of non-performing RRELs to total RRELs of U/KBs and TBs improved to 5.1 percent compared to the 6.6 percent ratio in the previous year.

Growth in credit card receivables continues

The combined credit card receivables (CCRs) of U/KBs and TBs as of end-June 2011, inclusive of credit card subsidiaries, went up by 6.1 percent to ₱121.2 billion compared to the level during the same period in 2010. The growth was registered as consumers turned to their credit cards to finance the purchase of goods and services, further boosting the growth in household consumption level. Meanwhile, the ratio of CCRs to the TLP dipped slightly to 3.8 percent from 4.2 percent during the previous year. The non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries, grew moderately by 1.2 percent to ₱15.5 billion from last year's ₱15.3 billion. Meanwhile, the ratio of non-performing CCRs to total CCRs eased to 12.8 percent from last year's 13.4 percent as the growth in non-performing CCRs was outpaced by the increment in CCRs.

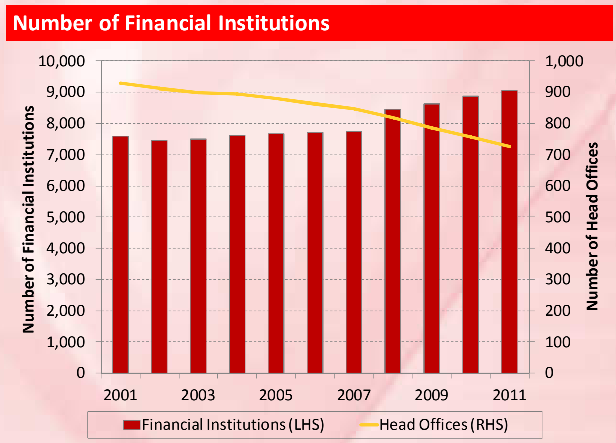
Auto loans increase due to the attractive marketing strategy of banks and other car financing firms

The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries, increased by 21.5 percent to ₱128.2 billion as of end-June 2011 from ₱105.6 billion a year ago. The consumers' continued confidence in the economy as well as the aggressive marketing strategy of banks and other car financing firms sustained the upsurge in automobile purchases. The proportion of total ALs to TLP, exclusive of interbank loans (IBLs), was moderately higher at 4.0 percent than the previous year's ratio of 3.9 percent. In terms of loan quality, non-performing ALs to total ALs eased to 4.4 percent from 4.8 percent last year while non-performing ALs to TLP was stable at 0.2 percent.

Institutional Developments

Consolidation in the banking industry continues

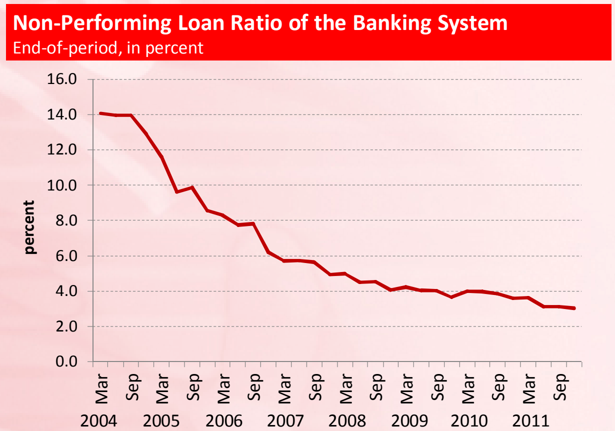
The number of banking institutions (head offices) fell further to 726 from the year-ago level of 758, denoting the continued consolidation of banks as well as the exit of weaker players in the banking system. By banking classification, banks (head offices) consisted of 38 U/KBs, 71 TBs, and 617 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 9,050 in 2011 from 8,869 in the previous year, due mainly to the increase in the branches/agencies of commercial and rural banks (Table 9a).



Asset quality of the banking system improves further

The banking system's asset quality as measured by the NPL ratio sustained its downtrend path, easing to 2.9 percent as of end-December 2011 from the 3.6 percent in the same period a year ago. Banks' initiatives to improve asset quality along with prudent lending regulations helped bring the NPL ratio back to pre-Asian crisis levels. The low NPL ratio reflected the 9.3 percent decline in the level of NPLs combined with the 13.2 percent expansion in the industry's TLP. The NPL level dropped to ₱105.9 billion at end-December 2011 from ₱119.7 billion during the same period in 2010, while TLP expanded to ₱3.7 trillion from ₱3.3 trillion during the same period last year.

Similarly, the NPL ratio of U/KBs declined further to 2.2 percent as of end-December 2011 from 2.9 percent posted in the same period in 2010.



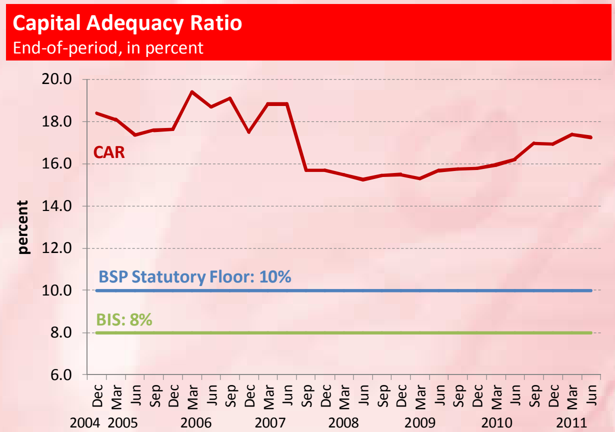
Nonetheless, the Philippine banking system's NPL ratio remained higher compared to some of its neighbors like Indonesia's 2.2 percent, Malaysia's 1.8 percent, South Korea's 1.0 percent, and Thailand's 2.7 percent.[18] The lower NPL ratios of Malaysia and South Korea could be attributed to the creation of publicly-owned asset management companies (AMCs), which purchased the bulk of their NPLs, a practice not implemented in the Philippines.

The loan exposure of banks remained adequately covered as the banking system's NPL coverage ratio improved to 103.6 percent as of end-December 2011 from 97.8 percent in the preceding year. The higher ratio was indicative of banks' continued compliance with the loan-loss provisioning requirements of the BSP to ensure adequate buffers against unexpected losses.

CAR remains above statutory floor

Meanwhile, the CARs of the Philippine banking system remained robust despite the continued global difficulties. The banking system registered average CARs of 16.3 percent on solo basis and 17.3 percent on consolidated basis as of end-June 2011, which were higher than the CARs posted as of end-December 2010. The sustained strength of the banking system's CARs resulted from the higher growth rate of qualifying capital vis-à-vis that of risk weighted assets. The industry's CAR continued to exceed both the statutory level set by the BSP at 10.0 percent and the BIS at 8.0 percent.

[18] Sources: Various central bank websites and financial stability reports, Indonesia (commercial banks, December 2011); Malaysia (banking system, December 2011); Thailand (commercial banks, December 2011); and Korea (banking system, June 2011).



The Philippine banking system's CAR on consolidated basis at 17.3 percent was higher compared to those of Indonesia (16.6 percent), Thailand (16.2 percent), Malaysia (14.9 percent) and South Korea (14.5 percent).[19]

Stock Market Developments

Local stock market rallies

The Philippine Stock Exchange index (PSEi) averaged 4,186.7 index points during the period January to December 2011, higher by 18.7 percent than the year-ago average of 3,526.0 index points (Table 10). The local index rallied amid positive market sentiment arising from upgrades on the Philippines' sovereign credit ratings and outlook by international rating agencies, a better-than-expected fiscal performance, and within-target-range domestic inflation.

Investment shift out of Europe due to the ongoing debt crisis also contributed to the local rebound. Bullish trading in August further boosted the index to a fresh all-time high at 4,550.5 index points. However, trading gains were tempered by concerns about increasing signs that global recovery was slowing down, triggered in part by increasing oil prices due to rising geo-political tensions in the MENA region, the supply disruptions due to the twin natural disasters in Japan in March, and the sovereign debt woes in the US and Euro Area. Subsequently, the PSEi closed the year at 4,372.0, lower by 3.9 percent than the all-time high posted in early August but still higher by 4.1 percent than the end-2010 level.

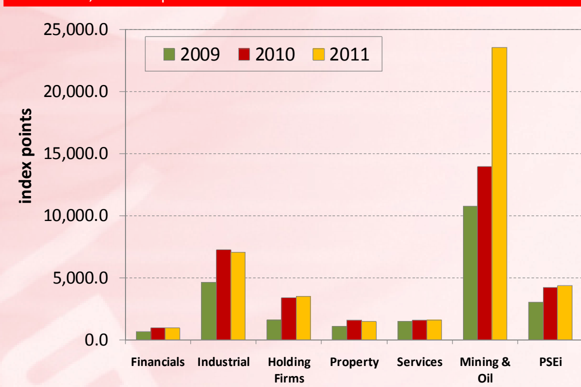
[19] Sources: Various central bank websites and financial stability reports, Indonesia (commercial banks, November 2011); Thailand (average full branch, September 2011); Malaysia (banking system, December 2011); and Korea (commercial banks, June 2011).

Daily Philippine Stock Exchange Index
January to December 2011

Most sector indices rebound

In 2011, most sector sub-indices outperformed their 2010 levels, with the mining and oil sector leading the rally as it closed 68.5 percent higher than its year-ago level. The sector's uptick was driven by buoyant commodity prices that encouraged mining investments and activity. This was followed by the holding firms sector, which rose by 3.4 percent; the services sector, which increased by 1.6 percent; and the financial sector, which posted a modest 0.8 percent growth. The consolidation of Philippine Long Distance Telephone Company (PLDT) and Digital Telecommunications Phils. Inc. (Digitel) buoyed the pick-up in the services sector. In contrast, the industrial sector index declined by 2.0 percent as high input prices pared at margins, while the property sector index fell by 6.4 percent amid concerns over the oversupply in residential condominium units.

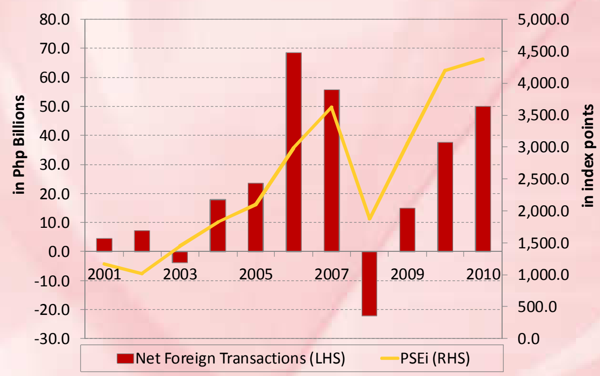
PSEi and Sectoral Indices
2009-2011, in index points



Foreign investors remain net buyers in 2011

Reflecting improved risk appetite for Philippine equities, foreign investors were net buyers of ₱50.0 billion worth of stocks in 2011, about 33.2 percent more than the level recorded in the preceding year. Foreign transactions as a proportion of total value traded reached 38.5 percent during the period in review, albeit slightly lower than 39.3 percent posted a year ago, highlighting the significant role played by foreign investors in the rebound of the local bourse in 2011.

Net Foreign Transactions and PSEi
2001-2011

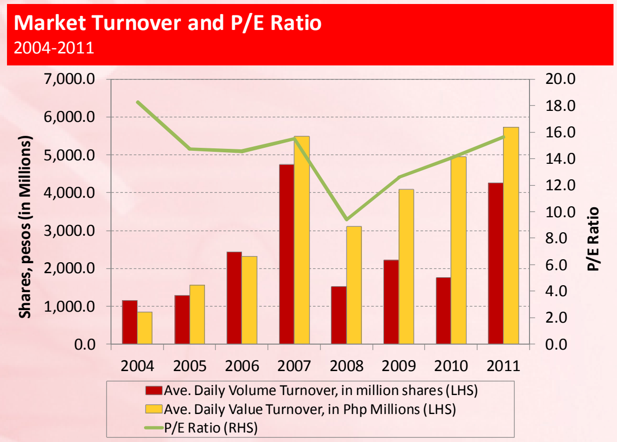


Other stock market indicators show mixed trends

Total market capitalization of listed issues reached ₱8.7 trillion in end-December 2011, 1.9 percent lower than the level posted in the same period in 2010.[20] Market turnover, however, showed a significant increase with the average daily value turnover rising by 15.9 percent year-on-year to ₱5.7 billion and the average daily volume turnover increasing by 142.0 percent to 4.3 billion shares. Meanwhile, the price-earnings (P/E) ratio improved to 15.64x in December 2011 from the 14.03x in the previous year.[21]

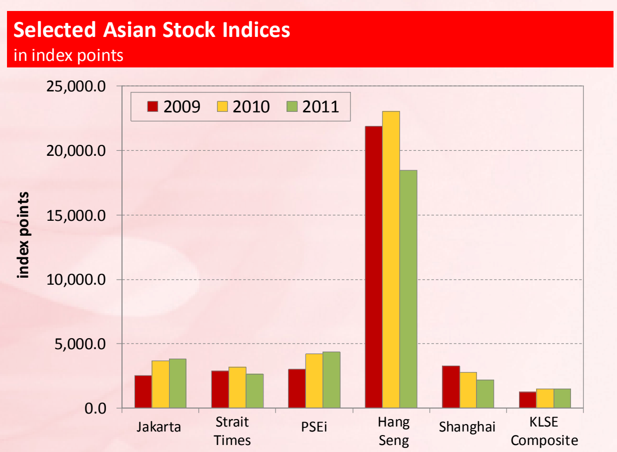
[20] Total market capitalization measures the aggregate value of the issued shares of listed firms in the Philippine Stock Exchange (PSE).

[21] 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.



Most regional stock markets decline

The year-in-review was a difficult period for most equity markets as concerns over another global economic slowdown lowered risk appetites across the globe. In Asia, bourses in the Philippines, Indonesia, and Malaysia were the exceptions. Compared to their end-2010 levels, their stock indices rebounded by 4.1 percent, 3.2 percent and 0.8 percent, respectively, at the close of 2011. In contrast, substantial stock losses were registered in China (21.7 percent), Hong Kong (20.0 percent), and Singapore (17.0 percent).



Debt Securities Market Developments

Size and Composition

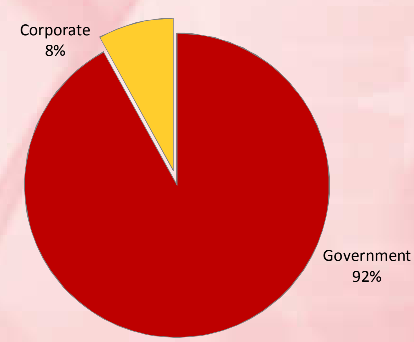
Shift in funding reliance drives the decline in overall LCY bond issuances

Local currency (LCY) bonds issued by both public and private sectors amounted to ₱1,166.8 billion in 2011, down by 6.2 percent from the ₱1,244.0 billion registered in 2010. The overall decline can be traced to lower public sector issuances, tempered by the almost two-fold growth of private sector issuances.

Issuances of the NG decreased by 10.4 percent to ₱1,071.4 billion from the previous year's ₱1,195.7 billion. The public sector opted to issue fewer LCY bonds during the year as funding preferences shifted to the international market in light of the generally low interest rate environment and improved investors' confidence on the country's economic prospects. There was no LCY bond issuance from government owned and controlled corporations (GOCCs) during the year.

On the other hand, the private sector continued to tap the local funding markets, issuing ₱95.3 billion worth of LCY bonds, almost twice the previous year's ₱48.3 billion. Issuances were particularly high in the first half of 2011 as corporates took advantage of the very liquid domestic financial markets in sourcing for fresh capital funding and refinancing needs.

Domestic Debt Securities Issuances, by Issuer
as of end-December 2011



In terms of market share, public sector issuances continued to dominate the domestic bond market with 92 percent of total bond issuances. The BTr's fixed-rate Treasury bonds (T-bonds) and benchmark bonds accounted for the bulk of total public LCY bonds with shares of 33 percent and 30 percent, respectively. Treasury bills (T-bills) and retail treasury bonds (RTBs) composed the rest of total public LCY issuances.

Meanwhile, private sector bond issuances represented 8 percent of total bond issuances, consisting largely of bonds, notes, and certificate of deposits. Private issuances in 2011 were mostly from the financial sector, particularly from banks and investment firms. There were also issuances from other sectors such as real estate, telecom, energy and industrial companies.

Primary Market[22]

Demand for GS in the primary market remains substantial

The NG's programmed borrowings in the primary auctions conducted for both T-bills and T-bonds in 2011 aggregated to ₱440.0 billion, 17.5 percent higher than the ₱374.5 billion programmed in 2010. During the year, the NG awarded 67.7 percent (₱150.2 billion) of the programmed amount for T-bills and 87.8 percent (₱191.4 billion) for T-bonds. Demand for GS was generally robust as market tenders of ₱531.8 billion and ₱643.4 billion for T-bonds exceeded offers of ₱222 billion and ₱218 billion, respectively.

Results of GS Auctions, 2011
in Php Billions

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-Bills	**222.0**	**531.8**	**150.2**	**381.6**
Q1	51.0	130.5	42.6	87.9
Q2	63.0	135.9	40.0	95.9
Q3	54.0	177.5	48.5	128.9
Q4	54.0	87.9	19.1	68.8
T-Bonds	**218.0**	**531.8**	**150.2**	**381.6**
Q1	54.0	79.6	28.5	51.1
Q2	54.0	187.6	54.0	133.6
Q3	54.0	205.0	54.0	151.0
Q4	56.0	171.1	54.8	116.3
TOTAL	**440.0**	**1,175.2**	**341.6**	**833.6**

Source: Bureau of the Treasury
Note: Excludes rollovers of maturing series

During the first quarter, dealers quoted high bid rates on inflation concerns. Investors were also seen to prefer short-dated debt instruments as market players adopted a "wait-and see" stance particularly on the BSP's policy rate adjustments.

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 conduct auctions successfully during this period. Market preference also shifted to longer-

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

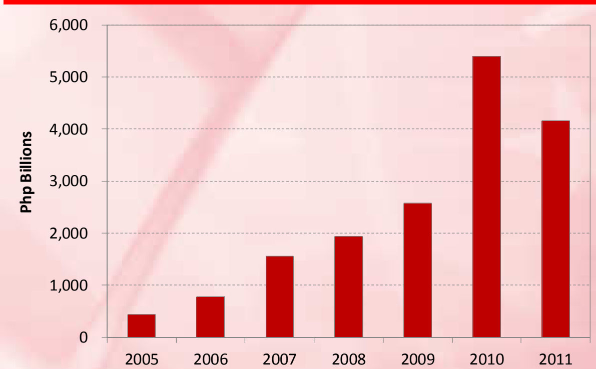
dated securities in the last two quarters, reflecting improving market confidence on the long-term economic prospects of the country, following reports of favorable fiscal position and budget management, strong external finances, well-anchored inflation expectations along with ample liquidity in the system, and improved outlook for economic reforms. The upgrade in the country's credit ratings by Moody's and Fitch in June and the change in Standard & Poor's (S&P's) outlook in December likewise contributed to the market's strong appetite for long-term government securities.

Secondary Market

Trading at the secondary market declines

Secondary market trading of both government and corporate bonds at the Fixed Income Exchange (FIE) declined in 2011. The total volume of transactions stood at ₱4,162.4 billion, 22.9 percent lower than the previous year's level.

PDEx Trade Volume
in Php Billions

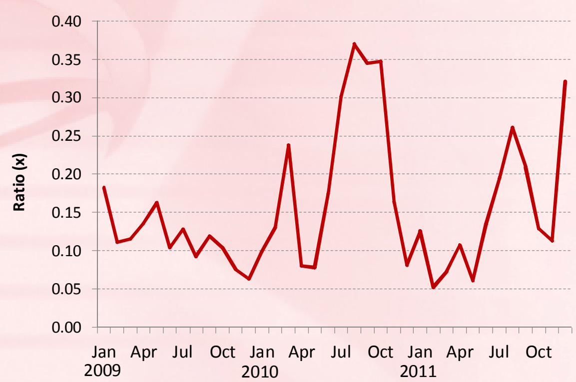


Trading was generally weak in the first quarter of the year on the back of inflation concerns and the expected adverse impact of the twin disasters in Japan on global economic activity. Transactions picked up in the second and third quarters as the market turned risk averse on heightened concerns over the spillover effects of the brewing sovereign debt problems in the US and Europe, prompting investors to migrate from holding risky assets, such as equities, towards the relative safety of government bonds.

Meanwhile, corporate listings at the FIE increased in 2011. Joining the list of tradable corporate debts were fixed-rate bonds and notes as well as long term negotiable certificates of time deposits issued by energy and finanical corporates. These new listings reflected local issuers' increasing confidence in the FIE's infrastructure.

The decline in the volume of transactions in the secondary market was also reflected in the drop in government bond turnover ratio, which decreased to 1.65x in 2011 from 2.45x in the previous year.[23] On a monthly basis, the ratio remained less than 1.0x, close to previous year's level. Nonetheless, the bond turnover ratio recovered in the latter part of 2011 as trading activity started to improve.

PDEx Government Bond Turnover Ratio



International Bond Market

NG and GOCCs' issuances in the international market are well-received

Both the public and private sectors took advantage of very low interest rates in the global financial markets in 2011. The NG opened the year with a US$1.25 billion peso global bond offering in January. This was followed by the NG's issuance of 15-year dollar bonds amounting to US$1.5 billion in March. Both issuances were well-received as tenders reached 3-4 times the offered amount. Meanwhile, apart from the NG, the Development Bank of the Philippines (DBP) issued US$300 million worth of bonds during the same month.

However, the NG's planned issuance of Samurai bonds in April was put on hold after Japan was struck with an earthquake and tsunami in March. The heightened global economic uncertainty and market volatility during the second half likewise prompted the NG to postpone the rest

[23] 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.

of its global bond offerings for the year, tapping instead the local debt markets to help cover the outstanding US$500 million external debt requirement for 2011.[24] A buy-back offer in October was also conducted, in place of the usual foreign currency bond float, accepting US$1.3 billion worth of global bonds in an effort to retire costlier debts (i.e., those with high yields).[25]

Private corporations tap the international bond market

Private corporations were likewise successful in accessing the international bond market for their funding needs. Overall private corporates issued a total of US$1.0 billion worth of dollar denominated bonds in 2011.[26]

Credit Risk Assessment

Philippine sovereign debt earns credit rating upgrades

Positive credit ratings actions in 2011 reflected international recognition of the Philippines' strengthening credit profile.

On 15 June, Moody's Investor Service raised the Philippine foreign and local currency long-term bond ratings to Ba2 from Ba3 with a stable outlook. The upgrade brought the country's ratings in line with that of Standard and Poor's (S&P) at two notches below investment-grade rating. Fitch followed the move on 23 June with an upgrade of the country's credit rating to BB+ from BB with a stable outlook, one notch closer to investment grade. The credit rating upgrade from both agencies could be traced to the country's improved fiscal balances, strong external payments position, and generally stable macroeconomic environment.[27]

Meanwhile, S&P revised its rating outlook for the Philippines to positive from stable on 16 December 2011. The S&P also reaffirmed the country's foreign- and local-currency sovereign ratings at "BB/B" and "BB+/B", respectively, two notches below investment grade with a stable outlook. The recent revision in the outlook reflected S&P's assessment on the country's diminished vulnerability to external factors. According to S&P, given the positive outlook, a credit rating upgrade would be possible if

[24] The BSP approved a twin offer of global peso bonds and US dollar bonds of as much as US$3.0 billion as part of its debt swap program and to fill the remaining US$500 million foreign borrowing need in 2011 following the issuance.

[25] The NG set a ceiling of US$1.5 billion but received offers amounting to US$2.2 billion out of more than US$17.0 billion US dollar and Euro bonds eligible for the debt repurchase program with maturities ranging from 2013 to 2032. The repurchased bonds were financed by internal funds by the BTr.

[26] Department of Economic Statistics (DES) Sources of Corporate Funds Report, December 2011.

[27] An investment grade rating would lower the country's cost of borrowing and servicing debt as well as widen the pool of potential investors in its debt securities market.

material progress in public revenue collection were achieved. However, the credit rating agency stressed that any slippage in the country's fiscal consolidation efforts or deterioration in external liquidity position could potentially weigh down on ratings.

Philippine Sovereign Credit Ratings
As of December 2011

Rating Agency	Local Currency LT/ST	Foreign Currency LT/ST	Outlook
S&P	BB+ / B	BB / B	Positive
Moody's	Ba2 / n.a.	Ba2 / n.a.	Stable
Fitch	BBB- / n.a.	BB+ / B	Stable

Source: Reuters

Debt spreads widen on concerns over the European debt crisis and uncertain global economic prospects

Despite the upgrade in credit ratings, investors still placed a higher premium in holding Philippine debt papers as debt spreads remained elevated in 2011. On the average, the JP Morgan EMBI+Philippine spreads, or the extra yield investors demand to hold Philippine debt securities over US Treasuries, stood at 196 bps during the year, close to the previous year's average of 199 bps. Throughout the year, the EMBI+Philippine spread hovered below the JP Morgan EMBI+Global spreads, which widened by 11 percent to average 309 bps in 2011.[28] There was also a slight uptick in the credit default swap (CDS) spread, or the cost of insuring the country's 5-year sovereign bonds against default, which averaged 159 bps from 157 bps a year ago.[29] Against neighboring economies, the Philippine CDS traded narrower than Indonesia's 171 bps but wider than Malaysia's 107 bps and Thailand's 143 bps.

Meanwhile, beginning in mid-April, sovereign debt concerns over a possible default by Greece pushed spreads to widen further. The sovereign credit rating downgrades of the US[30]

[28] Emerging Market Bond Index Plus (EMBI+) Global, as calculated by JPMorgan, tracks total returns for traded external debt instruments in emerging markets. The index comprises a set of broker-traded debt instruments widely followed and quoted by 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)

[29] 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.

[30] On 5 August, the S&P downgraded the US long-term credit rating to AA+. During the same day, Moody's and Fitch have maintained the triple "A" US credit rating. However, in Moody's 15 July 2011 report, the rating agency noted a possible downgrade unless progress towards a budget that includes long-term deficit reduction is achieved.

and Japan[31] in August, combined with persistent worries over the global economic slowdown and the solvency of euro zone governments and financial institutions, spurred flight from riskier emerging market (EM) assets, including ROPs, and led spreads to widen anew. The series of disappointing economic data releases from AEs likewise contributed to the widening of debt spreads as concerns grew that the debt crises in US and Europe may curb global economic expansion.

