



2015 ANNUAL REPORT



BANGKO SENTRAL NG PILIPINAS



About the Cover

A symbol of strength. Fort San Antonio Abad, built in 1584, was constructed as an outer defense of the walled City of Intramuros during the Spanish Colonial Period in the Philippines. The historic 400-year-old fort is now within the confines of the Bangko Sentral ng Pilipinas (BSP) complex. The BSP today stands like its walls to help safeguard price and financial stability of the Philippine economy. (Photo by the BSP Corporate Affairs Office)

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Governor's Foreword

"A position of relative strength in 2015"

It has been eight years since the global financial crisis (GFC), but global economic activity has continued to be muted. In 2015, growth among major advanced and emerging economies remained uneven and below pre-crisis levels. Three key developments were at the helm of the generally weak global economic environment during the year in review. First is the moderation in the growth momentum of emerging market economies, particularly China, even as some advanced economies have started to recover. Second is the monetary policy divergence in developed economies resulting from the varying levels and speed of economic growth in the world economy. Finally, the drastic fall in international oil prices raised concerns of deflation risks amid already sluggish external demand conditions.



AMANDO M. TETANGCO, JR.
Governor

These external headwinds presented challenges for the Philippine economy, bringing bouts of volatility in capital flows, the Philippine peso and the stock market. These upshots were however not unique to the Philippines. There were similar shifts in financial markets across emerging Asia. Nonetheless, the Philippine economy was able to weather the recent squall and pushed forward amid external challenges. The country was able to demonstrate notable resilience, keep a steady non-inflationary growth and position itself with relative strength in 2015.

The country's Gross Domestic Product (GDP) grew by 5.8 percent in 2015, one of the strongest in the region – next to India, China and Vietnam – while maintaining a low and stable inflation at 1.4 percent, the lowest since the BSP adopted the inflation targeting framework in 2002. The broadening sources of growth contributed to the country's sustained resilience. The services sector remained the biggest driver of output, while a stronger manufacturing industry provided a broader production base. On the expenditure side, growth came mainly from strong private spending, aided by the increase in employment, the steady inflow of remittances from overseas Filipinos (OFs), as well as low and stable prices.

The Philippine banking system secured another year of strength and stability through the continued timely and calibrated adoption and implementation of banking reforms and regulations. The banking system's performance further supported overall growth across various economic sectors of the country. Healthy and steady growth rates were seen in

lending and deposit activities, while the non-performing loans ratio continued to improve and fall below pre-Asian crisis levels. Moreover, the system's capital adequacy ratio of over 15.0 percent remained comfortably above the BSP's and the Bank for International Settlement's prescribed levels.

The BSP, as the 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. The number of transactions processed and settled in PhilPaSS increased by 6.4 percent to ₱1.4 million in 2015. This reflected higher volume of trading of government securities via expanded delivery-versus-payment, interbank transactions and OF remittances coursed through the REMIT system.

Meanwhile, the sustained surplus in the country's current account and improvements in external payments dynamics helped shield the economy and the domestic financial markets from the worst effects of the global shocks. In 2015, the overall balance of payments position yielded a surplus of US\$2.6 billion, a reversal from the US\$2.9 billion deficit in 2014. This resulted in a higher end-2015 gross international reserves (GIR) of US\$80.7 billion, over US\$1.0 billion more than in 2014. This level of reserves can cover 10.3 months' worth of imports and payment for goods and services.

Finally, an appropriate monetary policy stance kept inflation expectations firmly anchored. Liquidity and credit conditions, while remaining at non-inflationary levels helped support economic growth. The BSP did not see any firm indications that warranted monetary action in 2015. Market expectations of inflation remained well anchored to the government's inflation target. At the same time, domestic demand conditions have stayed firm, supported by favorable business and consumer sentiment and ample domestic liquidity. Taken together, these considerations allowed the BSP to maintain its monetary policy settings in 2015. Although 2015 inflation settled at 1.4 percent, which is below the inflation range target of 3.0 percent \pm 1.0 percentage point for the year, the inflation environment is expected to normalize in 2016, with inflation expectations remaining well anchored to the target.

While the Philippine growth story remains fundamentally intact amid the challenging external operating environment, there are risks that could impact the country's growth prospects going forward. First, concerns over continued subdued growth prospects in key emerging markets, such as China, and in major advanced economies, such as the Euro area and Japan, could translate to weaker-than-expected trade flows as well as lower demand for overseas Filipino workers (OFWs). Second, the uncertainty in the subsequent interest rate adjustments by the United States Federal Reserve System (US Fed) could contribute to financial market volatility in the near term. We are on the lookout for knock-on effects on the direction of global capital flows, movement of exchange rates, and the resulting implications on domestic financial asset valuations and domestic debt as these are re-priced or refinanced. Third, uncertainty over the trajectory of the oil price path and its impact on oil-exporting economies that host a significant number of OFWs, such as Saudi Arabia, could adversely affect deployment activities. In the domestic sphere, the impact of El Niño and infrastructure gaps remain as important as these external challenges.

Amid all these present and potential obstacles, the BSP remains committed to achieving its price and financial stability mandate, and to promoting financial inclusion.

The BSP will continue to closely monitor the inflation process and remain mindful of external and domestic developments to ensure that our monetary policy stance remains appropriate. Moreover, the BSP will continue to take steps to enhance the effectiveness of monetary policy. Indeed, well-behaved inflation outturns and positive growth dynamics over the past few years have given the BSP room to implement the interest rate corridor (IRC) for monetary operations in the second quarter of 2016.

Our key thrust on the side of the banking system will be to enhance sustainability of the banking reform agenda of the BSP to foster greater financial stability. Towards this end, the BSP will continue to be vigilant and build on its existing regulatory framework to proactively address impending challenges on accelerating capital market reforms, reversal of quantitative easing and potential market volatility, regulating shadow banking, cyber security threats, Business Continuity Management (BCM), digitalization of finance, and deepening financial inclusion and enhancing consumer protection. Moreover, by aligning further our supervisory policies with international standards, we aim to establish a more level playing field for our local banks, especially as we prepare for the entry of regional and international banks under the ASEAN economic and financial integration initiative.

The benefits of a stable macroeconomy should be enjoyed by everyone. Thus, we endeavor to expand further the country's financial reach. We will proactively implement the National Strategy for Financial Inclusion (NSFI) that we developed with 12 other government agencies and pursue the development of our National Retail Payments System (NRPS), which should make the payments system more inclusive. These provide us the platform to reach out to the unbanked and the underbanked by delivering suitable financial products to different market segments through responsible and innovative business models, while providing the citizens with adequate education and protection as clients of the financial system.

The Philippine economy is bucking the trend. Amid and despite jitters in the global economy, it continues to expand, anchored on broad-based growth drivers. We are not completely immune from the tough headwinds, but we believe that we have enough sources of resilience to keep the economy on solid footing. Keeping a steady hand on policy levers also remains a prudent option, as uncertainty over global economic prospects and financial market conditions will require policy flexibility in 2016. ■

Who we are



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.

Our Core Values

*Integrity
Excellence
Patriotism
Dynamism
Solidarity*

About the Bangko Sentral ng Pilipinas

“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 Republic Act No. 7653 or the New Central Bank Act. The BSP replaced the old Central Bank of the Philippines, which was established on 3 January 1949.

As the Philippines' central monetary authority, the BSP is responsible, among other things, for:

- Maintaining price stability conducive to a balanced and sustainable growth of the economy;
- Maintaining financial stability by ensuring that the banking system is sound and stable; and
- Ensuring the safe, timely and accurate payment and settlement of financial transactions.

Powers and Functions

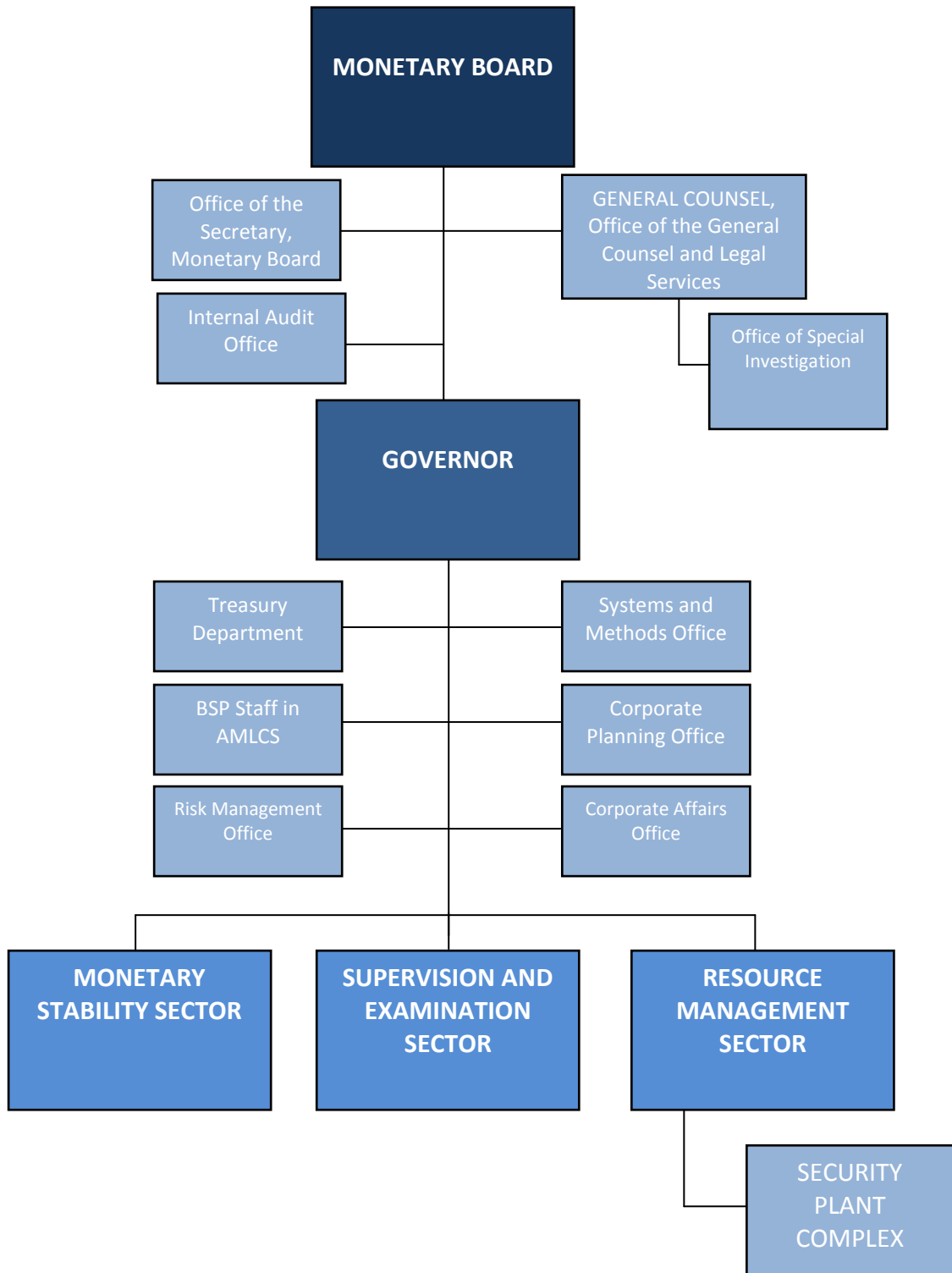
The BSP's Charter also provides that the BSP performs the following functions:

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

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

Organizational Structure

As of 30 December 2015



Who we are

The **Monetary Board** issues rules and regulations necessary for the effective discharge of the responsibilities and exercise of the powers vested upon the Bangko Sentral. Its chairman is the BSP Governor, with five full-time members from the private sector and one member from the Cabinet.

The **Governor**, as the chief executive officer of the BSP, directs and supervises the operations and internal administration of the BSP.

The BSP is organized into the following functional groupings:

- **Offices under the Monetary Board and the Governor**, which renders various administrative support to the Monetary Board or to the Governor and provides support in the formulation and application of the BSP's strategic plans, practices, and procedures. These offices are collectively referred to as the **Executive Management Services**;
- **Monetary Stability Sector**, which takes charge of the formulation and implementation of the BSP's monetary policy;
- **Supervision and Examination Sector**, which enforces and monitors compliance with banking laws and regulations to promote a sound and healthy financial system;
- **Resource Management Sector**, which serves the human, financial, and physical resource needs of the BSP; and
- **Security Plant Complex**, which produces Philippine currency, security documents, and commemorative medals and medallions.

Governance

The Monetary Board

Chairman & Governor

Amando M. Tetangco, Jr.

Members

Cesar V. Purisima

Alfredo C. Antonio

Felipe M. Medalla

Armando L. Suratos

Juan D. De Zuñiga, Jr.

Valentin A. Araneta

Executive Management Services

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Julia C. Bacay-Abad
Executive Director II

Elmore O. Capule
General Counsel

Edna C. Villa
Managing Director

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Wilhelmina C. Mañalac
Managing Director

Illuminada T. Sicat
Managing Director

Augusto C. Lopez-Dee
Managing Director

Francisco G. Dakila, Jr.
Managing Director

Carlyn A. Pangilinan
Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Johnny Noe E. Ravalo
Assistant Governor

Leny I. Silvestre
Managing Director

Chuchi G. Fonacier
Managing Director

Restituto C. Cruz
Managing Director

Resource Management Sector and Security Plant Complex

Vicente S. Aquino
Deputy Governor

Dahlia D. Luna
Assistant Governor

Eduardo G. Bobier
Managing Director

Elvira E. Ditching-Lorico
Managing Director

Paterson L. Encabo
Managing Director

Silvina Q. Mamaril-Roxas
Managing Director

Enrique C. Domingo
Executive Director II

How the Philippine Economy Performed in 2015

The Global Economic Environment

Eight years have passed since the global financial crisis (GFC), but global economic activity continued to be muted. In 2015, growth among major advanced and emerging economies remained uneven and below pre-crisis levels. This developed as elevated global risks persist, reflecting, for the most part, some dynamic shifts happening in the world economy.

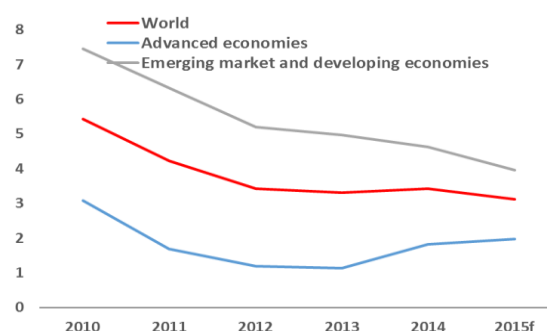
Global economic growth remains uneven and subpar

First is that while emerging market economies (EMEs) continue to account for the bulk of world GDP, their growth momentum has been cooling of late, even as advanced economies are starting to recover. Growth moderation is fairly evident for EMEs facing domestic imbalances. The ongoing rebalancing of the Chinese economy along with more “market-oriented” movements in its currency pose significant spillovers to global trade and commodity prices. Meanwhile, economic activity in some advanced economies is showing signs of pickup. There has been modest recovery in the euro area amid improvements in demand and credit conditions, while in the US, real GDP grew by 2.4 percent in 2015,¹ marking six consecutive years of positive growth since the GFC.

¹ US Bureau of Economic Analysis.

Second, the varying levels and speed of global growth resulted in equally divergent monetary policy responses. The US Fed finally raised its interest rates by yearend 2015 amid improved economic conditions. In contrast, other central banks decided to ease their monetary policy settings to continue to stimulate domestic economic activity amid a benign inflation environment. The European Central Bank and Bank of Japan provided further stimulus to their financial system by cutting interest rates and/or expanding their bond purchase program. Likewise, the slowdown in China’s economy and increasing debt pressures led the People’s Bank of China to reduce its policy rates and reserve requirement ratios.

Chart 1.1 World GDP Growth
At constant prices, y-o-y percent change



Source: IMF World Economic Outlook (WEO), October 2015 database

Finally, the drastic fall in oil prices amid crude supply buildup, exacerbated an already fragile global economy. A sustained decline in the prices of oil and other commodities will continue to feed concerns over deflation risks in a generally weak global environment. All these translate to a

continued challenging and uncertain external economic environment marked by bouts of volatilities in financial markets. As such, a return to pre-crisis growth could continue to be elusive in the near and medium term.

The Philippine Economy

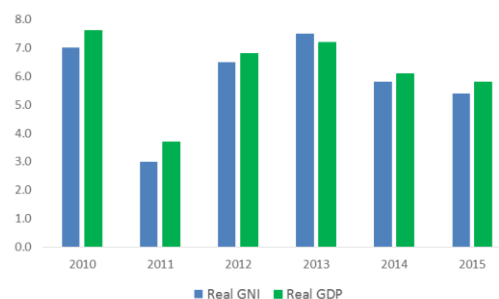
Aggregate output and demand. The Philippine economy sustained its resilience amid a challenging global economic environment after posting a real GDP growth of 5.8 percent for 2015 (Table 1). This performance is lower than the 7.0-8.0 percent real GDP growth target set by the National Government (NG) for the year, but is relatively strong, being comparable with the 5.0 percent average growth rate in the past six years, and ranking among Asia's top performers. Supported by broad sources of growth, real GDP registered an accelerated growth of 6.3 percent in the last quarter of 2015 even as weak external demand and worsening El Niño conditions took their toll on exports and on the agriculture sector, respectively.

Sustained Philippine economic growth supported by broadening growth drivers

On the demand side, the strong performance of the Philippine economy was attributed largely to robust private demand, strong capital formation, and remarkable improvement in government spending. Sustained low inflation environment, decline in oil prices, better employment figures, and continued remittance inflows provided strong support to household consumption, which exhibited growth of 6.2 percent from year-ago figures. As private consumption remains buoyant, investments in fixed capital formation surged by

14.0 percent year-on-year (y-o-y), a notable progress from the 6.8 percent growth in 2014. This was mainly on account of increased investments in public construction and durable equipment led by road vehicles, office machines and data processing, and industrial, mining and construction machineries. This reflects the continued bullish sentiment of investors on the prospects of the Philippine economy. Government spending also improved significantly, registering a growth of 9.4 percent y-o-y, compared to the 5.0 percent and 1.7 percent growth in 2013 and 2014, respectively. Seen to be gaining momentum are the government's continued efforts to address issues on spending bottlenecks and closing infrastructure gaps.

Chart 1.2 Real GNI and Real GDP
Annual growth, in percent



Source: Philippine Statistical Authority (PSA)

Domestic sources of growth have indeed remained intact. In fact, sans the impact of weak net exports (-3.1 percentage points), the combined contributions of household consumption (4.2 percentage points), capital formation (3.0 percentage points), and government expenditure (0.9 percentage point) components of GDP growth have already exceeded the 7.0-8.0 percent growth target for 2015.

On the supply side, while services remained the key driver of growth, industry output remained firm and agriculture sector managed to grow slightly amid extreme weather conditions. Services, which accounted for 57.0 percent of total

GDP, rose by 6.7 percent y-o-y on the back of the expansion in transport, storage and communication services, as well as the sustained robust performance of the business process outsourcing (BPO) sector. Industry growth of 6.0 percent y-o-y was led by the acceleration in manufacturing and construction. The growth of the industry sector as a whole, including the impressive expansion of manufacturing, is a welcome transformation as this sector is a significant engine for job creation that will anchor the path to sustainable inclusive growth.

Enthused by the solid economic growth performance in 2015, the Philippine economy is poised to continue to expand, anchored on broad-based growth drivers. While the country is not completely immune from the risks posed by tough external and domestic headwinds, the following sources of resilience are expected to keep the economy stable: (1) continued robust private consumption fuelled mainly by increasing incomes and improved business environment; (2) re-emergence of the manufacturing sector as a key contributor to output expansion; (3) favorable external sector dynamics indicated by the sustained current account surplus and improvements in the country's external liability management; (4) sound and stable financial system; (5) sufficient fiscal space to accelerate investments in physical connectivity and human capital; and (6) sustained structural reform agenda to promote further effectiveness of government operations and efficiency of domestic resources mobilization.

Employment. Labor conditions improved in 2015. The number of unemployed persons declined to 2.6 million bringing the unemployment rate to 6.3 percent (Table 2), the lowest level since 2006.

Over the course of the year, employed persons reached 38.7 million, with the expansion mainly coming from the services sector (490,000),

boosted by the wholesale and retail trade/repair of motor vehicles and motorcycles; transportation and storage; and public administration and defense/compulsory social security subsectors. In the industry sector, job increments reached 109,000 which came from the manufacturing and construction subsectors. Meanwhile, employment in the agriculture sector decreased by 509,000, which could be attributed to the prolonged El Niño phenomenon that affected several regions in the country.

Underemployment in the Philippines was registered at 18.5 percent in 2015, equivalent to 7.2 million underemployed persons. Underemployed persons were those who expressed desire to have additional hours of work or additional job, or have a new job with longer working hours. Of the total underemployed, 41.8 percent were from the services sector, 40.5 percent from the agriculture sector, and 17.7 percent from the industry sector.

Labor market dynamics more favorable in 2015

Labor market dynamics have been more favorable as gains in employment were observed across most classes of workers. Wage and salaried workers increased by 549,000, offsetting the decline in the number of self-employed and unpaid family workers.

Prices. Y-o-y headline inflation averaged 1.4 percent in 2015, lower than the 4.1 percent average in the previous year and the Government's 2015 inflation target range of 3.0 percent \pm 1.0 percentage point (Table 3). Inflation eased during the year due to adequate supply of food commodities, including rice, and a sustained decline in international crude oil prices, which resulted in the annual headline inflation falling below the target for the first time since 2009.

Inflation eases due to ample food supply and decline in global oil prices

Food inflation was lower at 2.6 percent in 2015 from 7.1 percent in the previous year as all food items registered slower price increases. In particular, rice inflation fell markedly despite weather-related production disruptions as a result of ample supply conditions, which were augmented by additional importation. Prices of key food items such as meat and vegetables also contributed to lower overall food inflation.

Table 1.1 Measures of Core Inflation
In percent

	2015	2014
Core Inflation	2.1	3.0
Trimmed Mean ¹	1.9	3.5
Weighted Median ²	1.9	2.9
Net of Volatile Items ³	1.8	2.6

¹ 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.

² 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.

³ The net of volatile items method excludes the following items: bread and cereals, meat, fish, fruits, vegetables, gas, solid fuels, fuels and lubricants for personal transport equipment, and passenger transport by road, which represent 39.0 percent of the CPI basket.

Sources of basic data: PSA, BSP

Similarly, downward adjustments in electricity rates due to lower generation charges and rollbacks in domestic fuel prices—largely influenced by the downtrend in international crude oil prices—led to a decline in oil-related CPI items in 2015. Inflation for housing, water, electricity, gas, and other fuels as well as transport declined to -1.3 percent (from 2.3 percent) and -0.1 percent (from 0.9 percent) during the year, respectively.

Core inflation, which excludes food and energy items to measure underlying price pressures, also eased to 2.1 percent in 2015 from 3.0 percent a

year ago. Similarly, alternative measures of core inflation estimated by the BSP dropped relative to the rates registered in the preceding year.

Operations of the National Government. The National Government (NG) recorded a higher budget deficit of ₱121.7 billion in 2015 from ₱73.1 billion in 2014 (Table 4). The 2015 NG deficit, which represented 0.9 percent of GDP, was lower by 57.1 percent than the ₱283.7 billion programmed deficit for the year or 2 percent of GDP.

NG operations yield a higher deficit

Revenues increased y-o-y by 10.5 percent to reach ₱2,108.9 billion, but fell short of the programmed level for 2015 by 7.3 percent. The increase in revenues was supported by higher tax collections by the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and related offices, which increased by 5.6 percent in 2015. Meanwhile, non-tax revenues by the Bureau of the Treasury (BTr) increased by 17.8 percent during the review period. As a result, the tax effort improved to 15.9 percent during the review period from 15.1 percent in 2014.

Faster than the revenue growth was the expansion in disbursements by 12.6 percent y-o-y to reach ₱2,230.6 billion in 2015, although lower than the 2015 programmed level of ₱2,558.9 billion. Allotments to local government units (LGUs) reached ₱387.6 billion, higher than the year-ago level by 12.6 percent. Meanwhile, interest payments for 2015 decreased by 3.7 percent to reach ₱309.4 billion.

The deficit was financed mainly from external sources, which covered 69.8 percent of the total financing requirement of the NG.

Greater fiscal space resulted from proactive liability management, enhanced implementation of tax administration measures, and legislative reforms. The NG now has more resources that can be allocated to accelerate infrastructure spending. The plan is to increase spending on infrastructure to 5 percent of GDP by 2016.

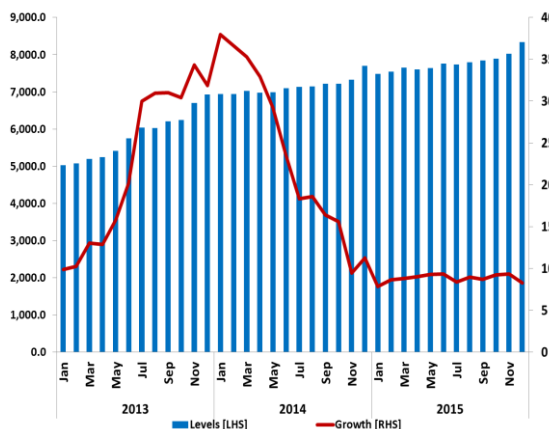
Monetary Conditions

Monetary Aggregates. Domestic liquidity or M3 increased by 9.4 percent y-o-y in 2015 following an 11.2-percent expansion recorded at end-2014. The increase in money supply remained consistent with the robust expansion in domestic demand.

