ISSN 1655-5112

ANNUAL REPORT
Volume I

2013

Bangko Sentral ng Pilipinas
Manila, Philippines

CONTENTS

The Governor's Foreword

Introduction

About the BSP
Our Vision and Mission
The Monetary Board
The Management Team
List of Acronyms, Abbreviations and Symbols

Part One: The Philippine Economy

Domestic Economy 1
Aggregate Output and Demand 1
Labor, Employment and Wages 4
Prices 5
Operations of the National Government 6
Monetary and Financial Conditions 7
Monetary Conditions 7
Monetary Aggregates 7
Interest Rates 8
Exchange Rates 10
Box Article 1:The New Nominal and Real Effective Exchange Rate Indices of the Philippine Peso 15
Financial Conditions 17
Performance of the Banking System 17
Stock Market Developments 23
Debt Securities Market Developments 26
Box Article 2:Impact of the US QE Tapering on the Philippine Economy 34
External Sector 38
Balance of Payments 38
International Reserves 42
External Debt 43

Part Two: The Operations and Policies of the BSP

Monetary Stability 47
Box Article 3:A Note on the Proposed BSP Charter Amendments and Its Implications on Monetary and Financial Stability 48
Financial System Stability 52
Box Article 4: Basel III Implementation in the Philippines 58
Payments and Settlements System 61
Key Operations of the BSP 63
Loans and Credit 63
Asset Management 66
International Reserves Management 68
International Operations 69
Notes and Securities Printing 70
Mint and Refinery 70
Currency Issuance and Retirement 71
Economic Research, Statistical and Information Dissemination Activities 72
Supervisory Research Activities 86

Branch Operations 85
Advocacy Programs 86
Institutional Building 94
Major BSP Infrastructure Projects 100
International Economic Cooperation and Integration Initiatives 101

Part Three: Financial Condition of the BSP

BSP Balance Sheet 109
BSP Net Income 110

List of Statistical Tables 111

Foreword

Sustained, strong and non-inflationary growth marked the Philippine economy in 2013, attesting to the country's underlying strengths. The cumulative progress that the economy has shown takes on greater significance as this was made against the backdrop of volatile global financial conditions and challenges brought about by a number of natural calamities, the latter including the devastation wrought by super typhoon Yolanda during the last quarter of the year. Economic activity (as measured by real GDP) expanded by 7.2 percent, surpassing the government's target of 6 – 7 percent and exceeding market expectations.

The economy's growth impulses came from a broad front, including a supportive environment characterized by macroeconomic stability, comfortable financial cushions (both external and domestic), a sound banking system and buoyant sentiment.

Economic activity strengthened in 2013, not only in terms of its pace but also in terms of its nature. There was a welcome shift in the dynamics of the economy. While household consumption continued to provide a steady support for domestic demand, capital formation has strengthened, providing a firm basis for more durable, sustainable growth over the long run. In addition, with more fiscal space available, government spending for critical economic infrastructure and social programs has risen.

Price pressures remained moderate, even with robust economic growth. Headline inflation in 2013 averaged 3 percent, at the lower bound of the government's target range of 4 ± 1 percent. Benign inflation dynamics and well-anchored inflation expectations provided the BSP with the policy space to keep its key policy rates steady during the year while lowering the interest rates offered in its special deposit account (SDA) facility. The low-interest rate environment provided support to domestic investment and consumption, enabling the economy to ride out the episodes of turbulence in international financial markets. Prudent monetary policy was thus able to strike an effective balance between safeguarding price stability and providing support to economic growth.

During the year, emerging market economies, including the Philippines, experienced bouts of sell-offs and capital flow reversals as the US Federal Reserve communicated and acted on its plans to normalize monetary policy in response to the strengthening of the US economy. Uncertainties about the magnitude and the timing of the scaling back of monetary policy accommodation in the US nonetheless fueled concerns about a tightening of global credit conditions, and caused large swings in yield-sensitive capital flows as well as led to volatilities in global financial markets, including currency markets.

Together with other emerging market economies in Asia, the impact of the Federal Reserve's actions and intentions was evident in Philippine financial markets. On a year-to-date basis, the peso weakened against the US dollar by 7.5 percent, broadly similar to the depreciation pressures seen in neighboring countries. The country's flexible foreign exchange policy has thus enabled the exchange rate to serve as a shock absorber to shifts in external financial flows. There was also a correction in the stock market, with the price-earnings ratio dropping from

21.6 times in May 2013 to 17.3 times in December 2013. The spreads on Philippine debt papers also widened around mid-year, although they narrowed down toward year-end.

Nonetheless, the Philippine economy was well-positioned to weather the volatility in cross-border flows during the year as it has used the generous liquidity years to progress on disciplined macroeconomic policies and meaningful structural reforms that aimed at narrowing imbalances in the economy. As a result, the country's external payments position remained robust in 2013 amid significant external shocks, as evident in the surplus in the overall balance of payments (BOP) position, the comfortable level of international reserves, and the sustainable external debt dynamics.

Notwithstanding the volatile global financial conditions, the BOP yielded a surplus of US$5.1 billion in 2013, albeit lower than the US$9.2 billion surplus recorded in 2012. Strong overseas Filipino (OF) remittances as well as robust business process outsourcing and tourism receipts helped to support the external payments position. The BOP surplus contributed to the further build-up of the country's international reserves, which stood at US$83.2 billion as of end-2013. At this level, the gross international reserves (GIR) were equivalent to a year's worth of imports of goods and payments of services and income. This level of reserves could also cover the country's short-term debt more than seven times over (if debt is reckoned on the basis of original maturity) and more than five times over (if debt is reckoned on the basis of residual maturity).

The country's external debt dynamics remained manageable, with the debt stock as a percentage of GDP at 21.5 percent at end-2013, compared to 24.1 percent at end-2012. Importantly, most of the country's external debt was medium- and long-term in nature, thus limiting rollover and refinancing risk. Moreover, the cost of debt servicing (as a percentage of exports of goods and services) remained low at 7.6 percent from a peak of 35.8 percent in 1986, indicating the availability of more resources to support domestic economic activity.

The Philippine banking system remains fundamentally sound and stable, serving as an effective intermediary of funds between savers and investors. In large part, this is due to a sound regulatory framework as well as well-designed macroprudential and microprudential policies that limit excessive risk taking without preventing the development of the banking system. The policies and reform measures implemented by the BSP in 2013 have helped to forge a smoothly functioning financial system that has underpinned the economy's growth momentum. Philippine banks maintained their track record of stability, with the banking system characterized by solid asset growth, increased deposit mobilization, improved loan and asset quality, and adequate capitalization. In particular, the asset quality of the banking system remained strong as the share of the banking system's non-performing loans to total loans continued to trend downward. The capital adequacy ratio of the banking system likewise remained ample, exceeding the standards set by the BSP and Basel Committee on Banking Supervision. Lending activity was also robust, with the bulk of credit being directed toward the production sectors with strong multiplier effects on the rest of the economy. Nonetheless, credit standards remained broadly unchanged, attesting to the prudence of the banking system.

The banking system was therefore well placed to deploy the credit necessary to fuel the economy's growth momentum.

Domestic business sentiment remained favorable throughout 2013, and this has helped support spending and investment decisions. At the same time, there was a much welcome show-of-faith by third parties in the Philippine economy, as the country obtained investment grade status from all the three major credit rating agencies – Fitch Ratings, Standard and Poor's, and Moody's. These third-party recognitions are an affirmation of the sustainability of the country's sound macroeconomic fundamentals and its commitment to purposeful reforms.

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 grew in 2013. This was due in large part to the greater volume of transactions involving government securities (GS) processed and settled through the PhilPaSS Remit system via expanded delivery-versus-payment (eDvP), increased interbank payments and transfers, and larger settlement of BancNet transactions.

While headway has been made on a broad front, the year ahead will continue to be challenging. On the external front, the reversal of monetary policy accommodation in the US is occurring at a time when regional growth prospects are slowing down, particularly in the larger emerging markets of Asia. In addition, risks emanating from contagion effects across the emerging market space due to country-specific factors cannot be discounted. Furthermore, while the growth of the US economy appears to have taken root, economic activity in some advanced economies continues to be below trend growth. On the domestic front, the reform agenda continues to be very much a work-in-progress, particularly in terms of addressing infrastructure gaps, providing more and better-quality jobs and achieving inclusive growth.

The meaningful progress that the economy has made through the years has provided it with buffers and cushions that should help it weather the challenging global and domestic economic landscapes. However, more needs to be done to nurture the economy and ensure the sustainability of the structural growth story. The BSP, for its part, remains committed to ensuring a predictable macroeconomic environment and a stable banking system as well as a safe and effective payments system. Toward this end, fighting inflation will continue to be at the very top of the BSP's policy priorities. The BSP's monetary policy will remain focused on achieving the inflation target of 4 ± 1 percent for 2014 and 3 ± 1 percent for 2015-2016.

On the external front, the BSP will continue to adhere to a flexible exchange rate system, with scope for occasional presence to maintain orderly conditions in the foreign exchange market. It will continue to maintain an appropriate level of reserves to serve as cushions against external shocks and it will continue to promote external debt sustainability to ensure that the economy is able to meet its external debt obligations in an orderly fashion.

On the financial sector, the BSP will remain committed to maintaining the stability and the soundness of the banking system by sustaining key reforms that will strengthen the regulatory and supervisory framework, and enhance responsible risk management by banks. The implementation of the Basel III capital requirements for universal and commercial banks (U/KBs), which started in January 2014, is geared towards this policy imperative. The BSP will also further improve the prudential supervision of banks, including through a strong and effective macroprudential framework, to guard against potential systemic risks.

Beyond the preservation of monetary and financial stability, the BSP will sustain its advocacies toward inclusive and transformational growth as well as poverty amelioration. Toward this end, the BSP will ramp up its efforts to promote financial inclusion through well-targeted programs on microfinance, consumer protection and financial education. Through the years, the BSP has deepened its involvement in financial inclusion, including through the credit surety fund programs and by encouraging the use of mobile banking and other technologies (such as e-money) so as to facilitate the delivery of financial services to the unserved and underserved segments of the population.

The BSP will also continue to work toward the passage of the amendments to its Charter. This will strengthen the central bank's institutional framework in meeting its mandates and responsibilities and in ensuring its corporate viability. As these amendments are expected to solidify the BSP's role as the guardian of price stability and financial stability, it is hoped that the macroeconomic gains that have been made can be consolidated and built upon so that economic progress can be sustained and made more meaningful for every Filipino.

AMANDO M. TETANGCO, JR.
Governor

21 March 2014

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

Vicente S. Aquino
Deputy Governor

Ma. Ramona Gertrudes D.T. Santiago
Assistant Governor

Elmore O. Capule
General Counsel

Edna C. Villa
Managing Director

Resource Management Sector

Vicente S. Aquino
Deputy Governor

Willie S. Asto
Assistant Governor

Bella S. Santos
Sub-Sector-in-Charge

Security Plant Complex

Dahlia D. Luna
Assistant Governor

Monetary Stability Sector

Diwa C. Guinigundo
Deputy Governor

Ma. Cyd N. Tuaño-Amador
Assistant Governor

Gerardo S. Tison
Assistant Governor

Wilhelmina C. Mañalac
Managing Director

Augusto C. Lopez-Dee
Managing Director

Iluminada T. Sicat
Managing Director

Supervision and Examination Sector

Nestor A. Espenilla, Jr.
Deputy Governor

Johnny Noe E. Ravalo
Assistant Governor

Leny I. Silvestre
Managing Director

Chuchi G. Fonacier
Managing Director

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

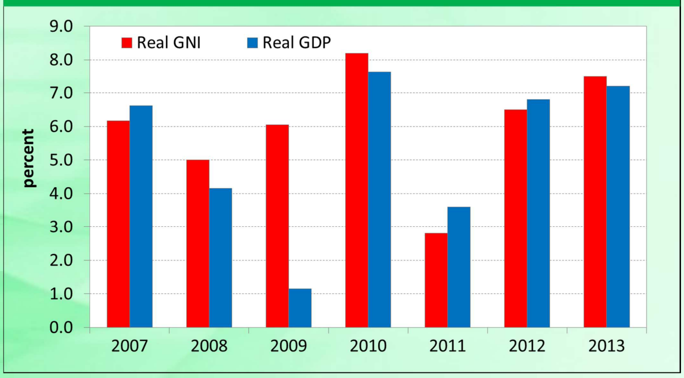
PART ONE: THE PHILIPPINE ECONOMY

Domestic Economy

The Philippine economy shows resilience amid formidable headwinds

The Philippine economy continued to exhibit resilience in 2013 after posting a higher-than-expected growth of 7.2 percent amid a tumultuous Q4 2013. While three major tragedies during the year, commonly referred to as the tragic "trilogy of events": (1) Zamboanga crisis (September); (2) Bohol earthquake (October); and (3) super typhoon Yolanda/Haiyan (November), dented growth in the last quarter of 2013, actual full year growth managed to exceed the government's target range for the year of 6.0 – 7.0 percent. On the production side, the robust growth in the domestic economy was propelled by the expansion in the services sector. Meanwhile, on the demand side, the uptrend was driven by consumer spending and fixed capital formation, particularly the solid growth of intellectual property products and durable equipment. Real gross national income (GNI) posted a 7.5 percent increase in 2013, higher than the 6.5 percent growth registered in 2012. The expansion in net primary income from the rest of the world nearly doubled in 2013 at 9.4 percent, from 4.8 percent in 2012.

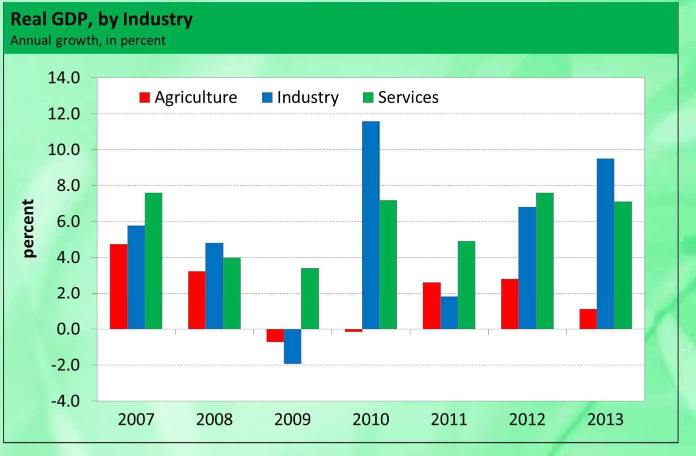
Real Gross National Income (GNI) and Real Gross Domestic Product (GDP)
Annual growth, in percent



Aggregate Output and Demand

Services sector remains the top growth contributor

The services sector, which accounted for 56.8 percent of total GDP, rose by 7.1 percent in 2013, contributing 4.1 percentage points to the 2013 GDP growth. Financial intermediation, real estate, renting and business activities and trade transactions fueled the expansion of the services sector. Sustained remittances from overseas Filipinos (OFs) and developments in the business process outsourcing (BPO) industry, amid favorable inflation and investment environment, continued to support demand for real properties as well as business activities.



Output from the industry sector, which accounted for 32.7 percent of total GDP, posted a robust growth of 9.5 percent from 6.8 percent posted in 2012. The strong performance of the sector, which contributed 2.3 percentage points to the 2013 GDP growth, was fueled by the notable progress exhibited by the manufacturing and construction sub-sectors. Growth in the manufacturing sub-sector was buttressed by positive performance of chemical and chemical products; furnitures and fixtures; radio, television and communication equipment and apparatus; and beverage industries. Construction in both public and private sectors, while posting lower growth compared to 2012, continued to post double-digit growth rates in 2013 on the back of a favorable business environment during the year.

The combined agriculture, hunting, forestry and fishing sector posted a modest growth in 2013 of 1.1 percent from 2.8 percent in 2012, following major natural calamities that hit the country in the latter part of 2013. The agriculture sector, which represented 10.4 percent of total GDP, contributed 0.7 percentage point to the 2013 GDP growth. The expansion in the sector benefited from the increased production of *palay*, poultry and livestock.

Sustained household consumption propels demand

On the demand side, growth was anchored by the sustained positive performance of household consumption which contributed 5.0 percentage points to the 2013 GDP growth. However, it may be noted that the 5.6 percent growth of household consumption during the year represented a decline from the 6.6 percent growth posted last year. This partly reflected the impact of natural calamities on supply and prices of consumer goods. Meanwhile, the acceleration in capital formation by 18.2

percent allowed it to pitch in a 1.5 percentage points contribution to the 2013 GDP growth. Lending support to this sector were the double-digit growth rates in intellectual property products, durable equipment, and construction.

Government consumption likewise contributed to the solid growth during the year after expanding by 8.6 percent, albeit lower than the 12.2 percent growth in 2012, partly due to lower disbursements for both personnel services and maintenance and other operating expenses of the government. On the contrary, exports performance was weak with a 0.8 percent growth in 2013 compared to the 8.9 percent posted a year ago on the back of weak global demand in the first half of 2013.

Amid uncertainties in the external environment and the impact of recent calamities, the Philippines is expected to reach its growth target in 2014. Growth is expected to be buoyed by the rapid growth of the industry sector as manufacturing and construction subsectors (both public and private) gain traction in 2014 on the back of the relief, rebuilding and rehabilitation activities in the calamity-stricken areas. The services sector will continue to be a driving force for the domestic economy with expected sustained expansion in the BPO industry which should fuel growth in the real estate, renting, and business activities sector. Given heightened interconnectivity of regions, local tourism activities are also expected to contribute significantly to the 2014 GDP growth.[1]

The growth dynamics of the Philippines had, until the past two years, exhibited a boom-bust cycle. While this could be attributed in part to supply shocks, particularly since the country is among the most disaster-prone countries in the world, governance and institutional issues have also posed challenges to sustaining the economy’s growth momentum. Recently, however, we have seen indications that economic growth is on a more solid footing, gaining support from years of disciplined macroeconomic policies and purposeful structural reforms. This has been most evident in the last eight quarters as the economy consecutively registered year-on-year output growth of above 6 percent. Given a wide array of sustainability factors – robust macroeconomic fundamentals, continued pursuit of necessary reforms, and demographic advantages, among others – the economy is poised for continued progress moving forward.

[1] http://www.neda.gov.ph/?p=2623

Labor, Employment, and Wages

Employment conditions are generally stable

Employment situation remained generally stable in 2013. Based on the four rounds of the Labor Force Survey of the National Statistics Office (NSO) in 2013 (i.e., January, April, July, and October), the average unemployment rate increased marginally by 0.1 percentage point to 7.1 percent in 2013 from 7.0 percent in 2012 (Table 2). This developed as the labor force participation rate (LFPR) at 63.9 percent changed slightly from 64.2 percent in the previous year. Of the four survey rounds in 2013, the October survey posted the lowest unemployment rate at 6.5 percent, while the highest unemployment rate was recorded in April at 7.5 percent.

The full-year employment growth reached 0.8 percent, lower than the 1.1 percent growth in 2012. This growth translated to 317,000 new jobs generated, bringing the total employed persons to 37.9 million in 2013. The growth in employment occurred in both the services and industry sectors which compensated for the decline in employment in the agriculture sector. Employment in the industry sector posted a 3.0 percent increase (equivalent to 174,000 employed persons), driven by the strong growth in construction. Employment in the services sector expanded by 2.4 percent (476,000 employed persons), bouyed mainly by employment in wholesale and retail trade and transportation and storage, which both accounted for about two-thirds of total employment generated in this sector. In contrast, employment in the agriculture sector declined by 2.8 percent due to extreme weather conditions during the year.