JP Morgan EMBI+ Sovereign Bond Spreads
in basis points

Source: Bloomberg

Towards the latter part of the year, contagion fears increased as markets priced in the possibility of the Euro area's crisis affecting even generally stable economies. This led debt spreads to reach their peak levels on 3 October with the EMBI+ Philippines and CDS spreads at 300 bps and 265 bps, respectively, the widest since June 2009.

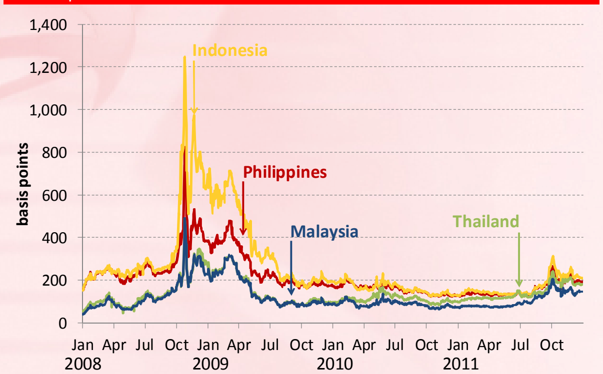
Investors' search for higher yields and positive domestic developments temper widening debt spreads

On the other hand, a number of positive developments have somehow tempered the widening trend in debt spreads during the year. The persistently low interest rate environment in most AEs prompted investors to move capital into higher yielding EM assets, including that of ROPs. Increased demand for EM bonds pushed yields lower, tightening the spread over US Treasuries. Moreover, the favorable deal reached among European leaders, heads of state, and the IMF to recognize a 50 percent haircut on Greek debt and the increase in the bailout fund provided investors relief, prompting them to demand lower premium on debt instruments.

[31] On 24 August, Moody's downgraded Japan's sovereign credit rating by one step to Aa3 with a stable outlook.

In the domestic front, the upgrades in the country's credit ratings by Fitch Ratings and Moody's in the second quarter kept spreads stable. There was also abundant liquidity in the local market due to the steady stream of remittances from overseas workers and strong foreign portfolio inflows. The announcement of a ₱72 billion stimulus package in October to provide cushion to the economy amid a challenging external environment also contributed to the easing of the country's debt spreads. The EMBI+ Philippine spread ended the year at 238 bps, wider than 2010's close of 159 bps. Similarly, the CDS spread widened to 192 bps from previous year's end of 128 bps.

Senior 5-year CDS Spreads
in basis points



Source: Bloomberg

Box Article 2

The Philippine Financial Stress Index

The Philippine Financial Stress Index (PFSI)—conceptualized based on the St. Louis Financial Stress Index (STLFSI) developed by the Federal Reserve Bank of St. Louis—was designed to help policymakers identify episodes of financial stress. The PFSI is intended to serve as a weekly measure of the degree of financial stress exposure of the Philippine financial system, and provide an additional tool for the BSP's macro-surveillance of the financial system.

The PFSI can be used by the BSP to identify (1) episodes of turmoil and financial market stress as they occur in the economy; (2) sources of financial market stress, which can be an important guide to determining the appropriate policy; and (3) risks of future financial stress through scenario-building analysis.

Methodology

The PFSI was constructed using principal components analysis, a statistical technique that extracts the factors or time series variables responsible for the co-movements of a group of variables. This method assumes that financial stress is the primary factor influencing this co-movement, and extracting this factor provides an index that would measure financial stress.[32]

The PFSI was constructed using the following variables which represent one or more of the symptoms of financial stress, namely: (1) flight to quality; (2) flight to liquidity; (3) uncertainty about the fundamental value of assets; (4) uncertainty about the behavior of investors; and (5) increased asymmetry of information:

Variables included in constructing the PFSI and the aspects of financial stress represented by each variable

Variable	Aspects of financial stress represented by variable[33]
1. Two-year Treasury bond yield-to-maturity	Flight to quality, flight to liquidity
2. JP Morgan Emerging Market Bond Index (EMBI)+ Philippines Sovereign spread (EMBIPH)	Uncertainty about fundamental value of assets and behavior of other investors, increased asymmetry of information
3. Philippine Credit Default Swap-Senior 5-year spread (CDS)	Uncertainty about fundamental value of assets and behavior of other investors, increased asymmetry of information
4. Philippine Stock Exchange Composite index (PSEi)	Uncertainty about fundamental value of assets and behavior of other investors
5. Interbank Call Loan (IBCL) Rate	Flight to liquidity
6. Chicago Board Options Exchange Volatility Index (VIX)	Uncertainty about fundamental value of assets and behavior of other investors; increased asymmetry of information
7. Overnight Reverse Repurchase (RRP) rate	Flight to liquidity, flight to quality
8. Corporate Ba3-rated bond versus 10-year Treasury bond spread	Flight to quality, Uncertainty about fundamental value of assets and behavior of other investors
9. 3-month Philippine Interbank Reference (PHIREF) versus 3-month London Interbank Offering Rate (LIBOR) spread	Flight to quality, flight to liquidity, increased asymmetry of information
10. Overnight PHIREF versus RRP spread	Flight to quality, flight to liquidity

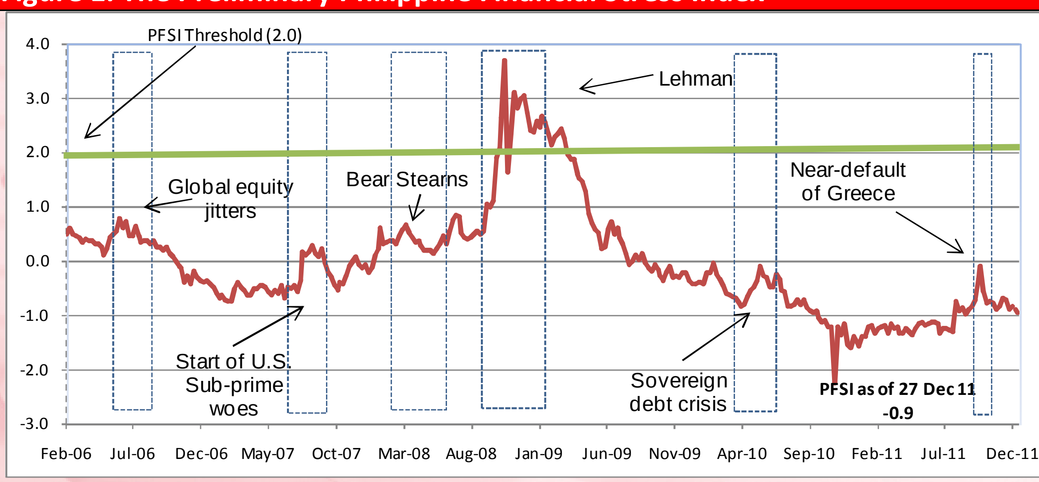
[32] Federal Reserve Bank of St. Louis. 'National Economic Trends.' January 2010.
[33] Hakkio, Craig S. and William Keeton (2009).'Financial Stress: What Is It, How Can It be Measured, and Why Does It Matter?' Federal Reserve Bank of Kansas City Economic Review. Second Quarter.

Findings

Within the sample period of February 2006–December 2011, the PFSI has correctly identified six periods of financial stresses (Figure 1), which are: (1) May-June 2006 – increased volatility in global financial markets owing to concerns over surging oil prices, rising interest rates, and weak US consumer sentiment; (2) July-August 2007 – increased concerns on the U.S. sub-prime mortgage market; (3) March 2008 – the sale of Bear Stearns; (4) October 2008 – the collapse of Lehman Brothers; (5) May 2010 – the onset of the sovereign debt crisis in Europe; and (6) October 2011 – near-default of Greece.

The PFSI declined subsequently, indicating that market sentiment improved due to the measures taken jointly by government authorities in the euro area to address their sovereign debt problems. Since September 2009, the PFSI continued to register below average levels as financial stress continued to subside. As of 27 December 2011, the PFSI registered at -0.9 on the back of an above-average PSEi and narrower EMBI+Philippines spread. The better-than-expected data on consumer confidence in the U.S., which hit an eight-month high in December 2011 as Americans grew more upbeat about the labor market and their financial situation, also contributed to the decline the level of the PFSI.

Figure 1. The Preliminary Philippine Financial Stress Index



The chart above suggests that the PFSI appears to provide useful information on the degree of financial stress in the Philippine financial system. However, further evidence and study of the PFSI are necessary to validate the findings.

External Sector

Balance of Payments

Full year 2011 BOP surplus declines

The BOP position for 2011 yielded a surplus of US$10.2 billion, lower compared to the surplus of US$14.3 billion in the same period a year ago, with the decline in both the current and capital and financial accounts. Uncertainties in the global environment related to the sovereign and banking crises in the euro area and the sub-par growth in the US led to a sharp rise in risk aversion causing capital flows to become more volatile. The Philippines, along with other countries in Asia, experienced a slowdown in capital inflows, resulting in lower net inflows in the capital and financial account. Meanwhile, the current account was pulled down by the contraction in the exports of goods. Nonetheless, the current account remained in surplus in 2011, ably supported by resilient remittances, strong revenues from BPO services, and higher income receipts.

The current account surplus is lower

The current account posted a lower surplus of US$7.1 billion (3.1 percent of GDP) in 2011 compared to US$8.9 billion (4.5 percent of GDP) a year ago. The higher trade-in-goods deficit was partly offset by higher positive balances in the services, income, and current transfers accounts.

After an encouraging first quarter trading activity, the succeeding quarters showed consecutive deficits in the trade-in-goods account. For the full year 2011, the merchandise trade deficit went up by 40.9 percent to reach US$15.5 billion due mainly to the decline in exports of goods by 6.9 percent along with the decrease in imports of goods of 1.6 percent. Total export of goods during the year reached US$47.2 billion, representing 21 percent of GDP. The weaker exports of goods could be traced to the 12.4 percent contraction in shipments of manufactured goods to US$39.8 billion from US$45.4 billion a year ago. In particular, exports of electronic products fell by 22.5 percent to US$25.2 billion owing to the lower demand from the country’s major export destinations such as Singapore, Hong Kong, Japan and Malaysia. The drop in exports of manufactured goods more than offset the improvement registered in exports of other major commodity groups. Notable gains were recorded in exports of mineral products (by 37.7 percent), coconut products (by 18.3 percent), fruits and vegetables (by 50.6 percent), other agro-based products (by 20.6 percent), sugar and sugar-based products (by 650 percent), and forest products (78.6 percent). Other manufactured goods such as garments, wood manufactures, machinery and transport equipment, chemicals and processed food and beverages also helped offset the downturn in electronics exports.

On the other hand, the modest growth of goods imports was supported by higher purchases of mineral fuels & lubricants (by 30.0 percent) and capital goods (by 3.4 percent) which compensated for the cutback in procurement of raw materials and intermediate goods (by 5.5 percent) and consumer goods (by 5.7 percent). The growth in shipments of mineral fuels and lubricants in 2011 was due mainly to higher purchases of petroleum crude as both import volume and import price increased. The import price of petroleum crude rose by 41 percent to US$109.97/barrel in 2011 from US$77.98 in the previous year while import volume inched up by 1.6 percent to 70.79 million barrels from 69.67 million barrels in 2010. Meanwhile, the continued weakness in the external demand for electronics exports led to the 24.5 percent contraction in procurement of raw material inputs for the manufacture of electronic products to US$15.2 billion from US$20.2 billion in 2010. Consumer goods imports likewise fell on account of reduced purchases of non-durable goods, particularly rice, which considerably dropped by 76.4 percent as both import volume and price declined by 70.2 percent and 20.6 percent, respectively. Data from the National Food Authority (NFA) showed that the programmed rice importation for 2011 at 860,000 metric tons was considerably lower than that for 2010 which totaled about 2,251,000 metric tons as the country's rice supply remains sufficient despite the agricultural damages caused by typhoons that hit the country in the latter part of the year.

The surplus in the services account climbed by 31.4 percent to US$3.6 billion in 2011, due mainly to higher net receipts in other business services (by 11.0 percent) and computer and information services (by 3.4 percent) combined with lower net payments registered in transportation services (by 2.1 percent), travel services (by 37.2 percent) and royalties and license fees (by 1.4 percent). Export receipts from BPO-related transactions totaled US$10.4 billion in

2011, of which US$2.1 billion came from computer and information services and US$8.3 billion from miscellaneous business, professional and technical services. Meanwhile, lower net payments in travel services resulted from rising travel exports (by 19.8 percent) supported by the increase in visitor arrivals. Data from the Department of Tourism showed that cumulative tourist arrivals for the 12-month period in 2011 expanded by 11.3 percent to 3,917,454 compared to the previous year's total of 3,520,471. However, these gains were moderated by higher net payments for insurance, financial, construction, government, and personal, cultural and recreational services, as well as lower net receipts in communication services.

The income account registered net receipts of US$1.3 billion, more than double the US$505 million posted in 2010. This improvement was due primarily to the 13.8 percent increase in gross earnings of resident OFWs which summed up to US$5.8 billion. The favorable performance of the income account was also attributed to the lower deficit in investment income (by 1.7 percent). This was on account of lower net payments of dividends and distributed branch profits (by 6.9 percent) to foreign direct investors and increased net income receipts from holdings of foreign debt securities by the monetary authorities (by 33.1 percent).

Net current transfers receipts recorded a year-on-year expansion of 6.0 percent, buoyed mainly by the 5.5 percent increase in remittances of non-resident OFs, which reached US$17.1 billion in 2011.[34]

Net inflows in the capital and financial account decline

The capital and financial account yielded US$5.2 billion net inflows for the full year 2011. This was however lower by 29.2 percent than the US$7.4 billion net inflows in 2010. Capital flows remained robust in the early part of the year as the country benefited from investors' appetite for emerging market assets due to relatively more favorable growth prospects in the region. As the euro zone crisis deepened towards the end of the year, heightened concerns on the possible contagion from the European financial strains led to a sharp reversal of capital flows into the country even as domestic macroeconomic conditions

[34] Total cash remittances coursed through the banking system totaled US$20.1 billion.

remained sound. On the local front, the slower growth of the Philippine economy in the third quarter likewise partly dampened investor sentiment. In particular, the capital and financial account balance was pulled down by the sharp reversal of other investments to net outflows from the previous year's net inflows. The trend was partly moderated by the improvement in net inflows of direct investments and portfolio investments in 2011. Moreover, financial derivatives realized trading gains during the review period.

Major developments in the capital and financial account during the review period included the following:

The direct investment account recorded net inflows of US$1.3 billion in 2011, considerably higher than the US$682 million net inflows realized a year ago. This development was due mainly to the significant decline in net outflows of residents' investments abroad which amounted to only US$9 million compared to US$616 million last year. Meanwhile, net inflows of foreign direct investments were broadly steady at US$1.3 billion compared to that of last year. Net placements by non-residents of equity capital reached US$513 million in 2011, a turnaround from the US$396 million net outflows a year ago. Reinvested earnings yielded net inflows of US$365 million, more than double its level in 2010. These developments, however, were offset by the drop in the net inflow of other capital to US$384 million from US$1.5 billion last year.

The portfolio investment account posted net inflows of US$5.5 billion during the review period, 26.6 percent higher than the US$4.4 billion net inflows in the previous year. Major inflows during the year included the following:

a) Subscription by non-residents to the bonds flotation of the NG (US$2.8 billion) and local private corporations (US$1.5 billion);[35]
b) Non-residents' net placements in peso-denominated government securities (US$2.0 billion);
c) Non-residents' net placements in equity securities issued by banks and corporations (US$1 billion);

[35] Bonds flotation of the NG includes US$1.2 billion Global Peso Notes due 2036 and US$1.5 billion Global Bonds due 2026 which were issued in January and March 2011, respectively.

d) Resident banks' maturing bonds/notes placements abroad (US$886 million); and
e) Non-residents' net placements in bonds/notes issued by local banks (US$884 million).

These inflows were partly moderated by outflows arising from the following transactions:

a) Repayments to non-residents of maturing bonds issued by the NG (US$2.0 billion), public corporations (US$566 million), and private corporations (US$404 million);
b) Net purchase by residents through secondary market trading of debt papers originally issued abroad by domestic corporations (US$347 million);
c) Residents' net placements abroad in money-market instruments (US$293 million); and
d) Residents' net placements in bonds/notes issued by non-residents (US$159 million).

The other investment account posted net outflows of US$2.7 billion in 2011, a reversal of the US$2.4 billion net inflows recorded a year ago, on account of the following factors:

a) Accrual of accounts receivable by local banks from non-residents (US$2.7 billion);
b) Residents' net placements of currency and deposits in banks abroad (US$2.5 billion);
c) Net repayments of loans to non-resident creditors by local banks (US$388 million) and domestic corporations (US$413 million); and
d) Settlement of trade credits extended by non-residents to residents (US$146 million).

Partly offseting the impact of these outflows were inflows arising from the following transactions:

a) Net repayments of loans availed of by non-residents from local banks (US$2 billion);
b) Non-residents' net placements of currency and deposits in local banks and corporations (US$1.2 billion);
c) Settlement of local banks' accounts receivables from non-residents (US$706 million);

d) Accrual of accounts payable by local banks to non-residents (US$130 million); and
e) Net availment of loans from non-resident creditors by the NG (US$105 million).

Trading in financial derivatives realized a net gain of US$1 billion in the full year 2011, a turnaround from a net loss of US$191 million in 2010.

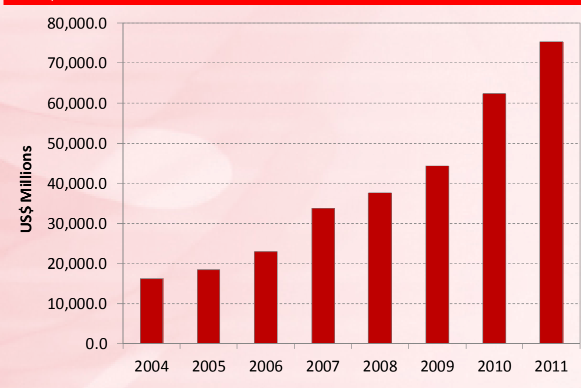
Net inflows in the capital account reached US$171 million in 2011, higher by 74.5 percent than the US$98 million level posted last year.

International Reserves

GIR continues to increase

The gross international reserves (GIR) of the BSP, including reserve position in the IMF, rose to US$75.3 billion as of end-December 2011, an increase of 20.7 percent from the previous year. At this level, the end-2011 GIR was sufficient to cover 11.1 months' worth of imports of goods and payments of services and income. The corresponding reserve adequacy ratios at this GIR level were 10.5 times the country's short-term external debt based on original maturity and 6.8 times based on residual maturity.[36]

Gross International Reserves
in US$ Millions



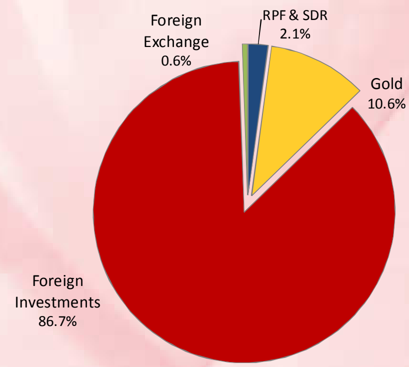
The sustained increase in the GIR level could be traced to inflows from the foreign exchange operations of the BSP and income from its investments abroad, bond issuances and other foreign borrowings by the NG, as well as

[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.

revaluation gains on the BSP's gold. These inflows, meanwhile, were offset partially by NG and BSP's payments of their maturing foreign exchange obligations.

A majority of the BSP's reserves, or 86.7 percent of the total GIR, was held in the form of foreign investments, while 10.6 percent were in gold holdings. The remaining 2.7 percent of total reserves represented the combined holdings of foreign exchange as well as Special Drawing Rights (SDR) and its reserve position in the IMF (RPF).

Composition of Reserves
Shares in percent, end-December 2011



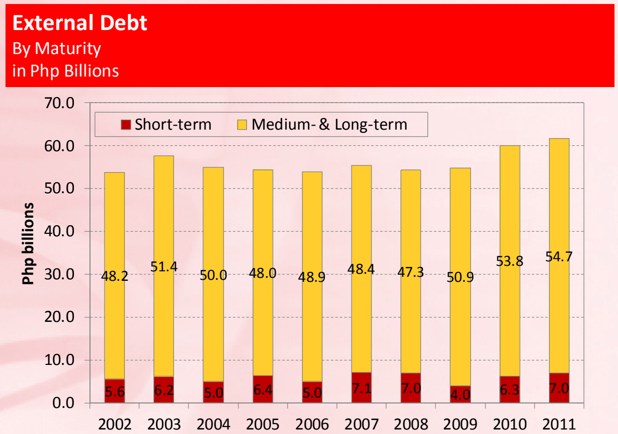
In terms of currency composition, 75.2 percent of the total reserves (excluding gold) were denominated in US dollars; 15.3 percent were in yen; 3.8 percent were in euro; and the balance of 5.7 percent were in SDR and other currencies.

The net international reserves (NIR), which include revaluation of reserve assets, reached US$75.3 billion as of end-December 2011, higher by US$12.9 billion compared to last year's NIR of US$62.4 billion. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

External Debt

External debt continues to be manageable

The country's outstanding external debt reached US$61.7 billion in 2011, up by US$1.7 billion or 2.8 percent from US$60.0 billion in 2010.



The increase resulted mainly from: (a) positive FX revaluation adjustments (US$800 million) due to the general weakening of the U.S. Dollar vis-à-vis the Japanese Yen particularly during the third quarter of 2011; (b) net availments of US$473 million; and (c) US$340 million transfer of residents' holdings of Philippine debt papers to non-residents.

Maturity profile remains predominantly medium and long-term

The country's medium- to long-term (MLT) loans reached US$54.7 billion during the period under review, up by US$945 million or 1.8 percent against the US$53.8 billion posted a year ago. The increase in MLT loans was due mainly to the net positive foreign exchange revaluation adjustments (US$801 million) on account of the weakening of the U.S. dollar against the Japanese yen and acquisition of Philippine debt papers by non-residents (US$340 million). The full impact of these developments was partially negated by net loan repayments amounting to US$231 million.

These MLT loans have a weighted average maturity of 22.5 years for the period under review. Public sector loans registered longer average maturities of 24.3 years compared to 11.2 years for private sector loans.

Short-term (ST) obligations also grew by US$718 million to reach US$7.0 billion (11.4 percent of total external debt) in 2011 from US$6.3 billion (10.5 percent of total external debt) in 2010 due largely to the increase in bank liabilities (US$783 million).

Medium to Long-Term External Debt By maturity profile As of end-December 2011	
	No. of Years
Total MLT Debt	22.5
Public Sector	24.3
Private Sector	11.2

Public and private sector debts increase

Borrowings by the public sector rose by US$1.4 billion to reach US$47.6 billion from the previous year's level of US$46.2 billion. The expansion was attributed mainly to: (a) upward foreign exchange revaluation (US$793 million) on debts denominated in third currencies, particularly the Japanese yen; (b) net availments of US$296 million due mainly to the NG; and (c) the US$230 million transfer of residents' holdings of Philippine debt papers to non-residents.

Private sector debt also went up by US$227 million to US$14.1 billion by end-December 2011 from US$13.9 billion recorded a year ago. Net loan availments of US$177 million and the transfer of US$110 million residents' holdings of Philippine debt papers from residents to non-residents mainly contributed to the expansion of the debt stock. These were offset in part by adjustments relating to late reporting/correction of previous periods' transactions (US$59 million).

Borrowings from official creditors increased by US$427 million as it stood at US$27.2 billion by end-December 2011. The increase was principally caused by foreign exchange rate adjustments.

Bonds held by foreign investors went up by US$707 million from US$21.9 billion in 2010 (36.4 percent of total external debt) to US$22.6 billion in 2011 (36.6 percent of total debt), due largely to the following: (a) transfer of Philippine debt papers from residents' to non-residents (US$340 million); (b) net availments aggregating US$269 million; and (c) upward FX revaluation (US$120 million).

Borrowings from foreign banks and other financial institutions similarly increased y-o-y from US$7.2 billion (12.0 percent of total external debt) to US$7.7 billion

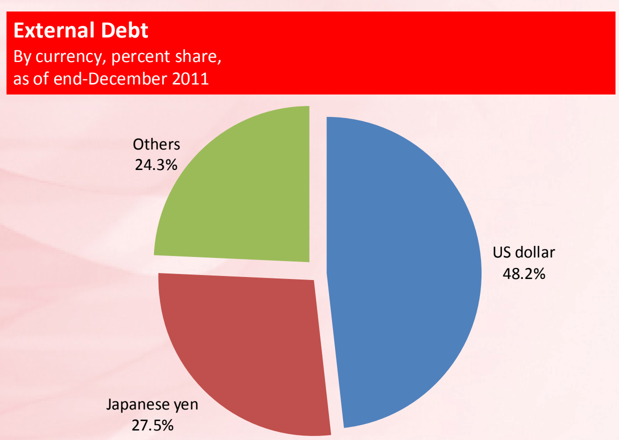
(12.6 percent of total external debt) due mainly to net availments totaling US$417 billion.

The balance of outstanding debt pertaining to other creditor types, which totaled US$4.18 billion (6.8 percent of total external debt), declined by US$29 million from the end-2010 balance of US$4.21 billion (7.0 percent of total external debt).

Official lenders account for a bulk of the country's total external debt

By creditor profile, official lenders (multilateral institutions and bilateral creditors) accounted for 44.1 percent of the total debt stock, followed by foreign holders of bonds and notes (36.6 percent), and foreign banks as well as other financial institutions (14.3 percent). The rest of the creditors (5.0 percent) were mostly foreign suppliers.

The country's debt stock continued to be denominated mainly in two major currencies, with US dollar-denominated loans accounting for 48.2 percent and those in Japanese yen making up 27.5 percent. US dollar-denominated multi-currency loans from international financial institutions comprised 11.5 percent of the total external debt stock while the remaining 12.8 percent of the total external debt were denominated in other currencies, which included the Special Drawing Rights and the euro.