Domestic liquidity remains adequate to support economic growth

The growth in domestic liquidity was due mainly to the sustained expansion in domestic claims or credits to the domestic economy. Domestic claims rose by 10.8 percent y-o-y, buoyed by the continued increase in claims on the private sector, reflecting the steady growth in bank lending. Meanwhile, net claims on the central government rose by 12.9 percent.

Chart 1.3 Domestic Liquidity (M3)
For the periods indicated
Levels in billion pesos; Year-on-year growth in percent



Net foreign assets (NFA) in peso terms rose by 6.6 percent y-o-y in December 2015. The BSP's NFA position continued to expand on the back of robust foreign exchange inflows comprised mainly of OFs' remittances and BPO receipts. Meanwhile, the NFA of banks declined, driven largely by the increase in banks' foreign liabilities due to higher deposits made by foreign banks.

Interest Rates. Domestic interest rates increased generally as of end-2015 relative to their levels as of end-2014. Treasury bill rates in the primary market rose across tenors even as domestic inflation remained subdued throughout the year. Similarly, the yields of government securities in the secondary market were broadly higher by the latter part of the year, offsetting the general decline in the first three quarters. The increase in the secondary market rates by end-2015 followed the 25-basis point (bp) increase in the US federal funds rate, which was announced during the December 2015 policy meeting of the US Fed amid favorable developments in the US housing and labor markets. Other domestic interest rates such as those for bank lending, time deposits, savings deposits, and interbank call loans also increased as of end-2015 compared to their levels as of end-2014 owing largely to uncertainty over global economic prospects.

Chart 1.4 Selected Domestic Interest Rates
Monthly averages, in percent

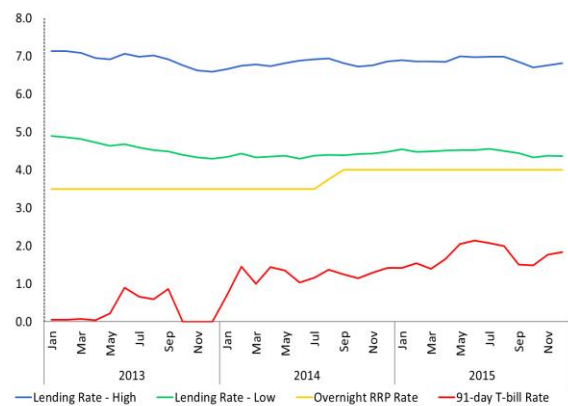
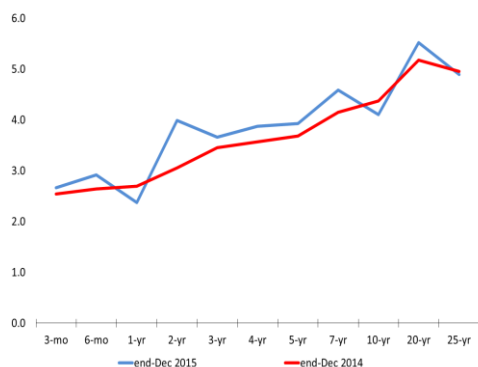


Chart 1.5 Secondary Market Yield Curve
In percent



Exchange Rate. The peso averaged ₱45.50/US\$1 in 2015, depreciating by 2.4 percent from the average rate of ₱44.40/US\$1 in 2014 (Table 7).² The peso weakened due mainly to uncertainty over the timing and potential impact of the normalization of interest rates in the US as well as to concerns over the slowdown in the Chinese economy. On a year-to-date basis, the peso also depreciated against the US dollar by 5.0 percent on 29 December 2015 as it closed at ₱47.06/US\$1, moving in tandem with most Asian currencies.³ Nonetheless, despite the depreciation pressures on the peso in 2015, the country’s robust inflows

Table 1.2 Movements in Selected Asian Currencies
29 December 2015 versus 29 December 2014
Appreciation/(Depreciation) in percent

Asian Currency	Change (%)
Malaysian ringgit	(18.6)
Indonesian rupiah	(9.8)
Thai baht	(8.9)
South Korean won	(6.6)
Singaporean dollar	(6.0)
Philippine peso	(5.0)
Indian rupee	(4.9)
Chinese yuan	(4.3)
New Taiwan dollar	(3.6)
Japanese yen	(0.5)

Source: Bloomberg
Based on last done deal transaction (closing price) as of 4:00 p.m., Manila Time

² Dollar rates or the reciprocal of the peso-dollar rates (based on reference rates data) were used to compute for the percentage change.
³ Based on the last done deal transaction in the afternoon.

of foreign exchange from OF remittances, BPO and tourism receipts, foreign direct investments, and the ample level of international reserves provided support to the peso.⁴

The peso depreciates amid global economic uncertainties

Meanwhile, the volatility of the peso as measured by the coefficient of variation stood at 2.4 percent in 2015 (year-to-date), lower compared with the volatility of other currencies in the region.⁵

Chart 1.6 Average Peso-Dollar Rate



On a real trade-weighted basis, the peso lost external price competitiveness against the basket of currencies of all trading partners (TPI) and trading partners in advanced (TPI-A) and developing countries (TPI-D) in 2015 following the y-o-y increase in the real effective exchange rate (REER)⁶ index of the peso against these currency baskets by 5.7 percent, 10.0 percent, and 2.8 percent, respectively. This developed due to

⁴ Gross International reserves stood at US\$80.7 billion as of end-December 2015.

⁵ The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.

⁶ 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 a significant increase indicates the opposite. The NEER index, meanwhile, represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

the combined effects of the peso’s nominal appreciation and widening inflation differential against the currencies in these baskets.⁷

Financial Market Situation

Banking Sector. Amid the uncertain global environment, the Philippine banking system mirrored the country’s solid macroeconomic fundamentals and secured another year of strength and stability. The local banking sector continued to be an efficient intermediary of funds in the economy. It was characterized by healthy and steady growth in lending and deposit activities, while asset quality and capital adequacy ratios continued to surpass domestic and international standards.

The Philippine banking system maintains strength and resilience

The banking system’s total deposits as of end-2015 increased by 8.9 percent y-o-y to ₱7.3 trillion from ₱6.7 trillion in end-2014 (Table 8), contributing to the 7.4 percent growth of the total resources of the banking system for the year.

⁷ The *Trading Partners Index (TPI)* measures the nominal and real effective exchange rates of the peso across the currencies of 14 major trading partners of the Philippines (i.e., US, Euro Area, Japan, Australia, China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand). The *TPI-Advanced* measures the effective exchange rates of the peso across currencies of trading partners in advanced countries (i.e., US, Japan, Euro Area and Australia). The *TPI-Developing* measures the effective exchange rates of the peso across 10 currencies of partner developing countries (i.e., China, Singapore, South Korea, Hong Kong, Malaysia, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, and Thailand).

Table 1.3 Selected Banking Indicators

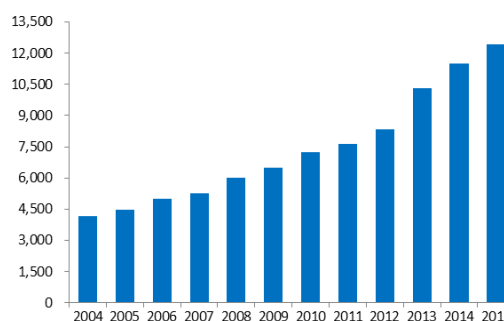
	2015 ^{p/}	2014	Percent Change (%)
Deposits (₱ Billion)*	7,277.7	6,682.6	8.9
Resources (₱ Billion)	12,406.1	11,546.2	7.4
Loans Outstanding - Universal and Commercial Banks (₱ Billion, Gross of RRP's)	5,142.7	4,527.2	13.6
Number of Banking Institutions (Head offices)**	635	652	-2.6
GNPL to Total Loans (%)	2.1	2.3	
NNPL to Total Loans (%)	0.7	0.6	
Capital Adequacy Ratio (% consolidated)**	16.4	17.0	

^{p/} Preliminary
^{*} Source: Depository Corporation Survey (SRF-based)
^{**} as of end-September 2015

Meanwhile, bank lending continued its double-digit growth since 2011, as outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase placements with BSP, posted a 13.6 percent y-o-y growth as of end-2015.

Preliminary data showed that both production and consumption loans grew, showing that lending growth supported the sustained expansion of the productive sectors of the economy in 2015.

Chart 1.7 Total Resources of the Banking System
 In billion pesos



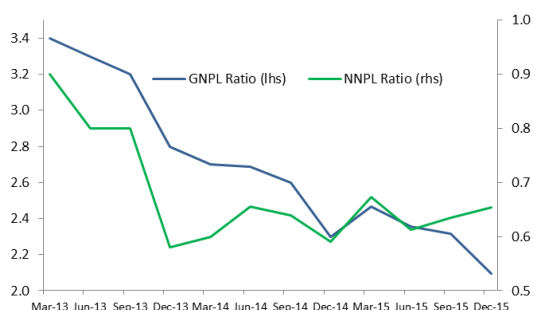
Likewise, the banking industry continued its consolidation, as indicated by the decrease in the number of banking institutions (head offices) to 635 as of end-September 2015 from 652 in 2014.

Chart 1.8 Loans Outstanding of Universal/Commercial Banks
Annual growth in percent



Amid strong lending, various metrics attest to the prudence and resilience of the banking sector. For instance, banks’ initiatives to improve their asset quality along with appropriate lending regulations helped bring the non-performing loans (NPL) ratio to 2.1 percent as of end-2015 from 2.3 percent as of end- 2014.⁸ This ratio puts the country within the range of its peers, as it was higher relative to South Korea (1.4 percent) and Malaysia (1.2 percent), but lower when compared with Thailand (2.6 percent) and Indonesia (2.3 percent).

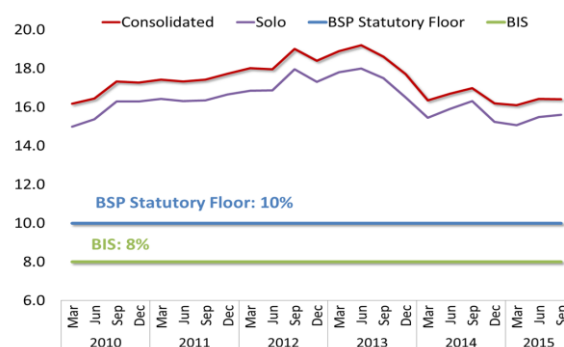
Chart 1.9 Ratio of GNPLs and NNPLs to Total Loans of the Banking System
End-of-period, in percent



⁸ For comparative purposes, computations for periods prior to January 2013 are aligned with Circular No. 772. Certain ratios were rounded-off to the nearest hundredths to show marginal movements.

In terms of capital adequacy, U/KBs posted capital adequacy ratios (CARs) of 15.6 percent and 16.4 percent on solo and consolidated bases at end-September 2015. These were lower than the 16.3 percent and 17.0 percent CAR recorded a year ago, but still above the regulatory standards of BSP and the Bank for International Settlements (BIS), notwithstanding the tighter capital requirements under Basel III.

Chart 1.10 U/KBs: Capital Adequacy Ratio
In percent



This figure again puts the industry in line with its regional neighbors, having higher consolidated CAR than those of Malaysia (14.8 percent) and South Korea (14.0 percent), but lower compared to those of Indonesia (20.6 percent) and Thailand (17.4 percent).⁹

Stock Market. Trading was relatively volatile in 2015 as external developments increased uncertainty and affected investor appetite towards local shares. Nevertheless, the Philippine Stock Exchange index (PSEi) increased by 9.4 percent to average 7,432.6 index points in 2015 from 6,793.3 index points in 2014. This was due to the strong start of the bourse in the first quarter,

⁹ Sources: Various central bank websites, IMF and financial stability reports, Indonesia (commercial banks, Q3 2015); Thailand (commercial banks, Q4 2015); Malaysia (banking system, Q3 2015); and Korea (domestic banks, Q3 2015).

wherein it reached 23 new all time-highs brought about by the easing monetary stance by most central banks. However, the string of negative developments dampened the optimism and eventually led to the dip in the index.

Global headwinds result in volatile trading in the stock market

In particular, the slowdown of the Chinese economy, Greek debt crisis, fall in oil prices and speculation on the US Fed lift-off fueled unease in 2015, leading the bourse to erase its first-quarter gains and fall below the 6,800 mark. Domestic concerns such as slower growth, lower earnings and El Niño also hindered the recovery of the index, which resulted in the index closing the year at 6,952 index points, 3.9 percent lower year-to-date.

Chart 1.11 Daily Philippine Stock Exchange Index

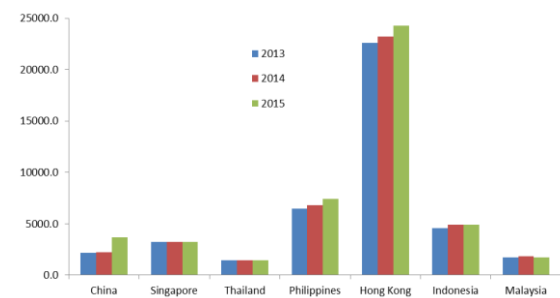


The uncertainty and volatility translated to risk aversion towards the region including the Philippines. The total sales of foreign investors amounted to ₱59.7 billion worth of stocks in 2015, a reversal of the ₱55.5 billion net purchases posted a year ago. Stock market capitalization also closed the year at ₱13.5 trillion, lower by 5.5 percent relative to year-ago levels.¹⁰ Finally, the

¹⁰ Total market capitalization measures the aggregate value of the issued shares of listed firms in the PSE.

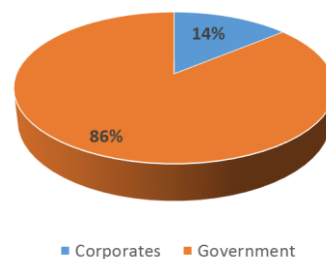
price-earnings (P/E) ratio decreased to average 19.9 times in 2015 from 20.5 times in 2014. Most stock indices in the Asian region increased during the year, although at a more moderate pace as a result of the turbulent global environment. The Chinese bourse led the increase (65 percent) owing to massive government stimulus, followed by the Philippines, Hong Kong and Thailand. Meanwhile, the stock markets of Malaysia, Singapore and Indonesia retreated.

Chart 1.12 Selected Asian Stock Indices In index points



Debt Securities Market. In the bond market, there was a decline in both public and private sector issuances in 2015, reflecting healthy government cash position and market’s limited funding needs. Both sectors’ issuances declined by 43.9 percent and 61.4 percent to ₱617.4 billion and ₱100.1 billion, respectively.

Chart 1.13 Domestic Debt Securities Issuances By issuer, as of end-December 2015



Demand remained robust in the primary market with investors tendering almost twice the NG programmed borrowings for both short- and long-

dated securities. However, the NG did not fully award its programmed borrowings for the year, accepting only about 68.7 percent or ₱340.1 billion of the offered amount.

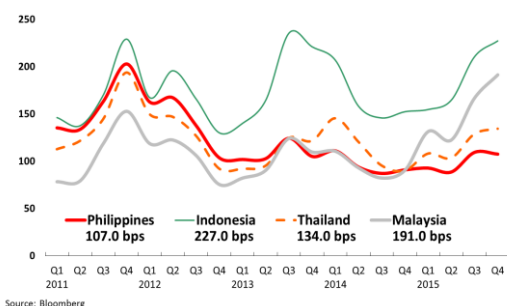
The BTr awarded less than its target as investors sought higher yields and were seen preferring shorter-dated NG debt papers amid expectations of the US Fed rate hike. The market also traded on a defensive stance due to concerns over the Chinese economy and uncertainties over the debt crisis in Europe, particularly in Greece.

Table 1.4 Results of GS Auctions 2015
In billion pesos

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	220.0	448.7	166.8	281.9
First Quarter	60.0	131.1	40.0	91.1
Second Quarter	60.0	94.4	43.0	51.4
Third Quarter	60.0	161.3	56.9	104.4
Fourth Quarter	40.0	61.8	26.9	34.9
T-bonds	275.0	470.7	173.3	297.4
First Quarter	75.0	150.0	50.0	100.0
Second Quarter	75.0	135.2	47.4	87.8
Third Quarter	75.0	127.9	50.0	77.9
Fourth Quarter	50.0	57.7	26.0	31.7
TOTAL	495.0	919.4	340.1	579.3

These concerns and the wait-and-see stance were also evident in the secondary market as trading volume of both government and corporate bonds at the Fixed Income Exchange (FIE) dropped to ₱3,423 billion, 23.1 percent lower than in 2014.

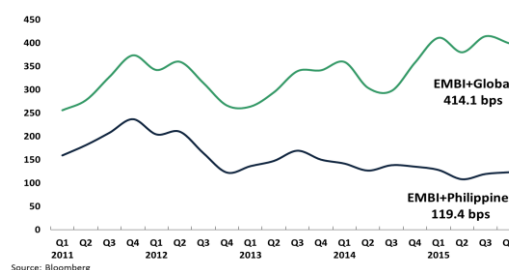
Chart 1.14 Quarterly Philippine Sovereign 5-Year CDS Spreads
In basis points



The pressures were also evident in the country's sovereign spreads. The cost of insuring Philippine sovereign debt increased in 2015, another indication of risk aversion towards emerging markets. Philippine credit default swap (CDS) spreads stood at 109 bps, higher than the 90.8 bps in end-2014, but still lower than the CDS spreads of Indonesia, Malaysia and Thailand.

Likewise, the average risk premium for holding a Philippine sovereign bond over a similarly tenured US Treasury bond climbed during the year to reflect the turbulent global environment.

Chart 1.15 Quarterly JPMorgan EMBI+ Sovereign Bond Spreads
In basis points



Finally, both the NG and the private sector had limited borrowings in the international bond market. The NG borrowed US\$2 billion worth of 25-year USD bonds with a coupon of 3.95 percent, and was the first to issue in the global dollar bond market for 2015. Private sector borrowings mostly came from real estate, banks and holding firms, and were used for refinancing and investments purposes. This limited international issuance for 2015 reflected the preference to rely more on domestic sources than on foreign creditors to limit exposure to foreign exchange risks.

Credit Risk Assessment. The Philippines' strong economic fundamentals secured favorable rating actions from major credit rating agencies in 2015.

Credit rating agencies remain optimistic on Philippine growth potential

Fitch Ratings, Standard & Poor's and Moody's Investors Service affirmed their respective sovereign credit ratings with a stable outlook, recognizing the economy's strong growth performance and its ability to confront external headwinds better than most emerging markets. Fitch even improved its sovereign outlook from stable to positive.

Table 1.5 Latest Philippine Sovereign Credit Ratings
As of December 2015

Rating Agency	Local Currency (LT/ST)	Foreign Currency (LT/ST)	Outlook
S&P	BBB/A2	BBB/A2	Stable
Moody's	Baa2/n.a.	Baa2/n.a.	Stable
Fitch	BBB-/F3	BBB/n.a.	Positive

On the other hand, Japan Credit Rating Agency, Ltd (JCRA) raised the Philippines' credit grade by a step from BBB to BBB+stable, a notch away from the minimum score in the "A" category and the highest rating the country has ever achieved. This is on the basis of the economy's sustained ability to expand at a fairly solid pace.

These third-party observers confirm the strong growth momentum of the Philippines and support a positive trajectory for the continued transformation of the economy.

External Sector Dynamics

BOP position for full year 2015 reverses to a surplus

Balance of Payments. The BOP position for full year 2015 yielded a surplus of US\$2.6 billion, a turnaround from the US\$2.9 billion deficit posted in 2014. This positive outcome was underpinned by the substantial decline in net outflows in the financial account even as the current account surplus decreased.

Current account registers lower surplus

The current account remained in surplus at US\$8.4 billion (2.9 percent of GDP) in 2015, albeit lower compared to US\$10.8 billion (3.8 percent of GDP) in 2014. The 21.9 percent decline in the current account surplus was due primarily to the widening of the trade-in-goods deficit and contraction in net services receipts.

- The trade-in-goods deficit for 2015 rose by 25.2 percent to US\$21.7 billion as the decline in exports of goods (by -13.1 percent) outpaced the contraction in imports of goods (by -3.2 percent). Global trade volatility in 2015 was driven by weak demand in emerging economies compounded by falling commodity prices.
- Net receipts in the trade-in-services account amounted to US\$4.2 billion in 2015, 7.3 percent lower than the US\$4.6 billion net receipts recorded in 2014. The contraction was caused mainly by higher net payments for travel, charges for use of intellectual property, insurance and pension, as well as government goods and services, among others.
- The primary income account registered net receipts of US\$2.3 billion, more than

thrice the US\$727 million net receipts in 2014. This was attributed mainly to reduced net payments in investment income (by -18.2 percent) on both direct and portfolio investments.

- Net receipts in the secondary income account grew by 3.2 percent to US\$23.5 billion, buoyed mainly by the 4.4 percent increase in remittances of non-resident OF workers amounting to US\$21.7 billion.

Cumulative net receipts of the capital account reached US\$82 million in 2015. This was lower by 24.3 percent than the US\$108 million recorded in 2014, due mainly to the decline in capital transfers to the NG.

Financial account shows lower net outflows

The financial account yielded net outflows (or net lending of residents to the rest of the world) of US\$2.5 billion in 2015, markedly lower by 73.8 percent than the US\$9.6 billion net outflows in 2014. This development was attributed mainly to the reversal of the direct and other investment accounts to net inflows, which tempered the higher net outflows in portfolio investments.

Direct investment account. The direct investment account recorded net inflows of US\$122 million during the year, reversing the US\$1 billion net outflows posted in 2014. This was brought about by the 17.1 percent drop in resident's net acquisition of financial assets to US\$5.6 billion. Meanwhile, net inflows of FDI fell slightly by 0.3 percent to reach US\$5.7 billion as intercompany borrowings decreased by 3.9 percent and reinvestment of earnings dropped by 14.8 percent. Non-residents' net placements of equity capital, however, rose by 15.1 percent, boosted by equity capital infusions from the United States, the Netherlands, Japan, the United Kingdom, and Singapore. These investments were channeled

mainly to manufacturing, financial and insurance, real estate, wholesale and retail trade, and construction sectors.

Portfolio investment account. Net outflows of portfolio investments grew by 75.6 percent during the year to reach US\$4.8 billion on account of higher net repayment of liabilities by residents (US\$2.1 billion) coupled with the sustained net acquisition of financial assets (US\$2.6 billion). Net repayment of liabilities consisted mainly of net redemption of debt securities issued by the NG (US\$1.2 billion) and by local corporations (US\$732 million) that were held by non-residents, as well as non-residents' net withdrawal of investments in equity securities issued by domestic financial and non-financial corporations (US\$756 million).

Other investment account. The other investment account recorded net inflows of US\$2.1 billion, a reversal from the US\$5.9 billion net outflows in 2014. On the asset side, net inflows resulted from non-residents' net repayment of loans extended by local banks (US\$848 million) and residents' net withdrawal of currency and deposit placements in foreign banks (US\$261 million). On the liabilities side, net inflows emanated from net loan availments by the NG (US\$1.1 billion) and domestic private corporations (US\$852 million) from non-resident creditors.

Table 1.6 Balance of Payments
In million US dollars

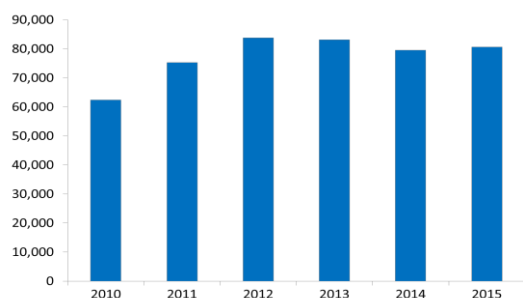
Accounts	2015	2014
Current Account	8,396	10,756
Capital Account	82	108
Financial Account	2,523	9,631
Net Unclassified Items	-3,338	-4,091
Overall BOP	-2,616	-2,858

International Reserves. The country's GIR amounted to US\$80.7 billion as of end-December 2015, registering a 1.4 percent increase from the end-2014 level due mainly to the NG's net foreign

currency deposits as well as the BSP's foreign exchange operations and its income from investments abroad. The end-2015 GIR level remains ample to cover 10.3 months' worth of imports of goods and payments of services and income. It is also equivalent to 5.1 times the country's short-term external debt based on original maturity and 3.8 times based on residual maturity.

Bulk of the reserves, or about 88.9 percent, was held in foreign investments. Meanwhile, 8.3 percent of total reserves were in gold, and the remaining 2.8 percent were in the combined holdings of special drawing rights (SDRs), the BSP's reserve position in the IMF, and foreign exchange.

Chart 1.16 Gross International Reserves
In million US dollars



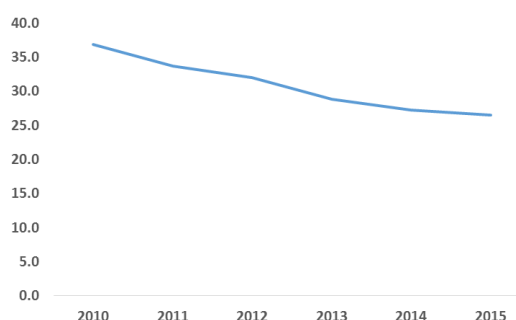
Net international reserves (NIR), which refer to the difference between the BSP's GIR and total short-term liabilities, amounted to US\$80.7 billion as of end-2015, higher by US\$1.1 billion than the year-ago level.

