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BANGKO SENTRAL NG PILIPINAS
Manila, Philippines

CONTENTS

Foreword

The Philippine economy performed strongly during the year. Despite a fragile global economic environment weighed down by challenges in major advanced economies, the domestic economy was able to achieve a stronger-than-expected growth of 6.6 percent. The robust economic growth was supported by broadening growth drivers, macroeconomic policy prudence and sustained dividends from continuing policy reforms. Strong domestic demand and expansion in all sectors of the economy propelled growth beyond the official target of the national government (NG) for the year which was 5.0-6.0 percent.

There was also positive alignment between strong growth and low inflation. The BSP was able to strike an effective balance of safeguarding price stability while providing support to economic expansion. Headline inflation in 2012 averaged 3.2 percent and was well within the official target range of 4.0 ± 1.0 percent for the year. The manageable inflation environment and well-anchored inflation expectations provided flexibility for the BSP to reduce policy rates by a cumulative 100 basis points during the year. This move has led to lower bank lending rates that helped encourage domestic investment and consumption and allowed the economy build resilience against the global headwinds emanating from the weak economic activity in advanced economies.

On the external front, the robust external payments position was characterized by sustained surplus in the overall balance of payments (BOP) position, a comfortable level of international reserves, a broadly stable exchange rate of the peso, and a manageable level of outstanding external debt. These factors contributed to the relative resilience of the economy despite the external shocks that confronted the economy in 2012. The BOP yielded a surplus of US$9.2 billion in 2012, albeit lower than the surplus of US$11.4 billion in 2011. Strong overseas Filipino (OF) remittances and business process outsourcing receipts, as well as narrowing trade deficit, contributed to the firm external payments position. At the same time, the continued build-up of the country's international reserves, at US$83.8 billion as of end-2012, contributed to the strong external position. At this level, the gross international reserves (GIR) was equivalent to a year's worth of imports of goods and payments of services and income. The corresponding reserve adequacy ratios at this GIR level were 10.5 times the country's short-term external debt based on original maturity and 6.6 times based on residual maturity.

The peso remained broadly stable during the year, moving in tandem with the majority of Asian currencies. The strength of the peso was anchored by the country's robust and sound macroeconomic fundamentals characterized by a benign inflation environment, ample fiscal space, and stronger-than-expected growth. Amid the continued strength of the peso in 2012, the BSP put in place additional measures to safeguard against speculative activities. These measures included: (a) the imposition of a higher capital requirement on banks' holdings of non-deliverable forwards (NDFs); (b) setting a limit on banks' NDF exposure; and (c) reiteration of the prohibition of investing foreign funds in the BSP's special deposit accounts.

The BSP also continued to promote external debt sustainability by helping to ensure that the country's outstanding external debt remains manageable and within the economy's capacity to service in an orderly manner. In 2012, total external debt as a percent of gross domestic product (GDP) was at 24.1 percent, a significant decline from a few years back when the external debt-to-GDP ratio went as high as 60 percent. In addition, the maturity structure of foreign currency debt shifted toward long-term maturities, thus helping to limit rollover and foreign exchange risks.

The Philippines also enjoyed increased third-party recognition during the year, as shown by improved investor confidence and credit ratings upgrades. All three major international credit rating agencies – Fitch Ratings, Standard and Poor's, and Moody's – assigned their respective credit ratings for the Philippines to only one notch below investment grade as of 2012. Fitch Ratings raised its rating in June 2011 and upheld the same rating in June 2012. Meanwhile, Standard and Poor's and Moody's followed suit as they raised their respective country's rating to one notch towards investment grade in July and October 2012, respectively. The country's ratings outlook for the year is "Stable" for Moody's and "Positive" for Standard and Poor's.

The BSP will stay committed to pursuing its policy thrusts for the financial sector. The regulations and reform measures implemented by the BSP in 2012 have fortified further the banking system. As such, the Philippine banks remained characterized by solid asset growth, increased deposit mobilization, improved quality of loans and assets, and capitalization that is above international norms. The quality of banks' asset continued to improve as indicated by the sustained decline in the banking system's non-performing loans in recent years. The capital adequacy ratio (CAR) of the banking system likewise remained to be well above the statutory level set by the BSP and the Bank for International Settlements (BIS). The BSP has further strengthened its effort to work actively with the banking community to ensure that banks continued to perform their central roles of efficiently channeling funds to productive uses as well as managing and distributing financial risks.

The BSP as operator of the Philippine Payments and Settlements System (*PhilPaSS*) continued to provide safe, sound and efficient payment and settlement of financial transactions in real time. Both the volume and value of transactions coursed through the *PhilPASS* increased in 2012. This was due in part to higher OF remittance transactions processed and settled through the *PhilPaSS* Remit system, and the inclusion of full year settlement of Bancnet transactions.

While pursuing price and financial stability is at the core of the BSP's activities, the BSP also continued with its advocacies aimed at supporting the government's goal of achieving a sustainable and inclusive growth. These programs include: microfinance and financial inclusion, economic and financial learning program and consumer protection. The Philippines has been lauded globally for its microfinance and financial inclusion initiatives. For four years in a row (2009-2012), the Economist Intelligence Unit's global survey has ranked the Philippines as number one in the world in terms of policy and regulatory framework for microfinance. The BSP also continued to launch its Credit Surety Fund Program (CSFP) in four cities and three provinces in 2012, bringing to 26 the total number of credit surety funds established nationwide.

Meanwhile, through its Economic and Financial Learning Program (EFLP), the BSP continued to promote inclusive and proactive economic and financial education among its stakeholders. In

2012, the EFLP was conducted in eight cities in various provinces all over the country.[1] The EFLP activities coincided with the re-launching of the Economic and Financial Learning Centers (EFLCs) in the BSP offices located in seven of the eight cities where the EFLP were held.[2] In addition, eight Financial Education Expos were conducted in 2012 in various cities nationwide.[3] The BSP also carried on an active role in promoting the habit of saving particularly in elementary school children. In 2012, the BSP, in partnership with the Child and Youth Finance International (CYFI) hosted the Asia and the Pacific Regional Meeting for Child and Youth Finance that was participated by more than 20 countries.

In line with the BSP's commitment to protect the rights and welfare of consumers of financial services, the BSP continued to provide an accessible avenue for consumer assistance and redress. Since the establishment of the BSP Financial Consumer Affairs Group (FCAG) in 2006, FCAG was able to close or resolve 98 percent of complaints, inquiries and requests from financial consumers.

While the BSP continued to fulfill its mandate of promoting price and financial stability which has contributed to the economy's robust growth in 2012, it also had to confront challenges in its pursuit of its stabilization function in the face of external shocks. In 2012, accommodative monetary policies in the advanced economies and a rise in risk appetite as well as the brighter growth prospects of the Philippine economy have driven large capital flows into the country. The BSP, like many central banks in emerging market economies that have been experiencing strong foreign exchange (FX) inflows, has recorded financial losses. These losses are due to two factors: (1) FX revaluation; and (2) interest expense incurred in mopping up excess liquidity. In discharging its stabilization function, the BSP incurred FX revaluation losses because it was necessary to purchase FX to moderate the appreciating peso. The purchase of FX released pesos into the system and the BSP had to siphon the excess liquidity to prevent inflation from rising. This mopping up of excess liquidity entailed huge interest expense for the BSP. In essence, these losses represent the cost of stabilization.

Policy actions conducted by the BSP in support of its core mandates require a generally strong financial position so that the central bank balance sheet can support the scale of its operations. While central banks can operate effectively even with erosion of capital, the BSP is taking steps to improve its financial position. This includes the proposal for the amendment of its Charter which could bring the BSP in line with other central bank practices.

Following a notable macroeconomic performance in 2012, the BSP could continue to face significant challenges from the external environment. The downside risks that could continue to weigh down on the global economy and dampen external demand and activity come from the following: (a) protracted period of slow global growth; (b) intensification of the euro-area crisis; (c) continued surge in capital flows; and (d) capital flow reversal affecting emerging economies, accompanied by a strong unwinding of asset price overvaluation.

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[1] Roxas City, Laoag City, Ozamiz City, Lucena City, Cagayan de Oro City, Iloilo City, Cotabato City, and Tarlac City.

[2] The EFLCs were re-launched in the BSP offices located in cities enumerated in footnote 2, except in Tarlac City.

[3] Roxas City, Batac City, Ozamiz City, Lucena City, Cebu City, Iloilo City, Cotabato City, and Tarlac City

Nonetheless, the BSP is of the view that the country's strong macroeconomic fundamentals and sound banking system will continue to provide a stable anchor for the economy in dealing with these challenges. With a favorable inflation environment, robust GDP growth, resilient banking system and strong lending activities supported by ample liquidity, sustained current account surplus since 2003, continued build-up in international reserves, and sustained decline in the country's external debt burden ratio, among others, the Philippine economy is expected to hit its growth target again for 2013.

The BSP remains committed to its mandate of pursuing price and financial stability conducive to a balanced and sustained growth of the economy. Towards this end, the BSP's monetary policy will remain focused on achieving the official inflation target of 4.0 ± 1.0 percent for 2013-2014 and 3.0 ± 1.0 percent for 2015-2016 amid risks to the inflation outlook. The BSP sees the risks to the inflation outlook to be broadly balanced. The prevailing uncertainties over the strength of the global economy and its effect on international commodity prices – particularly oil – remain the primary downside risk to inflation. The continued appreciation of the peso could also temper imported inflation. Meanwhile, additional petitions for electricity rate adjustments and surge in capital inflows constitute the upside risks to inflation.

On the external front, the BSP will continue to maintain a market-determined exchange rate; keep a comfortable level of reserves; and promote external debt sustainability by keeping the country's outstanding external debt manageable.

On the financial sector, the BSP commits to maintaining the stability of the financial system by sustaining key reforms that will strengthen the regulatory and supervisory framework, and enhance responsible risk management by banks. In fact, the BSP is set to implement the Basel III capital requirements for universal and commercial banks (U/KBs) by January 2014. The BSP will continue to improve the prudential supervision of banks and pursue macroprudential regulation, as called for, to address potential systemic risks.

Beyond the preservation of monetary and financial stability, the BSP will also continue its advocacies to promote inclusive growth and help alleviate poverty. Thus, the BSP will sustain its advocacies on microfinance, financial inclusion, consumer protection and financial education.

Finally, to strengthen further the BSP's institutional framework for the achievement of its mandate, the BSP is currently working towards enhancing the existing framework through the enactment of amendments to the BSP Charter.

AMANDO M. TETANGCO, JR.
Governor

March 2013

INTRODUCTION

ABOUT THE BSP

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

Section 20, Article XII, 1987 Philippine Constitution

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

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

The BSP's Legal Mandate

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

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

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

Powers and Functions

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

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

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

Our Vision

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

Our Mission

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

The Monetary Board

Amando M. Tetangco, Jr.
Chairman and Governor

Cesar V. Purisima
Member

Alfredo C. Antonio
Member

Ignacio R. Bunye
Member

Peter B. Favila
Member

Felipe M. Medalla
Member

Armando L. Suratos
Member

The Management Team

Amando M. Tetangco, Jr.
Governor

Executive Management

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

Vicente S. Aquino
Assistant Governor

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Edna C. Villa
Managing Director

Resource Management Sector

Juan D. De Zuñiga, Jr.
Deputy Governor

Willie S. Asto
Managing Director

Gerardo S. Tison
Managing Director

Teresita S. Bulseco
Managing Director

Security Plant Complex

Manuel H. Torres
Assistant Governor

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Ma. Cyd N. Tuaño-Amador
Assistant Governor

Wilhelmina C. Mañalac
Managing Director

Augusto C. Lopez-Dee
Managing Director

Iluminada T. Sicat
Managing Director

Ruben A. Banog
Officer-in-Charge

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Ma. Dolores B. Yuvienco
Assistant Governor

Johnny Noe E. Ravalo
Managing Director

Leny I. Silvestre
Managing Director

Chuchie G. Fonacier
Managing Director

LIST OF ACRONYMS, ABBREVIATIONS AND SYMBOLS

AC	Advisory Committee
AOAMS	Acquired and Other Assets Management System
AFI	Alliance for Financial Inclusion
ARRS	Anti-Money Laundering Risk Rating System
AFS	Appreciation of Financial Statements
AONCR	Areas Outside National Capital Region
ALAC	Asia, Latin America and the Caribbean
ASEAN	Association of Southeast Asian Nations
ACGM	ASEAN Central Bank Governors Meeting
AFIF	ASEAN Financial Integration Framework
AEC	ASEAN Economic Community
AFMIS	ASEAN Finance Ministers' Investors Seminar
AFIF	ASEAN Financial Integration Framework
AFAS	ASEAN Framework Agreement in Services
AIMO	ASEAN Integration Monitoring Office
ASEAN+3	ASEAN plus China, Japan and Korea
AMRO	ASEAN+3 Macroeconomic Research Office
ASEC-ACMF	ASEAN Secretariat-ASEAN Capital Market Forum
APEC	Asia-Pacific Economic Cooperation
ABF	Asian Bond Fund
ABMI	Asian Bond Markets Initiative
AMC	Asset Management Companies
ADB	Asian Development Bank
AABs	Authorized Agent Banks
ALs	Auto Loans
ABPMs	Automated Banknote Processing Machines
BOP	Balance of Payments
BPM6	Balance of Payments Manual, Sixth Edition
BSP	Bangko Sentral ng Pilipinas
BSPI	Bangko Sentral ng Pilipinas Institute
BUDS	BSP Unified Directory System
BOJ	Bank of Japan
BAP	Bankers Association of the Philippines
BIS	Bank for International Settlements
BID	Banknote Inspection Division
BOR	Bank-wide Organizational Review
BOD	Board of Directors
BOG	Board of Governors
BSA	Bilateral Swap Arrangement
BAS	Bureau of Agricultural Statistics
BOC	Bureau of Customs
BIR	Bureau of Internal Revenue
BTr	Bureau of the Treasury
BES	Business Expectations Survey

BPO	Business Process Outsourcing
CAR	Capital Adequacy Ratio
CAMELS	Capital, Asset, Management, Earnings, Liquidity and Sensitivity to market risk
CEMLA	Center for Latin American Monetary Studies
CMFP	Center for Monetary and Financial Policy
CeMCoA	Center for Monetary Cooperation in Asia
CTB	Chamber of Thrifts Banks
CMIM	Chiang Mai Initiative Multilateralization
CCO	Chief Compliance Officer
CRO	Chief Risk Officer
CYFI	Child and Youth Finance International
CTRM	Committee on Tariff and Related Matters
CES	Consumer Expectations Survey
CDIS	Coordinated Direct Investment Survey
COA	Commission on Audit
CCT	Conditional Cash Transfer
CFS	Consumer Finance Survey
CPI	Consumer Price Index
CGAP	Consultative Group to Assist the Poor
CDIS	Coordinated Direct Investment Survey
CPIS	Coordinated Portfolio Investment Survey
CPO	Corporate Planning Office
CAM	Credit Appraisal Monitoring
CCRs	Credit Card Receivables
CDS	Credit Default Swap
CSF	Credit Surety Fund
CSFP	Credit Surety Fund Program
CMO	Crisis Management Office
CBTS	Cross-Border Transactions Survey
CIRO	Currency Issue and Retirement Office
DET	Data Entry Template
DW	Data Warehouse
DMFAS	Debt Management and Financial Analysis System
DSB	Debt Service Burden
DSR	Debt Service Ratio
DvP	Delivery versus Payment
dBCP	Departmental Business Continuity Plans
DBM	Department of Budget and Management
DER	Department of Economic Research
DES	Department of Economic Statistics
DepEd	Department of Education
DOF	Department of Finance
DFA	Department of Foreign Affairs
DLC	Department of Loans and Credit
DTI	Department of Trade and Industry
DBCC	Development Budget Coordination Committee

D-SIBs	Domestic-Systemically Important Banks
EWS	Early Warning System
EIU	Economist Intelligence Unit
EFLCs	Economic and Financial Learning Centers
EFLP	Economic and Financial Learning Program
EFTIS	Electronic Fund Transfer Instruction System
e-G2P	Electronic Government-to-Persons
ePassport	Electronic Passport
eRediscounting	Electronic Rediscounting
EMBI	Emerging Market Bond Index
ERDP	Economic Review and Policy Dialogue
ESEs	Environmental Scanning Exercises
EMEAP	Executives' Meeting of East Asia and Pacific
eDvP	Expanded DvP
EDYRF	Exporters’ Dollar and Yen Rediscount Facility
ETL	Extract, Transform and Load
EMEs	Emerging Market Economies
ERM	Enterprise Risk Management
ECB	European Central Bank
EU	European Union
EZ	Eurozone
EMP	Externally-Managed Portfolio
FAEA	Federation of ASEAN Economic Association
FAD	Financial Accounting Department
FGCE	Financial Computable General Equilibrium
FCAG	Financial Consumer Affairs Group
FI	Financial Institutions
FRP	Financial Reporting Package
FTP	Financial Transactions Plan
FSAM	Financial Sector Accounting Matrix
FSI	Financial Stability Institute
FSR	Financial Stability Report
FRS	Fiscal Risks Statements
FIE	Fixed Income Exchange
FOF	Flow of Funds
FCDUs	Foreign Currency Deposit Units
FDI	Foreign Direct Investment
FX	Foreign Exchange
FXDs	Foreign Exchange Dealers
FLAReS	Foreign Loan Approval and Registration System
GPFI	Global Partnership for Financial Inclusion
GPNs	Global Peso Notes
GDBs	Good Delivery Bars
GOCCs	Government-Owned and Controlled Corporations
GS	Government Securities
GSEDs	Government Securities Eligible Dealers

GSIS	Government Service Insurance System
GDP	Gross Domestic Product
GIR	Gross International Reserves
GNI	Gross National Income
G20	Group of Twenty
HPC	High Performance Culture
IR	Incident-Reporting
ICT	Information and Communications Technology
IT-BPO	Information Technology-Business Process Outsourcing
ITSS	Information Technology Sub-Sector
ICS	Integrated Correspondence System
IAC	Inter-Agency Committee
IACFDIS	Inter-Agency Committee on Foreign Direct Investments Statistics
IACTS	Inter-Agency Committee on Trade Statistics
IBL	Interbank Loans
IMP	Internally-Managed Portfolio
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIP	International Investment Position
IMF	International Monetary Fund
IMC	Investment Management Committee
LCY	Local Currency
LGUs	Local Government Units
LTMM	Long-term Macroeconomic Model
MMPH	Macroeconomic Model for the Philippines
MPAA-IT	Macroeconomic Policy Analysis and Assessment under Inflation Targeting
MTPs	Major Trading Partners
MORB	Manual of Regulations for Banks
MORNBFI	Manual of Regulations for Non-Bank Financial Institutions
MLT	Medium to Long-term
MTMM	Medium-term Macroeconometric Model
MOU	Memorandum of Understanding
MOTY	Microentrepreneurship of the Year
MiDaS	Microfinance Data Sharing System
MFIs	Microfinance Institutions
MSMEs	Micro-, Small- and Medium-Scale Enterprises
MB	Monetary Board
MFSC	Monetary and Financial Stability Committee
MSS	Monetary Stability Sector
MCs	Money Changers
MEM	Multi-equation Model
NCR	National Capital Region
NEDA	National Economic and Development Authority
NG	National Government
NPCC	National Price Coordinating Council

NSCB	National Statistical Coordination Board
NSO	National Statistics Office
NDA	Net Domestic Assets
NFIA	Net Factor Income From Abroad
NFA	Net Foreign Assets
NIR	Net International Reserves
NAB	New Arrangement to Borrow
NEER	Nominal Effective Exchange Rate
NBFI	Non-Bank Financial Institution
NCAHS	Non-Current Assets Held for Sale
NDFs	Non-Deliverable Forwards
NGOs	Non-Governmental Organizations
NPLs	Non-Performing Loans
LTNCTDs	Long-term Negotiable Certificates of Time Deposits
OSPD	Office of the Supervisory Policy Development
OBUs	Offshore Banking Units
ODB	Onshore Dollar Bond
ODCs	Other Depository Corporations
OF	Overseas Filipino
PB	Participant Browser
PvP	Payment-versus-Payment
PCHC	Philippine Clearing House Corporation
PCFS	Philippine Consumer Finance Survey
PDIC	Philippine Deposit Insurance Corporation
PES	Philippine Economic Society
PFNA	Philippine Financial Network Analysis
PFRS	Philippine Financial Repository Standards
PFSI	Philippine Financial Stress Index
PIDS	Philippine Institute for Development Studies
PhilPaSS	Philippine Payments and Settlements System
PSDP	Philippine Statistical Development Program
PSE	Philippine Stock Exchange
PSEi	Philippine Stock Exchange Index
PD	Plate Making Division
PSALM	Power Sector Assets and Liabilities Management
P/E	Price-Earnings
PCA	Principal Component Analysis
PPI	Producers Price Index
PriMS	Project Information Managements System
PMEP	Project Management Excellence Program
QMS	Quality Management Systems
QSS	Quantitative Support Staff
RBB	Rafael B. Buenaventura
REER	Real Effective Exchange Rate
RELs	Real Estate Loans
RDC	Regional Development Council

ROs	Regional Offices
RAs	Remittance Agents
ROP	Republic of the Philippines
RP	Repurchase
RRELs	Residential Real Estate Loans
RCOA	Retail Competition and Open Access
RTBs	Retail Treasury Bonds
RRP	Reverse Repurchase
RBCAF	Risk-Based Capital Adequacy Framework
RWAs	Risk-Weighted Assets
RBs	Rural Banks
RBAP	Rural Bankers' Association of the Philippines
SSL	Salary Standardization Law
SEM	Security Engineered Machine
SPC	Security Plant Complex
SPEI	Selected Philippine Economic Indicators
SLC	Senior Level Committee
SVP	Senior Vice President
ST	Short-term
SEM	Single Equation Model
SME	Small and Medium Enterprises
SSS	Social Security System
SEACEN	South East Asian Central Banks
SDAs	Special Deposit Accounts
SDR	Special Drawing Rights
S&P	Standard and Poor's Rating Services
SRF	Standardized Reporting Format
SRTC	Statistical Research and Training Center
SCCB	Steering Committee on Capacity Building
SPMS	Strategic Performance Management System
STPI	Strategic Third Party Investor
SMP	Succession Management Program
SES	Supervision and Examination Sector
SDC	Supervisory Data Center
SIFI	Systemically Important Financial Institutions
SWIFT	Society for Worldwide Interbank Financial Telecommunications
SEANZA	South East Asia, New Zealand and Australia
TF-ABIF	Task Force on Banking Integration Framework
TCPS	Technical Committee on Price Statistics
TWGs	Technical Working Groups
TBs	Thrift Banks
TCR	Total Credit Report
TLP	Total Loans Portfolio
T-bills	Treasury Bills
T-bonds	Treasury Bonds
US	United States

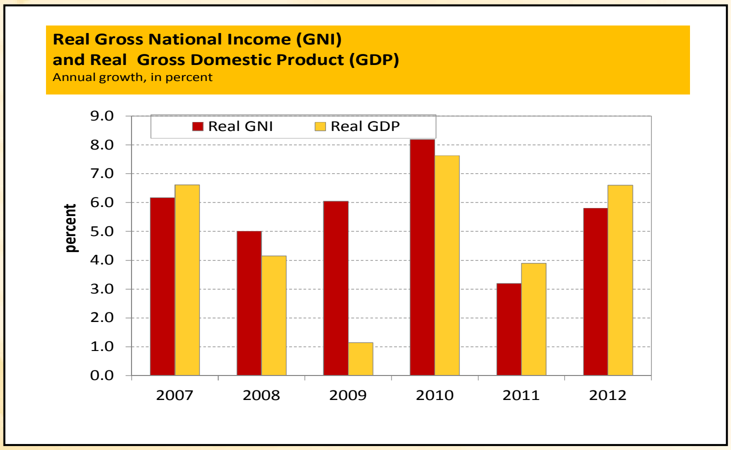
UNCTAD	United Nations Conference on Trade and Development
UIT	Unit Investment Trust
U/KBs	Universal/Commercial Banks
UnSDs	Unsecured Subordinated Debts
WMP	Weight Management Program
WB	World Bank
WTO	World Trade Organization
WC-CAL	Working Committee on Capital Account
WC-FSL	Working Committee on Financial Services Liberalization
XGSI	Exports of Goods and Receipts from Services and Income
Y-o-y	Year-on-year

PART ONE: THE PHILIPPINE ECONOMY

The Domestic Economy

The domestic economy grows robustly

Economic growth accelerated in 2012 driven by increased investment from the private sector, robust overseas Filipino (OF) remittances and higher government spending. Real gross domestic product (GDP) grew by 6.6 percent, which was above the government's official growth target of 5.0-6.0 percent for the year and an acceleration from the 3.9 percent GDP growth posted in 2011. Economic expansion was led by the services sector on the production side and by government final consumption expenditure on the demand side. Despite the difficult external environment as evident in the slowdown of major advanced economies, net primary income from the rest of the world expanded by 3.3 percent in 2012 after growing by 1.0 percent in 2011. Real gross national income (GNI) grew by 5.8 percent in 2012, higher than the 3.2 percent growth registered in 2011 (Table 1).

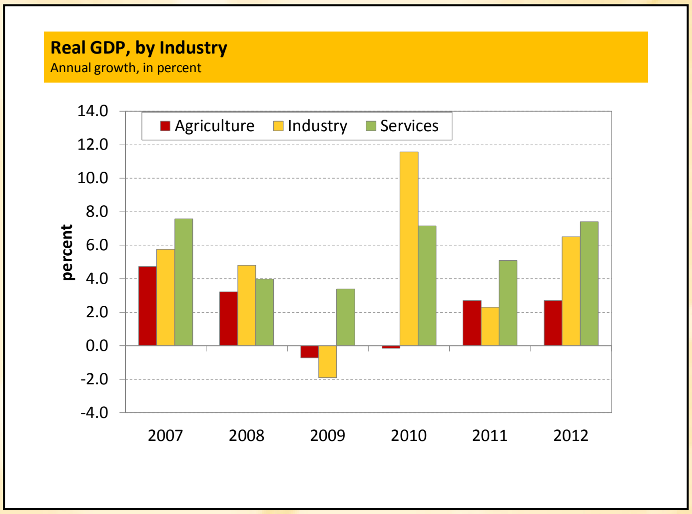


Aggregate Output and Demand

Services boost output growth

Output growth continued to be driven mainly by the services sector. The services sector, which accounted for 57.0 percent of total GDP, rose by 7.4 percent in 2012. This translated to a 4.2 percentage point contribution to the 6.6 percent GDP growth for the year in review. Transportation, storage and communication as well as real estate, renting and business activities led the growth of the services sector due to increased business activities and continuing growth of information technology-business process outsourcing (IT-BPO) services. Notable expansions in this sector were also posted in financial intermediation, and trade and repair of motor vehicles, motorcycles, personal and household goods.

The industry sector, which constituted 32.1 percent of total GDP, recorded an expansion of 6.5 percent in 2012 after growing by 2.3 percent a year ago. The industry sector contributed 2.1 percentage points to the 6.6 percent 2012 GDP growth rate. Construction led the growth of the industry sector as both public and private construction improved during the review year spurred by increased government spending on infrastructure and sustained domestic demand for real properties. The manufacturing sub-sector also exhibited favorable performance reflecting the increased production of radio, television and communication equipment and apparatus as well as food manufactures and wearing apparels.



The agriculture, hunting, forestry and fishing sector expanded by 2.7 percent in 2012, similar to its growth in 2011. The agriculture sector, which comprised 11.1 percent of overall GDP, contributed 0.3 percentage point to the 6.6 percent GDP growth in 2012. The growth of this sector was due largely to higher productions of palay, sugarcane and fish.

Household consumption drives demand

On the demand side, government final consumption expenditure performed strongly in 2012 accelerating by 11.8 percent on the strength of the implementation of the last tranche of the Salary Standardization Law (SSL) and higher spending on social protection programs. Exports likewise grew during the year as it posted an 8.7 percent growth led by the expansion in the exports of services, mainly insurance, travel and transportation. Household final consumption also accelerated during the review period registering a 6.1 percent growth due to low and stable inflation environment, strong inflows of OF remittances, and government transfers under the conditional cash transfer (CCT) program.

Labor, Employment, and Wages

Employment conditions are generally stable

Based on the four rounds of the Labor Force Survey of the National Statistics Office (NSO) in 2012 (i.e., January, April, July and October), the average unemployment rate is unchanged from 2011 at 7.0 percent in 2012 (Table 2). The unemployed persons in 2012 increased marginally to 2.833 million from the 2.814 million recorded in 2011. Of the four survey rounds in 2012, the October survey registered the lowest unemployment rate at 6.8 percent, while the highest unemployment rate was recorded in January at 7.2 percent.

The growth in the level of employment slowed down to 1.2 percent in 2012 from the 3.2 percent in 2011. This growth translated to an additional 429.0 thousand employed persons, bringing the total employment level to 37.6 million in 2012. The industry sector posted the highest employment growth at 4.3 percent in 2012, an improvement from the 2.4 percent recorded in 2011. Employment in the services sector increased by 2.7 percent, lower than the 3.8 percent recorded in the previous year. Meanwhile, employment in the agriculture sector registered a 1.3 percent decline, a reversal of the 2.6 percent growth in 2011. By status of employment, employment growth was positive among wage and salary workers (3.7 percent from 4.6 percent) and employer in own-family operated farm or business (0.7 percent from -2.8 percent). Meanwhile, employment levels declined among unpaid family workers (-4.6 percent from 3.6 percent) and self-employed workers (-1.3 percent from 1.2 percent).[4]

The underemployment rate increased to 20.0 percent in 2012 from the 19.3 percent posted a year ago. By sector, 43.1 percent of the total underemployed are in the agricultural sector, while the industry and services sectors accounted for 15.9 percent and 41.0 percent, respectively.

[4] Employer is a person working in his own business, farm, profession or trade who has one or more regular paid employees, including paid family members. Unpaid family workers include persons who worked without pay on own family operated activities. Domestic helpers, family drivers and other household helpers who assist in the family-operated business, regardless of time spent in this activity, are not hired employees in the enterprise/business. A retail store operator who is wholly assisted in the operation of his store by unpaid relatives living with him and who employs carpenters to construct a new building for his store (with store operator supervising the work) is not an employer. However, if an operator happens to be the owner or partner of a big firm which has its own construction unit to take care of its needs, the operator is an employer (http://www.bles.dole.gov.ph/).

Prices

Inflation is within target

Year-on-year (y-o-y) headline inflation averaged 3.2 percent in 2012, lower than the 4.6 percent average in the previous year and well within the official inflation 2012 target range of 4.0 ± 1.0 percent (Table 3). Inflation slowed down in 2012 due largely to lower food prices on the back of ample domestic supply. Lower non-food inflation, owing to reduced electricity rates and slower price increases for gasoline and diesel, was also recorded during the year.

Food and non-food inflation decelerate

The inflation rate for food decelerated to 2.2 percent in 2012 from 5.7 percent in 2011. Food inflation followed a downtrend in the first two quarters of 2012 as supply remained adequate. However, it increased in Q3 2012, reflecting supply constraints triggered by adverse weather conditions. In Q4 2012, food inflation slowed down on the back of ample domestic supply of key food items, particularly vegetables, oils, fish, and fruits.

Similarly, the average non-food inflation in 2012 decreased to 3.6 percent from 4.2 percent in the previous year due largely to lower inflation for housing, water, electricity, gas and other fuels and transport. Housing, water, electricity, gas and other fuels declined to 4.6 percent from 5.2 percent in 2011 due to reduced electricity charges. Likewise, transport inflation slowed down to 2.3 percent from the year-ago rate of 6.0 percent due largely to slower price increases for gasoline and diesel.

Average inflation in the National Capital Region (NCR) and areas outside NCR (AONCR) likewise edged lower to 2.9 percent and 3.2 percent in 2012, respectively, from 4.0 percent and 4.9 percent in 2011.

Official core inflation is lower

Core inflation, which excludes some food and energy items to measure generalized price pressures, went down to 3.7 percent in 2012 from 4.3 percent a year ago. All alternative measures of core inflation estimated by the BSP likewise declined relative to the rates registered in the previous year, suggesting the relative absence of broad-based inflation pressures.

Core Inflation Measures
Year-on-Year Change in percent

	2006=100	
	2011	2012
Core Inflation	4.3	3.7
Trimmed Mean[1]	3.8	3.1
Weighted Median[2]	3.1	3.0
Net of Volatile Items[3]	3.6	3.4

[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, fruit, vegetables, gas, solid fuels, fuels and lubricants for personal transport equipment, and passenger transport by road, which represent 39.0 percent of all items.

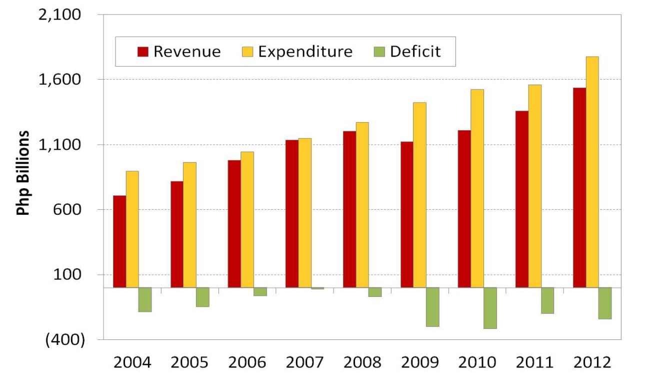
Sources of Basic Data: NSO, BSP-Department of Economic Research (DER)

Operations of the National Government

NG's operations yield a larger deficit in 2012 relative to the previous year

The National Government's (NG) deficit widened to ₱242.8 billion in 2012 (representing 2.3 percent of GDP) from ₱197.8 billion (2.0 percent of GDP) in 2011. This NG deficit was lower by 13.0 percent than the ₱279.1 billion programmed deficit for the year. Revenues increased by 12.9 percent to reach ₱1,534.9 billion, but fell short of the programmed level for 2012 by 1.6 percent. Expenditures likewise increased to ₱1,777.8 billion during the same period but fell below the programmed level by 3.4 percent (Table 4). The primary balance was a surplus of ₱70.0 billion in 2012, lower than that of ₱81.0 billion a year ago.

Cash Operations of the National Government



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and related offices increased by 13.2 percent to reach ₱1,361.1 billion in 2012. The total tax revenues collected during the review period constituted 95.0 percent of the programmed level of ₱1,427.4 billion for 2012. Meanwhile, non-tax revenues by the Bureau of the Treasury (BTr) increased by 11.8 percent to ₱84.1 billion during the review period. The total non-tax revenues reached ₱173.9 billion, which was above the programmed level by 30.5 percent for 2012. Moreover, the tax effort improved to 12.9 percent during the review period from 12.3 percent in 2011.

Total NG expenditures increased by 14.1 percent y-o-y to reach ₱1,777.8 billion in 2012, although this was lower than the 2012 programmed level of ₱1,839.7 billion. Allotments to the local government units (LGUs) reached ₱298.3 billion lower than the year-ago level by 5.3 percent. Meanwhile, interest payments for 2012 increased by 12.1 percent to ₱312.8 billion, accounting for 98.5 percent of the programmed level of ₱317.7 billion.

The deficit was financed mainly from domestic sources, which covered 87.0 percent of the total financing requirement of the NG.

Monetary and Financial Conditions

Monetary Conditions

Monetary Aggregates

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

Domestic liquidity conditions in 2012 continued to be in line with the economy's growth trajectory as demand for money or M3 grew by 10.6 percent y-o-y in December 2012, higher than the 6.3 percent recorded in December 2011. Meanwhile, on average, M3 increased by 8.0 percent in 2012, lower than the 8.5 percent average monthly growth in 2011.

The expansion in net domestic assets (NDA), largely as a result of the sustained increase in net domestic credits, drove the expansion in domestic liquidity. Net domestic credits grew by 7.8 percent, buoyed by the expansion in the claims on the private sector due to robust lending activity by commercial banks. Meanwhile, claims on the public sector contracted by 14.0 percent in December 2012, reflecting a significant increase in NG deposits.
Meanwhile, net foreign assets (NFA) decreased slightly by 0.1 percent y-o-y in December 2012. The BSP's NFA position continued to increase at a steady pace of 4.2 percent, supported by

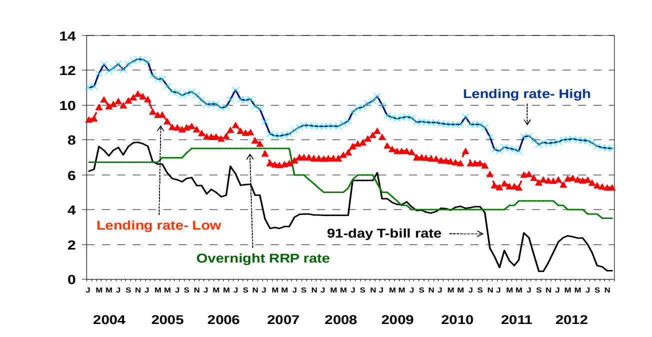
steady foreign exchange (FX) inflows from overseas remittances, BPO receipts, and portfolio investments. However, the NFA of banks contracted further in 2012 as banks' foreign liabilities trended higher due to higher placements and deposits made by foreign banks with their local branches.