The external debt ratio, or outstanding external debt as a percentage of aggregate output or GNI, declined to 20.9 percent in 2011 from 22.6 percent in 2010. Similarly, the ratio of external debt to GDP dropped to 27.5 percent compared to 30.1 percent the previous year.

The Philippines' debt service burden remains within international benchmarks

In 2011, the country's debt service burden (DSB) reached US$7.5 billion (i.e., principal amortizations and interest payments) as against US$7.3 billion in 2010 (Table 14). The DSB ratio, computed as the percentage of the DSB to the country's total exports of goods and receipts from services and income (XGSI) rose to 8.9 percent from 8.7 percent in 2010. Similarly, the ratio of DSB to current account receipts was 8.5 percent in 2011 from 8.3 percent in the previous year. The current DSB ratios are 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
2010-2011, in percent

	2010	2011
External debt to GNI	22.6	20.88
External debt to GDP	30.1	27.5
DSB to XGSI	8.7	8.9
DSB to CAR	8.3	8.5
DSB to GNP	2.8	2.5

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

The Monetary Board (MB) raises policy rates in 2011…

Given signs of stronger and broadening inflation pressures as well as a further upward shift in the balance of inflation risks, the MB decided to raise BSP policy rates by 25 bps each during its policy meetings on 24 March and 5 May 2011. The twin hikes brought the rates for the overnight borrowing or RRP facility and the overnight lending or RP facility to 4.5 percent and 6.5 percent, respectively. The interest rates on terms RRPs, RPs, and special deposit accounts (SDAs) were also raised accordingly.

International food and oil prices remained elevated in the first half of 2011 due to strong global demand as well as concerns about supply gaps. As a result, the baseline inflation forecasts indicated that the 3-5 percent inflation target could be at risk. The MB believed that a preemptive response would minimize the overall impact of rising inflation on domestic economic activity by helping to anchor firmly the public's inflation expectations. The MB noted that buoyant domestic demand conditions provided room for a policy rate hike without affecting the economy's growth prospects.

…adjusts the reserve requirements…

Furthermore, the MB decided to raise the reserve requirement on deposits and deposit substitutes of all banks and non-banks with quasi-banking functions by one percentage point each during its policy meetings on 16 June and 28 July 2011. The MB's decision to raise the reserve requirement was a forward-looking move to better manage liquidty. The MB was also of the view that sustained foreign exchange inflows, driven by upbeat market sentiment over the positive prospects for the Philippine economy and positive interest rate differentials could fuel a further acceleration of domestic liquidity growth, which could pose risks to future inflation. The MB likewise believed that a prudent increase in the reserve requirement would help ensure that the inflation target would be met. The move to raise the reserve requirement—which would apply to regular reserves—was also part of the normalization of the liquidity-enhancing measures adopted during the global financial crisis.

… and subsequently keeps policy rates steady

However, policy rates were kept unchanged through the rest of 2011 with the assessment that the inflation outlook had turned manageable, with within-target baseline inflation forecasts and well-contained inflation expectations. The MB also took into account data showing subdued domestic economic activity in the second and third quarters as external demand weakened and public spending was below target.

A pause in the policy stance allowed the MB to carefully assess the risks to the inflation outlook amid heightened uncertainty over the strength of the global economy and concerns over Europe's sovereign and banking sectors. The MB considered the risks surrounding the inflation outlook to be tilted to the downside in the last quarter of 2011 as weak global economic recovery was expected to be reflected in easing global demand and commodity price pressures. Nonetheless, the MB noted that upside risks to prices remain, including continued strong capital inflows that can fuel domestic liquidity and credit growth.

Meanwhile, the MB undertakes a review of the policy on reserve requirements

On 23 November 2011, the BSP announced an ongoing review of its reserve requirement policy, which is aimed at operationally strengthening the reserve requirement as a liquidity management tool. The rationalization of the reserve requirement is intended to enable the BSP to have a better handle on the liquidity circulating in the financial system, with the view to enhancing the transmission of monetary policy actions on the economy. In addition, the review is expected to simplify implementation and enhance the BSP's monitoring of banks' compliance with reserve requirements.

Financial System Stability

Sustained pursuit of financial reforms

The BSP continues to pursue banking reform initiatives

Drawn by the need to strengthen the country's resilience against the protracted sovereign debt and growth problems in AEs and the possible spill-over effects on the domestic financial system, the BSP sustained its pursuit of financial reforms to promote further market discipline, facilitate the efficient provision of financial services, and advance financial stability. During the period, policy initiatives were focused on further liberalizing bank branching policy, aligning prudential standards with international norms, and enhancing the implementation of existing banking rules and regulations.

Phased liberalization of bank branching rules

The BSP lifts remaining bank branching restrictions in Metro Manila

To promote market competition and improve the quality of financial services delivery, the BSP lifted the remaining bank branching restrictions in the eight restricted areas of Metro Manila, namely: the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon City, and San Juan. The new policy, which will take effect until 1 July 2014, will be implemented under a two-phased liberalization approach.

Under Phase 1 of the liberalization, private domestic U/KBs, including TBs, with limited branch network (i.e., less than 200 branches) in the restricted areas of Metro Manila will be allowed to apply for and establish branches in these areas until 30 June 2014. Subsequently, Phase 2 of the process will allow branching in said restricted areas to all other banks (i.e., those with 200 or more branches). The new branching policy, however, excludes rural and cooperative banks, which are not allowed generally to establish branches within Metro Manila.

The phased liberalization of bank branching in the Philippines is seen to improve further customer reach as the country's deposit account per capita is still one of the lowest among the ASEAN-5 economies. *(Circular No. 728 dated 23 June 2011)*

Similarly, branches of microfinance-oriented banks as well as microfinance branches of banks which are not microfinance-oriented may be allowed to establish branches in Metro Manila, including in the restricted areas, subject to compliance with the minimum capital requirement and other requirements under *Circular No. 727 dated 23 June 2011*.

Progressive alignment of prudential standards with international norms

The BSP adopts the PFRS 9 and a phased-in migration to Basel III

Fragilities in the global financial system uncovered during the last financial crisis of 2007-2008 led to a host of policy changes and regulatory reforms to provide an effective oversight of the emerging global financial infrastructure post crisis.

- To promote fairness, transparency, and accuracy in financial reporting, guidelines on the adoption of *Philippine Financial Reporting Standards (PFRS) 9* were issued. The regulation, which covers the classification and measurement of financial assets under the new standard, its early adoption, transition rules, disclosure requirements, and associated sanctions for violations, are expected to align financial reporting formats with the new global financial reporting standards. *(Circular No. 708 dated 10 January 2011)*

- To prepare domestic banks for their eventual migration to Basel III, the BSP issued guidelines defining the qualifying capital instruments under the new standard for banks' regulatory capital. Currently, the eligibility of capital instruments to be issued by Philippine banks and quasi-banks as hybrid Tier 1 capital and lower Tier 2 capital has been aligned with the Basel Committee on Banking Supervision (BCBS) criteria on Additional Going-Concern capital and Tier 2 capital, respectively, effective 01 January 2011. *(Circular No. 709 dated 10 January 2011)*

Enhanced efforts to strengthen existing rules and regulations

- *On anti-money laundering.* To ensure that covered institutions maintain high anti-money laundering standards to protect their safety and soundness as well as the integrity of the whole banking system, the BSP approved the adoption of the Updated Anti-Money Laundering Rules and Regulations, amendment of part eight of the Manual of Regulations, and the repeal of other circulars inconsistent with the new regulation. While introducing changes in the scope of regulation, definition of terms, and basic principles to combat money laundering, the new regulation also included stricter penalties and sanctions (i.e., written reprimand, suspension or removal from office, disqualification from holding any position in any covered institution) enforced against the Board of Directors, senior management and line officers of any covered institution found in violation of said regulations. *(Circular No. 706 dated 5 January 2011)*

- *On trust corporations.* To ensure the proper conduct and development of trust, other fiduciary businesses and investment management activities, rules and regulations were issued to govern the establishment of, grant of authority to engage in trust, other fiduciary business and investment management activities, and the conduct of trust, other fiduciary and investment management operations by trust corporations. *(Circular No. 710 dated 19 January 2011)*

- *On securities custodianship operations.* To strengthen regulations on securities custodianship operations, the BSP amended provisions in the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) on the qualifying requirements (e.g., authority to engage in investment management/trust business), required licensure (i.e., duly-licensed lending agent by Securities and Exchange Commission or SEC) as well as the scope of allowable activities, functions and responsibilities associated with securities custodianship.

- *On outsourcing of other banking functions including servicing of offsite ATMs.* To enhance the regulations on outsourcing of other banking functions, the BSP amended the MORB to include offsite ATMs among the services that may be allowed for outsourcing by banks to third party service providers, subject to certain qualifying conditions. *(Circular No. 723 dated 26 May 2011)*

- *On the relationship of banks and their related microfinance NGOs/Foundations.* To further promote good governance in banking, the BSP amended pertinent provisions of the MORB on related interest, business relationships, and interlocking of officership to encourage banks to address risks from their relationships with related microfinance non-government organizations (NGOs) or foundations. The BSP likewise expanded the list of non-risk assets to include, subject to certain conditions, deposits of clients of NGOs/foundations with related lending bank. *(Circular No. 725 dated 16 June 2011)*

- *On the implementation of the PCA framework.* To enhance the framework on the enforcement of prompt corrective actions (PCA), Circular No. 523 dated 23 March 2005 was amended, requiring that the initiation of the PCA be recommended by the Deputy

Governor, Supervision and Examination Sector to the MB for approval. Further upon PCA initiation, the BSP shall likewise require the bank to enter into a memorandum of understanding (MOU) committing to the PCA plan. *(Circular No. 729 dated 8 July 2011)*

- *On the Truth in Lending Act.* To enhance transparency of loan transactions, the BSP amended pertinent provisions of the MORB to include the following: 1) inclusion of a subsection on the method of computing interest; 2) enhancement of the definition of terms (e.g., surcharges, finance charge and simple annual interest rate); and 3) revision of the section the section on "information to be disclosed." *(Circular No. 730 dated 20 June 2011)*

- *On the ICAAP and SRP for foreign banks.* To effectively implement the provisions of Circular No. 639 (dated 15 January 2009), the BSP established guiding principles for banks' Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SRP) for foreign banks.

Box Article 3

How Effective is Philippine Monetary Policy in the Face of Large Capital Flows?

According to the April 2011 IMF Regional Economic Outlook, the first line of defense by central banks when confronted with large and potentially destabilizing capital flows is to use both monetary and exchange rate policies. Their fiscal counterparts may opt to use fiscal policy.

This article attempts to measure the interest rate pass-through during periods of large and volatile capital inflows and examine their impact on the conduct of monetary policy.

The Model

An OLS regression model was estimated using quarterly data from January 2001 to December 2010. The short-term interest rate (91-day Treasury bill rate in the secondary market), a medium-term interest rate (5-year Treasury bond rate in the secondary market) and the long-term government bond yield (25-year Treasury bond rate in the secondary market) were modeled as a function of the BSP policy interest rate (BSP overnight reverse repurchase rate), the nominal exchange rate, the ratio of budget deficit to nominal GDP, the inflation rate, a measure of risk premium on the long-term bond,[37] the output gap, and the ratio of capital account to nominal GDP. The interaction term between the policy interest rate and the capital account was also included as explanatory variable in order to measure the pass-through effects of policy rate to market interest rates in the presence of capital flows.

Results and Implications

The results showed that the policy rate was a significant driver of the short-term 91-day Treasury bill rate along with the nominal (₱/US$) exchange rate, the inflation rate, the risk premium, the ratio of capital to nominal GDP, and the interaction term between policy rate and ratio of capital to nominal GDP. For the 25-year Treasury bond rate, the coefficients of the exchange rate, percentage share of budget deficit to nominal GDP, risk premium, ratio of capital account to nominal GDP, and the interaction term between the policy rate and share of capital account to nominal GDP were significant.[38]

However, the results also indicated that the policy rate has no significant effect on medium-term market interest rates. Nevertheless, when the corresponding 5-year Treasury bond rate from the primary market is included as explanatory variable in the regression, the policy rate pass-through becomes significant. The inclusion of the primary market interest rate, however, makes the impact of other variables–such as exchange rates, percentage share of budget deficit to nominal GDP, inflation, and risk premium–insignificant. This suggests that actions of the fiscal and monetary authorities jointly affect the medium-tenor market interest rates.

To test the robustness of the results, a polynomial distributed lag (PDL) regression model was also estimated. The 91-day Treasury bill rate was regressed on a PDL model of the policy rate with polynomials of order up to 2 and lags up to 8 quarters. The near end of the lag structure was

[37] The risk premium is computed as the difference between the 10yr ROP note and the comparable 10yr US note.
[38] Significant at the 95 percent confidence interval.

constrained to zero in order to minimize the initial effect of the policy rate. Likewise, the 25 year-Treasury bond rate was regressed with a second-order polynomial with no end constraint and 12 lag periods. Results indicated that all variables were significant drivers of the short-term Treasury bill rate except for the ratio of budget deficit to nominal GDP and risk premium, while only the ratio of the budget deficit to nominal GDP became insignificant in the estimation for the long-term Treasury bond.

Regression Results

TBILL yield in the secondary market	ORIGINAL EQUATION		PDL(BSP_RRP)	
3 months				
No interaction term	1.045	***	0.468	***
Interaction terms with capital flows	0.879	**	0.422	**
5 years				
No interaction term	NOT SIGNIFICANT			
Interaction terms with capital flows				
5 years (w/ 5year yield in primary market incl. in the equation)				
No interaction term	(0.482)	*		
Interaction terms with capital flows	(0.373)	*		
25 years				
No interaction term	(0.829)	*	(0.466)	**
Interaction terms with capital flows	(0.544)	***	(0.39)	***
Lending rate	0.495	***	0.279	***

* Significant at 90%confidence interval
** Significant at 95% confidence interval
*** Significant at 99% confidence interval

Given the proportion of capital account to the nominal GDP as of December 2010, the policy rate pass-through coefficient declined from 1.045 to 0.879 for short-term rates, and moderated from -0.829 to -0.544 for long-term Treasury bond rates.

The above results showed that the policy rate remains a significant driver of the short-term Treasury bill rate. Meanwhile, the policy rate has a negative impact on the long-term Treasury bond rate, indicating that while higher policy rates cause short-term interest rates to rise, expectations of lower inflation due to the tighter policy stance will in turn cause a decline in the long-term Treasury bond rate, resulting in the flattening of the yield curve.

For the medium-term market interest rate, the results also showed that the policy rate pass-through declines in absolute terms once the interaction term between the policy rate and share of capital account to nominal GDP is incorporated in the estimation. Given the share of capital account to nominal GDP in December 2010, the policy rate pass-through coefficient to medium-term interest rates decreases slightly from -0.482 to -0.373.

The results using PDL regression broadly support the results of the OLS regression, which indicate that the presence of capital flows tend to moderate the pass-through effect from policy rate to short and long-term interest rates.

Meanwhile, estimation using average bank lending rates as dependent variable generated a pass-through coefficient of 0.495, suggesting that the BSP policy rate continues to have a considerable impact on lending rates.

In summary, the above analysis suggests that capital flows may have lessened but not fully diminished the influence of policy rate actions on market interest rates. A change in the BSP policy rate can still move the short end of the yield curve in the same direction, but could influence long-term rates in the opposite direction.

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 2011 vs 2010

	2011	2010	Annual Change (%)
Volume	1,214,995	988,198	22.9
Value (In trillion pesos)	312.6	206.6	51.3
Transaction Fees (In million pesos)	153.4	151.2	1.4

Source: Payments and Settlements Office

In 2011, the number of transactions processed and settled in *PhilPaSS* rose by 22.9 percent to 1.2 million. Likewise, the value of transactions reached ₱312.6 trillion, 51.3 percent higher compared to the ₱206.6 trillion recorded in the same period last year. The increase in the number and value of transactions could be traced largely to higher OF remittance transactions processed and settled through the *PhilPaSS* Remit system. As of end-December 2011, the total number of OF remittances transactions was recorded at 320.8 thousand with a corresponding value of ₱12.6 billion.

The higher volume of transactions could also be attributed to the rise in the following: bank cash withdrawals (10.1 percent); interbank call loans (16.6 percent); supervisory fees (18.6 percent); cash deposits (15.5 percent); intraday liquidity (ILF) (192.6 percent) and treasury investments (4.7 percent). Likewise, the rise in the value of transactions translated into higher value of transactions as shown in the following accounts: bank cash withdrawals (16.7 percent); interbank call loans (40.3 percent); supervisory fees (55.7 percent); cash deposits (10.6 percent); intraday liquidity (3.3 percent) and treasury investments (88.7 percent).

As a result of the higher volume of transactions that passed through the *PhilPaSS*, total revenues from transactions fees (system and software re-installation, Electronic Fund Transfer Instruction System or EFTIS user-registration, and other miscellaneous fees) reached ₱153.4 million, 1.4 percent or ₱2.2 million higher than year-ago levels.

In 2011, the BSP actively participated in various projects, activities, and initiatives to enhance the efficiency of the existing payment system, such as:

- Drafting the proposed Check Truncation Act in connection with the study on the possible application of Check Truncation Technology in the Philippines;
- Conducting the second *PhilPaSS* Client Satisfaction Survey to determine the participants' level of satisfaction on the system's reliability and efficiency of operations;
- Hosting a series of briefings on *PhilPaSS* Remit for interested banks in order to increase the number of *PhilPaSS* Remit participating banks and OF remittance transactions ; and
- Sponsoring two fora for system users from participating banks to enhance their knowledge in using *PhilPaSS* and to introduce the *PhilPaSS* Participant Browser, which will be implemented in the first quarter of 2012.

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

- Continue its campaign to encourage other banks engaged in remittance business or are recipients of OF remittances to participate in the *PhilPaSS* Remit System;
- Expand the *PhilPaSS* accessibility through the use of alternative solutions for payments-related transactions initiated by the various BSP departments and offices;
- Continue its study to improve the efficiency of the existing check processing and clearing operations through the introduction of Check Truncation Technology and set up limits on the use of checks as payments;
- Implement the first phase of participant 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 PSE for the settlement of PSE trades in *PhilPaSS*;
- Conduct the *PhilPaSS* Awareness Survey on selected bank branches across the country as part of its awareness campaign program; and
- Coordinate with other government agencies such as the BTr, the Department of Finance (DOF), the Department of Budget and Management (DBM), and the Commission on Audit (COA) for the settlement of government payments in *PhilPaSS* as part of the national government's Integrated Financial Management System (GIFMIS) Project.

Key Operations of the BSP

Loans and Credit

The BSP focuses on managing the risks involved in its lending activities…

Having withdrawn its crisis-relief measures in 2010 amid stabilizing financial market conditions, the BSP focused on managing the risks involved in its various lending operations in 2011 while ensuring that the volume of credit in the financial system remained consistent with the Bank's price stability objective.

The 50-bps policy rate adjustment of the BSP in March and May 2011 effectively raised the peso rediscount rate. Since 1 February 2010, the peso rediscount rate had been set equal to the RRP rate in a move to reinforce the link between the Bank's policy rate and its monetary policy instruments.

The BSP also issued stricter guidelines on the eligibility of certain types of real estate collateral to mitigate the risk of losses arising from bad rediscounting loans. For example, real estate properties covered by reconstituted titles are allowed as collateral only under certain conditions.[39] Non-residential lots with titles issued by virtue of a free patent are also eligible, provided that the prescription period of five years has lapsed.

[39] Per Memorandum No. M-2011-017 issued on 18 March 2011, real estate properties covered by reconstituted titles, as indicated in Sec.7 of R.A. No. 26, are allowed as collateral provided that (a) the two-year period from date of entry of the notation has already expired; (b) the borrowing bank has already filed the petition with the court for the cancellation thereof; and (c) the borrowing bank has submitted to the BSP an acceptable surety bond prior to the release of the loan by the BSP to answer for the payment of the obligations in the event that the petition for cancellation is denied or the notation is not cancelled on or before the maturity of the BSP loan.

Total loans granted in 2011 amounted to ₱45.9 billion, of which ₱36.3 billion went to rediscounting loans and ₱9.6 billion to the NG as the ad hoc quota increase for the Philippines with the IMF. The peso equivalent of dollar loans availed by banks under the Exporters' Dollar and Yen Rediscount Facility (EDYRF) amounted to ₱8.9 billion. Meanwhile, total loan collections for the year reached ₱46.0 billion with ₱39.6 billion accounted for by rediscounting.

The total outstanding loan portfolio of the BSP as of 31 December 2011 grew by ₱0.99 billion or 1 percent to ₱103.0 billion from the previous year's ₱102.0 billion. With bigger loan repayments against drawdowns, the total loans outstanding under the peso rediscounting facility fell to ₱13.0 billion from ₱16.6 billion in 2010. Of the outstanding peso rediscounting loans, commercial banks, thrift banks, and rural banks accounted for ₱7.2 billion (55.1 percent), ₱4.6 billion (35.5 percent), and ₱1.2 billion (9.4 percent), respectively.

On the other hand, total outstanding loans under the EDYRF rose to ₱1.4 billion from ₱1.0 billion due to the increase in availments under the facility.[40]

Most targets related to loans and credit were met or exceeded in 2011. In particular, the outstanding loans under the peso rediscounting facility and the EDYRF remained well within their respective budgets of ₱ 20.0 billion and US$500 million.

Moreover, total gross income from lending operations of the BSP reached ₱3.8 billion in 2011, or about 6 percent lower than the 2010 income of ₱4.1 billion. Nonetheless, gross income exceeded the projected ₱3.4 billion for the year on the back of higher income from emergency and restructured loans and loans to the Philippine Deposit Insurance Corporation (PDIC) as well as higher collections of fees and commissions.

Loans granted by the BSP to commercial banks and thrift banks under the Electronic Rediscounting (eRediscounting)

[40] In equivalent US dollar terms, the outstanding loans under the EDYRF rose from about US$24 million to US$30.8 million (using a conversion rate of Php43.92/US$).

System were also fully collected at maturity through the automatic debit repayment system adopted by the BSP.

On the other hand, the BSP's past due ratio rose to 9.5 percent in 2011 from 5.6 percent in 2010 due largely to unpaid PDIC loans on the account of a universal bank, which matured in October. Although loan collections had been on target in the first three quarters of the year, the past due PDIC loans brought the BSP's current loan ratio as of end-2011 to about 91 percent, two percentage points below the 93 percent target for the year. The BSP, however, continues to pursue all possible remedies to effect the collection of loans in arrears, including restructuring of loan accounts and the foreclosure of mortgages on the collaterals.[41]

…and implements projects to improve the delivery of credit to productive sectors

The BSP also implemented special projects to enhance the delivery of credit to all productive sectors of the economy. Among its accomplishments were:

1) The launching of the Credit Surety Fund Program (CSFP) in five (5) more provinces in 2011, as targeted, namely: Pangasinan, South Cotabato, Oriental Mindoro, Benguet, and Sarangani. This brings the total number of credit surety funds established to 19.[42]

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

2) The conduct of Credit Appraisal Monitoring (CAM) training courses aimed at enhancing the capacity of members of cooperatives to assess loan applications of MSMEs under the CSFP.

   The BSP also launched the Appreciation of Financial Statements (AFS) Seminar in February 2011. As a prerequisite to the CAM courses, the AFS is aimed at giving the target participants the proper foundation for

---

[41] The MB, in its Resolution No. 1618 dated 27 October 2011, approved the restructuring of the PDIC loan. However, the PDIC requested reconsideration of the terms of the loan restructuring.

[42] As of 31 December 2011, the CSF Program has been launched in 3 cities (i.e., Dipolog, Iloilo, and Metro Cebu) and 16 provinces (i.e., Albay, Aurora, Benguet, Bohol, Cavite, Compostela Valley, Davao del Norte, Davao Oriental, Negros Occidental, Negros Oriental, North Cotabato, Occidental Mindoro, Oriental Mindoro, Pangasinan, Saranggani, and South Cotabato).

the topics to be discussed during the CAM training sessions.

In 2011, the BSP successfully conducted 10 runs of the AFS and CAM courses all across the country.

3) The enhancement of its technological infrastructure and systems for lending, including the continuous development of the Collateral Information Management System, a masterlist of collateral holdings by the BSP; the computerization of the emergency loan facility; and the improvement of various modules in the eRediscounting System.

4) The revision of the Credit Rating Information System (CRIS), a tool that the BSP uses to evaluate the creditworthiness of banks in approving rediscounting lines, to maximize its effectiveness in managing credit risks.

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

Asset Management

The BSP improves its policies and procedures on administration, maintenance, and disposal of its acquired assets…

The BSP ensures that assets acquired through foreclosures and *dacion en pago* agreements,[43] and real properties not used in operations are administered, maintained, and preserved to enhance their value prior to eventual disposal. Private banks that avail of the BSP's loan facilities mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties. In case the borrower banks fail to pay their loans, they may opt to execute the *dacion en pago* agreement with the BSP. Without such arrangement, the real properties of said banks are foreclosed with its ownership transferred to the BSP for proper management and disposal.

BSP's asset management policies and procedures are implemented through the proper documentation of ownership in favor of the BSP, re-appraisal and validation of valuation of properties based on current values, payment of taxes and other government fees to avail of early payment

[43] "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.

discounts, and collection of sales contract and lease receivables on sold properties.

The guidelines on the disposal of acquired assets through public auction and negotiation were amended in April 2011, such that: (a) for auction sale, the term of payment of up to a maximum period of 10 years at lower interest rate will be aligned with the Treasury Bond rate of comparable maturity; (b) a second auction will be conducted for properties that declined in value by more than 30 percent; and (c) the big ticket items will be published in a newspaper of general cirulation.

On 16 November 2011, the full implementation of the Acquired and Other Assets Management System (AOAMS) which was linked with the Accounting Department's Core Financial Accounting System has facilitated the management of acquired assets and the monitoring of income, expenses and receivables.