External Debt. Outstanding Philippine external debt stood at US\$77.5 billion as of end-2015, down by US\$200 million from the US\$77.7 billion level as of end-2014.

The y-o-y decrease was attributed to the following: (a) the transfer of Philippine debt paper holdings from non-residents to residents, largely banks (US\$1.8 billion); and (b) negative FX revaluation adjustments (US\$456 million) as the

US dollar strengthened in view of the gradual recovery of the US economy and expectations then of an interest rate hike. However, the decline in the debt stock was partly negated by: (a) net availments of US\$1.6 billion; and (b) previous periods' audit adjustments (positive US\$472 million).

Chart 1.17 External Debt to GDP Ratio



As of end-2015, the maturity profile of the country's external debt was primarily medium- to long-term (MLT) [i.e., those with original maturities longer than one year], with its share to total external debt at 80.5 percent (US\$62.4 billion). Short-term (ST) loans [or those with original maturities of up to one year] stood at US\$15.1 billion by the close of 2015 and accounted for the 19.5 percent balance of the debt stock.

External debt remains manageable

Private sector external debt grew from US\$37.7 billion in September 2015 to US\$39.2 billion at end-2015, representing 50.6 percent of the total debt stock. Of the total private sector debt, US\$24.4 billion were borrowings of corporates. Public sector debt, on the other hand, comprised 49.4 percent of total external debt at US\$38.3 billion.

Key external debt ratios continued to improve during the year in review. The debt service ratio (DSR), which relates principal and interest payments (debt service burden or DSB) to exports of goods and receipts from services and primary income, is a measure of adequacy of the country's FX earnings to meet maturing obligations. The ratio improved to 5.3 percent as of end-2015 due to the larger decline in payments as against the 6.3 percent as of end-2014.

The external debt ratio (a solvency indicator), or total outstanding external debt expressed as a percentage of gross national income (GNI), improved to 21.95 percent in end-2015, from the 22.50 percent level in end-2014. The same trend was observed using GDP as denominator. ■

What We Did in 2015: Three Pillars of Central Banking

Price Stability

Monetary Policy. The Monetary Board (MB) held eight monetary policy meetings in 2015 and decided to maintain the BSP's key policy interest rate at 4.0 percent and 6.0 percent for the overnight borrowing or reverse repurchase (RRP) facility and the overnight lending or repurchase (RP) facility, respectively. The interest rates on term RRP, RP, and special deposit accounts (SDAs) were also kept steady. Likewise, the reserve requirement ratios were left unchanged.

The BSP maintains its monetary policy settings throughout 2015

The policy decisions of the MB were based on the BSP's assessment of the dynamics and risks in the inflation environment over the policy horizon. Notwithstanding inflation falling below the National Government's inflation target, the BSP made clear that domestic price movements in 2015 were being driven largely by transitory supply-side factors that were outside the influence of monetary policy.

The BSP likewise noted that domestic economic activity continued to expand at a solid pace during the year, supported by robust domestic spending, favorable business and consumer sentiment, as well as ample domestic liquidity and credit. Equally important, expectations of the public on future inflation continued to be well anchored, remaining aligned with the NG's inflation target. Finally, there were no clear indications of second-round effects from supply shocks that would have reinforced the decline in inflation that should warrant monetary action from the BSP.

At the same time, the MB noted that the challenging external environment and uneven growth prospects in advanced and key emerging economies supported the decision to keep policy settings steady.

The BSP announces the adoption of an interest rate corridor system in 2016

In its policy communications to the public, the BSP emphasized that the benign inflation environment and the economy's underlying growth momentum provided adequate room to maintain monetary policy settings. The BSP also noted that it would continue to monitor emerging price and output conditions to ensure price and financial stability conducive to sustainable economic growth.

Meanwhile, in September 2015, the BSP announced the implementation of an interest rate corridor (IRC) system in 2016. The IRC system will introduce key changes in the framework for monetary operations that will enhance the transmission of policy rate adjustments to key macroeconomic variables. While the shift will not represent a change in the monetary policy stance, the interest rate corridor will be appropriately configured to guard against any undue tightness in domestic liquidity conditions during the transition and provide effective guidance for market interest rates, consistent with the BSP's prevailing monetary policy stance.

Box Article 1

Has Inflation Dynamics Changed After the Global Financial Crisis? Some Insights from the Philippines

1. Introduction

The Philippines officially adopted inflation targeting as its monetary policy framework in 2002. Inflation targeting focuses mainly on achieving price stability as the ultimate objective of monetary policy. Under this approach, the central bank announces an explicit inflation target and promises to achieve it over a given time period. Following the implementation of inflation targeting, average inflation in the Philippines declined to 4.7 percent between 2002 and 2008 from an average of 9.4 percent during the pre-inflation targeting period (i.e. 1988 – 2001). It further slowed down to 3.5 percent in the period following the Global Financial Crisis (i.e. 2009 – 2015). Inflation volatility was likewise reduced from 4.0 percent during the pre-inflation targeting period (i.e. 1988 – 2001) to 2.3 percent during the first eight years of inflation targeting (i.e. 2002 – 2008) to 1.3 percent in the years after the GFC.

**Year-on year average and volatility of inflation
(Standard Deviations, Percentage Points)**

	Year-on-year average	Volatility
1988 – 2001 (Pre-IT)	9.4	4.0
2002 – 2008 (Pre-GFC IT)	4.7	2.3
2009 – 2015 (Post-GFC IT)	3.5	1.3

Source: BSP-Center for Monetary and Financial Policy (CMFP) estimates

For the past six consecutive years (2009-2014), the BSP managed to keep inflation within the National Government’s inflation target range. Inflation remained relatively stable even as the Philippine economy emerged as one of the strongest in Southeast Asia in recent years and experienced substantial capital flows. In 2015, inflation rate averaged at 1.4 percent, which is below the inflation target of 2.0 – 4.0 percent for the year. The below-target inflation is due mainly to slower increases in the prices of food items caused by ample domestic supply and drop in oil and commodity prices.

2. Inflation dynamics in the Philippines

Inflation dynamics in the Philippines are observed to have changed with the adoption of inflation targeting (Guinigundo, 2016). The table below presents the regression results for an estimate of the inflation equation¹ between two periods: 1988 – 2001 (i.e. pre-inflation targeting period) and 2002 – 2015 (i.e. inflation targeting period). Results show that the coefficient of lagged inflation is 0.53 in the

¹ Short-run inflation dynamics is traditionally studied under the framework of the Phillips curve. To assess the changes that occurred in the inflation dynamics in the Philippines, the following specification of an expectations-augmented Phillips curve is used:

$$\pi_t = \alpha + \beta_1 \cdot \pi_{t-1} + (1 - \beta_1) \cdot E_t \pi_{t+1} + \beta_2 \cdot ygap_{t-1} + \beta_3 \cdot zgap_t + \varepsilon_t$$

where: π_t is quarterly inflation, ygap is an estimate of the output gap and zgap is the deviation of real exchange rate from its trend. Current inflation is partly dependent on a weighted average of its future and lagged values. The lags of inflation are meant to capture the observed persistence in inflation. The zgap captures potential external supply shocks. All data used are quarterly time series over the period 1988 – 2015. Inflation is measured as the quarterly year-on-year percent change in CPI. Output gap and the real exchange rate gap represent deviations from trends.

1988 – 2001 period and 0.48 in the 2002 – 2015 period while future inflation is 0.47 in the pre-IT period and 0.52 in the IT period, respectively. The coefficients of lagged inflation and expected inflation were observed to be highly significant in both periods. These findings imply that between the two periods, inflation persistence has gradually declined as the inflation process shifted from being more backward looking to being more forward looking. Other studies of the BSP also show that the statistical significance of inflation persistence has declined and the statistical significance of inflation expectations has increased. The ability of the BSP to keep inflation within the target range led agents to adopt a more forward looking orientation in their assessment of current inflation. With increased credibility of monetary policy, expected inflation started to weigh more in the pricing decisions of firms and consumers.

Regression Results

Variables	Coefficient	1988 – 2001 (Pre- inflation targeting period)	Standard error	t-Statistic	2002 – 2015 (Inflation targeting period)	Standard error	t-Statistic
Inflation persistence (π_{t-1})	β_1	0.53	0.043	12.455*	0.48	0.065	7.431*
Expected inflation (π_{t+1})	$(1 - \beta_1)$	0.47	0.043	10.941*	0.52	0.065	7.957*
Output gap (<i>vgap</i>)	β_2	0.15	0.081	1.845**	0.12	0.070	1.736**
Real exchange rate gap (<i>zgap</i>)	β_3	-0.06	0.020	-3.034*	-0.01	0.018	-0.424

* Significant at the 0.01 probability level

** Significant at the 0.05 probability level

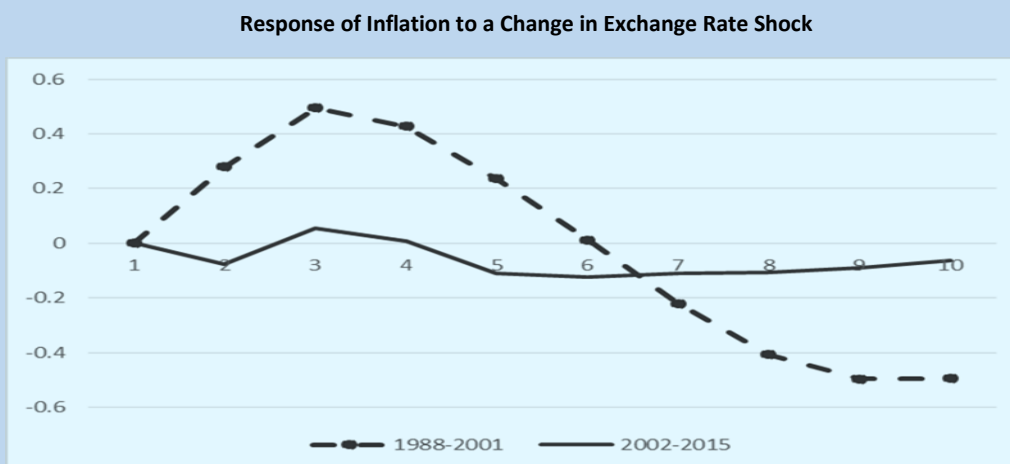
Source: BSP-CMFP estimates

3. Inflation targeting and its impact on the exchange rate pass-through

The adoption of inflation targeting in many small open economies and the shift towards a more flexible exchange rate regime have contributed to the increased interest in exchange rate pass-through (ERPT) over the last two decades. Understanding how changes in the exchange rate are transmitted to import prices (i.e. short-run ERPT) and, in turn, from import prices to aggregate domestic prices (i.e. long-run ERPT) is important in forecasting inflationary developments and enacting monetary policy responses. ERPT estimates are important as they provide insight on the transmission of cross-border shocks, the maintenance of competitiveness of tradable sectors and the conduct of monetary policy by central banks.

The current issue on the decline of ERPT following the GFC highlights the greater role of economic and financial integration and its implications on the conduct of public policy by central banks, fiscal authorities and trade regulators. In the case of the Philippines, Bayangos et al (2015), find that, in general, the easing of foreign exchange regulations has helped mobilize foreign capital to finance the requirements of the domestic economy. This could lead to the decline in ERPT.

An analysis of the ERPT between two periods: 1988–2001 (pre-IT period) and 2002–2015 (IT period).² The impulse response functions (IRFs) show a significantly lower response of inflation to shocks to the change in exchange rate in the IT-period compared to pre-IT period.



Source: Authors' estimates

This result is consistent with the findings of Mihaljek and Klau (2008) as they noted a substantial decline in the short-run ERPT for the Philippines after 2001. One possible reason for this is the decline in the “signal” value of the exchange rate as confidence grew on the ability of the BSP to keep inflation within manageable levels.

4. Implications for monetary policy

Since domestic prices are marginally affected by exchange rate fluctuations, this results imply that there is greater flexibility for monetary authorities in maintaining price stability. Moreover, the declining sensitivity of short-run inflation to fluctuations in real economic activity in the Philippines has important implications for the conduct of monetary policy. Bean (2006) notes that this brings mixed blessings for monetary authorities. On one hand, it implies that demand shocks and policy errors will not translate into large movements of inflation. However, on the other hand, if inflation is above target, bringing it down to the target level would entail a greater sacrifice of output. To a large extent, this would therefore suggest a greater weight to the central bank’s commitment to its primary responsibility for price stability. This is where the credibility of the BSP becomes even more relevant.

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²Using quarterly time series data for the period 1990Q1 – 2015Q3. Inflation is measured as the quarterly year-on-year percent change in CPI.

Loans and Credit. The BSP conducted short-term lending operations in 2015 mainly through its rediscounting facility to ensure that the liquidity in the financial system remained consistent with the BSP's price stability objective.

The rediscount rates for Rediscounting Window I and Rediscounting Window II (RW I and RW II, respectively) remained at 6.0 percent and 4.0 percent, respectively. The peso rediscount rates for RW I and RW II are based on the applicable BSP one-month RP and overnight RRP rates, respectively, plus term premia for longer maturities.¹¹

At the same time, the BSP also granted temporary rediscounting and regulatory relief to banks affected by the natural calamities that occurred during the year. The temporary relief granted a 60-day grace period to settle outstanding rediscounting obligations to all banks with operations or end-user borrowers in affected areas. The regulatory relief measure allowed rediscounting banks to restructure with the BSP, on a case-to-case basis, the outstanding rediscounted loans of their end-user borrowers affected by the calamities, subject to the terms and conditions stated in the implementing guidelines.

Total loans granted in 2015 amounted to ₱469.8 million. All loans were released through the BSP rediscounting facility, the majority of which went to the trading sector. Meanwhile, loan collections applied to principal reached ₱1.2 billion, the bulk of which pertained to peso rediscounting loans amounting to ₱852.6 million.

Targets related to the provision of loans and credit were exceeded in 2015. Total gross income from lending operations reached ₱2.0 billion in

2015, higher by ₱14.5 million than the 2014 income. The 2015 gross income exceeded the projected level of ₱1.4 billion mainly on the back of higher-than-expected income from loans to the Philippine Deposit Insurance Corporation (PDIC), emergency and restructured programs as well as miscellaneous income.

The past due ratio (PDR) also improved to 10.0 percent¹² in 2015 compared to 10.2 percent in the previous year due largely to the foreclosure on mortgaged properties of a thrift bank during Q1 2015. Proceeds from the foreclosure sale covered other obligations incurred by the BSP amounting to ₱255.7 million.

Moreover, targeted collection levels in 2015 were exceeded, achieving a 100-percent collection rate on loans to PDIC, emergency loans, and other loans, and 96.2 percent on rediscounting loans. The credit risks on current rediscounting loans were also proactively managed through on-site credit verification.

Asset Management. As of end-2015, the total book value of acquired assets of the BSP stood at ₱16.2 billion, lower by about 0.1 percent from the previous year's level.¹³

Through its various asset disposal schemes, the BSP sold an aggregate of 2,858 titles covering various real estate properties with a total net book value of ₱876.5 million and a total contract price of about ₱2.4 billion, exceeding the BSP's sales target of ₱1.0 billion for the year. The sale of acquired properties yielded an estimated net income of ₱2.1 billion, inclusive of interest income

¹¹ Per Circular No. 806 dated 15 August 2013.

¹² The composite PDR ratio will be reduced to 5.7 percent if the matured PDIC loan amounting to ₱3,025.3 million for the account of the Philippine National Bank, referred to Department of Justice for interpretation of contested provisions of the Loan Agreement, will be excluded.

¹³ The total book value includes the values of previously approved sale transactions still awaiting the submission of duly executed sale documents from buyers.

that would be earned over the term of the contracts for installment sales.

The BSP also collected about ₱266.8 million in sales contract receivables, representing 91 percent of total payments due in 2015. Nonetheless, the actual collection rate surpassed the target rate of 88 percent target for the year. Interest income earned on these collections amounted to ₱183.7 million.

Table 2.1 Asset Disposal Schemes in 2015

Disposal Scheme	No. of Properties Sold	(in million pesos)		
		Selling/ Redemption Price	Net Book Value	Estimated Net Income
Public Auction	2,358	1,833.5	564.8	1,876.2
Negotiated Sales	479	478.0	272.8	215.3
AMD-PFO Housing Program III	16	31.1	22.6	7.8
Redemption	5	20.6	16.4	4.3
Total	2,858	2,363.2	876.5	2,103.7

Totals may not add up due to rounding.
Source: BSP-Asset Management Department

Moreover, the BSP earned rental income of ₱39.2 million from a total of 23 lease contracts¹⁴ covering 42 property titles and with terms ranging from one year to 10 years.

Notes and Securities Printing. The BSP’s banknotes and securities printing exceeded production and delivery targets across the board. At about 1.7 billion pieces, the production of in-house finished banknotes surpassed the year’s target of 1.2 billion pieces by 40 percent, leaving 472 million pieces of on-hand inventory ready for delivery along with the 305 million pieces in the work-in-process inventory as of year-end. At a little over 2.3 billion pieces, delivery of outsourced finished banknotes also surpassed the target of 2.3 billion pieces.

Passport production and delivery were likewise in line with the total requirement of the Department of Foreign Affairs (DFA) for the year. A total of 3.5 million passports were produced in 2015,

¹⁴ The BSP Monetary Board authorized the entry of the BSP into new lease agreements over acquired assets on 4 August 2000.

higher by 12.9 percent compared to the previous year. Meanwhile, about 3.0 million pieces of Land Registration Authority (LRA) Judicial Forms were produced and delivered during the year, representing 100 percent of the year’s target level.

As part of its continuous process improvement initiatives, the BSP completed five major projects during the year: (1) improvement of banknotes and securities production machine rates; (2) discontinuation of the counting of printed sheets for offset printing, intaglio printing, and banknote finishing processes; (3) elimination of the part wash activities of intaglio and numbering processes; (4) simplification of banknotes inspection processes and securities reconciliation forms; and (5) improvement of banknotes catalogue of defects and optimization of the Automatic Single Note Inspection System.

Mint and Refinery. Delivery and production of circulation coins fell below target for the year. A total of 1.6 billion pieces of circulation coins of various denominations were delivered to the Currency Issue and Integrity Office (CIIO) against a target of 3.8 billion pieces. The shortfall was due to limited finished coin deliveries as well as CIIO’s request for deferral of coin deliveries amid vault space constraints. The limited vault space also constrained coin production, as only 2.2 billion out of the 3.5 billion target production was accomplished during the year. Out of the circulation coins delivered, 8.2 million were commemorative coins, of which 8.1 million were the 10-Piso Miguel Malvar coins.

Apart from the production and delivery of circulation coins, the BSP was able to meet all other targets. The refinery produced 49 “good delivery bars” (GDBs), exceeding the target of 48 GDBs. The mint also produced and delivered all orders received for presidential medals and state decorations (103 sets), commemorative medals and medallions (7,909 sets), and corporate gifts (881 sets). While 554,781 sets out of the 555,000 sets of commemorative brilliant uncirculated

coins ordered were delivered as of end 2015, the balance of 219 sets is set for delivery by Q1 2016.

Key projects implemented during the year include: (1) improvement of product quality and security through the introduction of stretch wrapping and angle board support for corrugated boxes in pallets; (2) maximization of manpower capacity in the Coin Striking Division through the reduction of man-to-machine ratio from 1:3 to 1:1; and (3) enhancement of production capacity and job accuracy through the acquisition of various machines and equipment

Currency Issuance and Retirement. Total currency in circulation (CIC) as of end-2015 amounted to about ₱1.0 trillion (27.8 billion pieces), 97.2 percent of which were banknotes while the rest were coins. The total CIC for 2015 was higher by 8.1 percent compared to the ₱929.5 billion (25.9 billion pieces) recorded in the previous year.

The BSP also continued to provide timely, good-quality, and adequate currency to meet the requirements of the economy by strengthening its methodology for forecasting denominational currency requirements; commencing operations of Enhanced Cash Management (ECM) services in February 2015; facilitating faster verification of banknote and coin deposits; expediting the retirement of unfit notes through the use of the new Cash Disintegrator System (CDS) 600¹⁵ machine and the acquisition of two high-speed Automated Banknote Processing Machines (ABPMs); purchasing foreign currencies from banks as part of BSP's service to banks; and facilitating shipment of foreign currencies to correspondent banks abroad.

¹⁵ The new CDS 600, with lock, load and leave features, replaced the Security Engineered Machine (SEM) Disintegrator that was used to shred low-denominated banknotes in the past. The use of CDS 600 allowed for the retirement of uncancelled verified low-denominated notes on the same day that they were verified. By contrast, currency retirement through the use of SEM required verified notes be cancelled first before shredding.

At the same time, to preserve currency integrity, the BSP continued to conduct public information campaigns on various currency-related programs and policies of the BSP, such as counterfeit detection, Clean Note Policy, and Coin Recirculation Program, among others; examined mutilated/doubtful currencies and negotiable instruments; strengthened the anti-counterfeiting drive; and calibrated the ABPMs for accuracy in counterfeit detection.

International Operations. The BSP continuously reviews its foreign exchange (FX) regulatory framework to keep it attuned with prevailing market conditions and responsive to the needs of the country's expanding and dynamic economy. As of December 2015, the BSP had implemented eight sets of FX reform measures aimed primarily at facilitating stakeholders' access to FX resources of the banking system for legitimate FX transactions and thereby support business activities.

In 2015, the BSP issued Circular No. 874 on 8 April 2015 containing the following amendments to the FX regulations to allow the following: (1) the sale of FX by banks and their forex corps to residents without prior BSP approval to settle net obligations (payables) under intercompany netting arrangements pertaining to trade transactions (import and export) of resident entities with related foreign entities (parent, subsidiary, affiliate) upon presentation of documentary requirements; (2) the remittance of payments in FX by Philippine residents for settlement of trade and non-trade current account obligations in favor of payment centers/treasury centers/hubs of a group of companies; and (3) the sale of FX to residents for settlement of their credit card obligations to resident credit card companies.

Meanwhile, the BSP also established the Currency Exchange Facility (CEF) program to provide immediate liquidity assistance to displaced or affected overseas Filipino workers (OFWs) returning from countries experiencing

emergencies/ unforeseen problems. The CEF allows returning OFWs to convert their holdings of third currencies (i.e., non-US dollar) to Philippine pesos. As of December 2015, there have been seven (7) CEFs opened, with the latest pertaining to the program for the Libyan Dinar which was reopened for another six (6) month-period starting 30 January 2015 after the program ended in 2014, to cater to the demands of OFWs who were returning from Libya.

Finally, the Foreign Loan Approval and Registration System (or FLAReS) has been in operation for three (3) years, facilitating the transmission of applications pertaining to loan approval and registration, the exchange of communications with clients, and the payment of processing fees through accredited banks. In 2015, 39 new companies registered with FLAReS, with the bulk coming from the utilities sector (electricity, gas, and water supply), to bring the total number of FLAReS-registered companies to 146.

To address the evolving needs of both external clients and internal users, system review is continuously undertaken and enhancements are identified to improve functionalities and efficiency.

Economic Research and Statistical Information Dissemination. In 2015, the BSP Monetary Policy Sub-Sector was certified ISO 9001:2008-compliant for the effective implementation of its quality management system (QMS) on its processes. The certification is valid for three years with regular surveillance audits to ensure the continuous effective implementation of the QMS.

Regular Reports. In 2015, the BSP continued to publish regular reports to provide the public information on the factors behind its monetary policy actions and to guide expectations on the future path of the BSP monetary policy stance. The publication of regular reports, press releases, and statistical bulletins likewise helped the BSP enhance its transparency and accountability

mechanisms and maintain its commitment to provide timely and relevant data and information to help guide economic decision-making.

Surveys. The BSP also continued to conduct regular surveys to supplement information from data releases in aid of better policy-making, including the monthly Inflation Expectations Survey; the quarterly Senior Bank Loan Officers' Survey, Business Expectations Survey (BES), and Consumer Expectations Survey (CES); the semi-annual Coordinated Portfolio Investment Survey (CPIS); and the annual Coordinated Direct Investment Survey (CDIS).

Two rider surveys on the usage of low-denomination coins by corporates and households were conducted in the Q3 2015 for BES and CES, respectively. Meanwhile, in compliance with the Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF), the survey on Foreign Direct Investment and Related Data (FDIRD) was replaced by the CDIS for its Q2 2015 run. Within the same month, the BSP also implemented the revised questionnaire for the monthly Cross-Border Transactions Survey (CBTS). The BSP also started the groundwork for the Other Financial Corporations Survey (OFCS). The OFCS is being undertaken by the BSP as part of the IMF's SDDS Plus, to enhance the scope of the economic and financial statistical data being disseminated by the BSP to the public.

Information Dissemination Activities. The BSP continued to provide venues for discussion to help promote public awareness on crucial economic and financial issues. These included the quarterly Inflation Report Press Conference, the Environmental Scanning Exercise, and the Exporters' Forum. In addition, a special information dissemination session on the BSP's key functions, challenges, and policy thrusts was conducted in Q3 2015 for key officers and staff of the House of Representatives and the Senate. Eleven lecture seminars were also held in 2015 in

an effort to deliver timely, relevant, and high-quality information to the BSP community.