The quality of employment improved in 2013 as reflected by the rise in wage and salary workers and full time employment. In terms of class of worker, wage and salary workers expanded by 3.0 percent and employed mainly in private establishments.This was accompanied by the decline in employment among the unpaid family workers (5.8 percent), employer in own family-operated farm or business (5.4 percent) and self-employed (0.2percent). Meanwhile, the number of persons in full-time employment rose by 4.7 percent (equivalent to 1.079 million workers). Persons in part-time employment, however, fell by 5.1 percent (-710,000 workers).

Underemployment rate decreased slightly to 19.3 percent in 2013 from 20.0 percent a year ago, representing a reduction of 189,000 underemployed persons. Of the total underemployed persons, 42.3 percent were in the agricultural sector, while the services and industry sectors accounted for 41.6 percent and 16.1 percent, respectively.

Prices

Inflation for 2013 remains within target

Year-on-year (y-o-y) headline inflation averaged 3.0 percent in 2013, slightly lower than the 3.2 percent average in the previous year and remained within the Government's 2013 inflation target range of 4.0 percent ± 1.0 percentage point (Table 3). This was the fifth consecutive year that the average inflation rate has been within the government target. Inflation decelerated in 2013 due largely to lower non-food inflation as a result of lower electricity rates and domestic petroleum prices.

Non-food inflation slows down, while food inflation increases

The average non-food inflation in 2013 decreased to 2.1 percent from 3.7 percent in the previous year due largely to lower inflation for housing, water, electricity, gas, and other fuels as well as transport. The inflation for housing, water, electricity, gas and other fuels declined to 1.7 percent from 4.6 percent in 2012 due to lower electricity charges. Likewise, transport inflation slowed down to 0.6 percent from the year-ago rate of 2.3 percent owing to slower price increases for gasoline and diesel.

By contrast, the inflation rate for food inched up to 2.8 percent in 2013 from 2.2 percent in 2012. Prior to the last quarter of 2013, food inflation was on a downtrend as supply remained adequate. However, in Q4 2013, the prices of key food items, particularly rice, meat, fish, and vegetables, increased due to some tightness in domestic supply conditions—triggered by recent weather-related production disruptions—coupled with stronger demand during the holiday season. This caused food inflation to rise higher relative to a year earlier.

Average inflation in the National Capital Region (NCR) also edged lower to 1.6 percent in 2013 from 2.9 percent in the previous year. Meanwhile, areas outside NCR (AONCR) registered a slightly higher average inflation rate of 3.3 percent from 3.2 percent in 2012.

Official core inflation is lower

Core inflation, which excludes some food and energy items to measure generalized price pressures, fell to 2.9 percent in 2013 from 3.7 percent a year ago. All alternative measures of core inflation estimated by the BSP likewise declined relative to the rates registered in the preceding year, suggesting the relative absence of broad-based inflation pressures.

Measures of Core Inflation Year-on-year change in percent		
	2012	2013
Core Inflation	3.7	2.9
Trimmed Mean[1]	3.2	2.5
Weighted Median[2]	3.0	2.3
Net of Volatile Items[3]	3.4	3.1

[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.

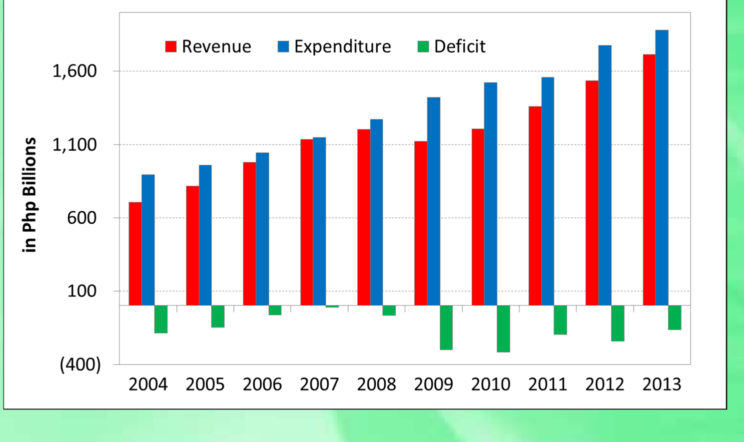
Sources of Basic Data: NSO, BSP-DER

Operations of the National Government

NG's operations yield a lower deficit

The National Government's (NG) deficit decreased to ₱164.1 billion in 2013 from ₱242.8 billion in 2012 (Table 4). The 2013 NG deficit, which represented 1.4 percent of GDP, was lower by 31.1 percent than the ₱238.0 billion programmed deficit for the year. Revenues increased y-o-y by 11.8 percent to reach ₱1,716.1 billion, but fell short of the programmed level for 2013 by 1.7 percent. Expenditures likewise increased to ₱1,880.2 billion during the same period but fell below the programmed level by 5.2 percent (Table 4).The primary balance recorded a surplus of ₱159.4 billion in 2013, lower than the ₱70.0 billion level a year ago.

Cash Operations of the National Government
in billion pesos



The tax collections of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC) and related offices increased by 12.8 percent to reach ₱1,535.3 billion in 2013. The total tax revenues collected during the review period constituted 95 percent of the 2013 programmed level of ₱1,607.9 billion. Meanwhile, non-tax revenues by the Bureau of the Treasury (BTr) decreased by 3.6 percent to ₱81.0 billion during the review period. Total non-tax revenues reached ₱180.8 billion, which was above the programmed level by 31.0 percent for 2013. Moreover, tax effort improved to 14.9 percent during the review period from 14.5 percent in 2012.

Total NG expenditures increased by 5.8 percent y-o-y to reach ₱1,880.2 billion in 2013, although this was lower than the 2013 programmed level of ₱1,983.9 billion. Allotments to the local government units (LGUs) reached ₱317.3 billion, higher than the year-ago level by 6.3 percent. Meanwhile, interest payments for 2013 increased by 3.4 percent to reach ₱323.4 billion, accounting for 97 percent of the programmed level of ₱332.2 billion.

The deficit was financed mainly from domestic sources, which covered 94.0 percent of the total financing requirement of the NG.

The NG will continue to pursue fiscal consolidation in the medium term by supporting legislative initiatives to raise revenues and widen the tax base. The key priorities for legislative reforms in 2014 are amendments to the BOT (Build-Operate-Transfer) law, amendments to the Foreign Investment Negative List, and fiscal incentives rationalization.[2]

Monetary and Financial Conditions

Monetary Conditions

Monetary Aggregates

Domestic liquidity growth rises, consistent with robust demand

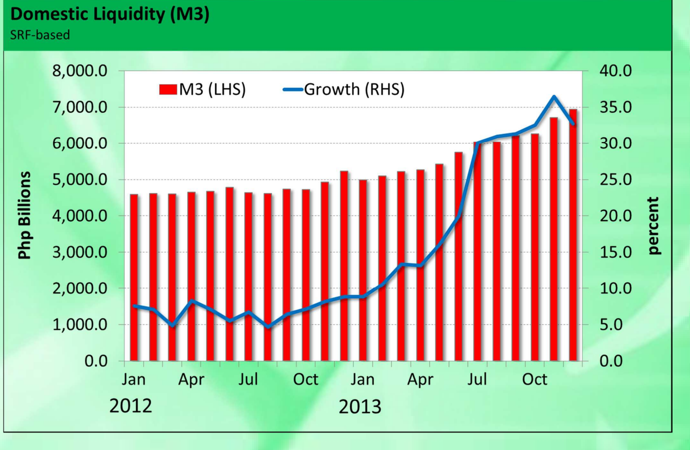
Domestic liquidity growth in 2013 rose, consistent with the pace of demand expansion in the country. M3 grew by 32.7 percent year-on-year in December, bringing the full-year average M3 growth rate to 23.0 percent in 2013 from 6.8 percent in 2012. The stronger growth in money supply was due in part to the operational adjustments in the BSP's Special Deposit Account (SDA) facility implemented in May 2013.[3] The refinements were aimed at

[2] DOF Press Release, 7 March 2014 (www.dof.gov.ph)

[3] As contained in BSP memorandum to all banks and trust entities (Memorandum No. M-2013-021) issued on 17 May 2013, the BSP required trust entities to phase out by November 2013 their SDA placements that are inconsistent with the revised BSP SDA

encouraging financial institutions to deploy loanable funds in support of domestic economic activity. With the completion of the adjustments in November 2013, the pace of liquidity growth is expected to normalize over the succeeding months.

The growth in domestic liquidity was likewise driven by the sustained expansion in domestic claims, or credits to the domestic economy. Domestic claims rose by 11.6 percent y-o-y, buoyed by the continued increase in claims on the private sector (by 17.3 percent), reflecting the steady growth in bank lending. Meanwhile, the level of net claims on the National Government was broadly steady relative to its level a year ago.



Net foreign assets (NFA) also expanded by 10.1 percent in 2013. Sustained foreign exchange inflows stemming from current account receipts such as remittances and outsourcing revenues underpinned the growth of the BSP's NFA position at 7.7 percent in 2013, much higher compared to the 4.6 percent growth in the previous year. The NFA of other depository corporations (ODCs) likewise increased by 48.5 percent during the year, reversing the 3.0-percent contraction in 2012, as banks' foreign assets grew at a faster pace relative to the growth in their foreign liabilities. The expansion in ODCs' foreign assets was due mainly to the growth in foreign loans and receivables, while banks' foreign liabilities rose on account of higher deposits and placements of foreign banks with local banks.

Interest Rates

Interest rates on government securities remain low

Domestic interest rates in the primary market declined significantly during the year due to strong demand for government securities on the back of the country's strong macroeconomic fundamentals and ample liquidity in the financial system. Similarly, secondary market

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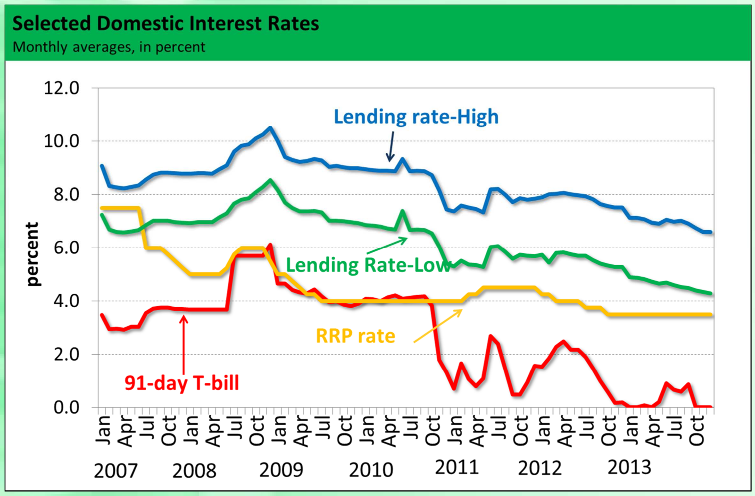
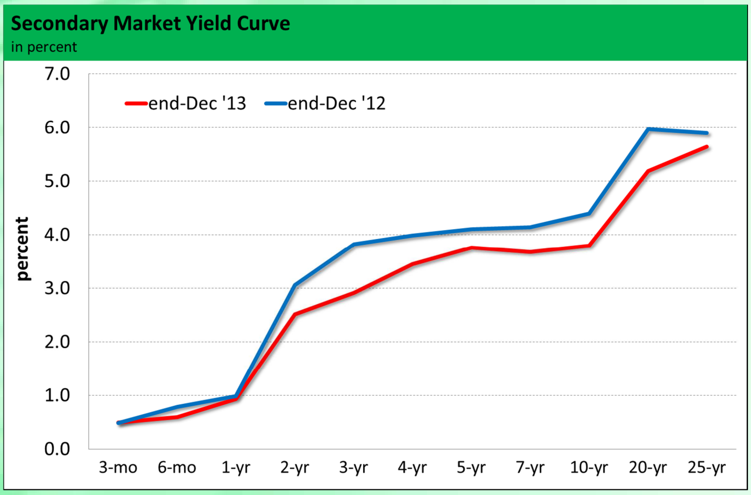
guidelines.

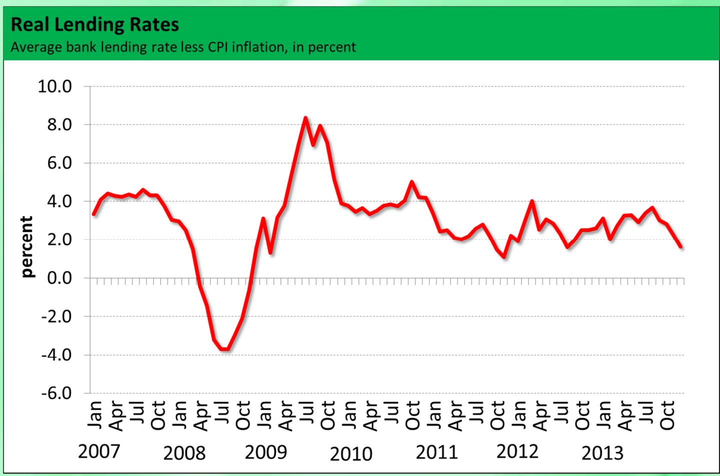
interest rates decreased for all maturities, except for the 3-month maturity.





Borrowing rates decline, while lending rates inch up slightly

Interbank call loan rates, Manila reference rates, and savings and time deposit rates continued to decline during the year, while lending rates for all maturities increased slightly. The drop in the borrowing rates reflected ample domestic liquidity and the country's strong fiscal performance during the review period.



The Monetary Board maintains BSP policy rates

The Monetary Board (MB) maintained the BSP's key policy rate at 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 the manageable inflation environment and well-anchored inflation expectations.

The differential between domestic and foreign interest rates decline

The differential between the BSP's policy rate and the US federal funds target rate decreased from an average of 360 basis points in 2012 to 325 basis points in 2013, reflecting the monetary policy stance of both the BSP and the US Fed.[4] Adjusted for risk premium – which is measured as the differential between the 10-year ROP note and the 10-year US Treasury note – the average risk adjusted differential between the BSP's policy rate and the US federal funds target rate similarly decreased from the 2012 average of 221 basis points to the 216 basis points average in 2013.

Exchange Rates

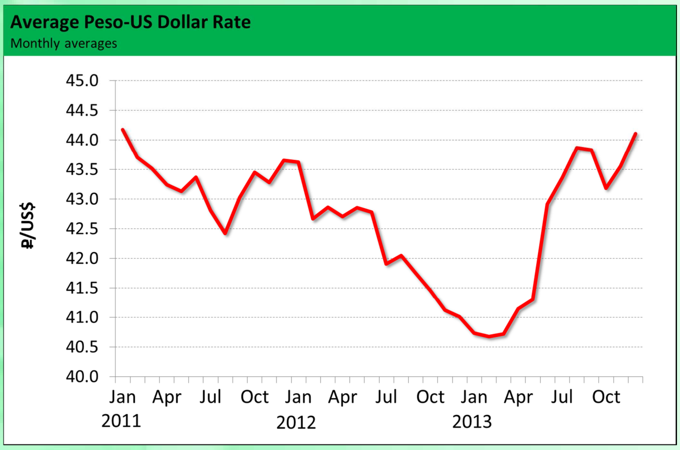
Peso weakens on protracted concerns over the Euro zones's debt crisis, the US budget impasse, and timing and phasing of the tapering of the US Fed's bond purchases program

The peso averaged ₱42.45/US$1 for the period 2 January - 27 December 2013, depreciating by 0.51 percent from the ₱42.23/US$1 average in 2012 (Table 7).[5] Global concerns over the Euro zone's debt crisis, the US budget impasse over the debt ceiling and measures of automatic spending cuts and tax increases, and uncertainty over the timing and scale of the US Fed's tapering of its bond purchases program, were mainly behind the peso's depreciation in 2013. Nonetheless, robust inflows of foreign exchange from OF remittances and BPO receipts and the ample

[4]Computed by taking the difference between the BSP RRP rate (3.5 percent) and the US Fed funds rate (0.25 percent). The BSP RRP rate and US fund rate remained at these levels in 2013.

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

international reserves tempered the depreciation of the peso.[6] Likewise, the peso weakened by 7.25 percent to ₱44.41/US$1 at end-December 2013, from ₱41.19/US$1 a year ago.



The peso started the year strong to average ₱40.73/US$1 in January 2013, appreciating by 0.68 percent from the ₱41.01/US$1 average in December 2012 buoyed up by the continued optimism that the country would get investment grade rating within the year. The peso further rallied in February as it averaged P40.67/US$1 on robust foreign exchange inflows from OF remittances, export receipts, and foreign direct investments (FDI).[7] However, the peso reversed its trend as it averaged weaker at ₱40.71/US$1 in March due to increased risk aversion stemming from reignited worries about the Eurozone's debt crisis, particularly on the radical bailout plan for Cyprus.[8]

Thereafter, the peso continued its weakening trend from April to September largely influenced by negative sentiments resulting from the imminent tapering of the US Fed's asset purchases together with liquidity concerns in China, geo-political tension between US and Syria, and decline in growth forecasts for several Asian economies. The peso's depreciation in May reflected the increase in U.S. bond yields which eroded the appeal of riskier, high-yielding assets including Philippine bonds. In June, the peso was weighed down by lingering concerns over the US Fed's unwinding of its

[6] Gross International Reserves stood at US$83.2 billion as of end-December 2013 relative to the US$83.8 billion posted as of end-December 2012.

[7] Personal remittances from overseas Filipinos (OFs) in December 2012 expanded by 9.7 percent year-on-year, the highest monthly growth registered in 2012, to reach US$2.2 billion. Meanwhile, Foreign direct investments (FDI) registered net inflows of US$1.2 billion for January-November 2012, slightly higher by 1.1 percent than the level posted in the comparable period of the previous year.

[8] On 25 March 2013, a €10 billion international bailout by the Eurogroup, European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF) was announced, in return for Cyprus agreeing to close the country's second-largest bank, the Cyprus Popular Bank (also known as Laiki Bank), imposing a one-time bank deposit levy on all uninsured deposits, and possibly around 40 percent of uninsured deposits in the Bank of Cyprus (the island's largest commercial bank). (Source: New York Times)

quantitative easing (QE) program, along with temporary liquidity shortage in China which prompted investors' flight to US safe-haven assets.[9] The peso weakened further in August following an upward revision to US second-quarter economic growth and the improvement in the US labor market, which may signal an end to the US Fed's QE program.[10] This was aggravated by concerns for a possible military action against Syria which triggered risk aversion in global financial markets, including Asian emerging markets. In September, the recent cut in growth forecasts for several Asian economies including China weighed down on the peso. Nonetheless, the country's solid GDP growth performance during the first half of the year provided fundamental support to the peso.[11]

Despite market apprehensions over the imminent scaling down of the US Fed's asset purchases, the peso rebounded slightly in October to average P43.18/US$1 relative to the previous month's P43.83/US$1. This development was supported by the resolution of the US budget impasse. However, the peso weakened anew in November as it averaged P43.56/US$1 as comments by some US Fed officials, which suggest that US inflation may start picking up, strengthened market's expectation that the US Fed will soon start tapering. The devastation brought about by super typhoon Yolanda also weighed down on the peso. The peso ended the year weaker as it averaged P44.10/US$1 in December following the US Fed's announcement that it will start unwinding its asset purchases in January 2014, coupled with the concern on inflation risks posed by rising energy costs and the massive destruction of crops and property brought about by typhoon Yolanda.[12]

On a year-to-date basis, the peso depreciated against the US dollar by 7.53 percent on 27 December 2013 as it closed at ₱44.40/US$1, moving in tandem with the rest of the Asian currencies except with the Korean won and Chinese yuan, which appreciated vis-à-vis the US dollar.[13]

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[9] "Capital Flows to Emerging Market Economies," (26 June 2013). Institute of International Finance

[10] The US GDP growth rate accelerated to 1.4 percent from the previous quarter's 1.3 percent. This growth reflected primarily positive contributions from personal consumption expenditures, exports, non-residential fixed investments, private inventory investments, and residential investments as reported by the Bureau of Economic Analysis. Meanwhile, unemployment rate in the US decreased to 7.40 percent in July of 2013 from 7.60 percent in June of 2013 as reported by the Bureau of Labor Statistics.