Interest Rates

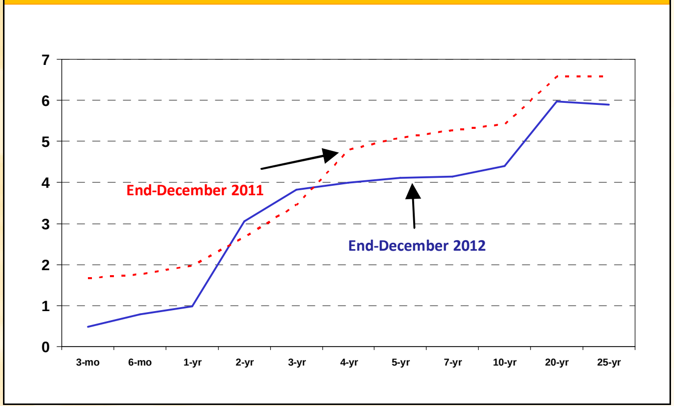
Interest rates on government securities remain low

Domestic interest rates in the primary market remained low during the year, reflecting strong fiscal performance of the NG as well as ample liquidity in the financial system, given continued strong demand for the country's government papers amid sound macroeconomic fundamentals. Similarly, secondary market interest rates decreased on all maturities, except for the 2-year, 3-year and 4-year maturities, owing mainly to similar reasons for the trend of interest rates in the primary market.

Selected Domestic Interest Rates
Monthly averages, in percent



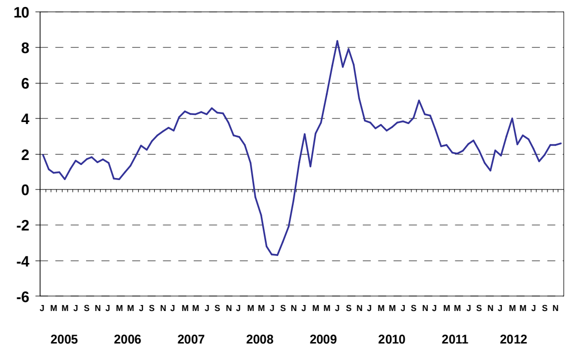
Secondary Market Yield Curve
End-of-period, in percent



Lending and borrowing rates decline

Bank lending rates, interbank call loan rates, Manila reference rates, and savings and time deposit rates eased during the year. The decline in lending and borrowing rates reflects ample domestic liquidity and the country's strong fiscal performance in the review period. In contrast, these rates increased in real terms relative to their rates a year ago due mainly to significantly lower inflation in 2012.

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



Monetary Board cuts BSP policy rates

The Monetary Board (MB) cut the BSP's key policy rates by a total of 100 basis points (bps) to 3.5 percent for the overnight or reverse repurchase (RRP) facility and 5.5 percent for the overnight lending or repurchase (RP) facility throughout the year, given manageable inflation environment and well-anchored inflation expectations during the year. The rate cuts also provided the domestic economy with resilience against global headwinds stemming from uncertainties in advanced economies. The MB assessed that inflation would remain within the lower half of the 4.0 ± 1.0 percent target during the year and that the global economy would continue to slowdown. The BSP actions helped encourage domestic spending, which compensated for generally weak external demand.

Differential between domestic and foreign interest rates declines

The differential between the BSP's policy rate and the United States (US) federal funds target rate decreased to 332 bps as of end-2012 from 425 bps in end-2011, reflecting the monetary policy stances of both the BSP and the US Fed.[5] Meanwhile, adjusted for risk premium – which is measured as the differential between the 10-year Republic of the Philippines (ROP) note and the 10-year US Treasury note – the average differential between the BSP's policy

[5] In its 24 October 2012 meeting, the US Federal Reserve Bank decided to keep its federal funds rate at 0 to 0.25 percent until mid-2015 "to support continued progress toward maximum employment and price stability."
Source: *http://www.federalreserve.gov/newsevents/press/monetary/2012monetary.htm*

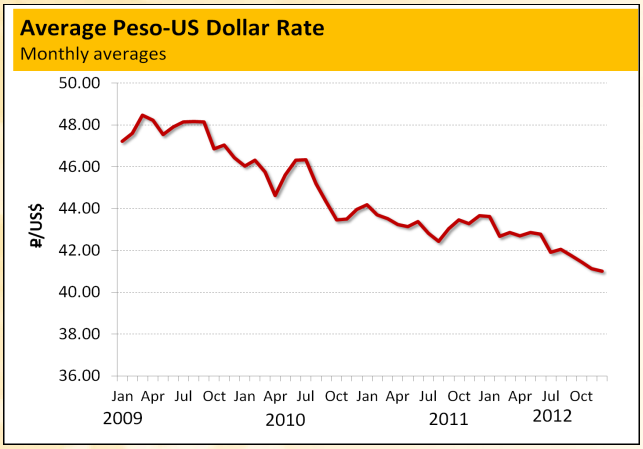
rate and the US federal funds target rate declined to 164 bps from the 2011 average of 261 bps. The drop was due to the decline in the yield of the 10-year ROP note.

2012	BSP RRP Rate (%)	US Fed Funds Rate (%)	Differential (basis points)
Jan	4.25	0.09	416
Feb	4.25	0.12	413
Mar	4.00	0.14	386
Apr	4.00	0.16	384
May	4.00	0.16	384
Jun	4.00	0.16	384
Jul	3.75	0.16	359
Aug	3.75	0.15	360
Sep	3.75	0.16	359
Oct	3.50	0.17	333
Nov	3.50	0.17	333
Dec	3.50	0.18	332

Exchange Rates

Peso appreciates

The peso averaged ₱42.2/US$1.0 for the period 3 January-28 December 2012, appreciating by 2.6 percent from the ₱43.3/US$1.0 average in 2011.[6] The strength of the peso was anchored by the country's robust and sound macroeconomic fundamentals characterized by a benign inflation environment, wide fiscal space, and stronger-than-expected growth.[7] Likewise, in terms of end-of-period levels, the peso strengthened by 6.6 percent to ₱41.2/US$1.0 at end-December 2012, from ₱43.9/US$1.0 a year ago.



[6] Dollar rates or the reciprocal of the peso-dollar rates (based on reference time data) were used to compute for the percentage change.
[7] Full-year GDP estimate posted a broad-based growth of 6.6 percent in 2012.

The peso's movement for the review year exhibited mixed trend. The peso started the year strong in January, appreciating by 0.1 percent to ₱43.6/US$1.0 from the previous month's average of ₱43.7/US$1.0. The continued FX inflows from OF remittances and foreign portfolio investments buoyed up the peso. The peso also found support from better US employment data, indicating the upbeat sentiment of US companies.[8] However, in March, the peso weakened to average ₱42.9/US$1.0 from the previous month's average of ₱42.7/US$1.0 as investors reduced their exposure to risky emerging market assets due to concerns about slowing growth in China arising from structural weaknesses in its domestic economy, along with the soft recovery in the US.

Thereafter, the peso tracked an appreciating trend to average ₱41.7/US$1 in September. During this period, the peso benefited from major central banks' decision to ease monetary policy stance which spurred investors' risk appetite for emerging market assets. These included the European Central Bank's (ECB) move to implement its bond-buying scheme, the US Fed's third round of quantitative easing, and Bank of Japan's (BOJ) increased asset buying.[9] The peso continued to strengthen in October 2012 to average ₱41.5/US$1.0 relative to the previous month's average of ₱41.8/US$1.0. Robust foreign exchange inflows from OF remittances remained the fundamental driver of the peso's strength. Stronger-than-expected US corporate earnings and retail data likewise shored up the peso as easing concerns about the US recovery boosted appetite for riskier assets. The peso sustained its trend as it appreciated further to ₱41.1/US$1.0 in November 2012. The peso was mainly buoyed up by strong inflows and positive market sentiment as the economy expanded at a stronger-than-expected pace in the third quarter of 2012. The peso continued to appreciate in December 2012 as it averaged at ₱41.0/US$1.0. The peso was also supported by the US Fed's announcement of a new round of monetary stimulus, along with the speculation that Japan will implement monetary easing, which fueled demand for riskier assets.[10] Nonetheless, concerns over the impending US fiscal cliff pared the currency's gains.

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[8] According to a report in January 2012, US nonfarm payroll employment rose by 200,000 and the unemployment rate continued to trend down to 8.5 percent in December (US Bureau of Labor Statistics).

[9] On 7 September 2012, the ECB outlined its long-awaited bond-buying programme to tackle the euro zone's debt crisis. Meanwhile, on 14 September 2012, the US Fed announced an expansion of its holdings of long-term securities with open-ended purchases of US$40 billion of mortgage debt a month in a third round of quantitative easing as it seeks to boost growth and reduce unemployment. On 19 September 2012, the BOJ increased its asset purchasing programme by 10 trillion yen (US$126bn; £78bn).

[10] On 5 December 2012, the US Fed announced that it would buy US$45.0 billion in longer-term Treasuries each month on top of the US$40.0 billion per month in mortgage-backed bonds they started purchasing in September 2012.

On a year-to-date basis, the peso appreciated against the US dollar by 6.8 percent on 28 December 2012 as it closed at ₱41.1/US$1.0, moving in tandem with the rest of the Asian currencies except for the Japanese yen, Indonesian rupiah, and Indian rupee, which depreciated vis-à-vis the US dollar.[11]

Performance of Selected Asian Currencies against the US Dollar
Appreciation/(Depreciation), in percent
29 Dec 2011 vs. 28 Dec 2012

Currency	Appreciation/(Depreciation)
South Korean Won	7.7
Philippine Peso	**6.8**
Singaporean Dollar	6.1
New Taiwan Dollar	4.3
Malaysian Ringgit	3.5
Thai Baht	3.0
Chinese Yuan	1.0
Indian Rupee	(3.1)
Indonesian Rupiah	(5.9)
Japanese Yen	(10.9)

In terms of volatility, the peso remained broadly stable. In 2012, the coefficient of variation stood at 2.0 percent, which is lower relative to other currencies in the Asian region such as the Indian rupee (4.3 percent), the Japanese yen (2.6 percent), the Korean won (2.4 percent), and the Indonesian rupiah (2.3 percent).[12]

Volatility of Selected Currencies
As of 31 December 2012

	PHP	EUR*	JPY	THB	IDR	MYR	KRW	SGD	TWD	CNY	INR	GBP*	AUD*	NZD*	BRL	CHF
Coefficient of Variation (In Percent)																
2012	1.9	2.5	2.6	1.4	2.3	1.7	2.4	1.7	1.2	0.7	4.2	1.5	2.2	2.5	6.4	2.4
2011	1.2	3.4	3.1	1.5	2.4	2.2	3.1	2.5	2.1	1.4	5.8	1.9	3.2	4.3	5.7	6.1
2010	2.5	4.5	4.6	3.7	1.5	3.3	3.0	3.1	2.4	1.1	2.0	3.0	5.3	3.8	3.0	5.3
2009	1.5	5.2	3.8	2.5	8.2	2.6	7.8	3.2	2.2	0.1	3.0	6.0	11.9	12.2	11.5	4.9
2008	6.5	7.0	4.7	4.9	9.2	4.4	15.0	3.5	3.4	2.0	8.1	9.7	13.2	12.4	15.0	5.4
2007	4.6	6.4	6.2	4.0	1.7	3.5	3.6	4.3	3.1	3.8	4.3	1.8	6.3	4.4	6.4	3.1
2006	2.3	3.0	1.8	2.9	1.8	1.4	1.7	1.7	1.2	0.9	1.8	3.8	2.3	4.2	2.6	2.6

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

In nominal terms, the peso strengthened in 2012 against the major trading partners (MTPs) currencies and competitor currencies in both the broad and narrow series[13] as the nominal effective

[11] Based on the last done deal in the afternoon.
[12] The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.
[13] The basket of the major trading partners is composed of the currencies of the US, Japan, the Euro area and the United Kingdom. The broad basket of competitor countries comprises the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong while the narrow basket comprises of the currencies of Indonesia, Malaysia and Thailand only.

exchange rate (NEER) indices increased by 5.3 percent, 6.5 percent, and 8.4 percent, respectively.[14]

On a real, trade-weighted basis, the peso lost external price competitiveness in 2012 against the basket of currencies of major trading partners (MTPs). This is due mainly to the combined effects of the peso's nominal appreciation and the widening inflation differential against this currency basket. This translated to a real appreciation of the peso by 6.5 percent.

The peso also lost external price competitiveness against competitor countries in both the broad and narrow series as the nominal appreciation of the peso more than offset the narrowing inflation differential relative to these baskets of competitor countries, which led to an increase in the real effective exchange rate (REER) index of the peso against these currency baskets by 6.2 percent and 7.7 percent, respectively.[15]

Financial Conditions

Performance of the Banking System

Philippine banking system remains sound and stable

The Philippine banking system remained resilient in 2012 despite the challenging global economic environment that persisted throughout the year. Healthy growth rates were sustained in lending, deposits and profitability while the non-performing loans (NPL) ratio continued to improve and fall below their pre-Asian crisis levels. Moreover, the system's capital adequacy ratio (CAR) of over 15.0 percent remained comfortably above the BSP's and the Bank for International Settlements' (BIS) minimum requirements.

Selected Banking Indicators

	2012 p/	2011	Growth Rate (%)
Deposits (₱ Billion)	4,528.2	4,067.8	11.3
Resources (₱ Billion)	8,138.5	7,643.4	6.5
Loans Outstanding (₱ Billion, Gross of RRPs)	3,480.4	3,014.9	15.4
Number of Banking Institutions (Head offices)	705 (Sep)	726	
NPL to Total Loans (%)	2.6 (Oct)	2.9	
Capital Adequacy Ratio (%)	18.0 (Jun)	17.6	

p/ Preliminary

[14] The NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.
[15] 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.

Deposit Generation

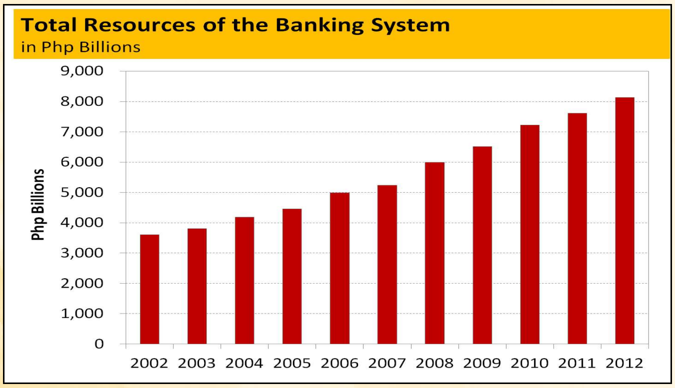
Savings and time deposits remain banks' primary sources of funds

The banking system's total deposits[16] as of end-December 2012 increased by 11.3 percent y-o-y to ₱4.5 trillion from ₱4.1 trillion during the same period in 2011 (Table 8). Savings and time deposits remained the banks' primary sources of funds. The expansion of deposits was indicative of sustained depositor confidence in the banking system. Savings deposits registered a y-o-y growth of 9.5 percent and continued to account for nearly half of the funding base. Similarly, demand deposits and time deposits grew by 7.4 percent and 18.2 percent y-o-y, respectively.

Resources

Total resources of the banking system rise

The total resources of the banking system rose by 6.5 percent to ₱8.1 trillion as of end-December 2012. The increase could be traced to the growth in loans, securities and other equities, indicative of the public's continued trust in the banking sector. Universal and commercial banks (U/KBs) accounted for the bulk (almost 90.0 percent) of the total resources of the banking system.



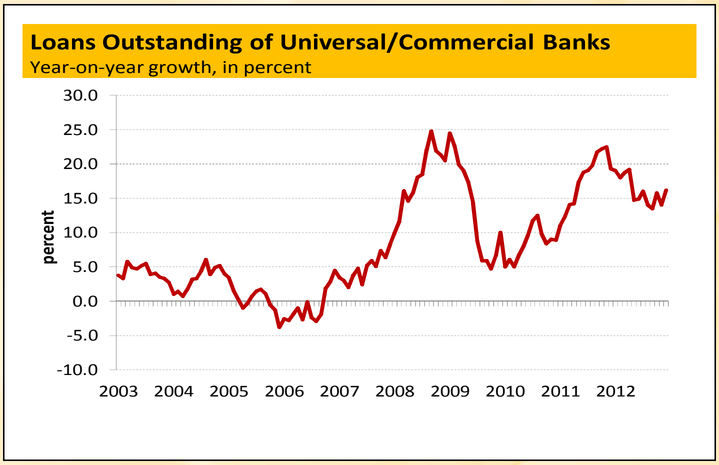
Lending Operations

Lending expands

Outstanding loans of commercial banks, net of banks' RRP placements with the BSP, continued to expand, posting a 16.2 percent y-o-y growth as of end-December 2012. The growth of commercial banks' loans was at double-digit rates since the start of the year although the increase was slower than the 19.3 percent registered as of the end of the previous year. Bank lending including RRPs likewise expanded by 15.4 percent, but at a slower pace compared to the 16.4 percent growth posted at the end of 2011.

[16] Total peso-denominated deposits.

Preliminary data showed that both production and consumption loans grew by 16.6 percent and 14.1 percent, respectively. The continued growth in bank lending, particularly to the productive sectors, supported the growth momentum of the economy.



Loans for production activities, which comprised around 85.0 percent of commercial banks' total loans portfolio (TLP), posted a 16.6 percent y-o-y growth. The expansion was lower than the 20.1 percent growth registered y-o-y in 2011. The growth of production loans was driven mainly by increased lending to health and social work (54.8 percent); construction (51.3 percent); financial intermediation (38.5 percent); transportation, storage and communication (37.5 percent); and education (35.5 percent). Credit for household consumption sustained its strong growth at 14.1 percent during the year, driven by the strong growth in lending across all types of household loans.

Continued bullishness in the property market supports real estate purchases

As of end-June 2012, the combined residential real estate loans (RRELs) of U/KBs and thrift banks (TBs) rose by 23.2 percent to ₱244.4 billion higher than previous year's ₱198.4 billion. The continued bullishness in the real estate market as indicated by the increase in the number of projects unveiled by real estate developers as well as banks' intensified promotional campaigns in terms of offering lower interest rates and attractive amortization terms, supported more real estate purchases. The ratio of RRELs to TLP remained steady at 6.7 percent this year from 6.2 percent in 2011. By type of bank, U/KBs held a bigger slice of the total residential real estate exposure at 57.4 percent (₱140.3 billion) while TBs accounted for the remaining 42.6 percent (₱104.1 billion). In terms of loan quality, the ratio of non-performing RRELs to total RRELs of U/KBs and TBs eased to 4.0 percent better than the year ago's 5.1 percent.

Growth in credit card receivables boosts household consumption

The combined credit card receivables (CCRs) of U/KBs and TBs as of end-June 2012, inclusive of credit card subsidiaries, rose by nearly 13.0 percent to ₱136.6 billion relative to previous year's level, further boosting the growth in household consumption. Meanwhile, the ratio of CCRs to the TLP slightly dipped to 3.7 percent from 3.8 percent in 2011. The non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries, decreased by 2.6 percent to ₱15.1 billion from last year's ₱15.5 billion. As to loan quality, the ratio of non-performing CCRs to total CCRs slightly decreased to 11.0 percent from last year's 12.8 percent, as the growth in non-performing CCRs was outpaced by the total increment in CCRs.

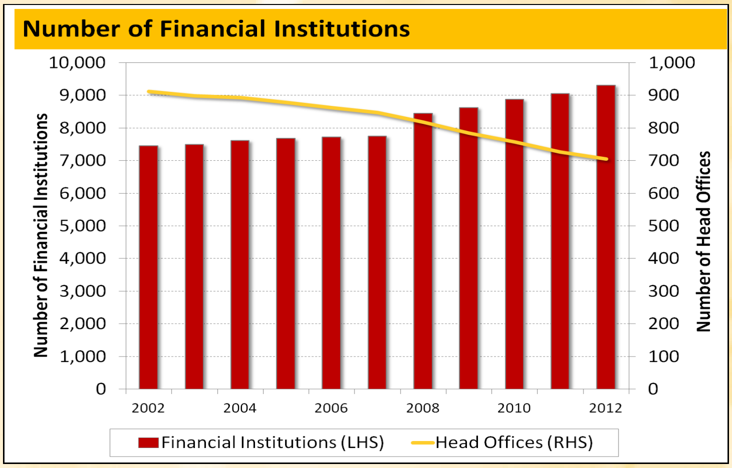
Consumers' continued confidence in the economy helps sustain demand for automobiles

The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries, increased by 17.2 percent to ₱150.3 billion as of end-June 2012 from ₱128.2 billion a year ago. Consumers' continued confidence in the economy as well as the aggressive marketing strategies of banks and other car financing firms sustained the rise in automobile purchases. The proportion of total ALs to TLP, exclusive of interbank loans (IBL), was slightly higher at 4.1 percent than the previous year's ratio of 4.0 percent. In terms of loan quality, ratios of non-performing ALs to total ALs remained steady in 2012 compared to 2011 at about 4.4 percent and the non-performing ALs to TLP remained unchanged at 0.2 percent y-o-y.

Institutional Developments

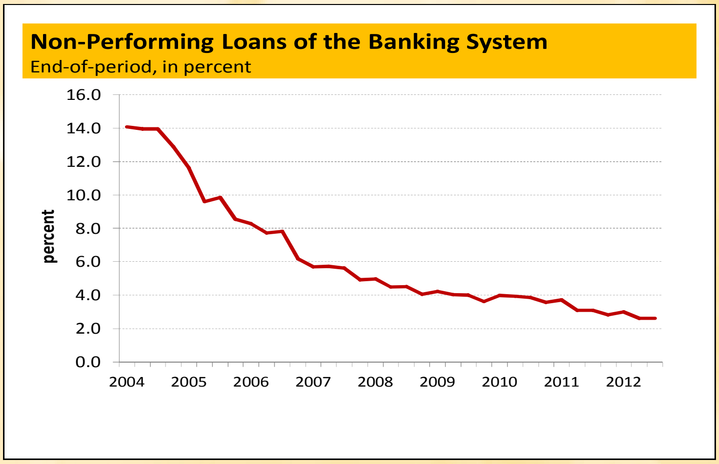
Consolidation in the banking industry continues

The number of banking institutions (head offices) fell further to 705 as of end-September 2012 from the year-ago level of 730, denoting the continued consolidation of banks as well as the exit of weaker players in the banking system. By banking classification, banks (head offices) consisted of 37 U/KBs, 69 TBs, and 599 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 9,301 in September 2012 from 8,965 during the same period the previous year, due mainly to the increase in the branches/agencies of universal and commercial banks (Table 9a).



NPL ratio sustains downtrend

The banking system's asset quality as measured by the NPL ratio sustained its downtrend, easing to 2.6 percent as of end-October 2012 from the 3.2 percent registered a year ago. Banks' initiatives to improve asset quality along with prudent lending regulations helped bring the NPL ratio below pre-Asian crisis levels. The low NPL ratio reflected the 8.7 percent decline in the level of NPLs combined with the 14.3 percent expansion in the industry's TLP. The NPL level dropped to ₱103.3 billion at end-October 2012 from ₱113.2 billion during the same period in 2011, while TLP expanded to ₱4.0 trillion from ₱3.5 trillion during the same period the previous year.



Nonetheless, the Philippine banking system's NPL ratio of 2.6 percent is the same as that of Thailand and higher compared to Indonesia's 2.0 percent, Malaysia's 2.1 percent, and South Korea's

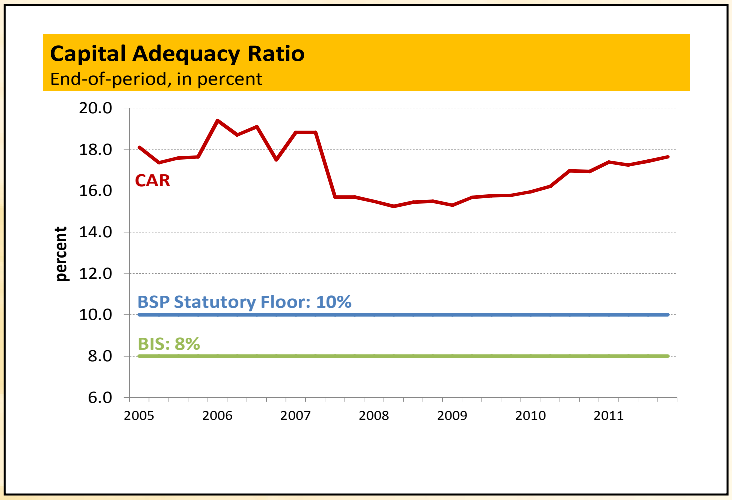
0.5 percent.[17] The lower NPL ratios of Malaysia and South Korea could be attributed to the creation of publicly-owned asset management companies (AMCs), which purchased the bulk of their NPLs, a practice not implemented in the Philippines.

The loan exposure of banks remained adequately covered as the banking system's NPL coverage ratio improved to 113.9 percent as of end-October 2012 from 99.0 percent in the preceding year. The ratio was indicative of banks' continued compliance with the loan-loss provisioning requirements of the BSP to ensure adequate buffers against unexpected losses.

CAR remains above statutory floor

As of end-June 2012, the average CAR of U/KBs stood at 16.9 percent and 18.0 percent on solo and consolidated bases, respectively, which surpassed the 10.0 percent domestic regulatory minimum and 8.0 percent international norm.

The industry raised its capital to support an increase in assumed risks. Banks either retained earnings or issued capital instruments to match the rise in their risk-weighted assets (RWAs). RWAs rose due to higher corporate and consumer loans and to investments in debt securities issued by unrated counterparties. The rise in lending can be attributed to the low interest rate environment.



The Philippine banking system's CAR on consolidated basis at 17.6 percent was comparatively higher than those of Indonesia (17.3 percent), Malaysia (17.3 percent), Thailand (14.8 percent) and South Korea (14.0 percent).[18]

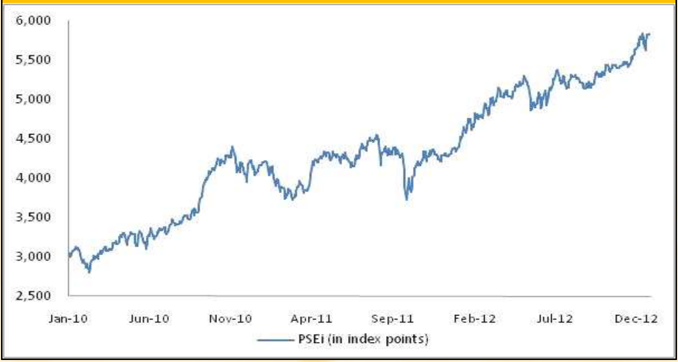
[17] Sources: Various central bank websites, IMF and financial stability reports, Indonesia (commercial banks, Q3 2012); Malaysia (commercial banks, Q3 2012); Thailand (banking system, Q1 2012); and Korea (banking system, Q4 2011).
[18] Sources: Various central bank websites, IMF and financial stability reports, Indonesia (commercial banks, Q3 2012); Thailand (banking system, Q1 2012); Malaysia (commercial banks, Q3 2012); and Korea (banking system, Q4 2011).

Stock Market Developments

Sustained investor optimism drives stock market rallies

During the period January to December 2012, the Philippine Stock Exchange index (PSEi) increased by 23.6 percent to average 5,178.4 index points from 4,188.3 index points a year ago (Table 10). Sustained investor optimism over the country's sound macroeconomic fundamentals and several upgrades on the Philippines' sovereign credit ratings drove the market's rally, notwithstanding the challenging global environment. The local bourse posted 38 historic highs in 2012, with the PSEi pushing past the 5,800 benchmark and closing at 5,812.7 index points in end-December 2012, higher by 32.5 percent than the 4,372.0 index points a year ago.

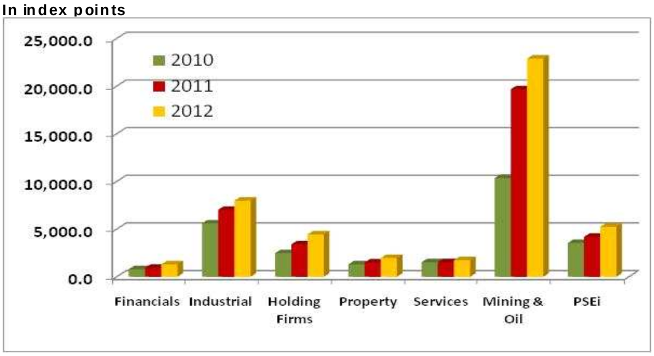
Daily Philippine Stock Exchange Index
January 2010 - December 2012



All sector indices increase

In 2012, all sector indices outperformed their 2011 levels. The financial index, which tracks the financial institutions, especially banks and insurance companies, led the boom as it jumped by 39.4 percent to average 1,309.4 index points during the year. This was followed by the property index, composed of companies engaged in property development and construction, which rose by 31.6 percent. The holding firms index was third as it expanded by 30.6 percent. The mining and oil index went up by 16.3 percent, while the services index increased by 15.0 percent followed by the industrial index, which grew by 13.6 percent in 2012.

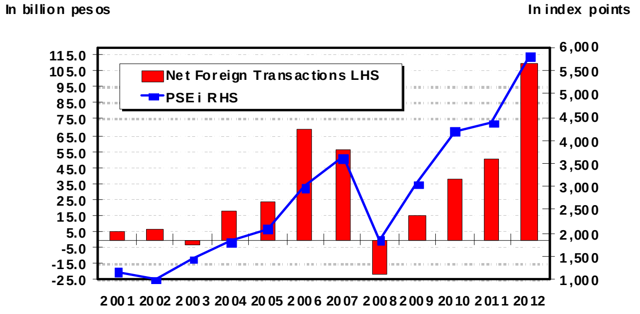
Average PSEi and Sectoral Indices
2010-2012



Foreign investors remain net purchasers of stocks

During the year in review, positive investor sentiments were reflected in the increased participation of foreign investors in the local bourse as negative developments overseas drove investors towards positively earning local issues. Foreign investors were net buyers of ₱110.0 billion worth of stocks in 2012, more than double the ₱50.0 billion net purchases recorded in 2011. Foreign transactions as a proportion of total value traded reached 44.9 percent during the year, higher than 38.5 percent posted a year ago, highlighting the significant role played by foreign investors in the rebound of the local market.

Net Foreign Transactions and PSEi
2001-2012



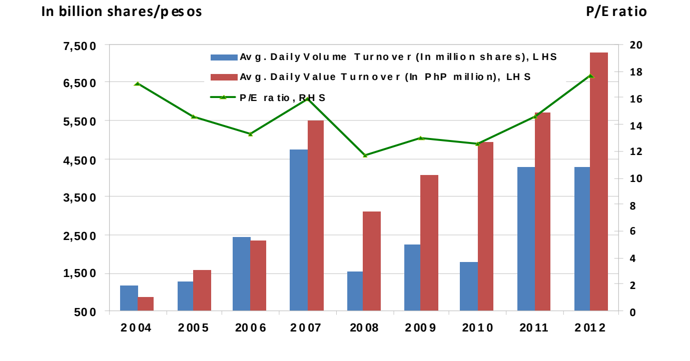
Other stock market indicators also show increasing trends

Mirroring the rise in local stock index, total stock market capitalization increased by 25.7 percent from ₱8.7 trillion in 2011 to ₱10.9 trillion in 2012.[19] The robust trading in 2012 was also evident

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

in the 27.1 percent rise in the average daily value turnover from ₱5.7 billion in 2011 to ₱7.3 billion in 2012. The robust growth in stock transactions is the direct consequence of the extension of the PSE trading hours up to 3:30 p.m. beginning January as well as the five initial public offerings in 2012 that raised a total of ₱24.0 billion. Meanwhile, the price-earnings (P/E) ratio improved to average 17.7 times in 2012 from 14.6 times in the previous year.[20]

Market Turnover and P/E Ratio
2004 - 2012



Most regional stock markets rally

Most stock indices in the Asian region rallied in 2012, notwithstanding the challenging global economic environment. Of the seven benchmark indices monitored in Asia, four indices rose relative to the previous year. The rally was led by the Philippines, which rose by 23.6 percent, followed by Thailand (17.6 percent), Indonesia (10.1 percent) and Malaysia (6.5 percent). In contrast, substantial stock losses were registered in China (16.7 percent) and Hong Kong (20.0 percent), reflecting poor risk appetite for Chinese stocks due to the slowdown of China's economy. Meanwhile, Singapore's benchmark Strait Times index remained nearly unchanged during the year in review.

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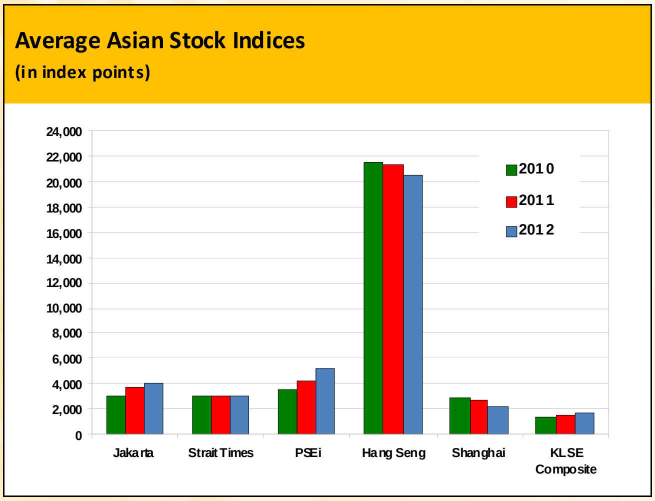
[20] The P/E ratio looks at the relationship between the stock price and the company's earnings. It is computed as the ratio of market capitalization over the last four quarters' net income. Essentially, it gives an idea of what investors are willing to pay for the company's earnings. A higher P/E ratio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



Debt Securities Market Developments

Size and Composition

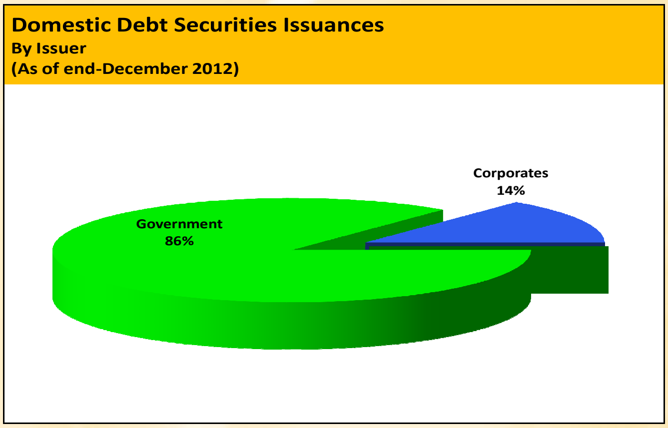
Lower public sector issuances drive the decline in overall LCY bond issuances

Local currency (LCY) bonds issued by both public and private sectors amounted to ₱1,115.8 billion in 2012, down by 5.8 percent from the ₱1,184.6 billion registered in 2011. The overall decline can be traced to lower public sector issuances. The declining trend in public sector issuances was, however, tempered by private sector issuances which grew by 39.0 percent during the year.

Issuances of the NG dropped by 10.5 percent to ₱958.5 billion from the previous year's ₱1,071.0 billion. The lower public sector LCY bonds was due to the decline in the issuance of Treasury bills and in the less frequent domestic bond exchanges conducted during the year.

Private sector continues to tap the local funding markets by issuing more LCY bonds in 2012

The private sector, meanwhile, continued to tap the local funding markets, issuing ₱157.3 billion worth of LCY bonds, an increase of 39.0 percent from last year's ₱113.2 billion. Issuances were particularly high in the second half as corporates took advantage of the very liquid domestic financial markets in sourcing for fresh capital funding and refinancing needs.



Source: Bureau of the Treasury

In terms of market share, public sector issuances dominated the domestic bond market, comprising for 86.0 percent of total bond issuances. Accounting for the bulk of total public LCY bonds are the BTr fixed rate treasury bonds (T-bonds) and retail treasury bonds (RTBs), at 44.0 percent and 38.4 percent, respectively. Treasury bills (T-bills), benchmark bonds, and LCY bonds issued by government-owned and controlled corporations (GOCC) comprised the rest of total public sector LCY issuances.