In reinforcing its working ties with the academe, the BSP continued to organize the Professorial Chair Lectures with the University of the Philippines (UP).¹⁶ Lectures in 2015 covered a wide range of issues such as taxation, regional benefits from an open economy, demographic transition on economic growth, forecasting using dynamic factor models, trade and global value chains, credit risk assessment and validation of rating systems, financial inclusion, leadership and corporate governance, and fungal diversity and its relation to food security. The BSP also organized the lecture of Francis E. Warnock¹⁷ on international capital flows and that of Robert C. Merton¹⁸ on systemic risk measurement and management.

Inter-agency and Multilateral Committees. The BSP continued to enhance its relationship with the public and private sectors by actively participating in inter-agency committees and collaborating with various local and international organizations. As a resource institution of the Development Budget Coordination Committee (DBCC), the BSP participated actively in economic policy discussions and in setting macroeconomic assumptions needed for the preparation of the annual budget and programs of the NG.

The BSP served as co-chair of the Inter-Agency Committee on Trade Statistics (IAC-TrS) and was elected as chair of the Task Force on Monetary and Financial Statistics. In June 2015, the BSP also accepted the invitation of the Remittance for Development Council (ReDC) to serve as co-chair of the Council. The BSP likewise joined the discussion organized by the Inter-Agency Committee on Investments Statistics (IACIS) on

the updating of the Philippine Statistical Development Program for investment statistics.

The BSP hosted the 2015 Awards Ceremony and Appreciation Lunch for Stakeholders, with the theme “12 Years and Beyond: Celebrating Stronger Partnerships and Successful Collaborations.” Awards were given to 88 outstanding institutional partners nationwide.

In May 2015, the BSP hosted the 18th BIS Meeting of the Working Party on Monetary Policy in Asia. The event was a venue for discussion on the most recent key policy issues relevant to monetary policymaking.

In fulfilling its role in the debt-financing process of other agencies in the government, the BSP received a total of 391 requests for MB opinion on proposed borrowings by the NG, government-owned and -controlled corporations (GOCCs), local water districts (LWDs), state universities and colleges (SUCs), and local government units (LGUs).

Trainings, Workshops, and Technical Assistance (TA) Projects. In Q3 2015, the BSP, in coordination with the South East Asian Central Banks (SEACEN) Centre, conducted a course in econometric modeling and forecasting for both BSP staff and foreign central bankers. The BSP also collaborated with the Asian Development Bank (ADB) in the conduct of seminars on the different methodologies of early warning systems. The International Seminar on Trade in Goods and Services Statistics, a part of the annual meeting/workshop of the Working Group on Statistics in International Trade-in-Services held in April 2015, was likewise hosted by the BSP in coordination with the ASEAN Secretariat and ADB Institute, with funding support from the EU-ASEAN COMPASS Project.

Meanwhile, various TA projects from the United States Department of the Treasury-Office of Technical Assistance (USDT-OTA) were initiated in 2015. One of the TA projects in 2015 is the

¹⁶ The BSP-UP Professorial Chair Lectures provides an opportunity for chairholders to present and discuss their research with participants from and outside the BSP.

¹⁷ Francis E. Warnock is a Professor at the Darden Graduate School of Business, University of Virginia.

¹⁸ Robert C. Merton is a School of Management Distinguished Professor of Finance at the MIT Sloan School of Management.

development of a Financial Computable General Equilibrium (FCGE) Model, suited to the economic environment of the Philippines. The FCGE model shall equip the BSP with the facility to study in depth the relationship between the financial and real sectors of the economy. Other approved TA projects covered the areas of financial stability and operational efficiency through modernization of information technology systems.

Another project under the USDT-OTA is the development of the Residential Real Estate Price Index (RREPI). The construction of RREPI is a first in the Philippines and is expected to provide a valuable tool in assessing real estate prices and credit conditions in the country. Through BSP Circular No. 892, Series of 2015, the BSP began collecting quarterly reports on the residential real estate loans granted by universal/commercial banks and thrift banks.

Research and Process Initiatives. In an effort to continuously improve its economic modeling and forecasting capacity, the BSP reviewed and refined its in-house macroeconomic forecasting models. The BSP also participated in international network meetings on model development and forecasting. Research studies were also conducted to analyze key economic and financial issues as inputs to the formulation of appropriate monetary policy, including those on monetary policy transmission and early warning systems, among others.

The BSP spearheaded the ongoing construction of the 2010 Philippine Financial Social Accounting Matrix (PFSAM). The PFSAM provides an overview of the real and financial transactions in the economy and shows the inter-linkages between the real and financial sectors, as well as the inter-relationships among the economic institutions. As an innovation from the 2009 PFSAM, the 2010 PFSAM will be generated with household accounts by income levels: namely, low, medium and high.

As part of the implementation of the IRC system, the BSP initiated the in-house development of its systems for liquidity forecasting and auction-based monetary operations. To facilitate a smooth transition to the IRC system, the BSP also conducted consultation meetings with banks, other counterparties, and government partners in Q4 2015 to discuss the details of IRC-related reforms and their potential impact on the operations of these institutions.

Financial Stability

In 2015, the BSP continued its commitment to promote banking system soundness and maintain financial stability by focusing on the continuous enhancement of banks' regulatory framework, implementation of a risk based supervision system and strengthening financial surveillance system and analytics. This was complemented by various advocacies on financial market reforms, financial inclusion consumer protection and active engagement of stakeholders.

Enhancing banks' regulatory framework. In 2015, prudential policies were implemented to strengthen banking system soundness.

The Basel III reform on leverage ratio was issued under Circular No. 881 dated 9 June 2015 to highlight the danger of excessive accumulation of bank assets without sufficient capital support. The minimum leverage ratio of up to 20 times Tier 1 capital applies to universal and commercial banks and their subsidiary and quasi-banks at both individual and consolidated (groups) levels. This new measure is implemented consistent with the broader financial stability agenda of the BSP of mitigating the build-up of system-wide risk.

Circular No. 888 dated 9 October 2015 was issued to liberalize the regulations on dividend declaration of banks and quasi-banks (QBs) on shares of stock and similar capital instruments. This policy amendment aligns the dividend declaration standards with ASEAN Corporate

Governance Standard. It also holds more accountable the board of directors and management of the bank and QB on the declaration of dividends; and makes more transparent to the public the dividend declaration in view of the required disclosures.

The BSP also issued Circular No. 875 dated 15 April 2015 on Supervisory Enforcement Policy, which is anchored on BSP's Supervision by Risk and formulated to provide industry guidance on BSP's enforcement process, set clear supervisory expectations when BSP deploys enforcement actions, and reinforce consciousness on the consequences when required and expected actions are not performed within prescribed timelines.

Meanwhile, following the issuance in 2014 of the landmark policy on the implementing rules and regulations (IRR) of R.A. No. 10641, which allows full entry of foreign banks in the Philippines, the BSP facilitated the entry of six new foreign banks in 2015. This is in line with the efforts of the BSP to liberalize the banking sector and to promote healthy competition and strengthen the banking system towards the ASEAN regional integration by 2018. The six foreign banks are:

- Sumitomo Mitsui Banking Corporation;
- Cathay United Bank Co., Ltd.;
- Shinhan Bank Co. Ltd.;
- Industrial Bank of Korea;
- Yuanta Commercial Bank Co. Ltd.; and
- United Overseas Bank Limited.

An extensive discussion of BSP's broad-based financial restructuring agenda is outlined in Box Article 2.

Implementation of a Risk-Based Supervision System. The BSP's comprehensive supervision continues to be systematically driven by various key oversight activities, particularly on-site examinations, off-site surveillance, problem bank resolutions, and non-bank financial institution (NBFI) surveillance.

Examinations conducted in 2015 covered 544 banks and 36 non-banks, an average of 50 financial institutions per month. This constitutes 99.5 percent of the approved number of banks scheduled to be examined for 2015. For NBFIs, inspections of pawnshops, foreign exchange dealers, money changers, and remittance agents, have also been periodically conducted. The BSP also strengthened its off-site surveillance through the conduct of risk assessment exercises, and the preparation of institutional overviews (IO).

In the area of problem bank resolution, the BSP collaborated with the Landbank of the Philippines and the PDIC in drafting progressive incentive programs aimed at encouraging mergers and consolidation to bring about a less fragmented banking industry. These programs include the Strengthening Program for Rural Banks (SPRB), SPRB Plus, Strengthening Program for Cooperative Banks (SPCB), SPCB Plus, and the recently approved Consolidated Program for Rural Banks.

The BSP processed 440 bank applications/licenses in 2015. It also processed (i) 227 registration of FX dealers (FXDs), money changers (MCs), and Remittance Agents (RAs) and 425 registration of FXD/MC/RA branches; (ii) 653 registration of pawnshops; (iii) 464 registration of pawnshops' corollary activities, i.e., FXDs/MCs/RAs; and (iv) 363 revocation/closure of pawnshops including their branches.

Strengthening financial surveillance system and analytics. The BSP continued to conduct proactive surveillance of the domestic, regional and global economies to foster an integrated policy response to risks. Market developments are continuously assessed for their financial stability implications, with a forward-looking view to anticipate and evaluate the co-mingling of risks that could be systemic in nature. In 2015, BSP pursued the following initiatives:

- Conduct of System-wide Stress Testing of Banks and Network Analysis;
- Continuing Real Estate Stress Test (REST) assessments of major banks;

- Domestic Systemically Important Bank (DSIB) identification and Notice;
- Launch of the weekly Dashboard release which serves as the base for the assessments and analysis;
- Launch of the maiden report on cross-border investments and borrowings of banks; and
- Engaged IMF and US Treasury for Technical Assistance (TA) to enhance BSP financial stability surveillance capacity.

Inter-agency Collaboration for Financial Stability.

The BSP maintained its leadership in promoting financial stability through the Financial Stability Committee (FSCComm) and the Financial Stability Coordinating Council (FSCC). In 2015, the FSCComm and FSCC had 6 and 4 Executive Committee meetings, respectively.

Advocacy for Financial Market Reform. To complement its supervision and examination efforts, the BSP also pushed for the development and implementation of financial market reforms to stay attuned and respond to the continuous evolution of the financial market landscape.

The BSP has adopted the new regulatory capital framework and other facets of the Basel III to

strengthen banks' capacity to withstand shocks and promote financial stability in the system.

In the area of capital markets, various initiatives and policies focused on providing investors with a wider array of financial products and services as well as increasing transparency and strengthening surveillance over financial markets which may be a potential source of contagion, particularly in periods of market stress. Key milestones in 2015 include the following:

- Operationalization of Personal Equity Retirement Act (PERA);
- Guidelines on the establishment of Trust Corporations (Circ. 884);
- Immediate listing of LTNCTD issues and deletion of the requirement for market makers prior to issuance of LTNCD (Circ. 834);
- Name on Registry or on Central Depository (Circ. 873);
- Sun-setting of PDST-F;
- Participation in interbank Repo Project; and
- Advocacy on efficient clearing and settlement of debt securities.

Box Article 2

BSP's Broad-Based Financial Restructuring Agenda

Overview of Financial Stability Reforms

The hard lessons of the 1997 Asian Financial Crisis paved the way for the broad-based restructuring of the financial sector. Throughout the years, the BSP remains steadfast in pursuing meaningful reforms to promote continuing financial stability. Efforts toward this end are three-fold: (1) broad-based and continuing financial sector restructuring to develop a dynamic, stable and truly inclusive financial system, (2) cross-sectoral cooperative arrangements with financial regulators¹, legislators and the private sector to harmonize regulatory standards and align the same with international norms; and (3) reform-oriented and integrated advocacy on financial inclusion, consumer education and protection.

¹ Both domestic and international

Broad-Based Financial Sector Restructuring Reforms

Strengthening bank's capital. Given the pivotal role of the financial system in economic development, particularly banks, the BSP further strengthened local standards on risk-based capital to allow them to withstand both internal and external shocks and thereby promote greater stability in the financial system. In 1998, a staggered increase in minimum capitalization was ordered over a three-year period until 2000 to strengthen banks' capacity to survive shocks and encourage mergers. Apart from the prescribed minimum capital, banks were required to maintain a net worth-to-risk assets (NWRA) ratio of at least 10 percent. On 01 July 2001, the BSP adopted the risk-based capital adequacy framework. Since then, the BSP has been progressive in adopting the Basel standards on risk-based capital and it implemented the Basel III framework on 01 January 2014, four years ahead of the timeline set by the Basel Committee on Banking Supervision (BCBS).

Recent reforms in this area include Basel III capital requirements² and higher minimum capital requirements for all bank categories, domestic systemically important banks (DSIBs) framework³, Basel III leverage ratio⁴ and liquidity coverage ratio (LCR)⁵.

Promoting a deeper culture of good governance in BSP-Supervised Financial Institutions (BSFIs) and enhancement of risk management standards. The BSP recognizes that good corporate governance is the basic foundation of a safe and sound financial system and continues to raise the bar on corporate governance standards. One of the landmark regulatory reforms was the adoption of the Philippine Financial Reporting Standards and Philippine Accounting Standards (PFRS/PAS) in 2005. Other key enhancements on banks' risk management were also updated across functional supervisory areas to align the same with international standards and changing business norms throughout the years. These include guidelines on supervision by risk, credit risk management (CRM) and Internal Credit Risk Rating System (ICRRS), separate guidelines on market risk including risk management of financial derivatives, treasury activities and sales and marketing guidelines for financial products, liquidity risk, operational risk management (including revised guidelines on Outsourcing), and technology risk management, including information technology (IT).

Moving forward, enhancements on risk management guidelines that are in the pipeline include business continuity management, market risk management, intraday liquidity risk management and large exposures. There are also forthcoming liquidity metrics such as net stable funding ratio (NSFR) which are in line with the Basel III standards.

Instituting proactive macroprudential measures and macro-financial surveillance mechanisms. Given the increasing complexity and sophistication of the global financial services industry, proactive macroprudential measures and financial surveillance are continually being instituted to timely identify and mitigate the buildup of systemic risks.

² Refers to risk-based Capital Adequacy Ratio (CAR) of 10 percent, Common Equity Tier 1 (CET1) ratio of 6 percent, Tier 1 ratio of 7.5 percent and Capital Conservation Buffer (CCB) of 2.5 percent.

³ Effective 31 December 2014. The framework aims to reduce the impact of the failure of any DSIB on the domestic economy by increasing its going-concern loss absorbency.

⁴ Effective 01 January 2017. It aims to limit the maximum exposure that a bank can keep at 20 times its Tier 1 capital.

⁵ Ensures that banks have adequate stock of unencumbered high quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30-calendar-day liquidity stress scenario.

Reform initiatives toward this end include new reporting requirements⁶, including the submission of information necessary for the generation of the residential real estate price index (RREPI) to capture comprehensive data and identify potential vulnerabilities to the financial system arising from the property market, limits and higher risk weights on banks' non-deliverable forward (NDF) transactions, expanded real estate monitoring framework and real estate stress test (REST) limits to temper banks' risk appetite for these exposures and limit on foreign participation and placements of investment management accounts (IMA) and other trust accounts (except the unit investment trust funds) to the SDA facility to siphon off excess liquidity in the system and curb speculative investments.

Enhancing BSP's supervision strategy, technology and approach. To ensure that the supervision framework is more responsive to the evolving financial services industry, the BSP has embarked on the continuing enhancement of its supervision framework. It has shifted to risk-based and consolidated supervision since 1997. The entire Supervision and Examination Sector (SES), the supervisory arm of the BSP, has been reorganized to make it more focused but functional with the creation of specialist units and wider in scope with the creation of off-site supervision departments to complement the existing on-site operating departments.

Other complementary reforms implemented throughout the years include the new enforcement policy to communicate enforcement tools and deploy the same in a consistent manner, bank resolution framework, expanded risk rating systems, e.g., corporate governance rating system, trust rating system IT rating system, the launching of SES Knowledge Management System/Portal to promote seamless sharing of supervisory information across bank supervisors and the continuing capacity-building initiatives to enhance skill sets and competencies of staff.

Strengthening Payments and Settlements Systems

National Retail Payments System. The BSP, together with the banking industry and other stakeholders, launched in December 2015 the National Retail Payment System (NRPS). The vision of the NRPS is to create a safe, efficient, and reliable electronic retail payment system that is interconnected and interoperable to generate benefits in terms of speed and efficiency of transactions, reduced costs, improved transparency, enhanced security, and expanded access to financial services. The NRPS is also a key element of the BSP's commitment to the National Strategy for Financial Inclusion.

Harmonization of the Debt and Equity Payments and Settlements System. The framework (from processes to risk guidelines to market participants to physical infrastructure) for transferring funds and settling obligations in the debt and securities markets is the subject of an on-going review. The intention is to harmonize processes where warranted and to establish the necessary market conventions/infrastructure so that investors avoid friction costs when investing from one market to the other. The desire to set risk guidelines will likewise strengthen financial consumer protection while nurturing financial stability.

⁶ E.g., the decomposition of consumer finance portfolio to monitor motor vehicle and salary loans; movement in and ageing of NPLs; quantitative information on credit card operations and complaints; bank deposit interest rates; and cross-border financial positions of banks

Cross-sectoral Cooperative Arrangements

National and Regional Regulators and Organizations. The BSP has strengthened coordination mechanisms with domestic regulators [Financial Sector Forum (FSF)⁷ and Financial Stability Coordination Council (FSCC)⁸], international standard setters (BCBS, FSB RCGA⁹) and regional coordinating agencies (EMEAP, ASEAN and ASEAN+3¹⁰; and ASEAN Banking Integration Framework (ABIF)) and organizations. Cooperative arrangements with domestic regulators (FSF and FSCC) are intended to harmonize rules and obtain a better understanding of market developments. Meanwhile, participation in the work of international standard setters aims to enhance the development of international standards and best practices by providing local/regional perspective. Lastly, membership in regional bodies contributes to the shaping of collective/regional positions on financial stability and bank supervision.

Private Sector. The BSP has initiated capital market reforms¹¹ and promoted market discipline/conduct through close coordination with the private sector on the establishment of robust pricing and valuation standard for debt securities, investor protection through the establishment of central securities depository for the delivery of securities and segregation of customer funds and securities received by banks acting as securities brokers, and expansion of financial products and services such as the Personal Equity Retirement Act (PERA), multi-class and unit-paying feature unit investment trust fund (UITF), Long-Term Negotiable Certificates of Time Deposits (LTNCDs) and products under enhanced cross-selling framework.

Legislative Sector. The BSP is also working closely with both houses of Congress for the timely passage of critical financial sector reform legislation such as the amendment of the BSP Charter, passage of the Payment Systems Act and the Islamic Banking Framework, to name a few.

Reform-oriented and Integrated Advocacies on Financial Inclusion, Consumer Education and Protection. Since the formal adoption of microfinance as an advocacy to support the Government's anti-poverty agenda in 2000, the BSP has achieved significant inroads in terms of instituting various initiatives to develop a truly inclusive financial system through the expansion of the menu of microfinance products and services, implementation of the National Baseline Survey on Financial Inclusion (NBSFI), launching of the National Strategy for Financial Inclusion (NSFI)¹² in 2015, establishment of dedicated units for financial inclusion (Inclusive Finance Advocacy Staff) and consumer protection (Financial Consumer Protection Department).

Recently, the World Bank recognized BSP's consumer protection framework as one of the world's best in protecting consumer rights. Further, the consumer protection rating system, which institutionalizes the consumer protection framework as an integral component of bank supervision, was introduced using five consumer protection standards. Parallel to this, the BSP, in cooperation with other government agencies, implemented new resolutions in the Banking Industry Tripartite Council (BITC)¹³ on labor-management concerns.

⁷ The FSF is chaired by the BSP Governor with heads of the Securities and Exchange Commission (SEC), Insurance Commission (IC) and the Philippine Deposit Insurance Commission (PDIC) as members.

⁸ The FSCC is chaired by the BSP Governor with heads of the FSF member agencies and the Department of Finance (DOF) as members.

⁹ Respectively refers to Basel Committee on Banking Supervision, Financial Stability Board Regional Consultative Group for Asia

¹⁰ Refers to Executive's Meeting of East Asia Pacific Central Banks, Association of Southeast Asian Nations, ASEAN member states plus China, Japan and Korea.

¹¹ Other on-going capital market reforms include the interbank repo, single price convention, overnight index swap, financial benchmarks and PSE acquisition of the PDS Group.

¹² With Queen Maxima of Netherlands as the guest of honor.

¹³ BITC has been instrumental in establishing a formal process for mediation, conciliation and process for handling outsourcing of banking functions.

The BSP also sought to address evolving issues in the financial system, such as cybersecurity. In partnership with BancNet, Inc., the BSP and the Information Security Officer Group, held the very 1st Cybersecurity Summit for the financial services industry with the theme, “Rapidly Evolving Cybersecurity Threats – Are We Prepared?”, attended by more than 300 senior officers from various BSP supervised financial institutions and other key stakeholders.

Likewise, the BSP also commenced work to establish a National Retail Payment System (NRPS) and launched together with the industry a framework defining policies, standards, and governance principles covering retail payment operations and infrastructures. Aside from the benefits for government, business, individuals and the broader economy, this milestone is particularly significant for financial inclusion as it paves the way for integrating the use of many innovative digital technologies that promise scale in the delivery of financial services.

Finally, in line with the ASEAN Financial Integration, the BSP also led the implementation of RA No. 10641 that liberalized the entry of foreign banks to the Philippines. Moreover, the BSP received a formal commendation from the South East Asian Central Banks (SEACEN) because of its work in crafting the ASEAN Banking Integration Framework Learning Roadmap.

Active Stakeholder Engagement. The BSP has continuously taken an active role in its various engagements with domestic and international stakeholders to align our domestic regulatory and supervisory frameworks with internationally accepted standards and best practices. These include engagements with the following committees and councils:

- Financial Stability Coordination Council (FSCC);
- Financial Sector Forum (FSF);

- National Risk Assessment Technical Working Group;
- National Law Enforcement Coordinating Committee;
- Financial Sector Liaison Committee;
- UN Convention Against Corruption;
- Banking Industry Tripartite Council;
- Countryside Financial Institutions Enhancement Program; and
- Task Force on Agri-Agra.

During the year 2015, 33 meetings were also held with the Bank Supervision Policy Committee (BSPC). It is notable that the BSPC was rated “10” by the Institute of Internal Auditors of the Philippines in its audit of the BSP’s breakthrough results for the 2015 Islands of Good Governance Initiative, as it promotes the collaborative and constructive engagement of stakeholders in the policymaking process of the BSP.

Payments and Settlements

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

BSP continues to provide intermediary services through *PhilPaSS*

In 2015, the number of transactions processed and settled in *PhilPaSS* increased by 6.4 percent to 1.4 million. The higher volume of transactions was due to the y-o-y uptick in trading of government securities via expanded delivery-versus-payment (eDvp) (173.4 percent); interbank transactions (16.6 percent); and OF remittances coursed through the REMIT system (12.6 percent), partially negated by the decrease in Electronic Fund Transfer Instruction System (EFTIS) (100.0

percent); and interbank sale and purchase of government securities via delivery-versus-payment (DvP) (52.3 percent) and foreign currency (US dollar) via payment-versus-payment (PvP) (14.8 percent).

Volume increases while value of *PhilPaSS* transactions decreases

On the other hand, the value of transactions fell by 17.3 percent to ₱279.6 trillion due to the decrease in the following accounts: Electronic Fund Transfer Instruction System (EFTIS) transactions (100.0 percent); sales and purchases of government securities via delivery-versus-payment (DvP) (56.0 percent); SDA maturities with the BSP Treasury Department (TD) (25.1 percent); and interbank transactions (21.2 percent). These were partially offset by the increase in RRP eTrading with BSP-TD (100.0 percent).

Table 2.2 Volume and Value of *PhilPass* Transactions

	2015	2014	Growth Rate (%)
Volume (in thousand)	1,406.8	1,322.7	6.4%
Value (in trillion pesos)	279.6	337.8	-17.3%
Transaction Fees (in million pesos)	134.0	145.3	-7.7%

Source: Payments and Settlements Office

As a result of the decline in the value of transactions, total transaction revenue reached ₱134.0 million, 7.7 percent lower than the year-ago level. The decrease was due mainly to the

decommissioning of the two (2) legacy systems (PPS-FES and EFTIS) on 1 October 2014 and the introduction of free-of-charge online inquiry feature of the *PhilPaSS* Participant Browser on all transactions instead of executing a message type request to view/inquire on the transactions at ₱100 per inquiry.

The BSP also participated actively in various projects, activities, and initiatives in 2015 to enhance the efficiency of the existing payments system, which included the following:

- Conducted *PhilPass* Client Satisfaction Survey;
- Hosted the 32nd Executives Meeting of the East Asia-Pacific (EMEAP) Central Banks Working Group on Payments and Settlements System;
- Prepared/submitted documentary requirements to support the inclusion of *PhilPaSS* REMIT system as one of the significant breakthroughs in the BSP's entries for Islands of Good Governance Award; Completed the PSO Text Connect Facility Project, *PhilPaSS* Helpdesk System Project, and *PhilPaSS* Self-Assessment in compliance with the Principles for Financial Market Infrastructure; and
- Conducted the following information dissemination activities:
 - ✓ *PhilPaSS* Awareness Campaign for banks' branch personnel located in Zamboanga, Dagupan, Iloilo City, and Legaspi City; and
 - ✓ Annual *PhilPaSS* Forum to update the participants on the developments in *PhilPaSS* settlement operations as well as trends in payments and settlements.