[11] The Philippine GDP growth for the first half of the year was 7.7 percent.

[12] During its meeting on 17-18 December 2013, the Federal Open Market Committee (FOMC) decided to reduce modestly the pace of its assets purchases given the improvement in economic activity and labor market conditions. Starting January, the FOMC will add to its holdings of agency mortgage-backed securities at a pace of US$35 billion per month from US$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of US$40 billion per month from US$45 billion per month. (Source: www.federalreserve.gov)

[13] Based on the last done deal transaction in the afternoon.

Selected Asian Currencies	Appr/Depr (-) 27 Dec 2013 vs 28 Dec 2012
Indonesian Rupiah	(20.22)
Japanese Yen	(17.13)
Indian Rupee	(11.15)
Philippine Peso	**(7.53)**
Malaysian Ringgit	(6.98)
Thai Baht	(6.74)
Singaporean Dollar	(3.56)
New Taiwan Dollar	(2.99)
South Korean Won	1.02
Chinese Yuan	2.67

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

Despite episodes of heightened volatility in emerging economies' financial markets, the increasing level of the country's gross international reserves and the credit rating upgrade by Moody's on 3 October supported the broad stability of the peso. Volatility, as measured by the coefficient of variation, stood at 3.25 percent as of 27 December 2013 (year-to-date). This is in line with the movement of other currencies in the region including the Malaysian ringgit (2.83 percent), Thailand baht (3.36 percent), and Indonesian rupiah (8.11 percent).[14]

Volatility of Selected Currencies
As of end-December 2013

	PHP	EUR*	JPY	THB	IDR	MYR	KRW	SGD	TWD	CNY	INR
In Percent											
2013	3.25%	1.99%	4.04%	3.36%	8.11%	2.83%	2.58%	1.19%	0.94%	0.84%	6.68%
2012	1.95%	2.53%	2.56%	1.37%	2.33%	1.68%	2.36%	1.71%	1.16%	0.72%	4.25%
2011	1.23%	3.36%	3.11%	1.45%	2.36%	2.17%	3.07%	2.49%	2.07%	1.38%	5.81%
2010	2.47%	4.52%	4.63%	3.67%	1.53%	3.29%	3.01%	3.05%	2.37%	1.07%	1.96%
2009	1.51%	5.16%	3.80%	2.49%	8.17%	2.59%	7.81%	3.23%	2.19%	0.08%	3.00%
2008	6.51%	6.96%	4.65%	4.87%	9.24%	4.42%	14.97%	3.55%	3.42%	2.05%	8.13%
2007	4.56%	6.36%	6.20%	4.00%	1.69%	3.47%	3.63%	4.32%	3.10%	3.76%	4.35%
2006	2.25%	3.01%	1.78%	2.89%	1.84%	1.40%	1.75%	1.74%	1.25%	0.92%	1.77%

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

In nominal terms, the peso strengthened in 2013 against the basket of currencies of all major trading partners (MTPs), and trading partners in advanced countries as the nominal effective exchange rate (NEER)[15] indices increased by 2.4 percent and 7.1 percent, respectively (Table 7b). Meanwhile, the peso weakened, albeit

[14] The coefficient of variation is computed as the standard deviation of the daily exchange rates divided by the average exchange rate for the period.
[15] The NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies.

marginally, against the basket of currencies of trading partners in developing countries as the NEER decreased by 0.7 percent.

On a real trade-weighted basis, the peso lost external price competitiveness against the basket of currencies of all major trading partners (MTPs) and trading partners in advanced countries in 2013. The real effective exchange rate (REER)[16] index of the peso increased (year-on-year) by 3.5 percent and 9.2 percent, vis-a-vis the currencies of MTPs and advanced trading partners, respectively. This developed due to the combined effects of the peso's nominal appreciation and the impact of widening inflation differential.[17]

Meanwhile, the peso gained external price competitiveness against the basket of currencies of trading partners in developing countries as the nominal depreciation of the peso more than offset the impact of widening inflation differential which resulted to the real depreciation of peso by 0.3 percent.

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

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

Box Article 1:

The New Nominal and Real Effective Exchange Rate Indices of the Philippine Peso

The effective exchange rate (EER) index is a measure of the overall changes in the value of one country's currency against a basket of other currencies where an increase in the index indicates an appreciation while a decrease indicates depreciation. There are two types of effective exchange rates: the nominal effective exchange rate (NEER), which is a weighted average of the changes in the bilateral (nominal) exchange rates of the home currency in terms of foreign currencies; and the real effective exchange rate (REER), which is a weighted average of bilateral exchange rate indices adjusted for price differentials between the home country and those of foreign countries included in the basket. The NEER and REER indices are used by central banks for various purposes: as a measure of international competitiveness, as components of monetary/financial conditions indices, as a gauge of the transmission of external shocks, as an intermediate target for monetary policy or as an operational target. Therefore, given their importance in policy and market analysis, accurate measures of the NEER/REER indices are essential for both policymakers and market participants.

The old NEER and REER indices are computed using arithmetic mean and base year method, with a basket of currencies covering trading partners, both advanced and developing economies (see Table). With the developments in global trade and international practices in the formulation of EER indices, there is a need to revise the methodology and update the basket of currencies to make the indices more relevant and accurate. In view of this, the BSP conducted a study to improve the measurement of the NEER/REER indices of the Philippine peso. The major revisions in the peso EERs following this study include: (1) the updating of the basket of currencies to cover all trading partners with at least one percent share of total Philippine trade (exports plus imports) over a five-year period (see Table); (2) computation of three sets of NEER/REER indices to measure the effective exchange rate of the peso against those of advanced economies, developing and emerging market economies, and all trading partners; and (3) use of the geometric-chained methodology in computing the NEER/REER indices. The shift to geometric mean (weighted by the current percentage share to total Philippine trade of trading partner countries) has removed the bias created by continually depreciating currencies on the index. Meanwhile, the use of chained indices eliminated the need to change the base year of the exchange rate. These revisions should improve the usefulness of the peso EER indices as reliable indicators of exchange rate movements and their impact.

Table. Basket of Currencies in the Old and New NEER/REER Indices

OLD INDICES	NEW INDICES		
1. Major Trading Partners index (Major)	**1. Trading Partners Index-Advanced Countries (TPI-A)**		
Euro	Euro		
Japanese Yen	Japanese Yen		
US Dollar	US Dollar		
UK Pound	**Australian dollar**		
2. Broad competing countries index (Broad)	**2. TPI-Developing and Emerging Market Economies (TPI-D)**		**3. TPI** (Consists of the 14 currencies in TPI-A and TPI-D)
Hong Kong Dollar	Hong Kong Dollar	**Saudi Arabia riyal**	
Indonesian Rupiah	Indonesian Rupiah	**United Arab Emirates dirham**	
Malaysian Ringgit	Malaysian Ringgit	**Chinese renminbi**	
South Korea Won	South Korea Won		
Singapore Dollar	Singapore Dollar		
Taiwan Dollar	Taiwan Dollar		
Thai Baht	Thai Baht		
3. Narrow competing countries index (Narrow)			
Indonesian Rupiah			
Malaysian Ringgit			
Thai Baht			

The new peso EER indices show movements of the peso relative to currencies of top trading partners: 1) advanced countries (TPI-A); 2) developing and emerging market economies (TPI-D); and all trading partners consisting of advanced and developing countries (TPI).

Figure 1.NEER Indices (1995-2013)

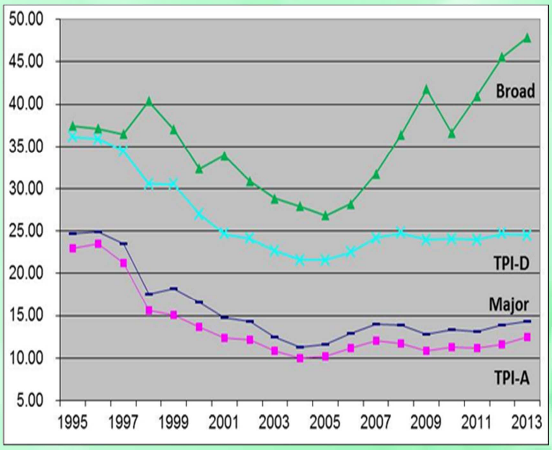
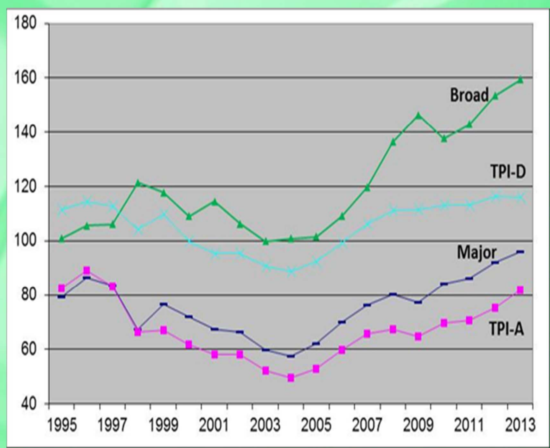


Figure 2. REER Indices (1995-2013)



Figures 1 and 2 compare the old (Major and Broad) and new (TPI-A and TPI-D) NEER/REER indices. Figure 1 shows close NEER figures as the small weight of the additional currency (Australian dollar, about 3 percent) did not affect the general trend of the Major index. Comparing the new and old REER trends in Figure 2, the TPI-A has slightly lower figures for the REER due to the higher inflation rates in the additional country (i.e., Australia) relative to the *Major* index (where United Kingdom was excluded). Meanwhile, the TPI-D with a broader basket of currencies and reflecting year-on-year cumulative changes show that the increases in the REER was lower/more gradual compared to what is being depicted by the *Broad* index. In addition, the chained formulation, which links year-to-year data, tends to moderate the impact of extreme data. Indeed, differences between the new and old indices are due to the inclusion of new currencies and the change to chained geometric formulation.

In December 2012, the Monetary Board approved the institutionalization of the revised indices starting in 2014 after a transition phase of computing and publishing both the old and new indices simultaneously until end 2013.

Financial Conditions

Performance of the Banking System

Philippine banking system maintains strong performance

Indicators show that the Philippine banking system remains stable and sound and has been steadily growing. Healthy growth rates were seen 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

	2013p/	2012	Growth Rate (%)
Deposits (₽ Billion)	6,059.7	4,449.4	36.2
Resources (₽ Billion)	10,302.6	8,357.9	23.3
Loans Outstanding (₽ Billion, Gross of RRPs)	4,048.1	3,480.4	16.4
Number of Banking Institutions (Head offices)	673	696	
GNPL to Total Loans (%)	2.8	3.4	
NNPL to Total Loans (%)	0.6	0.7	
Capital Adequacy Ratio (%)	18.6 (Sept)	18.4	

p/ Preliminary

Deposit Generation

Savings and time deposits remain banks' primary sources of funds

The banking system's total deposits[18] as of end-December 2013 increased by 36.2 percent y-o-y to ₽6.1 trillion from ₽4.4 trillion during the same period in 2012 (Table 8). Savings and time deposits remained the banks' primary sources of funds. The rapid growth may be attributed to the shift of depositors' investments from the BSP's SDA facility to bank deposits as a result of the fine-tuning of access of banks and trust departments/entities to the BSP SDA facility.[19] Savings deposits registered a y-o-y growth of 32.8 percent

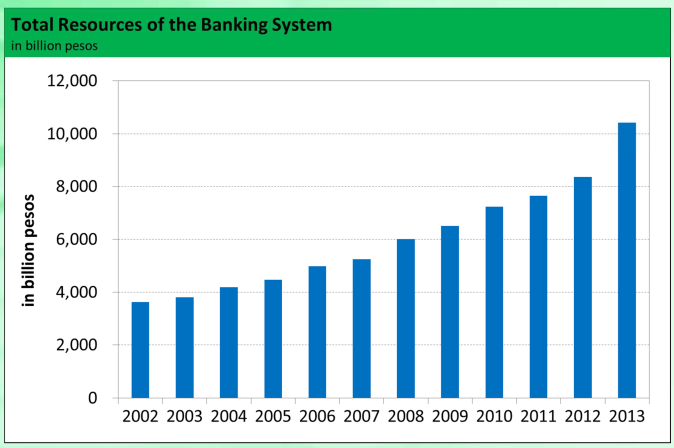
[18] This refers to the total peso-denominated deposits of the banking system.
[19] Under BSP Memorandum to All Banks/Non-Bank Financial Institutions dated 17 May 2013, SDA placements of trust departments/entities under the investment management accounts (IMA) must be reduced by at least 30 percent by end-July 2013 (relative to the outstanding balance as of 31 March 2013) and the remaining balance must be phased out by end-November 2013. Thus, beginning 1 January 2014, placements of trust departments/entities in the SDA facility must consist only of funds from trust accounts allowed under existing regulations.

and continued to account for nearly half of the funding base. Similarly, demand deposits and time deposits grew by 34.1 percent and 44.2 percent y-o-y, respectively.

Resources

Total resources of the banking system rise

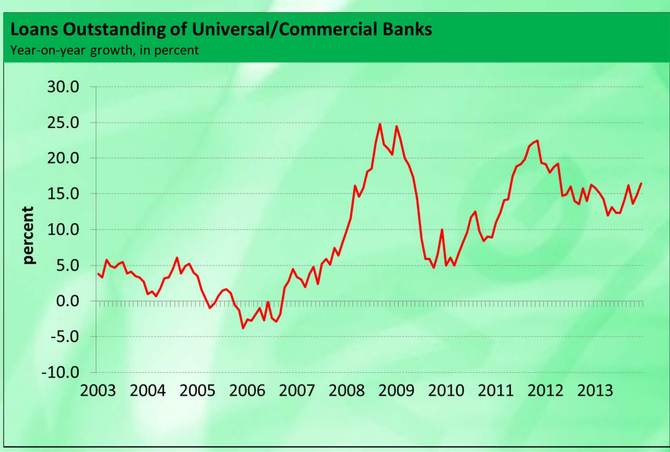
The total resources of the banking system rose by 23.3 percent to ₱10.3 trillion as of end-December 2013. The increase could be traced to the growth in loans, securities and other shares, and non-financial assets. U/KBs accounted for more than 90 percent of the total resources of the banking system.



Lending Operations

Bank lending expands

Outstanding loans of commercial banks, net of banks' RRP placements with the BSP, continued to expand, posting a 16.4 percent y-o-y growth as of end-December 2013, higher than the 16.2 percent registered as of the end of the previous year. The growth of commercial banks' loans was at double-digit rates since January 2011. Bank lending, including RRPs, likewise expanded by 16.3 percent, slightly higher compared to the 16.2 percent growth posted at the end of 2012. Preliminary data showed that both production and consumption loans grew by 15.3 percent and 8.3 percent, respectively. The continued broad-based growth in bank lending supports the sustained expansion of the productive sectors of the economy in 2013.



Loans for production activities, which comprised more than four-fifths of banks' aggregate loan portfolio, posted a 15.3 percent growth, lower than the 16.6 percent registered last year. The growth of production loans was driven mainly by increased real estate, renting and business services (22.0 percent); electricity, gas and water (33.6 percent); manufacturing (15.5 percent); wholesale and retail trade (16.9 percent); and construction (51.8 percent). However, the growth in consumer loans eased slightly to 8.3 percent, reflecting the slowdown of credit in auto and other loans.

Household investments continue to boost the country's residential real estate market

As of end-September 2013, the combined residential real estate loans (RRELs) of U/KBs and TBs rose to ₱306.4 billion, 22.8 percent higher than the previous year's ₱249.4 billion. Sustained household investments in residential properties, slow rise in the cost of construction materials, 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, supported increased real estate purchases during the review period. The ratio of RRELs to TLP was at 7.2 percent, higher than the 6.8 percent posted a year ago. By industry, U/KBs held a bigger slice of the total residential real estate exposure at 61.6 percent(₱188.9 billion) while TBs accounted for the remaining 38.4 percent (₱117.5 billion). In terms of loan quality, the ratio of non-performing RRELs to total RRELs of U/KBs and TBs eased to 3.2 percent from the previous year's 4.3 percent.

Credit card receivables continue to rise but at a slower pace

The combined credit card receivables (CCRs) of U/KBs and TBs as of end-September 2013, inclusive of credit card subsidiaries, rose by 8.9 percent to ₱151.9 billion relative to last year's level, further boosting the growth in household consumption. Meanwhile, the ratio of CCRs to the total loan portfolio (TLP) was at 3.6 as of end-September 2013, lower than the 3.8 percent registered as of end-September 2012. The non-performing CCRs of U/KBs and TBs, inclusive of credit card subsidiaries, increased by 16.1 percent to ₽17.6 billion as of end-September 2013, higher than the ₽15.1 billion posted a year ago. As to loan quality, the ratio of non-performing CCRs to total CCRs increased to 11.6 percent from 10.9 percent posted at end- September last year, as the growth in non-performing CCRs outpaced the total increment in CCRs.

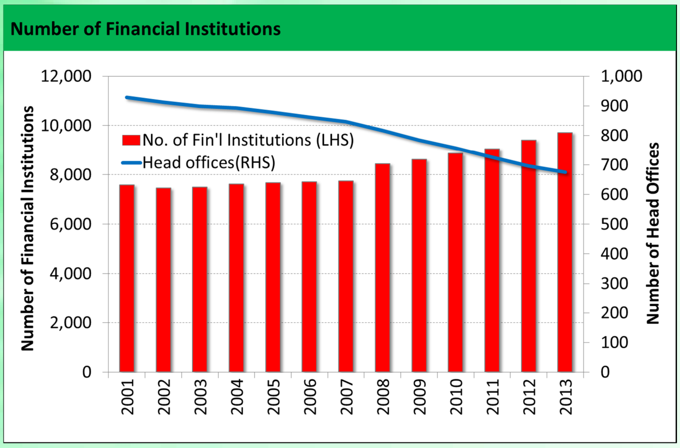
Consumers' strong demand for passenger cars and commercial vehicles, introduction of new models, as well as aggressive marketing strategies boost automobile purchases

The combined auto loans (ALs) of U/KBs and TBs, inclusive of non-bank subsidiaries, increased by 17 percent to ₽181.1 billion as of end-September 2013 from ₽154.8 billion posted a year ago. Consumers' strong demand for passenger cars and commercial vehicles, introduction of new models, as well as the aggressive marketing strategies of banks and other car financing firms on the back of a healthy economy may have sustained the rise in vehicle purchases. The share of total ALs to TLP, exclusive of interbank loans (IBL), was at 4.3 percent, higher than the 4.2 percent registered as of end-September 2012. In terms of loan quality, the ratios of non-performing ALs to total ALs, as well as to TLP remained unchanged at 4.5 percent and 0.2 percent, respectively, on a y-o-y basis.

Institutional Developments

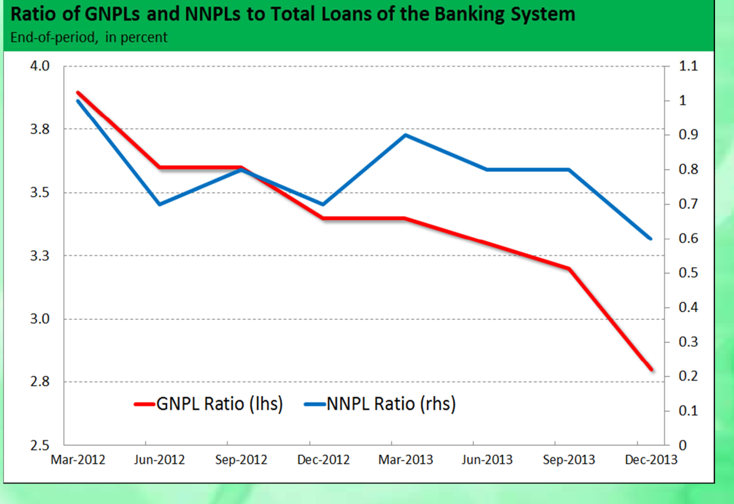
Consolidation in the banking industry continues

The number of banking institutions (head offices) fell further to 673 as of end-2013 from the year-ago level of 696, 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 36 U/KBs, 71 TBs, and 566 rural banks (RBs). Meanwhile, the operating network (including branches) of the banking system increased to 9,935 in 2013 from 9,410 during the same period last year, due mainly to the increase in the branches/agencies of UKBs and TBs (Table 9a).