Meanwhile, private sector bond issuances accounted for 14.0 percent of total bond issuances and consisted largely of bonds, notes, and certificate of deposits. During the year, private issuances were mostly from the real estate and financial sectors, particularly from banks and investment firms. There were also issuances from other non-financial corporations such as energy and industrial companies.

Primary Market[21]

Demand for GS in the primary market remains substantial

The demand for Philippine government T-bills and T-bonds in the primary auctions conducted in 2012 remained robust with investors tendering more than twice the NG programmed borrowings for both short- and long-dated securities. Amount of tenders reached ₽917.4 billion against NG's offerings of ₽378.0 billion. The NG accepted ₽301.8 billion worth of T-bills and T-bonds while rejecting ₽615.6 billion bids.

[21] The discussion includes primary market for government issuances only.

Results of GS Auctions, 2012
(in billion pesos)

Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	**189.0**	**373.8**	**143.7**	**230.1**
First Quarter	54.0	86.3	37.0	49.3
Second Quarter	52.5	79.0	28.4	50.6
Third Quarter	45.0	112.1	43.3	68.8
Fourth Quarter	37.5	96.5	35.1	61.5
T-bonds	**189.0**	**543.6**	**158.1**	**385.5**
First Quarter	54.0	163.4	45.0	118.4
Second Quarter	45.0	59.1	23.1	36.0
Third Quarter	63.0	204.9	63.0	141.9
Fourth Quarter	27.0	116.2	27.0	89.2
TOTAL	**378.0**	**917.4**	**301.8**	**615.6**

Source: Bureau of Treasury

Apart from the regular T-bill and T-bond issuances, the NG also offered ₽40.0 billion of 15- and 20-year fixed rate Retail Treasury Bonds (RTBs) in February. The demand for RTBs was substantial which enabled the government to award more than the programmed amount, raising a total of ₽179.8 billion RTBs (₽44.1 billion 15-yr and ₽135.7 billion 20-year tenured RTBs). Of the said amount, ₽49.6 billion worth of issues were sold to Government Securities Eligible Dealers (GSEDs) through Dutch auction; ₽115.2 billion were through subscriptions received from the selling agents during the public offering period; and ₽15.0 billion were sold to GOCCs through the BTr's over-the-counter window.

In October, the government once again engaged in the sale of 25-year RTBs, which was matched with huge demand as investors swamped the debt sale. The NG raised a total of ₽188.0 billion, ₽63.0 billion of which were sold to GSEDs while the remaining ₽125.0 billion to other selling agents.

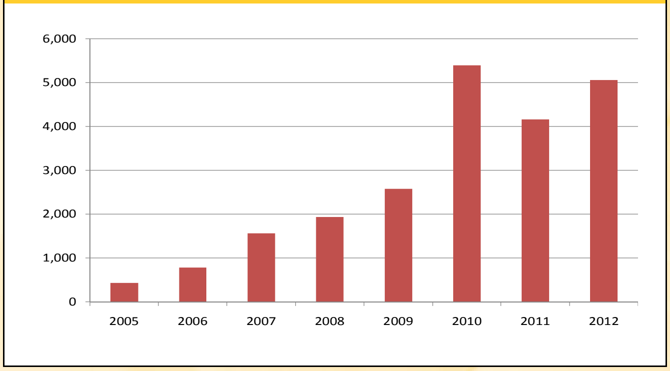
Yields on T-bills and T-bonds reach record lows

Demand for debt papers picked up towards the second half with yields on T-bills and T-bonds posting record lows. There was also strong market preference for longer-dated bonds in the last two quarters of the year, reflecting improving market confidence in the long-term economic prospects of the country following reports of favorable fiscal position and budget management, strong external finances, well-anchored inflation expectations and improved prospects for economic reforms. The upgrade in the country's credit ratings during the year, likewise contributed to the market's appetite for long-term government securities.

Trading at the secondary market increases

Secondary Market

Secondary market trading of both government and corporate bonds at the Fixed Income Exchange (FIE) climbed in 2012. The total volume of transactions stood at ₱5,057.0 billion, 21.5 percent higher than the previous year's level.



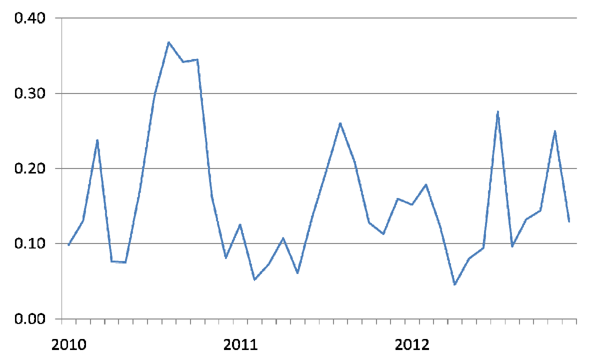
Source: Philippine Dealing and Exchange Corp.

The easing measures implemented by advanced economies contributed to the rise in the volume of transactions at the fixed income market as foreign investors took advantage of the country's relatively higher asset yields alongside its improved macroeconomic fundamentals. The bond listings of SM Investment Corporation, San Miguel Corporation, Ayala Land Incorporated amounting to ₱25.0 million, ₱17.0 billion, and ₱15.0 billion, respectively, likewise contributed to the increase in the liquidity at the secondary market .

On a monthly basis, trading at the FIE picked-up in January and February as strings of improvements in global growth lifted market sentiments. Trading was also buoyed by investors' search for higher yields with the US Fed's announcement to keep interest rates low through 2014, increasing the demand for higher yielding Philippine debt papers. However, trades slowed down in March and April on worries over the hike in global oil prices and the persistent concerns over the Euro zone's sovereign debt problems. Trade recovered beginning in the second half as the upgrade on the Philippine sovereign bonds by both S&P and Moody's to one notch short of investment grade buoyed market risk appetite for the country's debt papers.

The increase in the buying and selling of bonds at the secondary market was also reflected in the rise, albeit marginally, in the government bond turnover ratio to 1.7 times in 2012 from 1.6 times in the previous year.[22] On a monthly basis, activity in the secondary market was initially low in the first semester but was able to recover by the second half as it reached its peak in November at 0.25 times.

PDEX Government Bond
Turnover Ratio



Source: Philippine Dealing and Exchange Corp., Bureau of the Treasury and BSP staff calculation.

International Bond Market

Both the public and private sectors took advantage of the ultra low interest rate environment in the global market in 2012. The NG opened the year with a 25-year US$1.5 billion 2037 global bonds offering in January. Tenders reached US$12.5 billion compared to the programmed amount of US$1.5 billion, enabling the government to raise two-thirds of its 2012 foreign borrowing requirement of US$2.1 billion.

NG's issuances of global dollar bonds are well received

In November, the NG went back to the international market to raise a total of US$750.0 million 10-year global peso notes (GPNs) at a yield of 3.9 percent, lower than the indicative price guidance of 4.1 percent. The issuance attracted huge demand with tenders reaching US$5.9 billion, nearly eight times more than the issue size. The proceeds from the GPNs were used to partly fund a buy-back program, scheduled during the same month, involving an estimated US$1.5 billion worth of high coupon US dollar- and euro-

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

denominated debts as the NG sought to reduce reliance on foreign debt and help dampen the peso's appreciation.

During the same month, the Philippines raised US$500.0 million from the sale of 2023 US dollar-denominated bonds to local investors as part of the government's effort to develop new funding sources. Demand for the 10.5-year Onshore Dollar Bond (ODB) exceeded the issue size by more than three times with total tenders amounting to US$1.7 billion, enabling the NG to fully award the planned US$500 million foreign-denominated debt borrowings. The issuance was also part of the government's initiative to create dollar demand and dampen the peso's rise.

Private sector corporations tap international bond market

Private corporations were likewise successful in accessing the international debt market for its funding needs in 2012. During the year, a total of US$1.8 billion worth of bonds were issued, with the private sector taking advantage of the high liquidity and low interest rate in the global market. In the first quarter of 2012, a US$300.0 million worth of global bonds were issued by both the Banco De Oro Unibank Incorporated and Carmen Copper Corporation, the first Philippine mining firm to successfully issue bonds offshore. A US$500.0 million 7-year bond was also issued by SM Investment Corporation in the last quarter of the year which attracted US$3.1 billion tenders from various institutional and private banking investors within the Philippines and across Asia and Europe. Other issuers include private corporations in the industrial, banking, and financial sectors.[23]

Credit Risk Assessment

Philippine sovereign debt earns credit rating upgrades

On 29 May 2012, Moody's Investors Service upgraded the country's sovereign credit rating outlook of Ba2 rating to positive from stable, two notches below investment grade. The outlook change considered the country's active debt management, coupled with the central bank's increasingly solid track record of inflation management. Subsequently, Moody's upgraded the foreign and local currency long-term bond ratings of the country to Ba1 on 29 October 2012, one notch below investment grade, due to the country's improved economic performance and its enhanced prospects for growth over the medium term.

Standard & Poor's Rating Services (S&P) upgraded the country's long-term foreign currency sovereign credit rating to BB+ from BB, one notch below investment grade on 04 July 2012. The upgrade recognized the progress in the government's fiscal consolidation efforts given the continuous improvement in its debt profile and

[23] Department of Economic Statistics (DES) Sources of Corporate Funds Report, December 2012.

lower interest burden. It also reflected the country's strong external position, driven by remittances from overseas Filipino workers and an expanding service export sector which continued to boost the current account surplus. Subsequently, S&P raised the Philippines' credit outlook to positive from stable on 20 December 2012, citing the favorable political situation as well as the signing of the "sin tax" reform measure and the approval of the ₱2.0 trillion General Appropriations Act for 2013.

Philippine Sovereign Credit Ratings
As of December 2012

Rating Agency	Local Currency LT/ST	Foreign Currency LT/ST	Outlook
S&P	BB+/B	BB+/B	Positive
Moody's	Ba1/n.a.	Ba1/n.a.	Stable
Fitch	BBB-/n.a.	BB+/B	Stable

Source: Reuters

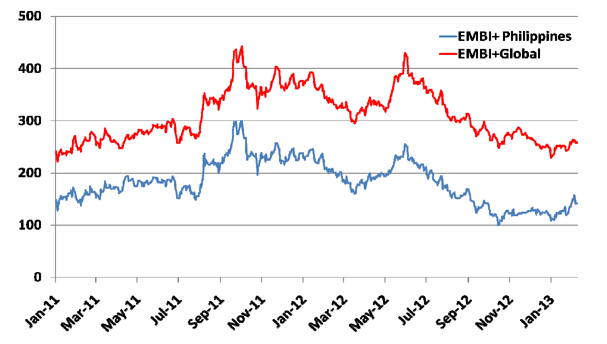
Spread on Philippine sovereign bonds narrows to historic lows

In line with the upgrade in credit ratings, investors placed a lower premium in holding Philippine debt papers as debt spreads generally declined in 2012. On the average, the JP Morgan Emerging Market Bond Index (EMBI)+ Philippine spreads, or the extra yield investors demand to hold Philippine debt securities over US Treasuries stood at 175 bps during the year, down from the previous year's average of 196 bps. Throughout the year, the EMBI+ Philippine spread hovered below the JP Morgan EMBI+Global spreads, which widened by 11 basis points to average 320 bps in 2012.[24] Meanwhile, the Philippine credit default swap (CDS) spreads, or the cost of insuring the country's 5-year sovereign bonds against default, traded below 100 bps to 97.6 bps on 16 October and even dipped to as low as 94.2 bps on 22 October, a major achievement for a sovereign with credit ratings below investment grade. Against neighboring economies, the Philippine CDS averaged 142 bps during the year, narrower than Indonesia's 164 bps but wider than Malaysia's 105 bps and Thailand's 128 bps.[25]

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

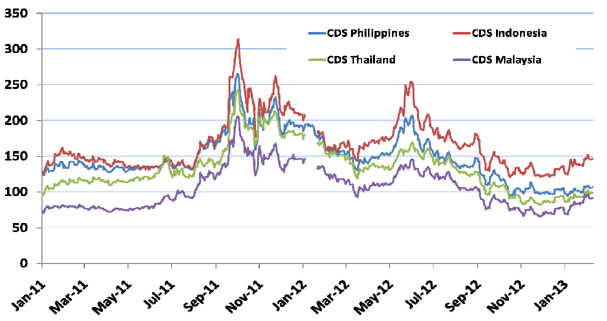
[25] A credit default swap (CDS) is an insurance-like contract that protects against default or restructuring. For instance, it costs an average of US$142,000 to protect holdings of US$10.0 million of Philippine sovereign debt from default. The buyer of a CDS will be paid with the face value or the cash equivalent in exchange of the underlying securities should a company/government fail to adhere to its debt obligations. An increase indicates deterioration in the perception of credit quality.

JP Morgan EMBI Spreads
in basis points



Source: Bloomberg

JP Morgan Credit Default Swap Spreads
in basis points



Source: Bloomberg

Continued improvement in the country's macroeconomic fundamentals keeps debt spreads generally tight

The robust economic growth, benign inflation environment, and strong external payments position pushed Philippine debt spreads to narrow at historic lows and at levels beyond the pre-crisis period. Increasing investor confidence in the country's growth prospects boosted demand for Philippine debt papers that led yields and premiums to go down and spreads to tighten. The credit rating upgrades to one notch short of investment grade by S&P and Moody's in July and October, respectively, likewise contributed in the significant narrowing in the country's debt spreads.

Furthermore, the gradual improvement in global prospects, as financial conditions stabilized and economic growth recovered especially in most of advanced economies, also supported the tightening trend. Spreads narrowed the most beginning in the second half of 2012 as positive tailwinds created by reports of US showing more signs of economic stabilization and European Union

(EU) risks tapering off sparked risk-buying sentiment which tightened spreads remarkably. The string of monetary easings from the ECB, the US Federal Reserve, and the BOJ also boosted demand for the higher-yielding assets such as that of the Philippines.

However, the debt spreads' narrowing trend was tempered by bouts of uncertainties on the sustainability of global recovery amid the continuing euro area sovereign debt and banking crises and increasing concern over the so called "US fiscal cliff." In particular, widening pressures were seen during the second quarter on the back of credit rating downgrades in selected European sovereigns and banks. Expansion in spreads was again seen in December on worries that US policymakers may not be able to avert the series of tax increases and spending cuts that could lead to a contraction in the world's biggest economy. The slowdown in China and renewed recession in Japan also weighed down sentiment, thereby keeping spreads from tightening further. Nonetheless, spreads still managed to remain generally tight and low in 2012 as compared to levels seen in the previous year.

External Sector

Balance of Payments

BOP surplus for 2012 declines

The BOP position for the full year 2012 yielded a surplus of US$9.2 billion. However, this was 19.0 percent lower than the surplus of US$11.4 billion in the comparable period a year ago. The financial account recorded net borrowing of residents from the rest of the world as net incurrence of liabilities topped net acquisition of financial assets across component accounts. The current account surplus improved due mainly to the narrowing of the trade-in-goods deficit and increased net receipts of secondary income.

Current account surplus for 2012 increases

The current account recorded a higher surplus of US$7.1 billion (2.8 percent of GDP) in 2012 compared to US$7.0 billion (3.1 percent of GDP) a year ago. The 2.2 percent improvement in the current account surplus was due to the narrowing of the deficit in the trade-in-goods account and higher net receipts in the secondary income account which more than compensated for the decline in net receipts in the services and primary income accounts.

As exports growth was faster than that of imports, the deficit in the trade-in-goods account declined by 10.4 percent in 2012. Exports of goods expanded by 20.9 percent, outpacing that of imports of goods at 11.3 percent. Total exports of goods in 2012 reached US$46.3 billion while imports of goods aggregated US$61.5 billion. Contributing to exports growth were manufactured products (by 29.9 percent), fruits and vegetables (by 21.6 percent), and forest products (by 18.0 percent). Higher export revenues from these commodity groups negated the lower export earnings from mineral, coconut, petroleum, and sugar and other agro-based products exports. In particular, earnings from exports of manufactured goods totaled US$39.8 billion higher than the US$30.6 billion export revenues posted in 2011 due to the brisker expansion in shipments of electronics (including other electronics), machinery and transport equipment, wood manufactures, processed food and beverages, and chemicals.

Meanwhile, the growth drivers in imports of goods were raw materials and intermediate goods (by 4.9 percent), mineral fuels and lubricants (by 8.9 percent), capital goods (by 17.8 percent), and consumer goods (by 10.1 percent). In particular, the gradual stabilization in global economic conditions contributed to the pick-up in external demand for electronics exports, resulting in the uptrend in imports of material inputs for the manufacture of electronic products. Importation of this commodity went up by 18.4 percent to reach US$9.7 billion in 2012 from US$8.2 billion in 2011. Higher purchases of mineral fuels and lubricants in 2012 were attributed to higher procurement of other petroleum products (by 30.7 percent) such as gas oils, motor and aviation spirit and liquefied petroleum gas, and coal (by 16.7 percent). Capital goods imports also climbed by 17.8 percent to US$11.7 billion from nearly US$10.0 billion imports in 2011 as all component items posted increases from their 2011 import levels, notably aircraft, ships and boats which expanded by almost 136 percent. Consumer goods imports also increased due to higher purchases of durable goods (by 14.7 percent), mainly imports of passenger cars, and motorized cycles, and non-durable goods (by 6.2 percent), notably fish and fish preparation.

The services account registered lower net receipts of US$3.9 billion in 2012, compared to US$5.3 billion in 2011. The 26.1 percent reduction in net receipts was due to increased net payments in transport (arising largely from increased outlays for freight, in line with the uptrend in imports of goods), travel, charges for the use of intellectual property, insurance and pension, financial, combined with lower net receipts from other business,[26] telecommunications, computer, and information services. The net payments in these services components more than offset the higher net receipts registered in the remaining services sub-accounts, notably construction and personal, cultural, and recreational services as well as the decreased net payments in government goods and services.

[26] Total exports of BPO services amounted to US$11.6 billion in 2012.

The primary income account posted net payments of US$746.0 million in 2012, a reversal of the net receipts of US$280.0 million in the previous year. The turnaround was caused by higher net payments in investment income (by 30.7 percent) arising primarily from increased: a) net dividends to foreign direct investors on their equity and investment fund shares in resident enterprises (by 70.7 percent) and outlays for reinvested earnings related to direct investments (by 7.9 percent); b) net dividends to portfolio equity investors abroad (by 17.4 percent); c) net payments of interest on bonds issued by the NG (by 8.7 percent) and by deposit-taking corporations (by 27.7 percent); and d) lower interest income from holdings of foreign debt securities by the central bank (by 8.8 percent). These net payments negated the net receipts registered in earnings of resident OF workers which increased by 11.4 percent to US$6.4 billion.

Net receipts in the secondary income account rose by 4.3 percent, strengthened mainly by the 4.9 percent growth in remittances of non-resident OF workers, which reached US$18.0 billion in 2012.[27]

Net receipts in the capital account increase

The capital account registered US$136.0 million net receipts for 2012, higher by 4.6 percent than the level posted in 2011. This was due largely to increased capital transfers to the general government in the form of grants and donations during the year.

Financial account shows higher net borrowing of residents from the rest of the world

The financial account posted a net borrowing of residents from the rest of the world of US$6.1 billion in 2012, higher by 9.3 percent than the balance recorded in the same period in 2011. This indicated that the country remained a net recipient of funds from the rest of the world as residents' net incurrence of liabilities registered US$10.3 billion during the year compared to their net acquisition of financial assets of US$4.1 billion in 2011. Net incurrence of liabilities was recorded in all component accounts, except financial derivatives, driven mainly by improved global investor sentiment on the back of signs of growth stabilization, particularly in the US combined with the strength of the country's macroeconomic fundamentals.

The direct investment account recorded lower net borrowings by residents from the rest of the world amounting to US$952.0 million in 2012 from US$1.3 billion in 2011. This transpired as the increase in residents' net acquisition of financial assets was greater than the improvement in net incurrence of liabilities. Particularly, residents' net acquisition of financial assets rose to US$1.8 billion, a more than threefold expansion from the US$539.0 million registered in the previous year. Resident parent companies increased their

[27] Total cash remittances coursed through the banking system totaled US$21.4 billion.

investments in equity capital and debt instruments of affiliates abroad by 421.5 percent and 111.3 percent, respectively to finance the growing operations of their businesses globally. Meanwhile, net incurrence of liabilities by residents from the rest of the world increased by 54 percent to US$2.8 billion on the back of the country's strong economic growth, low inflation environment, favorable fiscal performance, and healthy external payments dynamics. By component, equity capital investments grew by 56.1 percent to reach US$2.4 billion. The bulk of these equity capital infusions—sourced mainly from the US, Australia, the Netherlands, Japan and the British Virgin Islands—were channeled mainly to the manufacturing, real estate, wholesale and retail trade, and financial and insurance sectors. Foreign direct investments in residents' debt instruments likewise increased by 42.2 percent to US$391.0 million. Reinvestment of earnings also contributed positively, recording US$1.1 billion for the year.

Net borrowings by residents from the rest of the world in portfolio investments yielded US$3.5 billion in 2012, lower than the US$4.4 billion net borrowings recorded last year. Net incurrence of liabilities to non-residents increased by 14.9 percent to US$4.7 billion during the year, from US$4.1 billion registered in 2011. Meanwhile, residents' net acquisition of financial assets abroad totaled US$1.2 billion, a turnaround of the US$277.0 million net disposal of financial assets posted a year ago.

Major sources of incurrence of liabilities in portfolio investments in 2012 included the following transactions:

a) Net placements by non-residents in short-term peso-denominated government securities issued by the NG (US$1.1 billion);
b) Non-residents' net placements in equity securities issued by local corporations (US$1.6 billion) and by deposit-taking corporations (US$126.0 million); and
c) Non-residents' net placements in long-term debt securities issued by local corporations (US$513.0 million), domestic deposit-taking corporations (US$886.0 million), and the NG (US$883.0 million).

These were partially offset by residents' redemption through secondary market purchase from nonresidents of foreign currency-denominated bonds issued by the NG (US$1.4 billion).

Meanwhile, net placements of domestic deposit-taking corporations in debt securities issued by non-residents totaled US$1.0 billion during the year, a reversal of the US$338.0 million net disposal of financial assets recorded last year.

The other investments account yielded net borrowings by residents from the rest of the world amounting to US$1.6 billion in 2012, a reversal of the US$1.1 billion net lending posted in the previous year. Residents' net acquisition of financial assets stood at US$1.4 billion in 2012, lower than the year-ago level of US$1.7 billion. Meanwhile, net incurrence of liabilities was recorded at US$3.0 billion, a significant increase from the previous year's level of US$653.0 million.

The primary sources of incurrence of liabilities in other investments during the period included:

a) Non-residents' net placements of currency and deposits in domestic deposit-taking corporations (US$2.9 billion);
b) Net availments of long-term foreign loans by domestic deposit-taking corporations (US$378.0 million);
c) Net availments of trade credit and advances extended by non-residents to domestic corporations (US$380.0 billion); and
d) Other accounts payable to non-residents incurred by deposit-taking corporations (US$180.0 million).

These were partially offset by the net repayment of loans extended by non-residents to local corporations (US$689.0 million) and NG (US$136.0 million).

Meanwhile, the net acquisition of financial assets in other investments was driven largely by:

a) Domestic corporations' net placements of currency and deposits in foreign banks (US$1.7 billion); and
b) Net availments of loans by non-residents from local deposit-taking corporations (US$219.0 million)

These were partially mitigated by the following transactions:

a) Local corporations' net withdrawal of currency and deposits in foreign banks (US$256.0 million); and
b) Net repayment of other accounts payable by non-residents to domestic deposit-taking corporations (US$270.0 million)

Trading in financial derivatives yields net gain

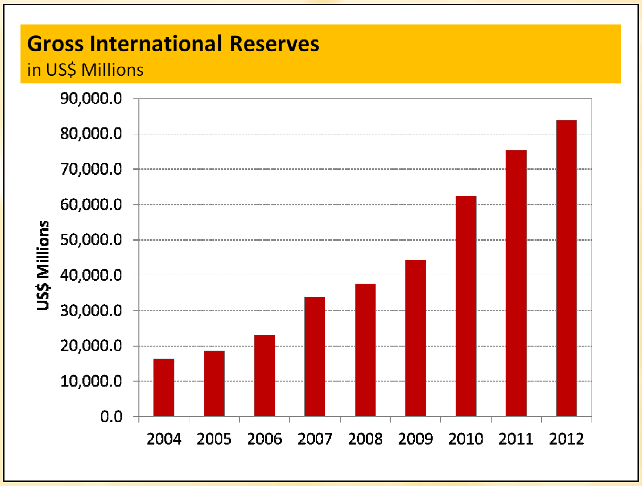
Financial derivatives registered a net gain of US$13.0 million in 2012, significantly lower than the US$1.0 billion net gain in the previous year due to lower net payments by resident investors from cash settlements in financial derivatives during the year as well as the increased volatility in exchange rate which reduced the gains in forward transactions.

International Reserves

GIR continues to increase

The gross international reserves (GIR) continued to grow as of end-December 2012, although at a slower rate of 11.3 percent relative to the 20.7 percent increase in the previous year, to reach US$83.8 billion. At this level, the GIR was equivalent to a year's worth of imports of goods and payments of services and income. The corresponding reserve adequacy ratios at this GIR level were 10.5 times the country's short-term external debt based on original maturity and 6.6 times based on residual maturity.

The increase in the end-December GIR level was due mainly to inflows from the foreign exchange operations and investment income of the BSP, deposits by the NG and the Power Sector Assets and Liabilities Management (PSALM) Corporation of proceeds from their bond issuances and other foreign borrowings. These inflows were partially offset, however, by foreign exchange outflows for the payments by the NG and the BSP of their maturing foreign exchange obligations, foreign currency withdrawals by authorized agent banks (AABs) and revaluation losses on the BSP's foreign currency-denominated reserves.

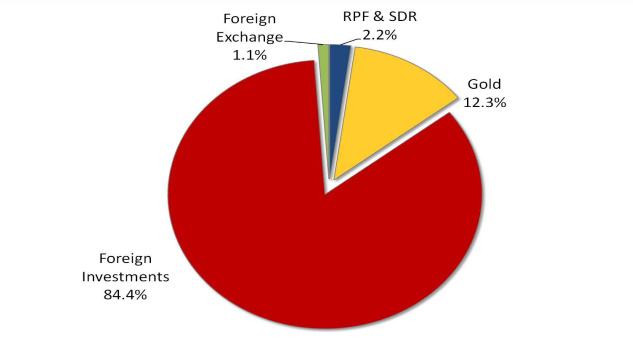


The bulk of the reserves, or 84.4 percent of the total GIR as of end-December, was held in foreign investments. Meanwhile, 12.4 percent of total reserves were in gold and the remaining 3.2 percent were the combined holdings of Special Drawing Rights (SDRs), the BSP's reserve position in the International Monetary Fund (IMF), and foreign exchange.

In terms of currency composition, majority or about 79.1 percent of the end-December GIR (excluding gold) were denominated in US dollars. Meanwhile, 10.6 percent of the reserves were in yen, 4.2 percent in euro and the remaining balance of 6.1 percent were in SDR and other currencies.

Net international reserves (NIR), which include revaluation of reserve assets, amounted to US$83.8 billion as of end-December, higher by US$8.5 billion compared to the comparable period last year. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

Composition of Reserves
Shares in percent, end-December 2012

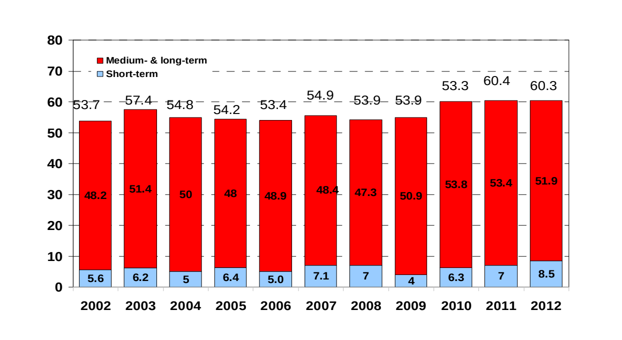


External Debt

External debt remains manageable

The country's outstanding external debt reached US$60.3 billion in 2012, down by US$105.0 million or 0.2 percent from US$60.4 billion in 2011 (Table 13).

External Debt
By maturity
In billion US dollars



While there were substantial net availments during the year (US$2.6 billion) and some positive adjustments resulting from audit findings/late reports (US$59.0 million), these were fully mitigated by: a) net transfers by non-residents of Philippine debt papers to residents (US$1.4 billion); and (b) downward foreign exchange revaluation adjustment (US$1.4 billion) due to the appreciation of the US dollar against the Japanese yen.

Maturity profile remains predominantly medium and long-term

The country's medium to long term (MLT) loans reached US$51.9 billion during the period under review, down by US$1.6 billion or 2.9 percent against the US$53.4 billion posted a year ago. The decrease in MLT loans was due mainly to the increased investment in Philippine debt papers by residents (US$1.4 billion) and negative foreign exchange revaluation (US$1.3 billion) which were partially negated by net availments (US$1.1 billion).

Short-term (ST) obligations, on the other hand, grew by US$1.5 billion to reach US$8.5 billion (14.1 percent of total external debt) from US$7.0 billion (11.6 percent of total external debt) due largely to the bank liabilities (US$1.2 billion).

The weighted average maturity of 20.4 years for loans with original tenors of more than one (1) year was shorter than the 20.8 years recorded a year ago. Nonetheless, the tenors of new loans contracted remained medium to long term.

Public sector borrowings decline while private sector borrowings increase

Public sector borrowings declined to US$45.2 billion (74.9 percent of total external debt) or by US$1.2 billion from US$46.4 billion (76.7 percent of total external debt) in 2011 due to: (a) negative foreign exchange revaluation adjustments (US$1.4 billion); and (b) transfer of non-residents' holdings of Philippine debt papers to residents (US$1.3 billion). These downward effects in the public sector debt were partially offset by the bond issuances of NG totaling US$2.3 billion.

Conversely, private sector loans went up by US$1.1 billion to US$15.2 billion from US$14.1 billion a year ago, increasing share total external debt from 23.3 percent to 25.1 percent. The expansion in the debt stock was due to the US$1.2 billion net availments, of which US$575 million pertained to the bond issuances by two (2) universal banks for general funding requirements. This was partially mitigated by the increase in the residents' investment in debt papers (US$123 million).

Creditor profile shows official lenders account for 42.1 percent of the total external debt

Official credits (multilateral institutions and bilateral creditors) decreased by US$1.8 billion in 2012, reducing the share to total external debt of official credits from 45.0 percent in 2011 to 42.1 percent in 2012. This was principally due to foreign exchange rate adjustments.

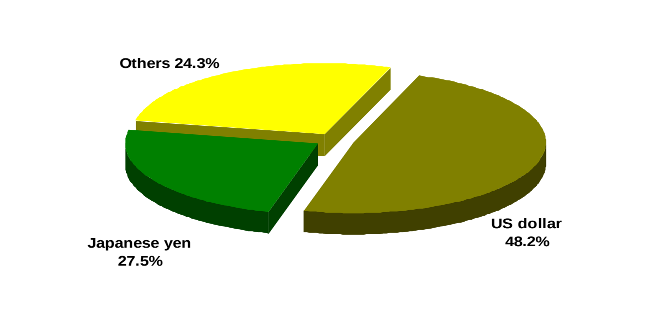
Bonds held by investors went up by US$561 million from US$21.3 billion (35.2 percent of total external debt) in 2011 to US$21.9 billion (36.2 percent of total external debt) at end-2012, due to net availments (US$2.0 billion) which was partially offset by the transfer of Philippine debt papers from non-residents to residents (US$1.4 billion).

Borrowings from foreign banks and other financial institutions similarly increased from US$7.7 billion (12.8 percent of total external debt) to US$9.0 billion (14.9 percent of total external debt) or by US$1.2 billion due mainly to net availments totaling US$1.2 billion during the review period.

The outstanding debt to other creditor types reflected a decline of US$79 million at US$4.1 billion (6.8 percent of total external debt) from the end-2011 level of US$4.2 billion (6.9 percent of total external debt).

The country's debt stock continued to be denominated mainly by two major currencies, the US dollar, whose share to total external debt stock was at 48.7 percent, and the Japanese yen, whose share was at 23.8 percent. The US dollar-denominated multi-currency loans from international financial institutions comprised 12.7 percent of the total external debt stock, while the remaining 14.9 percent of the total external debt were denominated in other currencies, which included the Special Drawing Rights and the euro.

External Debt
By currency, percent share, end-December 2012



DSB indicates that foreign exchange earnings are sufficient to service debts

The external debt ratio, or outstanding external debt as a percentage of aggregate output or GNI, declined to 18.3 percent in 2012 from 20.2 percent in 2011. Similarly, the ratio of external debt-to-GDP dropped to 24.1 percent for the period under review vis-à-vis the 26.7 percent in 2011.

The country's debt service burden (DSB) reached US$6.6 billion[28] (i.e., principal amortizations and interest payments) in 2012 as against US$8.0 billion in 2011 (Table 14). The DSB ratio, computed as the percentage of the DSB to the country's total exports of goods and receipts from services and income (XGSI) was at 7.4 percent vis-à-vis 10.2 percent in 2011. The current DSB ratio is below the 20.0-25.0 percent international benchmark, indicating that the country has sufficient foreign exchange earnings to service maturing principal and interest payments during the current period.

Selected External Debt Indicators
2011-2012, in percent

	2011	2012
External debt to GNI	20.2	18.3
External debt to GDP	26.7	24.1
DSB to XGSI	10.2	7.4
DSB to CAR	9.7	7.1
DSB to GNI	2.7	2.0
DSB to GDP	3.6	2.6

[28] Preliminary

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

Monetary Board raises policy rates four times in 2012, bringing the cumulative policy rate reduction to 100 basis points

During its policy meetings on 19 January, 1 March, 26 July and 25 October 2012, the MB decided to cut BSP policy rates by 25 bps each, bringing the rates for the overnight borrowing or RRP facility and the overnight lending or RP facility to 3.5 percent and 5.5 percent, respectively. The interest rates on term RRPs, RPs, and special deposit accounts (SDAs) were also reduced accordingly. This brought the cumulative policy rate reduction to 100 bps during the year.

The MB's decision to cut policy rates was based on its assessment of a benign inflation outlook, with weaker global growth prospects expected to temper the rise in commodity prices. Baseline forecasts indicated that the future inflation path remained within target for 2012-2014, supported by well-anchored inflation expectations.

Moreover, the risks to the inflation outlook were expected to be broadly balanced. During its 25 October 2012 policy meeting, the MB noted, however, that pending electricity rate adjustments and expectations of higher prices for some food products could pose some upward pressures on inflation. At the same time, the MB noted that global economic prospects continued to face considerable headwinds. World economic conditions were seen to remain tepid as fiscal and financial sector stresses in advanced economies continued to dampen market confidence. On balance, therefore, the manageable inflation outlook provided room for a reduction in policy rates to help buffer domestic demand against global economic strains.

BSP pursues fine-tuning measures to manage impact of capital inflows

In addition, the BSP implemented fine-tuning measures to increase the effectiveness of the BSP in managing the impact of speculative capital inflows and undue pressures on the peso. On 13 July 2012, the BSP disallowed funds from foreign sources from being placed in the SDA facility. At the same time, the spread of the SDA rates over the reverse repurchase rate was reduced, consistent with the decline in global interest rates.

Monetary Board approves rationalization of reserve requirement

On 2 February 2012, the MB approved in principle three operational adjustments in the BSP's reserve requirement policy scheduled for effectivity on the reserve week beginning on 6 April 2012. These are the unification of the existing statutory reserve requirement and liquidity reserve requirement into a single set of reserve requirement; the non-remuneration of the unified reserve requirement; and the exclusion of vault cash (for banks) and demand deposits (for non-bank financial institutions with quasi-banking functions) as eligible forms of reserve requirement compliance. These operational changes were intended to increase the effectiveness of reserve requirement as a monetary policy tool, simplify its implementation, and improve the monitoring of banks' compliance.

At the same time, the MB also decided to reduce banks' reserve requirements to offset the impact of the operational adjustments on the intermediation costs of banks. The reduction covered the reservable liabilities of universal/ commercial banks, thrift banks, rural banks, cooperative banks, and non-bank financial institutions with quasi-banking functions.

DBCC reduces inflation target for 2015-2016.