… restructures delinquent accounts in favor of both BSP and buyers of its acquired assets…

With the restructuring scheme for delinquent accounts of buyers adversely affected by natural calamities, job disruption, or business slowdown involving amounts of up to ₽2.0 million, the BSP has restructured 18 delinquent accounts amounting to ₽8.25 million (including the waiver of additional interest and penalties on unpaid amortization) with an extension period of 5 years from the original payment terms. The penalty and additional interests waived in favor of the buyers amounted to ₽968 thousand, while BSP's total estimated interest income from said restructuring reached ₽5.17 million.

The valuation reserves fund[44] set up to minimize the impact of a change in the value of acquired assets brought BSP's accumulated allowance for market decline at ₽1.56 billion, lower by 0.9 percent from last year's level.

As of end-December 2011, the book value of acquired assets, amounted to ₽12.51 billion, 11.2 percent higher than last year's level. Meanwhile, the number of acquired real property titles decreased by 3.4 percent or 1,507 titles to 30,586 titles compared to the previous year.

[44] The amount of the reserve fund varies each year depending on the latest appraised value of the properties.

… and continuously disposes acquired properties through various schemes

Through the various asset disposal schemes,[45] the BSP Committee on Disposal of Real Properties disposed 1,711 acquired properties, 17 percent lower than those disposed in 2010. The total selling/redeemed price of ₱664.95 million was 98.9 percent lower than the ₱672.41 million target for 2011. The said disposal of acquired properties will generate for BSP an estimated income of ₱397.91 million (inclusive of interest and net expenses), which was 38 percent higher than last year's income.

Asset Disposal Schemes in 2011

Disposal Scheme	Properties Sold	In Million Pesos Net Book Value	Selling/ Redeemed Price	Estimated Income
Public Auction	2	0.74	1.56	1.33
1. Negotiated Sales	1,651	383.58	636.41	384.24
2. AMD-PFO Housing Program	52	15.42	20.70	5.02
III	6	1.06	6.28	7.32
3. Redemption				
Total	1,711	400.80	664.95	397.91

The ratio of total collections on sales contract receivables reached 91.4 percent of total amortizations due, exceeding the 88 percent target for 2011.

In the consolidation, maintenance, and sale of properties, the BSP incurred total expenses aggregating to ₱113.66 million, which was 59 percent lower than the previous year's expenses.

International Reserves Management

The BSP implements initiatives to improve the management of its international reserve portfolio

The BSP's Investment Management Committee (IMC)[46] continued to perform its mandate of reviewing and evaluating investment guidelines, as well as other treasury operations-related parameters including size, currency allocation, and stop-loss budget of the BSP's international reserves portfolio.

In line with existing guidelines, the BSP's international reserves were managed in accordance with the risk-return objectives set by the IMC. Risk management tools were also employed in the effective management of the GIR. For

[45] The BSP's disposal scheme includes: public auction, sale of acquired assets on a negotiated basis, sale through the BSP's AMD-PFO Housing Program III, redemption/repurchase, participation in the housing fairs of the Housing and Urban Development Coordinating Council, and sale through the Community Mortgage Program of the Social Housing Finance Corporation of properties occupied by informal settlers.

[46] The IMC is the main body that oversees reserve management operations.

example, Value-at-Risk (VaR) was utilized to measure market risk exposures while duration strategies were undertaken to assess the sensitivity of the BSP's investments to changes in yield for a given maturity.[47]

Despite the challenging global economic environment, the BSP continued to pursue efforts to diversify further the country's reserves in line with the objectives of liquidity capital preservation and profitability.

International Operations

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

In 2011, the BSP continued its efforts to keep foreign exchange (FX) regulations attuned to local and foreign developments and supportive of the development thrusts of the government by amending the Manual of Regulations on Foreign Exchange Transactions (FX Manual). The amendments were aimed at the following: (1) to provide flexibility to investors to fund their FX requirements and in the process increase the demand for FX and induce a shift of transactions from the parallel to the formal FX market; and (2) to facilitate access of the banking system to FX resources, enhance availability of financing to support the government's Public-Private Partnership (PPP) program, and the BSP's advocacy for microfinance activities, manage the impact of a surge in FX inflows, and further liberalize/simplify/clarify FX rules and procedures.

Moreover, as part of the systems-capacity building program and to keep the BSP's debt management system at par with international standards, the BSP continued to implement activities preparatory to a full shift to the Debt Management and Financial Analysis System (DMFAS), a software developed by the United Nations Conference on Trade and Development (UNCTAD) and used by 67 countries worldwide.

Also, the Foreign Loan Approval and Registration System (FLARES) was conceptualized to facilitate the filing of applications for BSP approval/registration of foreign/FCDU loans by the private and public sector borrowers. The system aims to allow online filing of loan applications, payment of fees due to BSP through accredited banks, and easier communication with clients on the status of their

[47] VaR is a measure used to estimate the probability of portfolio loss based on statistical analysis and historical price trends and volatilities.

applications via the internet. In 2011, the groundwork was laid out for the project, which involved drafting of agreements and templates for the system's outputs, development of appropriate IT systems, and meetings with internal as well as external counterparts (i.e., banks which are interested to participate as collecting agents for application fees; and clients who will ultimately use the system). The project is in the final stages of user testing/acceptance and is expected to be operational by 2012.

Notes and Securities Printing

The BSP produced 1,236.0 million pieces of banknotes, exceeding its target of 1,030.0 million pieces for 2011. It also delivered 74.3 percent of the 2,432.0 million pieces order placed during the year. The delivery of in-house produced banknotes exceeded its target by 20.3 percent, while the delivery of banknotes based on outsourced production fell short of its target by 60.6 percent.

Meanwhile, a total of 2.7 million ePassport booklets and 150,000 pieces of visa stickers and laminates were delivered to the Department of Foreign Affairs (DFA) in 2011. In addition, 2.1 million pieces of judicial forms were delivered to the Land Registration Authority (LRA) during the review period.

On the efficiency and quality of banknotes and securities printing operations, the BSP met most of its targets for the year, including falling within the maximum allowance of sheet take outs and reducing the rejection rate for banknotes and ePassports. Meanwhile, the BSP was not able to meet its timelines on the completion of other projects such as the acquisition of banknotes printing and finishing equipment and other machines due in part to delays in negotiations with suppliers as well as in the delivery of raw materials.

Mint and Refinery

The BSP's mint and refinery operations delivered a total of 706.0 million pieces of circulation coins to the Currency Issue and Retirement Office (CIRO), completing its balance in coin orders placed in 2010. In addition, the mint delivered 98.8 percent of the 1,131.0 million pieces of circulation coins ordered for the year. Meanwhile, the mint fell short in the delivery of 10-piso coins ordered by the CIRO due to technical problems with the packaging machine. Its production efforts, instead, shifted to 25-sentimo, where it was able to produce 48.4 million pieces of coins as advance delivery. Nonetheless, the CIRO has enough inventories of 10-piso coins.

The mint also produced and delivered 355 sets of presidential medals and state decorations in 2011, exceeding its target of 327 sets. Similarly, the mint produced and delivered 27,800 sets (out of its target of 12,000) of commemorative coins and medallions, including 20,000 sets of "Brilliant Uncirculated" coins or the Jose P. Rizal 150-year commemorative coins.

In contrast, the refinery produced only 65.6 percent of the target number of good delivery bars (GDBs)—or 1,521 pieces of GDBs out of 2,320. The target production was not met due to the shortage of raw materials given the imposition of the 2 percent excise and 5 percent creditable withholding tax on the sale of gold to the BSP. Nonetheless, the mint met its target production of dies and collars needed for coin production.

On the conformity with approved standard specifications, the mint met and exceeded its target in raw materials, finished coin and evaluation of gold. Similarly, it exceeded its target in the implementation of continuous improvement projects as well as personnel training for the year.

Currency Issuance and Retirement

Issuance of currency notes rises

Total currency notes issued by the BSP amounted to ₱769.1 billion (3,016.4 million pieces) as of 31 December 2011, 3.0 percent higher than the year-ago level of ₱746.6 billion (2,956.6 million pieces). Meanwhile, total coins issued stood at ₱20.3 billion (17,994.8 million pieces) reflecting an increase of 7.1 percent from the year-ago level of ₱19.0 billion (16,422.7 million pieces).

The number and amount of unfit notes retired through ABPMs increase

Unfit notes manually verified-cancelled and retired through the currency disintegrator by the CIRO amounted to ₱38.3 billion (724.9 million pieces) in 2011, higher by ₱2.6 billion or 7.2 percent compared to the previous year's level of ₱35.7 billion or 603.3 million pieces. Meanwhile, a total of 558.3 million pieces with a value of ₱272.9 billion were retired on-line thru the Automated Banknote Processing Machines (ABPMs), higher by ₱68.4 billion or 33.4 percent compared to the previous year's level of ₱204.5 billion (443.0 million pieces).

On currency management, the BSP was able to exceed the following targets for 2011: (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 strong commitment to maintain zero backlog at the end of each month.

Economic Research, Statistical, and Information Dissemination Activities

The BSP continued to strengthen further its thrust towards providing more in-depth economic research; developing new economic models for forecasting and policy simulations; generating and reporting relevant, timely, and high-quality statistics; and disseminating information to a wider audience. These undertakings, through the various initiatives of the Department of Economic Research (DER), the Department of Economic Statistics (DES), the Center for Monetary and Financial Policy (CMFP), and the Economic and Financial Learning Center (EFLC), helped the monetary authorities make better-informed decisions; assisted economists, investors, statisticians, analysts, and students in their research and information needs; enhanced data availability, quality, and transparency; and promoted better awareness to the public on the role of the BSP in the domestic and international financial community.

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 monetary policy, held eight meetings in 2011. During these meetings, monetary policy papers prepared and presented to the AC and to the MB contained latest analyses of domestic and global economic and financial developments, assessments of the outlook for prices in line with the inflation targeting framework, and discussions on selected topical issues that were relevant to the conduct of monetary policy.

...and help facilitate greater transparency and public awareness

The BSP published its regular and special reports on Philippine economic and financial developments. This is in line with the BSP's mandate of fostering greater transparency in its operations and enhancing public awareness to support price stability.[48]

The bi-monthly published *BSP Economic Newsletter* provided the BSP community and the public a readily accessible, concise, and reader-friendly compendium of studies on current economic and financial issues. The topics featured in the 2011 Newsletter issues included the following: (1) "*Do Higher Wages Cause Inflation?*" (January – February 2011); (2) "*Coping with Surges in Capital Flows: The Philippine Case*" (March – April 2011); (3) "*Cluster Development Strategy in the Philippines*" (May – June 2011); (4) "*Public Debt and Fiscal Innovation*" (July-August 2011); and (5) "*An Assessment of the Transparency and Communication Practices in the Monetary Policy of the BSP*" (September-October 2011).

The BSP conducted special studies on the following areas: risk aversion; credit rating analysis and upgrade; unwinding of crisis intervention measures; a review of the reserve requirement and rediscounting policy of the BSP; medium-term inflation target; Philippine potential output growth; real effective exchange rates; sovereign wealth funds; policy rate pass-through; foreign exchange swap transactions; non-negotiable certificates of indebtedness; inflation persistence; residential real estate price index; and reserves management strategy.

In addition, technical notes, position papers, and policy briefs produced in 2011 encompass a range of equally important issues. These included: capital flows and capital controls; global risk sentiment index; projections on domestic liquidity; inflation-linked bonds; imposition of tax on financial transactions; further liberalization of foreign

[48] 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, Regional Economic Developments in the Philippines; and, Survey of IT-Enabled Services; biannual report on the Status of the Philippine Financial System; quarterly reports on the BOP, BES, CES, Inflation Report, Report on Economic and Financial Development, Report to ABMI on the Movement and Progress of the Bond Market for the Philippines; monthly reports on Selected Philippine Economic Indicators (SPEI); monthly press releases on inflation, domestic liquidity, and bank lending; Highlights of the Monetary Board Meetings on Monetary Policy every six weeks; International Investment Position, and BSP Economic Newsletter.

exchange regulations; bank lending; challenges to emerging market economies central banks on the post-crisis period; preferred risk allocation matrix for public private partnership projects; strengthening the monetary system; use of gold sale profits; global financial system; public investment program; international reserves; Chiang Mai Initiative multilateralization; criteria for broadening the composition of the Special Drawing Rights (SDR) basket-issues note; Islamic window for Islamic funds; key result areas on good governance and anti-corruption; inward remittances; unemployment insurance; poverty reduction growth trust; impact of credit rating on the economy; modernizing the framework for fiscal policy and public debt sustainability; mining industry; sensitive track products under free trade agreements; risk financing; strengthening legislative liaison system; initiatives for heavily indebted poor countries; and corporate taxes.

Meanwhile, the BSP processed 133 requests for MB opinion on proposed borrowings by the NG and other government entities including LGUs and GOCCs.

Dissemination of research information remains a priority

Research outputs of the BSP staff were disseminated during the 49th Annual Meeting of the Philippine Economic Society (PES). These were: (1) "*How Effective is Philippine Monetary Policy in the Face of Large Capital Flows?*"; (2) "*Predicting the RP Sovereign Credit Rating: A Quantitative Analysis*"; (3) "*An Index on Global Risk Aversion for the Philippines*"; (4) "*Constraints and the Central Bank's Utility Function*"; (5) "*Was it Supply? International Claims and Cross-border Lending to the Philippines during the Financial Crisis*"; and (6) "*Going with Remittances: The Case of the Philippines*".

Ten brown bag sessions were conducted during the year. Issues discussed included: (1) Inflation Dynamics; (2) Information Gaps Revealed by the Financial Crisis; (3) Impact of the Japan Earthquake on the Philippine Economy; (4) Sustaining Dynamism and Inclusive Development in the Region; (5) Regulatory Framework and Policy Directions on Overseas Filipinos' Remittances; (6) Revised/Rebased National Accounts of the Philippines; (7) Rebasing of the CPI; (8) Medium-Term Inflation Target for the Philippines; (9) Monetary Policy Communication Strategy; and (10) EU/US Spillover Effects and Global Growth Scenarios.

Quantitative tools for forecasting and policy analysis undergo refinements…

The BSP Multiple Equation Model (MEM) and the Single Equation Model (SEM), which are the BSP's main inflation forecasting models, continued to be enhanced to reflect evolving economic structure of the country. Most recently, these models have been respecified and re-estimated in line with the rebasing of the CPI series to 2006. The Dynamic Stochastic General Equilibrium Model (DSGE) provided an alternative method for policy analysis. The respecification and conversion of the BSP’s annual Long Term Macroeconometric Model (LTMM) into a quarterly model was initiated in 2011, with a view of tracing the various transmission channels of monetary policy in the Philippines. Another on-going activity to support the BSP’s forecasting framework is the construction of the Philippine Financial Social Accounting Matrix (FSAM), which will serve as the database for the Financial Computable General Equilibrium (FCGE) model. The BSP's Financial Stability Committee (FSC) has identified FCGE model as one of the models to be developed for financial stability analyses.

…while a new forecasting and policy analysis system is being developed

Improvements in forecasting currency requirements by the Currency Management Committee (CuMC)[49] were also pursued with focus on forecasting models on currency demand and currency in circulation.

Forecasting of external sector accounts involved the generation of BOP projections with underlying forecasts on exports and imports, remittances, and GIR. This was done in consultation with exporters and relevant government agencies. Meanwhile, revision in the method of computing the REER and NEER indices was undertaken for greater consistency with theory and international practices, as well as to reflect the current economic structure.

Efforts are underway to develop a quarterly macroeconomic forecasting and policy analysis model to support near-term to medium-term forecasting with technical assistance from the IMF. Specifically, the new economic model will provide, among others, an internally-consistent framework that embeds an endogenous process on how monetary policy should respond to shocks to provide an anchor for inflation and inflation expectations over the BSP’s monetary policy

[49] In March 2005, the BSP created the CuMC to help ensure efficient production, delivery distribution, and circulation of notes and coins consistent with the requirements of the economy, and to perform other related activities.

horizon. The new model will form part of the suite of models used by the BSP.

The BSP strengthens ties with local and international research institutions

The BSP strengthened its ties among existing research institutions, with a view of providing fora where research outputs can be discussed. Thus, the BSP participated in the following fora: (1) IMF conference on "*Monetary and Financial Stability in the Asia-Pacific Amid an Uneven Global Recovery*"; (2) *High Level International Conference on Monetary Resource Mobility*; (3) *Senior Policy Seminar on Managing Capital Flows in the Aftermath of the Global Crisis;* (4) *SEACEN Workshops on Framework for Macro-Prudential Policies for Emerging Economies in a Globalized Environment;* (5) *Seminar on Monetary Policy Formulation and Implementation in the Euro Area*; and (6) *4th Annual Workshop of the Asian Research Networks* of the BIS.

Environmental scanning exercises and risk assessments fill the information gaps for policy making and for research agenda

Environmental Scanning Exercises (ESEs) were conducted in 2011 with resource persons from the banking community, government, private sector, and the academe participating actively in the exchange of knowledge and position on issues relevant to monetary policy formulation. The two ESE topics for 2011 were: (1) *Challenges to Monetary Policy in the Philippines amid Rising Global Commodity Prices, particularly Food and Oil Prices*, which was chosen given the rise in global food and oil prices in the first half of 2011 and concerns on how this would affect various sectors of the economy; and (2) *Public-Private Partnership (PPP) Program: Recent Developments and Updates*, which discussed efforts to boost further domestic investment particularly in infrastructure development.

Meanwhile, results of the Early Warning System (EWS) on currency crisis and the EWS on Debt Sustainability were reported regularly to the AC and to the MB during their meetings on the monetary policy stance. The Bank Distress Index (BDI) was used to identify potential banking crisis episodes in the country and to anticipate possible systemic risks that could arise from liquidity constraints faced by certain banks. Moreover, the BSP continued to monitor and use various leading indicators of income, spending, services and production to help track, on a quarterly basis, the country's business cycle.

Coverage of regular surveys improves

The regular surveys conducted by the BSP provided valuable information to policymakers and researchers. On a monthly basis, the BSP conducts surveys among private sector economists on their forecasts for the quarter and full-year inflation. Meanwhile, surveys conducted on the build-operate-transfer schemes through the Cross-Border Transactions Survey (CBTS) helped improve the coverage and quality of the BOP estimates related to intercompany accounts, bank accounts abroad and transactions.

The Senior Bank Loan Officers' Survey was conducted to track trends in the supply of, and demand for, bank loans to enterprises and households on a quarterly basis. The information helps the BSP in its assessment of financial market conditions during the review of its monetary policy stance. Moreover, the BSP conducted its regular quarterly FDI Survey, Related Data Survey, Business Expectations Survey (BES) and Consumer Expectations Survey (CES). The BES provides monetary authorities with advance information on the current and near-term economic and business conditions of the country while the CES provides quick and regular assessment of the financial condition of consumers and economic condition of the country from the consumers' point of view. For the BES, the sampling frame was updated based on the latest edition of the SEC's Top 7000 Corporations and the regional coverage was expanded to include all regions in the Philippines. In addition to the BES national report, regional reports for Regions I, III, IV, V, VI, VII, IX, XI, and XII are now being generated every quarter.

The annual Coordinated Portfolio Investment Survey (CPIS), Information Technology and Business Process Outsourcing (IT-BPO) Survey, and Coordinated Direct Investment Survey (CDIS) were likewise carried out. CDIS aims to collect inward and outward direct investment positions and transactions by country of source/destination of investment.

The results of the Philippine Consumer Finance Survey (PCFS), which covered the four regions in the country,[50] are due for publication in the first quarter of 2012. The PCFS is the first household-based survey on consumer finance in the Philippines.

The BSP generated monetary statistics in accordance with the IMF's Standardized Reporting Format (SRF) and started submission through the Integrated Correspondence System (ICS) of the IMF. Specifically, the IMF-prescribed reporting

[50] The four regions are the National Capital Region (NCR), Regions I, VII, and XI.

forms for the Central Bank Balance Sheet (1SR) and the Central Bank Analytical Accounts (1SG) for the period 2001–August 2011 were uploaded in the ICS in November 2011. Likewise, IMF-prescribed reporting forms for the Other Depository Corporations' Sectoral Balance Sheet (2SR) for the period January 2003-October 2011 were also uploaded in the same year.

As an initiative to align banks' total credit report (TCR) to the Financial Reporting Package (FRP), the BSP started mapping the FRP accounts to the TCR as well as implementing revisions based on the new Philippine Standard Industrial Classification (PSIC). An IT-supported extraction system for FRP-based TCR is being developed for possible JAVA-based system enhancement.

Further breakdown of institutional sectors is made available in the latest flow of funds statistics

In previous releases of the Flow of Funds (FOF) Report, which were intended to provide information on various investment and financial transactions of resident units in the economy and their link to the global capital market, the economy was divided into four major resident sectors, namely: non-financial, financial, general government and households. In 2011, the compilation of the FOF was enhanced by making available the following sub-accounts of the first three major sectors: the public and private non-financial corporations for the non-financial corporation sector; the depository corporations, insurance and pension funds and other financial corporations for the financial sector; and, the national government, local government units, and social security agencies for the general government sector. In compliance with the timely publication of the FOF report based on international recommendation, the 2010 FOF was released in December 2011.

The data warehousing project expands to its second phase

The Data Warehouse I (DW I) of the Supervision and Examination Sector (SES) has been operational since 2009. The Phase II of the data warehousing project (DW II) has been initiated to centralize the data repository and improve the database of the Monetary Stability Sector (MSS). Further plans involve linkages between the two data warehouses once the DW II becomes operational.

The BSP also pursued the development of a Quality Management System (QMS) for the MSS. A manual was published to document procedures, work instructions and quality plans for the research and statistical outputs of the sector.

The BSP recognizes its partners in its statistical activities and advocacies…

The BSP held the 2011 Stakeholders' Awards in recognition of its partners from the business and government sectors, who continued to support the BSP's statistical undertakings, information needs, and advocacies. Other endeavors to promote greater statistical awareness among the public were the 13th BSP-Department of Education (DepEd) NCR Oratorical Contest, the grant of monetary support for the conduct of the Philippine Statistics Quiz, and the National Statistics Month.

To enhance further its working relationship with various organizations, the BSP participated actively 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-UP Professorial Chair Lecture Series, as well as hosting the Philippine Economic Society (PES) annual meeting.

… and continues to participate actively in inter-government agency committees and international conferences on important economic issues

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 technical working group (TWG) on OF statistics, realized investments, trade in goods and in services, CPI and related indices; IAC and TWG on tourism statistics; BSP-Department of Trade (DTI) working group on data exchange; and various committees of the Philippine Statistical Association (PSA). The BSP also participated actively in the Cabinet Committee on Tariff and Related Matters and in the Technical Committee on Tariff and Related Matters. Also, the BSP participated in all activities of the Irving Fisher Committee on Central Bank Statistics of the Bank for International Settlements as member of the Executive Committee.[51] The three-year term as Executive Committee member ended in 2011. Meanwhile, the BSP in partnership with the DOF, began its preparation for the holding of the 45th ADB

[51] The BSP remains a member of the Irving Fisher Committee on Central Bank Statistics of the BIS, although its three-year term as a member of the Executive Committee has ended in 2011.

Annual Meeting in Manila from 2-5 May 2012 to discuss a range of issues related to economic and social progress in Asia and the Pacific.

The BSP in partnership with the United Nations Economic and Social Commission for Asia and Pacific (UNESCAP), organized the High-Level Regional Policy Dialogue on "*Asia Pacific Economies after the Global Financial Crisis: Lessons Learnt, Challenges for Building Resilience, and Issues on Global Reform*" on 6-8 September 2011 in Manila. The high-level policy dialogue focused on ways to address the challenges posed by the 2008-2009 global financial crisis through the sharing of national experiences and best practices.

On 26-29 October 2011, the BSP and the SEACEN Centre co-hosted the 33rd Meeting of the SEACEN Directors of Research and Training in Cebu City, along with the Research Workshop on "*Capital Inflows to Asia in the Aftermath of the Global Financial Crisis: Moving Forward with Alternative Domestic and Regional Policy Responses*" and Learning Workshop on "*Linking Competencies to Learning and Performance – A Practical Approach*". The event also included meetings of the SEACEN Advisory Group (SEAG) for Macroeconomic and Monetary Policy and for Human Capital Management and Leadership.

Box Article 4

Coordinated Direct Investment Survey (CDIS): A Recent Initiative in Collecting Data on Foreign Direct Investments

The Coordinated Direct Investment Survey (CDIS), an annual global undertaking led by the IMF, aims to improve the quality of direct investment position statistics. It collects comprehensive and harmonized data on direct investment position and flows, broken down into equity and debt (intercompany lending), by country of direct investor (for inward investment) and/or direct investment enterprise (for outward investment). It also gathers details on intercompany lending, such as deposits, debt securities, loans, trade credits and other accounts receivable/payable by country of the counterparty/ies to the transaction, including those with fellow enterprises.[52] Preliminary data are to be reported to the IMF nine months after the reference year and revised data, fifteen months after the reference year.

By participating in this global undertaking, the BSP not only ensures that its data compilation processes are aligned with international best practices and standards, but it also benefits from the opportunity to validate its data with the information gathered from counterpart economies. The results of the survey can be used in the compilation of the country's international investment position (IIP) statistics (that is, the assets and liabilities of the Philippines with the rest of the world), and the corresponding income and financial transactions in the BOP accounts. The CDIS data can also be used to assess the volatility of capital flows over time and in understanding the impact of these investments.

Coverage

The BSP launched the annual CDIS in May 2010 for end-2009 data. The next CDIS covering end-2010 data was conducted in May 2011. The respondents to the survey comprised of resident direct investment enterprises and resident direct investors. The list of resident direct investment enterprises was sourced from the listing of multinational companies in the latest publication of the Top 25,000 Corporations by the SEC. Meanwhile, the initial list of respondents who are resident direct investors was generated from news releases, and for the succeeding year, from the list of resident direct investment enterprises that reported outward direct investments in the previous year's CDIS.[53] Target respondents were mostly non-financial corporations.

For the 2009 CDIS, there were 1,052 companies surveyed covering 1,013 resident direct investment enterprises (resident companies which are at least 10 percent owned by non-resident investors) and 39 resident direct investors (resident companies with at least 10 percent ownership in companies abroad). In the 2010 survey, a total of 1,062 companies were targeted, with 96.8 percent of respondents (1,028) representing resident direct investment enterprises and 3.2 percent (34) being resident direct investors. The survey response rate for the 2010 CDIS was 24.6 percent, lower than the 28.9 percent response rate for the 2009 CDIS.