Asset quality continues to improve as NPL ratio eases

The Philippine banking system's gross non-performing loans (GNPL) ratio sustained its downward path, easing to 2.8 percent as of end-December 2013[20] from 3.4 percent in end-December 2012[21]. Net NPL ratio was also kept low at 0.6 percent of TLP from 0.7 percent during the same period. Banks' initiatives to improve asset quality along with prudent lending regulations helped bring the NPL ratios to below its pre-Asian crisis level of around 3.5 percent. The low GNPL and NNPL ratios reflected the 5.8 percent (from ₱143.0 billion to ₱134.6 billion) and 7.3 percent (from ₱30.4 billion to ₱28.2 billion) decline in the levels of GNPLs and NNPLs, respectively, combined with the 15.7 percent expansion in the banking system's TLP, from ₱4.2 trillion to ₱4.9 trillion. In computing for the NNPLs, specific allowances for credit losses[22] on TLP are deducted from the GNPLs. The said allowances decreased to ₱106.4 billion in end-December 2013 from ₱112.6 billion posted a year ago.



The Philippine banking system's GNPL ratio of 2.8 percent was higher compared to Indonesia's 1.91 percent, Malaysia's 1.3 percent, South Korea's 1.8 percent and Thailand's 2.22 percent.[23]

The loan exposures of banks remained adequately covered as the banking system's NPL coverage ratio improved to 119.1 percent as of end-December 2013 from 113.0 percent in end-December 2012.

[20]On 16 October 2012, the BSP amended banks' reporting standard for NPLs. Beginning with the January 2013 reports, banks have been required to report their "gross" NPLs and their "net" NPLs. Gross NPLs represent the actual level of NPL without any adjustment for loans treated as "loss" and fully provisioned. Net NPLs is just the gross NPLs less specific allowance for credit losses on TLP (Circular No. 772, series of 2012).The new reporting standard was driven by the BSP's intent to be more transparent as it gives a fuller picture of the gross amount of NPLs and the full extent of allowances for probable losses. Under the previous framework, NPLs were reported net of loans considered as "loss" but fully provisioned for.

[21] For comparative purposes, computations for periods prior to January 2013 are aligned with Circular No. 772.

[22] This type of provisioning applies to loan accounts classified under loans especially mentioned (LEM), substandard-secured loans, substandard-unsecured loans, doubtful accounts and loans considered as loss accounts.

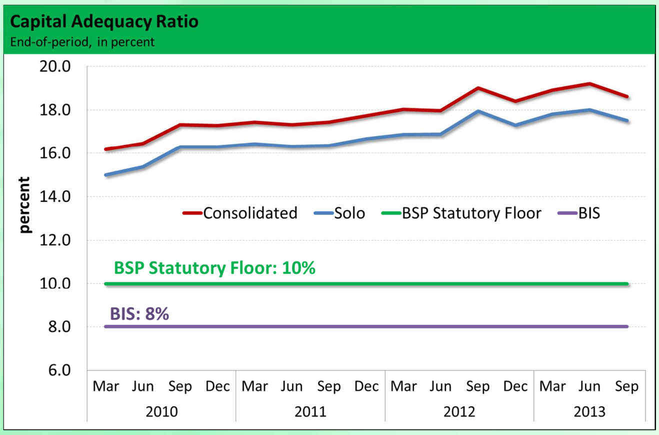
[23]Sources: Various central bank websites, IMF and financial stability reports, Indonesia (banking system, Oct 2013); Malaysia (banking system, Q4 2013); Thailand (banking system, Q3 2013); and South Korea (banking system, Q3 2013).

The ratio was indicative of banks' continued compliance with the loan-loss provisioning requirements of the BSP to ensure adequate buffers against potential credit losses.

Banks remain adequately capitalized

As of end-September 2013, the U/KB's industry average capital adequacy ratios (CAR) stood at 17.5 percent and 18.6 percent on solo and consolidated bases, which were both lower than last year's 18 percent and 19 percent, respectively. The slight decrease was due to risk weighted assets (RWA) increasing at a faster rate than qualifying capital. Tier 1 ratios stood at 16.4 percent and 16.5 percent on solo and consolidated basis, respectively.

The industry's qualifying capital was augmented mainly by healthy net profits during the third quarter of 2013 but was moderated by the redemption of debt securities classified as Lower Tier 2 capital by some banks.[24] On the other hand, the increase in the industry's RWAs was brought about by a rise in lending to various counterparties.



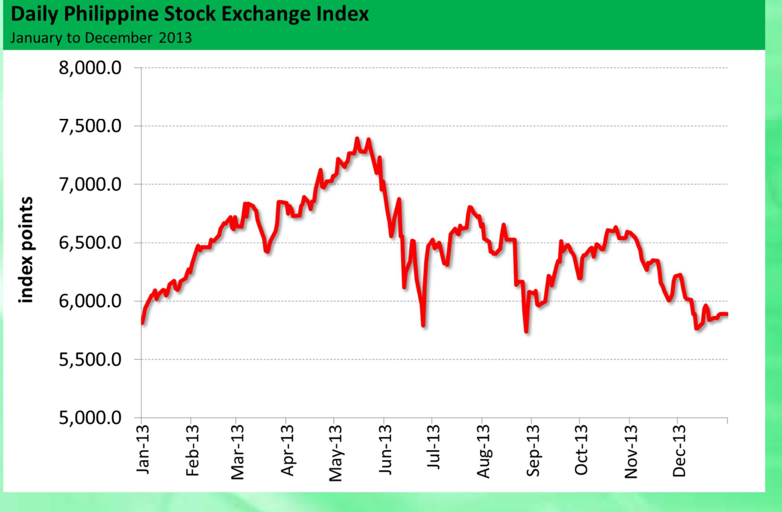
The Philippine banking system's CAR on a consolidated basis at 18.6 percent was higher than those of Indonesia (18.4 percent), Malaysia (14.3 percent), Thailand (15.7 percent), and South Korea (14.3 percent).[25]

[24]Redemptions are expected due to the implementation of the new capital standards under Basel III beginning this January 2014 which derecognizes certain debt securities as qualifying capital.
[25]Sources: Various central bank websites, IMF and financial stability reports, Indonesia (banking system, October 2013); Thailand (banking system Q4 2013); Malaysia (banking system, Q4 2013); and Korea (banking system, Q3 2013).

Stock Market Developments

Sustained investor optimism drives stock market rallies

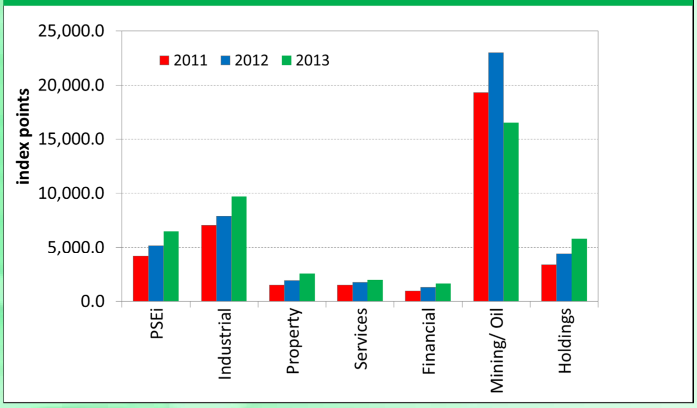
During the period January to December 2013, the Philippine Stock Exchange index (PSEi) increased by 25.0 percent to average 6,471.3 index points from 5,178.4 index points a year ago (Table 10). In the first half of the year, upbeat investor sentiment over the country's sound macroeconomic fundamentals and upgrade of the Philippines to investment grade status by Fitch Ratings and Standard & Poors' drove the index's rally to 31 historic highs, pushing past the 7,000 barrier and peaking at 7,392.2 index points in May. However, towards the second half of the year, volatility in the global financial markets brought about by geopolitical concerns in the Middle East (particularly in Syria) and speculation on the timing of the tapering of the US Federal Reserve's asset buying program weighed on the Philippine equity markets. These, together with local developments such as the devastation and inflation pressures caused by super typhoon Yolanda, caused the sharp retreat in the index in the second half of the year and wiped out the previous semester's gains. The local bourse closed at 5,889.8 index points in end-December 2013, modestly higher by 1.3 percent than the 5,812.7 index points a year ago.



All sector indices increase

Nevertheless, most sector indices outperformed their 2012 levels in the year in review, reflecting the strong performance and profitability of Philippine corporations. The property index, which tracks the companies engaged in property development and construction, led the boom as it jumped by 33.3 percent to average 2,576.7 index points during the year. This was followed by holdings firms, which rose by 33.1 percent. The financial firms' index was third as it expanded by 27.1 percent, while the industrial index grew by 22.5 percent. In contrast, the mining and oil index retreated sharply by 28.2 percent in 2013, partly due to lower global prices of commodity and precious metals, and domestic regulatory roadblocks which dragged down activity and profitability in the sector.[26]

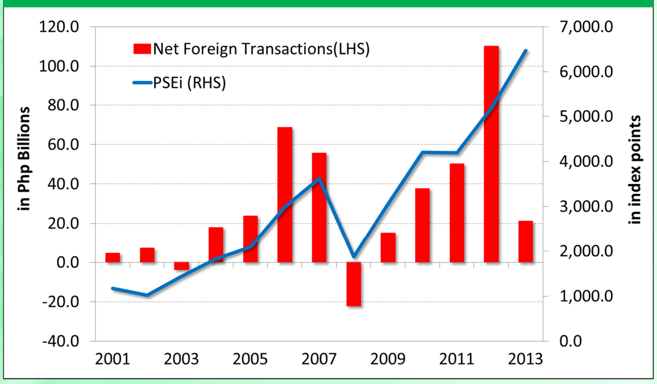
PSEi and Sectoral Indices
2011-2013



Foreign investors remain net purchasers of stocks

The volatility in foreign portfolio investment took a toll on the stock market, as foreign investors became more cautious, despite the positive news of a robust GDP growth for all quarters and credit rating upgrades throughout the year. Although foreign investors were net buyers of ₱20.9 billion worth of stocks in 2013, it was down by almost 81 percent than the ₱110.0 billion net purchases recorded in 2012. Foreign transactions as a proportion of total value traded reached 51.7 percent, higher than the44.9 percent posted a year ago, highlighting the significant role played by foreign investors in the movement of the local market.

Net Foreign Transactions and PSEi
2001-2013

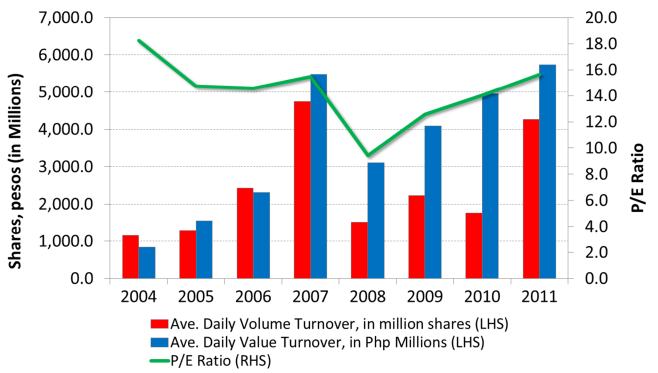


[26] Source: Thomson Reuters, BSP Staff Computation

Other stock market indicators also show strength of the local bourse

Total stock market capitalization mirrored the trend of the local stock index, peaking to ₱ 13.0 trillion in April before ending the year lower at ₱11.9 trillion due to the withdrawal of foreign funds and the weakening of investor sentiment. Nevertheless, the year-end capitalization level still represents an increase by 9.2 percent from ₱10.9 trillion in 2012.[27] Trading was still robust as evident in the 44.3 percent rise in the average daily value turnover from ₱7.3 billion in 2012 to ₱10.5 billion in 2013. Meanwhile, the price-earnings (P/E) ratio increased to average 19.5 times in 2013 from 18.1 times in the previous year.[28] The Philippines recorded the second most expensive stocks in Southeast Asia after Indonesia in 2013.

Market Turnover and P/E Ratio
2004-2013

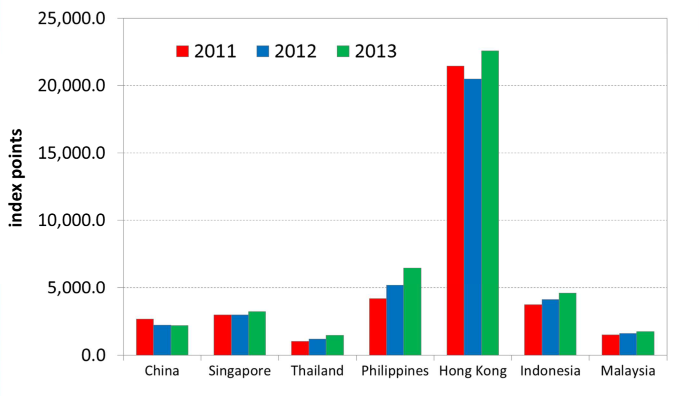


Most regional stock markets rally

Most stock indices in the Asian region rallied in 2013 and exceeded their performance in the previous year, notwithstanding the volatility in capital flows following the US Fed pronouncements. Of the seven benchmark indices monitored in Asia, six indices rose relative to the previous year. The rally was led by the Philippines, with the average index rising by 25.0 percent, followed by Thailand (20.9 percent), Indonesia (11.9 percent), Hong Kong (10.3 percent) and Malaysia (8.7 percent). In contrast, China's local bourse retreated by 1.0 percent, reflecting continued investor concerns over the slowdown of the Chinese economy.[29]

[27] Total market capitalization measures the aggregate value of the issued shares of listed firms in the Philippine Stock Exchange.
[28] 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. Source: Bloomberg
[29] Source: Bloomberg, BSP Staff Computation

Selected Asian Stock Indices
in index points



Debt Securities Market Developments

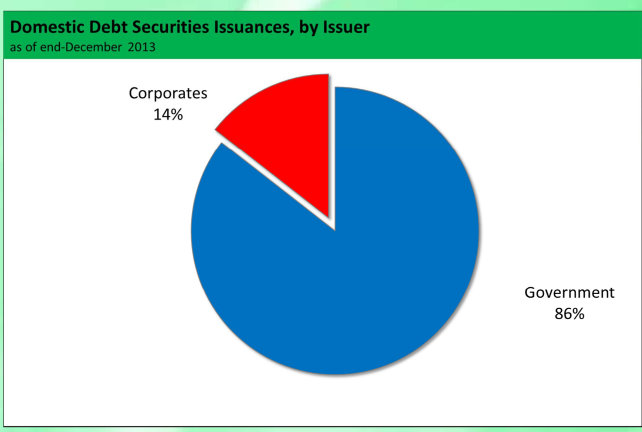
Size and Composition[30]

LCY issuances of NG and private sector decline

Local currency (LCY) bonds issued by both public and private sectors declined by 27.0 percent to ₱814.3 billion in 2013. Both sectors' issuances dropped by 27.3 and 25.1 percent to ₱696.4 billion and ₱117.9 billion, respectively. The decline in issuances was more pronounced in the second quarter with the market demanding higher yields for both government and private corporation's debt papers. During this period, uncertainty in the external market was high which led investors to prefer safehaven securities of developed markets over emerging market bonds.

During the year, the National Government reduced its fixed-rate Treasury bonds which stood at ₱342.9 billion. Retail Treasury Bonds (RTBs) similarly declined to ₱150.0 billion, 59.2 percent lower than the previous year's level. Corporations controlled and owned by the government likewise limited borrowings from the domestic market to ₱15.0 billion from ₱16.6 billion in 2012. Meanwhile, issuances from the private sector also dropped by 25.1 percent to ₱117.9 billion from last year's ₱157.3 billion.

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



Source: Bureau of the Treasury

In terms of market share, public sector issuances continued to dominate the domestic bond market, comprising 86 percent of total bond issuances. Accounting for the bulk of total public LCY bonds were the Bureau of the Treasury's (BTr) fixed rate Treasury bonds (T-bonds) and Treasury bills (T-bills), at 47 percent and 30 percent, respectively. Retail Treasury Bonds (RTBs), benchmark bonds, and 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 percent of total bond issuances and consisted largely of bonds, notes, and certificate of deposits. During the year, private issuances of LCY bonds were mostly from the real estate and financial sector, particularly from banks and investment firms. There were also issuances from other non-financial corporations such as energy and industrial companies.

Primary Market[31]

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 2013 remained robust with investors tendering more than twice the NG programmed borrowings for both short- and long-dated securities. Amount of tenders reached ₱1,581.9 billion against NG's offerings of ₱630.0 billion. The NG accepted ₱581.5 billion worth of T-bills and T-bonds while rejecting ₱1,000.4 billion bids.

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

Results of GS Auctions, 2013 In billion pesos				
Quarter	Offering	Tenders	Accepted Bids	Rejected Bids
T-bills	**225.0**	**609.6**	**206.5**	**403.0**
First Quarter	45.0	135.6	45.8	89.8
Second Quarter	60.0	81.7	51.8	29.8
Third Quarter	60.0	113.1	51.5	61.6
Fourth Quarter	60.0	279.2	57.4	221.8
T-bonds	**405.0**	**972.4**	**375.0**	**597.4**
First Quarter	75.0	295.6	75.0	220.6
Second Quarter	90.0	174.6	90.0	84.6
Third Quarter	160.0	372.5	160.0	212.5
Fourth Quarter	80.0	129.7	50.0	79.7
TOTAL	**630.0**	**1581.9**	**581.5**	**1000.4**

Apart from the regular T-bill and T-bond issuances, the NG also offered ₱30.0 billion of 10-year fixed rate RTBs in August. The demand for RTBs was substantial which enabled the government to award more than the programmed amount, raising a total of ₱150.0 billion worth of RTBs.

Yields on T-bills and T-bonds reach record lows during the year

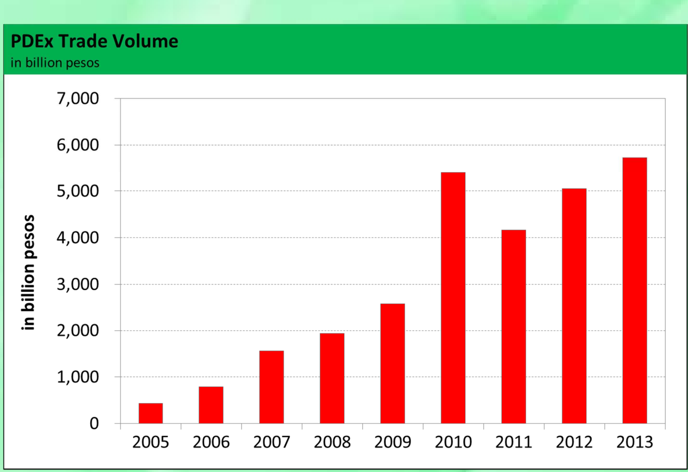
Investors were seen preferring shorter dated government debt, pushing yields of the 91- and 182-day T-bills to historic low of 0.001 percent during the year. The credit upgrade to investment grade rating from third party agencies combined with ample liquidity in the domestic market likewise supported the decline in the T-bill rates. There was also preference for longer dated T-bonds as evidenced by the continued oversubscriptions during the auctions conducted for these debt securities. This reflected improving market confidence in the country's long-term economic prospects following reports of favorable growth, strong external finances, well-anchored inflation expectations, and improved prospects for economic reforms.