In line with the inflation targeting approach to the conduct of monetary policy, the Development Budget Coordination Committee (DBCC) during its meeting on 28 November 2012, decided to maintain the current inflation target at 4.0 ± 1.0 percent for 2013-2014 and reduce the inflation target for 2015-2016 to 3.0 ± 1.0 percent. The decision to reduce the medium-term inflation target for 2015-2016 is consistent with the desired disinflation path over the medium term, favorable trends in the structure of inflation, and expected higher capacity of the economy for growth under a low inflation environment.

Financial System Stability

The banking system faced a challenging external environment in 2012 amid the lingering sovereign debt crisis in the euro area, the fiscal deadlock in the US and weak output growth in advance economies as well as moderating real GDP growth in some emerging economies. The negative impact of these global developments on banks, however, was limited as reforms implemented in the past helped to strengthen the financial system against external and domestic shocks. Bank operations were also buoyed up by the economy's solid macroeconomic fundamentals and robust output growth. The BSP took the opportunity provided by a favorable macroeconomic environment to continue to pursue reforms to align BSP's regulatory and supervisory frameworks with internationally accepted standards and best practices; and to ensure that existing regulatory framework remains relevant and effective given current trends in financial services. These include measures aimed at strengthening corporate governance and risk-based capital adequacy framework; improving access to a variety of banking services; and promoting competition through enhanced transparency and innovative delivery approaches.

Alignment of domestic standards with international best practices

Preparations for the implementation of Basel III Capital Adequacy Rules

- *Adoption by U/KBs of Basel III.* Starting 01 January 2014, U/KBs will be required to adopt the capital adequacy standards under Basel III. The capital adequacy standards will be adopted in full by January 2014 without recourse to a staggered implementation or a gradual phase-out of ineligible capital instruments. The new criteria for capital instruments under Basel III were initially set by the BSP through the issuance of Circular No. 709 dated 10 January 2011, which amends the existing risk-based capital adequacy framework by adopting the minimum eligibility criteria for inclusion of non-common equity capital.

- *Amendment of definition of qualifying capital instruments.* The BSP amended the definition of qualifying capital instruments under the Risk-Based Capital Adequacy Framework (RBCAF) for the Philippine banks and quasi-banks to include the loss absorbency feature at point of non-viability of capital instruments as among the minimum conditions for the issuance of qualifying capital instruments.

- *Amendments to the RBCAF for Stand-alone Thrift Banks, Rural Banks, and Cooperative Banks.* The changes to Appendix 63c (Part I and Part III) of MORB pertain to the following: overall computation of risk-weighted assets; broadening the qualification of micro, small and medium-scale enterprises (MSME) loans to be given a risk weight of 75.0 percent; and inclusion of non-performing sales contracts receivables and non-current assets held for sale (NCAHS) in non-performing assets to be given 150.0 percent risk weight.

Effectivity of PFRS 9

- *Deferment of the mandatory effectivity date of Philippine Financial Repository Standards (PFRS) 9 Financial Instruments*. The MB approved the deferment of the mandatory effectivity date of PFRS 9 Financial Instruments to 1 January 2015. The deferment is in line with the issuance by the International Accounting Standards Board (IASB) of further amendments to the International Financial Reporting Standards (IFRS) 9 as well as its local adoption by the Financial Reporting Standards Council in December 2011. The move reflected the BSP's commitment to continuously align existing regulations with globally accepted standards, to the greatest extent possible, as well as promote fairness, transparency and comparability in financial reporting through the adoption of IFRS/International Accounting Standards (IAS).

Corporate governance rules

- *Tighter regulations on corporate governance.* The BSP approved the revised guidelines in strengthening its governance standards for supervised financial institutions as part of its continuing efforts to implement corporate governance practices in the financial industry in accordance with international standards.[29]

- The guidelines emphasized the need for the board of directors (BOD) of BSP-supervised financial institutions to enhance its ability to exercise objective judgments and to ensure that there is a strong system for checks and balances in the entity. Measures introduced toward this end cover specific areas such as board composition, independent director requirements, membership in board committees, and specific duties and responsibilities of the BOD.

- Meanwhile, the MB relaxed the existing regulations for non-complex banks by requiring them to constitute at a minimum only the audit committee from the existing requirement of constituting at least three committees (i.e., audit, corporate governance, and risk oversight). In this regard, all universal and commercial banks shall be considered as complex, while thrift, rural, and cooperative banks shall be considered as non-complex, unless the BSP declares otherwise.

- The guidelines also require universal and commercial banks to appoint a Chief Risk Officer (CRO) who may report to the President or Senior Management but shall have direct access to the board and the risk oversight committee without any impediment.

- The BSP also approved the revisions on the compliance framework. Toward this end, banks were required to put in place a robust, dynamically-responsive, and distinctly-appropriate Compliance System as an integral component of an institution's internal controls. In this regard, banks were

[29] The guidelines are largely patterned after the Basel Committee on Banking Supervision paper "Principles for Enhancing Corporate Governance", which was issued in light of the lessons in the 2007 financial crisis.

required to appoint a full-time Chief Compliance Officer (CCO) whose principal function would be to oversee the design of the bank's Compliance System, promote its effective implementation, and address breaches that may arise. The CCO would also be responsible for ensuring the integrity and accuracy of all documentary submissions to the BSP. The CCO must be a senior officer functionally reporting to the bank's board of directors. Such appointment/designation shall require prior approval of the MB.

- Changes were likewise made in the following: definition/qualifications of an independent director and the composition of the members of board-level committees; and regulations on the confirmation of the election/appointment of directors/officers of banks with a rank of senior vice president (SVP) and above so as to simplify the confirmation procedures.

- Moreover, the BSP revised regulations to strengthen corporate governance and risk management practices of trust, other fiduciary business, and investment management activities of banks and non-bank financial intermediaries. The guidelines highlight the need to strengthen the required separation of institutions' fiduciary business and proprietary dealings. Toward this objective, the guidelines introduce structural reforms in the trust committee composition such that the majority members, including the chairperson, shall consist of "independent members" which may include the bank/non-bank financial institution's (NBFI) non-executive or independent directors, as defined under existing regulations. The guidelines likewise clarify the distinct responsibilities of the Board of Directors, the Trust Committee, and the Trust Officer in the discharge of fiduciary functions. The guidelines introduce the risk management standards, which provide principles-based guidance in the implementation of sound risk management practices for trust, other fiduciary business, and investment management activities.

Prudential regulations issued in 2012

- *Requirements for the grant of a full trust license and an investment management authority.* The BSP required banks and other non-bank financial institutions applying for an authority to engage in investment management activities to maintain a minimum capital account of ₱300.0 million. The Circular aligns the minimum capital requirements for investment management activities with those currently prescribed for trust and other fiduciary businesses. The uniform capital requirement and other prerequisites for application for trust license and investment management authority simplifies compliance with the BSP's regulations on trust activities.

- *Amendments to the Unit Investment Trust (UIT) Funds regulations.* One of the rules amended is the establishment of the UIT as a feeder fund or fund-of-funds.[30] A UIT fund will be allowed to operate as a feeder fund or a fund-of-funds provided that the plan rules and related documents will state that the UIT fund is a feeder fund or a fund-of-funds and provide an explanation or illustration of such structures. Revisions were made on the minimum disclosure requirements and exposure limits.

- *Amended regulation on the provision of micro-agri loans.* The BSP amended the rules and regulations that shall govern the provision of micro-agri loans. This product innovation specifically caters to small farmers or those engaged in agri-business, provided they meet the requirements for application. To ensure the delivery of financial services in a sound, prudent, and sustainable manner, banks that will offer micro-agri loans need to pass the stringent qualifications set by the BSP, such as having in place the capacity and technical know-how to offer micro-agri loans as well as the appropriate risk management mechanisms. As part of the prudential requirements, banks that will offer this product are required, among other things, to have a Capital, Asset, Management, Earnings, Liquidity and Sensitivity to market risk (CAMELS) rating of at least “3” and a management score of at least “3”, as well as a capital adequacy ratio not lower than 12.0 percent.

- *Approval of a set of measures aimed at expanding report on real estate exposures.* The measures supplement the regulatory framework governing bank real estate loans (RELs). The new guidelines provide a more comprehensive measure of a bank’s real estate exposure. It now includes loans as well as investments in debt and equity securities, the proceeds of which shall be used to finance real estate activities. Previously, only real estate loans were covered. Furthermore, all loans are counted towards a bank’s real estate exposure. This amends the previous policy of excluding loans granted to individuals to finance the acquisition and/or construction of residential real estate for own-occupancy and those extended to land

[30] A feeder fund is a UIT fund structure that mandates the fund to invest at least 90 percent of its assets in a single collective investment scheme while a funds-of-fund are assets in more than one collective investment scheme.

developers/construction companies for the development of socialized- and low-cost housing, among other things.

- *Amendments on merger and consolidation incentives.* Consistent with the BSP's thrust to create larger and stronger financial institutions, regulations on mergers and consolidations were revised to allow participating entities in the purchases or acquisitions of majority or all the outstanding shares of stock of a bank/quasi bank to also avail themselves of incentives or reliefs mentioned in subsection X108.3 of the MORB and subsection 4108Q.3 of the MORNBFI, subject to prior approval of the MB.

- Meanwhile, newly merged or consolidated banks will be granted a temporary line not exceeding 50.0 percent of its adjusted net worth as of latest date for a period of 180 days, while awaiting the required reports/data from the appropriate Supervision and Examination Department of the BSP, renewable for another 180 days or until such time that the required reports/data are made available, whichever comes earlier. The BSP requires that at least one of the merging banks must have capital adequacy ratio of at least 10.0 percent and a CAMELS rating of "3".

- *Amendments to regulations on NPLs.* The revised regulations, among others, deletes the provision on the exclusion from NPL classification of loans, including credit card receivables, classified as "Loss", which are fully covered by allowance for probable losses. As a complementary measure to computing gross NPLs, banks shall, likewise, compute their net NPLs, which shall refer to gross NPLs less specific allowance for credit losses on the total loan portfolio; Provided, that such specific allowance for credit losses on the total loan portfolio shall not be deducted from the total loan portfolio for the purposes of computing the net NPLs. The reporting of gross NPLs and gross NPL ratio ensures that information on the quality of banks' loan portfolio is consistent with international reporting standards.

- *Amendments to the qualification requirements of selling agents and/or market makers of long-term negotiable certificates of time deposits (LTNCTDs) and/or unsecured subordinated debt (UnSDs).* The MB approved amendatory guidelines which will allow financial institutions (FIs) not supervised by the BSP that are licensed by the Securities and Exchange Commission as securities dealers and/or brokers to act as selling agent and/or market maker of LTNCTDs and UnSDs issued by banks provided they meet qualification criteria similar to that required for BSP-supervised FIs. Allowing qualified FIs not supervised by the BSP to participate in structures involving bank issues will broaden investors' access to the domestic capital market by expanding the universe of securities trading participants and providing both investors and issuers with greater options. The new guidelines, likewise, explicitly set forth the BSP's expectations on the part of the issuing bank with regard to its responsibility to undertake a careful and diligent evaluation of the parties whom it shall engage in its LTNCTD and/or UnSD issuances. As such, the issuing bank shall make a careful and diligent evaluation of the parties whom it shall engage to act as: (1) underwriter/ arranger, registry bank, selling agent and market maker of its LTNCTDs; or (2) underwriter/ arranger, UnSD registry, selling agent, market maker and public trustee of its UnSD.

- *Initiatives to strengthen financial conglomerate supervision.* The Financial Sector Forum decided to improve the existing information sharing arrangements with its members to facilitate the conduct of coordinated regulation and supervision.[31] The member agencies, likewise, agreed to develop common governance standards and adopt measures to ensure their consistent implementation.

- *Consolidation Incentives.* The BSP and the Philippine Deposit Insurance Corporation (PDIC) have approved an enhanced version of the Strengthening Program for Rural Banks (SPRB) to encourage faster consolidation in the banking industry especially of small sub-scale banks. Labeled as the Strengthening Program for Rural Banks Plus (SPRB Plus), the program expands the original SPRB to include strong and well-managed thrift banks and commercial banks as among eligible Strategic Third Party Investor (STPI) or so-called "white knights" entitled to incentives when investing in problematic country-side based banks. This program is envisioned to further strengthen the rural banking system, boost confidence, and improve the delivery of financial services to rural communities.

Sharpened supervision and examination skills

- *Risk Profiling of BSP Supervised/Regulated Entities.* This off-site surveillance exercise is being done every semester and/or as may be deemed warranted by circumstances, and is used as bases for updating supervisory plans, enforcement actions and examination programs. The risk profiling framework for

[31] The Financial Sector Forum (FSF) is composed of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC) and the Philippine Deposit Insurance Corporation (PDIC).

complex banking groups has been recently enhanced with the inclusion of systemically important financial institutions (SIFI) concept–based on three criteria: size, substitutability and interconnectedness. Likewise, the risk profiling framework for simple or small banks has been continuously calibrated and enhanced with the inclusion additional criteria on quantitative and qualitative assessments.

- *Problem Bank Resolution.* Vigilance over specially challenged banks had been further strengthened by the modification of PCA bank categories and strict implementation of the enhanced enforcement policy for banks under very high risk category.

To continuously support the shift from a compliance-based to a risk-based approach, the BSP has undertaken the following initiatives to enhance the conduct of bank examination:

- *Anti-Money Laundering Risk Rating System (ARRS).* The ARRS is an internal rating system used by BSP to assess whether the risk management policies and practices as well as internal controls of banks and non-bank financial institutions (NBFIs) to prevent money laundering and terrorist financing are in place, well disseminated and effectively implemented.

- *Capital Markets Examination Manual.* The Manual seeks to provide BSP examiners guidance for the holistic review of capital markets activities of financial institutions (FIs) under the jurisdiction of the BSP. It aims to supplement existing BSP manuals of examination procedures by providing a framework for the examination of securities underwriting, trading, marketing, sales and brokerage, asset management, and investment advisory activities of these FIs.

- *Rating Standards for Microfinance Operations of Banks.* A rating system for microfinance operations of banks has been proposed to have an objective rating after each examination, as well as to facilitate comparison of overall condition of microfinance operations among banks. The proposal is currently being revised to reflect a "principle-based" rating system.

- *Amendments to Trust Rating System (TRS).* Proposed draft guidelines on the amendments to TRS, which was originally issued under SG No. 2008-09, has been exposed to SES units and industry practitioners last 28 November 2012, for comments.

Other refinements in the examination procedure introduced include: enhanced coordination of the supervision of financial conglomerates; improved standards to ensure quality and timely supervisory actions and reports; and holistic approach in the management of the examination process (from scoping, conduct, report of findings, review and approval of examination reports).

The BSP has likewise conducted periodic surveillance of NBFIs such as pawnshops, foreign exchange dealers (FXDs), money changers (MCs), Remittance Agents (RAs), particularly those engaged in multiple corollary businesses. These are principally focused on consumer protection issues (transparency, complaints resolution and security concerns).

Box Article 1:

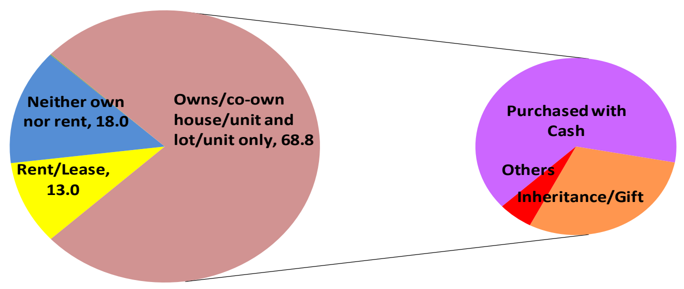
Inaugural Philippine Consumer Finance Survey Results

In the second quarter of 2012, the Bangko Sentral ng Pilipinas released the results of the inaugural Consumer Finance Survey (CFS) in the Philippines through a press conference in the National Capital Region (NCR) and various regional fora. The CFS is the only household-based survey in the Philippines that collects data on wealth, debt, savings and investments of Filipino families, including their income, spending, and insurance coverage. The survey, which was conducted during the period November 2009-January 2010, had a sample size of 10,520 households consisting of 3,872 households (36.8 percent) from the NCR and 6,648 households (63.2 percent) from Areas Outside NCR (AONCR), specifically Regions 1, 7, and 11.

Seven in ten households own their homes

Highlights of the CFS results revealed that for many households, the main asset that they hold is their home. About 68.8 percent of Filipino households own their homes and roughly nine in ten homeowners fully own their house/house and lot. Most households that owned their house/house and lot acquired the property through cash payment and inheritance/gift and only 6.7 percent borrowed money for their housing. Government institutions were the most popular providers of housing loans, followed by cooperatives and money lenders.

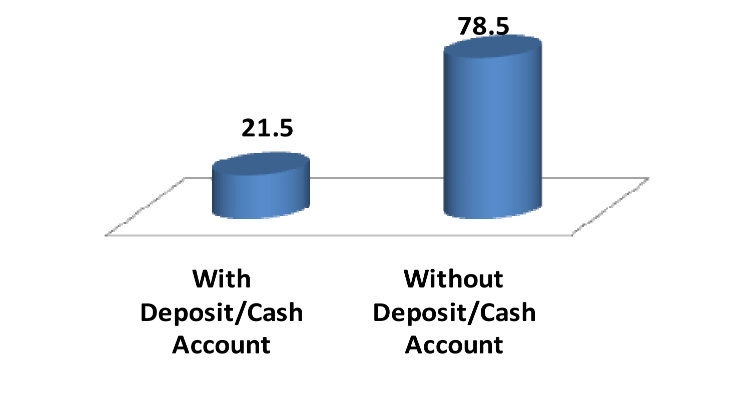
Figure 1. Residence Ownership
(in percent)



Eight in ten households are unbanked

In terms of financial assets, survey results showed that only 21.5 percent of households have deposit accounts and these deposit accounts are placed mostly in commercial banks. The top reason in choosing a depository bank/institution is proximity to the place of residence.

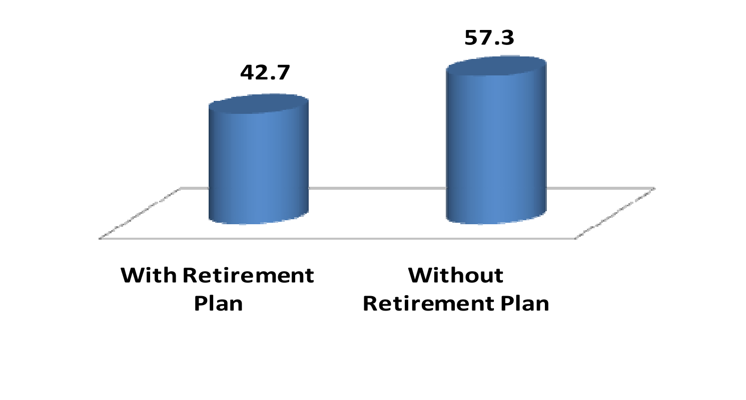
Figure 2. Households with Deposit/Cash Account
(in percent)



Forty-three percent of respondents have one or more retirement plans

Compared to deposit accounts, a bigger percentage of households had a retirement/insurance plan. The survey showed that 42.7 percent of the total respondents had at least one retirement/insurance from both/either the government and/or private companies. Of the total insured not currently receiving pension benefits, 36.4 percent were paying their premiums at the time of the survey while the remaining 63.6 percent were not at the time of the survey. The Social Security System (SSS) covered the highest percentage of retirement insurance among the respondents, followed by the Government Service Insurance System (GSIS).

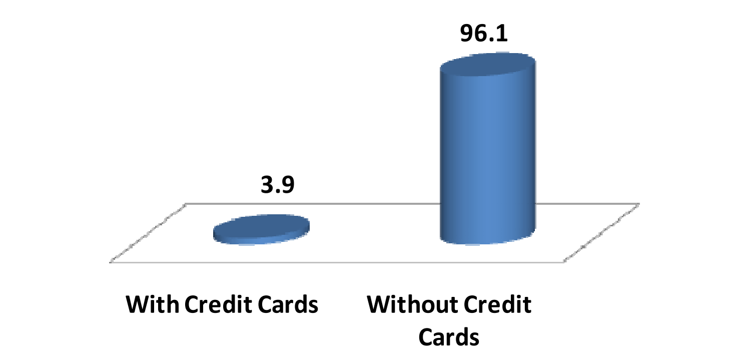
Figure 4. Households with Retirement Plan
(in percent)



Four percent of households have credit cards

Meanwhile, a small percentage (around four percent) have credit cards. Among those with credit cards, about four in ten respondents paid their monthly bills in full while the other four paid only the minimum amount.

Figure 3. Households with Credit Cards
(in percent)



One in four households own at least one motor vehicle

About a quarter of households owned at least one vehicle while majority of households owned various types of household appliances. The motorcycle is the most popular type of motor vehicle owned by households. In-house financing was the top source of motor vehicle loans and home appliances. About 13.5 percent of households that owned motor vehicles had outstanding loans on their vehicles and most were paid ahead of or on schedule. About one-fifth of the households availed themselves of other types of loans such as personal, salary, multipurpose, and business loans. These types of loans were sourced mostly from money lenders, cooperatives, financing institutions, SSS, and Pag-IBIG Fund.

CFS findings highlight the need for a more inclusive financial system in the Philippines

The CFS data provided insights on financial inclusion in the Philippines, particularly the limited availment and access to financial services such as credit, savings and insurance of the majority of Filipino households. Some policy implications could be drawn from the survey results such as to continue BSP's advocacy toward a more inclusive financial system and educate households on the importance of saving and investment; to look into "shadow banking" transactions and monitor system-wide risk exposure; and to liaise with government pension systems to broaden membership as well as timely payment of premiums.

Payments and Settlements System

BSP continues to provide intermediary services through PhilPaSS

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

Volume and Value of *PhilPaSS* Transactions
2012 vs 2011

	2012	2011	Growth Rate (%)
Volume	1,332,058	1,214,995	9.6
Value (In trillion pesos)	349.6	312.6	11.9
Transaction Fees (In million pesos)	164.2	153.4	7.1

Source: Payments and Settlements Office

Volume of PhilPaSS transactions rises

In 2012, the number of transactions processed and settled in *PhilPaSS* rose by 9.6 percent to 1.3 million. Similarly, the value of transactions reached ₱349.6 trillion, 11.9 percent higher than the year-ago level. The increase in the number and value of transactions could be traced largely to higher OF remittance transactions processed and settled through the *PhilPaSS* Remit system, inclusion of full year settlement of Bancnet transactions in the *PhilPaSS*, and implementation of *PhilPaSS* settlement of BSP Financial Accounting Department (FAD) and Security Plant Complex (SPC) disbursement and payment of claims.

The higher volume of transactions could also be attributed to the y-o-y increase in the following: interbank call loans transactions (18.7 percent); bank cash deposits with BSP Cash Department (17.1 percent); sales and purchases of government securities via delivery-versus-payment (DvP) (15.9 percent); and sales and purchases of foreign currency (US$) via payment-versus-payment (PvP) (8.6 percent). Likewise, the value of transactions rose due to the increase in the following accounts: Megalink transactions (43.7 percent); tertiary transactions on government securities (GS) via expanded delivery-versus-payment (eDvP) (41.3 percent); sales and purchases of government securities via DvP (33.2 percent); and treasury investments (24.9 percent).

As a result of the higher volume of transactions that passed through the *PhilPaSS*, total revenues from transactions fees (system and software re-installation, Electronic Fund Transfer Instruction System or EFTIS user-registration, and other miscellaneous fees) reached ₱164.2 million, 7.1 percent or ₱10.8 million higher than the year-ago level.

In 2012, the BSP actively participated in various projects, activities, and initiatives to enhance the efficiency of the existing payment system, such as:

- Conducted the *PhilPaSS* Client Satisfaction Survey to determine the participant's level of satisfaction on the system's reliability and efficiency of operations;
- Coordinated with the Philippine Clearing House Corporation (PCHC) and other officers of the Bankers' Association of the Philippines (BAP), Chamber of Thrift Banks (CTB), and Rural Bankers' Association of the Philippines (RBAP) in establishing a proposed standard check design and security features that will be used upon implementation of the Check Truncation Technology in the Philippines;
- Deployed and implemented the Module 1 (Inquiry Module) of the *PhilPaSS* Participant Browser (PB) to address the concerns of banks that are experiencing difficulties in accessing *PhilPaSS* via dial-up mode;
- Coordinated with the BSP International Operations Department for the implementation of Foreign Loan Approval and Registration System (FLAReS); and
- Conducted the following information dissemination activities:
    - One-Stop-Shop forum in coordination with various federations of rural banks to facilitate their participation in *PhilPaSS*;
    - *PhilPaSS* Symposia for banks' branch personnel located in Metro Manila, La Union, Cebu and Davao; and
    - Annual *PhilPaSS* Forum for system users from participating banks.

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

- Continue in its campaign to encourage other banks engaged in remittance business or are recipients of OF remittances to participate in the *PhilPaSS* REMIT System;
- Implement and deploy the *PhilPaSS* Participant Browser Module 2 (Payment Module) to enable Society for Worldwide Interbank Financial Telecommunications (SWIFT) member banks to send payment instructions to *PhilPaSS* without using SWIFT;
- Continue its study to improve the efficiency of the existing check processing and clearing operations through the introduction of Check Truncation Technology;

- Coordinate with the PSE for the settlement of PSE trades in *PhilPaSS*; and
- Coordinate with other government agencies such as the BTr, the Department of Finance (DOF), the Department of Budget and Management (DBM), and the Commission on Audit (COA) for the settlement of government payments in *PhilPaSS* as part of the NG's Integrated Financial Management System Project.

Key Operations of the BSP

Loans and Credit

BSP refines and expands lending operations

Amid broadly stable financial market conditions, the BSP focused on refining and expanding its lending operations in 2012 while ensuring that the volume of credit in the financial system remained consistent with the BSP's price stability objective.

The peso rediscount rate fell following the cumulative 100-bp decline in the RRP rate in 2012. The RRP rate, to which the peso rediscount rate had been aligned since 1 February 2010, was reduced amid a generally benign inflation outlook.

The BSP also issued further guidelines on the eligibility of certain types of real estate collateral to mitigate the risk of losses arising from bad rediscounting loans. In particular, land titles with Presidential Decree No. 1271[32] annotation shall be accepted as underlying collateral for rediscounting loans with the BSP provided that their Original Registration Date was on or before 31 July 1973 and that the lands covered by the titles are not within any government, public or quasi-public reservation, forest, military or otherwise, as certified by government agencies.

Various issuances were also released to ensure maximum compliance by banks to BSP regulations. These guidelines covered the custodianship of credit instruments and underlying collaterals of banks authorized to hold-in-trust in favor of the BSP, the handling of rediscounted credit and collateral documents by banks under depository/custodianship arrangement, and the mechanics of preparing the appraisal report and other documentary requirements.

Furthermore, the BSP allowed newly merged or consolidated banks access to temporary rediscounting lines. The temporary

[32] An act nullifying decrees of registration and certificates of title covering lands within the Baguio Townsite Reservation issued in Civil Reservation Case No. 1, GLRO Record No. 211 pursuant to Republic Act No. 931, as amended, but considering as valid certain titles of such lands that are alienable and disposable under certain conditions and for other purposes.

rediscounting loan shall not exceed 50.0 percent of the adjusted networth and may be granted for a period of 180 days while awaiting required reports or data from the appropriate Supervision and Examination Sector Department.

Total loans granted by the BSP in 2012 amounted to ₱53.8 billion, higher by 17.2 percent compared to the ₱45.9 billion recorded in 2011, with nearly 80 percent granted to U/KBs. All of the loans were released through the rediscounting facility, except for about ₱0.1 billion representing loans and advances—notes receivables, and other loans and advances.

The peso equivalent of dollar loans availed by banks under the Exporters' Dollar and Yen Rediscount Facility (EDYRF) amounted to ₱7.3 billion, lower by 18.6 percent compared to the ₱8.9 level registered in 2011. Meanwhile, total loan collections for the year reached ₱50.6 billion, with ₱49.7 billion accounted for by payments under the rediscounting facility.

The total outstanding loan portfolio of the BSP as of 31 December 2012 grew by ₱3.2 billion or 3.1 percent to ₱106.1 billion from the previous year's ₱103.0 billion. With bigger loan drawdowns against repayments, the total loans outstanding under the peso rediscounting facility rose to ₱17.1 billion from ₱13.0 billion in 2011. Of the outstanding peso rediscounting loans, commercial banks, thrift banks, and rural banks accounted for ₱11.9 billion (69.6 percent), ₱4.2 billion (24.3 percent), and ₱1.0 billion (6.1 percent), respectively.

On the other hand, total outstanding loans under the EDYRF fell slightly to ₱1.3 billion from about ₱1.4 billion as loan repayments outpaced availments during the year.

Most targets related to the provision of loans and credit were met or exceeded in 2012. In particular, the outstanding loans under the peso rediscounting facility and the EDYRF remained well within their respective budgets of ₱20.0 billion and US$500.0 million, respectively.

Total gross income from lending operations of the BSP reached ₱3.4 billion in 2012, or about 10.0 percent lower than the 2011 income of ₱3.8 billion due to lower income from loans to the PDIC which offset the increases in income generated under the rediscounting facility and emergency/restructured/special programs. Nonetheless, gross income exceeded the projected income for the year of ₱3.2 billion on the back of higher-than-expected income from loans under the emergency and restructured program and rediscounting facility as well as higher collection of fees and commissions.

Loans granted by the BSP to commercial banks and thrift banks under the Electronic Rediscounting (eRediscounting) System were also fully collected at maturity through the automatic debit repayment system adopted by the BSP.

On the other hand, the BSP's past due ratio eased slightly to 9.2 percent in 2012 from 9.5 percent in 2011 even as the unpaid PDIC loans on the account of a universal bank, which matured in October 2011, remained uncollected. The past due PDIC loans brought the BSP's current loan ratio as of end-2012 to about 91.0 percent, two percentage points below the 93.0 percent target for the year. The BSP, however, continues to pursue all possible remedies to improve the collection of loans in arrears, including restructuring of loan accounts and the foreclosure of mortgages on the collaterals.[33]

BSP adopts measure to improve delivery of credit to productive sectors

The BSP also continued to implement its programs designed to enhance the delivery of credit to all productive sectors of the economy. Among its accomplishments were:

1) The launching of the Credit Surety Fund Program (CSFP) in four cities and three provinces in 2012, bringing the total number of credit surety funds established nationwide to 26.[34]

   The Credit Surety Fund (CSF) is a fund created by pooling the contributions of cooperatives/non-governmental organizations (NGOs), LGU, donor institutions such as the Development Bank of the Philippines, Land Bank of the Philippines, Industrial Guarantee and Loan Fund, and other interested parties. It is a credit enhancement scheme established at the provincial or city level that allows micro, small and medium enterprises (MSMEs) which are members of cooperatives to borrow from banks without collateral. The surety cover issued by the CSF will take the place of the collateral. Loans granted by banks under the Program can be rediscounted with the BSP through the Department of Loans and Credit (DLC).

   In addition, the BSP conducted 28 business fora and dialogues nationwide to promote the CSFP. The seminars attracted over a

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

[34] In 2012, the CSFP was launched in 4 cities (i.e., Puerto Princesa, General Santos, Davao, and Baguio) and 3 provinces (i.e., Capiz, Palawan, and Laguna), joining the 19 other CSFs throughout the country (i.e., in the cities of Dipolog, Iloilo, and Metro Cebu, and in the provinces of Albay, Aurora, Benguet, Bohol, Cavite, Compostela Valley, Davao del Norte, Davao Oriental, Negros Occidental, Negros Oriental, North Cotabato, Occidental Mindoro, Oriental Mindoro, Pangasinan, Saranggani, and South Cotabato).

hundred loan applications, of which an aggregate ₱27.5 million were approved.

2) The conduct of training courses on Appreciation of Financial Statements (AFS) and Credit Appraisal Monitoring (CAM), which are aimed at enhancing the capacity of members of cooperatives to assess loan applications of MSMEs under the CSFP. In 2012, the BSP conducted successfully eight runs of the AFS Seminar and six runs of the CAM courses all across the country.

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

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

Asset Management

BSP enhances system and procedures of administration, maintenance, and disposal of acquired assets

The BSP ensures that assets acquired through foreclosures and "*dacion en pago*" agreements[35] and real properties not used in operations are administered, maintained, and preserved to enhance their value prior to eventual disposal. Private banks that avail themselves of the BSP's loan facilities mortgage their real properties or assign to the BSP their receivables, including collaterals in the form of real properties. In case the borrower banks fail to pay their loans, they may opt to execute the "*dacion en pago*" agreement with the BSP. Without such arrangement, the real properties of said banks are foreclosed with its ownership transferred to the BSP for proper management and disposal.

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

The implementation of the Acquired and Other Assets Management System (AOAMS),[36] which is linked with the Accounting

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

[36] Fully implemented on 16 November 2011.

Department's Core Financial Accounting System, facilitated the management of acquired assets as well as the monitoring of income, expenses and receivables. Computer systems are being developed for operational efficiency, particularly on client payment through accredited banks, management and monitoring of titles and checks received from clients. Test runs on the system will be done by June 2013.

Buyers' debt burden eases following restructuring of delinquent accounts

In 2012, the BSP has restructured 10 delinquent accounts of buyers affected by financial difficulties (including the waiver of additional interest and penalties on unpaid amortization) and extended the remaining term of payment to a maximum of five years. Total restructured obligations, with restructured terms ranging from four to 18 years, amounted to ₱5.8 million. The penalty and additional interests waived in favor of the buyers reached ₱623.0 thousand and was offset by the total estimated interest income from said restructuring amounting to ₱577.0 thousand.

The valuation reserves fund,[37] set up to minimize the impact of a change in the value of acquired assets, brought the BSP's accumulated allowance for market decline to ₱1.5 billion, which is 0.9 percent lower than the previous year's level.

As of end-December 2012, the book value of acquired assets amounted to ₱12.1 billion, lower by 3.5 percent than the year ago level. During the year, a total of 30,248 real property titles (net of properties received and sold) were acquired by the BSP.

Disposal of acquired properties and collections of receivables intensify

To accelerate the liquefication of acquired assets, the BSP Committee on Disposal of Real Properties disposed 2,498 acquired properties, 46.0 percent higher than those disposed in 2011. The total selling/redeemed price of ₱1.0 billion exceeded the ₱673.0 million target for 2012. The said disposal of acquired properties will generate for the BSP an estimated income of ₱508.7 million (inclusive of interest and net expenses), which was 28 percent higher than the preveious year's income.

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

Asset Disposal Schemes in 2012				
		In Million Pesos		
Disposal Scheme	Properties Sold	Net Book Value	Selling/ Redeemed Price	Estimated Income
1. Public Auction	38	25.1	51.2	40.4
2. Negotiated Sales	2,392	330.8	509.1	312.0
3. AMD-PFO Housing Program III	49	8.3	13.2	4.8
4. Redemption	6	0.6	5.3	5.6
5. Conveyance[38]	13	276.5	422.4	145.9
Total	2,498	641.3	1,001.2	508.7

The BSP intensified its efforts to collect receivables by sending timely notification to delinquent buyers and lessees. The buyer's failure to settle his delinquent installment after receipt of two notices would mean cancellation of contract to sell. For 2012, contracts arising from the sale of 55 titles were cancelled. However, the BSP has collected ₱408.9 million on sales contract receivables (91 percent of total amortizations due), which exceeded the 88.0 percent target for the year.

In the consolidation, maintenance, and sale of properties, the BSP incurred total expenses amounting to ₱111.4 million.

International Reserves Management

BSP pursues initiatives to further improve management of international reserve portfolio

The BSP continued to manage the growing level of its international reserves at an investment mix that is consistent with reserves management objectives. The sustained overseas Filipino remittances coursed through banks, robust receipts from the business process outsourcing (BPO) and tourism industries, and foreign investment inflows supported the growth of the GIR.

In line with existing guidelines and as approved by the Investment Management Committee (IMC), the BSP executed key investment portfolio strategies that resulted in the outperformance of the internally-managed portfolio (IMP) against the benchmark set by the IMC. The externally-managed portfolio (EMP) also outperformed the set benchmark owing to the following factors: strong rally of global bond markets in 2012 due to investor confidence on the policy commitments of key central banks; and increased participation in Asian government bonds through the

[38] The BSP also disposed acquired assets by conveyance to the National Government (NG) through the Department of Finance as part of the total BSP dividend due to the NG for the CY 2009.

Asian Bond Fund. Meanwhile, gold reserves increased due mainly to the implementation of the BSP's gold accumulation strategy.