Our Key Initiatives

International Reserves Management

Amid external challenges, the BSP continued to manage its reserves consistent with its reserves management objectives.

The BSP continues to manage reserves to diversify exposures and mitigate risks

The BSP implemented measures aimed at ensuring the safety and diversity of its international assets through continued investment for the hold-to-maturity portfolio, investment in non-reserve assets, and the execution of strategies using futures contracts. These strategies and measures led the internally-managed portfolio to outperform the chosen benchmark in 2015.

Gold reserves were managed in compliance with existing management guidelines, leading to a slightly higher volume in end-2015 compared to the previous year.

Risk exposures arising from international assets were managed through the identification, measurement and control of market, liquidity and credit risks. To mitigate credit risks, the BSP continued to negotiate International Swaps and Derivatives Association (ISDA) master agreements and Credit Support Annexes (CSA) with counterparties. It likewise continued to evaluate and report the performance of its portfolios and monitor its compliance with investment

parameters and guidelines. The BSP also updated its risk management systems and reports to cover new strategies and measures on reserve management.

Advocacy Programs

The BSP continued to boost its efforts to enhance advocacy campaigns in the areas of microfinance and financial inclusion, economic and financial education, and consumer protection.

Microfinance and Financial Inclusion. In support of the Government's poverty alleviation program and inclusive finance agenda, the BSP institutionalized its focus on increased financial access and usage as one of the pillars of its financial inclusion framework.

BSP continues to strengthen its financial inclusion framework

Through Micro-Banking Offices (MBOs) which serve to extend the physical reach of financial services to the unbanked, an expanded range of products and services were introduced to the market. Among these were Microfinance loans, Housing Microfinance loans, Microinsurance, Microfinance Plus loans, Microenterprise loans, and Small Enterprise loans.

National Strategy for Financial Inclusion (NSFI). The year 2015 highlighted BSP's leadership in crafting the NSFI and its high-profile launch in the presence of Her Majesty Queen Maxima of the Netherlands, the United Nations Secretary General's Special Advocate for Inclusive Finance for Development. The BSP, together with 12 other

government agencies that signed a memorandum of understanding, are working toward the institutionalization of an inter-agency committee, implementation of the NSFI Tactical Plans, and monitoring of progress moving forward.

NSFI is a significant stride towards truly inclusive growth

Developed through a broad-based consultative process with private and public sector stakeholders involved in financial sector development, the recently signed NSFI envisions to systematically accelerate the level of financial inclusion through a set of precise objectives:

- (1) Financial products that are diverse, well-designed, suitable and relevant to different market segments;
- (2) Providers and business models that are diverse, responsible, responsive and innovative; and
- (3) A citizenry that is financially learned and adequately protected.

Credit Surety Fund (CSF)

The year 2015 was likewise a landmark year for the CSF program. The CSF Cooperative Act of 2015 was approved by the Senate and House of Representatives on 26 November 2015 and 2 December 2015, and subsequently signed into law on 6 February 2016 as Republic Act No. 10744.

Passage of CSF Cooperative Act promises improvement in credit access of small entrepreneurs

With the creation of the law, the CSF Program initiated by the BSP in 2008 is now institutionalized to help unbankable micro, small,

and medium enterprises (MSMEs) gain access to formal sources of credit. MSMEs which are members of cooperatives can borrow from banks using the CSF surety cover as security for the loan in lieu of conventional collateral, easing difficulties in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records.

Total cumulative approved CSF loans provided to 15,248 beneficiaries reached ₱2,276.6 million in 2015, of which ₱2,081.3 million was released to 15,233 beneficiaries. Beyond giving access to credit, the benefits of the CSF Program are manifested through job generation, expanded businesses, and increased revenues for local government units in the form of taxes and paid licenses. More importantly, it benefited the families of cooperative members who were able to uplift their financial circumstances through the CSF Program.

Eight CSFs were launched during the year in five cities (Santiago, Malaybalay, Valencia, Parañaque, and Cabanatuan) and three provinces (Zambales, Cagayan, and Nueva Ecija), bringing the total number of CSFs nationwide to 45 from 37 in the previous year.

The BSP was awarded the distinction of being an Island of Good Governance on 20 October 2015 by the Institute for Solidarity in Asia, the Institute of Corporate Directors, and the National Competitive Council, in consideration, among others, of the breakthrough results of the CSF Program.

National Baseline Survey on Financial Inclusion (NBSFI)

The year 2015 saw the completion of the NBSFI, dedicated to collect financial inclusion data and to provide a more holistic picture of financial inclusion in the Philippines. The 1st demand-side survey conducted by the BSP looked at access, usage, and quality dimensions of financial

inclusion from the perspective of actual and potential users of financial services. The BSP also continues to improve its data and measurement initiatives and capacities, including the geospatial mapping of financial service access points.

Pilot financial inclusion survey paves way for more data-informed decisions

National Retail Payment System (NRPS)

The BSP commenced work to establish the NRPS and launched, together with the industry, the framework-defining policies, standards, and governance principles covering retail payment operations and infrastructures. While the NRPS has far-reaching benefits for government, business, individuals and the broader economy, this milestone is particularly significant for financial inclusion in light of the many innovative digital technologies that promise scale in the delivery of financial services.

Economic and Financial Education

The BSP continued to widen the geographical reach of its advocacies with a more systematic and targeted venue selection process to ensure that its economic and financial learning program will reach a broader segment of its stakeholders.

BSP's learning program reaches out to a broader segment of stakeholders

In July 2015, BSP launched the ground-breaking *Wealth Watch Book* which aims to provide insights and practical tips for the typical Filipino on the topic of wealth management. Sold out after the warm reception of its nearly 400 copies printed, a re-publication of the book has since been initiated.

The following learning programs have been conducted in 2015:

- *Project BRO (BSP Reaches Out)*. This is a new financial learning initiative targeted towards elementary and high school students. Learning sessions on saving and spending wisely are conducted after which savings habits are monitored in coordination with teachers and school officials.
- *"Be up to Speed on BSP" Public Information Campaign (PIC) on the Role of the BSP in the Philippine Economy*. The PIC intends to enhance public awareness on the BSP as an institution, including its core functions and responsibilities and its role in the economy. It also aims to generate public understanding of policies and programs implemented by the BSP. In 2015, PICs were conducted in ten (10) venues in different parts of the country attended by a total of 1,659 participants, largely composed of members of the academe. The campaigns were also attended by representatives from private and public offices.
- *"Paghahanda sa Kinabukasan" Financial Learning Campaign (FLC) for Overseas Filipinos (OFs) and their Beneficiaries*. The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate participants on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures. FLCs were conducted in seven (7) venues attended by 866 participants, mainly family members and other beneficiaries of OFs.
- *Users' Forum (UF) on BSP-Produced Statistics*. The forum aims to inform the public and enhance their appreciation of

the various BSP-produced statistics and the relevance of these statistics in their individual undertakings. The UF was conducted as part of the BSP's celebration of the National Statistics Month (NSM) in October 2015 in BSP Manila and Cebu City. This was attended by a total of 165 participants, with more than half represented by members of the academe.

- *BSP-Department of Social Welfare and Development (DSWD) Master Training of Trainers (TOT) on Financial Literacy (FinLit) for the Field Implementers of the Sustainable Livelihood Program (SLP) and the Pantawid Pamilyang Pilipino Program (Pantawid)*. Targeted to DSWD staff who were in a position to train their peers who interact directly with about 4.4 million Pantawid participants, the master training aims to enhance their teaching capacity, ensure consistency of messages, and effectiveness of delivery of the BSP-designed financial literacy module. These included SLP training officers covering all 17 DSWD regional offices, and focal persons in charge of developing and implementing Family Development Sessions (FDS) for Pantawid participants across the country.
- *Financial Education Expo (Fin-Ed Expo)*. The Fin-Ed Expo aims to: 1) continuously foster greater awareness about the availability and accessibility of financial education programs for Filipinos; 2) increase personal finance consciousness and orient the public of available financial tools in promoting one's financial well-being; and 3) familiarize them with the rights and responsibilities of financially-empowered consumers. During the year, Fin-Ed Expos were conducted in six (6) venues

attended by 3,710 participants from both the academe and the workforce.

- *Conference on Gearing Up for External Competitiveness (CGEUC)*. The CGEUC aims to raise awareness of exporters, importers, OFs, BPOs, and entities with foreign exchange exposures, among others, on the various ways to manage their foreign exchange risks; and to highlight the factors that determine the country's external competitiveness. The conference was conducted in Bacolod City and General Santos City attended by 218 representatives from banks, exporters, BPOs, schools, government offices, and the media.

In 2015, most programs had participation rates above 100 percent as the number of participants exceeded the target. Meanwhile, based on the results of the program evaluation, both the learning gained by the participants and the overall conduct of these programs had an average rating of 4.5 (with 5 being the highest).

Meanwhile, the Economic and Financial Learning Center (EFLC) continued to offer information and learning services to the general public. It accommodated 6,898 visitors in 2015, 60.2 percent of which were BSP officers and staff. The remaining 39.8 percent were non-BSP visitors covering students, teachers, officers and employees of government and private companies. The EFLC aims to provide information services, programs and materials to in-house users and the public to introduce the work of the BSP and its role in the Philippine economy and to promote greater understanding of essential economic and financial concepts and issues.

Regional public information campaigns

The regional offices and branches (ROBs) also intensified and widened the reach of their public information campaigns, especially to those residing in far-off rural areas. Briefings were conducted on timely issues such as counterfeit currency detection, coin recirculation, clean note policy, as well as the on-going demonetization process of the New Design Series (NDS) banknotes which started in January 2015.

With their intensified information campaigns of ROBs, the financial learning staff was able to reach 94 percent of all cities, 73 percent of all municipalities, and 14 percent of all barangays in the country. Table presents ROBs growing reach into the grassroots.

Table 3.1 Activities of ROBs

	2015	2014	2013
Total Number of Lectures, Briefings, and Information Campaigns Conducted	11,521	2,511	1,340
Total Number of Participants	826,809	266,375	160,143

Consumer Protection. In 2015, the BSP continued its work in fostering a policy and regulatory environment that protects the welfare of financial consumers. The BSP also provided consumer assistance services through relocated Consumer Assistance Desk at the ground floor of the Multi-Storey building.

Financial Consumer Protection (FCP) Framework

Full adoption of the FCP Framework by the BSP-supervised financial institutions (BSFIs) commenced in 2015, after the one-year transitory period since the framework became effective on 11 December 2014.

Full adoption of FCP framework further safeguards consumer welfare

The framework aims to develop among banks a culture of fair and responsible dealings with financial consumers to promote greater confidence in the financial system. It covers the following consumer protection standards: (1) Disclosure and transparency; (2) Fair treatment; (3) Respect of client’s privacy; (4) Financial education and awareness; and (5) Effective recourse.

During the transitory period, the BSP engaged industry associations on the rationale and requirements of the FCP Framework. Several briefings were conducted on the FCP Framework not only to set BSP expectations from BSFIs but also to surface BSFIs’ issues on the implementation of the FCP Framework.

Improved Retail Banking Reporting

After the generation of the first analytical report from the Credit Card Business Activity Report (CCBAR) submitted by credit card issuers, additional data fields were identified to enrich the analysis of the information provided by the credit card industry. A revised CCBAR template as agreed with the industry was posted on the BSP website and the new reports will be generated by March 2016.

To deepen and holistically ground BSP’s analysis on the retail financial market, statistical data from the BSP’s different operating units were linked to form industry-wide and bank-specific analytical reports. These reports identified industry trends and patterns, the rising financial consumer protection concerns therefrom, and possible ways to address the same. The BSP then jumped off

from these findings to improve its engagement with the industry, propose changes in regulations, fine-tune the focus of its financial education modules, and update its financial education materials.

Commendations and Awards. The BSP won the Global Forum on Remittances and Development (GFRD) Public Sector Award for 2015 in recognition of its outstanding commitment, innovation, and impact in promoting remittances for social and economic development through its Economic and Financial Learning Program (EFLP). It may be noted that the Financial Learning Campaign (FLC) for OFs and Their Beneficiaries, one of the major component programs of the EFLP, highlights the importance of using remittances to build savings and directing these to productive investments in financial instruments and business ventures.

The BSP also received the Islands of Good Governance (IGG) Award from the Institute for Solidarity in Asia, the Institute of Corporate Directors (ICD), and the National Competitiveness Council. The Bank was awarded for its contribution to the strengthening of Filipino institutions, communities, and individuals by ushering in greater financial inclusivity through policies and regulations that have reaped global recognition achieved through the practice of transformative and sustainable governance.

The BSP received a formal commendation from the South East Asian Central Banks (SEACEN) because of its work in crafting the ASEAN Banking Integration Framework Learning Roadmap.

Box Article 3

The Evolution of the BSP's Economic and Financial Learning Program

Since its launch in San Fernando City, Pampanga in July 2010, the BSP's flagship learning program has undergone significant enhancements and customizations in line with its aim to enable more sectors in the economy to gain knowledge on important economic and financial topics and issues. The Economic and Financial Learning Program (EFLP) combines the relevant awareness and learning campaigns of various BSP departments and offices, such as the Economic and Financial Learning Center (EFLC), Financial Consumer Protection Department (FCPD), Inclusive Finance Advocacy Staff (IFAS), Corporate Affairs Office (CORAO), and the BSP Regional Offices and Branches.

Enhanced learning programs refer to initiatives that have been adjusted in response to the need to continuously improve the BSP's programs for specific audiences. These include improvements on the Public Information Campaign (PIC) on the Role of the BSP in the Economy and the Financial Learning Campaign for Overseas Filipinos and their Beneficiaries (FLC-OF).

The PIC, which aims to increase public awareness on the BSP as an institution, originally covered a broad base of participants: students, faculty, and other members of the academe; representatives from the banking and business communities; officers and staff of government agencies; and members of the media. The EFLC, which has taken charge of the PIC's implementation, eventually saw the need to refine the program to better target and address the needs and requirements of the different stakeholders. Beginning 2013, the programs were delivered in two separate sessions (for the academe and for the workforce), with the speakers adjusting the level of technicality of their presentations to match the needs of the target participants.

The FLC-OF, on the other hand, was revised in 2015 to make the program more relevant to OFs and their families. The “reformatted” FLC-OF presently features a one-hour workshop that allows participants to apply the economic and financial learning concepts they learned from the lectures on financial planning, saving and investing.

The EFLP’s customized/targeted learning programs refer to recently created programs that target new audiences. Examples of these are the various financial learning activities that the FCPD has initiated in the last three years. It conducted financial empowerment activities (Financial Empowerment Courses for consumers in 2013 and Financial Empowerment Seminars in 2014) to promote personal finance consciousness among Filipino consumers. In 2014, the FCPD held the Alerto Ako Exhibit in the cities of Manila and Cebu to provide greater awareness on financial frauds and scams.

The FCPD also held special learning activities for BSP employees. In 2013, it conducted four Financial Awareness Activities (FAAs) to highlight the value of saving early and investing in financial instruments, and sponsored a jingle-writing contest to promote financial consciousness and involve other employees in the BSP’s financial literacy advocacy. The following year, it conducted another financial awareness activity entitled, “Money Talk for BSPers.”

The youth were likewise given special focus with the FCPD’s interactive Money Matters for Kids Exhibits (2013 and 2014) designed to enable children to learn about the concept of money, saving, spending and sharing in a fun manner; the Financial Education Congress for the Youth or FECY (2015), a one-day financial literacy event that featured a video-making contest; the Project BRO (BSP Reaches Out) savings campaign program for kids and teens, a continuing awareness campaign that aims to develop the habit of saving among young Filipinos; and an essay-writing contest involving high school students from 16 school divisions in Metro Manila.

IFAS, another BSP office involved in the EFLP, implemented Financial Literacy (FinLit) Sessions for the Beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps) in 2013 and 2014. The activity supports the Department of Social Welfare and Development’s (DSWD) program in providing a bridge to financial self-sufficiency, especially among households from the grassroots level. In 2015, IFAS conducted the Master Training of Trainers (TOT) on FinLit for the Field Implementers of the Sustainable Livelihood Program (SLP) and/or the 4Ps. The program focused on enhancing DSWD field implementers’ capacity to deliver the financial literacy modules designed by the BSP to SLP and/or 4Ps participants.

The EFLC also implemented its share of customized/targeted learning programs. These include the EFLP for Credit Surety Fund Stakeholders, which was conceived following a request from the Cavite Credit Surety Fund (CCSF) to hold a one-day financial learning seminar for their member-cooperatives; and the Special Information Session for Legislative Assistants of Congress, which was developed to enable the staff of the country’s legislators to learn about the BSP as an institution as well as important economic developments and issues.

The BSP’s ongoing demonetization program has likewise spurred the conduct of PICs in different areas of the country. The massive campaign, spearheaded by the BSP Regional Offices and Branches, CORAO, and the Currency Issue and Integrity Office (CIIO), also includes presentations and discussions on the New Generation Currency, counterfeit detection, and the role of the BSP in the economy.

The BSP's efforts in sustaining and improving its learning advocacy have not gone unnoticed. It won the Global Forum on Remittances and Development (GFRD) Public Sector Award for 2015 in recognition of its outstanding commitment, innovation and impact in promoting remittances for social and economic development through its EFLP. The awarding ceremony was held in Milan, Italy on 18 June 2015.

In the same year, the BSP received the Islands of Good Governance (IGG) Award (see page 35). The significant number of briefings and beneficiaries and the extensive reach of the EFLP were recognized as some of the breakthrough results of the BSP.

The conduct of the EFLP is in itself a learning process. The program is ever-evolving, adjusting its strategies based on the changing needs of its target audience. New initiatives are implemented and continuously evaluated, oversights are noted and transformed into opportunities for further improvement, and enhanced activities are relaunched—so goes on the cycle of learning and educating. Only one thing will remain constant in the EFLP's journey: its goal to help the public acquire the knowledge and develop the skills needed to make well-informed economic and financial choices and decisions.

International Economic Cooperation

The year 2015 proved to be a productive and stellar year with the BSP playing a prominent role in strengthening monetary and financial cooperation and integration in the international, regional and bilateral fronts.

Strengthened Surveillance and Policy Dialogue Process

Surveillance. The BSP, as the Philippine representative in the International Monetary Fund (IMF) and as a member of the ASEAN+3 Macroeconomic Research Office (AMRO), facilitated the conduct of regular surveillance activities in the country through the IMF Article IV Consultation Mission and the AMRO Consultation Visit held on 14-26 May 2015 and 17-21 August 2015, respectively. Said surveillance missions assessed the country's macroeconomic conditions as well as the emerging risks and outlook of the economy. The BSP also participated in the IMF's regular meetings, submitted positions on IMF staff papers and membership concerns, and likewise received visiting delegations of IMF senior officials at the BSP Manila Head Office to share

information and exchange views on international monetary and financial matters.

The BSP also participated in the further development of the Economic Review and Policy Dialogue (ERPD) Matrix facilitated by AMRO which consisted of economic indicators of all ASEAN+3 members that are intended to be used for the assessment of members' qualification for the Chiang Mai Initiative Multilateralization's (CMIM¹⁹) crisis prevention facility. The ERPD Matrix covers monitoring of fiscal policy, external position and market access, financial sector soundness and monetary policy indicators.

Similarly, the BSP contributed to the surveillance initiatives of the Executives' Meeting of East Asia-Pacific Central Banks' (EMEAP) through monthly financial market monitoring, which tracked quick-moving financial indicators and identified trends and potential risks to regional stability. In addition, the BSP contributed technical inputs to the preparation of various regional economic monitoring reports, such as the Association of Southeast Asian Nations (ASEAN) Integration

¹⁹ The CMIM is a pooled fund within the Asian region, which aims to address balance of payments and short-term liquidity difficulties in the region, and to supplement the existing financial arrangements by providing financial support through currency swap transactions among CMIM participants.

Report (AIR), ASEAN Financial Integration Monitoring Report (AFIMR), Organization for Economic Cooperation and Development (OECD) Investment Policy Review, ASEAN+3 Self-Assessment Report on Local Currency Bond Market Development, ASEAN+3 Regional Economic Monitoring (AREM) monthly and quarterly reports, and IMF Staff Report, among others.

Policy Dialogue. The BSP actively participated in various international forums, such as the IMF, Bank for International Settlements (BIS), EMEAP, Asia Pacific Economic Cooperation (APEC), ASEAN, ASEAN+3, and the South East Asian Central Banks (SEACEN) Research and Training Center, to discuss relevant monetary, economic and financial cooperation issues.

During the Philippines' chairmanship of the APEC process in 2015, the BSP lent active support to the activities and initiatives under the APEC Finance Ministers' Process (FMP) spearheaded by the Department of Finance (DOF). In addition, the BSP co-chaired together with the DOF the APEC Finance and Central Bank Deputies' Meeting held on 5-6 March 2015 in Tagaytay City, where the DOF formally introduced and solicited support for the Cebu Action Plan (CAP), a multi-year plan which essentially seeks to bring APEC economies toward having harmonized or coordinated policies, rules and practices across APEC economies. The Governor also continued to chair the meeting of central bank Governors from small open economies, who meet regularly at the sidelines of the BIS bi-monthly meetings. Likewise, the Governor remained as Chair of the meeting of the Asian Consultative Council (ACC), which provides a vehicle for communication between the Asia and Pacific members of the BIS and its Board and Management on matters of interest to the central bank community in the region. The BSP also hosted the Main Meeting of the Washington-based Official Monetary and Financial Institutions

Forum (OMFIF) in Manila which was attended by international participants from Asia, such as those from central banks, sovereign wealth funds, regulatory agencies, and international financial institutions.

The BSP hosted other events as follows: 11th Asia-Pacific High Level Meeting on Banking Supervision on 9-11 February 2015 in Makati City; 9th Meeting of the ASEAN Steering Committee on Capacity-Building (SCCB) and the 10th Meeting of the Senior Level Committee (SLC) on ASEAN Financial Integration on 14-15 September 2015 at the Diamond Hotel Manila; 35th Meeting of the SEACEN Board of Governors (BOG) and 51st SEACEN Governors' Conference and High-level Seminar on 25-27 November 2015 in Makati City.

Sustained Participation in Financial Arrangements and Contributions

The strong external and reserve position of the BSP enabled the institution to increase its contributions in various fund pooling arrangements to support the stability of international and regional financial systems.

Global Arrangements. In line with the establishment of global financial safety nets, the BSP facilitated contributions to various IMF facilities. As of 18 December 2015, nine (9) countries had drawn from funds exchanged by the BSP to the IMF's Financial Transactions Plan²⁰ (FTP) amounting to SDR235.1 million (about USD362.5 million). On the other hand, the Fund has made a total of SDR60.3 million (about USD91.5 million) in drawdown from the BSP's New Arrangements to Borrow (NAB) commitment to finance extended arrangements for Cyprus, Greece, Jamaica, Jordan, Portugal, Tunisia, and Ukraine. With regard to the

²⁰ 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 position are sufficiently strong.

BSP's USD1 billion loan commitment to the IMF in support of efforts to strengthen its capability to secure global economic and financial stability, no drawdown has been made since the agreement was signed on 13 September 2013.

Regional Arrangements. The BSP maintained active engagement in the strengthening of the CMIM as the ASEAN+3 regional financial arrangement, particularly on efforts to ensure operational readiness of the facility and the development of a mechanism to accurately and timely detect a potential crisis scenario. The BSP also played a key role in the organizational capacity-building of the AMRO in terms of developing medium-term strategies for the office, including enhancing its governance structure, and ensuring its smooth transition to an international organization.

Strong Commitment towards Regional Financial Cooperation and Integration

The BSP continued its active participation in the implementation of the ASEAN Economic Community (AEC) Blueprint. Upon the declaration of the establishment of the AEC on 31 December 2015, the ASEAN Leaders also approved the AEC 2025 Blueprint, which provides broad directions through strategic measures for the AEC from 2016 to 2025. The new Blueprint will not only ensure that the ten (10) ASEAN Member States (AMSs) are economically integrated, but are also sustainably and gainfully integrated in the global economy, thus contributing to the goal of shared prosperity. The various ASEAN working committees are preparing a consolidated Post-2015 Strategic Action Plan to operationalize the AEC 2025 Blueprint. This will be submitted for approval during the ASEAN Meeting²¹ in April 2016.

²¹ ASEAN Central Bank Deputies' Meeting, ASEAN Finance and Central Bank Deputies' Meeting, ASEAN Central Bank Governors' Meeting and ASEAN Finance Ministers and Central Bank Governors' Meeting.

The SLC continued to monitor the progress of the implementation of the ASEAN Financial Integration Framework (AFIF) by the Working Committees. In its meeting on 14-15 September 2015, the SLC approved the reclassification of the Task Force on ASEAN Banking Integration Framework (TF-ABIF) as a regular ASEAN Working Committee (WC-ABIF). Likewise, the SLC approved the creation of the Working Committee on Financial Inclusion (WC-FINC), in view of the ASEAN Post-2015 Vision's emphasis on financial inclusion. This is in accordance with the agreed broad framework for financial integration in ASEAN Post-2015, which is anchored on the three pillars of financial integration, financial inclusion and financial stability, as well as on the three cross-cutting areas of capital account liberalization, payment and settlement system, and capacity-building.