However, towards the end of the year, appetite for government debt eased. The announcement from the US Fed on their tapering plans prompted investors to dump local debt instruments on expectation of rising yields of US treasuries. In December, the BTr only sold T-bonds to push market demand to longer dated bonds but the BTr ended up rejecting all the bids for the 5-year T-bond offering as the market demanded higher yields for these bonds.

Secondary Market

Credit rating upgrade supports trading at the secondary market

Trading of both government and corporate bonds at the Fixed Income Exchange (FIE) climbed in 2013. The total volume of transactions stood at ₱5,732 billion, 13.3 percent higher than the previous year's level.



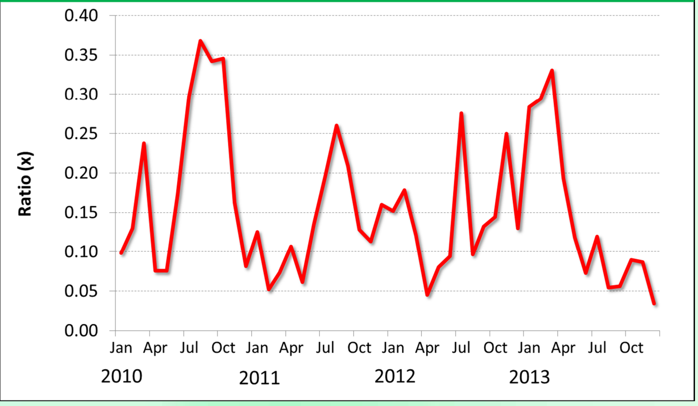
Source: Philippine Dealing and Exchange Corp.

The secondary market started strong during the year as the government decided to hold fewer auctions along with the country's continued favorable macroeconomic environment. The first investment grade rating received from Fitch Ratings Services, Standard and Poor's and Moody's Investor Service significantly buoyed trading sentiment over the country's debt papers. The low interest rate environment in the external market, with the US and Japan signaling the use of more quantitative easing measures in the near term, also prompted buying at the secondary market. The cut in the BSP's special deposit account (SDA) rate in January and March likewise contributed in the rise of trading volume at the fixed income market as investors searched for alternative investment instruments.

However, trades slowed down in the second half of the year notably in the months of November and December. The damage resulting from typhoon Yolanda and the announcement of early tapering of the US Fed's stimulus in the face of an improving US economy prompted investors to pull out funds from the country's fixed income market. Nonetheless, the country's strong macroeconomic fundamentals continued to support trading at the FIE, which tempered selling pressures at the secondary market.

The overall 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 1.70 times in 2013 from 1.69 times in the previous year.[32] On a monthly basis, activity in the secondary market was initially high in the first semester but was pulled down by the low trading activity in the second half of the year.

PDEx Government Bond Turnover Ratio 2010-2013



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

International Bond Market

The NG limits borrowing offshore, taking advantage of the ample liquidity in the domestic capital market

The NG refrained from borrowing in the international debt market in 2013 to take advantage of the ample liquidity in the local capital market. The NG's plan for 2013 was to source 20 percent of the government's funding needs from overseas lenders while the remaining 80 percent, from local investors. Meanwhile, the private sector tapped the offshore market, issuing US$1,450 million worth of bonds and notes with tenors of five to ten years. Issuers were from the power and real estate sector with proceeds reported to fund infrastructure developments and support working capital requirements.

Credit Risk Assessment

The Philippines attains investment grade status from three major credit rating agencies

The Phililppines obtained its investment grade rating from the three major credit rating agencies during the year.[33] Fitch and S&P assigned a stable outlook to the Philippines' investment grade rating while Moody's assigned a positive outlook. The upgrade

[32] 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.
[33] The investment grade rating was received from Fitch Ratings on 27 March 2013, Standard and Poor's (S&P) on 02 May 2013 and Moody's Investor Service on 03 October 2013.

reflected a vote of confidence in the country's prospects and was an affirmation of its sound macroeconomic management. An investment grade status translates to lower interest debt payments, facilitates access to international capital markets and attracts more foreign investors to the country.

The upgrades by the three credit rating agencies were attributed to the country's improved fiscal profile, less reliance on foreign currencydebt,increased revenue collection, stable macroeconomic fundamentals, and political stability and improved governance.

Latest Philippine Sovereign Credit Ratings
as of end-December 2013

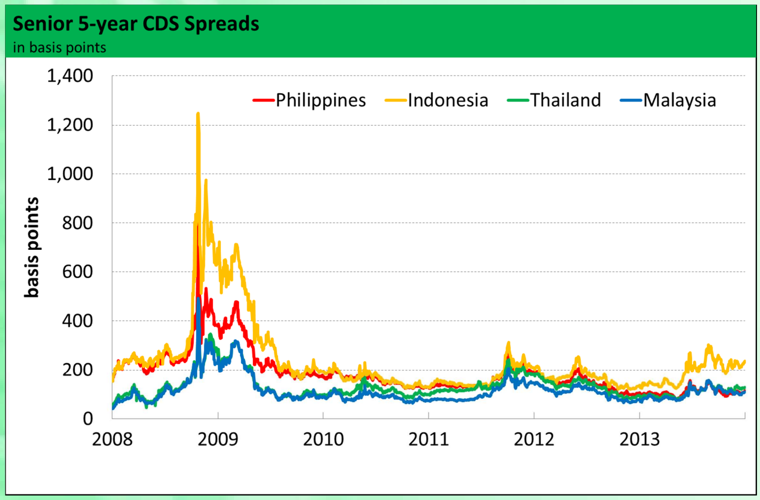
Rating Agency	Local Currency (LT/ST)	Foreign Currency (LT/ST)	Outlook
S&P	BBB-/A3	BBB-/A3	Stable
Moody's	Baa3/n.a.	Baa3/n.a.	Positive
Fitch	BBB/n.a.	BBB-/F3	Stable

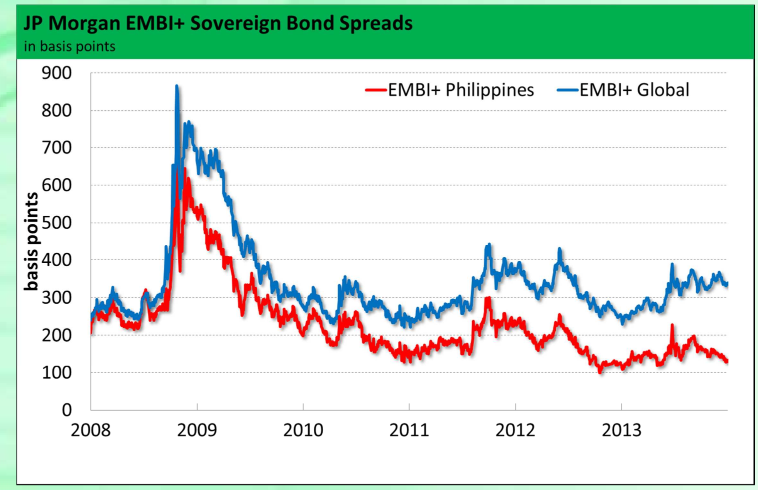
Spread on Philippine sovereign bonds narrows to historic lows

In line with the country's credit rating upgrade to investment grade status, investors placed a lower premium in holding Philippine debt papers as debt spreads generally declined in 2013. On the average, the JP Morgan EMBI+ Philippine spreads, or the extra yield investors demand to hold Philippine debt securities over US Treasuries stood at 150.8 basis points (bps) during the year, down from the previous year's average of 175 bps. Throughout the year, the EMBI+ Philippine spread hovered below the JP Morgan EMBI+Global spreads, which tightened similarly by 10.5 bps to average 320 bps during the year.[34] 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 its historic low of 82.5 bps on 3 May as the market priced the country's debt paper as investment grade. Against neighboring economies, the Philippine CDS averaged 108.5 bps during the year, narrower than Indonesia's 191 bps but close to Malaysia's 109 bps and Thailand's 102 bps.[35]

[34] 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

[35] 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.





The 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. Several institutions including ADB, World Bank, and Fitch raised their Philippine growth forecast for 2013 which boosted demand for Philippine bonds that led yields and premiums to go down and spreads to tighten. The three credit ratings upgrade received by the Philippines from Fitch, S&P, and Moody's translated to the significant tightening in credit spreads.

Furthermore, the gradual strengthening 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 in mid-May on continued monetary easings from major central banks which boosted demand for the higher-yielding assets such that of the Philippines. The Bank of Japan (BOJ) unveiled its new program of quantitative and qualitative monetary easing in April, the European Central (ECB) cut its policy rate in early May and similarly, the US Fed reaffirmed its commitment to its asset purchase program and made indications that it is prepared to increase or decrease the pace of its purchases based on the outlook for inflation and labor market conditions.

On the other hand, the improved growth prospects in advanced economies amid a potential slowdown in key emerging market economies, reversed the narrowing trend by end of the second half towards the third quarter of the year. Uncertainties over US Fed tapering plans translated to a temporary sell-off in US Treasuries that pushed yields to rise temporarily in both the investment-grade and high-yielding emerging market bonds. Re-pricing of risks, fueled by the shift in policy dynamics in the US as well as the cut in the growth forecast in several Asian economies, sent debt spreads to increase. The US fiscal shutdown in October also kept investors away from riskier emerging market assets. On the domestic front, the impact of Typhoon Yolanda likewise contributed to the widening pressures. Nonetheless, debt spreads ended the year tight and low in 2013 as compared to levels seen in the previous year.

Box Article 2:

Impact of the US QE Tapering on the Philippine Economy

The year 2013 was marked by increased global policy uncertainty owing mainly to concerns over the scale and timing of the scaling down of the US Federal reserve's quantitative easing (QE) measures. Thus far, the tapering of QE measures appears to have resulted primarily in increased volatility in domestic financial markets.

Impact on financial markets

Firmer indications of recovery in economic activity in the US had been observed in 2012 and in Q1 2013. Hence, during its 1 May 2013 monetary policy announcement, the US Fed noted that it was "prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes."[36] This stance was reiterated by former US Fed Chair Ben Bernanke in his testimony before the Joint Economic Committee of the US Congress on 22 May 2013.

These indications from the US Fed fueled concerns on the potential impact of an earlier-than-expected moderation of the US Fed's QE program, resulting in a swift and widespread volatility across the global financial markets. In Asia, for instance, the uncertainty over the timing and scale of bond purchases led to a region-wide capital outflow, which, in turn, translated to exchange rate depreciations and sell-offs in most of emerging market (EM) equities and bond markets.

In the Philippines, the US Fed announcements resulted initially in sharp volatility in the equity, bond and foreign exchange markets. Foreign fund managers withdrew their holdings of Philippine equities and bonds amid encouraging developments in the US. In May 2013, portfolio investment registered a net outflow of US$640.8 million, a reversal from the previous month's inflow of US$1.1 billion. Meanwhile, capital outflows in the equities market led to a sharp decline in the country's Philippine Stock Exchange index (PSEi) beginning on 16 May 2013, a day after the index posted a historic high of 7,392 index points. Similar with the currencies in other emerging market economies, the peso weakened following Chair Bernanke's statements. From the ₱41.18/US$1 posted on 22 May 2013, the peso depreciated against the US dollar to ₱44.75/US$1 on 28 August 2013, its lowest level in Q3 2013. Meanwhile, in the fixed-income market, a correction that began in mid-May 2013 snowballed into a full-blown sell-off in June, leading to a widening of credit spreads to levels last seen in June 2011.[37]

Some degree of calmness in the financial markets was eventually observed in the second semester of 2013, suggesting that the markets may have overreacted to some extent to the US Fed's pronouncements. The return to calm of domestic financial markets was also a vote of confidence on the inherent strength of Philippine macroeconomic fundamentals. For instance, the PSEi has bounced back from a low of 5,789 index points on 25 June 2013 to a high of 6,804 index points on 24 July 2013. Broad stability likewise returned to the foreign exchange market, with the peso reaching its strongest level in Q4 2013 at ₱43.05/US$1 on 4 October. Moreover,

[36] FOMC Press Release on 1 May 2013.
[37] The CDS spread represents the cost of insuring the country's 5-year sovereign bonds against default.

the country's 5-year CDS spread narrowed to 90.9 bps on 29 October 2013, its lowest level in the second semester of 2013.

On 18 December 2013, the US Federal Reserve announced that it will taper its monthly bond-buying program starting in January 2014 on the assessment that the improvement in economic activity and labor market conditions is consistent with growing underlying strength in the broader economy. While US Fed Chair Janet Yellen affirmed that US stimulus will be cut in measured steps, speculation over the pace of the exit from monetary accommodation lingered. The US Fed was also facing the challenge of disassociating the tapering of its bond purchase program from the normalization of its policy interest rate.

Since the announcement of the QE tapering, the country's financial markets have been under some strain, exposing the Philippines to more volatile external conditions and higher risk premiums. After the 18 December 2013 Fed meeting, capital flows have started to reverse, posting a net outflow of US$354 million in December 2013.[38]

Volatility in domestic financial markets has also resumed although less severe compared to that in the first semester of 2013. On 19 December 2013, the PSEi dropped albeit only slightly relative to the decline in May and June 2013, suggesting that the market may have already priced-in the Fed's tapering decision. The PSEi closed the year at 5,890 index points, up by 1.3 percent from end-2012 level, although down by 20.3 percent from its peak level in May.[39]

In the foreign exchange market, the peso depreciated by a modest 0.3 percent from the ₱44.26/US$1 level registered on 18 December 2013 to close the year at ₱44.40 against the US dollar. The initial weakening of the local currency was more gradual, also indicating that the market had already factored in the potential impact of the tapering in their trading activity. On a year-to-date basis, the peso depreciated against the US dollar by 7.5 percent on 27 December 2013 as it closed at ₱44.40/US$1, moving in tandem with the rest of the Asian currencies.[40]

Meanwhile, the generalized increase in risk aversion against emerging markets in the second semester of 2013 translated to a marginal increase in the country's premium on debt securities. The Philippine 5-year CDS spread continued to trade above 100 basis points since the December 2013 Fed announcement, an indication that the market is still pricing higher risks from holding the country's sovereign bonds, ending the year at 114 bps.[41]

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[38] In January 2014, the portfolio rebalancing trend continued as investors repatriated capital amounting to US$1.8 billion.

[39] In January 2014, the local bourse opened the year by trading within a narrow band given the lack of any fresh leads. Investors traded on the sidelines as domestic inflation concerns weigh down market sentiment and as they await for the release of US jobs data for December 2013. On 20 January, the market rebounded and breached the 6,000 barrier for the first time in 2014 in the face of a lower than estimated US non-farm payroll data, signaling that tapering may not accelerate anytime soon. Following the Fed's meeting on 29 January 2014, the PSEi dipped, albeit marginally, by 0.5 percent to 6,041.2 index points on 30 January 2014. Reports of the country's 7.2-percent GDP growth for 2013 tempered the decline.

[40] With the exception of the Korean won and Chinese yuan, which appreciated vis-à-vis the US dollar; Data based on the last done deal transaction in the afternoon.

[41] Since then, widening pressures have abated but debt spreads remained above 100 bps with the CDS settling at 128 bps as of end-January 2014 and trading close to Thailand and Malaysia at 165 bps and 128 bps, respectively, but much lower than Indonesia's 235 bps. Upbeat economic data and stable 2014 outlook for Philippine economic growth prompted investors to demand lower premium for the country's debt papers.

Impact on Real Sector

The increased volatility in financial markets in EMs following the tapering of QE measures could be viewed as part of the broader process of rebalancing/normalization occurring in the global economy. Appropriate and timely policy adjustments have fuelled the recovery in major advanced economies (AEs)—particularly in the US, Japan, and euro area—by stimulating economic activity and anchoring market sentiment.

The US Fed move is an affirmation that the growth in the US economy is gaining traction. As such, the unwinding of QE may indicate eventual increase in export income, foreign investments, and remittances that flow into the emerging market trading partners of the US, including the Philippines. In fact, the improvement in external demand has already been reflected in the country's export growth, which has returned to positive territory since June 2013. Exports ended the year on a positive note, registering a growth of 15.8 percent year-on-year from 18.9 percent in the previous month and 16.5 percent in the same period a year ago. The recovery in exports was also noted in most neighboring countries. Japan (15.3 percent), Australia (15.1 percent), Malaysia (14.4 percent), Indonesia (10.3 percent), Singapore (8.9 percent), South Korea (7.0 percent), China (4.3 percent), India (3.5 percent), Thailand (1.9 percent), and Taiwan (1.2 percent) posted growths in their export revenues in December 2013. On balance, therefore, the improvement in growth prospects in AEs, including the US, can be a positive force for EMs such as the Philippines over the medium to long term.

Outlook and Policy Implications

Moving forward, the US Fed tapering is expected to continue to drive global uncertainty, with shifts in market sentiment toward or away from EMs depending on individual or idiosyncratic strengths, weaknesses or risks, e.g., political turmoil in Turkey and Thailand; high or rising inflation in India and South Africa; dwindling international reserves in Venezuela.

Capital inflows into the Philippines may moderate in the short term but are likely to continue because of the country's pull factors—solid growth prospects and strong macroeconomic fundamentals— which are expected to attract foreign interest into the country. These include a manageable inflation environment, strong external payments position, sound and stable banking system, ample domestic and foreign exchange liquidity, adequate fiscal space, and a positive growth outlook.

Although the pace and timing of the unwinding of its asset-buying program remains uncertain, the Fed has every reason to effect an orderly, well-calibrated exit from QE measures in order to preserve the gains in output and employment. Together with a generally benign inflation environment, subdued global growth prospects could moderate upward pressures on advanced economy interest rates in the near term.

Nonetheless, during periods of financial market stress, the BSP can utilize its reserve buffers to help calm markets. At present, the Philippines' liquidity buffers are sufficient to help ease possible financing constraints given the continued growth in liquidity and bank lending, together with the country's firm external position. In addition, the BSP can deploy a menu of measures that will be broadly similar to those adopted during the 2008-2009 global financial crisis to avoid the drying up of liquidity in financial markets during periods of heightened uncertainty and increased risk aversion.

External Sector

Balance of Payments

BOP for full-year 2013 remains in surplus

The BOP position for January-December 2013 yielded a surplus of US$5.1 billion, bolstered by the appreciable increment in the current account surplus. This was, however, lower than the US$9.2 billion BOP surplus recorded in the comparable period in 2012. The current account continued to perform strongly due mainly to higher net receipts from secondary income and services, combined with lower deficit in trade in goods. By contrast, the financial account recorded net outflows, a reversal of the previous year's net inflows due to net outflows in other investments along with lower net inflows in portfolio investments. This development was tempered by the turnaround of direct investments to net inflows from net outflows last year.

The current account surplus expands

The current account surplus rose markedly to US$9.4 billion (3.5 percent of GDP) for the full-year 2013 compared to US$7 billion (2.8 percent of GDP) in 2012. The 35.6 percent expansion stemmed from higher net receipts from secondary income and services, and lower trade in goods deficit. This favorable outcome more than offset the net payments recorded in the primary income account, which recorded a reversal from the net receipts posted in 2012.

The trade in goods deficit registered a moderate improvement of 2.1 percent as the contraction in imports of goods (by US$2 billion) outpaced that of exports of goods (by US$1.6 billion). Exports of goods dropped by 3.6 percent to US$44.7 billion in 2013 compared to US$46.4 billion in 2012 due primarily to the contraction in shipments of manufactured goods (contributing 7.9 percentage points to the overall decline in exports) from the previous year's level. The 9.3 percent drop in exports of manufactured goods stemmed largely from the decline in shipments of non-consigned electronics (including other electronics) (by 22.8 percent) and machinery and transport equipment (by 17 percent). The slack in exports of these manufactured goods was compensated by increases posted in exports of other manufactured goods such as wood manufactures (by 41.9 percent), chemicals (by 33.9 percent), and processed food and beverages (by 44.1 percent).