---

[52] A foreign fellow enterprise is a non-resident entity that has a common parent with the resident direct investment enterprise or resident direct investor but neither of this company nor the fellow enterprise/company holds 10 percent or more of the voting equity in the other.

[53] Local companies putting up businesses abroad, as reported in news articles, are monitored and included as prospective respondents for resident direct investors.

To improve the survey coverage, estimates for non-response were done for inward FDI and for equity investments. Equity data for non-responding enterprises were estimated based on the net worth and percentage shares of foreign stockholders as reported in the *Top 25,000 Corporations* published by the SEC.

2009 and 2010 CDIS Results

Inward Investments

Net inward direct investments (or non-residents' direct investments in the Philippines) amounted to ₱1,021.7 billion as of end-December 2010, higher by 4.0 percent than the ₱982.4 billion reported in end-2009.[54] Japan remained the biggest source of inward investments or FDI, accounting for 22.4 percent of the total net FDI, albeit lower than the 30.2 percent share in 2009. The other major sources of FDI were the Netherlands (17.1 percent), the United States (15.1 percent), Singapore (10.6 percent) and Hong Kong (9.1 percent). The top five foreign sources of investments accounted for a combined share of 74.3 percent of total FDI in 2010. In terms of equity capital investments, the same ranking was observed for Japan, the Netherlands and the United States. Singapore, meanwhile, ranked fifth next to Hong Kong. For debt positions, however, Singapore (47.8 percent) was the top source of intercompany lending, followed by Japan (20.9 percent). Japan, the Netherlands, the United States, and Singapore were also the top four foreign sources of investments in 2009. These four countries, together with France, accounted for a combined share of 75.4 percent of total FDI for that period. The actual survey results without estimates for equity capital also showed Japan, the Netherlands, the United States, and Singapore as the major sources of foreign investments. The 2009 and 2010 CDIS indicated that more than four-fifths of inward FDI consisted of equity capital investments (85.4 percent in 2010 and 83.1 percent in 2009), while the rest represented net debt positions or intercompany lending between affiliated enterprises and with fellow enterprises.[55]

Outward Investments

As of end-December 2010, total net outward direct investments (i.e., residents' direct investments abroad) including those of fellow enterprises amounted to ₱153.2 billion, more than threefold the reported ₱42.2 billion as of end-2009. Of the total reported outward direct investments, ₱119.0 billion or 77.7 percent were equity capital investments and ₱34.2 billion or 22.3 percent constituted intercompany lending. By contrast, in 2009, intercompany lending comprised 53.6 percent of the reported ₱42.2 billion net outward direct investments and the remaining 46.4 percent represented equity investments.

In 2010, more than four-fifths (82.8 percent) of the outward or direct investments outside of the Philippines were placed in Singapore (54.1 percent) and the Cayman Islands (28.7 percent). In 2009, 80.3 percent of the country's outward investments were divided among Hong Kong SAR of China (23.7 percent), British Virgin Islands (20.7 percent), the Netherlands (20.1 percent) and Singapore (15.8 percent).

---

[54] Net inward direct investments refer to non-residents placements less withdrawals in equity capital, and acquisitions of assets less incurrence of liabilities in debt instruments. Transactions could be with foreign direct investor and fellow enterprises.

[55] Debt comprises deposits, debt securities, loans, trade credits and other accounts receivable/payable. All intercompany lending between affiliated financial intermediaries, except insurance and pension fund, are excluded from direct investment in accordance with the Balance of Payments Manual, 5th edition (BPM5).

Supervisory Research Activities

The BSP continues to align regulatory and supervisory frameworks with internationally accepted standards and best practices

The BSP pursued further a broad set of reform initiatives aimed at promoting a more stable, more efficient, and inclusive banking system. The BSP likewise developed and maintained its financial system database while reporting templates were revised to reflect new regulations.

To ensure that the existing regulatory framework remained relevant and effective given developments in the financial services industry, 38 issuances were released in 2011. These were aimed at aligning the BSP's regulatory and supervisory frameworks with internationally accepted standards and best practices, specifically those relating to strengthening corporate governance, improving banking services, adopting a risk-based capital adequacy framework, enhancing prudential regulations, reforming foreign exchange transactions, and promoting competition through enhanced transparency and innovative delivery approaches.

Strengthened Supervisory Research

Research and due diligence undertaken were geared towards the following:

1) Further strengthening of Quantitative Technical Support for Policy Formulation. Established in 2010, the Quantitative Support Staff sustained the conduct of research studies in 2011 using modern quantitative tools and techniques to provide technical support in the continuing refinements of the BSP's regulatory and supervisory enforcement tools under full risk-based supervision. Accordingly, research works continued to be focused on those related to Basel II and Basel III advanced approaches, macro-prudential supervision (e.g., statistical analysis, macro stress testing, model building, etc.), and other research agenda as approved by BSP Management.

   Specifically, a paper examining the evolution of the legal and supervisory framework of thrift banks as well as their performance and condition over the past three decades vis-a-vis their previous peer groupings (i.e., savings and mortgage banks, private development banks and stock savings and loan associations) was produced. Meanwhile, previous year's research studies (e.g., *Dodging Falling Knives: Predicting Rural Bank Distress*, *BSP Stress Testing Methodologies Used in the IMF-World Bank FSAP Update*, etc.) were periodically updated and shared with bank supervisors to support risk assessment exercises for the development of supervisory plans and enforcement actions.

2) Due Diligence for Credit Rating Agencies and Foreign Investor Groups. The BSP continued to be involved in due diligence and briefing activities of international credit rating agencies and foreign investor groups. The BSP presented periodically key issues and developments in the banking system to all relevant stakeholders.

Enhanced Data Collection and Extraction

During the first quarter of the year, the BSP issued the amended data entry template (DET) of the Financial Reporting Package (FRP) to facilitate the early adoption of qualified banks of the PFRS 9 Financial Instruments.[56] Financial institutions intending to adopt PFRS 9 in 2011 were given up to 31 December 2011 to reflect the PFRS 9 requirements in their prudential reports and notify the BSP of the details of actual implementation.

The DET of the FRP was also updated to accommodate the following reportorial changes:

(1) FRP amendments resulting from the implementation of the Mandatory Agrarian Reform and Agricultural Credit under R.A. No. 10000;

(2) Revised Risk-Based Capital Adequacy Ratio Report – The guidelines on the electronic submission of the Revised Risk-Based CAR Report (CAR 1.5) were issued by the BSP under Memorandum No. M-2011-054 dated 6 October 2011.[57] All stand-alone thrift banks, rural and cooperative banks were required to use the prescribed

[56] PFRS 9 is the local adoption of International Financial Reporting Standards (IFRS) 9 Financial Instruments – the first phase of the three-phased improvement project by the International Accounting Standards Board (IASB) to ultimately replace International Accounting Standards (IAS) 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project deal with amortized cost and impairment of financial assets and hedge accounting, respectively. IFRS 9 (Phase 1) which deals with the classification and measurement of financial assets was adopted in the Philippines by the Financial Reporting Standards Council (FRSC) as PFRS 9.

[57] Unlike the full Basel 2 framework, Basel1.5 framework involves only a few key changes to old risk-based capital adequacy framework such as capital requirement for operational risk and 0 percent risk weight on exposures to government corporations which carry and explicit guarantee from the National Government.

DET of the CAR 1.5 starting with their September-end 2011 submission.

(3) Market and Credit Risks Stress Testing – The BSP developed the DET for the market and credit stress test exercise conducted on all U/KBs and selected TBs. The stress test focused on the impact on banks of CARs based on certain defined default scenarios.

(4) Non-Deliverable Forward (NDF) – With the issuance of Memorandum No. M-2011-028 dated 26 May 2011, the Report on Non-Deliverable Forward (NDF) Transactions was enhanced to capture NDF transactions in third currencies, NDF transactions with residents, the amount of outstanding NDF transactions excluding amount fixed, and the nature of exposure being hedged.

(5) Financial Institutions (FI) Portal – To improve efficiency, the existing validation system was improved to hasten the turn-around time in queuing of reports for processing. The implementation of the FI Portal shall be in phases, with Phase I targeted to be completed by the third quarter of 2012. The next two phases consisting of less matured reports in terms of validation are expected to be implemented next year.

(6) Data Warehousing Project (DWP) – On-going enhancements made on the DW include optimization of Extract Transform Load (ETL) programs to improve the turn-around time in the batch processing cycle and the generation of the ETL Monitoring Reports (EMR) so as to ensure that data extracted from the source to the DW Static Facility, when batch processed for access by users, are successfully transferred and consistent.

(7) Financial Consumers Affair Group (FCAG) – Central Point of Contact Department (CPCD) Info Sharing – The FCAG-CPCD Info sharing within the BSP is a rationalized process for sharing complaints data filed with FCAG. Said sharing of information simplifies business process to achieve greater overall efficiency by leveraging against available technology, the E-folder.

The BSP also published various reports on the condition and performance of the banking system, including offshore banking units (OBUs) and foreign currency deposit units

(FCDUs) of U/KBs. Reports were also prepared on compliance with regulations, including those on capital adequacy, reserve requirements against deposit liabilities, deposit substitutes and trust account of banks, foreign currency deposit unit cover and mandatory credit allocations for small and medium enterprises and agriculture and agrarian reforms.

Branch Operations

The BSP continues to facilitate timely delivery of banking services 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 the ideal currency stock. These offices and branches also aided in the conduct of the BSP's advocacies in the countryside. Selected regional offices were likewise involved actively in gold buying operations.

The BSP helped ensure that sufficient banknotes and coins were available in the regions, particularly during unusual demands for currency arising from seasonal requirements. Regional offices and branches maintained an ideal currency stock level equivalent to 4 months and 2 months cash requirements of banks, respectively. In 2011, the Regional Monetary Affairs Sub-Sector (RMASS) targeted a ratio of currency to ideal currency stock level of 105 percent. As of 31 December 2011, the ratio stood at 113.9 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. The launching of the CSF in new provincial sites was actively supported by the regional offices and branches of the BSP. Likewise, the BSP's economic and financial learning campaigns were enhanced further by strengthening the operations of the Economic and Financial Learning Centers (EFLCs) in the regional offices and branches. In 2011, the EFLCs in the BSP branches in Tuguegarao, Dumaguete, Naga, Zamboanga, Cabanatuan, and Tacloban were relaunched. These branches also hosted the launching of the BSP's Economic and Financial Learning Program (EFLP) in their locality.

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, briefings for pawnshops, lending investors and foreign exchange dealers, financial learning campaign for OFs and their beneficiaries and other economic briefings.

Economic, social, and political surveillances were conducted by the BSP 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 four BSP regional gold buying stations (GBS) in Davao, Baguio, Naga and Zamboanga purchased about 363,941 troy ounces of gold, lower by 38.6 percent from the previous year's gold purchases of 592,388 troy ounces. The sharp decline in gold purchases started in July 2011 when the Bureau of Internal Revenue (BIR) imposed the 2 percent excise tax and 5 percent creditable withholding tax on gold sold to the BSP.

Advocacy Programs

The year was characterized by the mainstreaming of financial inclusion in the BSP's domestic and international policy agendas, in light of growing recognition of its importance as a policy objective alongside the promotion of financial stability and efficiency. Toward this end, the Bank continued to pursue its advocacy campaigns in the areas of microfinance, consumer protection, and economic and financial education for the public.

Microfinance

The BSP remains steadfast in its commitment to promote financial inclusion

In 2011, the Philippines was recognized for the third consecutive year as the best in the world in terms of regulatory framework for microfinance by the EIU Global Microscope on Microfinance. The country has also been consistently in the top 10 (out of 55) countries in the overall category which includes other criteria such as supportive institutional framework and stability. The BSP is also one of the few institutions from a non-G20 country that made it as a member of the GPFI working group launched in 2010. The GPFI held its inaugural meeting in 2011 to implement a concrete Financial Inclusion Action Plan.

During the year, the BSP focused its initiatives on the following areas: (1) policy and regulation; (2) training and capacity building; and (3) promotion and advocacy.

Policy and regulatory initiatives

The BSP's efforts in promoting microfinance have yielded favorable results thus far: (1) increase in banks' physical reach through the creation of micro-banking offices and (2) expansion of the suite of services offered to clients of banks with microfinance operations, among others.

The BSP also continued to usher in additional policy initiatives in 2011 to solidify further its efforts toward financial inclusion, namely: (a) lowering barriers to customer acquisition through the updated Anti-Money Laundering Rules and Regulations; (b) promoting transparency and good governance through the issuance of rules regarding the relationship between banks and their related microfinance non-governmental organizations; (c) ensuring that consumers are informed and protected through the updated rules implementing the Truth in Lending Act to enhance loan transaction transparency; (d) implementing laws that promote financial inclusion through the issuance of the circular on the component of the implementing rules and regulations (IRR) of the Agri-Agra Reform Credit Act (Republic Act 10000) that pertains to banks; and (e) amending Circular 694 (2010) to recognize Microfinance Plus as microfinance loans from ₱150,001 - ₱300,000.

Training and capacity building

In the light of delivering responsive and inclusive financial services, the BSP continued to strengthen its internal capacity as well as that of the banking sector as reflected through the following: (a) successful conduct of hands-on demonstration by the Monetary Board on the use of electronic money and mobile phones to enable transactions and access to financial services; (b) strengthening the capacity of the BSP supervision and examination on bank lending to small and medium enterprises; (c) continuing recognition awarded by the International Organization for Standardization (ISO) through the issuance of certification for the microfinance examination procedures of the BSP Micro, SME Finance Specialist Group; and (d) developing a comprehensive Financial Inclusion Data Framework.

Meanwhile, the BSP continued to conduct financial learning seminars for microfinance banks, their clients, and the unbanked. For 2011, the BSP was able to conduct four seminars[58] covering 17 provinces and attended by 163 participants.

In recognition of the contribution of Philippine microfinance industry stakeholders in the development of a sound and sustainable microfinance industry in the country, the BSP also held the first National Microfinance Stakeholders Summit on 5 April 2011. Pre-summit and parallel activities, such as briefings on mobile financial services and an expo for microentrepreneurs and other stakeholders, were also held in support of the main event.

Promotion and advocacy

The Philippines remains a favorite destination for study visits on microfinance and financial inclusion. In 2011, the BSP welcomed a total of 14 delegations comprising 178 individuals from 28 countries (BCEAO[59] countries, Bhutan, Cambodia, Cameroon, Congo, Ecuador, Ghana, Indonesia, Kenya, Malawi, Malaysia, Mongolia, Nepal, Nigeria, Tanzania, Thailand, Vanuatu, Venezuela, Vietnam, Zambia, and Zimbabwe).

The BSP also continued to play an active role in various international fora on financial inclusion through its involvement in the sub-groups of the G20 GPFI, the implementing arm of the global financial inclusion agenda.

Moreover, the BSP remained keen on recognizing outstanding microentrepreneurs. Along with Citibank Philippines, Citibank Foundation, and the Microfinance Council of the Philippines, the BSP held the 9th run of the Citi Microentrepreneur of the Year Awards (MOTY) in 2011. Eight microentrepreneurs, including two national winners and two winners each from Luzon, Visayas, and Mindanao, bested 140 nominees from all over the country.

---

[58] The seminars were held in Tuguegarao City (14 April 2011), Dumaguete City (13 June 2011), Manila (18 November 2011), and Dipolog City (29 November 2011).

[59] Refers to Banque Centrale des États de l'Afrique de l'Ouest or the Central Bank of West African States serving the eight west African countries which comprise the West African Economic and Monetary Union, namely: Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo.

As of end-September 2011, there were 188 banks providing microfinance services. These banks were serving 965,933 borrowers with an outstanding loan portfolio of ₱7.1 billion and savings component of ₱3.8 billion.

Consumer protection

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

The BSP remains committed to promote consumer protection through implementing various programs centered on financial literacy, formulation of consumer protection policies and regulations, and handling of complaints.

In 2011, the BSP, through the FCAG, was able to assist a significant number of consumers in the resolution of complaints against or disputes with BSP-supervised financial institutions. Of the 3,275 simple cases involving consumer complaints, inquiries, and requests (CIRs) during the year, 99.0 percent were substantially acted upon in compliance with the five-day timeline set for addressing complaints. Meanwhile, of the 411 complex cases filed, 98.0 percent were resolved in compliance with the 30-day timeline.

The BSP was also able to conduct nine financial education expos and 10 financial awareness sessions in 2011. The effectiveness and efficiency of the implementation of these financial education programs received a satisfactory rate of 92 percent from participants. The BSP also participated in two TWGs formed during the year, namely: (a) the TWG for the continuing compliance with the Anti-Red Tape Act and (b) the BSP Working Group to draft the Philippine Credit Card Industry Law. The latter was created pursuant to the instructions of the TWG of the Congressional Committee on Banks and Financial Intermediaries, 15th Congress, which shall be responsible for the drafting of the law that will consolidate and strengthen the protective measures already existing for credit card holders.

To promote further consumer vigilance and protection, the BSP also issued the following advisories: (1) *"Credit Card Debt Collection Practices Considered Unfair Under BSP Regulations"*; (2) *"Safeguarding Automated Teller Machine Account/Card and Personal Identification Number (PIN) or Wastong Pag-iingat ng Iyong Automated Teller Machine (ATM) Account/Card at Personal Identification Number (PIN)"*; (3) *"ATM Card Switching Modus Operandi"*; (4) *"Beware of Text/E-mail Scams."* In order to strengthen its linkage with the academe and the youth in promoting further financial awareness and consumer protection, the BSP, in coordination with the Department of Education, sponsored an on-the-spot essay-writing contest for high school students with the theme, "Kaalaman sa Piso, Susi sa Pag-asenso," which was held on 2 December 2011.

Economic and financial education

The BSP strengthens its efforts to promote greater awareness and understanding of economic and financial issues

In line with the BSP's commitment to promote 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 EFLP which comprised 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. In 2011, the PIC reached a total of 1,126 participants, largely students, teachers, and school officials in seven sessions in different parts of the country.[60]

- *Financial Learning Campaign (FLC) for OFs and their Beneficiaries.* The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate OFs and their family members and beneficiaries on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures. The BSP conducted seven sessions in different parts of the country as well as two international FLCs in Florence and Bari, Italy.

- *Users' Forum (UF) on BSP-Produced Statistics.* The forum aims to explain to the public the methods and processes used by the BSP in gathering and analyzing data that it compiles and monitors. The UF was conducted as part of the BSP's celebration of the National Statistics Month in October 2011.

[60] This includes the PIC for BSP employees in March 2011.

- *Financial Education Expo (Fin-Ed Expo).* The Fin-Ed Expo aims to instill awareness on the availability and accessibility of financial education programs, as well as increase personal consciousness on the values and benefits of being financially empowered. Ten Fin-Ed Expos were conducted in 2011 with participants from the academe and local workforce.

Meanwhile, the EFLC continues to offer information and learning services to the general public. In 2011, the EFLC opened its doors to 8,769 visitors, mainly students who visited the EFLC for their research needs, tours, attendance to in-house lectures, and use of EFLC facilities. Other guests, with similar purpose, were from the private sector and government institutions.

Institutional Building

Corporate Planning

The BSP marks the fourth year of implementation of the BSP's performance management system under the BSC framework

The year 2011 marked the fourth year of the BSP's implementation of its performance management system under the Balanced Scorecard (BSC) framework. During the year, the focus was on adopting an enhanced strategy management system using the BSC framework to address the weaknesses identified during the first three years of implementation (2008-2010) and to bring the BSP at par with strategy-focused international organizations.

Meanwhile, the BSP's institutionalization of the project on "Strengthening Good Governance in the BSP", a joint initiative of the Corporate Planning Office (CPO) and the Development Academy of the Philippines in 2010 to implement a System-wide Governance Assessment (SGA), culminated with the approval by the MB of the BSP Governance Roadmap for implementation in 2011.

On the other hand, the Project Management Excellence Program (PMEP)[61] of the BSP is intended to promote project management as an organizational competency to ensure that projects in the BSP are managed according to proven principles and best practices. In 2011, 11 training-workshops on the PMEP methodology were conducted in

[61] The PMEP has three components, namely: (1) deployment of a standard Project Management Methodology (completed in 2009); (2) conduct of training workshops on the methodology; and (3) development of an enterprise project portal.

partnership with the BSP Institute (BSPI), with 118 participants from the various sectors of the Bank.

Information Technology (IT)

The BSP continues to upgrade existing in-house computer application systems and set up additional IT requirements to improve its operations

In 2011, the BSP continued to upgrade existing in-house computer application systems and set up additional IT requirements to improve its operations as well as provide support to the Bank's various departments. Toward this end, the IT Sub-Sector (ITSS) accomplished the following:

1) Implemented enhancements of various hardware infrastructure;[62]

2) Operationalized business continuity management testing Disaster Recovery Plan for mission-critical applications (e.g., *PhilPass* and the eRediscounting System);

3) Enhanced the local area network (LAN) cabling infrastructure throughout the BSP Head Office in line with the Space Rationalization Project;

4) Developed and maintained various application systems;

5) Continued enhancement and maintenance of various IT Security application systems and practices to ensure protection of Information and Communications Technology (ICT) systems, controls, applications, infrastructure and operation; and

6) Completed the audit requirements for Occupational Health & Safety Standard (OHSAS) 18001, International Organization for Standardization (ISO) 9001 and ISO 14001 certifications of the 2nd TUV SUD surveillance audit in June 2011 and developed and/or updated IT-related forms.

Bangko Sentral Training Programs

For 2011, the BSP Institute (BSPI) remained focused on its mission as an enabler and strategic partner that is committed to creating a learning culture conducive to the

[62] These include (1) upgrading the manual tape back-up system to an automated tape library system, storage and archiving capacity system, and Blackberry units; (2) setting up infrastructure requirements of various operating systems [e.g., Project Information Management System (PrIMS) and Foreign Loan Approval and Registration System (FLAReS)]; and (3) installation of additional environmental sensors inside the IT Data Center, among others.

The BSP remains committed to creating a learning culture conducive to the development of highly-skilled and responsible workforce

development of highly-skilled and responsible workforce. Toward this end, the BSPI embarked on various programs during the year, including:

1) Establishing a BSP corporate university, which entailed the creation of a ladderized training curriculum for each employee anchored on the approved competency models;[63]

2) Offering training programs aimed at enhancing the competitive advantage of the Bank's human capital;

3) Conducting the second phase of the BSPI Competency Development Program to strengthen the competencies of the BSPI staff;

In 2011, over half of the 5,234 BSP employees participated in at least one in-house, local, or foreign training event.

The BSPI facilitated a total of 828 training events, meetings, and conferences during the year, including two in-house training events conducted by foreign resource persons.

The BSP also co-hosted four major events during the year in coordination with various international organizations.[64]

Technical training conducted by the BSPI accounted for 52 percent of the total training hours, while skills development accounted for 28 percent. Leadership and management courses accounted for 12 percent of the training hours, while behavioral courses accounted for eight percent.

Human Resource Development

2011 marked the concluding year for the BSP's Medium-Term Strategic Objectives for 2005-2011. As such, the BSP crafted competency assessment tools and conducted

[63] The course designs for programs under the Bankwide Curriculum Series, which addresses the organizational competencies - Results Orientation, Service Orientation, Adaptability, Analytical Thinking, and Collaboration and Orientation (RSAAC) - are ready for implementation in 2012.

[64] These were (1) the Seminar on International Relations in a Central Bank with Banque de France; (2) the 10th Meeting of Legal Advisors with the Center for Latin American Monetary Studies (CEMLA); and (3) the Seminar on Liquidity Risk and (4) the 33rd Meeting of SEACEN Directors of Research and Training with the theme "Central Banks Policy Challenges and Capacity Building", both with the SEACEN Centre.

The BSP continues to enhance the competencies of its human resources

workplace interventions geared towards competency development of BSP talents.

The BSP created Knowledge Management Committee (KMC), composed of heads of the sectors and representatives from various departments/offices who attended the KM workshop in 2010, as part of its continuing efforts to establish a knowledge management system. The BSP also carried out the initiatives under the Organization Enhancement and Capability Strengthening (OECS) Project to create an organizational culture that promotes leadership and teamwork. Programs aimed at encouraging a stronger achievement-oriented and performance-driven culture based on the BSP's core values and through promotion of inspiring leadership were also institutionalized.

The highlights of the BSP's accomplishments in the area of human resource development in 2011 include the following:

1) Launched the BSP Inspiring Leadership Program;

2) Organized the Values in Action program to help promote and instill the Bank's core values among the employees. Of particular note is the BSP's campaign for the Philippines to establish a new Guinness Book of World Record for the longest line of 25-centavo coins, which was aimed at reviving coin circulation and building three classrooms in a chosen school in Manila;

3) Conducted the Structured Team Enhancement Program (STEP) as well as team interpretation sessions on Harrison Assessment (HA) profile;

4) Sought clarification on the Civil Service Commission (CSC) Memorandum Circular (MC) No. 13, which had implications on the qualification standards (QS) and other relevant requirements for various managerial positions;

5) Held the *Breakfast with the Governor*, where new employees meet the Governor and the BSP executives and officers;

6) Brought to the BSP regional offices and branches the Talent Development Experience program;

7) Assisted BSP scholars from foreign schools in obtaining certification of their respective Master's degrees from the Commission on Higher Education (CHED);

8) Implemented the Job Rotation and Cross-Posting Program to enable employee-participants to expand their knowledge and strengthen certain competencies; and

9) Submitted a Succession Management Roadmap to the Governor in September 2011. The Roadmap is aimed at preparing the BSP's talent pipeline for key and critical positions.