Following the completion and approval of the ABIF Guidelines on 31 December 2014, the WC-ABIF commenced discussions on a new Terms of Reference (TOR) which aims to clarify the new roles and governance of the WC-ABIF in the ABIF implementation.

In the area of regional capital account liberalization, the BSP continued to serve as the Co-Chair of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL) with the State Bank of Vietnam for another two-year term (2013-2015)²². In 2015, the AMSs continued to monitor the developments in the capital account regime and agreed to revise the CAL Heat Map Methodology to transform the same into a more effective tool in assessing the capital account openness of the AMSs.

Under the Working Committee on Financial Services Liberalization (WC-FSL), the BSP continued to work with its regional counterparts in the drafting of the Annex on Financial Services

²² Extended to 2016 to synchronize with the term of other Working Committees.

under the proposed enhanced ASEAN Framework Agreement on Services (AFAS) or ASEAN Agreement on Trade in Services (ATISA). The BSP was also actively engaged in the AFAS 7th round of negotiations, ASEAN-Japan Comprehensive Economic Partnership (AJCEP), ASEAN-Hong Kong Free Trade Agreement (FTA) and the Regional Comprehensive Economic Partnership (RCEP). The enactment of Republic Act No. 10641, which liberalizes foreign equity participation in banking, allows the BSP to engage FTA partners for improved banking concessions and also support the progressive liberalization objectives of ASEAN.

Lending further support to the development of the regional bond markets, the BSP participated in the discussions of the ASEAN+3 Asian Bond Market Initiative (ABMI) task forces. The BSP closely collaborated with the Securities and Exchange Commission (SEC) in the drafting of the ASEAN+3 Multicurrency Bond Issuance Framework (AMBIF) Guidelines for the Philippines under the ASEAN+3 Bond Market Forum (ABMF). The BSP serves as Co-Chair of the ABMI Taskforce 4 which aims to improve the related infrastructure for bond markets, and the Payments and Settlements Office (PSO), in particular, continues to serve as Co-Chair of the Cross-border Settlement Infrastructure Forum (CSIF), alongside Korea Securities Depository (KSD).

Focus on Capacity-Building Initiatives

To ensure that all AMSs are ready for the AEC, the SCCB was established by the SLC to work on matching capacity-building requirements and supply that will support AMSs in the process of integration. Funding for these programs were sourced from various sponsors, such as the ADB, SEACEN, and the ASEAN-Australia Development Cooperation Program II. The BSP fully supports the capacity building initiatives and believes that there must be an organized program of development assistance to help the country and other less-

developed member states to prepare for the regional integration process. The BSP participated as subject matter expert for selected trainings and workshops. Consequently, the BSP also identified four (4) training programs that may be offered to the Brunei, Cambodia, Lao PDR, Myanmar, Vietnam (BCLMV) bloc²³.

In view of further developing the Philippine bond market, the BSP continued its close collaboration with the Securities and Exchange Commission (SEC) and the ADB, among others, in identifying areas where technical assistance is necessary. In 2015, the Philippines entered Phase V of the technical assistance (TA) program under the ASEAN+3 Asian Bond Market Initiative (ABMI).

Hosting of International Cooperation Events

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

²³ Introduction to Banking, Risk, and Risk-Based Supervision, Risk Management Process and Risk-Based Supervision, Fundamental Course on Central banking, and Time Series and Analysis Forecasting (introductory and advance-level courses).

Table 3. 2 BSP-hosted International Events in 2015

Conference/Workshop/Meeting	Date and Venue	Extent of BSP Participation
Bank for International Settlements Special Governors' Meeting (SGM)	6-7 February 2015, Manila	Chair
Official Monetary and Financial Institutions Forum (OMFIF) Main Meeting	6-7 July 2015, Manila	Host
9 th Meeting of the ASEAN Steering Committee on Capacity-Building	14 September 2015, Manila	Host
10 th Meeting of the Senior Level Committee on ASEAN Financial Integration	15 September 2015, Manila	Host
51 st South East Asian Central Banks (SEACEN) Governors' Conference/High-level Seminar and 35 th Meeting of the SEACEN Board of Governors	25-27 November 2015	Chair
Bilateral Meeting between the BSP and Bank Negara Malaysia	28-30 November 2015, Manila	Host

Investor Relations

Against the backdrop of continued global volatility, the Investors Relations Office (IRO) stepped up its economic communications outreach to highlight the Philippines' solid growth momentum.

The overall investor relations strategy in 2015 also focused on instilling confidence on the sustainability beyond 2016 of economic gains and reforms achieved over the last five years. Diverse initiatives (e.g., investor meetings, conduct of international/infrastructure roadshows, economic briefings, and social media initiatives) were carried out here and abroad to elicit interest and focus attention on the continued positive developments in the Philippine economy and ensure that the country's points of resilience were communicated regularly to stakeholders.

These initiatives helped maintain the positive outlook and perception of international business and financial communities on the Philippine economy.

With the BSP at the forefront of the Republic's engagement with credit rating agencies, the Philippines again received 2 (two) positive rating actions in 2015, which brings to a total of 24 positive credit rating actions (14 upgrades and 9 positive outlook) since July 2010.

The IRO likewise engaged third-party raters, whose reports are used as inputs by credit-rating agencies in assessing the Philippines' credit standing. One such third-party rater is Heritage Foundation, which produces the annual country rankings report on Index of Economic Freedom. Its executives visited the Philippines in 2015 for due diligence meetings arranged by the IRO. The visit contributed to the 45-notch improvement in the Philippines' 2015 ranking to 70th in 2015 from 115th in 2010.

With the Philippines as 2015 host of the APEC, meetings of the APEC Finance Ministers Process (FMP), the sub-group concerned about finance issues, were held in various parts of the country: (1) Clark, Pampanga in January; (2) Tagaytay City in March; (3) Bacolod City in April; (4) Bagac, Bataan in June; (5) Iloilo City in July; (6) Mactan, Cebu in September; and (7) Makati City in November. The IRO took advantage of the APEC meetings to communicate strengths of the Philippine economy, such as through press releases, conduct of press conferences, production of audio-visual presentations, and arrangement of interviews with the country's senior economic officials, among other media-related activities. The IRO was in charge of all communication activities for the APEC FMP meetings, which had substantial media coverage by local, national, and international media.

Institutional Capacity Building

Corporate Planning. In 2015, the BSP was recognized as one of the Islands of Good Governance (IGG) in the public sector. The IGG is an initiative of the Institute of Corporate Directors (ICD) in cooperation with the Institute for Solidarity in Asia (ISA), which aims to honor Philippine public sector institutions that have delivered transformational and breakthrough results for their stakeholders through consistent use of good governance mechanisms. The Corporate Planning Office (CPO) spearheaded the activities leading to the award of the IGG brand to the BSP on 21 October 2015 during the Public Governance Forum held at the Philippine International Convention Center and a special recognition ceremony during the Asia-Pacific Economic Cooperation (APEC) Summit held on 13 November 2015 at the Fairmont Hotel.

BSP is recognized as one of the Islands of Good Governance in the public sector

The CPO continued to facilitate the conduct of quarterly and annual strategy review meetings (SRM), which is the main instrument to ensure effective strategy execution under the BSP's enhanced strategy management system. The SRMs provide the venue for the periodic assessment of the progress of implementation of strategic objectives and initiatives. In addition, half-way through the 2012-2017 BSP Strategic Plan, the CPO facilitated the conduct of a Mid-Term Strategy Review (MTSR) on 24 July 2015 to ensure the continued relevance of the strategy towards the achievement of the vision. In preparation for the conduct of the MTSR, the CPO held interviews with top management officials of the Bank, including Members of the Monetary Board.

Likewise, CPO organized focus group discussions among middle and senior officers and a Strategy Café, which provided venues for meaningful discussion on the challenges that impact on the effective implementation of the strategy among key/senior officials and objective owners.

Information Technology. In 2015, the BSP, through the Information Technology Sub-Sector (ITSS), continued to provide information and communication technology support to various BSP offices, ensuring the delivery of the Bank's functions.

Towards this end, the following initiatives were accomplished:

- Continued to set up the infrastructure requirements of the application systems;
- Implemented data center environmental enhancements;
- Conducted enterprise software upgrades/enhancements; and
- Continued enhancement of enterprise information security.

Bangko Sentral Training Programs. In 2015, the BSP Institute (BSPI) continued its implementation of training programs aimed at developing and creating the competitive advantage of the Bank's human capital.

BSP training programs strengthen learning environment to hone skills and competencies and build up leadership base

Training events implemented were classified into the following categories based on the proposed curriculum: (1) functional courses, referring to training programs that specifically address competencies of a job family, accounted for

66 percent of the total training participation; (2) bankwide courses, referring to the courses that address bankwide competency requirements, accounted for 19 percent; and (3) leadership and management, referring to courses that address leadership and management competencies, accounted for 14 percent.

A total of 899 training events were facilitated by BSP (313 in-house offerings, 253 local training events, 331 foreign training events, and 2 online training programs) with total participation of 16,279. From this total, 8,243 or 51 percent participated in in-house training courses, 581 or 4 percent participated in local training events, 442 or 3 percent attended foreign training events, and 7,013 or 43 percent completed online courses.

Included in the training events handled are three in-house events that were conducted by Mr. Christoph Stute of Deutsche Bundesbank on human resource management, corporate controlling, and risk management. Two co-hosting events were likewise conducted during the year in coordination with various international organizations. These are the 2nd SEACEN Intermediate Course on Econometric Modelling and Forecasting and Regional Policy and Implementation Forum on Current Issues in Banking Supervision with the BIS.

The BSP fully implemented its curriculum-based training program for bank supervisors, now branded as the Professional Excellence Program for Bank Supervisors (PEPS). In 2015, there were a total of 89 course offerings for the year that consist of: 10 entry-level courses, 34 intermediate-level courses, 15 advanced-level courses and 16 expert-level courses and 14 special courses. Total graduates for all these courses reached 2,022.

The following courses were also launched this year:

- The Philippine Financial System, Beyond Banking;
- Bank Supervisory Strategies;
- AML Training Course; and
- Training of Trainors.

The Bank has various local and scholarship programs, some given in coordination with various local and foreign agencies. Nineteen (19) graduated during the year, 10 of whom were from Foreign Agency Assisted Scholarship Programs.

In keeping with the goal of raising the bar of excellence in the BSP to be at par with global standards, the BSP facilitated the review and/or examination of 29 bank personnel on various global certifications.

The BSP also handled various international and local organizations' study visits with the BSP, such as the study visits of the Bank of Thailand on accounting and treasury operations; the Bank of Indonesia on currency management; the Bank of Papua New Guinea on executive assistance and records management; and Bangladesh Bank on accounting, debt management, and currency management.

Human Resource Development. Programs and initiatives were aligned with the BSP Strategy Map through the following: provision of appropriate structure, staffing, and job and competency requirements; implementation of leadership succession program and promotion of high-performance culture needed to execute the strategy map. To this end, the BSP's accomplishments in the area of human resource development include the following:

- Filling of 22 Key and Critical Positions (KCPs)²⁴ out of 36 vacant KCPs in 2015;

²⁴ KCPs refer to director and up positions and heads of regional branches and offices which are considered key and critical in ensuring continuity of the BSP's operations.

Our Key Initiatives

- Creation of Committee on Succession Planning to ensure alignment of succession plan efforts with the goals of the BSP;
- Issuance of Guidelines on the crediting of training/learning hours to participation in the BSP mentoring activities and conduct of two (2) BSP Mentoring “Kumustahan” activities;
- Revised Guidelines on Job Rotation and Cross Posting Program (JRCP) to further strengthen its implementation;
- Mapping of the positions in the plantilla based on the revised staffing pattern in accordance with the BSP’s Revised Position Classification Literacy;
- Creation of the Knowledge Management (KM) Group, whose primary role is championing KM initiatives which includes setting direction and spearheading the integration, monitoring, and implementation of bank-wide KM initiatives and processes, among others; and
- Launching of the KM Portal, *iKnow*, the enhanced BSP intranet with a better layout, more organized content, and easier navigation, in coordination with ITSS.
- Employee assistance in securing Community Tax Certificate and filing of Annual Income Tax Return;
- Reconstitution of the Cultural and Sports Committee and Task Force on Anti-Red Tape Act;
- Constitution of the Gender and Development Focal Point System;
 - Implementation of the Alternative Dispute Resolution Mechanism;
 - Implementation of programs geared towards promoting work-life balance; and
 - Conducted Corporate Social Responsibility (CSR) Activities.

Human Resource Management. In ensuring that its human capital management strategies are at par with trends and best practices while remaining responsive to its personnel’s needs, the BSP undertook the following:

- Completion of the Guidelines on the Annual Manpower Plan;
- BSP Job Evaluation and Salary Review (JESR) Project Phases I and II;
- Submission of the BSP Merit Selection Plan to the Civil Service Commission (CSC);
- Approval of the LinkedIn subscription;
- Creation and implementation of employee policies;

Health Services. The BSP, through the Health Services Office, implemented appropriate and strategic health management programs, tackled various relevant and up-to-date medical topics, and provided healthcare tips.

BSP remains committed to promotion and maintenance of BSP personnel’s overall health

Various initiatives and strategic devices were utilized to educate and empower personnel in managing their own health. In 2015, the HSO accomplished the following:

- Won the 2015 Outstanding Health and Lifestyle Award (OHLA), Government Workplace Category, by the Department of Health (DOH) and the DOH’s validation of the BSP for the conferment of the Red Orchid “Hall of Famer” Award for three consecutive years (2013, 2014 and 2015);
- Achievement of an overall rating of 3.90 in the Patient Satisfaction Index (PSI)

scale of 1-4 with 1.04 percent (or eight respondents) dissatisfaction rating which is higher than targeted (3.8) with not more than 9 percent dissatisfaction rating;

- Exceeded the targeted *Efficiency Fill Rate* (EFR) with an average rating of 96.9 percent, initially aimed at 95 percent. This was computed based on the result of time and motion study concerning claims processing with 7 to 10 working days for reimbursement claims processed in the Head Office and 7 to 12 working days for reimbursement claims processed in SPC;
- Continuous implementation of the Enhanced AME with 98.9 percent compliance;
- Completion of Testing of the Employee Health Assessment System (EHAS) as part of the Holistic Profiling and Development in relation to Succession Planning to prepare personnel for KCPs; and
- Continuous affiliation with 81 different service providers.

Enterprise Risk Management. The Enterprise Risk Management (ERM) framework continued to be implemented and enhanced through the following activities:

- 1) Promotion of risk awareness across the Bank, continued from recent years;
- 2) Completion of the 3rd Bank-wide risk assessment cycle, and a consolidated picture of Bank-wide risks was reported to Senior Management and used in strategic management and resource allocation;
- 3) Improvement of the enterprise risk management performance;
- 4) Enhancement of ERM tools and methodologies; and
- 5) Promotion of the BSP image as a world-class model for ERM.

Systems and Methods. 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 other departments and offices, implemented the following programs in 2015:

- 1) Developed the BSP Employees Charter to provide a guide to BSP employees on how to avail of Internal Services;
- 2) Developed Guidelines for the Conduct of Internal Customer Satisfaction Measurement;
- 3) Designed and Developed Quality Management Systems for BSP Departments and Offices;
- 4) Assisted Departments/Offices by Evaluating Continued Compliance of Established Management Systems With International Standards Through Quality Assessments and Third Party Validation
 - a. Performed IQA and Assisted During Third Party Validation; and
 - b. Conducted Work Environment Measurements (WEM);
- 5) Pursued Business Process Improvement and Re-engineering (BPI&R) for the Recruitment and Leave and Retirement Processes of the HRMD and the procurement process of the Procurement Office;
- 6) Conducted Project Quality Assurance (PQA); and
- 7) Implemented the BSP Constructor's Performance Evaluation System.

Comptrollership Functions. The BSP, through its Financial Accounting Department, accomplished, among others, the following services:

- 1) Issuance of the 2016 Budget Preparation Guidelines as approved by the Budget Committee to ensure due compliance with related directives/laws;

- 2) Evaluation and Submission of the 2016 Bankwide Budget Proposals;
- 3) Ensuring that BSP's transactions are properly accounted and recorded in accordance with accounting standards, applicable laws, rules and regulations;
- 4) Encoding/Uploading of budget in the Budgetary Expense Control System (BECS) and transmittal of copies of the approved/noted budget to the concerned units and the Bids and Awards Committee (BAC);
- 5) Revision of selected sections of the Budget Administration Guidelines and Policies (BAGP);
- 6) Administration of core Financial Accounting System (cFAS);
- 7) Effective coordination with internal and external clients to facilitate provision of quality and cost effective service. It instituted an information drive to enhance client understanding, not only on taxation but also on tax accounting on BSP's transactions; and
- 8) Participation in several bank-wide Technical Working Groups and Project Committees, such as the BAC, Committee on Liaison and Legal Research (CLLR), CoSS Enterprise Architecture Project, Cost Accounting Project and SEACEN Research Project, Knowledge Management and Documentation Team of the AO-QMS, Currency Management Committee (CMC), RMS Sectoral Review Committee, and Working Groups on the Integrated

Financial and Management Information System (IFMIS) and Data Warehouse II (DW II) Project.

Major Infrastructure Projects. As of end-2015, the BSP completed various infrastructure projects that are expected to contribute to the efficient operation and performance of the Bank's functions, as follows:

- 1) Expansion and additional ancillary project of BSP Lucena branch building;
- 2) Installation of automatic fire suppression systems (BSP Main Office);
- 3) Construction of BSP La Union regional office fence height extension and relocation of EFLC; and
- 4) Enhancement works for BSP multi-purpose building (BSP Main Office).

Meanwhile, ongoing and partially accomplished projects were as follows:

- 1) SPC 10-Year Plan Project Component 1: Construction of Mint Plant Building and Parking Structure (Security Plant Complex);
- 2) Renovation of BSPI offices and training center (BSP Main Office);
- 3) Replacement of various cash vaults; and
- 4) Renovation of Executive Offices Phase 5 (BSP Main Office).

Box Article 4

The BSP's Human Capital Management Framework

In this third age¹ of central banking when monetary authorities heed the call to be more strategic that is directed, resilient, dynamic, and proactive, the Bangko Sentral ng Pilipinas (BSP) ensures that it is organizationally ready. The BSP has constructed a paradigm that encapsulates its strategies in achieving organizational readiness² primarily elucidating the Bank's human capital—from selection, development, succession, to engagement and retention—as key player in the overall organizational success.

As a good human capital entails a good investor, the BSP being the latter, also takes on the role as a forward thinker, an analyst, and a planner, comprehensively examining the Bank's external and internal lenses or environments, and mapping out its balanced, well-founded direction (aspirational lense)³.

External Lens. With BSP's vital participation, the Philippines takes pride in its 6.2 percent average five-year annual economic growth rate, ensuring that inflation is low, stable, and within its target range (currently at 3.0 percent \pm 1 ppt)⁴. Aside from economic indicators, workforce competence is one of the vital contributors to national economic achievement, though many of our people still leave the country. Diaspora is rampant, and this happens even in other countries. Those with ageing workforce like Singapore rely on those with young workforce such as the Philippines.⁵ Organizations value mobility of employees across geographies.

Internal Lens. Enshrined in the Charter of the BSP under Republic Act No. 7653⁶, the BSP's vision⁷ and mission⁸ serve as guide for the Bank's workforce, being led by the Governor and the Monetary Board, and carefully structured into sectors⁹ (each headed by a Deputy Governor) and functional groupings¹⁰ (each headed by an Assistant Governor or a Managing Director) to deliver on its primary mandates of price stability, financial stability, and payments and settlements efficiency across the country with its three regional offices¹¹ and 19 branches¹². As of 31 December 2015, the Bank's workforce of 5,334 comprised 501 holding managerial and leadership positions, 2,806 holding technical, specialist, and analyst positions, and 2,027 holding operational support and skilled positions. Of the 5,334 employees of the Bank, 2,882 are male, while 2,452 are female; and 2,138 are aged 35 years old and under, while 2,206 are aged 36-55 and 990 are above 55 years old.

¹ Mendzela, J. (2005). Why change? In Courtis, N. and Nicholl, P. (Eds.) (pp. 15-27). *Central Bank Modernisation*. Central Banking Publications, London, United Kingdom

² The foundational theme in the BSP Strategy Map 2012-2017

³ Nagpal, G. (2015). Certified Talent Economics Program. Bangko Sentral ng Pilipinas, Manila, Philippines

⁴ World Bank, Country Profile: <http://www.worldbank.org/en/country/philippines/overview>

⁵ Nagpal, G. (2015). Certified Talent Economics Program. Bangko Sentral ng Pilipinas, Manila, Philippines

⁶ The New Central Bank Act (Republic Act No. 7653). Retrieved from <http://www.bsp.gov.ph/about/charter.asp>

⁷ 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.

⁸ The BSP is committed to promote and maintain price stability and provide proactive 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.

⁹ Monetary Stability Sector, Resource Management Sector, and Supervision and Examination Sector

¹⁰ Executive Management Services and Security Plant Complex

¹¹ Luzon – La Union Regional Office; Visayas – Cebu Regional Office; Mindanao – Davao Regional Office

¹² Batac (Ilocos Norte), Tuguegarao City (Cagayan), Dagupan City (Pangasinan), Cabanatuan City (Nueva Ecija), San Fernando City (Pampanga), Lucena City (Quezon), Naga City (Camarines Sur), Legazpi City (Albay), Dumaguete City (Negros Oriental), Bacolod City (Negros Occidental), Iloilo City (Iloilo), Roxas City (Capiz), Tacloban City (Leyte), Butuan City (Agusan del Norte), Cagayan de Oro City (Misamis Oriental), Ozamiz City (Misamis Occidental), Cotabato City, General Santos City (South Cotabato) and Zamboanga City (Zamboanga del Sur).

The BSP culture can be seen through 11 different facets¹³ ranging from structure, technology to communication and leadership, showing the overall organizational climate. The general climate of the Bank has been consistently rated “good” with overall numerical ratings improving from 4.79 in 2012 to 4.95 in 2014.

Supporting data¹⁴ show that BSPers remain engaged because of the Bank’s leaders, reputation, training and development opportunities, and career growth.

However, BSP needs to address the three consistently-bottom facets, i.e., performance management (4.75), recognition (4.73), and financial security (4.82). Using Herzberg’s Theory on Motivation¹⁵, all of these three facets can be elements of intrinsic and extrinsic motivation of employees.

Table 1. Scale of the Organizational Climate Survey

5.5 – 6.0	Excellent
5.0 – 5.4	Very Good
4.5 – 4.9	Good
3.5 – 4.4	Needs improvement
2.0 – 3.4	Poor
1.0 – 1.9	Very Poor

Aspirational Lens. Equipped with knowledge of internal and external environments, the BSP as a human capital investor now looks through the lens of aspiration. A high performance culture has been the overarching objective of the Organizational Readiness theme of the BSP Strategy Map 2012-2017. How can BSPers keep up then and become third-age central bankers?

Crafting the framework. Inspired by the establishment of a global practice in BSP in 2005 that is the competency-based HR system¹⁶, the Bank developed in 2014 a human capital management framework (HCMF) on which our talent investments from recruitment and development to succession and retention, have been anchored. With the combined forces of the Bank’s human capital catalysts¹⁷ guided by the human capital investor’s lenses, we crafted the HCMF which highlights systems, policies, programs, and initiatives vividly linked to the mission and vision of the BSP and its strategic imperatives.