These developments were partly offset by the upward trends recorded in other major commodity groups (i.e., coconut, sugar, other agro-based, forest, petroleum and mineral products).

Meanwhile, imports of goods fell by 3.1 percent to reach US$63.3 billion in 2013, on account of lower imports of raw materials and intermediate goods, and mineral fuels and lubricants (contributing 4 and 1 percentage points, respectively). In particular, imports of raw materials and intermediate goods declined by 9.9 percent to US$23.7 billion due to decreased purchases of raw material inputs for the manufacture of electronics (by 2.8 percent) and chemicals (by 3.8 percent), notably chemical compounds and artificial resins. Imports of mineral fuels and lubricants also dropped by 4.6 percent on account of the 13.1 percent contraction in the procurement of petroleum crude due to the decline in the global prices of crude oil. By contrast, imports of capital goods grew by 6.4 percent owing to increased purchases of power generating & specialized machines, telecommunication equipment & electrical machinery, and aircraft, ships & boats. Similarly, imports of consumer goods rose by 4.2 percent due to higher purchases of consumer durables (by 6.8 percent), specifically passenger cars and motorized cycles, and miscellaneous manufactures; and non-durables (by 1.8 percent), notably dairy products, beverages & manufactured tobacco, and articles of apparel & accessories.

The surplus in the services account improved by 10.4 percent to US$6.8 billion in 2013, due mainly to higher net receipts from telecommunications, computer, and information services(by 4.1 percent); and personal, cultural, and recreational services (35.3 percent). These increments, together with lower net payments for travel, transport (largely lower freight services due to the decline in goods imports), insurance and pension, financial, and government goods and services more than compensated for the lower net receipts from other business services, particularly technical, trade-related[42] and other business services (on account of decreased receipts in manufacturing services), and construction services as well as increased net payments in maintenance and repair services, and charges for the use of intellectual property. The continuous expansion of the business process outsourcing industry in the Philippines is expected to positively impact on the growth of the services sector and the overall strength of the Philippine economy. According to the Information Technology and Business Process Association of the Philippines (IBPAP), the industry is expanding and focusing on becoming the leader in both voice and non-voice segments globally.

The primary income account reversed to net payments of US$254 million for the full year 2013 compared to US$197 million net receipts a year ago. The reversal was due mainly to higher net payments of investment income amounting to US$7.1 billion compared to US$6.2 billion the previous year. The 14.7 percent growth in net payments of investment income was traced largely to

[42] Total BPO receipts for 2013 amounted to US$13.9 billion, 11.5 percent higher than the US$12.5 billion receipts in 2012.

increments in: a) net dividends to foreign direct and portfolio investors on their equity and investment fund shares in resident enterprises (by 2.5 percent and 29.4 percent, respectively); b) net interest payments by the public and private corporations (by 13.4 percent) on bonds issued abroad as well as net interest payments on other investments particularly foreign loans by public and private corporations (32.2 percent); and c) lower interest income on reserve assets due to continued drop in global interest rates. These developments negated the 7.9 percent expansion in receipts from earnings of resident OF workers to US$7 billion.

Net receipts in the secondary income account increased by 9.6 percent to US$21.4 billion, boosted mainly by the 7.3 percent growth in workers' remittances of non-resident OF workers, which reachedUS$19.3 billion in 2013.

Net receipts in the capital account improve

The capital account realized net receipts of US$115 million in 2013, 21.8 percent higher than the US$95 million registered in the same period a year ago. This was due mainly to the increase in capital transfers to the NG.

The financial account reverses to net outflows

The financial account registered net outflows of US$635 million in January-December 2013, a turnaround from the US$6.7 billion net inflows recorded in the previous year. Residents' net acquisition of financial assets reached US$4.9 billion, exceeding their net incurrence of liabilities of US$4.3 billion. Net outflows were posted in the other investment account, which were mitigated partly by inflows of portfolio and direct investments. Other investments registered net outflows as local banks extended loans to non-residents and the NG repaid its foreign loans. Volatile capital flows during the year reflected sensitivity of financial markets to external developments. In particular, net inflows of portfolio investments declined as risk appetite for emerging market assets was weighed down by the tepid recovery in the euro area as well as changing expectations on the US monetary policy. Risk aversion however was tempered by positive developments in the domestic front, including the country's strong economic growth numbers during the year and credit rating upgrades from three major credit rating agencies. Meanwhile, foreign direct investments remained resilient on the back of the country's strong fundamentals.

Major developments in the financial account in during the year were as follows:

The direct investment account registered net inflows of US$218 million in 2013, a reversal of the US$958 million net outflows posted in 2012. This marked improvement was due to the

20 percent growth in residents' net incurrence of liabilities (or foreign direct investments) coupled by a 12.7 percent decline in their acquisition of financial assets. Foreign direct investments remained robust at US$3.9 billion, buoyed by investors' confidence on the country's sound macroeconomic fundamentals. In particular, non-residents' investments in debt instruments issued by local affiliates surged to US$2.5 billion from US$391 million a year ago. Net inflows of equity capital, however, declined by 66.9 percent to settle at US$663 million as placements were nearly offset by withdrawals of equity capital by non-residents. The bulk of gross equity capital placements—which originated primarily from Mexico, Japan, the United States, British Virgin Islands, and Singapore—were channeled mainly to manufacturing; water supply, sewerage, waste management and remediation; financial and insurance; real estate; and mining and quarrying. Reinvestment of earnings also fell by 14.4 percent to settle at US$701 million. Meanwhile, residents' net acquisition of financial assets was lower at US$3.6 billion from US$4.2 billion the previous year. Domestic corporations' net placements of equity capital and investments in debt instruments issued by their foreign affiliates declined by 27.6 percent and 6.8 percent, respectively.

The portfolio investment account yielded net inflows of US$1.3 billion in 2013, lower by 58.7 percent than the level a year ago. Net inflows resulted from residents' net disposal of their foreign financial assets amounting to US$963 million and net incurrence of liabilities (or foreign portfolio investments) of US$362 million.

The primary source of net disposal of financial assets was non-residents' redemption of debt securities held by local banks (US$1.3 billion). This was partly negated by domestic non-banks' placements in debt securities issued by non-residents (US$235 million).

Meanwhile, the sources of net inflows pertaining to net incurrence of liabilities included the following:

a) Non-residents' net subscription of short-term peso-denominated debt securities issued onshore by the NG (US$717 million);
b) Non-residents' net placements in equity securities issued by domestic non-bank corporations (US$253 million); and
c) Non-residents' net subscription of long-term bonds issued offshore by domestic non-bank corporations (US$239 million).

These were partly moderated, however, by net outflows coming from the following transactions:

a) NG's net redemption of long-term bonds issued offshore (US$362 million) and long-term peso-denominated bonds issued onshore (US$163 million) held by non-residents; and
b) Non-residents' net withdrawal of placements in equity securities issued by local banks (US$287 million).

The other investment account realized net outflows of US$2.3 billion in 2013, reversing the US$4.5 billion net inflows recorded the previous year. Residents' net acquisition of financial assets amounted to US$2.6 billion during the period from a net disposal of US$1 billion last year. Meanwhile, residents' net incurrence of liabilities fell by 91.1 percent to settle at US$308 million from the year-ago level.

Residents' net acquisition of financial assets were mainly due to loans extended by local banks to non-residents (US$1.9 billion) and residents' net placements of currency and deposits in foreign banks (US$640 million). Local banks' deposits abroad were intended for the payment of maturing securities as well as loans and other obligations.

Meanwhile, residents' net incurrence of liabilities came primarily from local non-bank corporations' net loan availments from non-residents (US$2.1 billion) and non-residents' placements of currency and deposits in domestic banks (US$296 million). These flows, however, were partly mitigated by net repayment of foreign loans by the NG (US$1.3 billion) and local banks (US$254 million), as well as residents' net repayment of accounts payable (US$312 million) and trade credits (US$235 million) extended by non-residents.

International Reserves

GIR decreases due to revaluation adjustments on BSP's gold holdings and payments by NG for its maturing FX obligations

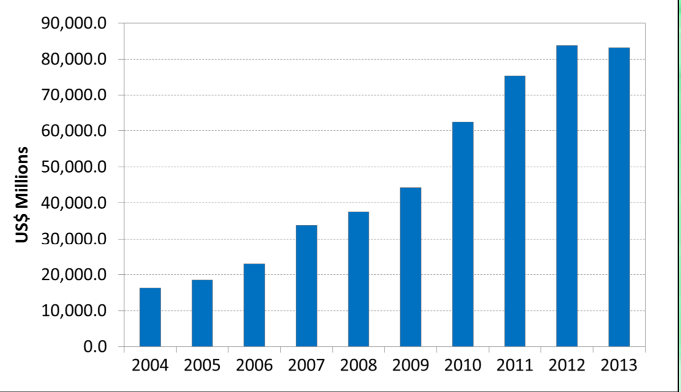
The country's gross international reserves (GIR) declined slightly by 0.8 percent, year-on- year, as of end-2013, a first in 9 years when the GIR fell by 4.9 percent as of end-2004. For this review period, the GIR stood at US$83.2 billion which is equivalent to a year's worth of imports of goods and payments of services and income. The corresponding reserve adequacy ratios at this GIR level were 7.4 times the country's short-term external debt based on original maturity and 5.4 times based on residual maturity.

Inflows from the foreign exchange operations and income from investments abroad of the BSP as well as foreign currency deposits by the Treasurer of the Philippines (TOP) supported the GIR.

However, these inflows were offset by revaluation adjustments on the BSP's gold holdings and payments by the National Government (NG) for its maturing foreign exchange obligations.

The bulk of the reserves, or 86.9 percent was held in foreign investments. Meanwhile, 9.0 percent of total reserves were in gold and the remaining 4.1 percent were the combined holdings of Special Drawing Rights (SDRs), the BSP's reserve position in the IMF, and foreign exchange.

Gross International Reserves
in US$ Millions



The GIR was held mostly in US dollars, accounting for about 78.8 percent of total reserves (less gold). Other currency holdings that comprise the GIR were as follows: 10.0 percent in yen, 5.0 percent in euro, 3.2 percent in Australian dollars and the remaining 3.0 percent were in SDR and other currencies.

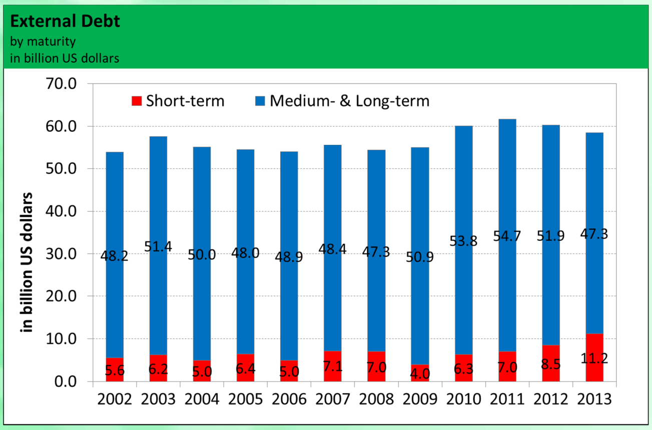
Net international reserves (NIR), which include revaluation of reserve assets, amounted to US$83.2 billion as of end-2013, lower by US$0.6 billion compared to the comparable period last year. The NIR refers to the difference between the BSP's GIR and total short-term liabilities.

External Debt

External debt declines

In 2013, the outstanding BSP-approved/registered external debt stood at US$58.5 billion, lower by US$1.8 billion (or 3.0 percent) compared to the US$60.3 billion level at end-2012 (Table 13).

The drop in the debt stock from the end-2012 level mainly arose from negative FX revaluation adjustments (US$2.9 billion) which were partly offset by net availments (US$647 million) and an increase in non-residents' investments in Philippine debt papers (US$416 million) as investors sought safer investment outlets for their funds amidst lingering issues in the eurozone and the pace of recovery of the United States economy.



Maturity profile remains predominantly medium and long-term

The country's medium to long term (MLT) loans reached US$47.3 billion (80.8 percent of total external debt) during the period under review, down by US$4.6 billion or 8.8 percent against the US$51.9 billion posted a year ago. The maturity profile of the Philippine external debt remained skewed towards MLT loans, with payments scheduled over a longer period of time, resulting in a more manageable level of foreign exchange requirements for debt servicing.

Short-term (ST) obligations, on the other hand, grew by US$2.7 billion to reach US$11.2 billion (19.2 percent of total external debt) from US$8.5 billion (11.6 percent of total external debt) a year ago. This was largely due to bank liabilities, which financed regular operations, e.g., lendings, investments, and trade financing.

The weighted average maturity of 20 years for loans with original tenors of more than one year was shorter than the 20.4 years recorded a year ago.

Public sector borrowings declined to US$40.5 billion (69.8 percent share to total external debt) from US$45.2 billion (74.9 percent share to total external debt) in 2012. Conversely, private sector loans went up by US$2.8 billion to US$18.0 billion from US$15.2 billion a year ago, increasing its share to total external debt from 25.1 percent to 30.7 percent.

Official credits (multilateral institutions and bilateral creditors) accounted for the largest share of total external debt at 36.8 percent (US$21.5 billion) in 2013, lower than the previous year's 42.1 percent (US$25.4 billion). Amounts owed to foreign bond/note holders reached US$20.8 billion, accounting for 35.6 percent share to total external debt. Borrowings from other creditors (e.g., banks and other financial institutions, suppliers/exporters and others) accounted for 27.6 percent share to total external debt.

The country’s debt stock has remained denominated mainly in two major currencies: (a) the US dollar, which accounted for 53.1 percent of total external debt; and (b) the Japanese Yen, which accounted for 18.9 percent. The US dollar-denominated multi-currency loans from international financial institutions comprised 12.0 percent of the total external debt stock, while the remaining 16.0 percent of the total external debt were denominated in other currencies, which included the Special Drawing Rights and the euro.

The external debt ratio (a solvency indicator), or total outstanding debt expressed as a percentage of gross national income (GNI), continued to improve from 20.2 percent in 2012 to 18.0 percent in 2013; the same trend holds true using gross domestic product (GDP) as denominator (from 24.1 percent to 21.5 percent). With the 7.2 percent full year growth of the economy in 2013 and lower debt level, the ratio indicated the country's strong capacity to service foreign obligations.

The debt service ratio (DSR), which relates principal and interest payments or debt service burden (DSB) to exports of goods and receipts from services and primary income (XGSI), is a measure of the adequacy of the country’s FX earnings to meet maturing payments. In 2013, the ratio increased to 7.6 percent from 7.3 percent in 2012 (Table 14). The DSR has remained well below the international benchmark range of 20 to 25 percent.

PART TWO: THE OPERATIONS AND POLICIES OF THE BSP

Monetary Stability

The Monetary Board (MB) maintains policy rates throughout 2013

Throughout 2013, the BSP maintained the RRP and RP rates at 3.5 and 5.5 percent, respectively. The MB's decisions were based on its assessment of a manageable inflation environment. Market expectations of inflation also remained consistent with the target range. Domestic economic activity has likewise been growing at a solid pace, supported by firm demand and buoyant business sentiment. While the balance of risks to the inflation outlook was deemed to be broadly balanced during the first five policy meetings, the balance of risks has shifted slightly to the upside for the rest of the year due to the potential increases in food prices as well as the pending petitions for further adjustments in utility rates.

The MB reduces SDA rates

Meanwhile, the BSP reduced the interest rates on the SDA facility by 50 bps each during its policy meetings in January, March, and April 2013. By end-April 2013, the SDA rate was set at 2.0 percent regardless of tenor. The MB noted that the manageable inflation environment and robust domestic growth prospects provided scope for further enhancing the efficiency of monetary operations in absorbing liquidity through the SDA facility. The adjustment was also in line with the BSP's continuing efforts to fine-tune its monetary policy instruments and thereby gain greater flexibility in conducting monetary operations, and also to ensure adequate liquidity for economic activity.

In addition, the BSP continued its fine-tuning of monetary operations by releasing the revised guidelines on the access of banks and trust departments/entities (acting as trustees) to the BSP's SDA facility on 9 May 2013. Beginning on 1 January 2014, access of these institutions to the SDA facility shall be limited to fund management activities of trust accounts allowed under existing regulations. The BSP also required trust entities to gradually phase out their SDA placements that are not consistent with the revised BSP guidelines by November 2013.

Box Article 3:

A Note on the Proposed BSP Charter Amendments and Its Implications on Monetary and Financial Stability

Republic Act (RA) No. 7653 (the New Central Bank Act) or the *Bangko Sentral ng Pilipinas* (BSP) Charter has not yet been amended since its enactment on July 3, 1993 despite the fast evolution of the Philippine financial system and the economy. The legal framework of an independent central monetary authority is in need of reforms to further enable the BSP to craft and implement responsive policies that support growth.

A total of 11 bills have been filed at the 16th Congress to amend the BSP Charter (5 and 6 measures filed in the Senate and House of Representatives, respectively). The lead bill being deliberated by the House Committee on Banks and Financial Intermediaries is House Bill (HB) No. 3112, sponsored by Speaker Feliciano Belmonte, Jr. and Rep. Nelson Collantes. The provisions of HB No. 3112 are substantially the same as the BSP-proposed amendments to the Charter. Meanwhile, the bills on the BSP Charter amendments filed with the Senate have been referred to the Senate Committee on Banks, Financial Institutions and Currencies.

There are 39 substantive provisions proposed by HB No. 3112, of which 29 are amendatory and 10 are additional or new sections. These proposed amendments cover all aspects of the operations of the BSP, including its performance of its monetary and financial stability functions, the corporate and financial viability of the central bank, and reforms in the financial sector.

The BSP's vision to become a world-class monetary authority is premised on a legal framework that evolves with "the felt necessities of the times", keeping at pace with the demands of the economy.[43] This box article will focus and highlight on specific reforms of the BSP Charter, which will achieve this alignment and catalyze change in preserving monetary and financial stability.[44]

Reinforcing corporate and financial viability through recapitalization

In this light, the BSP is seeking for an additional capitalization of ₱150 billion as one of the most urgent reforms that will overarch all operations of the central bank (Section 2). The recapitalization is commensurate to the scale and complexity of the responsibilities of the BSP, which has been magnified by the growth of the economy and the financial system. The economy, in real terms, is 3.9 times bigger than what it was in 1993, while the financial system has grown by a factor of 7.7 times since 1993. Yet the capitalization of the BSP has remained constant at ₱50 billion as provided for by RA No. 7653.

The strong capitalization of the central bank will allow the BSP to pursue its mandate and create monetary policy decisions without being constrained by concerns over balance sheet weaknesses or income losses. Many of the important policy actions that the BSP needs to undertake (i.e. open market operations, foreign exchange market participation and lender of

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[43] J. Fernandez Jr. (1986). *Basic Laws Governing the Financial System of the Philippines.*

[44] For easier reference, each discussion indicates in parenthesis the corresponding and relevant sections in the New Central Bank Act (R.A. No. 7653), which is sought to be amended.

last resort) may generate losses and weaken its capital position. The BSP needs the capital to weather fluctuations in its income stream.

More importantly, a strong financial position and adequate capital base will also provide enhanced financial autonomy and credibility to the BSP – giving more confidence to the market that it can meet its mandate of promoting monetary and financial stability.

Pursuing monetary stability through a more transparent and flexible framework

Since 2002, the BSP has adopted *inflation targeting* (IT), joining a long list of countries which was able to move from a regime of high to low inflation following this approach. The approach of monetary authorities to achieve price stability has evolved significantly. As a response to the failure of monetary policy regimes in the past, many central banks adopted IT, wherein it estimates and announces a target inflation rate and then attempts to steer actual inflation toward that target using tools such as interest rate changes. Given the correlation between interest rates and inflation, the likely actions a central bank will take become more transparent under an inflation targeting policy.