Human Resource Management

The BSP strengthens its role as an enabler and strategic partner in human capital management

The BSP continued to ensure that its human resource management strategies remain at par with best practices through the following initiatives:

1) Proposed various enhancements to the compensation and benefits package for Bank employees;[65]

2) Provided assistance to the BSP Task Force on Uniform and the selection of a new canteen concessionaire;

3) Participated in government-initiated activities such as the celebration of Women's Month and the 111th Philippine Civil Service Anniversary;

4) Conducted various cultural, sports, and wellness activities to promote work-life balance among BSP employees;

5) Spearheaded initiatives to promote the Bank's corporate social responsibility (CSR) thrust;[66]

6) Introduced programs geared towards improving risk-consciousness efforts and achieving operational excellence;

[65] Proposals included an increase in the rate of Integrated Personnel Economic Relief Allowance, the granting of an anniversary bonus, and additional policy on monetization of leave credits, among others.

[66] These include: (1) fundraising activities for various charitable instutions such as the BSP-Gawad Kalinga Village, Parañaque; among others; and (2) environment-awareness campaigns such as the BSP Earth Hour and water conservation program.

7) Sustained the timely delivery of essential personnel services such as the release of regular employee compensation and benefits, and the strict adherence to pertinent regulations and personnel guidelines. Likewise, the BSP integrated the feedback mechanism on HR matters.

8) Implemented the training roadmap and identified local and foreign trainings to keep personnel abreast with current trends and best practices in human resources;

9) Continued to implement the “HRMD Journey to Wellness” program to respond to the various wellness needs of the personnel; and

10) Conducted regular sessions among its personnel and continued to adopt mentoring practices as part of the Bank’s staff development program.

Health Services

The BSP recognizes the importance of maintaining a healthy workforce

In 2011, the BSP exhibited further its recognition of the importance of maintaining a healthy workforce in achieving its organizational objectives through the establishment of a Health Services Office (HSO). Among the highlights of its achievements during the year were as follows:

1) Extended medical and nursing services, with the HSO attaining an overall rating of 3.87 in the Patient Satisfaction Index (PSI) in a scale of 1-4, higher than the year’s target of 3.5 PSI.

2) Implemented various programs to extend high-quality services, including: (i) the annual medical examination; (ii) 11 sessions of “*Kapihan sa Medical”* at the HO and SPC, as well as other lectures and monitoring activities through health clubs; (iii) an information dissemination campaign on “*Diabetes Dental Health Program”*; (iv) the commencement of the Weight Management Program, with the participation of selected personnel; and (v) the assessment of the performance of medical retainers through a survey conducted among employees in regional offices and branches.

Enterprise Risk Management (ERM)

The BSP marks major milestones in the ERM framework implementation

Year 2011 marked major milestones in the implementation of the ERM Framework approved by the MB in 2010, including the following:

1) Activation of the risk management units (RMUs) and the relationship management function of the centralized Risk Management Office (RMO). With the activation of their roles, the RMUs took the lead in implementing the risk management tools and methodologies in their respective departments in close coordination and consultation with the risk managers of the RMO.

2) Consolidation of the 2010 risk management templates. In order to provide a consistent and global assessment of risks to Senior Management, the RMO consolidated the 855 potential risk events identified mainly from the brainstorming sessions facilitated for all the operating units of the Bank during the first annual risk assessment cycle in 2010.

3) Establishment of the incident reporting mechanism for at least three pilot departments or sub-sectors.[67] Through these incident reports, early warning indicators for major risks are captured and monitored on a periodic basis, allowing the RMO to analyze trends in risk incidents and develop action plans to mitigate them.

4) Enhancement of the ERM framework and preparation of the ERM manual to ensure a standard and consistent approach to risk management.

5) Consolidation of risk management objectives in the corporate objective scorecard in order to drive behavior towards the desired level of risk consciousness across the Bank.

Crisis Management

The BSP, through the Crisis Management Office (CMO), remains committed to pursuing activities toward effective crisis management leadership and ensuring the business

[67] For 2011, RMO, together with the RMUs, established the incident reporting mechanism for the Currency Management Sub-Sector (CMSS), Regional Monetary Affairs Sub-Sector (RMASS) and Payments and Settlements Office (PSO).

The BSP continues to pursue effective crisis leadership

continuity of the Bank, especially implementing time-sensitive operations, through the following:

1) Hosted the Business Continuity Managers Association of the Philippines (BCMAP) forum, "Are You Prepared for the Big One? Earthquake Emergency Preparedness and Business Continuity" on 18 August 2011;

2) Implemented the enhanced BSP Unified Directory System (BUDS);[68]

3) Conducted various human resource management enhancement programs to ensure the effective implementation of the Business Continuity Management plans;

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

Systems and Methods

The BSP's systems and methods remains at par with world-class standards

In pursuit of the BSP's commitment to institute service excellence at par with world class standards, the Systems and Methods Office (SMO), in coordination with the other BSP departments and offices, implemented the following programs in 2011:

1) Completed the design and development of three quality management systems (QMS) of several departments and offices,[69] in accordance with the international standards of ISO 9001;

2) Provided assistance to the alignment of the QMS documentation of the SPC to cover the processes of the OAG-SPC, BSPD, MROD, and the Department of General Services;

3) Effectively maintained and successfully passed surveillance audits of two bank-wide certified management systems, namely, the Environmental,

[68] Enhancements include a monthly alert system reminding all BUDS authorized users to update the system on any changes in contact information, a new template for existing BUDS-generated reports, and a default page setup for system-generated reports, among others.

[69] These departments and offices were the Project Development and Management Office (PDMO); the MPSS, to cover the processes of CMFP, DER, DES, and the EFLC; and the International Relations Department (IRD).

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;

4) Conducted Independent Quality Assessments as well as Work Environment Measurements in the Head Office, the SPC, and various regional Offices and branches;

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

Major Infrastructure Projects

As of end-2011, the BSP undertook various infrastructure projects that are expected to contribute to the efficient operation and performance of the Bank's functions.

Completed Projects

Project title	Original Contract Cost* (in thousand pesos)
Construction of Zamboanga branch building	312,316
Construction of Naga branch building	303,929
Construction of Dumaguete branch building	262,302
Construction of Roxas branch building	250,189
Construction of Tacloban branch building	247,215
Construction of of BSP multi-purpose building (HO)	26,165
Rehabilitation of multi-storey building roof deck (HO)	21,539
Construction of office of the deputy governor (RMS) and E-library (HO)	12,597
Construction of BSP security training facility (Silang, Cavite)	11,606
Retrofitting of all lighting system including the supply and installation of illuminated exit signages and switches (BSP La Union Regional Office)	7,367
Structural support for the green roofing above the covered walks from Gate 6 to Cafetorium Building	4,114
Supply and installation of fabricated window panels at the 5-Storey Building - Phase 3	3,540
Re-waterproofing of roof deck and plaza areas (BSP La Union Regional Office)	2,738
Rehabilitation and upgrading of EFLC arcade flooring and ceiling	1,793

* Exclusive 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.
Source: PDMO and FMED

Ongoing Projects		
Project title	Original Contract Cost* (in thousand pesos)	Percentage of Completion (in percent)
Renovation of BSPI offices and training center	239,908	8.5
Bankwide inventory of building components identified as hazardous	4,250	60
Re-roofing, re-waterproofing of roof deck area and re-varnishing of exterior ceiling eaves (BSP Cabanatuan Branch)	3,769	75
Installation of acoustical ceiling (BSP Lucena Branch)	437	70

*Exclusive 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: PDMO and FMED

International Economic Cooperation and Integration Initiatives

The BSP participates actively in international economic cooperation activities

In 2011, the value of active international, regional and bilateral cooperation in coping with global economic uncertainties, mitigating risks and vulnerabilities, and in guarding against future crises came into fore. The BSP stepped up its involvement in international, regional and bilateral cooperation by actively pursuing 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 on issues relating to monetary and financial stability; provision of financial contributions and commitment to bilateral pooling arrangements; involvement in regional bond market development; and active participation in capacity-building programs.

International Cooperation Activities

Economic Surveillance and Policy Dialogue

The BSP facilitated the country's participation in both the IMF Staff Visit held on 13-20 July 2011 and the annual Article IV Consultation Mission held on 1-13 December 2011. The Consultation Mission served as a venue for policy dialogue between government authorities and Fund experts on the country's economic situation and outlook. A joint conference between the Philippines and the IMF was also held on 13 December 2011 to discuss policy challenges for the Philippines amid global uncertainties.

In addition, the BSP also hosted the launch of the 2011 Regional Economic Outlook for Asia and Pacific on 17 October 2011, which served as a platform for presenting the IMF's assessment of recent economic developments and outlook, as well as policy challenges, in Asia and the Pacific region.

Furthermore, the BSP represented the country in a number of conferences and meetings organized by the IMF[70] as well as provided inputs and comments on IMF issue papers.

The BSP continues to represent the Philippines in international policy dialogues

The BSP also participated in various fora of the BIS.[71] The BSP likewise participated in the TWG meetings of the *Intergovernmental Group of 24* on topics involving membership, and issues confronting EMs, such as fiscal capacity, taxation, food security, and climate finance.

On the regional front, the BSP continued its active participation in the Association of Southeast Asian Nations' (ASEAN) efforts to improve its capability to undertake economic surveillance in the formulation of regional policies and integration framework. The BSP was keenly involved in the establishment of the high-level surveillance unit of the ASEAN, named the ASEAN Integration Monitoring Office (formerly named Macroeconomic and Finance Surveillance Office (MFSO)).

Similarly, the BSP actively participated in the operationalization of the *ASEAN+3 Macroeconomic Research Office (AMRO)* as the independent regional surveillance unit of the ASEAN+3 region. As part of the AMRO Executive Committee, the BSP lent support in the formulation of the AMRO Budget, staff hiring, and initialization of its surveillance work program. With regard to the *Chiang Mai Initiative Multilateralization (CMIM),* the BSP took part in the drafting of the CMIM Operational Guidelines, which provides uniform and detailed procedures

[70] These include the 2011 IMF/WB Spring Meetings on 16-17 April 2011 and the IMF/WB Annual Meetings on 23-25 September 2011.

[71] Topics discussed include issues on fiscal sustainability, sovereign credit risk, financial innovation, global liquidity, and regulatory reforms.

for the activation of swap transactions under the CMIM arrangement.

The BSP chaired the *Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Monetary and Financial Stability Committee (MFSC)*, which continued its vigilant surveillance of financial and economic developments in the East Asia-Pacific region. The BSP also initiated teleconferences and chaired meetings and workshops that provided the venue for EMEAP members to exchange their views on various issues, including (a) global and regional financial and economic developments as well as policy implications for EMEAP economies; and (b) the enhancement of macroeconomic surveillance and crisis management frameworks for the East Asia-Pacific region, among others.

To further strengthen relations with other Asian central banks, the BSP expanded its bilateral relationships with ASEAN central banks through the inaugural bilateral meeting with Bank Negara Malaysia (BNM) on 26 April 2011 in Kuala Lumpur, Malaysia.

Interregional cooperation through the exchange of information and experiences was also sustained in 2011. As a collaborating member of the CEMLA, the BSP participated in various training programs, conferences, and organizational meetings. Meanwhile, as the only collaborating member central bank from Asia, the BSP coordinated the co-chairmanship on the Asian side of the VI Meeting of Central Bank Governors from Asia, Latin America and the Caribbean (ALAC) held at the sidelines of the CEMLA meetings.

Financial Arrangements and Contributions

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

The BSP made financial contributions and participated in fund-pooling arrangements to foster confidence in the international monetary system, serve as precautionary measures to arrest vulnerabilities in the external sector, and address potential financial difficulties encountered by other member states.

In 2011, the BSP released its first annual installment amounting to SDR380,000 (equivalent to US$590,725.30), representing the Philippines' subsidy contribution to the IMF concessional lending instrument and financing framework for low-income countries.

As of end 2011, six countries had drawn from funds contributed by the Philippines to the IMF's Financial Transactions Plan[72] (FTP). More than half of these funds were disbursed to European countries in an effort to address the current sovereign debt crisis.

The MB also approved the BSP's participation in the New Arrangements to Borrow (NAB)[73] facility of up to a maximum credit commitment of SDR340 million (US$533.5 million).

The BSP welcomed the increase in the quota size that will raise IMF financing sources as well as facilitate the shift in quota shares to dynamic emerging markets and developing countries. The 2008 ad hoc quota increase took effect on 3 March 2011 and the Philippines paid its quota increase on 11 July 2011, raising the country's quota level in the Fund from SDR879.9 million to SDR1,019.3 million, equivalent to a quota share increase from 0.404 percent to 0.428 percent. The increase in quota will result in an increase in the amount of financing that the Philippines can obtain from the IMF should the country face balance-of-payments difficulties.

Meanwhile, the BSP, as shareholder of the BIS, agreed along with other shareholders during the 81st BIS Annual General Meeting in June 2011, for the payment of dividend for 2011 in the amount of SDR295 per share.

In time for the CEMLA Assembly meeting in September 2011, the MB approved the increase in the BSP's quota contribution to CEMLA from US$2,000 to US$5,000 starting 2012.

Regional Bond Market Development

In support of initiatives to enable investors to raise longer-term investments, reduce currency and maturity mismatches, and deepen financial integration in the region,

---

[72] 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.

[73] The NAB is a credit arrangement under which member countries or their financial institutions stand ready to provide loan resources to the IMF aimed at forestalling or coping with a situation that could impair the international monetary system.

the BSP continued to participate in activities geared towards the development of the Asian bond market.

Under the *ASEAN Working Committee on Capital Market Development (WC-CMD)*, the BSP worked with other ASEAN member countries on a work program which includes: (a) focus on key priorities for ASEAN bond market development and (b) development of individual country roadmaps for ASEAN Member States to identify capacity-building requirements.

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

In the case of the *ASEAN+3 Asian Bond Market Initiative (ABMI)*, the BSP participated in the various undertakings under the following ABMI Task Forces (TFs): (a) TF 1 on promoting issuance of local currency denominated bonds; (b) TF 2 on facilitating demand for local currency denominated bonds; (c) TF 3 on improving regulatory frameworks; and (d) TF 4 on improving related bond market infrastructure. The BSP also actively supported the extension of technical assistance projects on bond market development as facilitated under the ABMI Technical Assistance Coordination Team (TACT) funded by the Japan-ASEAN Fund for Technical Assistance (JAFTA).

The BSP continued to support the EMEAP's *Asian Bond Fund (ABF)* Initiative, consistent with medium-term goals of developing regional bond markets and strengthening financial cooperation within the East Asia-Pacific region. The BSP was also involved in 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)*. The BSP strongly supported the training and research activities of the SEACEN Research and Training Centre, which 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 also shared its expertise in key central banking areas by providing speakers in various SEACEN-related activities.

Regional Financial Integration Efforts

Towards the Attainment of the ASEAN Economic Community (AEC)

The BSP will co-chair WC-CAL with BOT

The BSP ended in March 2011 its two-year term as Chair of 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. For 2011-2013, the BSP will co-chair the WC-CAL with the Bank of Thailand (BOT).

In order to foster harmonized initiatives on capital account liberalization and development, the BSP continued to coordinate with the *ASEAN Capital Market Forum (ACMF)*. The ACMF facilitated the launch of the ASEAN Exchanges as a brand on 8 April 2011. The ASEAN Exchanges Linkage, ASEAN Corporate Governance Ranking Initiative, and Framework for Mutual Recognition will be completed in 2012.

Meanwhile, under the *Working Committee on Financial Services Liberalization (WC-FSL)*, the BSP continued its active engagement in the discussions of commitments under the *ASEAN Framework Agreement in Services (AFAS)*. The Philippines' commitments in financial services in the five rounds of AFAS negotiations cover banking, insurance, and securities.

To ensure the attainment of the AEC by 2015, the *Task Force on Milestones toward ASEAN Monetary and Financial Integration (TF Milestones*) under the ASEAN Central Bank Forum completed 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. Completed and endorsed by the ASEAN Central Bank Governors in April 2011, the study found that ASEAN Member Countries would be starting from different initial conditions and would thus require different preconditions to achieve specific milestones towards financial integration. Hence, the Governors approved the ASEAN Financial Integration Framework (AFIF) where each Member Country is given flexibility to define the milestones and timelines to achieve a semi-integrated financial market by 2020. The Governors also agreed on the establishment of a Senior Level Committee (SLC) to map out the implementation plan for the key milestones and timelines under the AFIF and monitor their progress.

Global and Regional Trade Negotiations

The BSP is involved actively in the development of the various ASEAN FTAs

Under the ASEAN process, the Philippines continued to engage with Dialogue Partners in free trade negotiations, with the BSP taking the lead on monetary and financial concerns. As of 2011, the ASEAN has initiated free-trade agreements (FTAs) with China, India, Japan, the Republic of Korea, Australia, and New Zealand.[74]

On the global front, the BSP participated in World Trade Organization (WTO)-related activities, including contributing technical inputs for the 4th WTO Trade Policy Review scheduled on 20-22 March 2012. In 2011, the Philippines completed the ratification process of the WTO 5th Protocol, which embodies the results of the 1997 negotiations on financial services in the WTO. The Philippine commitments under the Protocol, which include commitments in banking services, took effect on 16 March 2011.

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 ongoing recovery in EMs; (b) lend its perspectives on critical issues affecting the region and individual countries; and (c) strengthen ties with other central banks and financial authorities by performing a leadership role in various bodies.

[74] The ASEAN-Australia-New Zealand FTA was signed in February 2009 and entered into force on 1 January 2010. The ASEAN-China FTA (ACFTA) and the ASEAN-Korea FTA (AKFTA) were also implemented starting 1 January 2010. The ASEAN has completed negotiations on the Second Package of Commitments under the ASEAN-China Trade in Services Agreement. Negotiations with India on the ASEAN-India Agreement on Services are still ongoing.

International Cooperation Events Hosted or Chaired by the BSP in 2011		
Conference/Workshop/Meeting	**Date & Venue**	**Extent of BSP Participation**
18th Meeting of the Working Committee on Capital Account Liberalization (WC-CAL)	16 February 2011, Jakarta, Indonesia	Chair
Seminar on International Relations in a Central Bank	21-23 February 2011, Manila, Philippines	Co-host with Banque de France
5th Meeting of ASEAN Central Banks and Finance Deputies on ASEAN Financial Integration	26 March 2011, Manila, Philippines	Host and Co-Chair
8th MFSC Workshop	29 March 2011, Seoul, Korea	Chair
9th MFSC Meeting	12 May 2011, Perth, Australia	Chair
1st Meeting of the ASEAN Senior Level Committee on Financial Integration	10-11 June 2011, Manila, Philippines	Host and Co-Chair
19th Meeting of the WC-CAL	13 July 2011, Kuala Lumpur, Malaysia	Co-Chair
20th Meeting of the WC-CAL	26 August 2011, Singapore	Co-Chair
2nd Meeting of the ASEAN Senior Level Committee on Financial Integration	17 September 2011, Bangkok, Thailand	Co-Chair
9th MFSC Workshop	18 October 2011, Davao City, Philippines	Chair
10th MFSC Meeting	18 November 2011, Auckland, New Zealand	Chair
Regional Economic Outlook: Asia and Pacific Manila Launch	17 October 2011, Manila, Philippines	Host
Courtesy visit of IMF Deputy Managing Director Naoyuki Shinohara to President Benigno S. Aquino III	4 November 2011, Manila, Philippines	Host
PHL-IMF Joint Conference on Policy Challenges for the Philippines in an Uncertain World	13 December 2011, Manila, Philippines	Host

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-November 2011)

The BSP's net worth declines

The BSP's net worth recorded a decline in 2011 as a result of foreign exchange fluctuations amid strong capital inflows, which led to the erosion of its retained earnings. Based on preliminary and unaudited financial statements, the BSP's assets as of end-November 2011 reached ₱3,797.4 billion, 20.7 percent or ₱651.5 billion higher than the year-ago level. The BSP's liabilities increased by ₱707.6 billion or 24.0 percent y-o-y to ₱3,659.7 billion. Consequently, the BSP's net worth fell further to ₱137.7 billion compared to the year-ago level of ₱193.8 billion, as higher growth in liabilities compared to assets was registered during the period.

Balance Sheet of the BSP
in Php Billions

	November	
	2011*	**2010**
Assets	3,797.4	3,145.9
Liabilities	3,659.7	2,952.1
Net Worth	137.7	193.8

* Unaudited

The y-o-y expansion of BSP assets was primarily due to the steady build-up of international reserves, which accounted for around 87 percent of total assets. The ₱642.7 billion expansion of international reserves was principally due to continued capital inflows, higher receipts from investment income, and increased gold holdings.

During the review period, the BSP's liabilities likewise rose due mainly to increased deposits, reflecting continued liquidity management operations by the BSP. In particular, the balance of the Special Deposit Accounts (SDA) facility registered an increase of ₱508.5 billion to ₱1,688.0 billion from ₱1,179.5 billion posted a year ago. The expansion of BSP liabilities could also be traced to the increase in currency issued, derivatives liability, and other obligations, including dividends payable and liabilities arising from the revaluation of foreign currency accounts.

The BSP Net Income (January-November 2011)

The BSP registers a lower net loss and maintains a positive operating income

The BSP incurred financial losses in 2011 in pursuit of its mandate of promoting price and financial stability, as set out in the New Central Bank Act (Republic Act No. 7653).

Based on preliminary and unaudited data, total revenues for the January to November period amounted to ₱113.0 billion, 5.9 percent or ₱6.3 billion higher than the level posted during the same period last year. Miscellaneous income, which accounted for about 62 percent of the total revenue, also increased by 5.9 percent to ₱70.8 billion due to higher trading gains from foreign exchange fluctuations. Moreover, total interest income went up by 6.1 percent to ₱41.9 billion from the previous year's level of ₱39.5 billion, principally on account of higher interest earned from international reserves amounting to ₱7.0 billion.

Income Statement of the BSP
in Php Billions

	January to November	
	2011*	**2010**
Revenue	113.0	106.7
Less: Expenses	107.1	74.6
Net Income Before FX Gains/(Losses)	6.0	32.1
Add/Less: Gains/(Losses) on FX Rate and Price Fluctuations	(38.3)	(80.3)
Less: Provision for Income Tax	0.0	0.0
Net Income (Loss) Available for Distribution	(32.3)	(48.2)

* Unaudited
Figures may not add up to totals due to rounding.

Total expenditures amounting to ₱107.1 billion were also higher by 43.6 percent or ₱32.4 billion relative to the level posted in the same period a year ago. The y-o-y expansion was due mainly to higher interest expense, which climbed by 47.9 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 ₱3.8 billion or ₱1.5 billion higher compared to the year-ago remittance of ₱2.3 billion.

Nonetheless, the BSP's operating income remained positive at ₱6.0 billion. This was, however, lower than the ₱32.1 billion operating income posted in the previous year. While the operating income remained adequate to cover operating expenses, the BSP's FX operations to ensure orderly FX market conditions amid the continued surge in capital inflows took their toll on the BSP's finances. From January to November 2011, the BSP realized foreign exchange losses amounting to ₱38.3 billion, resulting in a net loss of ₱32.3 billion for the period. This was nonetheless lower than the ₱48.2 billion net loss incurred during the same period in 2010.

A central bank's financial position is not the principal measure of success in the performance of its mandate. Because its mandate is typically specified as the maintenance of price and financial stability, a central bank is tasked to stabilize the economy in the presence of macroeconomic shocks. Such stabilization efforts typically involve costs to the central bank. Moreover, central bank financial losses are not unique to the Philippines. Many central banks in the Asian region have also incurred losses related to the accumulation of foreign exchange reserves along with rising sterilization costs amid an environment of surging capital flows to emerging economies.

Nevertheless, efforts are being taken to ensure the BSP's financial viability. In this regard, the full capitalization of the BSP is being pursued to allow the BSP to operate fully without being constrained by balance sheet weaknesses or operating losses. In fact, in November 2011, the BSP already received from the Executive Branch the amount of ₱10 billion as partial settlement of the NG's outstanding ₱40 billion subscription to the BSP. The full capitalization of the BSP needs to be ensured to enhance the viability and credibility of its various policy tools. It may be noted that a central bank's sound capitalization is critical for the effective pursuit of its mandate as well as for political economy and credibility considerations.

The BSP has strongly lobbied for the amendment of the BSP Charter to authorize the BSP to issue its own debt securities, which will help lower the cost of sterilization. It should be noted that, with the exception of the BSP, other central banks across Asia are allowed to issue their own debt instruments for the purposes of implementing monetary policy, managing liquidity, and promoting the development of bond markets.[75]

[75] In particular, the central banks of China, Hong Kong, Indonesia, Korea, Malaysia, Singapore, Thailand, and Vietnam are all authorized to issue debt securities.