The BSP continued to administer and monitor its liabilities. In addition, the BSP administered the existing Memorandum of Understanding (MOU) on Bilateral Repurchase Agreements with Asian central banks. These agreements cover standby US dollar-denominated repurchase facilities, the swap arrangements with the Association of South East Asian Nation (ASEAN) countries, the Bilateral Swap Arrangement (BSA) with the BOJ, and the Chiang Mai Initiative Multilateralization (CMIM). These facilities remained untapped as of end-2012. Meanwhile, the US Dollar and Euro Facility between the BSP and the BIS was renewed.

The BSP has continuously kept with the developments and challenges in the global environment by implementing measures aimed at ensuring the safety and diversification of the international reserves. In an effort to address the cost of reserves accumulation and to enhance the return on its portfolio, the BSP has embarked on a major undertaking that entails a review of the strategic asset allocation framework. The results of the study recommended policy measures aimed at further diversifying the reserves and improving the return on its portfolio. These measures included additional strategic allocation to US inflation-linked securities, and the Asian dollar- and local-currency denominated bonds.

International Operations

FX regime and debt monitoring system remain responsive to local and global developments

The BSP kept it's the FX regulatory framework responsive to current economic conditions and aligned it with policies of neighboring countries in the region to maintain the competitiveness of the Philippines FX regime. It also placed the country's debt monitoring system at par with international standards. Meanwhile, the online submission of applications for the approval/registration of foreign loans with the BSP was introduced to facilitate said process.

In 2012, the BSP continued its efforts to keep FX regulations attuned to local and global developments by initiating further amendments to the Manual of Regulations on FX Transactions. The amendments were aimed at the following: (1) to further simplify the reporting requirements on banks and facilitate compliance therewith; and (2) to update the list of regulated and prohibited products for export.

The BSP formally introduced the Debt Management and Financial Analysis System (DMFAS) project in April 2012 to keep its debt monitoring system at par with international standards. The DMFAS is a debt monitoring and analysis software developed and maintained by the United Nations Conference on Trade and Development (UNCTAD). It is currently used by 106 central banks and finance ministries worldwide.

BSP introduces foreign loan approval and registration system (FLAReS)

As part of the its effort to harness the latest available technology, the BSP launched the Foreign Loan Approval and Registration System (FLAReS) in March 2012 to provide client stakeholders greater convenience, enhance delivery of services, and promote greater transparency. The FLAReS is an in-house developed web-based system that allows online submission of applications for BSP approval/registration of foreign loans, electronic tracking of the status of applications as well as exchange of correspondence. The system also automatically generates an order of payment for processing fees due to BSP which clients can pay through participating banks, which will in turn use the *PhilPASS* to remit the funds to BSP. As of end-2012, 35 institutions from both public and private sectors have registered in FLAReS, while four commercial banks have signed on as payment/collection channels for the system.

Notes and Securities Printing

The BSP produced 1,167.4 million pieces of banknotes during the review period. Delays in the arrival of materials and stopped-production due to a shortage of ink prevented the achievement of the targeted production of 1,809.3 million pieces of banknotes. The delivery of in-house produced banknotes met 64.0 percent of its target, while the delivery of banknotes based on outsourced production accomplished 55.0 percent of its target.

Meanwhile, a total of 2.7 million electronic Passport (ePassport) booklets were delivered to the Department of Foreign Affairs (DFA) in 2012.

The BSP observed strict conformance by suppliers on approved standard specifications on raw materials for banknotes and security documents. Thus, the BSP fell slightly below its targeted acquisition of new materials for bank notes and security documents. The BSP nearly equaled its target for 2012 in terms of finished goods for banknotes and security documents. Meanwhile, timelines for the completion of some projects were extended, as follows: (1) automatic single note inspection system (ASNIS); (2) passport assembly and finishing system; (3) installation of Banknote Production Group (BPG) work-in-process automated storage and retrieval system at Banknote Inspection Division (BID) area; and (4) Plate Making Division (PD) depth measurement. This is in consideration of bidding technical concerns, negotiations on the possible transfer of the ePassport production to another government agency for the machine readable ePassport and storage requirement concerns.

Mint and Refinery

The BSP's mint and refinery operations delivered a total of 1,322.4 million pieces of circulation coins to the Currency Issue and Retirement Office (CIRO), completing its balance in coin orders in 2011. In 2012, the mint delivered 88.0 percent of the 1,420.5 million pieces of circulation coins ordered for the year. The mint fell short in the delivery of 5-Piso and 25-Sentimo coins ordered by CIRO due to the late deliveries of the metal blanks and procurement concerns. Meanwhile, the mint produced a total of 1,400.5 million pieces of coins in 2012, completing its balance of production of circulation coins in 2011.

The mint also produced and delivered 109 sets of presidential medals and state decorations for 2012, below its target of 299 sets due to low quantity orders. Of its target of 15,000 sets, the mint produced and delivered 1,100 sets of commemorative coins and medallions.

The refinery produced 94 pieces of good delivery bars (GDBs) out of the target of 2,320 pieces of GDBs. The production was not met due to the decline in gold purchases by BSP. Likewise, the mint produced less than the target of dies and collars needed for presidential medals and state decorations/commemorative coins and medallions due to improvements in the "life span" of the previously produced die and collar lives.

On conformity with approved standard specifications, the mint met and exceeded its target in raw materials, finished coin and evaluation of gold. It also exceeded its target in the implementation of continuous improvement projects and client perception of the mint.

Currency Issuance and Retirement

Currency notes and coins issued increases

Total currency notes and coins issued by the BSP as of 31 December 2012 amounted to ₱764.1 billion (22,292.0 million pieces), 97.4 percent of which are currency notes while the rest are coins. Total currency notes issued by the BSP amounted to ₱741.4 billion (2,864.4 million pieces), 3.6 percent lower than the year-ago level of ₱769.1 billion (3,016.4 million pieces). Meanwhile, total coins issued stood at ₱22.6 billion (19,427.6 million pieces) reflecting an increase of 11.5 percent from the year-ago level of ₱20.3 billion (17,994.8 million pieces).

Volume of unfit notes retired declines

The volume of unfit notes retired either manually using the Security Engineered Machine (SEM) disintegrator or on-line through the Automated Banknote Processing Machines (ABPMs) reached 1,194.3 million pieces in 2012, lower by 88.9 million pieces or 6.9 percent than the previous year's level. Out of the total volume retired, 724.1 million pieces or 60.6 percent were retired manually through the SEM disintegrator, while the rest were retired on-line through the ABPMs.

On currency management, to provide timely, good-quality and adequate currency to meet the requirements of the economy, the BSP strengthened its currency forecasting model and data sources, facilitated faster verification of banknote and coin deposits, served the withdrawals of banks, expedited the retirement of unfit notes, and maintained closer coordination with the banks on currency management.

The BSP was able to exceed the targets for the following metrics for 2012: (1) ratio of verified fit notes to total fit notes subject for verification; (2) ratio of fit/new note deposits to total deposit; (3) ratio of verified unfit notes to total unfit notes for verification; (4) ratio of verified coin deposits to total coin deposits; (5) percentage of total volume of currency (both notes and coins) served to total volume of currency requested per Cash Order Slip. During the year, the BSP was likewise able to retire all manually-counted unfit notes, allowing the replacement of unfit notes with fit or new notes.

Meanwhile, to preserve and maintain currency integrity, the BSP undertook public information campaigns which have helped promote BSP's advocacies relating to currency integrity. This included: (1) lectures and seminars on counterfeit detection; (2) briefings on the features of genuine Philippine peso, clean note policy, coin recirculation program, and other BSP advocacies; (3) television appearances or radio interviews; and (4) distribution of information materials on currency matters. The BSP also strengthened its anti-counterfeiting drive through enhanced information gathering on counterfeiting activities, coordination with other police enforcement agencies, and on-time grant of reward to informers.

Economic Research, Statistical, and Information Dissemination Activities

Research activities provide support to monetary policymaking

The BSP continued to raise its efforts toward generating high-quality economic research; developing new quantitative methods for forecasting and policy analysis; reporting relevant, timely, and high-quality statistics; and disseminating information to a wider audience. These activities, through the various initiatives of the Department of Economic Research (DER), the Department of Economic Statistics (DES), and the Center for Monetary and Financial Policy (CMFP), helped the monetary authorities decide on policy issues; provided the information needs of economists, investors, statisticians, analysts, and students in their research; and promoted knowledge and better awareness to the public on the role of the BSP in the domestic and international financial community.

The Advisory Committee (AC), tasked to advise the MB on issues relating to the formulation and implementation of monetary policy, held eight monetary policy meetings in 2012. The AC and MB meetings benefited from monetary policy papers, which contain the latest analyses of domestic and global economic and financial developments, assessments of the outlook for prices in line with the inflation targeting framework, and discussions on selected topical issues that were relevant to the conduct of monetary policy.

The BSP published its regular and special reports on Philippine economic and financial developments. This is in line with the BSP's mandate of fostering greater transparency in its operations and enhancing public awareness to support price stability. These included yearly reports such as the BSP Annual Report; Philippine Flow of Funds (FOF); Coordinated Portfolio Investment Survey (CPIS); Financial Stability Report (FSR); Year-End Report to the President; Regional Economic Developments in the Philippines; Survey of IT-BPO Services; biannual report on the Status of the Philippine Financial System; quarterly reports on the Balance of Payments; Business Expectations Survey (BES); Consumer Expectations Survey (CES); Inflation Report; Report on Economic and Financial Development; Report to Asian Bond Market Initiative (ABMI) on the Movement and Progress of the Bond Market for the Philippines; monthly reports on Selected Philippine Economic Indicators (SPEI); monthly press releases on inflation, domestic liquidity, and bank lending; Highlights of the MB Meetings on Monetary Policy; and International Investment Position (IIP).

The BSP Economic Newsletter provided the BSP community and the public a readily accessible, concise, and reader-friendly compendium of studies on current economic and financial issues. In particular, the topics featured in the 2012 BSP Economic Newsletter were: (1) "The BSP's Shift to BPM6: What's in Store for Data Users?"; (2) "Inflation Dynamics and Unemployment Rate in the Philippines"; (3) "A Note on the Use of the BSP Overnight Policy Rate as the Major Instrument of Monetary Policy"; (4) "The European Turmoil and Its Impact on the Philippine Economy"; (5) "Central Bank Communication and the BSP's Monetary Policy Statements" ; and (6) "Predicting the RP Sovereign Credit Rating: Has the Philippines Been Underrated?". Meanwhile, the BSP also completed and published the following BSP Working Papers: (1) "Going with Remittances: the Case of the Philippines"; and (2) "The Macroeconomic Effects of Basel III Implementation in the Philippines: A Preliminary Assessment".

The BSP also conducted special studies on China's economy and its possible implications on the Philippine economy, construction of the financial social accounting matrix (FSAM) for the Philippine economy, bank lending, alternative methodology for the computation of real effective exchange rate, construction of residential real estate price index, seigniorage, and effective management of capital flows.

The technical notes, position papers, policy briefs and policy papers produced during the year encompass a range of important issues. These included: international financial contagion and volatile capital flows, policy responses in managing capital flows, second wave of the second great contraction, making a case for an investment upgrade, lessons from the current crisis for the Executives' Meeting of East Asia and Pacific (EMEAP) central banks, lessons on sovereign debt defaults, global, regional and domestic risks and outlook, macroeconomic impact of remittances, ROP Global Bond, establishment of reserve buffers, review of facilities for low-income countries, and revised BSP guidelines for processing requests for MB opinions.

Quantitative tools for forecasting and policy analysis undergo sharpening

Existing economic models used for forecasting and policy simulations were reviewed while new ones were developed. The BSP Single Equation Model (SEM), Multi-Equation Model (MEM), and Long Term Macroeconometric Model (LTMM) were re-estimated and re-specified using the error correction methodology to account for the short and long-run properties of inflation and other macroeconomic variables. The LTMM, which used to be an annual model, was transformed into a quarterly multi-sectoral model and is now called the Medium-Term Macroeconometric Model (MTMM). The reviews of economic models aim to capture the fundamental inter-linkages of the various sectors of the economy and to improve the models' performance for forecasting and policy simulations.

New statistical methods and economic models for policy analysis are developed

In line with the continuing efforts to make more rigorous both forecasting and policy analysis, a new economic model called the Macroeconomic Model for the Philippines (MMPH) was completed in December 2012 with assistance from the IMF. The MMPH is a quarterly macroeconomic policy analysis model that also generates near-term to medium-term forecasts. The model is a simple semi-structural gap model that embodies the key macroeconomic relationships that are relevant in monetary policy. Prior to its adoption in the second semester of 2013, the MMPH will undergo a few rounds of pre-testing.

The construction of the 2009 Philippine FSAM, which is a consolidation of 2009 data from the National Income Accounts, the BOP and the FOF, was completed in May 2012. The Philippine FSAM is intended to be used primarily for building a Financial Computable General Equilibrium (FCGE) model for policy simulations and analysis. An FCGE model could be utilized to better analyze the financial leverage of financial institutions and detect credit build-up.

Meanwhile, the forecasting of external sector accounts involved the generation of BOP projections with underlying forecasts on exports and imports, remittances, and GIR. This was done partly in consultation with exporters and relevant government agencies during the 2012 Exporters' Forum. The theme of the 2012 Exporters' Forum was *"Stronger Government-Industry Partnership = More Competitive Export Sector."*

Risk assessments continue to fill information needs for policy making

The results of the Early Warning System (EWS) on currency crisis and the EWS on Debt Sustainability were reported regularly to the AC and MB during their meetings on the monetary policy stance and monthly to the Governor. The EWS models are part of the BSP's strategy to fully institutionalize the process of managing the risks involved in policy formulation. Meanwhile, the Bank Distress Index (BDI) was used to identify potential banking crisis episodes in the country and to anticipate possible systemic risks that could arise from liquidity constraints faced by certain banks.

In addition, the Philippine Financial Stress Index (PFSI), which is a measure of the degree of stress in the financial system as they occur in the economy, was likewise reported during the AC and MB meetings to help identify episodes of financial stress. The PFSI is constructed using the principal components analysis (PCA), which extracts the factors responsible for the co-movement of a group of variables.[39] Moreover, the BSP continued to monitor and use various leading indicators of income, spending, services and

[39] The PFSI followed the St. Louis Financial Stress Index (STLFSI) methodology.

production to help track, on a quarterly basis, the country's business cycle.

Development of chain-type indicators takes form

A collaborative project on the development of chain-type measures of GDP and price indices is being undertaken by the BSP together with other major statistical agencies of the Philippines, namely, the National Statistical Coordination Board (NSCB), NSO, Bureau of Agricultural Statistics (BAS), and the Statistical Research and Training Center (SRTC). The project aims to measure changes in the real national output and inflation by chaining together year-on-year changes using data in adjacent years. This method will provide more accurate estimates of GDP growth and inflation which are important indicators for inflation targeting and monetary policy formulation. The BSP has conducted several trainings on chain-type concepts and methodologies handled by local and foreign experts. Preliminary chained indices have been estimated for GDP, Consumer Price Index (CPI), and Producers Price Index (PPI). The project is expected to be completed by June 2013.

The BSP continues to strengthen the compilation of the BOP statistics through implementing international best practices. In particular, the BSP enhanced its compilation methodologies in line with the programmed shift to the Balance of Payments and International Investment Position Manual, 6th edition (BPM6) in 2013. The shift to BPM6 would entail a broad range of changes, including the reclassification of certain accounts as well as the revision of the statistical treatment and presentation of some accounts. Technical assistance from the IMF and participation in EU-ASEAN capacity-building programs were undertaken in 2012.

BSP submits monetary statistics via IMF's Integrated Correspondence System

The BSP generated monetary statistics in accordance with the IMF's Standardized Reporting Format (SRF) and started submission through the Integrated Correspondence System (ICS) of the IMF. The IMF-prescribed reporting form 1SR for the Central Bank Balance Sheet for the period 2001–October 2012 was uploaded in the ICS in December 2012.

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

BSP releases first Consumer Finance Survey

The results of the Philippine Consumer Finance Survey (PCFS), which covered the National Capital Region (NCR) and Regions I, VII, and XI were released in April 2012. The PCFS is the first household-based survey on consumer finances in the Philippines. Roll-out of the results of the CFS through multi-sectoral fora and press conferences were held in these four regions.

The regular surveys conducted by the BSP provided valuable information to policymakers and researchers. On a monthly basis, the BSP conducts surveys among private sector economists on their forecasts for the quarter and full-year inflation. Meanwhile, surveys conducted through the monthly Cross-Border Transactions Survey (CBTS), helped improve the coverage and quality of the BOP estimates related to intercompany accounts, bank accounts abroad and other transactions that are not captured in the bank reports.

Coverage and quality of surveys improve

The Senior Bank Loan Officers' Survey was conducted to track trends in the supply of, and demand for bank loans to enterprises and households on a quarterly basis. The information helps the Bangko Sentral ng Pilipinas (BSP) in its assessment of financial market conditions during the review of its monetary policy stance. In line with the continuing efforts to improve the survey, the questionnaire was revised to ensure consistency of bank responses. Meanwhile, to improve the survey response rate and to better capture the overall lending behavior of banks in the country, the expansion of the sample coverage of the survey to include thrift banks is currently being explored. At present, the survey covers only universal and commercial banks in the country.

In addition, the BSP continued to conduct its quarterly BES and CES. The BES provides monetary authorities with advance information on the current and near-term economic and business conditions of the country while the CES provides quick and regular assessment of the financial condition of consumers and economic condition of the country from the consumers' point of view. For the BES, the sampling frame was updated based on the latest edition of the SEC's Top 7000 Corporations and the regional coverage was expanded to include all regions in the Philippines. In addition to the BES national report, regional reports for Regions I, III, IV, V, VI, VII, IX, XI, and XII are now being generated every quarter.

The annual Coordinated Portfolio Investment Survey (CPIS), Survey of IT-BPO Services, and Coordinated Direct Investment Survey (CDIS) also continued to be carried out. CDIS collects inward and outward direct investment positions and transactions by country of source/destination of investment. Meanwhile, the CPIS collects information on residents' portfolio investments, by type, by currency, by sector, and by country of issuer. On the other hand, the Survey of IT-BPO Services, formerly known as the Survey of IT and IT-Enabled Services, provides information on the economic contribution of the IT-BPO industry in the country.

BSP releases 2011 Flow of Funds report

In compliance with the timely publication of the FOF report based on international recommendation of data release, the 2011 FOF was released in December 2012. The FOF Report is a source of information on various financial transactions of resident units in the economy and their link to the global financial market. Beginning with the 2011 FOF compilation of the financial and government sectors and public non-financial sub-sector, estimation methodologies were improved with the adoption of the sequence of accounts approach that help better identify the source of savings for these institutions. The report was enhanced through the inclusion of the following institutions: (1) public and private non-financial corporations for the non-financial corporations sector; (2) the depository corporations, insurance and pension funds and other financial corporations for the financial sector; and (3) the NG, LGUs, and social security agencies for the general government sector.

Data warehousing project proceeds to its second phase

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

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

Dissemination of research information remains a priority

Nine "brown bag" sessions for the BSP community were conducted during the year. Issues discussed included: (1) "Statistical Tests for Comparing Forecast Accuracy"; (2) "The Current Crisis in the Euro Area"; (3) "Commodity Price Swings and Commodity Exporters"; (4) "Consumer Finance Survey Results"; (5) "High-Mixed Frequency Forecasting: Issues and Applications to the Philippines"; (6) "The US$1 billion IMF commitment: What's the Deal?"; (7) "Moving Toward a More Competitive Market for Electricity"; (8) "Taking the Right Road to Inclusive Growth"; and (9) "Southeast Asian Economic Outlook 2013".

"Brown bag" sessions for the staff members of the MPSS were also conducted during the year on selected financial issues including the US Fed's unconventional quantitative easing measures, Barclay's LIBOR, JP Morgan's US$2 billion loss, and proposed banking and financial union for Europe.

Moreover, the BSP conducted a course on Macroeconomic Policy Analysis and Assessment under Inflation Targeting (MPAA-IT) on 3-14 September 2012, primarily intended for BSP staff members who are involved in providing advice on macroeconomic and financial policies. The course aimed to provide the participants with a comprehensive understanding of the interlinkages of the key economic sectors and the monetary transmission mechanism.

Environmental scanning exercises tackle emerging issues

Environmental Scanning Exercises (ESEs) were conducted in 2012 with resource persons from the banking community, government, private sector, the academe and international organizations participating actively in the exchange of knowledge and position on issues relevant to monetary policy formulation. The three ESE topics for 2012 were: (1) "The Eurozone crisis: Lingering, deepening, spreading—Is an endgame in sight in 2012?", which aimed to identify the emerging outlook for the Eurozone (EZ) and prospects for restoring stability and growth in the EZ as well as the crisis' implications and challenges ahead; 2) "China Slowdown: Will the Philippines Catch a China Chill?", which discussed the challenges and policy implications of a Chinese economic slowdown; and 3) "Retail Competition and Open Access (RCOA) in the Power Sector: Are We Ready to Switch?", which identified the issues in the power sector that need to be addressed to ensure an orderly and efficient transition to RCOA in the power sector and the policy implications of such a transition.

BSP recognizes partners in statistical activities and advocacies

The BSP held the 2012 Awards Ceremony and Appreciation Lunch for BSP Stakeholders in recognition of its partners from the business and government sectors, who continued to support the BSP's statistical undertakings, information needs, and advocacies. The Stakeholders awards were held in the NCR and in various regions in the country. Other endeavors to promote greater statistical awareness among the public were the 14th BSP-Department of Education (DepEd) NCR Oratorical Contest, the grant of monetary support for the conduct of the Philippine Statistics Quiz, and the National Statistics Month.

To enhance further its working relationship with various organizations, the BSP participated actively in inter-agency committees which involved presentations and discussions of economic programs/policies and macroeconomic assumptions at the DBCC and the National Price Coordinating Council (NPCC). At the DBCC and in all its sub-committees, the BSP has contributed to the formulation of the NG's macroeconomic targets, including the inflation target for 2015-2016. Moreover, the BSP participated in the preparation of the 2013 Fiscal Risks Statement (FRS) by contributing its analysis of the risks in the macroeconomic assumptions, the financial system and the borrowings of the local government units. Meanwhile, the BSP also reinforced its working relationships with the academe and other organizations by organizing the BSP-UP Professorial Chair Lecture Series, as well as participating in the 50th hosting of the Philippine Economic Society (PES) annual meeting and the 37th Federation of ASEAN Economic Association (FAEA) annual conference.

Active participation in inter-government agency committees and international conferences on important economic issues continues

The BSP also participated actively in the activities of various committees on statistics such as: the Technical Committee on Price Statistics (TCPS); the Inter-Agency Committee on Trade Statistics (IACTS); the Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS); the Technical Working Group (TWG) on overseas Filipino statistics, realized investments, trade in goods and in services, CPI and related indices; Inter-Agency Committee (IAC) and TWG on tourism statistics; BSP-Department of Trade and Industry (DTI) working group on data exchange; and various committees of the Philippine Statistical Association (PSA). The BSP was also actively involved in the drafting of the Chapters on Macroeconomic Accounts and Statistics, including the special sections on: a) Price Statistics; b) Monetary and Financial Statistics; and c) Trade and Investment Statistics, for the Philippine Statistical Development Program (PSDP) 2011-2017; and the Cabinet Committee on Tariff and Related Matters (CTRM) and in the Technical Committee on Tariff and Related Matters (TCTRM). The BSP also took part in the activities of the Irving Fisher Committee on Central Bank Statistics of the BIS as member of the Committee.

On 24 August 2012, the BSP provided support to the Asian Development Bank (ADB) in the conduct of the Philippines Services Sector Conference: Emerging Engine of Growth held at the Sofitel Philippine Plaza Manila. The conference examined the recent performance of the Philippines' services sector and its prospects for lifting economic growth, generating employment and reducing poverty in the country. Participants included officials/officers from national government agencies and private sector organizations (i.e., chambers of commerce, business organizations, think-tanks and the academe).

The BSP participated in the Philippine Institute for Development Studies (PIDS) three-day Research Fair on 24-26 September 2012 at the Salas Hall of the NEDA sa Makati in celebration of the 10th Development Policy Research Month. The Research Fair 2012 showcased research works and studies conducted by major research institutions in the country. The BSP was awarded a certificate of recognition for having the Best Booth during the PIDS Research Fair 2012.

The BSP in collaboration with the SEACEN-CeMCoA and the BOJ conducted the "*6th SEACEN-CeMCoA/BOJ Intermediate Course on Macroeconomic and Monetary Policy Management*" in Manila for the period 30 July to 10 August 2012. Participants included middle-level officers and technical staff from member central banks/monetary authorities working on macroeconomic surveillance and analyses of monetary and financial policies. The course helped participants in forming policy recommendations to achieve monetary policy objectives, given an economic scenario. For its part, the BSP provided the resource persons on financial and external sector imbalances and macroeconomic implications, inflation issues for emerging market economies, and building a baseline scenario.

Moreover, the BSP organized an International Research Conference on "*Contemporary Challenges to Monetary Policy*" on 28-29 February 2012, at Makati City, to bring together central bank researchers and the academic community to discuss issues pertinent to monetary policymaking. The conference topics included the following: (1) examining sectoral impacts of monetary policy; (2) monetary and fiscal policy interactions in financial crisis; (3) risk management and early warning in central banking; and (4) monetary policy and macroprudential policy linkages.

Box Article 2:

Economic and Financial Learning Activities and Why They Matter for Economic Inclusion

Background

The Bangko Sentral ng Pilipinas (BSP) continuously endeavors to create a policy and regulatory environment conducive to financial inclusion as it believes that financial inclusion is a key component of inclusive growth. The BSP is actively implementing policy and program initiatives to help realize the Philippine government's vision for the financial sector: "an inclusive financial system which provides for the evolving needs of a diverse public" (Philippine Development Plan 2011-2016).

As financial inclusion efforts become successful, there is a greater need for the public, especially the new participants in the financial system, to be equipped with the necessary knowledge, skills, tools and mechanisms to ensure that they are adequately informed and protected. Financial education, therefore, plays an important role in the pursuit of economic and financial inclusion as a policy objective alongside the promotion of stability and efficiency in the financial system. This is why financial education and consumer protection is one of the major areas focused on by the BSP's financial inclusion initiatives along with 1) formulation of policies and provision of appropriate regulatory framework; 2) compilation of financial inclusion data; and (3) financial inclusion advocacy.

In relation, the findings of the Consumer Finance Survey (CFS) released in April 2012 show that there is a need to continue to educate Filipinos on the advantages of saving in financial institutions and investing in various forms of financial instruments compared with traditional sources of financing and investment. Based on the CFS result, only two in ten households have deposit accounts and only one in 250 households own securities and investment accounts such as stocks, bonds, mutual funds, and investment trust funds. Meanwhile, based on the 2012 Consumer Expectations Survey of the BSP, only around 5 percent of families of overseas Filipino workers have some form of investments and only about 40 percent have savings. Moreover, the results of the 2011 BSP Public Perception Survey conducted by the National Statistics Office show that there is still a long way to go in terms of informing the public about the BSP and its role in the economy. The survey indicated that more than half of Filipino households do not have any knowledge about the BSP.

The BSP Economic and Financial Learning Program

The BSP launched the Economic and Financial Learning Program (EFLP) in San Fernando City, Pampanga on 28 July 2010[40] as part of its 17th anniversary celebration. The EFLP is the BSP's flagship program for economic and financial education. This is in line with the BSP's continuing drive to promote greater awareness and understanding of essential economic and financial issues to help the public acquire the knowledge and develop the skills needed to make well-informed economic and financial decisions and choices.

[40] Prior to the implementation of the EFLP in 2010, stand-alone learning programs (e.g., Public Information Campaign, Financial Learning Campaign for Overseas Filipinos and their Beneficiaries, Financial Education Expo, and Microfinance Seminar) were conducted by different BSP departments/offices.

The EFLP brings together under one flagship program the BSP's key economic and financial learning activities conducted continuously at the BSP premises (in-house programs), periodically in a targeted city/municipality (outreach activities), for sectoral groups (e.g., media, market vendors, teachers/parents), and in accordance with institutionalized programs in partnership with the Department of Education (DepEd). It combines the relevant awareness and learning campaigns of various BSP departments and offices, including the Economic and Financial Learning Center (EFLC), Financial Consumer Affairs Group (FCAG), Inclusive Finance Advocacy Staff (IFAS), and Corporate Affairs Office (CORAO).

Table 1 summarizes the venues where the EFLP has been conducted while Table 2 lists the prospective venues for the conduct of the program in 2013.

Table 1. EFLP Cities Visited from 2010 to 2012

2010	2011	2012
• San Fernando • Legazpi • Davao • Bacolod • Dagupan • General Santos	• Tuguegarao • Dumaguete • Naga • Zamboanga • Cabanatuan • Tacloban	• Roxas • Batac • Ozamiz • Lucena • Cagayan de Oro • Iloilo • Cotabato • Tarlac

Table 2. Prospective venues for the conduct of EFLP in 2013

2013
• Ilagan, Isabela • San Jose, Antique • Malaybalay, Bukidnon • Catarman, Northern Samar • Sta. Cruz, Laguna • Butuan City, Agusan del Norte

The EFLP consists of various learning sessions[41] designed for different audiences. These components include the Public Information Campaign about the BSP's roles and responsibilities which is targeted for the general public; the Financial Education Expos targeted for students, academe and the employed sectors; the Financial Learning Campaign for Overseas Filipinos and their Beneficiaries; the Financial Learning Seminar for Microfinance Clients and the Unbanked;[42] and other internal and external information campaigns. Based on the evaluation system used for each of the EFLP components, the participants found the sessions useful and effective, a positive indicator that the EFLP has thus far met its objectives.

The BSP has also completed the establishment of Economic and Financial Learning Centers or EFLCs in its 21 offices across the country. The EFLC serves as the focal point of contact of the public for information on economic and financial matters. The public can visit these centers and access data

[41] Stand-alone learning programs are being conducted to widen the reach of the program and to respond to standing requests from different sectors.
[42] The Financial Learning Seminar for Microfinance Clients and the Unbanked (Microfinance Seminar) will move to another phase to focus on the unbanked/underbanked sector, specifically the beneficiaries of the *Pantawid Pamilyang Pilipino Program* (4Ps) of the Department of Social Welfare and Development. This change was brought about by a mid-year review of the Microfinance Seminars. It was found that most of the targeted banks with microfinance operations already sent participants to at least one of the Microfinance Seminars, while the rest have indicated that they could not send participants to future seminars due to cost considerations. It was also found that the 16 seminars conducted from 2009 to 2012 already covered all the regions where banks with microfinance operations are concentrated.

produced by the BSP as well as other library and information materials, including electronic subscriptions and resources.

Future direction

Going forward, strategic initiatives will be pursued in the medium term to provide the needed framework for the EFLP's vision of providing economic and financial education to BSP's stakeholders. Specifically, these initiatives are geared towards providing a more evidence-based and systematic mechanism for assessing stakeholder needs, defining audience targeting and prioritization, developing more appropriate delivery mechanisms by using other media and modes of communication; and establishing a system for measurement and evaluation of the impact of learning activities.

Supervisory Research Activities

BSP continues to pursue a ***broad set of reform initiatives for the banking system***

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

Pursued Reform Initiatives

To ensure that the existing regulatory framework remains relevant and effective given developments in the financial services industry, 22 issuances were released by the Office of Supervisory Policy Development (OSPD) in 2012 consistent with the Supervision and Examination Sector's (SES) key result areas of banking system stability, macro-financial stability, financial market development and financial inclusion.

Strengthened Supervisory Research

Research and due diligence undertaken were geared toward the following:

Further strengthening of Quantitative Technical Support for Policy Formulation. The OSPD Quantitative Support Staff (QSS), reconstituted in 2012, promotes the use of modern quantitative modeling techniques in macro-prudential research studies and provides technical assistance in the continuing refinements of existing regulatory and supervisory enforcement tools under full risk-based supervision. Accordingly, research work continued to be focused on those related to Basel 2.5 advanced approaches and other Basel III components, macro-prudential supervision, and other research agenda as approved by BSP Management. In particular, these research studies were geared towards the following:

- Development of financial models and other quantitative analytical tools to gain deeper insights into the dynamics of financial system behavior in response to policy changes and external developments;
- Design of research and analytical approaches to be used in the assessment of the Philippine financial system; and
- Conduct of early warning and stress test studies to anticipate potential crises that may affect individual banks or category of banks as well as the financial system as a whole.

The initial Philippine Financial Network Analysis (PFNA) Framework was among the key QSS outputs in 2012. Once fully developed, this

Framework can be used to monitor and assess systemic risk exposures of the banking system as it relates to the study of the structural dynamics and linkages that affects the performance of the system as a whole.

The QSS members were likewise involved in the Taskforce for the Uniform Stress Testing Program for Banks. Essentially, the stress testing exercise aims to estimate the extent to which the banking system can absorb a simulated level of stress by assessing the impact of shocks on banks' capital. This exercise provides BSP with information for the formulation of appropriate policies and measures to address emerging risks in the Philippine financial system.

The QSS also developed two models focusing on asset quality, which were covered in the preliminary studies on "The Determinants of Non-Performing Loans using Panel Data Analysis" and "The Proposed Model on Real Estate Non-Performing Loans". These models, however, are still undergoing enhancements in variable identification and econometric techniques. The QSS also provides technical support in the statistical analysis of the Quarterly Bank Interest Rate Survey, and in the (a) identification of Domestic Systemically Important Banks (D-SIBs) and (b) formulation of the draft exposure on Counterparty Risk, both of which are integral to the reform agenda under Basel III.

Enhanced Data Collection and Extraction

Financial Reporting Package. The BSP amended the prescribed data entry template (DET) of the FRP to provide for reporting of gross and net NPLs by banks, allow for additional disclosures on NPLs and contracts-to-sell transactions, as well as ensure consistency in reporting of deposit for stock subscriptions under the FRP.[43]

Revised Risk-Based CAR Report. The guidelines on the electronic submission of the CAR Summary Report of U/KBs and their subsidiary banks, both on a solo and consolidated basis starting quarter-end 30 September 2012 were issued under Memorandum No. M-2012-049 dated 22 October 2012.[44]

The prescribed DET which takes into account the amendments under Circular No. 688[45] and the issuance of Circular No. 762 on

[43] The amendments are contained in Memorandum No. 2013-004 dated 30 January 2013, the updated DET incorporating the abovementioned amendments to the FRP shall be adopted starting with the reporting period ending 31 January 2013 for universal banks, commercial banks and thrift banks, and 31 March 2013 for rural and cooperative banks.
[44] The memorandum, likewise, provides for the continued submission of the hard copy of the CAR Report for U/KBs and their subsidiary banks under Circular No. 574 within the prescribed deadline.
[45] Revised Risk-Based Capital Adequacy Framework for Stand-Alone TBs, Rural and Cooperative Banks (also referred to as CAR 1.5)

deposit for stock subscription shall be made available for submission starting 31 March 2013.

Credit, Market and Liquidity Risks Stress Testing. The Supervisory Data Center (SDC) developed the data entry template for the credit, market and liquidity stress test exercise conducted on all U/KBS and selected TBs. Stress test focused on the impact on banks CAR based on certain defined default scenarios.

FI Portal. Trial runs were made on selected banks in preparation for the web-based submission of reserve requirement reports through the FI portal. Roll-out of the reserve reports is targeted by first quarter of 2013. Other reports will be for staggered implementation after the roll-out of the reserves reports.

Data Warehousing Project. Migration of the FRP and deployment of the Dynamic Facility of the DW are on-going and nearing completion. On-going enhancements include, among others, the improvement of the Extract, Transform and Load (ETL) process, data validation and reconciliation, and reports generation.

Apart from the continuing enhancements of the existing regulatory framework and database, the BSP also published various reports on the condition and performance of the banking system, including offshore banking units (OBUs) and foreign currency deposit units (FCDUs) of U/KBs. Reports were also prepared on compliance to regulations, including those on capital adequacy, reserve requirements against deposit liabilities, deposit substitutes and trust account of banks, foreign currency deposit unit cover and mandatory credit allocations for small and medium enterprises and agriculture and agrarian reforms.

Branch Operations

Timely delivery of central banking services in the countryside continues

The BSP sustained its efficient delivery of central banking services in the regions and promoted its various advocacies through its three regional offices (ROs) and 18 branches. The availability of sufficient banknotes and coins in the regions were ensured throughout the year especially during peak periods when the demand for currencies is unusually high.

The BSP targeted a ratio of 100 percent of actual currency stock to the total manageable currency level. For the period January to November 2012, the currency stock level exceeded the total currency level. However, due to increased withdrawals of banks during the Yuletide season and limited supply of higher-denominated notes, the aggregated actual currency inventory available, as of 31 December 2012, in the ROs and branches declined to ₱49.7 billion, equivalent to 79.9 percent of the ideal level of ₱62.2 billion.