Prior to IT, the BSP targeted the growth of money supply to control inflation. However, monetary aggregate targeting had limited success because the demand for money became unstable and difficult to maneuver due to growing sophistication and innovation in the financial market landscape. To reflect this development, the bill provides for the deletion of reference to monetary aggregates and credit as guiding principles in monetary administration (Sections 61 and 63).

Based on empirical evidence, the effectiveness of the monetary policy framework relies heavily on flexibility in policy formulation and implementation (or independence in greater sense) as well as access to relevant, timely, and comprehensive information. Two BSP Charter amendments respond to this requirement.

First, the formulation of the monetary stance relies on data-intensive models and simulations, which are in turn dependent on the quality of information used. However, the current access of BSP to information is limited to data from official government sources and financial institutions under its jurisdiction. Hence, Section 23 is proposed to be amended to remedy this predicament, as it provides for the restoration of authority to obtain from any private person/entity such data or information that has bearing on monetary policy.

Secondly, as identified by Jahan (2012), a central bank should be able to conduct monetary policy with a degree of independence, especially in choosing its tools to achieve its target rate of inflation. At present, the BSP has an arsenal of levers to manage liquidity in the financial system and thereby promote price stability. These instruments include open market operations, fixed-term deposit facilities (i.e. Special Deposit Account [SDA]), rediscounting facilities and the reserve requirement.

Through the enactment of HB No. 3112, the BSP will obtain the capacity to issue its own debt securities in its open market operations (Section 92). This will provide greater flexibility in the timing and magnitude of monetary operations and allow clearer transmission of policy objectives. This will also align money market rates with policy influence rates, and give the BSP increased effectiveness in managing liquidity in the system.

Anchoring financial stability in the midst of volatility and threats

The BSP was not spared from episodes of volatilities and crises, such as when it steered the economy during the Asian Financial Crisis (AFC) of 1997 and the recent Global Financial Crisis (GFC). Crises are always an opportunity to rethink about the coherence of policy regimes and financial supervision. The AFC urged central banks in the region to recalibrate banking standards while the GFC proved that developed and emerging countries alike are not immune to stress in their financial systems. As such, central banks have to stand ready against such external shocks and/or likewise to contain any risk within its borders from precipitating to a crisis.

This is the spirit of the provisions related to financial stability under HB No. 3112, which is envisioned to empower the BSP as the vanguard of a well-functioning financial system.[45] Primarily, the bill proposes to recognize financial stability as one of the core mandate of the BSP (Section 3) to formalize the current thrust of the Bank that monetary policy rests on the bedrock of a robust and stable financial system.

The increasing complexity and deepening of the financial system have also necessitated the expansion of the regulatory and supervisory perimeter to include not only financial institutions (e.g. banks and non-bank intermediaries), but also markets and payments and settlements systems. Under the amended Charter, the oversight of payments and settlement systems will be formally assigned to the BSP, and its supervisory authority will be expanded to include additional categories of financial institutions such as credit card companies, money changers and e-money issuers (Sections 3 and 25).

This explicit mandate of the BSP over financial stability achieves two purposes. First, it will clarify the regulatory overlaps among different agencies and enable the BSP to formalize its leadership in inter-agency cooperation towards financial stability. Second, by expanding its regulatory and supervisory perimeter, it recognizes these institutions as essential infrastructures and elements of the Philippine financial system – hence, allowing the BSP to harmonize policies with these entities that will facilitate financial intermediation while containing any threat to stability.

Other provisions will enhance financial supervision by the BSP. Of particular importance are the proposals to (1) lift laws on deposit secrecy with respect to BSP examination (Section 25); and (2) include enhanced legal protection clause for BSP personnel to increase their protection against legal risk (Section 16). These proposed amendments will put bank regulators on equal footing with other agencies such as the Philippine Deposit Insurance Corporation (PDIC) and align their legal protection with the provisions of the Revised Administrative Code of 1987 and with other international best practices.

Moreover, these provisions cement the efficacy and independence of the BSP and give examiners a free hand to fully exercise risk-based supervision over financial institutions. To be

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[45] The BSP Financial Stability Committee defines *financial stability* as a situation when the governance framework of the market and its financial infrastructure enable and ensure the smooth functioning of the financial system conducive to sustainable and equitable economic growth; M. Cihak (2006). "How do Central Banks Write on Financial Stability?" IMF Working Paper Series No. 06163.

effective, bank regulators and supervisors require an appropriate degree of independence; in particular, the public must be confident that regulators' decisions about the soundness of specific institutions and systemic risk are based on comprehensive information and are not unduly influenced by political pressures or lobbying.[46]

Quis custodiet ipsos custodes? (Who will guard the guardians?)

In the course of the Congress deliberations and information campaigns about the proposed BSP Charter reform, various stakeholders have raised the issue of whether these new powers are too broad and susceptible to abuse.[47] Indeed, central banks around the world are faced with the same demand for accountability especially in democratic countries like the Philippines.

We recognize that as a macroeconomic regulator, the central bank remains to be an agent of the state that must be oriented towards service, hence it is subject to public and Congressional scrutiny. On the part of the BSP, under the inflation targeting framework, it has taken significant steps to improve its transparency through extensive reporting and press releases that explain the financial condition of the Bank and also its policy actions. The BSP is aware that transparency and openness to public judgment foster trust and further bolster the credibility of monetary and financial policy.

In the same breadth, it should be noted that while the legal regime is necessary, this is not the only condition in the effective discharge of BSP's mandates. This entails as well factors that are beyond the sphere of legislation, such as internal leadership and management and the global operating environment. The BSP is also constantly benchmarked against its peers in the region and challenged to adhere to international best practices in central banking.

Nevertheless, the reform of the BSP Charter is a vital step in the evolution of Philippine central banking. It shall forge a stronger BSP that can weather the challenges ahead and further accelerate the Philippines' growth narrative.

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[46] B. Bernanke (2010). "Central Bank Independence, Transparency, and Accountability." Speech at the Institute for Monetary and Economic Studies International Conference, Bank of Japan, Tokyo, May 25.

[47] "Debate heats up over proposed BSP powers", Philippine Daily Inquirer, 14 January 2014, Retrieved from http://business.inquirer.net/160785/debate-heats-up-over-proposed-bsp-powers

Financial System Stability

Reform initiatives continued to be aimed at promoting a financial system that is stable, efficient, resilient, and responsive to the needs of stakeholders. Accordingly, the new and amendatory policy and regulatory issuances for the year remained geared toward:

- Alignment of BSP's domestic regulatory and supervisory frameworks with international reforms and global standards; and

- Ensuring that existing regulatory framework remains relevant and effective given developments in the financial services industry, both at the domestic and at the international fronts.

Basel III

Following the issuance of the Basel III Roadmap in 2012 which sets forth the BSP's implementation plans for the Basel III standards, issuance for the year pertained to the Basel III implementing guidelines on minimum capital requirements; and on risk disclosure requirements on loss absorbency features of additional tier 1 and tier 2 capital instruments eligible under the Basel III framework. Said requirements uphold investor protection through enhanced disclosure transparency.

Corporate Governance

The Governor approved on 11 January 2013 the memorandum to BSP supervised financial institutions on the guidelines in assessing the quality of corporate governance in BSP-supervised financial institutions. The guidelines provide a framework for evaluating the quality of corporate governance, which impacts on the "Management" component rating in the CAMELS rating system.[48] This is complemented by the revised Trust Rating System which comprehensively and uniformly evaluates the administration of fiduciary activities of all trust entities.

Macroprudential Measures

In addition, the BSP introduced additional measures to safeguard the financial system against speculative activities. These include the issuance of Circular No. 790 dated 6 March 2013 and Memorandum

[48]One of the supervisory tools used to assess the soundness of operations of banks is the CAMELS rating system which integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risks.

No. M-2013-016 dated 24 April 2013 on macroprudential measure for handling non-deliverable forwards (NDF) involving the Philippine peso to cap NDF exposures to manage potential system-wide risks that may inevitably arise due to speculative hits on the local currency. The BSP has set limits on the amount of NDF exposures by banks since August 2012. A bank's total gross exposures to all forms of peso NDF transactions, i.e. the sum of sales and purchases for both onshore and offshore transactions, shall be limited to 20 percent and 100 percent of unimpaired capital for domestic banks and foreign bank branches.

Capital Market Development

To strengthen and further develop the domestic capital markets and to make it aligned with the developments in the international arena, several initiatives and participations were carried out aimed at promoting fair market access, enhancing transparency, disclosures and good governance and fostering investor confidence. These include:

1. Amendment on Market Valuation of Government Securities;
2. Overseeing of the set up of overnight index swap (OIS) as a short-term benchmark yield curve;
3. Review of the single price proposal as a pricing convention;
4. Initiation of the framework to adopt tri-party repo market structure;
5. Drafting of the policy proposal to segregate securities activities from regular banking functions (brokering, dealership and underwriting);
6. Drafting of Governance Framework on Financial Benchmarks;
7. Initiation of the policy study on stripping of bonds and market maker incentives; and
8. Conduct of the study on the applicability to Philippine banks of the Volcker, Vicker, Liikanen proposed structural measures.

Micro-Prudential Regulations

Relevant banking reforms were likewise introduced to: (a) ensure existing prudential regulations remain relevant and effective given emerging risks and current trends in financial services; (b) instill greater market discipline through enhanced transparency; (c) promote market competition through innovative financial services delivery approaches; and (d) promote consumer protection. These include:

1. Amendment to the capital framework of foreign bank branches;
2. New reporting requirement for non-performing loans;

3. Amendments to the guidelines governing the issuance of long-term negotiable certificate of time deposits;
4. Guidelines on information technology risk management for all banks and other BSP supervised institutions;
5. Revised cross-selling framework;
6. Amendment to align the familial restrictions applicable to "Independent Director" with the existing provision of the Securities Regulation Code;
7. Amendments on exclusions from single borrower's loan (SBL) limit and equity investment ceilings; and
8. Review of disclosure practices and inter-operability arrangements among banks with respect to their ATM networks.

Moreover, the existing framework for IT risk supervision was strengthened with the issuance of Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions under Circular No. 808 dated 22 August 2013. The guidelines enables the BSP to keep abreast with the aggressive and widespread adoption of technology in the financial service industry and provide practical plans to address risks associated with emerging trends.

Engagements with Co-Supervisory and Regulatory Authorities, Industry Participants and Related Stakeholders

The BSP has various engagements with domestic and international stakeholders to facilitate more coordinated handling of common supervisory issues and concerns. These include engagements with:

a. Alliance for Financial Inclusion (AFI) data working groups;
b. Rafael B. Buenaventura Foundation on the Paeng Awards Program for Microfinance Institutions;
c. Microfinance Council of the Philippines, Inc. (MCPI) for the Micro-entrepreneur of the Year Awards program; and
d. CITI Foundation-Financial Times for the Financial Education Summit 2013.

Supervision and Enforcement

1. *On-Site Supervision*

   To ensure compliance with existing mandate on examination while at the same time improving the examination process, the BSP has: (1) adopted certain prioritization standards and criteria in programming of examination; and (2) introduced, issued and implemented several initiatives in the form of supervision guidelines and orders.

The BSP's revised examination manual for anti-money laundering/counter financing of terrorism (AML/CFT) activities has been recently approved by the Monetary Board in December 2013, as part of the continuing efforts to provide guidance for all BSP examiners to tailor the examination scope and procedures according to the corporate structure and risk profile of the institution, as well as the products, customers, and services or business of the covered institution. Supervision Guidelines will be issued to disseminate said manual in 2014.

In 2013, the BSP completed its self-assessment of compliance with the new Basel Core Principles (BCP) for Effective Banking Supervision. Results of the exercise will be utilized to further enhance the overall quality and effectiveness of the supervision.

2. *Off-site Surveillance*

   a. Risk Profiling of BSP Supervised/Regulated Entities - In support of its risk-based and consolidated approach, risk assessments exercises form the bases of the development of individual supervisory plans for entities under SES jurisdiction. Coverage and execution of these supervisory plans (i.e., normal to close and/or special monitoring) varied depending on the following risk profiling category: very low, low, medium, upper medium, moderately high, high and very high risk.

      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. On the average, there have been 346 non-PCA banks and 115 PCA banks that have been risk profiled in 2013 on a semestral and quarterly basis, respectively.

   b. Preparation of Institutional Overview (IO) of BSP Supervised/Regulated Entities – The IO captures the institutional knowledge of the supervised entity. The IO contains the company profile, list of officers and stockholders of the financial institution (FI) as well as the financial condition and risk assessment of the FI as of reporting period. Supervised FIs have quarterly updated IOs to help determine the appropriate supervisory strategy relative to the condition and risk profile of the FI.

c. ICAAP Implementation – For the year, the BSP received 46 final Internal Capital Adequacy Assessment Process (ICAAP) documents from universal/commercial banks. (ICAAP). The ICAAP refers to the process carried out by banks in determining what they think is the appropriate level of capital to hold. Of the ICAAP documents received, 26 have already been evaluated.

3. *Problem bank resolutions*

The BSP continued to move decisively on problem bank resolution. During the year there were 6 cases of prompt corrective action (PCA) lifting and 13 cases of declaration of PCA failure in 2013. On the other hand, 18 banks were placed under receivership for the year.

The conceptualization of the Strengthening Program for Rural Banks (SPRB) Plus, which replaced SPRB Module I, has helped in the resolution of cases. The SPRB Plus is intended to encourage mergers, consolidations and acquisition of rural banks (RBs) and thrift banks (TBs) to effectively serve the countryside and improve the delivery of financial services to rural communities via the grant of financial assistance by the Philippine Deposit Insurance Corporation (PDIC) and regulatory reliefs/incentives by BSP. The Monetary Board approved the extension of the SPRB Plus until 31 December 2014 from 2 August 2012 until 31 December 2013.

There have also been discussions on the development of a crisis management and resolution framework. Efforts have likewise been geared in the formulation of a holistic enforcement regime that would focus on the deployment of non-monetary sanctions for violations of banking laws and regulations and unsafe and unsound/imprudent practices. Guidelines on their deployment are being drafted and will be issued for the guidance of both SES and the supervised entities.

The PCA framework is also being revisited in order to enhance its effectiveness. The revised framework seeks to: (1) incorporate restrictions on existing licenses and authorities as a consequence of PCA initiation; (2) grant reliefs that may be necessary for the rehabilitation of the supervised entity; and (3) provide better monitoring mechanism to ensure adherence to PCA measures. Internal procedures are being laid down to improve consistency in the handling of PCA banks.

4. *NBFI Surveillance*

Inspections of pawnshops, foreign exchange dealers (FXDs), money changers (MCs), remittance agents (RAs), particularly those engaged in multiple corollary businesses, have been periodically conducted. These are principally focused on consumer protection issues (transparency, complaints resolution and security concerns).

In 2013, the BSP utilized statistical sampling techniques (e.g., stratified/random sampling methods) to identify which pawnshops will be subject to inspection. In these techniques, prime consideration is given to concentration of pawnshops and pawnshops with corollary business in cities and municipalities in the different regions of the country. This strategy enables the BSP to efficiently utilize its manpower and effectively reduce costs associated with inspections and at the same time, this sends a signal to the pawnshop industry that every pawnshop may be subject to BSP's inspection.

Of the 2013 approved Program of Inspection of 340 entities, 366 pawnshops have been inspected, which translates to 107.6 percent accomplishment of inspection program. Variance was due to unscheduled inspection of pawnshops with serious supervisory concerns (e.g., failure to observe minimum redemption period; damaged/altered pawn items).

Box Article 4:

Basel III Implementation in the Philippines

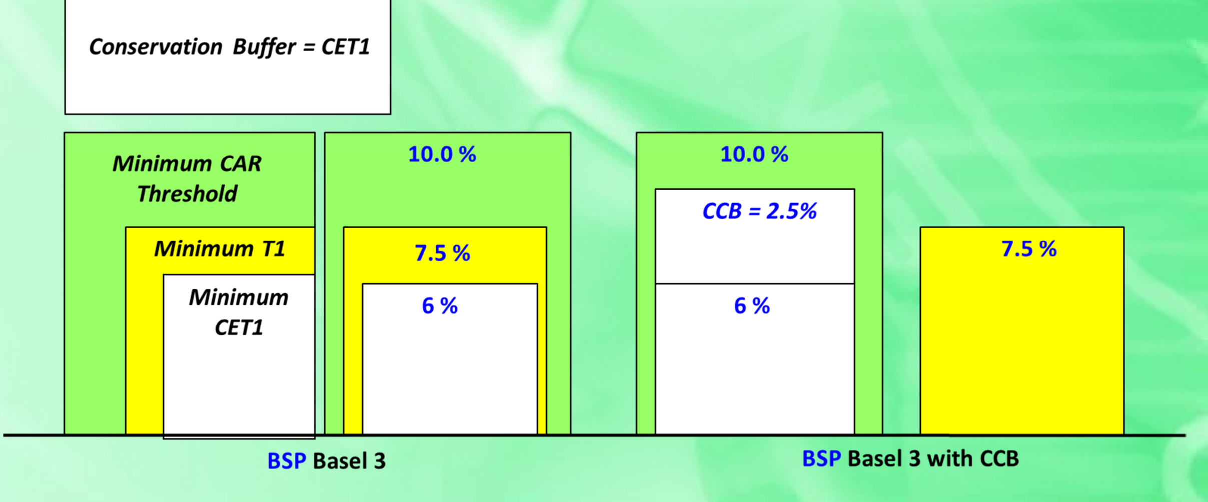
Progress of Basel III Implementation in the Philippines

Starting 1 January 2014, the Philippines officially adopts the Basel III capital reforms. The new reform package aims to strengthen the quality and quantity of capital and to enhance risk coverage against financial and economic stress. The rules likewise seek to improve risk management and governance and strengthen banks' transparency and disclosure practices.

A year before target implementation, the Bangko Sentral ng Pilipinas (BSP) released the implementing guidelines on capital adequacy which is applicable to universal and commercial banks (U/KBs) and their subsidiary banks and quasi-banks[49] under Circular No. 781.This provided a reasonable transition period for banks. The BSP also adopted the capital reforms in full, unlike the staggered implementation under the international rules, in recognition of the strong capital position of the banking industry.

The BSP retained the Capital Adequacy Ratio (CAR) at 10.0 percent, higher than the minimum international standards of 8.0 percent. In addition to the CAR, the Basel III framework also introduced the Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 4.5 percent and 6.0 percent, respectively. Under the BSP framework, CET 1 and Tier 1 are set at 6.0 percent and 7.5 percent regulatory minimum, respectively. This ranked the Philippines second among the jurisdictions in Southeast Asia just behind the 6.5 percent minimum CET 1 requirement in Singapore with the highest capital requirements. The higher CET 1 requirement also recognizes the crucial role of core capital in banks that is fully loss absorbent.

The BSP also adopted the capital conservation buffer regime. This ensures that banks can maintain capital levels throughout a significant downturn as they would have less discretion to deplete their capital through dividend payments or discretionary employee bonuses. The buffer is to be met by additional 2.5 percent CET 1 capital.



[49]Stand-alone thrift and rural banks are still under Basel 1.5 regime.

In recognition of the distinct structure of foreign bank branches (FBBs) which operate under the U/KB license, a calibrated Basel III framework was issued under Circular No. 822. The reform highlighted the role of Permanently Assigned Capital which is the CET 1 equivalent for FBBs.

The Loss Absorbency Mechanisms

Among the key features of the Basel III agenda is the inclusion of loss absorbency mechanisms in the characteristics of bank capital instruments. This stricter requirement ensures that bank capital is made up of instruments which are readily available to absorb losses as it materialize. When triggers are breached, additional Tier 1 and Tier 2 instruments can be written down or converted into common equity.