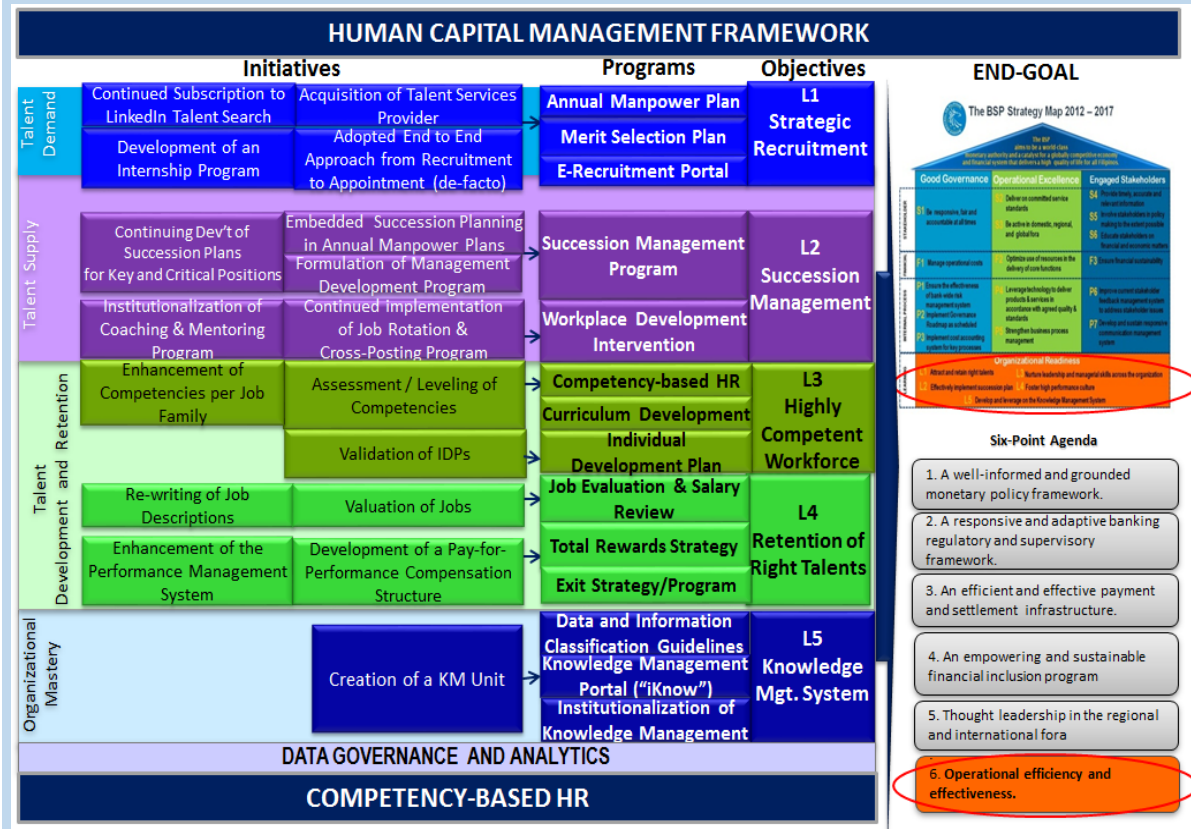
¹³ The BSP Organization Climate Survey (OCS) started in 2012, administered by the Human Resource Development Department (HRDD). Through the years, the facets rated by employees have evolved into the following: Engagement, Diversity, Structure, Communication, Work-Life Balance, Growth and Development, Management style, Teamwork, Financial security, Recognition, and Performance management

¹⁴ HRDD data gathering tools such as Organization Diagnosis and Needs Analysis, Talent Development Needs Assessment, and Employee Exit Survey Questionnaire and Interview

¹⁵ Herzberg, F. (1966) *Work and the Nature of Man*. Oxford, England

¹⁶ A competency is a cluster of knowledge, skills, and attitudes that is necessary in the delivery of outputs (operating definition used by HRDD in internal and external presentations). Leadership and management, functional, and technical competencies serve as bases for recruitment, development, and succession management

Figure 1. The BSP Human Capital Management Framework



The HCMF presents that in strategically managing the human capital of the Bank, it is but essential to map our programs and initiatives against the external facets of talent demand, supply, development and retention, and organizational mastery and our internal strategic objectives on Organizational Readiness and the Governor’s Six-Point Agenda. This framework rests on the bases that are Data Governance and Analytics, and Competency-based HR system to ensure that actions and decisions on managing the BSP’s human capital are supported by valid, reliable, comprehensive, and measurable bases.

¹⁷ Bangko Sentral ng Pilipinas Institute, Human Resource Development Department, Human Resource Management Department, and Health Services Office; with aid from the Information Technology Sub-sector

Where We Stand: Financial Condition of the BSP

Balance Sheet

As of end-December 2015, total assets reached ₱4,309.6 billion, 5.4 percent or ₱222.1 billion higher than the year-ago level.²⁵ At the same time, the BSP's liabilities increased by ₱225.7 billion or 5.6 percent y-o-y to ₱4,268.9 billion. As a result, the BSP's net worth fell to ₱40.8 billion compared to the year-ago level of ₱44.4 billion.

Table 4.1 Balance Sheet of the BSP
In billion pesos

Accounts	December	
	2015*	2014
Assets	4,309.6	4,087.5
Liabilities	4,268.9	4,043.2
Net Worth	40.8	44.4

* Unaudited and Preliminary

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

The y-o-y flow in the BSP's assets was largely due to higher level of international reserves, which accounted for around 87.8 percent of total assets. The ₱246.6 billion increase in international reserves was attributed mainly to the National Government's (NG) net foreign currency deposits as well as the BSP's foreign exchange operations and its income from investments abroad.

The BSP's liabilities similarly increased during the review period due mainly to higher net revaluation of international reserves, and currency issue (consisting of about 3.57 billion pieces of notes and 24.19 billion pieces of coins valued at ₱977.4 billion and ₱27.8 billion²⁶, respectively). The

increase in liabilities also reflected higher reserve deposits²⁷ of other depository corporations (ODCs) (amounting to about ₱69.5 billion). However, the increase in reserve deposits was partially offset by the decrease in reserve deposits of other depository financial corporations (OFCs) and lower Special Deposit Account (SDA).

Net Income

For the year 2015, the BSP incurred a lower net loss of ₱4.3 billion (Table 16).

Table 4.2 Income Statement of the BSP
In billion pesos

Accounts	2015*	2014**
Revenues	56.747	49.779
Less: Expenses	72.781	68.867
Net Income/(Loss) Before Gain/(Loss) on FXR Fluctuations, Income Tax Expense/(Benefit)	(16.034)	(19.088)
Add/Less: Gain/ (Loss) on FXR Fluctuations	11.550	8.936
Income Tax Expense/ (Benefit)	(0.181)	(0.037)
Net Income/ (Loss) After Tax	(4.303)	(10.115)

* Unaudited and Preliminary

**Based on restated BSP net income position.

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

²⁵ Based on unaudited and preliminary statement of financial condition of the BSP.

²⁶ Currency Management Sub-Sector, Bank Notes and Coins December 2015,

<http://www.bsp.gov.ph/downloads/publications/faqs/banknotes.pdf>

²⁷ The BSP raised reserve requirement by 1.0 percent each in April and May 2014 as a proactive move to manage potential risks that could arise from the strong growth in domestic liquidity. (MB meetings on Monetary Policy dated 27 March 2014 and 8 May 2014).

Total revenues for 2015 amounted to ₱56.7 billion, higher than the ₱49.8 billion posted last year. This was mainly due to the combined increase in interest income (about ₱6.2 billion) and net income from branches (about ₱0.8 billion) from the previous year's aggregate level.

Total expenditures amounted to ₱72.8 billion, ₱4.0 billion higher than the level posted last year. The y-o-y increase in expenditures was due mainly to the rise in the cost of minting/printing of currencies as well as higher interest expense on national government deposits and reverse repurchase agreements.

During the year, the BSP's net operating loss of ₱16 billion was offset by gains from forex rate fluctuations amounting to ₱11.6 billion, resulting in a net loss of ₱4.3 billion. ■

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1 GROSS NATIONAL INCOME (GNI) AND GROSS DOMESTIC PRODUCT (GDP) BY INDUSTRIAL ORIGIN

for periods indicated

in million pesos; at constant 2000 prices

	2013	2014	2015	Percent Change (%)		
				2013	2014	2015
Agriculture, Hunting, Forestry and Fishing	706,586	717,824	719,323	1.1	1.6	0.2
Industry Sector	2,219,124	2,394,694	2,537,759	9.2	7.9	6.0
Mining and Quarrying	72,895	76,474	75,444	1.2	4.9	-1.3
Manufacturing	1,538,912	1,666,514	1,762,103	10.3	8.3	5.7
Construction	384,108	422,150	459,586	10.3	9.9	8.9
Electricity, Gas and Water Supply	223,209	229,555	240,625	3.6	2.8	4.8
Services Sector	3,824,369	4,051,499	4,322,859	7.0	5.9	6.7
Transport, Storage & Communication	505,415	536,562	579,054	6.0	6.2	7.9
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	1,121,102	1,184,994	1,266,656	6.2	5.7	6.9
Financial Intermediation	480,683	515,484	545,076	12.6	7.2	5.7
Real Estate, Renting & Business Activities	738,788	803,241	861,581	8.8	8.7	7.3
Public Administration & Defense: Compulsory						
Social Security	282,323	292,441	294,229	2.7	3.6	0.6
Other Services	696,058	718,777	776,263	5.2	3.3	8.0
Gross Domestic Product	6,750,079	7,164,017	7,579,940	7.1	6.1	5.8
Net Primary Income from the rest of the world	1,418,689	1,476,652	1,529,765	13.1	4.1	3.6
Gross National Income	8,168,768	8,640,668	9,109,705	8.1	5.8	5.4

Notes:

(1) 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.

(2) Numbers may not add up to total due to rounding.

Source: Philippine Statistics Authority (PSA)

1a GROSS NATIONAL INCOME (GNI) AND GROSS DOMESTIC PRODUCT (GDP) BY EXPENDITURE SHARE

for periods indicated

in million pesos; at constant 2000 prices

Item	2013	2014	2015	Percent Change (%)		
				2013	2014	2015
Household Final Consumption Expenditure	4,692,438	4,947,000	5,252,113	5.6	5.4	6.2
Government Final Consumption Expenditure	705,811	718,096	785,300	5.0	1.7	9.4
Capital Formation	1,487,902	1,568,346	1,780,932	27.7	5.4	13.6
Fixed Capital	1,441,475	1,539,125	1,754,278	12.2	6.8	14.0
Construction	586,731	650,615	705,473	11.0	10.9	8.4
Durable Equipment	720,937	747,910	899,977	15.5	3.7	20.3
Breeding Stocks and Orchard Development	96,063	95,411	97,308	-4.0	-0.7	2.0
Intellectual Property Products	37,744	45,189	51,520	16.4	19.7	14.0
Changes in Inventories	46,428	29,221	26,654	138.5	-37.1	-8.8
Exports	3,024,867	3,365,953	3,549,701	-1.0	11.3	5.5
Less: Imports	3,160,940	3,435,378	3,844,788	4.4	8.7	11.9
Statistical Discrepancy	0	0	56,683			
Gross Domestic Product	6,750,079	7,164,017	7,579,940	7.1	6.1	5.8
Net Primary Income from the rest of the world	1,418,689	1,476,652	1,529,765	13.1	4.1	3.6
Gross National Income	8,168,768	8,640,668	9,109,705	8.1	5.8	5.4

Notes:

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(2) Numbers may not add up to total due to rounding.

Source: Philippine Statistics Authority (PSA)

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for periods indicated

	2012	2013		2014			2015		Percent Change (%)	
		w/ Region VIII	w/o Region VIII	w/ Region VIII	w/o Region VIII	w/o Leyte ⁴	w/ Leyte	w/o Leyte	2014	2015 ⁵
Employment Status¹										
Labor Force (In Thousands)	40,426	41,022	39,088		40,050	41,379		41,343 ^P	2.5	n.c.
Employed	37,600	38,118	36,286		37,310	38,651		38,741 ^P	2.8	n.c.
Unemployed	2,826	2,905	2,801		2,740	2,728		2,602 ^P	-2.2	n.c.
Underemployed	7,514	7,371	6,912		6,870	7,118		7,180 ^P	-0.6	n.c.
Employment Rate (%)	93.0	92.9	92.8		93.2	93.4		93.7 ^P		
Unemployment Rate (%)	7.0	7.1	7.2		6.8	6.6		6.3 ^P		
Underemployment Rate (%)	20.0	19.3	19.0		18.4	18.4		18.5 ^P		
Overseas Employment (Deployed, in thousand)										
Land-Based	1,802	1,836		1,645						-10.4
Sea-Based	1,435	1,469		1,292						-12.1
	367	367		354						-3.6
Strikes										
Number of new strikes declared	3	1		2						100.0
Number of workers involved	209	400		51						-87.3
Legislated Wage Rates²										
In Nominal Terms										
Non-Agricultural										
National Capital Region (NCR)	456.00	466.00		466.00				481.00	0.0	3.2
Regions Outside NCR (ONCR)	349.50	349.50		362.50				362.50	3.7	0.0
Agricultural										
NCR										
Plantation	419.00	429.00		429.00				444.00	0.0	3.5
Non-Plantation	419.00	429.00		429.00				444.00	0.0	3.5
ONCR										
Plantation	324.50	324.50		337.50				337.50	4.0	0.0
Non-Plantation	309.00	309.00		322.00				335.00	4.2	4.0
In Real Terms (at 2006 prices)³										
Non-Agricultural										
National Capital Region (NCR)	363.64	362.36		356.54				363.84	-1.6	2.0
Regions Outside NCR (ONCR)	268.23	256.80		260.23				257.82	1.3	-0.9
Agricultural										
NCR										
Plantation	334.13	333.59		328.23				335.85	-1.6	2.3
Non-Plantation	334.13	333.59		328.23				335.85	-1.6	2.3
Regions Outside NCR (ONCR)										
Plantation	249.04	238.43		242.28				240.04	1.6	-0.9
Non-Plantation	235.34	224.08		224.70				229.45	0.3	2.1

Notes:

¹ Starting with January 2007 LFS round, the population projection based on the 2000 Census of Population was adopted to generate the labor force statistics per NSCB Resolution No. 1

² Source of data for both nominal and real wage rates is the National Wages and Productivity Commission. Includes basic minimum wage and cost of living allowance (COLA). Starting

³ Starting 10 November 1990, adjustments in the minimum legislated wage rates are being determined by the Regional Tripartite Wages Productivity Board. Starting 2010, real terms is

⁴ Annual 2014 data refer to the average estimates for April, July and October survey rounds only excluding data of the province of Leyte.

⁵ Annual data of 2015 and 2014 are not comparable since 2014 data only covers April, July and October.

^P Preliminary

n.c. not comparable

Sources: Philippine Overseas Employment Administration (POEA), National Wages and Productivity Commission (NWPC), and National Conciliation and Mediation Board (NCMB) and PSA

3 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, METRO MANILA

AND ALL AREAS OUTSIDE METRO MANILA

for periods indicated

2006=100

	Philippines				Metro Manila				All Areas Outside Metro Manila			
	CPI		Percent Change (%)		CPI		Percent Change (%)		CPI		Percent Change (%)	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
All Items	139.5	141.5	4.1	1.4	130.5	131.8	3.2	1.0	142.4	144.6	4.5	1.5
Food and Non-Alcoholic Beverages	153.4	157.3	6.7	2.5	144.9	148.1	6.2	2.2	155.2	158.3	6.8	2.0
Food	155.2	159.2	7.0	2.6	146.5	150.0	6.5	2.4	157.0	161.1	7.1	2.6
Alcoholic Beverages, Tobacco and Narcotics	175.7	182.4	5.2	3.8	152.7	156.0	5.8	2.2	180.3	187.7	5.1	4.1
Non-Food	129.2	129.8	2.2	0.5	124.2	124.7	1.8	0.4	131.2	131.8	2.4	0.5
Clothing and Footwear	132.9	136.3	3.5	2.6	137.4	141.5	3.9	3.0	131.3	134.5	3.2	2.4
Housing, Water, Electricity, Gas and Other Fuels	130.8	129.1	2.3	-1.3	125.0	123.1	1.1	-1.5	133.3	131.8	2.7	-1.1
Furnishing, Household Equipment and Routing Maintenance of the House	128.5	130.9	2.7	1.9	125.1	126.4	3.6	1.0	129.6	132.5	2.3	2.2
Health	136.4	139.3	3.3	2.1	141.8	146.2	4.6	3.1	135.0	137.4	2.9	1.8
Transport	127.7	127.6	0.9	-0.1	115.1	116.8	0.9	1.5	131.6	130.9	0.9	-0.5
Communication	92.7	92.7	0.0	0.0	94.1	94.2	0.2	0.1	92.1	91.9	0.0	-0.2
Recreation and Culture	114.1	115.3	1.9	1.1	117.0	119.5	2.5	2.1	113.0	113.9	1.6	0.8
Education	149.5	155.8	4.9	4.2	151.0	159.5	5.2	5.6	149.0	154.7	4.9	3.8
Restaurants and Miscellaneous Goods and Services	128.5	130.2	1.9	1.3	122.7	123.5	1.3	0.7	131.0	133.1	2.2	1.6

Source: Philippine Statistics Authority (PSA)

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated

in million pesos

	Actual		Program	Actual Vs.	Annual
	2014	2015	2015	Program	Change
				(%)	(%)
Revenues	1,908,527	2,108,956	2,275,228	-7.3	10.5
Tax Revenues	1,718,986	1,815,475	2,127,651	-14.7	5.6
Bureau of Internal Revenue	1,334,762	1,433,302	1,673,946	-14.4	7.4
Bureau of Customs	369,277	367,534	436,592	-15.8	-0.5
Other Offices	14,947	14,639	17,113	-14.5	-2.1
Non-tax Revenues	189,541	293,481	147,577	98.9	54.8
of w/c: Bureau of the Treasury	93,444	110,035	60,658	81.4	17.8
Expenditures	1,981,619	2,230,645	2,558,914	-12.8	12.6
of which:					
Allotments to Local Government Units	344,235	387,559	311,888	24.3	12.6
Interest Payments	321,185	309,364	361,825	-14.5	-3.7
Equity and Net Lending	15,143	10,463	29,425	-64.4	-30.9
Surplus/Deficit (-)	-73,092	-121,689	-283,686	57.1	-66.5
Financing	175,239	92,851	310,232	-70.1	-47.0
External Borrowings (Net)	12,572	64,782	34,507	87.7	415.3
Domestic Borrowings (Net)	162,667	28,069	275,725	-89.8	-82.7
Total Change in Cash: Deposit/Withdrawal (-)	37,826	-1,580	20,363	-107.8	-104.2
Budgetary	102,147	-28,838	26,547	-208.6	-128.2
Non-Budgetary ¹	-64,321	27,258	-6,184	540.8	142.4

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 (SRF-based) *
as of period indicated

	LEVELS		GROWTH RATES (%)
	Dec-14	Dec-15 ^P	
1. NET FOREIGN ASSETS	3,752,137	3,998,772	6.6
A. Monetary Authorities			
Claims on non-residents	3,514,406	3,762,845	7.1
less: Liabilities to non-residents	3,587,434	3,837,264	7.0
73,028	74,419	1.9	
B. Other Depository Corporation	237,731	235,927	(0.8)
Claims on non-residents	1,028,651	1,023,852	(0.5)
less: Liabilities to non-residents	790,920	787,925	(0.4)
2. DOMESTIC CLAIMS	7,052,978	7,860,464	11.4
A. Net Claims on Central Government	1,119,053	1,263,046	12.9
Claims on central government	1,862,744	1,993,871	7.0
less: Liabilities to central government	743,690	730,825	(1.7)
B. Claims on Other Sectors	5,933,925	6,597,418	11.2
Claims on other financial corporations	630,273	680,588	8.0
Claims on state and local government	71,495	76,632	7.2
Claims on public nonfinancial corporations	269,258	277,976	3.2
Claims on private sector	4,962,900	5,562,223	12.1
3. LIQUIDITY AGGREGATES			
M4 (M3 + 3.e)	9,050,763	9,884,959	9.2
M3 (M2 + 3.d) **	7,703,921	8,426,170	9.4
M2 (M1 + 3.c)	7,396,349	8,068,843	9.1
M1 (3.a + 3.b)	2,316,359	2,667,379	15.2
3.a Currency outside depository corporations (Currency in circulation)	713,718	791,472	10.9
3.b Transferable deposits included in broad money (Demand deposits)	1,602,641	1,875,907	17.1
3.c Other deposits included in broad money	5,079,990	5,401,464	6.3
Savings deposits	3,191,752	3,586,100	12.4
Time deposits	1,888,238	1,815,364	(3.9)
3.d Securities other than shares included in broad money (Deposit substitutes)	307,572	357,327	16.2
3.e Transferable and other deposits in foreign currency (FCDs-Residents)	1,346,841	1,458,789	8.3
4. LIABILITIES EXCLUDED FROM BROAD MONEY	1,754,353	1,974,278	12.5

* Based on the Standardized Report Forms (SRFs), a unified framework for reporting monetary and financial statistics to the International Monetary Fund (IMF).

^P Preliminary

^r Revised

** May also be derived as Net Foreign Assets + Domestic Claims, net of Liabilities excluded from broad money and transferable and other deposits in foreign currency (FCDs-Residents).

Source: BSP

6 SELECTED DOMESTIC INTEREST RATES ¹
for periods indicated
In percent per annum

	Nominal Interest Rates			Real Interest Rates ⁷		
	2013	2014	2015	2013	2014	2015
Borrowing Rates of Banks						
Interbank Call Loans	2.218	2.218	2.526	2.218	2.218	2.526
Savings Deposits ²	0.827	0.626	0.710	0.827	0.626	0.710
Time Deposits ² (All Maturities)	1.410	1.080	1.496	1.410	1.080	1.496
Lending Rates						
Prime				0.000	0.000	0.000
High ⁴	6.930	6.801	6.877	6.930	6.801	6.877
Low ⁵	4.603	4.385	4.470	4.603	4.385	4.470
Bangko Sentral Rates ⁶						
R/P (Overnight)	N.T.	N.T.	N.T.	N.T.	N.T.	N.T.
R/P (Term)	N.T.	N.T.	N.T.	N.T.	N.T.	N.T.
RR/P (Overnight)	3.500	3.770	4.000	3.500	3.770	4.000
RR/P (Term)	3.521	3.720	4.000	3.521	3.720	4.000
Rediscounting	3.506	3.724	4.079	3.506	3.724	4.079
Rate on Government Securities						
Treasury Bills (All Maturities)	0.564	1.495	1.894	0.564	1.495	1.894
91-Days	0.315	1.244	1.772	0.315	1.244	1.772
182-Days	0.484	1.605	1.924	0.484	1.605	1.924
364-Days	0.720	1.788	2.077	0.720	1.788	2.077
Government Securities in the Secondary Market ⁸						
3 Months	0.492	2.541	2.667	0.492	2.541	2.667
6 Months	0.600	2.643	2.918	0.600	2.643	2.918
1-Year	0.933	2.696	2.371	0.933	2.696	2.371
2-Years	2.521	3.057	3.985	2.521	3.057	3.985
3-Years	2.919	3.450	3.663	2.919	3.450	3.663
4-Years	3.452	3.571	3.875	3.452	3.571	3.875
5-Years	3.763	3.680	3.925	3.763	3.680	3.925
7-Years	3.685	4.148	4.585	3.685	4.148	4.585
10-Years	3.804	4.371	4.100	3.804	4.371	4.100
20-Years	5.188	5.173	5.522	5.188	5.173	5.522
25-Years	5.646	4.950	4.892	5.646	4.950	4.892

¹ All figures are weighted average rates, unless stated otherwise
promissory notes of sample banks, all maturities

³ Ratio of all commercial banks' total interest incomes to their total outstanding peso-denominated loans

⁴ Refers to the average of all highs quoted by reporting commercial banks

⁵ Refers to the average of all lows quoted by reporting commercial banks

⁶ Beginning 2012, the weighted average interest rates for R/P and RR/P are computed as end-of-period total interest expense divided by outstanding principal, while those for earlier periods are computed based on actual transactions during the period.

⁷ Nominal interest rate less inflation rate

⁸ End-of-Period; beginning 2015, data refers to PDST-R2 while those for earlier periods refers to PDST-F.

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

1980 = 100

	N O M I N A L			R E A L		
	Overall ¹	Trading Partners		Overall ¹	Trading Partners	
		Advanced ²	Developing ³		Advanced ²	Developing ³
2013	15.26	12.38	24.45	87.44	81.57	115.85
Jan	15.53	12.43	25.14	91.17	84.88	120.98
Feb	15.72	12.65	25.35	90.71	84.77	120.01
Mar	15.82	12.82	25.37	90.76	84.87	120.03
Apr	15.71	12.81	25.07	90.41	84.80	119.30
May	15.75	12.96	24.97	90.39	85.15	118.89
Jun	15.14	12.27	24.27	87.15	80.87	115.93
Jul	15.08	12.29	24.09	85.75	80.37	113.22
Aug	14.88	12.02	23.92	84.33	78.11	112.32
Sep	14.89	12.07	23.89	84.35	78.23	112.25
Oct	14.97	12.11	24.04	85.06	78.90	113.18
Nov	14.94	12.15	23.90	85.09	79.45	112.66
Dec	14.85	12.10	23.72	84.84	79.26	112.29
2014	14.92	12.24	23.72	87.20	82.50	114.36
Jan	14.67	11.95	23.44	87.94	83.88	114.67
Feb	14.63	11.86	23.46	86.39	81.79	113.25
Mar	14.65	11.85	23.54	85.66	80.46	112.93
Apr	14.68	11.90	23.54	85.92	80.23	113.76
May	14.89	12.07	23.88	87.16	81.07	115.72
Jun	14.96	12.15	23.95	87.81	81.73	116.53
Jul	15.03	12.24	24.02	87.64	82.21	115.66
Aug	14.97	12.26	23.83	87.20	82.03	114.84
Sep	15.06	12.49	23.75	87.29	82.95	114.13
Oct	14.94	12.40	23.55	86.88	82.77	113.38
Nov	15.18	12.79	23.69	88.19	85.48	113.67
Dec	15.46	13.04	24.09	89.30	86.67	114.98
2015	15.70	13.33	24.36	92.24	90.76	117.60
Jan	15.66	13.28	24.29	95.10	94.73	120.19
Feb	15.88	13.51	24.61	95.00	94.65	120.05
Mar	15.97	13.69	24.61	94.48	94.29	119.24
Apr	15.89	13.68	24.39	94.24	94.02	118.97
May	15.78	13.53	24.29	93.01	91.99	118.15
Jun	15.78	13.55	24.28	92.88	91.95	117.89
Jul	15.79	13.53	24.33	91.96	91.37	116.44
Aug	15.68	13.24	24.42	91.01	88.86	116.69
Sep	15.53	12.92	24.45	89.66	86.07	116.37
Oct	15.57	13.02	24.42	90.13	87.00	116.51
Nov	15.50	13.08	24.14	90.18	88.07	115.60
Dec	15.46	12.97	24.19	89.79	87.09	115.68

¹ Australia, Euro Area, U.S., Japan, Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U. A. E.