Statistical Tables

1 GROSS NATIONAL INCOME (GNI) BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos; at constant 2000 prices

	2009	2010	2011	Percent Change 2009	2010	2011
Agriculture, Fishery and Forestry	663,744	662,665	679,999	-0.7	-0.2	2.6
Industrial Sector	1,666,601	1,859,515	1,894,765	-1.9	11.6	1.9
Mining and Quarrying	59,130	65,898	68,598	16.1	11.4	4.1
Manufacturing	1,137,534	1,264,523	1,323,574	-4.8	11.2	4.7
Construction	284,994	325,820	305,064	6.8	14.3	-6.4
Electricity, Gas and Water	184,943	203,274	197,528	-0.9	9.9	-2.8
Service Sector	2,966,895	3,179,359	3,338,786	3.4	7.2	5.0
Transportation, Communication and Storage	423,398	427,766	444,451	-0.1	1.0	3.9
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	875,616	948,743	973,462	1.4	8.4	2.6
Financial Intermediation	340,329	374,716	399,559	5.5	10.1	6.6
R. Estate, Renting & Bus. Activity	547,866	588,947	634,456	4.1	7.5	7.7
Public Administration & Defense: Compulsory Social Security	241,009	255,087	263,339	6.1	5.8	3.2
Other Services	538,677	584,100	623,518	6.5	8.4	6.7
Gross Domestic Product	5,297,240	5,701,539	5,913,549	1.1	7.6	3.7
Net Primary Income from the rest of the world	1,691,527	1,859,847	1,843,117	25.0	10.0	-0.9
Gross National Product	6,988,767	7,561,386	7,756,666	6.1	8.2	2.6

Note: The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.
Numbers may not add up to total due to rounding.
Source: NSCB

1a GROSS NATIONAL INCOME (GNI) BY EXPENDITURE SHARES
for periods indicated
in million pesos; at constant 2000 prices

Item	2009	2010	2011	Percent Change 2009	Percent Change 2010	Percent Change 2011
Household Final Consumption Expenditure	3,817,908	3,945,827	4,186,196	2.3	3.4	6.1
Government Consumption	548,297	570,208	566,302	10.9	4.0	-0.7
Capital Formation	899,333	1,183,650	1,315,003	-8.7	31.6	11.1
Fixed Capital	992,947	1,182,206	1,213,799	-1.7	19.1	2.7
Construction	417,708	490,659	470,303	1.6	17.5	-4.1
Durable Equipment	452,560	567,833	617,416	-4.9	25.5	8.7
Breeding Stocks and Orchard Development	98,592	98,928	98,592	-3.0	0.3	-0.3
Intellectual Property Products	24,087	24,785	27,489			
Changes in Stocks	-93,614	1,444	101,204	-262.8	101.5	6,909.5
Exports	2,385,812	2,886,133	2,777,837	-7.8	21.0	-3.8
Less: Imports	2,354,109	2,884,280	2,940,358	-8.1	22.5	1.9
Statistical Discrepancy	0.2	0.2	8,567.9	139.9	32.4	3,960,114.5
Gross Domestic Product	**5,297,240**	**5,701,539**	**5,913,549**	**1.1**	**7.6**	**3.7**
Net Primary Income from the rest of the world	1,691,527	1,859,847	1,843,117	25.0	10.0	-0.9
Gross National Product	**6,988,767**	**7,561,386**	**7,756,666**	**6.1**	**8.2**	**2.6**

Note: The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.
Numbers may not add up to total due to rounding.
Source: NSCB

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS

for periods indicated

				Percent Change	
	2009	2010	2011	2010	2011
Employment Status [1]					
Labor Force (In Thousands)	37,892	38,905	40,006	2.7	2.8
Employed	35,061	36,035	37,192	2.8	3.2
Unemployed	2,831	2,859	2,814	1.0	-1.6
Underemployed	6,692	6,762	7,164	1.0	5.9
Employment Rate (%)	92.5	92.7	93.0		
Unemployment Rate (%)	7.5	7.3	7.0		
Underemployment Rate (%)	19.1	18.8	19.3		
Overseas Employment (Deployed)	1,422,586 r	1,470,826 r		3.4	
Land-Based	1,092,162	1,123,676		2.9	
Sea-Based	330,424	347,150		5.1	
Strikes					
Number of new strikes declared	4	8	2	100.0	-75.0
Number of workers involved	1,510	3,034	3,823	100.9	26.0
Legislated Wage Rates [2]					
In Nominal Terms					
Non-Agricultural					
National Capital Region (NCR)	382.00	404.00	426.00	5.8	5.4
Regions Outside NCR (ONCR)	320.00	320.00	337.00	0.0	5.3
Agricultural					
NCR					
Plantation	345.00	367.00	389.00	6.4	6.0
Non-Plantation	345.00	367.00	389.00	6.4	6.0
ONCR					
Plantation	295.0	295.0	312.0	0.0	5.8
Non-Plantation	275.0	275.0	292.0	0.0	6.2
In Real Terms (at 2000 prices)					
Non-Agricultural					
National Capital Region (NCR)	238.45	244.11	248.40	2.4	1.8
Regions Outside NCR (ONCR)	198.39	192.08	194.12	-3.2	1.1
Agricultural					
NCR					
Plantation	215.36	221.75	226.82	3.0	2.3
Non-Plantation	215.36	221.75	226.82	3.0	2.3
Regions Outside NCR (ONCR)					
Plantation	182.09	177.07	179.72	-2.8	1.5
Non-Plantation	170.49	165.07	168.20	-3.2	1.9

[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 20 October 2004 and the 2000 census-based population projections was adopted to generate 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.*

r *Revised*

Sources: BLES, NSO, NCMB, POEA,NWPC

3 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, METRO MANILA AND ALL AREAS OUTSIDE METRO MANILA

for periods indicated
2006=100

Commodity Group	Philippines				Metro Manila				All Areas Outside Metro Manila			
	CPI		Percent Change		CPI		Percent Change		CPI		Percent Change	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
All Items	**120.5**	**126.2**	**3.9**	**4.7**	**116.3**	**120.9**	**3.7**	**4.0**	**121.7**	**127.8**	**3.8**	**4.9**
Food and Non-Alcoholic Beverages	129.5	136.6	4.0	5.5	125.3	131.1	2.9	4.6	130.4	137.7	**4.2**	5.6
Alcoholic Beverages, Tobacco and Narcotics	116.4	122.6	3.0	5.3	115.6	118.8	2.3	2.8	116.5	123.4	3.1	5.8
Non-Food	114.6	119.4	3.6	4.3	112.6	116.8	4.0	3.8	115.4	120.5	3.5	4.4
Clothing and Footware	114.2	118.4	2.7	3.7	116.3	120.1	3.3	3.3	113.5	117.8	2.5	3.8
Housing, Water, Electricity, Gas and Other Fuels	114.5	120.5	5.1	5.1	113.8	118.9	6.6	4.4	114.7	121.2	4.4	5.5
Furnishing, Household Equipment and Routing Maintenance of the House	114.0	116.8	2.5	2.5	111.0	112.3	1.9	1.2	115.0	118.4	2.7	3.0
Health	120.4	124.3	3.8	3.2	123.3	127.9	4.1	3.6	119.5	123.3	3.7	3.1
Transport	115.6	122.6	3.6	6.1	106.1	112.9	4.7	6.3	118.5	125.7	3.3	6.1
Communication	92.6	92.4	-1.0	-0.2	93.8	93.4	-1.4	-0.4	92.1	91.9	-0.9	-0.2
Recreation ang Culture	105.2	106.7	0.6	1.4	106.8	107.4	0.7	0.6	104.7	106.5	0.6	1.7
Education	124.3	130.2	4.4	4.7	128.6	133.5	3.3	3.8	123.1	129.3	4.7	5.0
Restaurants and Miscellaneous Goods and Services	116.0	119.3	2.6	2.8	112.4	115.9	1.1	3.1	117.6	120.8	3.2	2.8

Source: NSO

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	Actual		Program	Actual Vs. Program	Annual Change
	2010	2011	2011	(%)	(%)
Revenues	**1,207,926**	**1,359,942**	**1,411,304**	**-3.6**	**12.6**
Tax Revenues	1,093,643	1,202,066	1,273,241	-5.6	9.9
Bureau of Internal Revenue	822,623	924,146	940,000	-1.7	12.3
Bureau of Customs	259,241	265,108	320,000	-17.2	2.3
Other Offices	11,779	12,812	13,240	-3.2	8.8
Non-tax Revenues	114,283	157,876	138,063	14.4	38.1
of w/c: Bureau of the Treasury	54,315	75,236	69,996	7.5	38.5
Expenditures	**1,522,384**	**1,557,696**	**1,711,304**	**-9.0**	**2.3**
of which:					
Allotments to Local Government Units	279,552	315,114	301,724	4.4	12.7
Interest Payments	294,244	278,996	321,597	-13.2	-5.2
Equity and Net Lending	11,407	30,944	24,769	24.9	171.3
Surplus/Deficit (-)	**-314,458**	**-197,754**	**-300,000**	**34.1**	**37.1**
Financing	**351,646**	**115,263**	**312,285**	**-63.1**	**-67.2**
External Borrowings (Net)	133,048	51,160	-463	11,149.7	-61.5
Domestic Borrowings (Net)	218,598	64,103	312,748	-79.5	-70.7
Total Change in Cash: Deposit/Withdrawal (-)	37,166	-79,665	2,844	-2,901.2	-314.3
Budgetary	37,188	-82,491	12,285	-771.5	-321.8
Non-Budgetary [1]	-22	2,826	-9,441	129.9	12,945.5

[1] Refer 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 relationship in the movements of the cash accounts

Source: BTr

5 DEPOSITORY CORPORATIONS SURVEY [p]

as of periods indicated
in million pesos

Item	LEVELS				FLOWS			GROWTH RATES (%)		
	Nov-10	Dec-10	Nov-11	Dec-11	Dec11-Nov11	Nov11-Nov10	Dec11-Dec10	Dec11-Nov11	Nov11-Nov10	Dec11-Dec10
1. NET FOREIGN ASSETS	**2,831,182**	**2,849,243**	**3,271,788**	**3,251,134**	**-20,654**	**440,605**	**401,891**	**-0.6**	**15.6**	**14.1**
A. Bangko Sentral ng Pilipinas	**2,651,185**	**2,710,724**	**3,304,498**	**3,287,478**	**-17,020**	**653,313**	**576,754**	**-0.5**	**24.6**	**21.3**
Net International Reserves	**2,672,814**	**2,732,391**	**3,323,997**	**3,307,099**	**-16,898**	**651,183**	**574,708**	**-0.5**	**24.4**	**21.0**
Foreign Assets	2,673,728	2,732,539	3,324,877	3,307,207	-17,670	651,149	574,668	-0.5	24.4	21.0
Foreign Liabilities	914	148	880	108	-772	-34	-40	-87.7	-3.7	-27.0
Medium & Long-Term Foreign Liabilities	**21,629**	**21,667**	**19,499**	**19,621**	**122**	**-2,130**	**-2,046**	**0.6**	**-9.8**	**-9.4**
B. Other Depository Corporations	**179,997**	**138,519**	**-32,711**	**-36,345**	**-3,634**	**-212,708**	**-174,863**	**-11.1**	**-118.2**	**-126.2**
Foreign Assets	741,722	690,804	639,666	599,087	-40,579	-102,056	-91,717	-6.3	-13.8	-13.3
Foreign Liabilities	561,724	552,285	672,376	635,431	-36,945	110,652	83,146	-5.5	19.7	15.1
2. NET DOMESTIC ASSETS	**2,426,120**	**2,651,665**	**2,253,132**	**2,494,637**	**241,505**	**-172,988**	**-157,029**	**10.7**	**-7.1**	**-5.9**
A. Net Claims on Residents (Net Domestic Credits)	**4,181,967**	**4,310,447**	**4,718,413**	**4,945,411**	**226,998**	**536,446**	**634,964**	**4.8**	**12.8**	**14.7**
Net Claims on the Public Sector (Public Sector)	**1,334,694**	**1,379,769**	**1,412,515**	**1,554,354**	**141,840**	**77,821**	**174,586**	**10.0**	**5.8**	**12.7**
National Government	988,755	1,027,840	951,256	1,092,443	141,188	-37,499	64,604	14.8	-3.8	6.3
Credits	1,402,223	1,390,508	1,347,011	1,389,356	42,345	-55,212	-1,152	3.1	-3.9	-0.1
CB BOL	0	0	0	0	0	0	0	-	-	-
Foreign exchange Receivables	0	0	0	0	0	0	0	-	-	-
T-IMF accounts	-52,684	-52,779	-62,429	-62,131	298	-9,745	-9,352	0.5	-18.5	-17.7
Deposits	-360,785	-309,890	-333,326	-234,782	98,545	27,458	75,108	29.6	7.6	24.2
Local Government and Other Public Entities	345,939	351,929	461,259	461,911	652	115,320	109,982	0.1	33.3	31.3
Claims on Other Sectors (Private Sector)	**2,847,273**	**2,930,678**	**3,305,898**	**3,391,056**	**85,158**	**458,625**	**460,378**	**2.6**	**16.1**	**15.7**
B. Net Other Items	**-1,755,846**	**-1,658,781**	**-2,465,281**	**-2,450,774**	**14,507**	**-709,435**	**-791,993**	**0.6**	**-40.4**	**-47.7**
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	**5,257,302**	**5,500,908**	**5,524,919**	**5,745,770**	**220,851**	**267,617**	**244,862**	**4.0**	**5.1**	**4.5**
A. M4	**5,199,930**	**5,446,777**	**5,471,695**	**5,680,347**	**208,652**	**271,765**	**233,570**	**3.8**	**5.2**	**4.3**
Broad-Money Liabilities (M3)	**4,143,875**	**4,396,812**	**4,442,355**	**4,674,258**	**231,903**	**298,480**	**277,446**	**5.2**	**7.2**	**6.3**
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	1,262,449	1,345,935	1,395,061	1,492,404	97,343	132,612	146,470	7.0	10.5	10.9
Other Deposits (Quasi-Money)	2,798,895	2,960,294	2,959,598	3,093,925	134,327	160,703	133,631	4.5	5.7	4.5
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	82,532	90,583	87,696	87,929	233	5,164	-2,654	0.3	6.3	-2.9
Transferable & Other Deposits in Foreign Currency (FCDs-Res)	**1,056,054**	**1,049,965**	**1,029,340**	**1,006,089**	**-23,251**	**-26,714**	**-43,877**	**-2.3**	**-2.5**	**-4.2**
B. Liabilities Excluded from Broad-Money (Other Liabilities)	**57,373**	**54,131**	**53,225**	**65,423**	**12,198**	**-4,148**	**11,292**	**22.9**	**-7.2**	**20.9**
Bills Payable	55,478	52,236	51,330	63,528	12,198	-4,148	11,292	23.8	-7.5	21.6
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	**1,262,449**	**1,345,935**	**1,395,061**	**1,492,404**	**97,343**	**132,612**	**146,470**	**7.0**	**10.5**	**10.9**
Currency Outside Depository Corporations (Currency in Circulation)	416,889	478,489	445,673	518,554	72,880	28,785	40,065	16.4	6.9	8.4
Transferable Deposits (Demand Deposits)	845,560	867,446	949,388	973,851	24,463	103,828	106,405	2.6	12.3	12.3
Other Deposits (Quasi-Money)	**2,798,895**	**2,960,294**	**2,959,598**	**3,093,925**	**134,327**	**160,703**	**133,631**	**4.5**	**5.7**	**4.5**
Savings Deposits	1,744,361	1,797,193	1,893,565	2,020,384	126,819	149,204	223,191	6.7	8.6	12.4
Time Deposits	1,054,534	1,163,101	1,066,033	1,073,541	7,508	11,499	-89,560	0.7	1.1	-7.7

[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]		
	2009	2010	2011	2009	2010	2011
Borrowing Rates of Banks						
Interbank Call Loans	4.8055	4.2202	4.5646	1.6055	0.4204	0.1646
Savings Deposits [2]	2.0680	1.6000	1.6200	-1.1110	-2.2000	-2.7800
Time Deposits [2]						
(All Maturities)	2.6820	2.9910	2.8420	-0.5180	-0.8090	-1.5580
Manila Reference Rates [3]						
(All Maturities)	5.2500	4.8125	4.8125 [p]	2.0500	1.0125	0.4125
Lending Rates						
All Maturities [4]	8.5400	7.6650	6.6340	5.3400	3.8650	2.2340
High [5]	9.2470	8.6981	7.7469	6.0470	4.8981	3.3469
Low [6]	7.3105	6.5469	5.6178	4.1105	2.7469	1.2178
Bangko Sentral Rates						
R/P (Overnight)	6.6098	6.0000	6.2500	3.4098	2.2000	1.8500
R/P (Term)	6.6777	N.T.	N.T.	3.4777	N.T.	N.T.
RR/P (Overnight)	4.3897	4.0000	4.3480	1.1897	0.2000	-0.0520
RR/P (Term)	4.4468	4.0957	4.5564	1.2468	0.2957	0.1564
Rediscounting	3.9230	3.9580	4.3550	0.7230	0.1580	-0.0450
Rate on Government Securities						
Treasury Bills (All Maturities)	4.4560	4.0340	1.8670	1.2560	0.2340	-2.5330
91-Days	4.1860	3.7280	1.3710	0.9860	-0.0720	-3.0290
182-Days	4.3950	3.9650	1.6920	1.1950	0.1650	-2.7080
364-Days	4.5910	4.2570	2.2640	1.3910	0.4570	-2.1360
Government Securities in the Secondary Market [8]						
3 Months	4.2769	1.3192	1.6581	1.0769	-2.4808	-2.7419
6 Months	4.4119	1.8077	1.7542	1.2119	-1.9923	-2.6458
1-Year	4.8104	2.5192	1.9715	1.6104	-1.2808	-2.4285
2-Years	5.1077	3.4846	2.6673	1.9077	-0.3154	-1.7327
3-Years	5.6058	4.2288	3.4423	2.4058	0.4288	-0.9577
4-Years	6.1115	4.5019	4.7885	2.9115	0.7019	0.3885
5-Years	6.3615	5.0308	5.0823	3.1615	1.2308	0.6823
7-Years	7.3923	5.3719	5.2650	4.1923	1.5719	0.8650
10-Years	8.1115	6.1000	5.4135	4.9115	2.3000	1.0135
20-Years	9.1477	8.1692	6.5827	5.9477	4.3692	2.1827
25-Years	9.3846	8.1727	6.5731	6.1846	4.3727	2.1731

[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 all commercial 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
2011	**Ave**	**43.3131**	**0.5436**	**69.4551**	**5.5645**	**48.9662**	**43.8119**	**34.4567**	**44.6817**	**114.9035**	**11.5500**	**34.3201**	**0.0049**	**1.4219**	**11.7930**	**60.2791**
	Jan	44.1722	0.5350	69.6606	5.6790	46.2116	44.4570	34.3415	44.0517	117.1804	11.7796	34.2085	0.0049	1.4482	12.0268	59.0151
	Feb	43.7031	0.5293	70.4721	5.6109	46.0159	44.2020	34.2489	44.0366	115.9286	11.6540	34.1152	0.0049	1.4237	11.8993	59.6914
	Mar	43.5160	0.5335	70.3743	5.5850	47.3595	44.5723	34.3116	43.9773	115.4310	11.6040	34.1769	0.0050	1.4333	11.8486	60.9427
	Apr	43.2402	0.5190	70.6571	5.5619	48.0457	45.0826	34.6324	45.6185	114.7104	11.5310	34.4943	0.0050	1.4375	11.7736	62.3995
	May	43.1307	0.5317	70.5236	5.5488	49.3740	44.6060	34.8410	46.0878	114.4305	11.5015	34.7008	0.0050	1.4284	11.7432	61.8629
	Jun	43.3657	0.5386	70.4189	5.5726	51.5988	44.3832	35.1330	45.9843	115.0533	11.5644	34.9913	0.0051	1.4232	11.8072	62.4391
	Jul	42.8088	0.5389	69.0626	5.4967	51.9290	44.7758	35.1642	46.0799	113.5634	11.4159	35.0203	0.0050	1.4211	11.6557	61.1949
	Aug	42.4209	0.5505	69.4325	5.4408	54.6484	43.2776	35.0881	44.5780	112.5439	11.3124	34.9436	0.0050	1.4214	11.5501	60.7724
	Sep	43.0256	0.5599	67.9974	5.5202	49.5972	43.0748	34.4720	44.1290	114.1370	11.4726	34.3344	0.0049	1.4171	11.7147	59.3496
	Oct	43.4514	0.5669	68.3653	5.5856	48.3373	42.4633	33.9693	43.8464	115.2725	11.5864	33.8370	0.0049	1.4070	11.8306	59.4688
	Nov	43.2745	0.5587	68.3853	5.5605	47.6337	42.2048	33.5505	43.6286	114.7998	11.5394	33.4209	0.0048	1.3992	11.7824	58.6807
	Dec	43.6486	0.5606	68.1115	5.6121	46.8433	42.6439	33.7275	44.1626	115.7911	11.6391	33.5977	0.0048	1.4032	11.8840	57.5321

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]
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		**13.30**	**36.63**	**77.72**	**84.08**	**137.65**	**173.16**
	Jan	12.79	36.50	78.23	79.99	136.89	173.97
	Feb	12.87	36.54	78.18	80.57	136.06	172.85
	Mar	13.10	36.46	77.75	81.98	136.52	172.64
	Apr	13.55	36.80	78.34	85.21	137.31	172.62
	May	13.55	36.64	77.76	85.23	138.18	175.67
	Jun	13.44	36.29	76.50	84.82	138.01	173.32
	Jul	13.12	35.97	75.67	83.93	137.21	170.49
	Aug	13.32	36.42	76.73	85.39	139.27	173.63
	Sep	13.50	36.90	77.85	85.52	138.75	173.62
	Oct	13.40	37.09	78.67	84.43	137.36	173.50
	Nov	13.46	37.01	78.58	85.64	138.61	173.24
	Dec	13.52	36.92	78.42	86.27	137.62	172.39
2011		**13.37**	**36.64**	**77.93**	**86.20**	**137.47**	**173.17**
	Jan	13.38	36.52	78.10	85.36	135.50	170.56
	Feb	13.41	36.74	78.43	86.00	136.33	171.57
	Mar	13.32	36.52	77.37	85.20	136.08	170.14
	Apr	13.33	36.29	77.12	85.29	135.08	168.62
	May	13.32	36.10	76.61	85.32	135.91	171.93
	Jun	13.21	35.96	76.44	85.06	136.54	172.65
	Jul	13.39	36.17	77.01	87.41	137.66	174.02
	Aug	13.42	36.50	77.50	87.49	138.98	175.06
	Sep	13.41	36.80	78.07	86.47	138.52	174.59
	Oct	13.31	37.19	78.76	86.08	138.95	175.46
	Nov	13.43	37.46	79.80	87.34	140.78	176.99
	Dec	13.46	37.46	79.98	87.35	139.37	176.43

[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 2010 - 2011
in million pesos

	LEVELS		GROWTH RATE
	2010	2011	**(%)**
T O T A L	3,827,739	4,067,776	6.3
Demand Deposits	867,446	973,851	12.3
Savings Deposits	1,797,193	2,020,384	12.4
Time Deposits	1,163,100	1,073,541	-7.7

[p] Preliminary

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]

as of periods indicated

in billion pesos

Institutions	2010	2011	% Change
Total	**9,081.6**	**9,583.4 [p]**	**5.5**
Banks	7,230.2	7,641.2 [p]	5.7
Universal and Commercial Banks [2]	6,423.7	6,833.0	6.4
Thrift Banks [2]	626.4	623.6	-0.5
Rural Banks	180.1	184.6 [a]	2.5
Non-Banks [3]	1,851.3	1,942.2 [b]	4.9

[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-June 2011

[b] As of end-September 2011

[p] Preliminary

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

as of periods indicated

Institutions	2010	2011	% Change
Total	**24,874**	**26,177**	**5.2**
Head Offices	7,390	7,422	0.4
Branches/Agencies	17,484	18,755	7.3
Banks	8,869	9,050	2.0
Head Offices	758	726	-4.2
Branches/Agencies	8,111	8,324	2.6
Universal and Commercial Banks	4,679	4,857	3.8
Head Offices	38	38	-
Branches/Agencies	4,641	4,819	3.8
Thrift Banks	1,419	1,491	5.1
Head Offices	73	71	-2.7
Branches/Agencies	1,346	1,420	5.5
Savings and Mortgage Banks	939	979	4.3
Head Offices	29	28	-3.4
Branches/Agencies	910	951	4.5
Private Development Banks	313	344	9.9
Head Offices	19	19	-
Branches/Agencies	294	325	10.5
Stock Savings and Loan Associations	140	141	0.7
Head Offices	22	21	-4.5
Branches/Agencies	118	120	1.7
MicroFinance Banks	27	27	-
Head Offices	3	3	-
Branches/Agencies	24	24	-
Rural Banks	2,771	2,702	-2.5
Head Offices	647	617	-4.6
Branches/Agencies	2,124	2,085	-1.8
Non-Banks [2]	16,005	17,127	7.0
Head Offices	6,632	6,696	1.0
Branches/Agencies	9,373	10,431	11.3

[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

	2009		2010		2011 p		Percent Change 2010		Percent Change 2011	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Total	**540,824.4**	**994,156.4**	**429,566.1**	**1,207,383.7**	**1,056,595.7**	**1,422,591.3**	**-20.6**	**21.4**	**146.0**	**17.8**
Financial	3,574.8	79,240.3	4,087.7	159,896.9	4,123.6	170,154.2	14.3	101.8	0.9	6.4
Industrial	45,858.3	453,606.4	37,986.4	375,977.2	49,117.9	374,093.6	-17.2	-17.1	29.3	-0.5
Holding Firms	40,083.5	112,085.7	73,904.8	231,100.0	68,701.3	288,733.1	84.4	106.2	-7.0	24.9
Property	67,290.9	105,234.5	70,098.7	171,800.5	64,698.0	150,226.1	4.2	63.3	-7.7	-12.6
Services	131,637.5	161,345.0	36,705.2	192,723.4	44,323.0	235,887.4	-72.1	19.4	20.8	22.4
Mining & Oil	252,363.4	82,624.5	206,783.2	75,884.6	825,629.8	203,491.6	-18.1	-8.2	299.3	168.2
SME	16.0	20.0	0.3	1.2	2.2	5.4	-98.2	-94.1	639.9	358.7
Composite Index (PSEi)										
Average	**2,474.7**		**3,526.0**		**4,186.7**		**42.5**		**18.7**	
End of Period	**3,052.7**		**4,201.1**		**4,372.0**		**37.6**		**4.1**	

Source: PSE

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

	2009	2010	Change (%)
Current Account	**8,922**	**7,078**	**-20.7**
Goods and Services	-8,231	-11,857	-44.1
Export	64,843	62,681	-3.3
Import	73,074	74,538	2.0
Goods [1/]	-10,966	-15,450	-40.9
Credit: Exports	50,748	47,231	-6.9
Debit: Imports	61,714	62,681	1.6
Services	2,735	3,593	31.4
Credit: Exports	14,095	15,450	9.6
Debit: Imports	11,360	11,857	4.4
Income	505	1,293	156.0
Credit: Receipts	6,093	6,987	14.7
Debit: Disbursements	5,588	5,694	1.9
Current Transfers	16,648	17,642	6.0
Credit: Receipts	17,478	18,503	5.9
Debit: Disbursements	830	861	3.7
Capital and Financial Account	**7,388**	**5,228**	**-29.2**
Capital Account	98	171	74.5
Credit: Receipts	170	270	58.8
Debit: Disbursements	72	99	37.5
Financial Account	7,290	5,057	-30.6
Direct Investment	682	1,253	83.7
Debit: Assets, Residents' Investments Abroad	616	9	-98.5
Credit: Liabilities, Non-Residents' Investments in the Phil.	1,298	1,262	-2.8
Portfolio Investment	4,365	5,524	26.6
Debit: Assets, Residents' Investments Abroad	2,872	-395	-113.8
Credit: Liabilities, Non-Residents' Investments in the Phil.	7,237	5,129	-29.1
Financial Derivatives	-191	1,002	624.6
Debit: Assets, Residents' Investments Abroad	-429	-1,541	-259.2
Credit: Liabilities, Non-Residents' Investments in the Phil.	-620	-539	13.1
Other Investment	2,434	-2,722	-211.8
Debit: Assets, Residents' Investments Abroad	2,773	3,252	17.3
Credit: Liabilities, Non-Residents' Investments in the Phil.	5,207	530	-89.8
Net Unclassified Items	-1,988	-2,127	-7.0
Overall BOP Position	**14,308**	**10,179**	**-28.9**
Debit: Change in Reserve Assets	14,307	10,178	-28.9
Credit: Change in Reserve Liabilities	-1	-1	0.0
Use of Fund Credits	0	0	0.0
Short-term	-1	-1	0.0