To continue its proactive role in the economic and financial education campaigns of the BSP, the operations of the Economic and Financial Learning Centers (EFLCs) in the regions were enhanced. The EFLCs remained as an effective learning hub for students, researchers and other stakeholders in the areas of operation of BSP ROs/Branches. The BSP relaunched the EFLC in Batac, Roxas, Lucena, Cagayan de Oro, Ozamiz, Cotabato and Iloilo branches alongside the hosting of the Bank's Economic and Financial Learning Program (EFLP) and other learning sessions in their respective areas.

As in previous years, the ROs and branches extended logistical support and assistance to the other advocacies and outreach programs of the Bank in the areas of microfinance, anti-money laundering, Clean Note Policy, anti-counterfeiting; conduct of the User's Forum, Awarding Ceremony and Appreciation Lunch for Stakeholders; briefing for pawnshops, lending investors and foreign exchange dealers; financial learning campaigns for OF's and their beneficiaries and other economic and financial briefings.

The regional EFLCs continued to conduct their own lectures and briefings on the New Generation Currency, the Role of the BSP in the Economy and other related topics which they have extended to provinces and cities outside of the area of coverage of their ROs/Branches.

The ROs/branches continued to serve as the listening posts of the Bank in the countryside through their conduct of economic, social and political surveillance. The heads of ROs/branches of the BSP maintained their active participation/attendance in the regular meetings of the Regional Development Council (RDC) in their respective areas where regional development plans and programs are discussed. Comprehensive reports on quarterly regional economic trends, analysis of results of the quarterly business expectation survey, and noteworthy developments in the areas of money, credit and banking and peace and order situation in the provinces were prepared to keep BSP Management updated on economic and financial conditions in the regions.

Meanwhile, gold purchases in the four regional gold buying stations (Davao, Baguio, Naga and Zamboanga) dropped by 91.64 percent, from 363.941 troy ounces of gold to a meager volume of 30,949 troy ounces. The continuing decline in the gold purchases of the regions started in July 2011 when the BIR imposed 2 percent excise tax and 5 percent creditable withholding tax on all gold sold to the BSP.

Advocacy Programs

The BSP continued to pursue advocacy campaigns in the areas of microfinance and financial inclusion, consumer protection, and economic and financial education for the public in 2012.

Microfinance and Financial Inclusion Advocacy

Microfinance regulatory framework earns international recognition

The Philippines has been lauded globally for microfinance and financial inclusion. For four years in a row (2009-2012), the Economist Intelligence Unit's global survey has ranked the Philippines as number one in the world in terms of policy and regulatory framework for microfinance. The Philippines is also consistently ranked at the top ten for having a good microfinance business environment. The survey noted that the Philippines recorded material gains in pricing transparency given the BSP's issuance of improved rules on transparency and disclosure in 2012. The survey also noted the initiative of the microfinance industry to establish Microfinance Data Sharing System (MiDaS), which is a microfinance credit bureau that identifies delinquent borrowers with the ultimate objective of client rehabilitation.

Implementation of the enhanced rules on true and transparent lending. To improve the implementation of the Truth in Lending Act (Republic Act No. 3765), protect consumers from lack of awareness of the true cost of credit, and ensure that consumers make informed decisions when they borrow, the BSP, along with other regulatory agencies issued regulations to cover all credit providers. These regulations mandate the full disclosure of all charges related to the extension of credit. All credit granting entities are also required to use a standard and simple format of disclosure to ensure that borrowers are provided with the information they need to understand their loan transactions.

BSP regulations on continued transparency in 2012 included Circular No. 754 dated 17 April 2012, which covers non bank financial institutions (NBFIs) under BSP supervision (i.e., quasi-banks, non-stock savings and loan associations, credit card companies, investment houses and pawnshops) and Circular No. 755 dated 20 April 2012, which covers other credit granting entities, such as microfinance NGOs and in-house financiers, among others. Given these enhanced regulations, borrowers are assured that the interest rate information disclosed to them is not misleading, that they are provided with the true cost of their borrowing, and that they can make informed decisions and better compare similar loan products, regardless of type of financial service provider.

Amended rules on the provision of micro-agri loans. The new rules governing the provision of micro-agri loans (Circular No. 748), which is a liberalization of the earlier issued rules, provide banks with the flexibility to innovate on the design of their micro-agri loan products. This allows banks to better attune product design to the peculiarities and cycles of various types of crops. Product innovations in micro-agri shall be approved for as long as banks demonstrate that they have appropriate risk management systems in place.

Simplified requirements for microfinance loan applications. The BSP issued Circular No. 746 allowing microfinance clients to continue to enjoy exemption from the submission of documents like income tax returns and financial statements when availing of a loan. This exemption will continue through 31 December 2014. This ensures that microentrepreneurs and SMEs continue to be able to access financial services through simple documentation.

Systematic collection of financial inclusion data to inform policymaking. Evidence-based policy-making requires the use of robust data as inputs in the crafting of policies and regulations. One of the priority areas for the BSP in its financial inclusion agenda was the creation of a comprehensive financial inclusion data. In 2012, initial work has been done to assess the state of financial inclusion in the Philippines by leveraging on datasets derived from regulatory reports provided by supervised institutions to the BSP and on readily available information from sources like the PDIC and the NSO. This yielded a broad view of the current state of access to financial services in the Philippines, in particular, the mapping of financial service access points.

As of end-September 2012, there were 191 banks providing microfinance services. These banks were serving 1,105,454 borrowers with an outstanding loan portfolio of ₱7.9 billion and savings component of ₱4.2 billion.

Advocating for increased SME access to finance. The BSP sees a unique role in advocating for increased access to finance for SMEs, by facilitating meaningful linkages between credit providers and SMEs. The BSP spearheads the implementation of the CSF, a fund generated from contributions of well-capitalized and well-managed cooperatives/NGOs, together with a counterpart contribution from the LGU in the province where the contributing cooperatives/NGOs are operating and from willing donor institutions. The CSF is then used to provide a maximum of 80 percent surety cover for loans granted by banks to borrowers that would otherwise have a difficulty assessing such credit facilities due to insufficient collateral, limited credit histories, and inadequate financial records. The BSP's primary role is to organize/convene the partnership among the CSF contributors. The BSP also provides a rediscounting facility for lending banks using as underlying instrument the promissory notes of banks' clients that availed of surety cover. As of end-December 2012, 26 CSFs in various provinces across the country have been organized.

Sustained leadership in global financial inclusion initiatives. In 2012, the BSP continued to serve as co-chair of the Steering Committee of the Alliance for Financial Inclusion (AFI), a global network of financial policymakers representing 95 member institutions from over 80 developing and emerging countries, working together to increase access to appropriate financial services for the poor. The BSP is set to chair the AFI Steering Committee in 2013.

The BSP continued to participate in the G20 Global Partnership for Financial Inclusion (GPFI), and is one of the few non-G20 countries actively engaged in dialogues with Standard Setting Bodies.

Fostering peer learning in addressing financial inclusion issues. The BSP co-hosted with the United States Treasury, the International Conference on Inclusion-Friendly Government to Persons (G2P) Payments on 2 May 2012. The conference brought together a total of 108 local and international experts, implementers, policy makers and regulators in the field of eG2P payments, financial inclusion and innovative payment systems. It provided a venue to discuss issues confronting government, providers, and recipients in G2P Payments as well as generate possible ways forward. This conference was also supported by the Asia Pacific Economic Cooperation (APEC) and the USAID-funded APEC Technical and Training Facility, with strategic partnerships with the ADB, the World Bank, the AFI and the Consultative Group to Assist the Poor (CGAP).

Sharing knowledge and experience on financial inclusion with international peers. Seven briefings on financial inclusion were conducted for international delegates representing Tanzania, Afghanistan, Bhutan, Mozambique and Malawi in 2012.

Recognizing exemplary microentrepreneurs and microfinance institutions. The BSP together with Citibank Foundation, Citibank Philippines and the Microfinance Council of the Philippines continued to implement the Citi Microentrepreneur of the Year

(MOTY) Awards Program to recognize successful microentrepreneurs' inspiring businesses and life stories. The MOTY Alumni Network was launched in 2012 to provide an avenue for knowledge-sharing, modeling and continuing support to past winners. A coffee table book, "Small Steps to Success" featuring the stories of past MOTY winners was likewise launched to showcase the tangible impact of well-managed small loan on the life of a microentrepreneur.

The BSP also participated in the Paeng Microfinance Awards Program of the Rafael B. Buenaventura (RBB) Foundation, which awards pioneering microfinance institutions (MFIs) and their contribution to sustaining a healthy microfinance industry in the country.

Financial Education for Schoolchildren

Efforts to promote the habit of saving continue

The BSP continued to take an active role in promoting the habit of saving particularly to elementary school children.

The Asia and the Pacific Regional Meeting for Child and Youth Finance was held in Manila through a partnership between the BSP and the Child and Youth Finance International (CYFI), which is at the forefront of the global movement to promote savings among schoolchildren. The meeting attracted participants from more than 20 countries and provided an avenue for sharing lessons learned and best practices that have been developed, basic ingredients for crafting a regional agenda for providing child and youth finance education and access to financial services. At least 33 foreign delegates visited the Aurora Quezon Elementary School in San Andres to observe how financial education is taught in elementary schools on 3 December 2012 while the formal meeting was held at the BSP on 4 December. During the closing ceremony of the Meeting, the BSP and the DepEd conferred the GURO ng PAG-ASA (Gantimpala para sa Ulirang Pagtuturo ng Pag-iimpok at Araling Pansalapi) or best teachers in integrating financial education in the elementary level to four teachers. The awarding ceremony was the culmination of the intensified monitoring of the use of Financial Education Teaching Guides in the elementary curriculum.

CYFI describes BSP's program as an international best practice model which institutionalizes finance education through the DepEd and the development of affordable and child-friendly bank products through the Kiddie Account Program which accepts opening deposits of ₱100 or less than $2.5. The Kiddie Account Program has 12 participating banks that together own about half of the bank branches in the country. More banks are interested in joining the program developed under the umbrella of the Bank Marketing Association of the Philippines to implement the "Banking on Your Future Program" launched in 2009 by the BSP with the Bankers Association of the Philippines, the Chamber of Thrift Banks and the Rural Bankers Association of the Philippines.

Consumer protection

The BSP continued to provide an accessible avenue for consumer assistance and redress. In 2006, the BSP established a dedicated unit, the Financial Consumer Affairs Group (FCAG), to attend to complaints about BSP supervised institutions and their products or services. In its more than five years of operation, FCAG was able to close or resolve 98 percent of complaints, inquiries and requests from financial consumers. This is in line with the BSP's commitment to protect the rights and welfare of consumers of financial services.

Institutional Building

Corporate Planning

BSP introduces enhanced strategy management system

The year 2012 marked the introduction of the enhanced strategy management system using the Balanced Scorecard (BSC) framework in the formulation of the 2012-2017 BSP strategic plan, with the technical assistance from the Palladium Group. The BSP strategy map was validated in the planning conference held on 22 October 2011 at the PICC. The new strategy management system focuses on strategy execution and addressed the weaknesses identified during the initial implementation of the BSC Framework in 2008-2011.

The BSP through the Corporate Planning Office (CPO) conducted a general assembly meeting with the Governor, BSP officials and employees to communicate the enhanced strategy management system and facilitated the strategic management process through quarterly strategy review meetings, alignment of organization-second level map for the sectors, independent leadership for execution assessment to ensure BSP's readiness to fully implement the Strategy Execution Premium Process of Palladium. To empower key strategic management process participants, the BSP also conducted briefing and coaching sessions.

Meanwhile, the Project Management Excellence Program (PMEP), which aims to improve the BSP project approval process and project execution and outcome, is for implementation in all departments/offices of the BSP. A part of this program is the development of an enterprise project management called Project

Information Managements System (PrIMS), that will be deployed and launched by the first quarter of 2013.

The CPO continued to cascade the BSP's vision and mission statements with a special session on values and culture through the Induction Course for New Employees. The session aims to ensure awareness and understanding of the BSP vision and mission by all employees of the Bank.

Information Technology

BSP continues to upgrade existing in-house computer application systems to improve its operations

In 2012, the BSP through the Information Technology Sub-Sector (ITSS) continued to provide competent, efficient and cost effective information and communication technology services to BSP offices and external clients in support of the BSP's vision. In particular, in-house computer application systems were upgraded. ITSS also provided systems development management, outsourced customization and support services to ensure the business continuity of operations and guarantee the availability of the necessary office productivity tools, the required platforms as well as the support facilities for optimal operations of the Bank. Toward this end, the ITSS accomplished the following:

1) Continued to set up the infrastructure requirements of the application systems[46];
2) Installed the ICT resources to increased overall operational efficiency;
3) Migrated the ICT resources to enable its use of the new features and capabilities;
4) Upgraded the memory of Blade and rack-mount servers which would allow the increase of the number of virtual machines that can be created;
5) Integrated mission-critical applications in the Citrix infrastructure using the power system for infrastructure streamlining initiatives;
6) Enhanced the data warehouse development server using the virtualization in the power system;
7) Managed and maintained application systems on production to support the operations of various departments/offices;
8) Upgraded system softwares of ICT resources (i.e., SWIFT software, anti-virus system, virtual infrastructure software);
9) Established standard web application software and database system;

[46] This included the BSP Law Library System, Public Key Infrastructure System of PhilPaSS, Treasury Management System, Various SES reporting and validation systems, paperless system of certain offices/departments using handheld tablet computers, PhilpaSS Remit in the remote site, EFTIS VPN server infrastructure in the remote site.

10) Continued to enhance the local area network cabling infrastructure; and
11) Continued to conduct risk assessment and vulnerability testing of the Bank's internal ICT security to identify risks on critical ICT systems, controls, applications, infrastructure and operations.

Bangko Sentral Training Programs

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

The BSP Institute (BSPI) focused its efforts in establishing a BSP training curriculum and expanding its services with the inclusion of e-learning as an additional forum of training methodology and implementation of an equivalency assessment for training courses in 2012.

The BSPI also continued to implement training programs aims at developing and creating the competitive advantage of the Bank's human capital, establish new networks and strengthen existing ones, which includes technical collaboration with foreign and local counterparts and business partners to provide more training and scholarship opportunities to BSP employees.

Towards this end, the BSPI embarked on the following programs in 2012:

1) Creation of a ladderized training curriculum for each employee anchored on the approved competency models. The BSPI prioritized the completion of the Leadership and Management curriculum, which consists of approved courses as well as course designs for all leadership and management courses; and
2) Completion of the groundwork for the implementation of an equivalency assessment for identified in-house courses. With the equivalency assessment, employees who are considered to have sufficient knowledge of a particular training program need not go through the program. Employees who are able to successfully complete the assessment will be granted training credits. The equivalency assessment will be implemented starting January 2013, initially for computer courses.

The BSPI, in partnership with the Supervision and Examination Sector (SES), began the implementation of the following systems in the SES curriculum in 2012:

1) Financial Stability Institute (FSI) Connect. FSI Connect refers to the library of e-learning courses developed by the Financial Stability Institute for financial supervisors. It includes a wide range of tutorials on capital adequacy and solvency, supervision, risk, accounting, financial instruments, deposit insurance, and payments and settlements systems. FSI Connect

constitutes part of the e-learning portion of the SES Training Framework for Bank Supervisors.

2) Use of Bank Exec International™. Bank Exec is a software developed by the American Bankers Association that is used for the bank management simulation course of SES. The in-house implementation of e-learning courses as well as the use of the simulation form part of the efforts to introduce new learning methodologies to Bank personnel under the Training Framework for Bank Supervisors.

Likewise, the BSPI commenced the implementation of the accreditation of external training providers for seminar on corporate governance to ensure that external training providers meet the BSP standards in providing the training required of directors of banks and quasi-banks.

In 2012, 11,416 BSP employees participated in a total of 906 training events. These events involved a total number of 274 in-house offerings, 314 local training events, and 318 foreign training events. Of the total number of employees who participated in training events in 2012, 10,170 employees or 89 percent attended in-house training courses while 784 employees or 7.0 percent and 462 employees or 4 percent participated in local and foreign training events, respectively.

The BSPI also handled training events conducted by foreign resource speakers on international accounting standards and other topics on current global issues. Three co-hosting events were likewise conducted during the year in coordination with various international organizations.[47]

Human Resource Development

BSP continues to enhance competencies of its human resources

Programs and initiatives were pursued in the area of human resource development in support of the new BSP scorecard, as follows: 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.

The highlights of the BSP's accomplishments in the area of human resource development in 2012 included the following:

1) Implementation of the Bankwide Organization Review (BOR) that focused on the delivery of core functions and improvement

[47]The BSP through the BSPI co-hosted training events, as follows: (1) the Regional Seminar on Basel III and Liquidity Risk with FSI-SEANZA (2) the Intermediate Course on Macroeconomic and Monetary Policy Management with SEACEN-CeMCoA and the Bank of Japan; and (3) 23rd SEACEN-FSI Regional Basel II/III: Pillar 2—Supervisory Review Process with SEACEN.

of processes towards organizational effectiveness and efficiency;
2) Changes in staffing to strengthen the delivery of core functions and executive services;
3) Conduct of organization studies to take into account Management's new direction to retain the current BSP plantilla positions and observe greater parsimony in the use of the Bank's resources;
4) Completion of a study on outsourcing requirements to allow greater focus by the organization on the BSP's core functions;
5) Implementation of the Succession Management Program (SMP), which aims to prepare the BSP's talent pipeline for key and critical positions;
6) Implementation of the High Performance Culture (HPC) Program that aims to foster high performance culture in the Bank in line with the BSP scorecard; and
7) Adoption of the BSP's Guidelines on the Establishment and Implementation of Agency Strategic Performance Management System (SPMS) after securing approval of the Civil Service Commission of the said guidelines on 08 November 2012.

Human Resource Management

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

The BSP continued to strengthen its role as strategic partner, enabler in human capital management and reliable service provider. To ensure that the BSP's human management strategies remain responsive to the needs of personnel while being at par with trends and best practices, the following activities were undertaken:

1) Provided effective recruitment, selection and placement systems, competitive compensation and benefits programs that ensure employees' well-being;
2) Implemented the new BSP Pre-employment Test, which will help the Bank to recruit highly talented personnel;
3) Conducted various cultural, sports, and wellness activities, as part of its commitments to promote employee awareness, engagement and work-life balance;
4) Spearheaded initiatives to promote the Bank's corporate social responsibility thrust;
5) Implemented the 201 File Categorization Project, the SAP Data Clean-up Project and the Integrated Service Record Project, as part of its effort to reduce risks and enhance overall operational efficiency; and
6) Implemented staff training roadmaps and proactively identified local and foreign trainings to keep personnel abreast with current trends and best practices in human resource management.

Enterprise Risk Management

BSP continues development of ERM framework

The year 2012 was marked by the continued development of Enterprise Risk Management (ERM) framework through the following activities:

1) Finalization and completion of 2010 Risk Repository Database which is a consolidation of bank-wide risks to assist Management in prioritizing action plans;
2) Approval of ERM Manual and the launching of the Manual during the BSP anniversary celebration. The ERM Manual ensures a standard and consistent approach to risk management;
3) Monitoring of the integration of ERM Manual in the departmental Quality Management Systems (QMS);
4) Conduct of training and workshops on the ERM Manual to familiarize users;
5) Continued maintenance of the incident-reporting (IR) systems for selected risk management units. This proved to be useful in enhancing transparency and in analyzing as well as avoiding potential risks; and
6) Establishment of IR systems for New RMU clusters.

Health Services

BSP recognizes importance of maintaining a healthy workforce

In 2012, the BSP, through the Health Services Office, exhibited further its recognition of the importance of maintaining a healthy workforce in achieving its organization objectives. Among the highlights of its achievements during the year was the implementation various strategic health management programs to improve the overall health and lifestyle of the BSP employees, as follows:

1) Annual medical examination;
2) Expanded adult immunization program for hepatitis;
3) Affiliation with service providers;
4) Health education programs such as the weekly "Kapihan sa Medical", 100% Smoke-Free BSP, Road Safety Awareness, Osteoporosis and the celebration of World Diabetes Day;
5) Weight management program (WMP) with a view to improve the health status of BSP employees through health education on nutrition and physical activity and provision of a supportive environment for employees to adapt a healthier lifestyle. One of the activities launched was "The Step Up" program to encourage positive behavior acquired on weight management;

6) Total diabetes health program provides information on oral health and encourages diabetic employees to undergo consultation/treatment;
7) Dental profiling to create and maintain correct and complete dental records that provide permanent documentation of the treatment done and constitutes the grounds for diagnosis and treatment plan; and
8) Surveys for medical retainers conducted to assure the quality of service rendered.

Crisis Management

BSP continues to pursue effective crisis leadership

The Crisis Management Office (CMO) of the BSP pursued activities to promote effective crisis management leadership and ensure business continuity of the Bank, specially implementing time-sensitive operations through the following:

1) Continued to enhance the BSP Unified Directory System (BUDS);
2) Conducted human resources enhancement programs[48] to familiarize the Business Continuity Management Team and key personnel on their roles and responsibilities in the implementation of departmental Business Continuity Plans (dBCP); and
3) Participated as member and resource speaker in various international conferences, seminars and workshops on crisis management, business continuity, and disaster recovery.

Systems and Methods

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

In pursuit of the BSP's commitment to institute service excellence at par with world class standards, the Systems and Methods Office (SMO), in coordination with other departments and offices, implemented the following programs in 2012:

1) Continued to design, develop and maintain quality management systems of BSP departments/offices;
2) Conducted Independent Quality Assessments and Work Environment Measurements in the Head Office, the Currency Management Sub-Sector, the SPC, three regional offices, and eighteen branches to ensure the maintenance of established, developed and implemented management systems;
3) Monitored and continued to pursue business process improvement/re-engineering efforts; and

[48] This included (1) individual tabletop exercises; (2) consultation meeting on DBCPs preparation; (3) hands-on training/technical assistance to BUDS authorized users; (4) Business Continuity Managers (BCM) workshop for BSP Business Continuity Team members of the BSP regional offices and branches; and (5) Annual Business Continuity Awareness Week (19-22 March 2012).

4) Started to embed/integrate the enterprise risk management process in the QMS of various departments/offices in the BSP.

Major Infrastructure Projects

As of end-2012, the BSP completed various infrastructure projects that are expected to contribute to the efficient operation and performance of the Bank's functions.

Project Title	Original Contract Cost* (in thousand pesos)
Completed Projects	
Executive Offices (Phase 1, BSP Main Office)	10,699
Supply and installation of building signages with the new BSP logo at various BSP locations	10,569
Supply and installation of fabricated aluminum window panel sets (Phase 4, BSP Main Office)	10,144
Access and Package Control Centers (Gates 3 and 6, BSP Main Office)	9,332
Re-roofing, re-waterproofing of roof deck area and re-varnishing of exterior ceiling eaves (BSP Cabanatuan Branch)	3,769
Supply and installation of audio equipment for the convention hall (BSP Davao Regional Office)	3,113
Re-waterproofing of roof deck and plaza areas (BSP La Union Regional Office)	2,738
Renovation of Staff Area (Office of the Governor)	2,686
Supply and installation of fire rated exit doors (BSP Davao Regional Office)	1,400

* Exclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Source: PDMO and FMED

Project Title	Original Contract Cost* (in thousand pesos)	Percentage of Completion (in percent)
Ongoing Projects		
Renovation of BSPI offices and training center	239,908	22.0
Executive Offices, Phase 2 (MD/AG Offices)	14,069	21.7
Construction of hazardous waste containment facility (BSP General Santos Branch Office)	323	80.0

*Exclusive of variation order which is issued to cover the changes in quantities of original work items in the contract and the introduction of new work outside the scope of the contract but are necessary for the completion of the project.
Source: PDMO and FMED

International Economic Cooperation and Integration Initiatives

Active participation in international economic cooperation fora continues

The year 2012 marked a shift in the standing of the Philippines in the international financial community. The BSP contributed to this, among other efforts, through its international cooperation initiatives. Foremost of this is the change in the Philippines' status as a prolonged borrower of resources of the IMF into a creditor of the Fund through the BSP's participation in new Fund facilities. The country showcased to the international community the progress it has achieved in recent years when it participated in the hosting of a high-level international meeting in Manila where the BSP served as co-chair of the organizing committee. The BSP's continuing pro-active engagement in various fora represented the country's interests and perspectives on different issues and provided the platform for the BSP to exercise its thought-leadership in various areas.

In line with the mandate defined by the BSP Strategy Map, 2012-2017 and under the pillar on operational excellence, the BSP pursued international, regional and bilateral activities in the areas of monetary and financial cooperation and integration. In particular, the BSP represented the country and elevated positions on issues in various engagements related to the conduct of global and regional economic surveillance; policy dialogue; provision of financial contributions and commitment to bilateral and regional pooling arrangements; involvement in regional financial cooperation and integration; and participation in capacity-building programs. The BSP likewise attended high-level and technical meetings/conferences and hosted international conferences/workshops.

International Cooperation Activities

Economic Surveillance and Policy Dialogue

The BSP coordinated the conduct of regular surveillance by the IMF, participated in the IMF's Board of Governors regular meetings, submitted position papers on various issues and proposals made by the IMF, and facilitated the visit of senior officials from the IMF to share information and exchange views with authorities.

The IMF's Staff Visit to the Philippines was held on 16-19 July 2012. Based on the IMF's Staff assessment, the Philippine macroeconomic conditions remain generally sound but is being affected, along with other countries in the region, by the fragile global economic environment. Staff commended the authorities' fiscal and monetary policy management which supported confidence and built up buffers for a strong response should further negative shocks occur. The BSP attended the IMF/World Bank (WB) Annual Meetings held on 8-14 October 2012 where issues relating to the world economic outlook, increasing role of the ASEAN in the global economy, and institutional issues on surveillance, financial resources, lending and governance were discussed.

As part of the Southeast Asia Voting Group, the BSP shared its views on IMF staff papers relating to credit growth in Asia, adequacy of fund resources, public pension reform challenges, enhancements to surveillance, liberalizing capital flows and managing outflows, among others. Moreover, the BSP facilitated arrangements for the visit of IMF Managing Director Christine Lagarde to the Philippines on 15-17 November 2012. The visit was aimed at providing the Managing Director with the opportunity to gain a firsthand experience of the progress being made in the country towards inclusive growth and exchange views on how the Philippines and the IMF can further strengthen their relationship. The Managing Director lauded the monetary and financial policies in the country even as she called on stepping up efforts to ensure that the remarkable growth in the country become more inclusive.

The BSP participated in various regular and special fora of the Bank for International Settlements (BIS) to discuss issues related to exchange rate management in the presence of external shocks; crisis regulatory reforms and deleveraging; competitiveness of emerging market economies; threats and challenges on the financial system; central bank finances; fiscal policy and public debt management; future of financial globalization; latest development in financial regulation and supervision. During the second half of the year, the BSP assumed the Chairmanship of the meeting of central bank Governors from small open economies. The group meets regularly at the sidelines of the BIS bi-monthly meetings. As Chair, the BSP is responsible for taking the lead in identifying issues for discussion during meetings.

BSP continues representation in international policy dialogues

The BSP likewise participated in the Technical Working Group (TWG) meetings of the Intergovernmental Group of 24 on topics involving membership, and issues confronting emerging market economies (EMEs), such as infrastructure financing, capital flows and prudential regulations, sovereign debt resolution mechanisms; and Group of Twenty (G20) outcomes and upcoming agenda.

On the regional front, the BSP continued its active participation in the efforts of the ASEAN and the ASEAN plus Japan, China and Korea (ASEAN+3) to improve the capability to undertake economic surveillance and help generate quality outputs that would contribute to informed formulation of policies supportive of regional integration and cooperation framework. The BSP, as member of the ASEAN+3 Macroeconomic Research Office (AMRO) Executive Committee, continued to take part in the discussions on institutional issues of the AMRO. The AMRO is the independent regional surveillance unit for the ASEAN+3 process that monitors and analyzes regional economies and supports decision-making under the CMIM. On 23-27 July 2012, the AMRO conducted its first country visit to the Philippines to current developments, emerging risks and outlook of the economy. Aside from participating in technical meetings, the BSP facilitated arrangements for the AMRO Mission Team's meetings with different government agencies, private institutions and with various BSP departments.

The findings of AMRO consultation missions serve as inputs to the AMRO Regional Economic Monitoring (AREM) Report which is being discussed in the Economic Review and Policy Dialogue (ERPD) attended by participants of the CMIM. The ERPD aims to strengthen coordination and exchange of views among member countries on financial and macroeconomic policy issues of common interest, as well as enhanced self-help and support mechanisms in East Asia.

The BSP completed its three-year term as Chair of the EMEAP Central Banks Monetary and Financial Stability Committee (MFSC) in July 2012. The EMEAP members expressed their appreciation of BSP's contributions to EMEAP initiatives on surveillance, research, crisis management, and communication mechanisms. The BSP continued to share with member central banks data template of weekly financial market developments which tracked quick moving financial indicators and helped pinpoint trends and potential risks to regional stability. The BSP initiated a teleconference among EMEAP Deputies in March 2012 to exchange information on the issues surrounding the euro area debt crisis. The BSP also chaired meetings and workshops that provided the venue for EMEAP members to exchange views on: (a) global and regional financial and economic developments as well as policy implications for EMEAP economies; (b) enhancement of macroeconomic surveillance and crisis management framework for the EMEAP region; and (c) research studies in the areas of financial markets, banking supervision, payments and settlements systems, and other monetary and financial stability related topics.

On 2-5 May 2012, the BSP participated as Co-chair, along with the Departments of Finance and Tourism, in the Philippines' hosting of the 45th ADB Board of Governors Annual Meeting, in the Philippine International Convention Center, Manila. The theme of the Annual Meeting was "Inclusive Growth through Better Governance and

Partnerships." The BSP hosted the "ADB Seminar on Credit Ratings: An Asian Perspective" as well as the "International Conference on Inclusion-Friendly Electronic Government-to-Persons (e-G2P) Payments." The ADB meetings were attended by more than 5,000 delegates from 67 member countries.

On 9 October 2012, the BSP participated in the 9th ASEAN Finance Ministers' Investor Seminar (AFMIS) with the theme "One ASEAN: Collaboration and Growth", which was held in Hong Kong SAR. The seminar provided a venue for regulators, banking institutions, and the private sector to discuss economic updates in the ASEAN region and investment opportunities in the infrastructure, real estate, tourism and gaming, consumer and retail, and energy sectors.

Interregional cooperation through exchange of information and policy dialogue continued in 2012. As a collaborating member of the Center for Latin American Monetary Studies (CEMLA), the BSP participated in its various initiatives including training programs, conferences and organizational meetings. The BSP, the only collaborating member central bank from Asia, co-chaired the VII Meeting of Central Bank Governors from Asia, Latin America and the Caribbean (ALAC) held at the sidelines of the CEMLA meetings on 10 October 2012 in Tokyo, Japan. Discussions focused on the European debt crisis and the impact on emerging markets, as well as on the issue of coordinating monetary and fiscal policies.

Financial Arrangements and Contributions

BSP participates in financing mechanisms to support preservation of international financial stability

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

At the 15th ASEAN+3 Finance Ministers and Central Bank Governors Meeting (AFMGM+3) held in Manila on 3 May 2012, the size of the CMIM was increased from US$120.0 billion to US$240.0 billion comprised of contributions from the CMIM Parties. 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 supplement the existing financial arrangements by providing financial support through currency swap transactions among CMIM participants. In the same meeting, key features of the CMIM as a regional financing mechanism were also enhanced to ensure its effectiveness, including the introduction of a crisis prevention facility and lengthening of the maturity and support periods. The BSP coordinated with the NG in the approval of the doubling of the Philippine contribution to the CMIM from US$4.6 billion to

US$9.1 billion, which reflects the country's support to fostering stronger regional financial cooperation and maintaining stability in the regional financial markets.

As of end-2012, six countries had drawn from funds contributed by the Philippines to the IMF's Financial Transactions Plan[49] (FTP) amounting to SDR184.8 million (about US$286.4 million). More than half of the funds were disbursed to European countries, such as Portugal, Ireland, and Greece in an effort to address the financial crisis impacting the European economic zone.

The MB also approved the BSP's participation in the New Arrangements to Borrow (NAB)[50] facility of up to a maximum credit commitment of SDR340.0 million (about US$533.0 million). As of end-2012, the IMF has made a total of SDR40.5 million (about US$62.0 million) in drawdown from the BSP's NAB commitment to finance extended arrangements for Greece and Portugal.

In addition, the BSP signaled its support of the IMF's effort in raising resources to strengthen the European firewalls, help stem potential contagion and secure global economic and financial stability by responding to the call of the IMF for additional resources. The MB approved the BSP's loan commitment of US$1 billion to the IMF. The President of the Republic of the Philippines concurred in the BSP's US$1 billion loan commitment to the IMF.

Meanwhile, the IMF remains a quota-based institution and continued its initiatives on governance and quota reforms in 2012. The BSP supported initiatives to increase the quota shares of dynamic emerging market economies and build-up sufficient resources for the IMF to effectively carry out its mandate in the post-crisis era. The quota reform, once effected, will increase the Philippines' quota by 100.0 percent from SDR1,019.3 million to SDR2,042.9 million. The higher quota at the IMF will increase the amount of financial resources that the Philippines can potentially obtain from the IMF in an event of external payments difficulty.

Regional Financial Cooperation and Integration

With the Philippines' commitment toward the attainment of the ASEAN Economic Community (AEC), the BSP participated actively in implementing the AEC Blueprint. In the area of regional capital account liberalization, the BSP co-chairs with the Bank of Thailand

[49] The FTP is the mechanism through which the Fund finances its lending and repayment operations in the General Resources Account. A member is selected for inclusion in the FTP plan based on a finding by the Executive Board that the member's balance of payments and reserve positions are sufficiently strong.
[50] The NAB is a credit arrangement under which member countries or their financial institutions stand ready to provide loan resources to the IMF aimed at forestalling or coping with a situation that could impair the international monetary system.

(2011-2013) the ASEAN Working Committee on Capital Account Liberalization (WC-CAL), which oversees the implementation of the strategic schedule for capital account liberalization under the AEC Blueprint. In 2012, the WC-CAL continued discussions on the CAL Framework, which will provide guidance on the individual liberalization processes of member countries. Included in this process is the drafting of the CAL Heatmap, which shall assess the level of openness of the capital account regime in ASEAN and to monitor the CAL process. The Heatmap will also serve as a tool to identify gaps between the demand for, and supply of capacity building. Together with the individual milestones blueprint for CAL, the member states' heatmaps are targeted to be submitted to the ASEAN Central Bank Governors Meeting (ACGM) in March 2013 for the Governors' approval. Moreover, the WC-CAL completed the assessment and identification of rules on other flows and repatriation and surrender requirements.

In the area of regional capital market development, initiatives included the preparation of a Bond Market Development Scorecard, which is considered a useful benchmark for ASEAN finance and central bank officials to measure the state of ASEAN's bond market development, openness and liquidity. ASEAN Members continued to regularly update their Bond Market Development Scorecards based on the development of their respective local bond markets and conduct sharing of market development experiences from the ASEAN-5 including on the issuance of bonds. Initiatives on matching capacity-building needs and supply are ongoing. A Joint Study with the ASEAN Secretariat-ASEAN Capital Market Forum (ASEC-ACMF) on Capital Market Integration in ASEAN was started to assess the current status of capital market development and integration in ASEAN and recommend concrete steps to facilitate and achieve an integrated capital market by 2015.

On 3 May 2012, the BSP hosted the ASEAN+3 Finance Ministers Meeting (AFMM+3) in Manila where the Finance Ministers and Central Bank Governors approved the ABMI New Roadmap+, which will chart the ABMI's renewed strategic direction. The New Roadmap+ provides for accelerating the pace of ongoing ABMI initiatives and introducing new activities that would further deepen and develop regional bond markets.

The BSP continued to support the EMEAP's Asian Bond Fund (ABF) Initiative which is aligned with developing regional bond markets and strengthening regional financial cooperation within the EMEAP region. The BSP also actively participated in regular meetings of the EMEAP ABF Oversight Committee and the Pan Asian Index Fund Supervisory Committee to monitor the performance of, and discuss marketing strategies for, the ABF.

Under the Working Committee on Financial Services Liberalization (WC-FSL), the BSP continued its active engagement in the discussions under the ASEAN Framework Agreement in Services (AFAS). To achieve freer flow of financial services, five rounds of negotiations on FSL have been completed, including the package of commitments. The Philippine commitments in financial services in the five rounds of AFAS negotiations cover banking, insurance and securities. Negotiations under the 6^{th} round continued in 2012 where member states exchanged requests for improvement of commitments to be made under the current round. The negotiations are expected to be completed by 2013 and the signing of the Protocol to implement the commitments is scheduled in 2014.