² U.S., Japan, Euro Area, and Australia

³ Hong Kong, Taiwan, Thailand, Indonesia, Malaysia, Singapore, South Korea, China, Saudi Arabia, and U.A.E.

Source: BSP

8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS p
as of periods indicated
in million pesos

	LEVELS		GROWTH RATE (%)
	2014	2015 p	
TOTAL	6,682,631	7,277,371	8.9
Demand Deposits	1,602,641	1,875,907	17.1
Savings Deposits	3,191,752	3,586,100	12.4
Time Deposits	1,888,238	1,815,364	-3.9

p Preliminary

Source: BSP

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

Institutions	2014	2015 ^P Nov	% Change
Total	14,278.4	15,327.1	7.3
Banks	11,541.1	12,406.1	7.5
Universal and Commercial Banks ²	10,398.4	11,159.2	7.3
Thrift Banks ²	916.2	1,034.1	12.9
Rural Banks	226.4 ^a	212.8 ^a	-6.0
Non-Banks ²	2,737.3 ^a	2,920.9 ^a	6.7

¹ Excludes the Bangko Sentral ng Pilipinas; amount includes allowance for probable losses

² Includes Investment Houses, Finance Companies, Investment Companies, Securities Dealers/Brokers, Pawnshops, Lending Investors, Non-Stock Savings and Loan Associations, Credit Card Companies (which are under BSP supervision), and Private and Government Insurance Companies (i.e., SSS and GSIS)

^a As of end-September 2014

^b As of end-September 2015

^P Preliminary

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS ¹
as of periods indicated

Institutions	2014	2015	% Change
	as of end-September		
Total	28,128	28,381	0.9
Head Offices	6,840	6,638	-3.0
Branches/Agencies	21,288	21,743	2.1
Banks	10,207	10,615	4.0
Head Offices	652	635	-2.6
Branches/Agencies	9,555	9,980	4.4
Universal and Commercial Banks	5,738	5,969	4.0
Head Offices	36	37	2.8
Branches/Agencies	5,702	5,932	4.0
Thrift Banks	1,873	2,053	9.6
Head Offices	69	69	0.0
Branches/Agencies	1,804	1,984	10.0
Savings and Mortgage Banks	1,248	1,410	13.0
Head Offices	28	28	0.0
Branches/Agencies	1,220	1,382	13.3
Private Development Banks	440	417	-5.2
Head Offices	19	19	0.0
Branches/Agencies	421	398	-5.5
Stock Savings and Loan Associations	154	195	26.6
Head Offices	18	18	0.0
Branches/Agencies	136	177	30.1
MicroFinance Banks	31	31	0.0
Head Offices	4	4	0.0
Branches/Agencies	27	27	0.0
Rural Banks	2,596	2,593	-0.1
Head Offices	547	529	-3.3
Branches/Agencies	2,049	2,064	0.7
Non-Banks ²	17,921	17,766	-0.9
Head Offices	6,188	6,003	-3.0
Branches/Agencies	11,733	11,763	0.3

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 Associations, Venture Capital Corps., Credit Card Companies (which are under BSP supervision), and 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

	2013		2014		2015		Percent Change (%)			
	Volume	Value	Volume	Value	Volume	Value	2014		2015	
							Volume	Value	Volume	Value
Total	515,135.0	2,546,182.9	815,193.1	2,130,120.9	493,261.9	2,151,411.1	58.2	-16.3	-39.5	1.0
Financial	7,614.5	342,310.8	4,981.2	278,292.2	4,094.6	273,521.9	-34.6	-18.7	-17.8	-1.7
Industrial	80,766.2	684,087.7	64,433.4	428,165.2	34,467.1	530,927.0	-20.2	-37.4	-46.5	24.0
Holding Firms	80,453.7	605,710.8	37,382.4	499,986.7	55,334.7	538,920.6	-53.5	-17.5	48.0	7.8
Property	68,488.1	409,150.3	70,184.2	360,390.5	45,161.7	361,165.6	2.5	-11.9	-35.7	0.2
Services	68,965.5	442,782.3	70,243.4	461,553.1	49,463.1	358,736.4	1.9	4.2	-29.6	-22.3
Mining & Oil	208,844.7	62,011.6	566,348.1	89,916.5	303,635.6	75,723.9	171.2	45.0	-46.4	-15.8
SME	1.1	11.1	1,613.8	11,072.3	1,098.0	11,558.6	141,444.2	99,504.4	-32.0	4.4
ETF	1.2	118.2	6.6	744.4	7.1	857.1	454.7	529.9	6.5	15.1
Composite Index (PSEi)										
Average	6,471.3		6,793.3		7,432.6		5.0		9.4	
End of Period	5,889.8		7,230.6		6,952.1		22.8		-3.9	

Source: PSE

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

	2014 r	2015 p	Growth (%) 2015 p
Current Account	10756	8396	-21.9
(Totals as percent of GNI)	3	2	
Export	107546	105287	-2.1
Import	96791	96891	0.1
Goods, Services, and Primary Income	-12026	-15124	-25.8
Export	84101	80940	-3.8
Import	96127	96064	-0.1
Goods and Services	-12754	-17455	-36.9
(Totals as percent of GNI)	-4	-5	
(Totals as percent of GDP)	-4	-6	
Export	75322	71443	-5.1
Import	88076	88898	0.9
Goods	-17330	-21698	-25.2
(Totals as percent of GNI)	-5	-6	
(Totals as percent of GDP)	-6	-7	
Credit: Exports	49824	43276	-13.1
Debit: Imports	67154	64974	-3.2
Services	4576	4244	-7.3
Credit: Exports	25498	28167	10.5
Debit: Imports	20922	23924	14.3
Primary Income	727	2331	220.4
Credit: Receipts	8779	9496	8.2
Debit: Payments	8052	7165	-11.0
Secondary Income	22782	23520	3.2
Credit: Receipts	23446	24347	3.8
Debit: Payments	663	827	24.7
Capital Account	108	82	-24.3
Credit: Receipts	121	97	-19.6
Debit: Payments	13	15	19.9
Financial Account	9631	2523	-73.8
Net Acquisition of Financial Assets	15004	6675	-55.5
Net Incurrence of Liabilities	5373	4153	-22.7
Direct Investment	1014	-122	-112.1
Net Acquisition of Financial Assets	6754	5602	-17.1
Net Incurrence of Liabilities	5740	5724	-0.3
Portfolio Investment	2708	4757	75.6
Net Acquisition of Financial Assets	2705	2615	-3.3
Net Incurrence of Liabilities	-3	-2141	-62520.0
Financial Derivatives	4	-33	-917.6
Net Acquisition of Financial Assets	-293	-465	-58.9
Net Incurrence of Liabilities	-297	-433	-45.8
Other Investment	5905	-2079	-135.2
Net Acquisition of Financial Assets	5838	-1077	-118.4
Net Incurrence of Liabilities	-66	1002	1614.3
NET UNCLASSIFIED ITEMS	-4091	-3338	18.4
OVERALL BOP POSITION	-2858	2616	191.5
(Totals as percent of GNI)	-1	1	
(Totals as percent of GDP)	-1	1	
Debit: Change in Reserve Assets	-2858	2616	191.5
Credit: Change in Reserve Liabilities	-	-	-53.2

Details may not add up to total due to rounding.

p Preliminary

r Revised to reflect data updates from official data sources, updated estimates of OF remittances related data, additional data from financial statements of resident corporations and post-audit adjustments

-Rounds off to zero

Technical Notes:

- Balance of Payments Statistics are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
- Financial Account, including Reserve Assets, is calculated as the sum of net acquisitions of financial assets less net incurrence of liabilities.
- Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
- Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
- Negative values of Net Acquisition of Financial Assets indicate withdrawal/disposal of financial assets; negative values of Net Incurrence of Liabilities indicate repayment of liabilities.
- Overall BOP position is calculated as the change in the country's net international reserves (NIR), less non-economic transactions (revaluation and gold monetization/demonetization). Alternatively, it can be derived by adding the current and capital account balances less financial account plus net unclassified items.
- Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded
- Data on Deposit-taking corporations, except the central bank, consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

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) ⁴	
									Original Maturity ² (8)	Residual Maturity ³ (9)
2014	Jan	79,357.5	591.7	7,731.7	1,297.9	68,919.7	816.4	10.8	469.3	392.5
	Feb	80,539.6	595.6	8,333.4	1,309.2	69,753.0	548.4	10.8	476.3	395.7
	Mar	79,645.2	594.9	8,006.2	1,307.7	68,990.6	745.9	10.6	471.0	387.1
	Apr	79,844.2	601.6	8,012.4	1,313.9	69,224.3	692.1	10.5	472.2	388.3
	May	80,242.2	601.4	7,790.5	1,303.5	69,835.9	710.8	10.5	474.6	394.1
	Jun	80,733.3	611.6	8,285.0	1,308.1	69,889.5	639.2	10.5	477.5	398.7
	Jul	80,644.2	602.7	8,019.0	1,295.7	70,048.4	678.3	10.4	476.9	399.1
	Aug	80,872.8	597.6	8,050.8	1,284.9	70,081.0	858.4	10.3	478.3	400.7
	Sep	79,556.9	590.3	7,569.5	1,254.6	68,935.5	1,206.9	10.1	559.4	463.8
	Oct	79,409.2	585.9	7,311.7	1,251.0	69,966.6	294.0	10.0	558.3	466.7
	Nov	78,679.0	580.3	7,230.1	1,239.2	69,393.5	235.9	9.9	553.2	462.8
	Dec	79,540.6	570.6	7,483.6	1,226.1	69,960.1	300.2	9.9	489.5	414.9
2015	Jan	80,716.0	555.2	8,045.2	1,193.1	70,359.1	563.3	10.2	476.4	394.7
	Feb	80,837.0	554.3	7,632.4	1,191.1	70,938.9	520.2	10.2	485.8	403.0
	Mar	80,458.5	439.0	7,437.1	1,167.5	70,565.2	849.7	10.2	614.3	476.8
	Apr	80,850.1	447.9	7,404.2	1,191.0	71,547.1	260.0	10.3	611.1	470.4
	May	80,405.0	442.5	7,480.8	1,176.9	70,809.0	495.8	10.4	628.5	473.8
	Jun	80,644.3	444.8	7,377.8	1,190.3	70,646.8	984.6	10.3	610.5	461.7
	Jul	80,332.4	441.1	6,864.4	1,180.4	71,223.5	623.0	10.2	606.7	456.9
	Aug	80,255.4	446.2	7,150.9	1,188.2	70,614.4	855.7	10.3	606.0	454.3
	Sep	80,550.5	444.9	7,014.8	1,188.1	70,799.9	1,102.8	10.3	553.5	421.0
	Oct	81,097.8	442.7	7,178.7	1,182.3	71,362.5	931.6	10.3	556.8	417.8
	Nov	80,173.2	434.9	6,700.6	1,161.4	70,752.2	1,124.0	10.2	507.6	375.5
	Dec	80,666.9	438.6	6,702.9	1,172.9	71,739.4	613.0	10.3	510.7	376.6

¹ Number of months of average imports of goods and payment of services and income that can be financed by reserves. Starting 2005, figures were revised to reflect data based on BPM6 concept.

² Based on latest available outstanding short-term external debt.

³ Refers to adequacy of reserves to cover 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. Figures reflect data based on projected debt service schedule on debt outstanding as of 30 June 2015; external debt as of 30 September 2015; and debt service burden and outstanding short-term loan of non-banks as of 30 November 2015

⁴ Starting December 2005, annual outstanding annual short-term debt were revised to reflect the new reporting framework in line with international standards under the latest External Debt Statistics Guide and

International Monetary Fund's Balance of Payments and International Investment Position Manual, 6th Edition

Source: BSP

13 TOTAL EXTERNAL DEBT¹
as of periods indicated
in million US dollars

	31 December 2014				31 December 2015			
	Short-term		Medium & Long-Term	Total	Short-term		Medium & Long-Term	Total
	Trade	Non-Trade	Trade		Non-Trade			
Grand Total	2,486	13,762	61,426	77,674 ^a	2,203	12,896	62,375	77,474 ^a
Public Sector	-	606	38,740 ^b	39,346	-	899	37,374 ^b	38,273
Banks	-	606	3,542	4,148	-	899	3,206	4,105
Bangko Sentral ng Pilipinas	-	-	1,387 ^c	1,387	-	-	1,337 ^c	1,337
Others	-	606	2,155 ^d	2,761	-	899	1,870 ^d	2,768
Non-Banks	-	-	35,198	35,198	-	-	34,168	34,168
CB-BOL	-	-	-	-	-	-	-	-
NG and Others	-	-	35,198	35,198	-	-	34,168	34,168
Private Sector	2,486	13,156	22,685	38,327	2,203	11,998	25,001	39,201
Banks	-	12,565	1,870	14,435	-	11,392	3,365	14,756
Foreign Bank Branches	-	6,872	235	7,107 ^e	-	4,542	270	4,812 ^e
Domestic Banks	-	5,693	1,635 ^d	7,328	-	6,850	3,095 ^d	9,944
Non-Banks	2,486	591	20,815 ^f	23,893	2,203	606	21,636 ^f	24,445

1 Covers debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

Exclusions

	31 December 2014	31 December 2015
a Residents' holdings of Philippine debt papers issued offshore;	15,628	17,376
Non-residents' holdings of peso-denominated debt securities	5,315	5,213

Inclusions

b Cumulative foreign exchange revaluation on US\$-denominated multi-currency loans from Asian Development Bank and World Bank	(61)	(52)
c Accumulated SDR allocations from the IMF	1,214	1,165
d Outstanding Hybrid Tier 1 capital of banks	212	82
excludes: residents' holdings	143	43
e "Due to Head Office/Branches Abroad" (DTHOBA) accounts of branches and offshore banking units of foreign banks operating in the Philippines which are considered by BSP as "quasi-equity"	5,329	3,550
f Loans without BSP approval/registration which cannot be serviced using foreign exchange from the banking system;	13,714	14,306
Obligations under capital lease arrangements	1,015	1,390

Source: Bangko Sentral ng Pilipinas

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

	2014 ^r	2015 ^p
Debt Service Burden (DSB) ¹	6354	5269
Principal	3571	2741
Interest	2782	2529
Export Shipments (XS) ²	49824	43276
Exports of Goods and Receipts from Services and Income (XGSI) ^{2,3}	101309	98898
Current Account Receipts (CAR) ²	107546	105287
External Debt	77674	77474
Gross Domestic Product (GDP)	284777	291965
Gross National Income (GNI)	95035	95587
Ratios (%) :		
DSB to XS	12.75	12.18
DSB to XGSI	6.27	5.33
DSB to CAR	5.91	5.00
DSB to GNI	6.69	5.51
External Debt to GDP	27.28	26.54
External Debt to GNI	22.50	21.95

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 Based on the accounting principle under the Balance of Payments and International Investment Position Manual, Sixth edition (BPM6)

³ 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 Primary Income account and workers' remittances in the Secondary Income account.

^{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

	2014 Dec	2015 ^{P,U} Dec	Percent Change (%)
Assets	4,087,510.4	4,309,622.5	5.4
International Reserves	3,535,808.4	3,782,378.7	7.0
Domestic Securities	222,404.7	222,629.9	0.1
Loans and Advances	85,334.6	85,535.1	0.2
Revaluation of International Reserves	41,664.2	0.0	
Bank Premises and Other Fixed Assets	18,096.9	18,317.1	1.2
Derivative Instruments in a Gain/Loss (-) Position	120.1	-98.1	-181.7
Other Assets	184,081.5	200,859.8	9.1
Liabilities	4,043,151.5	4,268,863.5	5.6
Currency Issue	929,502.2	1,005,194.9	8.1
Deposits	<u>2,724,583.0</u>	<u>2,788,890.4</u>	<u>2.4</u>
Reserve Deposits of Other Depository Corporations (ODCs) ¹	1,386,745.3	1,456,213.2	5.0
Reserve Deposits of Other Financial Corporations (OFCs) ²	7,667.8	5,660.9	-26.2
Special Deposit Accounts ³	845,010.3	828,318.5	-2.0
Treasurer of the Philippines ⁴	415,195.0	426,847.0	2.8
Foreign Financial Institutions	39,477.3	39,346.2	-0.3
Other Foreign Currency Deposits	47.0	47.8	1.7
Other Deposits ⁵	30,440.4	32,456.7	6.6
Foreign Loans Payable	50.0	46.6	-6.7
Net Bonds Payable	22,374.9	23,564.7	5.3
Allocation of SDRs	54,321.2	54,717.7	0.7
Derivatives Liability	36.7	9.4	-74.3
Revaluation of International Reserves	0.0	73,896.8	
Reverse Repurchase Agreements ³	302,285.0	311,717.8	3.1
Other Liabilities	9,998.5	10,825.2	8.3
Net Worth	44,358.9	40,759.0	-8.1
Capital	50,000.0	50,000.0	0.0
Surplus/Reserves	-5,641.1	-9,241.0	-63.8

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

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.

^{P,U} Based on the preliminary and unaudited BSP balance sheet as of end-December 2015 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*

	2014 ^r Dec	2015 ^{p,u} Dec	Percent Change (%)
Revenues	49.779	56.747	14.0
Interest Income	<u>33.003</u>	<u>39.213</u>	<u>18.8</u>
International Reserves	25.032	29.141	16.4
Domestic Securities	2.446	4.349	77.8
Loans and Advances	1.817	1.703	-6.3
Others	3.708	4.020	8.4
Miscellaneous Income	15.962	15.943	-0.1
Net income from Branches	0.814	1.591	95.5
Expenses	68.867	72.781	5.7
Interest Expenses	<u>46.157</u>	<u>48.602</u>	<u>5.3</u>
Reserve Deposits of ODCs and OFCs ¹	0.014	0.000	
Special Deposit Accounts	26.246	24.330	-7.3
National Government Deposits	6.838	10.014	46.4
Reverse Repurchase Agreements	11.058	12.389	12.0
Loans Payable	1.955	1.826	-6.6
Other Foreign Currency Deposits	0.000	0.000	
Other Liabilities	0.046	0.043	-6.5
Cost of Minting	6.763	8.185	21.0
Other Expenses	15.947	15.994	0.3
Net Income/(Loss) Before Gain/(Loss) on FXR Fluctuations and Income Tax Expense/Benefit (-)	-19.088	-16.034	16.0
Gain/Loss(-) on FXR Fluctuations ²	8.936	11.550	29.3
Income Tax Expense/Benefit (-)	-0.037	-0.181	-389.2
Net Income/Loss (-) After Tax	-10.115	-4.303	57.5

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

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.

^r Based on restated BSP net income position.

^{p,u} Based on the preliminary and unaudited BSP income statement as of December 2015 prepared by the Financial Accounting Department of the BSP.

17. BSP: CONDENSED STATEMENT OF CONDITION

In thousand pesos

Assets	As at December 31	
	2015 ^{1/}	2014 ^{2/}
Foreign currency financial assets		
Deposits with foreign banks	651,004,362	649,582,038
Other cash balances	165,471	214,957
Investment securities	2,724,397,511	2,474,377,924
Foreign securities purchased under agreements to resell	33,557,775	19,304,727
Loan to IMF	2,154,848	2,651,361
Gold	315,828,397	334,815,999
International Monetary Fund special drawing rights	55,270,297	54,861,407
Gross international reserves	3,782,378,661	3,535,808,413
Loans and advances	0	138,083
Other foreign currency receivables	120,700,013	104,382,643
Non-IR foreign currency	33,828	15,184
Derivative instruments in gain/(loss) position	(98,111)	120,080
Total foreign currency financial assets	3,903,014,391	3,640,464,403
Local currency financial assets		
Investment securities	222,629,865	222,404,661
Loans and advances	85,535,081	85,196,544
Due from administrator of funds	29,955,171	29,962,637
Other receivables	15,169,702	17,809,086
Total local currency financial assets	353,289,819	355,372,928
Total financial assets	4,256,304,210	3,995,837,331
Acquired assets held for sale	709,232	65,887
Investment property	15,206,205	14,793,275
Bank premises, furniture, fixtures and equipment	18,317,147	18,096,853
Intangibles assets	267,878	278,614
Inventories	9,915,645	8,677,463
Property dividend to NG	285,214	285,214
Revaluation of foreign currency accounts	0	41,664,221
Deferred tax assets	7,117,206	6,567,190
Miscellaneous assets	1,499,751	1,244,337
Total other assets	53,318,278	91,673,054
Total Assets	4,309,622,488	4,087,510,385

^{1/} Preliminary and unaudited

^{2/} Audited but subject to restatement in CY2015

Source: Financial Accounting Department

17. BSP: CONDENSED STATEMENT OF CONDITION

In thousand pesos

(continuation)

Liabilities and Capital	As at December 31	
	2015 ^{1/}	2014 ^{2/}
Foreign currency financial liabilities		
Short-term deposits	40,839,652	19,125,540
Loans payable	46,613	49,975
Bonds payable	23,564,740	22,374,897
Allocation of International Monetary Fund special drawing rights	54,717,655	54,321,219
Other liabilities	2,067,790	3,315,385
Total foreign currency financial liabilities	121,236,450	99,187,016
Local currency financial liabilities		
Government deposits	388,650,024	396,689,770
Deposits of banks and quasi banks	1,491,735,999	1,424,280,167
Deposits of the International Monetary Fund and other FIs	39,346,194	39,477,284
Securities sold under agreements to repurchase	311,717,752	302,285,014
Special deposit accounts	828,318,544	845,010,260
Total local currency financial liabilities	3,059,768,513	3,007,742,495
Total financial liabilities	3,181,004,963	3,106,929,511
Other liabilities		
Currency in circulation	1,005,194,936	929,502,152
Retirement benefit obligations	2,374,945	1,577,549
Miscellaneous liabilities	5,936,468	4,686,651
Dividends payable	449,345	449,345
Deferred tax liability	6,061	6,303
Revaluation of foreign currency accounts	73,896,760	0
Total other liabilities	1,087,858,515	936,222,000
Total Liabilities	4,268,863,478	4,043,151,511
Capital accounts		
Capital	50,000,000	50,000,000
Surplus	(84,050,658)	(80,190,371)
Unrealized gains/(losses) on investments	(2,975,701)	(3,311,670)
Capital reserves	77,785,369	77,860,915
Total Capital accounts	40,759,010	44,358,874
Total Liabilities and Capital accounts	4,309,622,488	4,087,510,385

^{1/} Preliminary and unaudited

^{2/} Audited but subject to restatement in CY2015

Source: Financial Accounting Department

18 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES
with Budget Information
In thousand pesos

Period ended December 31	2015 Budget ^{1/}	2015 ^{2/} Actual	2014 ^{3/} Actual
Operating Income:			
Income from foreign currency financial assets			
Interest income	27,455,646	32,977,551	28,600,518
Trading gains, fees & miscellaneous income - foreign	255,788	9,211,955	9,968,192
Total income from foreign currency financial assets:	27,711,434	42,189,506	38,568,710
Expenses on foreign currency financial liabilities			
Interest expense	1,999,516	1,859,585	1,966,083
Other foreign currency expenses	981,954	843,528	869,210
Total expenses on foreign currency financial liabilities:	2,981,470	2,703,114	2,835,293
Net income from foreign currency financial assets and liabilities:	24,729,964	39,486,392	35,733,417
Income from local currency financial assets			
Interest income & trading gains - domestic	4,565,603	6,238,000	4,403,747
Total Income from local currency financial assets	4,565,603	6,238,000	4,403,747
Expenses on local currency financial liabilities			
Interest expense	51,463,506	46,742,828	44,190,477
Impairment losses on loans and advances	0	352,557	344,017
Final tax on interest income/discounts	619,021	869,722	489,069
Total expenses on local currency financial liabilities	52,082,527	47,965,107	45,023,563
Net loss from local currency financial assets and liabilities:	(47,516,924)	(41,727,107)	(40,619,816)
Net Loss from financial accounts	(22,786,961)	(2,240,715)	(4,886,399)
Other operating income	5,735,065	8,318,966	6,806,594
Currency printing and minting cost	16,065,524	8,184,662	6,763,532
Operating expenses			
Personnel services, development and training	11,336,822	11,346,567	10,767,796
Administrative Expenses	3,946,430	2,980,107	2,808,423
Traveling	367,670	305,199	274,444
Taxes and licenses	164,865	140,037	136,271
Currency and gold operations	255,518	316,068	209,331
Acquired Assets	354,068	209,361	482,909
Fidelity and property insurance	105,372	67,673	47,661
Water, illumination and power services	283,418	283,217	302,389
Repairs and maintenance	847,537	491,259	449,374
Communication services	336,870	246,889	231,513
Supplies and Materials	85,878	52,616	58,423
Others	1,145,234	867,789	616,108
Depreciation	670,124	688,467	668,498
Market decline of acquired assets	36,853	(1,086,687)	25
Total Operating Expenses	15,990,229	13,928,454	14,244,741
Net loss before FX rates fluctuation	(49,107,648)	(16,034,864)	(19,088,078)
Net realized gain on FX rates fluctuation	0	11,550,015	8,935,935
Loss before income tax	(49,107,648)	(4,484,849)	(10,152,143)
Income tax benefit	0	181,429	37,606
Loss for the year	(49,107,648)	(4,303,420)	(10,114,537)

^{1/} Excluding PICCI approved budget

^{4/} Preliminary and unaudited

^{3/} Audited but restated to conform to CY2015 line-by-line consolidation of PICCI balances; subject to further restatement due to prior period adjustments

Source: Financial Accounting Department