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

Source: BSP

11a EXPORTS BY MAJOR COMMODITY GROUP

for periods indicated

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

Commodities	January-December						Growth Rates (%)		
	2010			2011 p/			2011		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			**1508**			**1784**			**18.3**
Copra	..	787	--	..	1030	--	-	30.9	-
Coconut Oil	1346	941	1266	827	1724	1425	-38.6	83.2	12.6
Desiccated Coconut	109	1401	153	109	2634	287	0.0	88.0	87.6
Copra Meal/Cake	723	108	78	314	187	59	-56.6	73.1	-24.4
Others			12			13			8.3
Sugar and Products			**52**			**390**			**650.0**
Centrifugal & Refined	73	511	38	582	609	354	697.3	19.2	831.6
Molasses	76	147	11	300	101	30	294.7	-31.3	172.7
Others			3			6			100.0
Fruits and Vegetables			**654**			**985**			**50.6**
Canned Pineapple	141	896	126	205	943	193	45.4	5.2	53.2
Pineapple Juice	69	528	37	76	553	42	10.1	4.7	13.5
Pineapple Concentrates	31	1198	37	32	1185	38	3.2	-1.1	2.7
Bananas	1590	201	319	2046	230	471	28.7	14.4	47.6
Mangoes	20	755	15	21	790	17	5.0	4.6	13.3
Others			120			224			86.7
Other Agro-Based Products			**708**			**854**			**20.6**
Fish, Fresh or Preserved	116	2916	337	100	3661	366	-13.8	25.5	8.6
Of which: Shrimps & Prawns	8	6707	50	7	8920	59	-12.5	33.0	18.0
Coffee, Raw, not Roasted	..	1807	--	..	10265	--	-	468.1	-
Abaca Fibers	11	1179	13	11	1276	13	0.0	8.2	0.0
Tobacco,Unmanufactured	33	3157	106	45	2919	131	36.4	-7.5	23.6
Natural Rubber	36	1526	56	42	1893	80	16.7	24.0	42.9
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	-	-	-
Seaweeds, Dried	17	2231	38	26	2140	56	52.9	-4.1	47.4
Rice	0	0	0	0	0	0	-	-	-
Others			159			207			30.2
Forest Products 1/			**28**			**50**			**78.6**
Logs	4	51	--	2	76	--	-	-	-
Lumber	377	28	11	405	61	25	7.4	117.9	127.3
Plywood	24	630	15	40	611	24	66.7	-3.0	60.0
Veneer Sheets/Corestocks	2	811	0	..	802	..	-	-1.1	-
Others			--			1			-
Mineral Products			**1929**			**2657**			**37.7**
Copper Concentrates	224	1163	261	264	1278	337	17.9	9.9	29.1
Copper Metal	111	7268	805	123	9169	1128	10.8	26.2	40.1
Gold 2/	148	865	128	145	1481	214	-2.0	71.2	67.2
Iron Ore Agglomerates	3443	32	110	2683	22	58	-22.1	-31.3	-47.3
Chromium Ore	115	90	10	105	74	8	-8.7	-17.8	-20.0
Nickel			0			0			-
Others			616			911			47.9
Petroleum Products			**371**			**648**			**74.7**
Manufactures			**45411**			**39767**			**-12.4**
Electronic Products			31080			23796			-23.4
Other electronics			1473			1448			-1.7
Garments			1722			1911			11.0
Textile Yarns/Fabrics			169			184			8.9
Footwear			9			13			44.4
Travel Goods and Handbags			71			40			-43.7
Wood Manufactures			1029			1684			63.7
Furnitures & Fixtures			152			165			8.6
Chemicals			1577			1901			20.5
Non-Metallic Mineral Manufactures			162			177			9.3
Machinery & Transport Equipment			2574			2779			8.0
Processed Food and Beverages			1098			1189			8.3
Iron & Steel			163			203			24.5
Baby Carr., Toys, Games & Sporting Goods			168			187			11.3
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			43			46			7.0
Misc. Manufactured Articles, n.e.s.			337			423			25.5
Others			3584			3622			1.1
Special Transactions			**835**			**907**			**8.6**
TOTAL EXPORTS, as per NSO Foreign Trade Statistics			**51496**			**48042**			**-6.7**
Conceptual and coverage adjustments			-748			-811			-8.4
TOTAL EXPORTS, BPM5			**50748**			**47231**			**-6.9**

.. 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 (%)		
	2010			2011 p/			2011		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Capital Goods			**9646**			**9971**			**3.4**
Power Generating & Specialized Machines			2976			3511			18.0
Office & EDP Machines			2455			1829			-25.5
Telecommunication Eqpt. & Elect. Mach.			1897			2428			28.0
Land Transport Eqpt. excl. Passenger Cars									
& Motorized Cycle			972			1057			8.7
Aircraft, Ships & Boats			749			594			-20.7
Prof. Sci. & Cont. Inst.; Photo-			596			552			-7.4
graphic Eqpt. & Optical Goods									
Raw Materials & Intermediate Goods			**33652**			**31812**			**-5.5**
Unprocessed Raw Materials			2530			2552			0.9
Wheat	1973	240	473	2767	310	858	40.2	29.2	81.4
Corn	88	822	73	66	671	44	-25.0	-18.4	-39.7
Unmilled cereals excl. rice & corn			18.00			10.00			-44.4
Crude materials, inedible			1849			1493			-19.3
Pulp & waste paper			59			94			59.3
Cotton	17	1759	30	12	3222	39	-29.4	83.2	30.0
Syn. fibers	43	2058	89	33	2898	96	-23.3	40.8	7.9
Metalliferous ores			1239			714			-42.4
Others			432			550			27.3
Tobacco, unmanufactured			117			147			25.6
Semi-Processed Raw Materials			31122			29260			-6.0
Feeding stuffs for animals	1596	388	619	2608	310	810	63.4	-20.1	30.9
Animal & vegetable oils & fats			184			543			195.1
Chemical			5238			6339			21.0
Chemical compounds			1377			1671			21.4
Medicinal & pharmaceutical chemicals			783			914			16.7
Urea	574	281	162	535	377	202	-6.8	34.2	24.7
Fertilizer excl. urea	914	262	239	872	328	286	-4.6	25.2	19.7
Artificial resins			1178			1621			37.6
Others			1499			1645			9.7
Manufactured goods			4234			5341			26.1
Paper & paper products	920	650	598	878	840	737	-4.6	29.2	23.2
Textile yarn, fabrics & made-up articles			512			747			45.9
Non-metallic mineral mftures.			364			436			19.8
Iron & steel	1569	782	1227	1548	869	1345	-1.3	11.1	9.6
Non-ferrous metals			626			905			44.6
Metal products			578			714			23.5
Others			329			457			38.9
Embroideries			652			877			34.5
Mat/Acc for the mftr. of elect. eqpt.			20194			15249			-24.5
Iron ore, not agglomerated	14	60	1	594	170	101	4142.9	183.3	10000.0
Mineral Fuels & Lubricant			**9589**			**12463**			**30.0**
Coal, Coke	6497	72	466	7046	85	596	8.5	18.1	27.9
Petroleum Crude 1/	69.67	77.98	5433	70.79	109.97	7785	1.6	41.0	43.3
Others 1/	40.34	91.46	3689	33.25	122.82	4083	-17.6	34.3	10.7
Consumer Goods			**7409**			**6986**			**-5.7**
Durable			2957			3212			8.6
Passenger cars & motorized cycle			1762			1637			-7.1
Home appliances			288			346			20.1
Misc. manufactures			907			1229			35.5
Non-Durable			4452			3774			-15.2
Food & live animals chiefly for food			4277			3505			-18.1
Dairy products	327	2191	715	311	2708	844	-4.9	23.6	18.0
Fish & fish preparation	171	719	123	187	821	153	9.4	14.2	24.4
Rice	2379	630	1499	708	500	354	-70.2	-20.6	-76.4
Fruits & vegetables			253			322			27.3
Others			1687			1832			8.6
Beverages & tobacco mfture.			65			70			7.7
Articles of apparel, access.			110			199			80.9
Special Transactions			**865**			**863**			**-0.2**
Articles temporarily imported & exported			275			287			4.4
Others			590			576			-2.4
TOTAL IMPORTS 2/			**61159**			**62094**			**1.5**
Conceptual and Coverage Adjustments 3/			555			587			5.8
TOTAL IMPORTS, BPM5			**61714**			**62681**			**1.6**

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 in 2010.

p/ Preliminary

Note: Valuation adjustments include:

a.) Adjustments to NSO's raw material imports for electronics exports for 2010 and 2011.

b.) Adjustments to NSO's raw material imports for garments for 2010 and 2011.

Components may not add up to total due to rounding

Source: NSO

12 GROSS INTERNATIONAL RESERVES

end-of-period

in million US dollars

		GIR (1=2 to 6)	Reserve Position in the Fund (2)	Gold (3)	SDRs (4)	Foreign Investments (5)	Foreign Exchange (6)	Import Cover [1] (7)	Short-Term External Debt Cover (in percent): Original Maturity (8)	Short-Term External Debt Cover (in percent): Residual Maturity [2] (9)
2009	Jan	39,248.21	130.78	4,567.67	10.31	33,682.15	857.30	6.37	560.61	346.47
	Feb	38,924.57	128.63	4,687.30	9.91	33,213.97	884.76	6.46	598.75	340.64
	Mar	39,041.28	131.06	4,547.47	10.10	33,414.96	937.69	6.65	600.64	344.92
	Apr	39,316.25	131.31	4,422.69	10.11	33,941.45	810.69	6.87	604.87	350.35
	May	39,589.38	135.70	4,879.20	10.33	33,810.59	753.56	7.08	609.07	351.87
	Jun	39,489.54	136.15	4,711.71	10.35	33,937.41	693.92	7.22	686.42	388.37
	Jul	40,169.45	136.25	4,856.05	10.36	34,440.94	725.85	7.59	723.38	391.71
	Aug	41,492.50	137.36	4,830.02	1,031.85	35,023.95	469.32	8.05	747.21	405.52
	Sep	42,528.88	138.97	5,010.06	1,153.39	35,797.90	428.56	8.44	837.51	436.69
	Oct	43,173.48	139.50	5,275.41	1,157.80	36,169.46	431.31	8.67	964.12	473.24
	Nov	44,167.54	141.23	5,633.88	1,172.10	36,801.90	418.43	8.81	986.32	479.51
	Dec	44,242.64	137.51	5,459.75	1,141.17	36,655.12	849.09	8.67	1,105.51	504.30
2010	Jan	45,591.72	136.32	5,399.34	1,131.35	38,129.63	795.08	8.70	1,139.22	519.56
	Feb	45,764.36	134.43	5,579.01	1,115.56	38,628.93	306.43	8.54	1,143.54	507.87
	Mar	45,599.54	133.05	5,951.86	1,104.12	37,891.20	519.31	8.29	872.72	464.69
	Apr	46,943.90	131.96	6,312.47	1,095.07	39,058.22	346.18	8.32	898.45	477.61
	May	47,689.64	129.32	6,674.68	1,073.09	39,508.84	303.71	8.24	912.72	483.32
	Jun	48,704.40	129.72	6,859.99	1,076.42	40,127.37	510.90	8.32	885.86	489.20
	Jul	49,049.18	133.31	6,676.52	1,105.26	40,792.67	341.42	8.22	892.13	508.55
	Aug	49,905.99	132.46	7,057.09	1,098.20	41,306.24	312.00	8.21	907.71	496.28
	Sep	53,754.25	136.61	7,394.73	1,132.61	44,784.85	305.45	8.64	936.16	521.89
	Oct	57,153.59	256.78	6,811.80	1,148.06	48,640.52	296.43	8.99	995.36	549.77
	Nov	60,565.58	248.38	6,913.20	1,110.43	52,036.67	256.90	9.37	1,054.78	583.03
	Dec	62,373.09	250.70	7,010.28	1,120.80	53,440.59	550.72	9.49	990.84	547.66
2011	Jan	63,540.53	355.79	6,581.73	1,136.74	55,032.52	433.75	9.61	1,009.38	550.80
	Feb	63,890.17	358.32	6,970.17	1,144.87	55,107.05	309.76	9.60	1,014.94	594.27
	Mar	65,983.39	361.16	7,080.26	1,153.93	57,002.62	385.42	9.80	973.49	589.77
	Apr	68,488.92	369.23	7,598.61	1,179.72	59,003.18	338.18	10.07	1,010.46	612.27
	May	68,853.52	373.60	7,589.35	1,165.17	59,398.84	326.56	10.15	1,015.84	598.57
	Jun	68,996.12	373.53	7,616.77	1,164.93	59,478.38	362.51	10.15	964.17	579.02
	Jul	71,883.71	456.37	7,678.79	1,163.88	62,178.26	406.41	10.54	1,004.52	606.46
	Aug	75,940.91	459.33	7,553.15	1,171.62	66,413.99	342.82	11.14	1,061.22	661.05
	Sep	75,174.01	447.42	7,456.76	1,136.87	65,709.58	423.38	11.07	1,051.83	653.80
	Oct	75,831.60	449.84	7,910.99	1,143.02	65,911.09	416.66	11.16	1,061.03	663.50
	Nov	76,206.22	444.54	8,058.09	1,129.73	66,136.67	437.19	11.22	1,066.27	668.48
	Dec	75,302.42	472.11	8,012.75	1,117.87	65,276.16	423.53	11.09	1,053.62	678.09

[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

	31 December 2010				31 December 2011			
	Short-term		Medium &	Total	Short-term		Medium &	Total
	Trade	Non-Trade	Long-Term		Trade	Non-Trade	Long-Term	
Grand Total	**2,960**	**3,335**	**53,753**	**60,048**	**2,889**	**4,124**	**54,698**	**61,711**
Public Sector	-	262	45,935 [a]	46,197	-	348	47,285 [a]	47,633
Banks	-	262	4,393	4,665	-	348	4,485	4,833
Bangko Sentral ng Pilipinas	-	-	1,459	1,459	-	-	1,465	1,465
Others	-	262	2,934	3,196	-	348	3,019	3,367
Non-Banks	-	-	41,542	41,542	-	-	42,800	42,800
CB-BOL	-	-	18	18	-	-	6	6
NG and Others	-	-	41,524	41,524	-	-	42,794	42,794
Private Sector	2,960	3,073	7,818	13,851	2,889	3,776	7,413	14,078
Banks	-	2,891	640	3,531	-	3,588	855	4,443
Foreign Bank Branches	-	893	44	937 [b]	-	880	86	966 [b]
Domestic Banks	-	1,997	597	2,594	-	2,708	769	3,478
Non-Banks	2,960 [c]	183	7,177 [d]	10,320	2,889 [c]	188	6,558 [d]	9,635

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.

	31 Dec 2010	31 Dec 2011
Inclusion		
a Cumulative foreign exchange revaluati multi-currency loans from Asian Development Bank and World Bank	234	228
Exclusions		
b Due to Head Office/Branches Abroad a offshore banking units of foreign banks operating in the Philippines	4268	5272
c Loans without BSP approval/registration	1021	1432
d Obligations under various capital lease	995	694
Loans without BSP approval/registratic	8313	8777

Source: BSP

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

	2010 r/	2011 p/
Debt Service Burden (DSB) [1]	7,316	7,474
Principal	4,779	4,907
Interest	2,537	2,567
Export Shipments (XS)	50,748	47,231
Exports of Goods and Receipts from Services and Income (XGSI) [2]	84,572	83,950
Current Account Receipts (CAR) [3]	88,414	88,171
Gross National Income (GNI)	265,931	295,613
Ratios (%) :		
DSB to XS	14.42	15.82
DSB to XGSI	8.65	8.90
DSB to CAR	8.27	8.48
DSB to GNI	2.75	2.53

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

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

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

p/ Preliminary

r/ Revised to reflect latest data adjustments

Source: BSP

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

	2010 Nov	2011 u Nov	Percent Change (%)
Assets	**3,145,877.8**	**3,797,391.7**	**20.7**
International Reserves	2,662,762.8	3,305,505.5	24.1
Domestic Securities	252,431.6	240,390.7	-4.8
Loans and Advances	112,434.6	111,258.7	-1.0
Bank Premises and Other Fixed Assets	12,587.0	14,865.2	18.1
Derivative Instruments in a Gain Position	6,454.0	2,486.7	-61.5
Other Assets	99,207.8	122,884.9	23.9
Liabilities	**2,952,115.6**	**3,659,653.5**	**24.0**
Currency Issue	526,933.3	562,028.3	6.7
Deposits	1,976,921.7	2,581,692.3	30.6
Reserve Deposits of Other Depository Corporations (ODCs)[1]	496,905.1	637,867.7	28.4
Reserve Deposits of Other Financial Corporations (OFCs)[2]	544.7	601.7	10.5
Special Deposit Accounts[3]	1,179,465.9	1,687,966.2	43.1
Treasurer of the Philippines[4]	187,453.9	161,456.3	-13.9
Foreign Financial Institutions	41,839.9	44,378.1	6.1
Other Foreign Currency Deposits	22,290.7	18,251.2	-18.1
Other Deposits[5]	48,421.6	31,171.3	-35.6
Foreign Loans Payable	2,636.0	970.9	-63.2
Net Bonds Payable	22,861.7	22,594.9	-1.2
Allocation of SDRs	56,461.4	56,736.5	0.5
Derivatives Liability	54.1	158.1	192.1
Derivative Instruments in a Loss Position	8,030.7	345.5	-95.7
Net Revaluation of International Reserves	66,679.3	154,032.8	131.0
Reverse Repurchase Agreements[3]	282,245.9	269,365.9	-4.6
Other Liabilities	9,291.6	11,728.4	26.2
Net Worth	193,760.9	137,738.2	-28.9
Capital	10,000.0	20,000.0	100.0
Surplus/Reserves	183,760.9	117,738.2	-35.9

Note: Breakdown may not add up to totals due to rounding.
[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).
[2] OFCs are trust units of banks.
[3] Includes accrued interest payables.
[4] Includes foreign currency deposits.
[5] Mostly GOCC deposits.
[u] Based on the unaudited BSP balance sheet as of end-November 2011 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

	2010 Nov	2011 [u] Nov	Percent Change (%)
Revenues	**106.7**	**113.0**	**5.9**
Interest Income	39.5	41.9	6.1
International Reserves	24.3	31.2	28.4
Domestic Securities	10.1	5.4	-46.5
Loans and Advances	3.6	3.5	-2.8
Others	1.5	1.8	20.0
Miscellaneous Income	66.9	70.8	5.8
Net income from Branches	0.3	0.3	0.0
Expenses	**74.6**	**107.1**	**43.6**
Interest Expenses	59.3	87.7	47.9
Reserve Deposits of ODCs and OFCs [1]	13.2	7.1	-46.2
Special Deposit Accounts	33.2	63.6	91.6
National Government Deposits	3.0	4.5	50.0
Reverse Repurchase Agreements	7.2	10.1	40.3
Loans Payable	2.3	2.0	-13.0
Other Foreign Currency Deposits	0.0	0.0	
Other Liabilities	0.4	0.4	0.0
Cost of Minting	3.3	4.7	42.4
Other Expenses	12.0	14.7	22.5
Net Income Before Gain/(Loss) on FXR Fluctuations	**32.1**	**5.9**	**-81.6**
Gain/Loss(-) on FXR Fluctuations [2]	-80.3	-38.2	52.4
Provision for Income Tax	0.0	0.0	
Net Income	**-48.2**	**-32.3**	**33.0**
Capital Reserves	0.0	0.0	
Net Income Available for Distribution	**-48.2**	**-32.3**	**33.0**

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.
[2] 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.
[u] Based on the unaudited BSP income statement as of November 2011 prepared by the Financial Accounting Department of the BSP.

17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at November 30 2011 PHP000	2010 PHP000
Foreign currency financial assets		
Deposits with foreign banks	378,284,924	384,280,854
Other cash balances	207,673	345,567
Investment securities-available for sale	2,526,138,730	1,923,908,852
Gold	351,574,402	305,190,240
International Monetary Fund special drawing rights	49,299,753	49,037,285
Gross international reserves	3,305,505,482	2,662,762,798
Loans and advances	1,106,140	483,460
Securities purchased under USD repo facility	0	0
Other foreign currency receivables	49,848,141	27,764,517
Non-IR foreign currency	12,330	0
Derivative instruments in gain position	2,486,731	6,454,039
Total foreign currency financial assets	3,358,958,824	2,697,464,814
Local currency financial assets		
Investment in government securities-available for sale	240,390,719	252,431,555
Loans and advances	110,152,569	111,951,185
Due from administrator of funds	29,437,476	28,504,530
Other receivables	18,607,932	16,153,752
Total local currency financial assets	398,588,696	409,041,022
Total financial assets	3,757,547,520	3,106,505,836
Acquired assets held for sale	0	124,247
Investment property	9,885,818	9,886,875
Bank premises, furniture, fixtures and equipment	14,865,165	12,586,977
Intangibles	319,778	281,964
Inventories	9,390,651	11,101,779
Revaluation of foreign currency accounts	0	0
Deferred tax assets	4,452,120	4,452,120
Miscellaneous assets	930,675	938,000
Total other assets	39,844,207	39,371,962
Total assets	3,797,391,727	3,145,877,798

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	
	2011 PHP000	2010 PHP000
Foreign currency financial liabilities		
Short-term deposits	22,422,271	107,347,458
Loans payable	970,927	2.635.967
Bonds payable	22,594,868	22,861,706
Allocation of International Monetary Fund special drawing rights	56,736,455	56,461,415
Derivative instruments in a loss position	345,455	8,030,715
Derivatives liability	158,078	0
Other liabilities	4,544,026	3,144,076
Total foreign currency financial liabilities	107,772,080	200,481,337
Local currency financial liabilities		
Government deposits	158,062,247	120,979,132
Deposits of banks and quasi banks	668,863,532	527,290,649
Deposits of the International Monetary Fund and other FIs	44,378,104	41,839,863
Securities sold under agreements to repurchase	1,957,332,125	1,461,711,753
Total local currency financial liabilities	2,828,636,008	2,151,821,397
Total financial liabilities	2,936,408,088	2,352,302,734
Other liabilities		
Currency in circulation	562,028,262	526,933,277
Retirement benefit obligations	1,516,643	1,560,887
Miscellaneous liabilities	5,218,401	4,640,751
Dividends payable	449,345	0
Revaluation of foreign currency accounts	154,032,755	66,679,268
Total other liabilities	723,245,406	599,814,183
Total liabilities	3,659,653,494	2,952,116,917
Capital accounts		
Capital	20,000,000	10,000,000
Surplus	80,589,854	70,540,650
Reserve for unrealized gains/(losses) on investments	-8,583,206	-5,776,858
Capital reserves	78,024,437	167,245,116
Undivided profits/(loss) from operations	-32,292,852	-48,248,027
Total capital accounts	137,738,233	193,760,881
Total liabilities and capital accounts	3,797,391,727	3,145,877,798

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	2011 Budget PHP000	2011 Actual PHP000	2010 Actual PHP000
Operating Income:			
Income from foreign currency financial assets			
Interest income	22,735	32,971	25,723
Fees, miscellaneous foreign currency income & trading gains foreign	615	66,549	63,926
Total income from foreign currency financial assets	23,350	99,520	89,649
Expenses on foreign currency financial liabilities			
Interest expense	2,150	2,060	2,410
Other foreign currency expenses	734	696	417
Total expenses on foreign currency liabilities	2,884	2,756	2,827
Foreign currency income	20,466	96,764	86,822
Income from local currency financial assets			
Interest income & trading gains local	14,284	9,110	13,829
Total Income from local currency financial assets	14,284	9,110	13,829
Expenses on local currency financial liabilities			
Interest expense	90,186	85,631	56,880
Final tax on interest income/discounts	2,228	1,074	2,016
Total expenses on local currency financial assets	92,414	86,705	58,896
Local currency income/(loss)	(78,130)	(77,595)	(45,067)
Total operating income	(57,664)	19,169	41,755
Currency printing and minting cost	4,246	4,678	3,339
Operating expenses:			
Personnel services, development and training	8,483	7,863	7,219
Traveling	466	313	251
Taxes and licenses	106	2,730	87
Currency and gold operations	235	172	140
Acquired Assets	290	117	261
Other services	2,653	1,749	1,598
Depreciation	498	549	509
Fidelity insurance	76	52	54
Light, fuel & water	231	188	175
Repairs & maintenance	528	213	216
Communication services	211	124	112
Supplies	91	63	48
Others[2]	1,018	560	484
Total operating expenses	12,233	12,944	9,555
Net operating income before impairments	(74,143)	1,547	28,861

[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	2011 Budget PHP000	2011 Actual PHP000	2010 Actual PHP000
Impairment losses on loans and advances[3]	(24)	14	(21)
Market decline of acquired assets[4]	(43)	0	(0)
Net operating income after impairment	(74,210)	1,561	28,839
Other operating income	3,115	4,411	3,224
Net realized gains/(loss) on fX rates fluctuations	0	(38,265)	(80,311)
Profit/(loss) before income tax	(71,095)	(32,293)	(48,248)
Income tax paid	0	0	0
Profit/(loss) for the year	(71,095)	(32,293)	(48,248)

[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