To ensure that the path towards the attainment of the AEC by 2015 is on track, the Combined Studies on Assessing Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN was commissioned and completed in 2011. Initiatives to implement the ASEAN Financial Integration Framework (AFIF) towards achieving a semi-integrated region by 2012 included identification of capacity building demand and supply in support of financial integration. In line with this, the Steering Committee on Capacity Building (SCCB) was established by the Senior Level Committee (SLC) to work on matching capacity-building requirements and supply that will support ASEAN Member Countries in the process of integration. The inaugural meeting of the SCCB was held in January 2012 in Manila. Different working committees [WC-CAL, WC-Capital Market Development, WC-Financial Services Liberalization, WC-Payments and Settlements Systems, Task Force on Banking Integration Framework (TF-ABIF)] are working on compiling capacity-building requirements to be submitted for consideration of the Steering Committee. The TF-ABIF was established to determine the milestones and timelines of financial services liberalization with respect to the banking sector.

The SLC continued to monitor progress of the implementation of the AFIF by the Working Committees and, TF-ABIF and capacity-building under the SCCB. The TF-ABIF completed the stocktaking survey, which compiles relevant data and information on regulations, standards and practices in banking in the region. The desired deliverables of this phase will be a comprehensive listing of banking standards, regulations and practices covering prudential principles, infrastructure for financial stability, and capacity-building needs. The BSP participated in the stocktaking survey; and coordinates the work stream on capacity-building. The SCCB ended the year 2012 working on the development of a coherent action plan for capacity-building and an overall funding strategy. The SLC will start working on the development of surveillance and monitoring systems for integration in the region with the assistance of the ASEAN Integration Monitoring Office (AIMO) and the ADB.

On the combined studies report, during the 8th ASEAN Central Bank Governors Meeting (ACGM) held on 29 March 2012 in Phnom Penh, Cambodia, the Governors approved the publication of the Summary Report of the Combined Studies. In view of the proposed amendments received after the ACGM, the revised draft will be subject for further discussion by the ASEAN Central Bank Governors.

Strengthening Ties and Capacity Building

The BSP participated actively in the implementation of all the programs and activities of the South East Asian Central Banks (SEACEN Centre). The BSP continuously sends resource speakers and participants in the SEACEN learning programs and meetings. Further, the BSP led the Task Force that revised the membership criteria of the SEACEN to become consistent with the SEACEN's mission and vision. The SEACEN Board of Governors (BOG) during its 32nd Meeting on 22 November 2012, in Ulaanbaatar, Mongolia, recommended the BSP to lead the Task Force that will review and propose the optimal size of the SEACEN membership. Aside from its regular contribution and as part of the cost-sharing agreement of the Center's expenses, the BSP also increased its additional scholarship contribution from US$2.0 thousand to US$4.0 thousand, to help finance the participation of SEACEN member central banks from less developed countries in SEACEN training courses.

Hosting of International Cooperation Events

The BSP hosted and chaired/co-chaired a number of international conferences, workshops and meetings to: (a) discuss common issues related to the ongoing recovery in emerging economies; (b) obtain perspectives on critical issues affecting the region, in general and the country, in particular; and (c) strengthen ties with other central banks and financial authorities by performing a leadership role in various bodies.

Conference/Workshop/Meeting	Date and Venue	Extent of BSP Participation
First Meeting of the Steering Committee on Capacity Building	9 January 2012 Manila, Philippines	Host
Financial Stability Institute (FSI) - SEACEN Regional Seminar on Basel II/III: Pillar 2	13-15 March 2012 Manila, Philippines	Host
Meeting of the Small Technical Working Group under the WC-CAL	24 April 2012 Manila, Philippines	Co-Chair
ASEAN+3 Central Bank and Finance Deputies Meeting	2 May 2012 Manila, Philippines	Host
International Conference on Inclusion-Friendly Electronic Government-to-Persons (e-G2P) Payments	2 May 2012 Manila, Philippines	Host
ADB Seminar on Credit Ratings: An Asian Perspective	2 May 2012 Manila, Philippines	Co-Host
ADB Seminar on Global Financial Inclusion by 2020: Getting There from Here	2 May 2012 Manila, Philippines	Co-Host
ASEAN+3 Finance Ministers and Central Bank Governors Meeting	3 May 2012 Manila, Philippines	Host
Annual Meeting of the ADB Board of Governors	4 May 2012 Manila, Philippines	Co-Host
Bilateral Meeting with Bank of Japan	4 May 2012 Manila, Philippines	Host
Bilateral Meeting with the Reserve Bank of Fiji	4 May 2012 Manila, Philippines	Host
ADB Seminar on Reforming International Financial Safety Nets	5 May 2012 Manila, Philippines	Co-Host
Financial Stability Institute-South East Asia, New Zealand and Australia (SEANZA) Regional Seminar on Basel III and Liquidity Risk	8-10 May 2012 Manila, Philippines	Host
IMF Staff Visit	16-19 July 2012 Manila, Philippines	Host
AMRO Mission to Philippines	23-27 July 2012 Manila, Philippines	Host
7th SEACEN Intermediate Course on Macroeconomic and Monetary Policy Management	30 July-9 August 2012 Manila, Philippines	Host
7th Meeting of Central Bank Governors of Asia, Latin America and the Caribbean	10 October 2012 Tokyo, Japan	Co-Chair
Technical Level Bilateral Discussion between the Bank Indonesia and the BSP	8-9 November 2012 Manila, Philippines	Host
Visit of IMF Managing Director Christine Lagarde to the Philippines	15-17 November 2012 Manila, Philippines	Host
Asia-Pacific Regional Meeting on Child and Youth Finance Education	4 December 2012 Manila, Philippines	Host

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-November 2012)

BSP's net worth declines

Based on preliminary and unaudited financial statements, the BSP's assets as of end-November 2012 reached ₱3,959.9 billion, 4.3 percent or ₱162.5 billion higher than the year-ago level. The BSP's liabilities increased by ₱242.3 billion or 6.6 percent y-o-y to ₱3,902.0 billion. Meanwhile, the BSP's net worth fell further to ₱57.9 billion compared to the year-ago level of ₱137.7 billion, as higher growth in liabilities compared to assets was registered during the period.

Balance Sheet of the BSP*
(in billion pesos)

	As of November	
	2012	2011
Asset	3,959.9	3,797.4
Liabilities	3,902.0	3,659.7
Net Worth	**57.9**	**137.7**

*Unaudited

The expansion in BSP assets was primarily due to the continued steady build-up in international reserves, which accounted for around 86 percent of total assets. The ₱107.2 billion expansion in international reserves was principally due to the receipts from the foreign exchange operations and investment income abroad of the BSP and deposits of the NG of proceeds from bond issuances and other foreign borrowings.

During the review period, the BSP's liabilities likewise expanded owing mainly to higher balances in its deposit liabilities, as part of the continued liquidity management operations by the BSP. In particular, deposits of the BTr registered an increase of ₱243.7 billion to ₱405.1 billion from ₱161.4 billion posted a year ago. Other depository corporations (ODCs) of the Philippines also contributed to the increase in deposit liabilities. The expansion in liabilities was also due to the increase in currency issuances consistent with a growing economy.

The BSP Net Income (January-November 2012)

BSP registers a net loss

Based on preliminary and unaudited data, the BSP incurred a net loss of ₱86.3 billion for January-November 2012, as compared to the ₱32.3 billion net loss incurred during the same period last year. The loss was primarily due to two factors: (1) FX revaluation (₱46.3 billion); and (2) interest expense (₱83.7 billion) incurred mainly in mopping up excess liquidity (Table 16).

Income Statement of the BSP
(in billion pesos)

	January-November	
	2012*	2011
Revenue	61.0	113.0
Less: Expense	101.0	107.1
Equals: Net Income Before FX Gains/Loss (-)	-40.0	5.9
Add/Less: Gains/Losses on FX Rate Fluctuation	-46.3	-38.2
Less: Provision for Income Tax	0	0
Equals: Net Income Available for Distribution	**-86.3**	**-32.3**

*Unaudited

Total revenues for the same period amounted to ₱61.0 billion, 46.0 percent or ₱52.0 billion lower than the level posted during the same period last year. The decline in revenue was principally on account of the lower miscellaneous income and interest income. The decline in miscellaneous was due in part to lower trading gains of gold in foreign financial institutions. While the decline in interest income was mainly on account of lower interest income earned from international reserves.

During the same period, total expenditures amounted to ₱101.0 billion, which was 5.7 percent or ₱6.1 billion lower than the level posted for the same period a year ago. The y-o-y decrease was due mainly to lower interest expense, which dropped by 4.5 percent, owing to decreased interest payments from lower placements in reserve deposits and the non-remuneration of these deposits.

List of Statistical Tables

1 GROSS NATIONAL INCOME (GNI) BY INDUSTRIAL ORIGIN
for periods indicated
in million pesos; at constant 2000 prices

	2010	2011	2012	Percent Change 2010	Percent Change 2011	Percent Change 2012
Agriculture, Hunting, Forestry and Fishing	662,665	680,445	698,736	-0.2	2.7	2.7
Industry Sector	1,859,515	1,901,401	2,024,580	11.6	2.3	6.5
Mining and Quarrying	65,898	70,509	67,883	11.4	7.0	-3.7
Manufacturing	1,264,523	1,324,330	1,396,140	11.2	4.7	5.4
Construction	325,820	302,014	345,481	14.3	-7.3	14.4
Electricity, Gas and Water Supply	203,274	204,547	215,077	9.9	0.6	5.1
Service Sector	3,179,359	3,342,564	3,591,549	7.2	5.1	7.4
Transportation, Storage and Communication	427,766	446,026	486,535	1.0	4.3	9.1
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	948,743	980,514	1,053,974	8.4	3.3	7.5
Financial Intermediation	374,716	394,371	425,224	10.1	5.2	7.8
R. Estate, Renting & Business Activities	588,947	643,459	694,182	7.5	9.3	7.9
Public Administration & Defense; Compulsory Social Security	255,087	255,776	264,326	5.8	0.3	3.3
Other Services	584,100	622,418	667,309	8.4	6.6	7.2
Gross Domestic Product	5,701,539	5,924,409	6,314,866	7.6	3.9	6.6
Net Primary Income from the rest of the world	1,859,847	1,878,607	1,940,391	10.0	1.0	3.3
Gross National Income	7,561,386	7,803,016	8,255,257	8.2	3.2	5.8

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

1a GROSS NATIONAL INCOME (GNI) BY EXPENDITURE SHARES

for periods indicated
in million pesos; at constant 2000 prices

Item	2010	2011	2012	Percent Change 2010	Percent Change 2011	Percent Change 2012
Household Final Consumption Expenditure	3,945,827	4,194,513	4,450,712	3.4	6.3	6.1
Government Final Consumption Expenditure	570,208	575,824	643,820	4.0	1.0	11.8
Capital Formation	1,183,650	1,279,682	1,222,824	31.6	8.1	-4.4
Fixed Capital	1,182,206	1,184,018	1,286,783	19.1	0.2	8.7
Construction	490,659	460,387	523,363	17.5	-6.2	13.7
Durable Equipment	567,833	597,240	630,987	25.5	5.2	5.7
Breeding Stock and Orchard Development	98,928	98,678	100,043	0.3	-0.3	1.4
Intellectual Property Products	24,785	27,712	32,390			
Changes in Inventories	1,444	95,664	-63,960	101.5	6,525.9	-166.9
Exports	2,886,133	2,764,877	3,005,475	21.0	-4.2	8.7
Less: Imports	2,884,280	2,890,486	3,011,758	22.5	0.2	4.2
Statistical Discrepancy	0.0	0.0	3,793.2			
Gross Domestic Product	**5,701,539**	**5,924,409**	**6,314,866**	**7.6**	**3.9**	**6.6**
Net Primary Income from the rest of the world	1,859,847	1,878,607	1,940,391	10.0	1.0	3.3
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Note: The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.
Numbers may not add up to total due to rounding.
Source: NSCB

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for periods indicated

	2009	2010	2011	2012	Percent Change 2011	Percent Change 2012
Employment Status [1]						
Labor Force (In Thousands)	37,892	38,905	40,007	40,454	2.8	1.1
Employed	35,061	36,035	37,193	37,622	3.2	1.2
Unemployed	2,831	2,859	2,814	2,833	-1.6	0.7
Underemployed	6,692	6,762	7,164	7,512		
Employment Rate (%)	92.5	92.7	93.0	93.0		
Unemployment Rate (%)	7.5	7.3	7.0	7.0		
Underemployment Rate (%)	19.1	18.8	19.3	20.0		
Overseas Employment (Deployed)	1422586	1470826	1687831 [p]		14.8	
Land-Based	1092162	1123676	1318727		17.4	
Sea-Based	330424	347150	369104		6.3	
Strikes						
Number of new strikes declared	4	8	2		-75.0	
Number of workers involved	1510	3034	3823		26.0	
Legislated Wage Rates [2]						
In Nominal Terms						
Non-Agricultural						
National Capital Region (NCR)	382.00	404.00	426.00		5.4	
Regions Outside NCR (ONCR)	320.00	320.00	337.00		5.3	
Agricultural						
NCR						
Plantation	345.00	367.00	389.00		6.0	
Non-Plantation	345.00	367.00	389.00		6.0	
ONCR						
Plantation	295.0	295.0	312.0		5.8	
Non-Plantation	275.0	275.0	292.0		6.2	
In Real Terms (at 2000 prices)						
Non-Agricultural						
National Capital Region (NCR)	238.45	244.11	248.40		1.8	
Regions Outside NCR (ONCR)	198.39	192.08	194.12		1.1	
Agricultural						
NCR						
Plantation	215.36	221.75	226.82		2.3	
Non-Plantation	215.36	221.75	226.82		2.3	
Regions Outside NCR (ONCR)						
Plantation	182.09	177.07	179.72		1.5	
Non-Plantation	170.49	165.07	168.20		1.9	

[1] Explanations on the employment status data are as follows: a) all figures comprise the average of four quarterly data for the year, (b) Starting 2006, figures are based on the new definition of unemployment per NSCB Resolution No. 15 dated October 20, 2004 and the 2000 census- based population projections was adopted to generate was adopted to the the labor force statistics as per NSCB Resolution No. 1 series of 2005.

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

[a] Preliminary data for January-September

[r] Revised

Sources: BLES, NSO, NCMB, POEA,NWPC

3 CONSUMER PRICE INDEX (CPI) IN THE PHILIPPINES, METRO MANILA AND ALL AREAS OUTSIDE METRO MANILA
for periods indicated
2006=100

Commodity Group	Philippines				Metro Manila				All Areas Outside Metro Manila			
	CPI		Percent Change		CPI		Percent Change		CPI		Percent Change	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
All Items	**126.1**	**130.1**	**4.6**	**3.2**	**120.9**	**124.4**	**4.0**	**2.9**	**127.8**	**131.9**	**4.9**	**3.2**
Food and Non-Alcoholic Beverages	136.6	139.8	5.5	2.3	131.1	133.5	4.6	1.8	137.7	141.1	5.6	2.5
Food	137.8	140.9	5.7	2.2	132.3	134.6	4.9	1.7	138.9	142.2	5.9	2.3
Alcoholic Beverages, Tobacco and Narcotics	122.6	128.7	5.3	5.0	118.8	123.4	2.8	3.9	123.4	129.7	5.8	5.1
Non-Food	119.5	123.8	4.2	3.6	116.8	120.7	3.7	3.3	120.5	124.9	4.4	3.7
Clothing and Footware	118.4	123.9	3.7	4.6	120.1	127.5	3.3	6.2	117.8	122.8	3.8	4.2
Housing, Water, Electricity, Gas and Other Fuels	120.3	125.8	5.2	4.6	118.8	123.2	4.3	3.7	121.0	126.9	5.5	4.9
Furnishing, Household Equipment and Routing Maintenance of the House	116.8	121.1	2.5	3.7	112.3	115.9	1.2	3.2	118.4	123.0	3.0	3.9
Health	124.3	128.1	3.2	3.1	127.9	131.4	3.6	2.7	123.3	127.1	3.1	3.1
Transport	122.9	125.7	6.0	2.3	113.2	114.3	6.1	1.0	125.9	129.3	6.0	2.7
Communication	92.4	92.5	-0.2	0.1	93.4	93.7	-0.4	0.3	91.9	91.9	-0.2	0.0
Recreation and Culture	106.7	109.5	1.4	2.6	107.4	111.6	0.6	3.9	106.5	108.8	1.7	2.2
Education	130.3	136.3	4.7	4.6	133.5	138.1	3.8	3.4	129.3	135.7	5.0	4.9
Restaurants and Miscellaneous Goods and Services	119.3	123.1	2.8	3.2	115.9	120.2	3.1	3.7	120.8	124.4	2.8	3.0

Source: NSO

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	Actual		Program	Actual Vs. Program	Annual Change
	2011	2012	2012	(%)	(%)
Revenues	**1,359,942**	**1,534,932**	**1,560,622**	**-1.6**	**12.9**
Tax Revenues	1,202,066	1,361,081 [r]	1,427,427	-4.6	13.2
Bureau of Internal Revenue	924,146	1,057,916	1,066,118	-0.8	14.5
Bureau of Customs	265,108	289,866	347,073	-16.5	9.3
Other Offices	12,812	13,299 [r]	14,235	-6.6	3.8 [r]
Non-tax Revenues	157,876	173,851 [r]	133,196	30.5	10.1
of w/c: Bureau of the Treasury	75,236	84,080	61,750	36.2	11.8
Expenditures	**1,557,696**	**1,777,759**	**1,839,728**	**-3.4**	**14.1**
of which:					
Allotments to Local Government Units	315,114	298,322	218,648	36.4	-5.3
Interest Payments	278,996	312,799	317,652	-1.5	12.1
Equity and Net Lending	30,944	48,761 [r]	25,080	94.4	57.6
Surplus/Deficit (-)	**-197,754**	**-242,827**	**-279,106**	**13.0**	**-22.8**
Financing	**115,263**	**538,172**	**288,852**	**86.3**	**366.9**
External Borrowings (Net)	51,160	70,046	105,167	-33.4	36.9
Domestic Borrowings (Net)	64,103	468,126	183,685	154.9	630.3
Total Change in Cash: Deposit/Withdrawal (-)	-79,665	291,785 [r]	6,197	4,608.5	466.3
Budgetary	-82,491	295,346	9,746	2,930.4	458.0
Non-Budgetary [1]	2,826	-3,561	-3,549	-0.3	-226.0

[1] Refers to accounts not included in the NG budget, e.g., sale, purchase or redemption of government securities, but included in the cash operations report to show the complete relationship in the movements of the cash accounts

[r] revised

Source: BTr

5 DEPOSITORY CORPORATIONS SURVEY [p]
as of periods indicated

Item	LEVELS (million pesos)				FLOWS (million pesos)			GROWTH RATES (%)		
	Nov-11	Dec-11	Nov-12	Dec-12	Dec 12-Nov 12	Nov 12-Nov 11	Dec 12-Dec 11	Dec 12-Nov 12	Nov 12-Nov 11	Dec 12-Dec 11
C:\Dbank32\DbankAddin.xla'!										
1. NET FOREIGN ASSETS	**3,271,788**	**3,251,134**	**3,238,501**	**3,246,703**	**8,202**	**-33,287**	**-4,431**	**0.3**	**-1.0**	**-0.1**
A. Bangko Sentral ng Pilipinas	**3,304,498**	**3,287,478**	**3,414,613**	**3,426,912**	**12,299**	**110,115**	**139,434**	**0.4**	**3.3**	**4.2**
Net International Reserves	**3,323,997**	**3,307,099**	**3,431,142**	**3,443,545**	**12,403**	**107,145**	**136,446**	**0.4**	**3.2**	**4.1**
Foreign Assets	3,324,877	3,307,207	3,431,951	3,443,625	11,674	107,074	136,418	0.3	3.2	4.1
Foreign Liabilities	880	108	809	80	-729	-71	-28	-90.1	-8.1	-25.9
Medium & Long-Term Foreign Liabilities	**19,499**	**19,621**	**16,529**	**16,633**	**104**	**-2,970**	**-2,988**	**0.6**	**-15.2**	**-15.2**
B. Other Depository Corporations	**-32,711**	**-36,345**	**-176,112**	**-180,209**	**-4,097**	**-143,402**	**-143,865**	**-2.3**	**-438.4**	**-395.8**
Foreign Assets	639,666	599,087	556,570	593,155	36,585	-83,096	-5,932	6.6	-13.0	-1.0
Foreign Liabilities	672,376	635,431	732,682	773,364	40,682	60,306	137,933	5.6	9.0	21.7
2. NET DOMESTIC ASSETS	**2,253,132**	**2,494,637**	**2,667,879**	**2,973,907**	**306,029**	**414,746**	**479,270**	**11.5**	**18.4**	**19.2**
A. Net Claims on Residents (Net Domestic Credits)	**4,718,413**	**4,945,411**	**5,095,461**	**5,330,752**	**235,291**	**377,048**	**385,342**	**4.6**	**8.0**	**7.8**
Net Claims on the Public Sector (Public Sector)	**1,412,515**	**1,554,354**	**1,278,378**	**1,336,918**	**58,540**	**-134,136**	**-217,436**	**4.6**	**-9.5**	**-14.0**
National Government	951,256	1,092,443	833,331	887,527	54,195	-117,924	-204,917	6.5	-12.4	-18.8
Credits	1,347,011	1,389,356	1,504,428	1,521,189	16,761	157,417	131,833	1.1	11.7	9.5
CB BOL	0	0	0	0	0	0	0	-	-	-
Foreign exchange Receivables	0	0	0	0	0	0	0	-	-	-
T-IMF accounts	-62,429	-62,131	-57,368	-57,771	-403	5,061	4,360	-0.7	8.1	7.0
Deposits	-333,326	-234,782	-613,729	-575,892	37,837	-280,403	-341,110	6.2	-84.1	-145.3
Local Government and Other Public Entities	461,259	461,911	445,047	449,391	4,345	-16,212	-12,519	1.0	-3.5	-2.7
Claims on Other Sectors (Private Sector)	**3,305,898**	**3,391,056**	**3,817,083**	**3,993,834**	**176,752**	**511,184**	**602,778**	**4.6**	**15.5**	**17.8**
B. Net Other Items	**-2,465,281**	**-2,450,774**	**-2,427,582**	**-2,356,845**	**70,737**	**37,698**	**93,929**	**2.9**	**1.5**	**3.8**
3. LIQUIDITY AGGREGATES (TOTAL LIQUIDITY)	**5,524,920**	**5,745,770**	**5,906,379**	**6,220,610**	**314,231**	**381,460**	**474,840**	**5.3**	**6.9**	**8.3**
A. M4	**5,471,695**	**5,680,347**	**5,863,524**	**6,162,893**	**299,369**	**391,830**	**482,546**	**5.1**	**7.2**	**8.5**
Broad-Money Liabilities (M3)	**4,442,355**	**4,674,258**	**4,878,706**	**5,171,689**	**292,984**	**436,351**	**497,431**	**6.0**	**9.8**	**10.6**
Currency Outside Depository Corporations and Transferable Deposits (Narrow Money)	1,395,061	1,492,404	1,509,421	1,603,481	94,060	114,360	111,077	6.2	8.2	7.4
Other Deposits (Quasi-Money)	2,959,598	3,093,925	3,307,481	3,482,198	174,717	347,883	388,273	5.3	11.8	12.5
Securities Other Than Shares Included in Broad Money (Deposit Substitutes)	87,696	87,929	61,803	86,010	24,207	-25,893	-1,919	39.2	-29.5	-2.2
Transferable & Other Deposits in Foreign Currency (FCDs-Res)	**1,029,340**	**1,006,089**	**984,819**	**991,204**	**6,385**	**-44,521**	**-14,885**	**0.6**	**-4.3**	**-1.5**
B. Liabilities Excluded from Broad-Money (Other Liabilities)	**53,225**	**65,423**	**42,855**	**57,717**	**14,862**	**-10,370**	**-7,706**	**34.7**	**-19.5**	**-11.8**
Bills Payable	51,330	63,528	42,016	56,879	14,862	-9,313	-6,649	35.4	-18.1	-10.5
Restricted Deposits	1,895	1,895	838	838	0	-1,057	-1,057	-	-	-
Deposits with Other Depository Corporations Under Liquidation	1,895	1,895	838	838	0	-1,057	-1,057	-	-	-
Narrow Money	**1,395,061**	**1,492,404**	**1,509,421**	**1,603,481**	**94,060**	**114,360**	**111,077**	**6.2**	**8.2**	**7.4**
Currency Outside Depository Corporations (Currency in Circulation)	445,673	518,554	485,201	557,490	72,290	39,528	38,937	14.9	8.9	7.5
Transferable Deposits (Demand Deposits)	949,388	973,851	1,024,221	1,045,991	21,770	74,833	72,140	2.1	7.9	7.4
Other Deposits (Quasi-Money)	**2,959,598**	**3,093,925**	**3,307,481**	**3,482,198**	**174,717**	**347,883**	**388,273**	**5.3**	**11.8**	**12.5**
Savings Deposits	1,893,591	2,020,410	2,095,947	2,213,306	117,358	202,356	192,895	5.6	10.7	9.5
Time Deposits	1,066,007	1,073,515	1,211,534	1,268,893	57,359	145,527	195,378	4.7	13.7	18.2

[p] Preliminary

Source: Department of Economic Statistics

6 SELECTED DOMESTIC INTEREST RATES [1]

for periods indicated
in percent per annum

	Nominal Interest Rates			Real Interest Rates [7]		
	2010	2011	2012	2010	2011	2012
Borrowing Rates of Banks						
Interbank Call Loans	4.2202	4.5646	4.0620	0.3202	-0.0354	0.8620
Savings Deposits [2]	1.6000	1.6200	1.3410	-2.3000	-2.9800	-1.8590
Time Deposits [2]						
(All Maturities)	2.9910	2.8420	2.8260	-0.9090	-1.7580	-0.3740
Manila Reference Rates [3]						
(All Maturities)	4.8125	4.8125	3.9375	0.9125	0.2125	0.7375
Lending Rates						
All Maturities [4]	7.6650	6.6340	5.6530	3.7650	2.0340	2.4530
High [5]	8.6981	7.7469	7.8382	4.7981	3.1469	4.6382
Low [6]	6.5469	5.6178	5.5649	2.6469	1.0178	2.3649
Bangko Sentral Rates						
R/P (Overnight)	6.0000	6.2500	6.1250	2.1000	1.6500	2.9250
R/P (Term)	N.T.	N.T.	N.T.	N.T.	N.T.	N.T.
RR/P (Overnight)	4.0000	4.3480	3.8850	0.1000	-0.2520	0.6850
RR/P (Term)	4.0957	4.5564	3.8513	0.1957	-0.0436	0.6513
Rediscounting	3.9580	4.3550	3.9020	0.0580	-0.2450	0.7020
Rate on Government Securities						
Treasury Bills (All Maturities)	4.0340	1.8670	1.8260	0.1340	-2.7330	-1.3740
91-Days	3.7280	1.3710	1.5830	-0.1720	-3.2290	-1.6170
182-Days	3.9650	1.6920	1.7590	0.0650	-2.9080	-1.4410
364-Days	4.2570	2.2640	1.9650	0.3570	-2.3360	-1.2350
Government Securities in the Secondary Market [8]						
3 Months	1.3192	1.6581	0.4865	-2.2808	-2.5419	-2.4135
6 Months	1.8077	1.7542	0.7885	-1.7923	-2.4458	-2.1115
1-Year	2.5192	1.9715	0.9885	-1.0808	-2.2285	-1.9115
2-Years	3.4846	2.6673	3.0577	-0.1154	-1.5327	0.1577
3-Years	4.2288	3.4423	3.8258	0.6288	-0.7577	0.9258
4-Years	4.5019	4.7885	3.9865	0.9019	0.5885	1.0865
5-Years	5.0308	5.0823	4.1058	1.4308	0.8823	1.2058
7-Years	5.3719	5.2650	4.1385	1.7719	1.0650	1.2385
10-Years	6.1000	5.4135	4.4000	2.5000	1.2135	1.5000
20-Years	8.1692	6.5827	5.9692	4.5692	2.3827	3.0692
25-Years	8.1727	6.5731	5.8962	4.5727	2.3731	2.9962

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

7 CROSS RATES OF THE PESO

period averages

pesos per unit of foreign currency

		US Dollar	Japanese Yen	Pound Sterling	Hongkong Dollar	Swiss Franc	Canadian Dollar	Singapore Dollar	Australian Dollar	Bahrain Dollar	Saudi Rial	Brunei Dollar	Indo Rupiah	Thai Baht	UAE Dirham	EURO
2010	**Ave**	**45.1097**	**0.5144**	**69.7563**	**5.8067**	**43.3050**	**43.7844**	**33.1059**	**41.4212**	**119.6651**	**12.0295**	**32.9847**	**0.0050**	**1.4232**	**12.2830**	**59.8705**
	Jan	46.0276	0.5046	74.4366	5.9303	44.5854	44.1656	32.9759	42.0623	122.1016	12.2761	32.8582	0.0050	1.3939	12.5370	65.7983
	Feb	46.3116	0.5135	72.5576	5.9624	43.2552	43.8398	32.8129	41.0011	122.8524	12.3502	32.6971	0.0050	1.3978	12.6107	63.4411
	Mar	45.7425	0.5056	68.9069	5.8940	42.8848	44.6427	32.6957	41.6759	121.3424	12.1981	32.5793	0.0050	1.4064	12.4549	62.1239
	Apr	44.6266	0.4776	68.4958	5.7490	41.7933	44.4378	32.3232	41.3243	118.3850	11.9003	32.2066	0.0049	1.3832	12.1510	59.9336
	May	45.5971	0.4966	66.8279	5.8557	40.2645	43.8025	32.7030	39.5683	120.9575	12.1591	32.5861	0.0050	1.4084	12.4152	57.1482
	Jun	46.3027	0.5089	68.2180	5.9455	40.9523	44.6243	33.1281	39.5009	122.8291	12.3475	33.0100	0.0051	1.4275	12.6071	56.5910
	Jul	46.3203	0.5286	70.7318	5.9565	43.9318	44.3394	33.6261	40.5152	122.8767	12.3522	33.5045	0.0051	1.4339	12.6124	59.1364
	Aug	45.1825	0.5286	70.8335	5.8160	43.4189	43.5194	33.3330	40.7052	119.8692	12.0487	33.2105	0.0050	1.4211	12.3019	58.3979
	Sep	44.3137	0.5249	68.9797	5.7063	44.2407	42.8151	33.1916	41.4590	117.5500	11.8173	33.0677	0.0049	1.4371	12.0662	57.9012
	Oct	43.4449	0.5300	68.8718	5.5999	44.8814	42.6863	33.3227	42.6098	115.2469	11.5855	33.1954	0.0049	1.4503	11.8294	60.3116
	Nov	43.4918	0.5278	69.5411	5.6094	44.2443	42.9965	33.5559	43.1251	115.3762	11.5981	33.4270	0.0049	1.4585	11.8421	59.5680
	Dec	43.9548	0.5267	68.6753	5.6550	45.2073	43.5435	33.6024	43.5076	116.5944	11.7209	33.4745	0.0049	1.4607	11.9677	58.0953
2011	**Ave**	**43.3131**	**0.5436**	**69.4551**	**5.5645**	**48.9662**	**43.8119**	**34.4567**	**44.6817**	**114.9035**	**11.5500**	**34.3201**	**0.0049**	**1.4219**	**11.7930**	**60.2791**
	Jan	44.1722	0.5350	69.6606	5.6790	46.2116	44.4570	34.3415	44.0517	117.1804	11.7796	34.2085	0.0049	1.4482	12.0268	59.0151
	Feb	43.7031	0.5293	70.4721	5.6109	46.0159	44.2020	34.2489	44.0366	115.9286	11.6540	34.1152	0.0049	1.4237	11.8993	59.6914
	Mar	43.5160	0.5335	70.3743	5.5850	47.3595	44.5723	34.3116	43.9773	115.4310	11.6040	34.1769	0.0050	1.4333	11.8486	60.9427
	Apr	43.2402	0.5190	70.6571	5.5619	48.0457	45.0826	34.6324	45.6185	114.7104	11.5310	34.4943	0.0050	1.4375	11.7736	62.3995
	May	43.1307	0.5317	70.5236	5.5488	49.3740	44.6060	34.8410	46.0878	114.4305	11.5015	34.7008	0.0050	1.4284	11.7432	61.8629
	Jun	43.3657	0.5386	70.4189	5.5726	51.5988	44.3832	35.1330	45.9843	115.0533	11.5644	34.9913	0.0051	1.4232	11.8072	62.4391
	Jul	42.8088	0.5389	69.0626	5.4967	51.9290	44.7758	35.1642	46.0799	113.5634	11.4159	35.0203	0.0050	1.4211	11.6557	61.1949
	Aug	42.4209	0.5505	69.4325	5.4408	54.6484	43.2776	35.0881	44.5780	112.5439	11.3124	34.9436	0.0050	1.4214	11.5501	60.7724
	Sep	43.0256	0.5599	67.9974	5.5202	49.5972	43.0748	34.4720	44.1290	114.1370	11.4726	34.3344	0.0049	1.4171	11.7147	59.3496
	Oct	43.4514	0.5669	68.3653	5.5856	48.3373	42.4633	33.9693	43.8464	115.2725	11.5864	33.8370	0.0049	1.4070	11.8306	59.4688
	Nov	43.2745	0.5587	68.3853	5.5605	47.6337	42.2048	33.5505	43.6286	114.7998	11.5394	33.4209	0.0048	1.3992	11.7824	58.6807
	Dec	43.6486	0.5606	68.1115	5.6121	46.8433	42.6439	33.7275	44.1626	115.7911	11.6391	33.5977	0.0048	1.4032	11.8840	57.5321
2012	**Ave**	**42.2288**	**0.5299**	**66.9249**	**5.4441**	**45.0619**	**42.2570**	**33.8041**	**43.7274**	**112.0233**	**11.2607**	**33.6685**	**0.0045**	**1.3595**	**11.4975**	**54.3079**
	Jan	43.6191	0.5670	67.6569	5.6185	46.4833	43.0283	34.0705	45.3095	115.7204	11.6315	33.9379	0.0048	1.3818	11.8760	56.2828
	Feb	42.6608	0.5448	67.4003	5.5017	46.7513	42.7692	34.0289	45.7292	113.1728	11.3759	33.8937	0.0047	1.3882	11.6151	56.4222
	Mar	42.8574	0.5199	67.8338	5.5216	46.9533	43.1664	34.0664	45.2096	113.6969	11.4280	33.9315	0.0047	1.3975	11.6687	56.6288
	Apr	42.6998	0.5253	68.4145	5.5012	46.8292	43.0165	34.1571	44.2003	113.2677	11.3863	34.0210	0.0047	1.3841	11.6256	56.2914
	May	42.8515	0.5375	68.2662	5.5199	45.6900	42.4553	33.9592	42.7908	113.6718	11.4266	33.8251	0.0046	1.3704	11.6670	54.8780
	Jun	42.7765	0.5397	66.5015	5.5130	44.6523	41.6112	33.4579	42.5907	113.4713	11.4065	33.3276	0.0046	1.3518	11.6467	53.6192
	Jul	41.9054	0.5302	65.3765	5.4033	42.9574	41.3260	33.2304	43.0925	111.1611	11.1746	33.0991	0.0044	1.3250	11.4095	51.5881
	Aug	42.0452	0.5349	66.0660	5.4213	43.3782	42.3114	33.7009	44.0751	111.5326	11.2120	33.5664	0.0044	1.3384	11.4477	52.0961
	Sep	41.7490	0.5341	67.2180	5.3843	44.4168	42.6565	33.8922	43.3724	110.7502	11.1330	33.7552	0.0044	1.3467	11.3668	53.6856
	Oct	41.4521	0.5258	66.6237	5.3477	44.4393	42.0520	33.8484	42.6505	109.9634	11.0539	33.7108	0.0043	1.3515	11.2860	53.7545
	Nov	41.1222	0.5082	65.5939	5.3060	43.7294	41.2393	33.6142	42.7514	109.0981	10.9656	33.4773	0.0043	1.3399	11.1962	52.7036
	Dec	41.0067	0.4914	66.1474	5.2914	44.4629	41.4520	33.6230	42.9570	108.7732	10.9348	33.4760	0.0043	1.3388	11.1648	53.7443

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO
period average
December 1980 = 100

	NOMINAL			REAL		
	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]	Major Trading Partners [1]	Competing Countries Broad [2]	Competing Countries Narrow [3]
2010	**13.30**	**36.63**	**77.72**	**84.08**	**137.65**	**173.16**
Jan	12.79	36.50	78.23	79.99	136.89	173.97
Feb	12.87	36.54	78.18	80.57	136.06	172.85
Mar	13.10	36.46	77.75	81.98	136.52	172.64
Apr	13.55	36.80	78.34	85.21	137.31	172.62
May	13.55	36.64	77.76	85.23	138.18	175.67
Jun	13.44	36.29	76.50	84.82	138.01	173.32
Jul	13.12	35.97	75.67	83.93	137.21	170.49
Aug	13.32	36.42	76.73	85.39	139.27	173.63
Sep	13.50	36.90	77.85	85.52	138.75	173.62
Oct	13.40	37.09	78.67	84.43	137.36	173.50
Nov	13.46	37.01	78.58	85.64	138.61	173.24
Dec	13.52	36.92	78.42	86.27	137.62	172.39
2011	**13.17**	**40.97**	**85.56**	**86.03**	**143.01**	**176.22**
Jan	13.18	40.86	85.82	85.13	140.89	173.51
Feb	13.22	41.10	86.15	85.82	141.73	174.48
Mar	13.14	40.83	84.95	85.07	141.35	172.94
Apr	13.15	40.56	84.67	85.26	140.23	171.32
May	13.14	40.34	84.07	85.23	141.37	174.99
Jun	13.04	40.18	83.86	84.98	142.07	175.87
Jul	13.20	40.42	84.51	87.28	143.28	177.09
Aug	13.23	40.80	85.06	87.33	144.65	178.23
Sep	13.20	41.15	85.70	86.24	144.10	177.78
Oct	13.10	41.59	86.45	85.83	144.61	178.63
Nov	13.22	41.90	87.61	87.09	146.56	180.10
Dec	13.24	41.93	87.84	87.05	145.23	179.64
2012	**13.86**	**43.66**	**92.70**	**91.80**	**151.90**	**189.86**
Jan	13.32	41.82	87.69	87.57	144.39	178.00
Feb	13.54	42.21	88.59	88.38	144.58	178.25
Mar	13.62	42.40	89.32	88.59	145.34	180.00
Apr	13.64	42.72	90.05	89.30	146.69	180.78
May	13.67	42.96	90.55	89.81	149.54	186.90
Jun	13.79	43.64	92.28	91.03	153.23	191.72
Jul	14.15	44.40	94.25	95.29	157.57	196.30
Aug	14.05	44.26	94.28	94.88	157.59	197.49
Sep	13.95	44.50	95.06	92.89	156.04	197.05
Oct	14.04	44.81	96.16	93.24	155.16	197.05
Nov	14.28	45.05	96.98	95.32	157.01	197.72
Dec	14.30	45.09	97.21	95.32	155.60	197.06

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

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

[3] Indonesia, Malaysia, Thailand

Source: BSP

8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS [p]

as of end - December 2011 - 2012
in million pesos

	LEVELS		GROWTH RATE
	2011	2012	(%)
TOTAL	4,067,776	4,528,190	11.3
Demand Deposits	973,851	1,045,991	7.4
Savings Deposits	2,020,410	2,213,306	9.5
Time Deposits	1,073,515	1,268,893	18.2

[p] Preliminary

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]

as of periods indicated

in billion pesos

Institutions	2011	June	2012	% Change
	2011		2012	
Total	**9,645.6**		**10,449.9** [p]	**8.3** [p]
Banks	7,643.4		8,355.8 [p]	9.3 [p]
Universal and Commercial Banks [2]	6,833.0		7,486.7	9.6
Thrift Banks [2]	623.6		681.6	9.3
Rural Banks	186.8		187.6 [a]	0.5
Non-Banks [3]	2,002.2		2,094.1 [b]	4.6

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

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

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

[a] As of end June 2012

[b] As of end September 2012

[p] Preliminary

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]

as of periods indicated

Institutions	Sep-2011 September	Sep-2012 September	% Change
Total	**25,828**	**26,745**	**3.6**
Head Offices	7,433	7,271	-2.2
Branches/Agencies	18,395	19,474	5.9
Banks	8,965	9,301	3.7
Head Offices	730	705	-3.4
Branches/Agencies	8,235	8,596	4.4
Universal and Commercial Banks	4,813	5,028	4.5
Head Offices	38	37	-2.6
Branches/Agencies	4,775	4,991	4.5
Thrift Banks	1,394	1,545	10.8
Head Offices	70	69	-1.4
Branches/Agencies	1,324	1,476	11.5
Savings and Mortgage Banks	887	1,020	15.0
Head Offices	27	28	3.7
Branches/Agencies	860	992	15.3
Private Development Banks	340	346	1.8
Head Offices	19	18	-5.3
Branches/Agencies	321	328	2.2
Stock Savings and Loan Associations	140	151	7.9
Head Offices	21	20	-4.8
Branches/Agencies	119	131	10.1
MicroFinance Banks	27	28	3.7
Head Offices	3	3	0.0
Branches/Agencies	24	25	4.2
Rural Banks	2,758	2,728	-1.1
Head Offices	622	599	-3.7
Branches/Agencies	2,136	2,129	-0.3
Non-Banks [2]	16,863	17,444	3.4
Head Offices	6,703	6,566	-2.0
Branches/Agencies	10,160	10,878	7.1

[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

	2010		2011		2012		Percent Change 2011		Percent Change 2012	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**429,566.1**	**1,207,383.7**	**1,056,595.6**	**1,422,591.4**	**1,043,119.1**	**1,771,711.1**	**146.0**	**17.8**	**-1.3**	**24.5**
Financial	4,087.7	159,896.9	4,123.6	170,154.2	5,198.5	282,982.5	0.9	6.4	26.1	66.3
Industrial	37,986.4	375,977.2	49,117.9	374,093.6	142,663.3	419,111.7	29.3	-0.5	190.5	12.0
Holding Firms	73,904.8	231,100.0	68,701.3	288,733.1	181,570.6	400,478.3	-7.0	24.9	164.3	38.7
Property	70,098.7	171,800.5	64,698.0	150,226.1	76,464.6	244,175.2	-7.7	-12.6	18.2	62.5
Services	36,705.2	192,723.4	44,322.9	235,887.4	85,298.6	287,069.4	20.8	22.4	92.4	21.7
Mining & Oil	206,783.2	75,884.6	825,629.8	203,491.7	551,922.0	137,881.6	299.3	168.2	-33.2	-32.2
SME	0.3	1.2	2.2	5.4	1.7	12.4	637.2	359.0	-22.1	130.3
Composite Index (PSEi)										
Average	**3,526.0**		**4,188.3**		**5,178.4**		**18.8**		**23.6**	
End of Period	**4,201.1**		**4,372.0**		**5,812.7**		**4.1**		**33.0**	

Source: PSE

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

	2011	2012 p	Growth (%) 2012 p
Current Account	6970	7126	2.2
Export	82189	92376	12.4
Import	75219	85250	13.3
Goods, Services, and Primary Income	-11410	-12046	-5.6
Export	63337	72658	14.7
Import	74747	84704	13.3
Goods and Services	-11690	-11300	3.3
Export	56134	64884	15.6
Import	67824	76184	12.3
Goods	-16973	-15205	10.4
Credit: Exports	38276	46284	20.9
Debit: Imports	55249	61489	11.3
Services	5283	3905	-26.1
Credit: Exports	17858	18600	4.2
Debit: Imports	12575	14695	16.9
Primary Income	280	-746	-366.4
Credit: Receipts	7203	7774	7.9
Debit: Payments	6923	8520	23.1
Secondary Income	18380	19172	4.3
Credit: Receipts	18852	19718	4.6
Debit: Payments	472	546	15.7
Capital Account	130	136	4.6
Credit: Receipts	169	152	-10.1
Debit: Payments	39	16	-59.0
Financial Account	-5610	-6131	-9.3
Net Acquisition of Financial Assets	433	4134	854.7
Net Incurrence of Liabilities	6043	10265	69.9
Direct Investment	-1277	-952	25.5
Net Acquisition of Financial Assets	539	1845	242.3
Net Incurrence of Liabilities	1816	2797	54.0
Portfolio Investment	-4390	-3523	19.7
Net Acquisition of Financial Assets	-277	1204	534.7
Net Incurrence of Liabilities	4113	4727	14.9
Financial Derivatives	-1002	-13	98.7
Net Acquisition of Financial Assets	-1541	-276	82.1
Net Incurrence of Liabilities	-539	-263	51.2
Other Investment	1059	-1643	-255.1
Net Acquisition of Financial Assets	1712	1361	-20.5
Net Incurrence of Liabilities	653	3004	360.0
NET UNCLASSIFIED ITEMS	-1310	-4157	-217.3
OVERALL BOP POSITION	11400	9236	-19.0
Debit: Change in Reserve Assets	11399	9235	-19.0
Credit: Change in Reserve Liabilities	-1	-1	0.0
Use of Fund Credits	0	0	0.0
Short-term	-1	-1	0.0

p - Preliminary
Technical Notes:
1. Balance of Payments Statistics were revised based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
2. Financial Account, including Reserve Assets, is calculated as sum of net acquisitions of financial assets less net incurrence of liabilities.
3. Balances in the current and capital accounts are derived by deducting debit entries from credit entries.
4. Balances in the financial account are derived by deducting net incurrence of liabilities from net acquisition of financial assets.
5. 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.
6. 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.
7. Net unclassified items is an offsetting account to the overstatement or understatement in either receipts or payments of the recorded BOP components vis-à-vis the overall BOP position.
8. Data on Deposit-taking corporations, except the central bank consist of transactions of commercial and thrift banks and offshore banking units (OBUs).

11a EXPORTS BY MAJOR COMMODITY GROUPS
for periods indicated
volume in 000 metric tons; unit price in U.S.$/m.t.; fob value in million U.S. dollars

Commodities	2012 p			2011			Growth (%) 2012		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Coconut Products			**1364**			**1784**			**-23.5**
Copra	1	1073	1	..	1030	--	0.0	4.2	0.0
Coconut Oil	857	1185	1016	827	1724	1425	3.6	-31.3	-28.7
Desiccated Coconut	69	2873	197	109	2634	287	-36.7	9.1	-31.4
Copra Meal/Cake	446	274	122	314	187	59	42.0	46.5	106.8
Others			28			13			115.4
Sugar and Products			**177**			**390**			**-54.6**
Centrifugal & Refined	202	539	109	582	609	354	-65.3	-11.5	-69.2
Molasses	124	172	21	300	101	30	-58.7	70.3	-30.0
Others			46			6			666.7
Fruits and Vegetables			**1205**			**991**			**21.6**
Canned Pineapple	223	985	220	207	943	195	7.7	4.5	12.8
Pineapple Juice	89	570	51	79	552	44	12.7	3.3	15.9
Pineapple Concentrates	33	1300	43	33	1185	39	0.0	9.7	10.3
Bananas	2646	244	647	2056	230	472	28.7	6.1	37.1
Mangoes	18	826	15	21	791	17	-14.3	4.4	-11.8
Others			230			224			2.7
Other Agro-Based Products			**807**			**854**			**-5.5**
Fish, Fresh or Preserved	93	4518	419	100	3657	366	-7.0	23.5	14.5
Of which: Shrimps & Prawns	3	12460	35	7	8920	59	-57.1	39.7	-40.7
Coffee, Raw, not Roasted	..	6268	--	..	10265	--	-	-38.9	-
Abaca Fibers	10	552	6	11	1276	13	-9.1	-56.7	-53.8
Tobacco,Unmanufactured	15	4959	76	45	2919	131	-66.7	69.9	-42.0
Natural Rubber	39	1595	62	42	1893	80	-7.1	-15.7	-22.5
Ramie Fibers, Raw or Processed	0	0	0	0	0	0	-	-	-
Seaweeds, Dried	21	1460	31	26	2140	56	-19.2	-31.8	-44.6
Rice	0	0	0	0	0	0	-	-	-
Others			213			207			2.9
Forest Products 1/			**59**			**50**			**18.0**
Logs	..	38	--	2	38	--	-100.0	0.0	-
Lumber	392	74	29	404	61	25	-3.0	21.3	16.0
Plywood	13	848	11	40	611	24	-67.5	38.8	-54.2
Veneer Sheets/Corestocks	1	459	1	..	802	--	-	-42.8	-
Others			15			**1.238**			**-**
Mineral Products			**2265**			**2840**			**-20.2**
Copper Concentrates	168	1195	200	264	1277	337	-36.4	-6.4	-40.7
Copper Metal	64	7861	505	132	9160	1212	-51.5	-14.2	-58.3
Gold 2/	69	1576	108	145	1481	214	-52.7	6.4	-49.5
Iron Ore Agglomerates	3175	27	86	2829	22	63	12.2	22.7	36.5
Chromium Ore	120	69	8	112	75	8	7.1	-8.0	0.0
Nickel			0			0			-
Others			1357			1005			35.0
Petroleum Products			**465**			**648**			**-28.2**
Manufactures			**39766**			**30602**			**29.9**
Electronic Products 3/			17789			15601			14.0
Other Electronics			2433			1448			68.0
Garments 3/			1400			1419			-1.3
Textile Yarns/Fabrics			170			184			-7.6
Footwear			16			13			23.1
Travel Goods and Handbags			60			40			50.0
Wood Manufactures			2159			1683			28.3
Furniture & Fixtures			180			165			9.1
Chemicals			1943			1939			0.2
Non-Metallic Mineral Manufactures			145			177			-18.1
Machinery & Transport Equipment			5314			2811			89.0
Processed Food and Beverages			1447			1191			21.5
Iron & Steel			253			202			25.2
Baby Carr., Toys, Games & Sporting Goods			239			188			27.1
Basketwork, Wickerwork, & Other Articles of Plaiting Materials			43			46			-6.5
Misc. Manufactured Articles, n.e.s.			1534			423			262.6
Others 3/			4641			3072			51.1
Special Transactions 3/			**90**			**83**			**8.4**
TOTAL EXPORTS 3/			**46198**			**38242**			**20.8**
Coverage adjustments 3/			**86**			**34**			**152.9**
TOTAL EXPORTS			**46284**			**38276**			**20.9**

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

1/ Volume in 000 cubic meters; unit price in US$/cu.m.
2/ Volume in 000 troy ounces; unit price in US$/oz t.
3/ Excludes value of goods that do not involve change in ownership such as consigned, returned/replacement, and temporarily exported goods

11b IMPORTS BY MAJOR COMMODITY GROUP
for the periods indicated

Commodities	2012 p			2011			Growth (%) 2012		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Capital Goods			**11748**			**9974**			**17.8**
Power Generating & Specialized Machines			3792			3513			7.9
Office & EDP Machines			1956			1829			6.9
Telecommunication Eqpt. & Elect. Mach.			2688			2428			10.7
Land Transport Eqpt. excl. Passenger Cars									
& Motorized Cycle			1301			1057			23.1
Aircraft, Ships & Boats			1406			596			135.9
Prof. Sci. & Cont. Inst.; Photo-			605			551			9.8
graphic Eqpt. & Optical Goods									
Raw Materials & Intermediate Goods			**25323**			**24150**			**4.9**
Unprocessed Raw Materials			2768			2729			1.4
Wheat	2996	294	882	2787	310	864	7.5	-5.2	2.1
Corn	136	569	78	66	670	44	106.1	-15.1	77.3
Unmilled cereals excl. rice & corn			11			10			10.0
Crude materials, inedible			1658			1664			-0.4
Pulp & waste paper			43			94			-54.3
Cotton	8	1823	14	12	3221	39	-33.3	-43.4	-64.1
Syn. fibers	31	2812	88	33	2899	96	-6.1	-3.0	-8.3
Metalliferous ores			790			883			-10.5
Others			723			552			31.0
Tobacco, unmanufactured			139			147			-5.4
Semi-Processed Raw Materials			22554			21419			5.3
Feeding stuffs for animals	2017	481	970	2696	312	842	-25.2	54.2	15.2
Animal & vegetable oils & fats			383			543			-29.5
Chemical			6253			6373			-1.9
Chemical compounds			1536			1681			-8.6
Medicinal & pharmaceutical chemicals			959			914			4.9
Urea	594	377	224	578	369	213	2.8	2.2	5.2
Fertilizer excl. urea	975	346	338	890	329	293	9.6	5.2	15.4
Artificial resins			1545			1625			-4.9
Others			1651			1647			0.2
Manufactured goods			5139			5354			-4.0
Paper & paper products	893	827	739	879	840	738	1.6	-1.5	0.1
Textile yarn, fabrics & made-up articles			637			748			-14.8
Non-metallic mineral mftures.			534			436			22.5
Iron & steel	1631	838	1367	1558	866	1349	4.7	-3.2	1.3
Non-ferrous metals			690			911			-24.3
Metal products			684			715			-4.3
Others			488			457			6.8
Mat/Acc for the mftr. of elect. eqpt.			9722			8208			18.4
Iron ore, not agglomerated	616	143	88	594	170	101	3.7	-15.9	-12.9
Mineral Fuels & Lubricant			**13665**			**12552**			**8.9**
Coal, Coke	7799	90	698	7046	85	598	10.7	5.9	16.7
Petroleum Crude [1/]	69.77	107.78	7519	70.80	109.96	7785	-1.5	-2.0	-3.4
Others [1/]	43.84	124.26	5448	34.03	122.49	4169	28.8	1.4	30.7
Consumer Goods			**7694**			**6989**			**10.1**
Durable			3683			3212			14.7
Passenger cars & motorized cycle			2053			1637			25.4
Home appliances			359			346			3.8
Misc. manufactures			1271			1229			3.4
Non-Durable			4010			3776			6.2
Food & live animals chiefly for food			3708			3507			5.7
Dairy products	321	2375	762	313	2698	844	2.6	-12.0	-9.7
Fish & fish preparation	241	862	207	187	820	153	28.9	5.1	35.3
Rice	1009	387	391	708	500	354	42.5	-22.6	10.5
Fruits & vegetables			375			322			16.5
Others			1973			1834			7.6
Beverages & tobacco mfture.			85			70			21.4
Articles of apparel, access.			217			199			9.0
Special Transactions			**100**			**6**			**1566.7**
TOTAL IMPORTS, Trade Statistics [2/]			**58530**			**53671**			**9.1**
Coverage Adjustments			2959			1578			87.5
TOTAL IMPORTS, BPM6			**61489**			**55249**			**11.3**

[1/] Volume in million barrels; unit price in U.S.$/barrel
[2/] Excludes value of goods that do not involve change in ownership such as consigned, returned/placement, and temporarily imported goods
- - Less than one million US dollars
. . Less than one thousand metric tons
p - Preliminary
Notes: Components may not add up to total due to rounding.

Source: National Statistics Office

12 GROSS INTERNATIONAL RESERVES

end-of-period

in million US dollars

		GIR (1=2 to 6)	Reserve Position in the Fund (2)	Gold (3)	SDRs (4)	Foreign Investments (5)	Foreign Exchange (6)	Import Cover [1] (7)	Short-Term External Debt Cover (in percent) Original Maturity (8)	Residual Maturity [2] (9)
2010	Jan	45,591.72	136.32	5,399.34	1,131.35	38,129.63	795.08	8.70	1,139.22	519.03
	Feb	45,764.36	134.43	5,579.01	1,115.56	38,628.93	306.43	8.55	1,143.54	507.42
	Mar	45,599.54	133.05	5,951.86	1,104.12	37,891.20	519.31	8.31	872.72	464.35
	Apr	46,943.90	131.96	6,312.47	1,095.07	39,058.22	346.18	8.34	898.45	477.27
	May	47,689.64	129.32	6,674.68	1,073.09	39,508.84	303.71	8.26	912.72	482.93
	Jun	48,704.40	129.72	6,859.99	1,076.42	40,127.37	510.90	8.34	885.86	508.50
	Jul	49,049.18	133.31	6,676.52	1,105.26	40,792.67	341.42	8.24	892.13	508.12
	Aug	49,905.99	132.46	7,057.09	1,098.20	41,306.24	312.00	8.23	907.71	495.74
	Sep	53,754.25	136.61	7,394.73	1,132.61	44,784.85	305.45	8.66	936.16	519.26
	Oct	57,153.59	256.78	6,811.80	1,148.06	48,640.52	296.43	9.01	995.36	552.48
	Nov	60,565.58	248.38	6,913.20	1,110.43	52,036.67	256.90	9.39	1,054.78	588.02
	Dec	62,373.09	250.70	7,010.28	1,120.80	53,440.59	550.72	9.52	990.84	556.80
2011	Jan	63,540.53	355.79	6,581.73	1,136.74	55,032.52	433.75	9.63	1,009.38	560.62
	Feb	63,890.17	358.32	6,970.17	1,144.87	55,107.05	309.76	9.59	1,014.94	605.42
	Mar	65,983.39	361.16	7,080.26	1,153.93	57,002.62	385.42	9.80	973.49	598.65
	Apr	68,488.92	369.23	7,598.61	1,179.72	59,003.18	338.18	10.07	1,010.46	620.15
	May	68,853.52	373.60	7,589.35	1,165.17	59,398.84	326.56	10.15	1,015.84	618.19
	Jun	68,996.12	373.53	7,616.77	1,164.93	59,478.38	362.51	10.15	964.17	601.69
	Jul	71,883.71	456.37	7,678.79	1,163.88	62,178.26	406.41	10.56	1,004.52	630.28
	Aug	75,940.91	459.33	7,553.15	1,171.62	66,413.99	342.82	11.14	1,061.22	688.56
	Sep	75,174.01	447.42	7,456.76	1,136.87	65,709.58	423.38	11.08	1,051.83	683.28
	Oct	75,831.60	449.84	7,910.99	1,143.02	65,911.09	416.66	11.19	1,061.03	689.19
	Nov	76,206.22	444.54	8,058.09	1,129.73	66,136.67	437.19	11.28	1,066.27	695.44
	Dec	75,302.43	472.11	8,012.75	1,117.87	65,276.16	423.54	11.21	1,073.75	709.93
2012	Jan	77,357.52	476.97	8,895.09	1,299.75	66,293.25	392.46	11.43	1,103.06	725.82
	Feb	77,011.25	478.49	8,888.28	1,303.99	65,992.03	348.46	11.32	1,098.12	679.83
	Mar	76,128.73	516.95	10,443.56	1,298.18	63,535.65	334.39	11.15	1,025.99	645.71
	Apr	76,537.86	531.12	10,386.51	1,300.65	63,925.84	393.74	11.28	1,031.51	650.39
	May	76,082.03	516.83	9,730.18	1,265.77	64,241.09	328.16	11.09	1,025.36	656.67
	Jun	76,129.60	519.32	9,980.57	1,271.88	64,034.92	322.91	11.00	1,083.85	679.00
	Jul	79,758.78	516.17	10,083.72	1,264.15	66,958.34	936.40	11.50	1,135.52	693.98
	Aug	80,728.07	524.04	10,551.54	1,275.75	67,533.33	843.41	11.61	1,149.32	695.15
	Sep	82,028.68	530.99	11,043.33	1,292.67	68,303.66	858.03	11.73	1,027.16	649.89
	Oct	81,747.29	528.31	10,519.82	1,286.13	68,616.16	796.87	11.69	1,023.63	646.53
	Nov	83,933.35	533.74	10,636.75	1,286.57	70,691.48	784.81	12.00	1,051.01	663.56
	Dec	83,831.36	534.48	10,352.97	1,288.34	70,728.19	927.38	11.99	1,049.73	657.60

[1] Number of months of average imports of goods and payment of services and income that can be financed by reserves.

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

Source: BSP

13 TOTAL EXTERNAL DEBT [1]

as of dates indicated
in million US dollars

	31 December 2011				31 December 2012			
	Short-term		Medium	Total	Short-term		Medium	Total
	Trade	Non-Trade	& Long-		Trade	Non-Trade	& Long-	
Grand Total	**2,889**	**4,124**	**53,428**	**60,442**	**3,118**	**5,365**	**51,855**	**60,337**
Public Sector	-	348	46,015 [a]	46,363	-	652	44,523 [a]	45,175
Banks	-	348	4,485	4,833	-	652	4,138	4,790
Bangko Sentral ng Pilipinas	-	-	1,465	1,465	-	-	1,451	1,451
Others	-	348	3,019	3,367	-	652	2,688	3,339
Non-Banks	-	-	41,530	41,531	-	-	40,385	40,385
CB-BOL	-	-	6	6	-	-	-	-
NG and Others	-	-	41,525	41,525	-	-	40,385	40,385
Private Sector	2,889	3,776	7,413	14,078	3,118	4,713	7,331	15,162
Banks	-	3,588	855	4,443	-	4,525	1,222	5,747
Foreign Bank Branches	-	880	86	966 [b]	-	788	43	831 [b]
Domestic Banks	-	2,708	769	3,478	-	3,737	1,179	4,916
Non-Banks	2,889 [c]	188	6,558 [d]	9,635	3,118 [c]	188	6,109 [d]	9,415

1 Total external debt covers BSP-approved/registered debt owed to non-residents, with classification by borrower based on primary obligor per covering loan/rescheduling agreement/document.

	31 Dec 2011	31 Dec 2012
Inclusion		
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	228	125
Exclusions		
b Due to Head Office/Branches Abroad accounts of branches and offshore banking units of foreign banks operating in the Philippines	5272	8077
c Loans without BSP approval/registration	1432	862
d Obligations under various capital lease agreements;	694	1214
Loans without BSP approval/registration	8777	10309

Source: BSP

14 SELECTED FOREIGN DEBT SERVICE INDICATORS

for periods indicated
in million US dollars

	2011 r/	2012 p/
Debt Service Burden (DSB) [1]	8,004	6,556
Principal	4,952	3,452
Interest	3,052	3,104
Export Shipments (XS) [3]	38,276	46,284
Exports of Goods and Receipts from Services and Income (XGSI) [2 3]	78,300	88,268
Current Account Receipts (CAR) [3]	82,189	92,376
Gross National Income (GNI)	297,326	329,517
Ratios (%) :		
DSB to XS	20.91	14.16
DSB to XGSI	10.22	7.43
DSB to CAR	9.74	7.10
DSB to GNI	2.69	1.99

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

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

[3] Based on the accounting principles prescribed under the Balance of Payments and International Investment Position Manual, 6th edition (BPM6)

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

	2011 Nov	2012 [u] Nov	Percent Change (%)
Assets	**3,797,391.7**	**3,959,912.6**	**4.3**
International Reserves	3,305,505.5	3,412,714.2	3.2
Domestic Securities	240,390.7	222,293.6	-7.5
Loans and Advances	111,258.7	120,441.6	8.3
Revaluation of International Reserves	0.0	55,424.0	
Bank Premises and Other Fixed Assets	14,865.2	16,306.3	9.7
Derivative Instruments in a Gain Position	2,486.7	191.2	-92.3
Other Assets	122,884.9	132,541.8	7.9
Liabilities	**3,659,653.5**	**3,901,995.0**	**6.6**
Currency Issue	562,028.3	596,955.0	6.2
Deposits	2,581,692.3	2,940,926.4	13.9
Reserve Deposits of Other Depository Corporations (ODCs)[1]	637,867.7	746,301.1	17.0
Reserve Deposits of Other Financial Corporations (OFCs)[2]	601.7	336.2	-44.1
Special Deposit Accounts[3]	1,687,966.2	1,700,751.8	0.8
Treasurer of the Philippines[4]	161,456.3	405,161.8	150.9
Foreign Financial Institutions	44,378.1	40,341.6	-9.1
Other Foreign Currency Deposits	18,251.2	18,247.4	0.0
Other Deposits[5]	31,171.3	29,786.5	-4.4
Foreign Loans Payable	970.9	53.0	-94.5
Net Bonds Payable	22,594.9	21,217.7	-6.1
Allocation of SDRs	56,736.5	52,591.1	-7.3
Derivatives Liability	158.1	121.5	-23.2
Derivative Instruments in a Loss Position	345.5	1,599.6	363.0
Net Revaluation of International Reserves	154,032.8	0.0	-100.0
Reverse Repurchase Agreements[3]	269,365.9	278,572.7	3.4
Other Liabilities	11,728.4	9,958.1	-15.1
Net Worth	137,738.2	57,917.6	-58.0
Capital	20,000.0	20,000.0	0.0
Surplus/Reserves	117,738.2	37,917.6	-67.8

Note: Breakdown may not add up to totals due to rounding.
[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).
[2] OFCs are trust units of banks.
[3] Includes accrued interest payables.
[4] Includes foreign currency deposits.
[5] Mostly GOCC deposits.
[u] Based on the unaudited BSP balance sheet as of end-November 2012 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

	2011 Nov	2012 [u] Nov	Percent Change (%)
Revenues	**113.0**	**61.0**	**-46.0**
Interest Income	41.9	37.5	-10.5
International Reserves	31.2	28.3	-9.3
Domestic Securities	5.4	4.2	-22.2
Loans and Advances	3.5	2.8	-20.0
Others	1.8	2.2	22.2
Miscellaneous Income	70.8	23.0	-67.5
Net income from Branches	0.3	0.5	66.7
Expenses	**107.1**	**101.0**	**-5.7**
Interest Expenses	87.7	83.7	-4.5
Reserve Deposits of ODCs and OFCs [1]	7.1	2.3	-67.6
Special Deposit Accounts	63.6	65.5	3.0
National Government Deposits	4.5	4.9	8.9
Reverse Repurchase Agreements	10.1	9.2	-8.9
Loans Payable	2.0	1.7	-15.0
Other Foreign Currency Deposits	0.0	0.0	
Other Liabilities	0.4	0.1	-75.0
Cost of Minting	4.7	4.7	0.0
Other Expenses	14.7	12.6	-14.3
Net Income Before Gain/(Loss) on FXR Fluctuations	**5.9**	**-40.0**	**-778.1**
Gain/Loss(-) on FXR Fluctuations [2]	-38.2	-46.3	-21.2
Provision for Income Tax	0.0	0.0	
Net Income	**-32.3**	**-86.3**	**-167.3**
Capital Reserves	0.0	0.0	
Net Income Available for Distribution	**-32.3**	**-86.3**	**-167.3**

Note: Breakdown may not add up to totals due to rounding.
[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs) while OFCs are trust units of banks.
[2] This represents realized gains or losses from fluctuations in FX rates arising from foreign currency-denominated transactions of the BSP, including: 1) rollover/re-investments of matured FX investments with foreign financial institutions and FX-denominated government securities; 2) servicing of matured FX obligations of the BSP; and 3) maturity of derivatives instruments.
[u] Based on the unaudited BSP income statement as of November 2012 prepared by the Financial Accounting Department of the BSP.

17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As of 30 November 2012 PHP000	2011 PHP000
Foreign currency financial assets		
Deposits with foreign banks	282,053,975	378,284,924
Other cash balances	333,382	207,673
Investment securities-available for sale	2,640,267,980	2,526,138,730
Loan to IMF	2,522,969	0
Gold	434,926,060	351,574,402
International Monetary Fund special drawing rights	52,609,872	49,299,753
Gross international reserves	3,412,714,238	3,305,505,482
Loans and advances	1,640,734	1,106,140
Other foreign currency receivables	59,725,798	49,848,141
Non-IR foreign currency	19,220	12,330
Derivative instruments in gain position	191,192	2,486,731
Total foreign currency financial assets	3,474,291,182	3,358,958,824
Local currency financial assets		
Investment in government securities-available for sale	222,293,606	240,390,719
Loans and advances	118,800,837	110,152,569
Due from administrator of funds	30,130,396	29,437,476
Other receivables	14,337,970	18,607,932
Total local currency financial assets	385,562,809	398,588,696
Total financial assets	3,859,853,991	3,757,547,520
Acquired assets held for sale	482,975	0
Investment property	10,185,282	9,885,818
Bank premises, furniture, fixtures and equipment	16,306,251	14,865,165
Intangibles	246,093	319,778
Inventories	8,884,583	9,390,651
Property dividends to NG	285,214	0
Revaluation of foreign currency accounts	55,423,988	0
Deferred tax assets	7,298,456	4,452,120
Miscellaneous assets	945,807	930,675
Total other assets	100,058,649	39,844,207
Total assets	3,959,912,640	3,797,391,727

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

17. BSP: CONDENSED STATEMENT OF CONDITION

(continuation)

Liabilities and Capital	As of 30 November	
	2012	2011
	PHP000	PHP000
Foreign currency financial liabilities		
Short-term deposits	35,214,971	22,422,271
Loans payable	53,043	970,927
Bonds payable	21,217,694	22,594,868
Allocation of International Monetary Fund special drawing rights	52,591,133	56,736,455
Derivative instruments in a loss position	1,599,612	345,455
Derivatives liability	121,461	158,078
Other liabilities	3,837,547	4,544,026
Total foreign currency financial liabilities	114,635,461	107,772,080
Local currency financial liabilities		
Government deposits	388,164,077	158,062,247
Deposits of banks and quasi banks	776,453,887	668,863,532
Deposits of the International Monetary Fund and other FIs	40,341,600	44,378,104
Securities sold under agreements to repurchase	278,572,664	1,957,332,125
Special deposit accounts	1,700,751,844	0
Total local currency financial liabilities	3,184,284,072	2,828,636,008
Total financial liabilities	3,298,919,533	2,936,408,088
Other liabilities		
Currency in circulation	596,954,960	562,028,262
Retirement benefit obligations	1,508,934	1,516,643
Miscellaneous liabilities	4,161,777	5,218,401
Deferred tax liability	43	0
Dividends payable	449,700	449,345
Interest rebate payable	49	0
Revaluation of foreign currency accounts	0	154,032,755
Total other liabilities	603,075,463	723,245,406
Total liabilities	3,901,994,996	3,659,653,494
Capital accounts		
Capital	20,000,000	20,000,000
Surplus	49,819,857	80,589,854
Unrealized gains/(losses) on investments	-4,198,045	-8,583,206
Capital reserves	78,600,771	78,024,437
Undivided profits/(loss) from operations	-86,304,939	-32,292,852
Total capital accounts	57,917,644	137,738,233
Total liabilities and capital accounts	3,959,912,640	3,797,391,727

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

Source: Financial Accounting Department

18 BSP: CONDENSED STATEMENT OF INCOME AND EXPENSES

with Budget Information[1]

Period ended November 30	2012 Budget (In Mn PHP)	2012 Actual (In Mn PHP)	2011 Actual (In Mn PHP)
Operating Income:			
Income from foreign currency financial assets			
Interest income	26,861	30,402	32,971
Fees, miscellaneous foreign currency income & trading gains foreign	670	17,726	66,549
Total income from foreign currency financial assets	27,532	48,128	99,521
Expenses on foreign currency financial liabilities			
Interest expense	2,139	1,740	2,060
Other foreign currency expenses	906	791	696
Total expenses on foreign currency liabilities	3,045	2,531	2,756
Foreign currency income	24,487	45,597	96,764
Income from local currency financial assets			
Interest income & trading gains local	9,387	7,124	9,110
Total Income from local currency financial assets	9,387	7,124	9,110
Expenses on local currency financial liabilities			
Interest expense	106,247	81,960	85,631
Impairment Losses on loans and advances	0	283	6
Final tax on interest income/discounts	1,291	841	1,074
Total expenses on local currency financial assets	107,539	83,084	86,711
Local currency income/(loss)	(98,152)	(75,961)	(77,601)
Total operating income	(73,665)	(30,363)	19,163
Currency printing and minting cost	7,216	4,663	4,678
Operating expenses:			
Personnel services, development and training	9,104	8,281	7,863
Traveling	309	240	313
Taxes and licenses	111	90	2,730
Currency and gold operations	200	185	172
Acquired Assets	290	182	117
Other services	2,471	1,609	1,748
Depreciation	594	600	549
Fidelity insurance	76	56	52
Light, fuel & water	214	219	188
Repairs & maintenance	503	228	213
Communication services	212	116	124
Supplies	111	101	63
Others[2]	761	289	560
Impairment losses on loans and advances[3]	0	78	(20)
Market decline of acquired assets[4]	29	5	(0)
Total operating expenses	12,513	10,670	12,924
Net operating income	(93,394)	(45,697)	1,561

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

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

18 BSP:CONDENSED STATEMENT OF INCOME AND EXPENSES

with Budget Information[1]

(continuation)

Period ended November 30	2012 Budget (In Mn PHP)	2012 Actual (In Mn PHP)	2011 Actual (In Mn PHP)
Other operating income	753	5,734	4,411
Net realized gains/(loss) on fX rates fluctuations	0	(46,343)	(38,265)
Profit/(loss) before income tax	(92,641)	(86,305)	(32,293)
Income tax paid	0	0	0
Profit/(loss) for the year	(92,641)	(86,305)	(32,293)

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

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