Evidently, these capital instruments carry a different level of risks for potential investors. As such, the BSP acknowledged that investors must be properly apprised since these instruments may not be suited for the general class of investors. Circular No. 786 aims to address this concern. Investors shall now be subjected to client suitability tests. They shall also be provided with the appropriate Risk Disclosure Statement to ensure that the concept of loss absorbency is well understood. These requirements apply to capital instruments issued onshore. Circular No. 826 further clarifies that jurisdictional laws apply for offshore issuances.

Challenges in the Implementation of Basel III in the Philippines

It is a general sentiment that the shift to Basel III presents a challenge for bank capitalization. This is, however, not likely the case with banks operating in the Philippines since these banks are starting from capital ratios that are already above the regulatory minimum. The impending challenge then lies with the way Basel III shifts the emphasis onto CET1 and Tier 1 capital, focusing on strengthening the core capital of banks.

Philippine banks are not overly dependent on hybrid capital instruments. As of end-September 2013, bank's capital position was continuously boosted by the combined effects of fresh capital contributions and retention of earnings. Capital stock and retained earnings of the Philippine banking system increased by 18.0 percent and 13.6 percent compared to previous year. For universal and commercial banks, the increase is higher at 18.8 percent and 13.9 percent for capital stock and retained earnings, respectively. This is an indication that banks are committed to increasing their core capital funding. On the other hand, there is a noted decline in Hybrid Tier 1 and unsecured subordinated debt due to redemptions in anticipation of stricter capital requirements which will render these instruments ineligible as capital starting 2014.

Although there is no immediate need to increase their capital levels, banks are finding ways to cushion themselves from the pressure of Basel III reforms. Banks have identified a number of options which include the outright issuance of Basel III eligible instruments. In a market where private capital is relatively scarce *vis-à-vis* labor, there will be some premium to being able to access capital markets ahead of others.

Another would be to re-evaluate business models to appropriately optimize risk or operate efficiencies to cut on costs. Banks may also revisit their investment strategy particularly on non-financial and non-allied undertakings as these would be a direct deduction from CET 1 capital.

Banks are likewise working on improving their overall financial performance to cope with the new capital requirements. Banks are looking at reducing dividends or opting for stock dividends instead of cash dividends. Boosting profitability is ultimately the ideal outcome because banks have the leeway to retain earnings and build up capital.

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 2013 vs 2012			
	2013	**2012**	**GrowthRate (%)**
Volume	1,358,026	1,332,058	1.9
Value (In trillion pesos)	351.8	349.6	0.6
TransactionFees (In million pesos)	154.9	164.2	-5.7
Source: Payments and Settlements Office			

Volume and value of PhilPaSS transactions increase

In 2013, the number of transactions processed and settled in *PhilPaSS* rose by 1.9 percent to 1.36 million. The higher volume of transactions was due to the y-o-y increase in the following: tertiary transactions on government securities (GS) via expanded delivery-vs-payment(eDvP) (20.8 percent); interbank payments/transfers (19.9 percent); BancNet transactions (19.6 percent); BSP Cash Department transactions (16.2 percent); and PhilPaSS-REMIT transactions (3.3 percent).

Similarly, the value of transactions reached ₽351.8 trillion, 0.6 percent higher than the year-ago level. This was due to the increase in the following accounts: tertiary transactions on government securities (GS) via expanded delivery-versus-payment (eDvP) (26.9percent); interbank payments/transfers (23.3 percent); sales and purchases of government securities via DvP (14.7 percent); Philippine Clearing House Corporation (PCHC) transactions (9.3 percent)

Total revenues from transactions fees (system and software re-installation, Electronic Fund Transfer Instruction System or EFTIS user-registration, and other miscellaneous fees) reached ₽154.9 million, 5.7 percent or ₽9.3 million lower than the year-ago level.

In 2013, the BSP participated actively in various projects, activities, and initiatives to enhance the efficiency of the existing payments system, which included the following:

- Implemented standard coding system for *PhilPaSS* transactions to provide relevant and meaningful information about the nature of interbank payments[50];
- Deployed and implemented the Module 2 (Payments Module) of the *PhilPaSS* Participant Browser (PB) to enable Society for Worldwide Interbank Financial Telecommunications (SWIFT) member banks to send payment instructions to *PhilPaSS* without using SWIFT[51];
- Automated the approval of regional cash withdrawals via Integrated Regional Information System (IRIS) based on available cFAS demand deposit account balances of banks in cases when *PhilPaSS* is closed for business due to natural calamities;
- Enhanced the third party system for Megalink to transmit secured and encrypted files via secure file transfer protocol (SFTP)which eliminates the use of dial-up mode of connectivity; and
- Conducted the following information dissemination activities:
  - o *PhilPaSS* Awareness Campaign for banks' branch personnel located in Metro Manila, Tuguegarao, Cebu, and Davao; and
  - o Annual *PhilPaSS* Forum for system users from participating banks.

[50]Effective 17 February 2014, through BSP Memorandum No. M-2013-055 dated 9 December 2013, all PhilPaSS participating banks and NBQBs will be required to properly identify the nature of their respective funds transfer/ payments that are coursed through PhilPaSS for settlement.
[51] The Payment Module enabled a select group of 28 pilot banks to transmit electronic payments instructions to PhilPaSS free of charge. The full implementation is targeted on the first quarter of 2014.

Key Operations of the BSP

Loans and Credit

The BSP rationalizes its lending operations

Amid increased volatility in domestic financial market conditions, the BSP focused on refining and expanding its lending operations in 2013, while ensuring that the volume of credit in the financial system remained consistent with the BSP's price stability objective.

The peso rediscount rate remained at 3.5 percent during the year. The RRP rate, to which the peso rediscount rate had been aligned since 1 February 2010, was kept unchanged throughout the year amid a generally manageable inflation outlook and robust economic growth.

The BSP also rationalized the guidelines on its rediscounting facility through the issuance of Circular Nos. 806 and 807 on 15 August 2013, both of which took effect on 15 November 2013. Circular No. 806 established two separate rediscounting windows—Rediscounting Window I (RW I) for universal and commercial banks, and Rediscounting Window II (RW II) for thrift, rural, and cooperative banks.[52] Meanwhile, Circular No. 807 revised the guidelines for the Exporters Dollar and Yen Rediscount Facility (EDYRF). The revised guidelines under the two issuances covered, among other provisions, the acceptance of additional allowable collateral[53] as well as the prescription of lending rates for both facilities.[54]

Moreover, the budget ceiling of ₱20.0 billion for the peso rediscounting window was removed through Circular No. 806, effectively turning it into an open-volume facility.

Furthermore, the BSP granted temporary rediscounting relief to banks affected by different natural calamities during the year, including the 7.2-magnitude earthquake in Bohol and Typhoon Yolanda in Q4 2013. The temporary relief granted a 60-day grace period to settle outstanding rediscounting obligations to all banks with operations or end-user borrowers in affected areas. The

[52]Upon its effectivity on 15 November 2013, Circular No. 806 gives thrift banks a sunset period of five years (i.e., until 15 November 2018) to access RW II, while rural and cooperative banks are given 10 years (i.e., until 15 November 2023). By 16 November 2013, all banks shall access only RW I.

[53]Additional eligible collateral include marketable debt instruments issued by the National Government and all its instrumentalities, including Republic of the Philippines US dollar-denominated bonds or ROP, the current market value of which shall equal or exceed the outstanding balance of the promissory note. For the EDYRF, dollar-denominated trust receipts covering the importation of goods and raw materials, as well as dollar-term loans to finance capital expenditures by exporters provided they are booked in the regular banking units, shall also be accepted as collateral.

[54]Lending rates for RW I shall be based on the BSP one-month repurchase rate plus a term premium, while rates for RW II shall be based on the BSP overnight RRP rate plus a term premium. For the EDYRF, rediscount rates shall be based on the 90-day London Inter-Bank Offered Rate (LIBOR) plus 200 basis points as well as a term premium for longer maturities.

measure also allowed rediscounting banks to restructure with the BSP, on a case-to-case basis, the outstanding rediscounted loans of their end-user borrowers affected by the calamities, subject to the terms and conditions stated in the implementing guidelines.

Total loans granted in 2013 amounted to ₱22.6 billion, with almost 76 percent granted to U/KBs. All of the loans were released through the rediscounting facility, except for about ₱0.01 billion representing restructured loans. The peso equivalent of dollar loans availed by banks under the Exporters' Dollar and Yen Rediscount Facility (EDYRF) amounted to ₱4.6 billion.

Meanwhile, total loan collections for the year reached ₱48.1 billion, with ₱37.7 billion representing payments under the rediscounting facility.

The total outstanding rediscounting loan portfolio of the BSP as of 31 December 2013 declined by ₱25.5 billion or 24.0 percent to ₱80.6 billion from the previous year's level of ₱106.1 billion. With bigger loan repayments against drawdowns, the total loans outstanding under the peso rediscounting facility fell to ₱2.9 billion from ₱17.1 billion in 2012. Of the outstanding peso rediscounting loans, commercial banks, thrift banks, and rural banks accounted for ₱1.1 billion(38.9 percent), ₱0.8 billion (28.8 percent), and ₱0.9 billion (32.3 percent), respectively.

Total outstanding loans under the EDYRF likewise fell to ₱0.4 billion by end-2013 from about ₱1.3 billion in the previous year as loan repayments outpaced availments during the year.

Most targets related to credit provision are met

Most targets related to the provision of loans and credit were met or exceeded in 2013. Total gross income from lending operations of the BSP reached ₱4.7 billion in 2013, or about 38 percent higher than the 2012 income of ₱3.4 billion. Gross income also exceeded the projected income for the year of ₱2.9 billion on the back of higher income from emergency and restructured loans.

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.

Meanwhile, the BSP's past due ratio rose slightly to 9.6 percent in 2013 from 9.2 percent in 2012 as the unpaid PDIC loan for 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-2013 to 90.4 percent, lower than the

93-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.[55]

The BSP continues to improve the delivery of credit

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

1) The launching of the Credit Surety Fund Program (CSFP) in Northern Mindanao (Cagayan de Oro), Aklan, and Tarlac brought the total number of credit surety funds established nationwide to 29 from 26 in the previous year.[56]

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

   In addition, the BSP conducted six business fora and dialogues nationwide to promote the CSFP. The seminars attracted 31 loan applications, of which an aggregate ₱3.5 million were approved. For the first time in the history of the CSFP, the BSP also conducted three regional conferences to obtain feedback on the issues and challenges encountered by the CSFs across the country, which would aid in the crafting of policies to improve the program. The results of the regional conferences would be consolidated and presented to CSF stakeholders during the National Congress to be held in Cebu City in April 2014.

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 2013, the BSP successfully conducted eight runs of the AFS Seminar and three runs of the CAM courses across the country.

[55] 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.

[56] In 2013, the CSFP was launched in Northern Mindanao (Cagayan de Oro), Aklan, and Tarlac, joining the 26 other CSFs throughout the country (i.e., in the cities of Baguio, Davao, Dipolog, General Santos, Iloilo, Metro Cebu, and Puerto Princesa; and in the provinces of Albay, Aurora, Benguet, Bohol, Capiz, Cavite, Compostela Valley, Davao del Norte, Davao Oriental, Laguna, Negros Occidental, Negros Oriental, North Cotabato, Occidental Mindoro, Oriental Mindoro, Palawan, Pangasinan, Saranggani, and South Cotabato).

3) The enhancement of the BSP's technological infrastructure and systems for lending, including the continuous development of the Collateral Information Management System, the Credit Verification System, and the Emergency Loan Facility System; 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

The BSP improves operational efficiency in its administration, maintenance, and disposal of acquired assets

The BSP ensures that assets acquired through foreclosures and *dacion en pago* agreements[57] and real properties not used in operations are administered, maintained, and preserved to enhance their value prior to eventual disposal. Private banks that avail of the BSP's loan facilities typically assign to the BSP their receivables, including collateral in the form of real properties. In cases where they are unable to pay their loans, borrower banks 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 asset management policies and procedures are implemented by the BSP through the proper documentation of ownership in the BSP's favor, 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 full implementation of the Acquired and Other Assets Management System (AOAMS) linked with the Accounting Department's Core Financial Accounting System (CFAS) facilitated the management of acquired assets as well as the monitoring of income, expenses, and receivables. Operational efficiency in asset management is continuously being enhanced with the development of computer systems for client payment through accredited banks (Acquired and Other Assets Payment System), and for the management and monitoring of all titles, contracts (Automated Title and Contract Monitoring System), and all post-dated checks received from clients (Automated Check Monitoring System).

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

The BSP implements a restructuring scheme to ease buyers' debt burden

In 2013, the BSP restructured seven delinquent accounts of buyers affected by financial difficulties through the waiver of additional interest and penalties on unpaid amortization and extension of the remaining term of payment to a maximum of five years. Total restructured obligations with restructured terms ranging from 9 to 19 years amounted to ₱4.8 billion.The penalties and additional interest amounting to ₱201,211 waived in favor of the buyers were offset by the additional estimated interest income from said restructuring amounting to ₱883,469.

The accumulated allowance for market decline for acquired assets stood at ₱1.462 billion as of end-2013, 2.3 percent lower relative to the previous year's level. The valuation reserves fund[58] was set up to minimize the impact of a change in the value of acquired assets.

As of end-December 2013, the book value of acquired assets amounted to ₱16.0 billion,[59] higher by 32.7 percent from the 2012 level of ₱12.1 billion.During the year, a total of 28,833[3] real property titles (net of properties received and sold) were acquired by the BSP.

The BSP generates income thru intensified acquired asset disposal schemes and collection of receivables

The Asset Management Department and the BSP Committee on Disposal of Real Properties were able to dispose of 1,232 acquired properties in 2013, lower by 51 percent compared to the previous year in terms of number of titles/properties, but higher by 9.6 percent (₱634.6 million) in terms of selling price. BSP's disposal of acquired assets also reached 97.4 percent of the annual disposal mark for the year and will generate for BSP an estimated income of ₱465.98 million (inclusive of interest and net expenses), which will be 28 percent higher than the previous year's income.

Asset Disposal Schemes in 2013

Disposal Scheme	Properties Sold	In Million Pesos		
		Net Book Value	Redeemed/ Selling Price	Estimated Income
1. Public Auction	43	3.85	8.22	4.92
2. Negotiated Sales	1,123	225.04	599.30	446.56
3. AMD-PFO Housing Program III	61	10.54	23.81	12.90*
4. Redemption	5	2.14	3.22	1.60
Total	1,232	241.57	634.56	465.98

*Exclusive of capital gains tax which is for the account of the BSP and shall be paid upon full payment by the buyer.

[58] The amount of the reserve fund varies each year depending on the latest appraised value of the properties.
[59] Subject to adjustments, includes the values of approved sale transactions awaiting submission of duly executed sale documents from buyers.

The BSP also continued to enhance its collection efforts in 2013. The BSP was able to collect ₱276.46 million on sales contract receivables, representing 85 percent of total amortizations due in 2013, which is slightly lower than the 88 percent target for the year. Interest income earned from said collection amounted to ₱146.217 million, while miscellaneous income from delinquent accounts reached ₱8.45 million. Total expenses incurred by the BSP in the consolidation, maintenance, and sale of properties amounted to ₱239.83 million.

International Reserves Management

BSP pursues initiatives to further improve management of international reserve portfolio

The BSP continued to manage its international reserves, amidst episodes of financial volatility during the year, at an optimal investment mix that is consistent with reserves management objectives. The BSP managed its investment management portfolio (IMP) and liquidity portfolio in line with existing guidelines and as approved by the Investment Management Committee (IMC). The overall strategies in 2013 resulted in the outperformance of the IMP against the benchmark by about 3.6 basis points.

Meanwhile, the externally-managed portfolio (EMP) decreased in value as global government bond yields generally rose on tapering concerns amid signs the U.S. recovery is gaining momentum, and as the European financial crisis abated. On an aggregate basis, the subsequent shift in investor sentiment resulted in the underperformance against the set benchmark of the EMP.

The BSP's gold holdings were managed in compliance with existing management guidelines. Net trading gains on gold transactions for 2013 fell. Despite a higher volume of gold sales, realized income declined on the back of lower gold prices in the market and an increasing moving average price due to gold purchases.

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, which cover stand-by USD-denominated repurchase facilities, the Swap Arrangements with ASEAN countries, the Bilateral Swap Arrangement (BSA) with the Bank of Japan (BOJ) and the Chiang Mai Initiative Multilateralization (CMIM). These facilities remained untapped as of end-2013.

The BSP has continuously kept abreast with the developments and challenges in the global environment by enacting and implementing measures aimed at ensuring the safety and diversification of the international reserve assets. Toward this end, the MB approved the investment guidelines and parameters for the US inflation-linked bond and Asian local-currency bond mandates. The MB also approved the additional investment in the offshore market in Hong Kong. On 26 November 2013, the BSP started purchasing RMB bonds traded in the offshore market. In terms of the onshore RMB market, the BSP received the approved investment quota for the interbank bond market from the People's Bank of China (PBOC) on 13 April 2013. Meanwhile, the BSP maintained its participation in the Asian Bond Fund (ABF) and sent request for proposals for new external mandates to prospective external fund managers, which are aimed at further diversifying the international reserves.

International Operations

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

The BSP kept its foreign exchange (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 country's FX regime. The BSP enhanced further its debt management capability and kept its system abreast with international standards as well as prepared to improve debt monitoring capability to strengthen debt management.

In 2013, 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. Amendments to the Manual of Regulations on Foreign Exchange Transactions (FX Manual) were aimed at: (1) further simplifying FX transactions of the general public with banks; (2) allowing the pre-payment of BSP-registered short-term loans; and (3) streamlining reporting requirements.

The BSP continued to implement activities for the Debt Management and Financial System (DMFAS) Project, including technical trainings and advanced functional workshops conducted by the UNCTAD-DMFAS Program consultants. With the final evaluation mission conducted by the DMFAS Project Manager for the Philippines, the activities covered by the project were completed on 6 December 2013.[60] Meanwhile, the Foreign Loan Approval and Registration System (FLAReS) facilitated the submission, inquiry, evaluation, and processing of loan applications that require BSP approval and registration. In terms of system enhancements, functional improvements and additional control optimizations were identified in the course of system implementation with roll-out in 2014. Moreover,the comprehensive

[60] The DMFAS, formally launched on 24 April 2012, is a debt monitoring 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 in 69 countries worldwide, including the BSP.

work instruction manuals are being completed to consider enhancements, and facilitate skills transfer as part of BSP's business continuity program.

Notes and Securities Printing

The BSP produced 1,455.2 million pieces of banknotes during the review period which is below the targeted production of 1,753.6 million pieces due to high actual printing wastage. The delivery of in-house produced banknotes met 83.0 percent of the target, while the delivery of banknotes based on outsourced production accomplished 25.0 percent of the target.

Meanwhile, the BSP produced 2.9 million electronic Passport (ePassport) booklets in 2013, representing 82.3 percent of the targeted production of 3.6 million booklets. The target was not met as the original target of two-shift production was revised to one-shift in the third quarter for 2013 while waiting for the Department of Foreign Affairs' (DFA) approval of the New Coat of Arms. A total of 2.9 million ePassport booklets were delivered to the DFA in 2013.

On raw materials for banknotes, the BSP fell slightly below its targeted acquisition at 99.7 percent as some deliveries of banknote paper did not conform to the standard specification. Meanwhile, in terms of the acquisition of raw materials for security documents, the BSP was able to meet its target. As for the finished goods of banknotes and security documents, the BSP was able to deliver 99.7 percent and 99.3 percent of the 2013 target, respectively. The timelines for the completion of some projects were extended, as follows: (1) passport assembly and finishing system; (2) installation of Banknote Production Group (BPG) work-in-process (WIP) automated storage and retrieval system at Banknote Inspection Division (BID) area; (3) automatic single note inspection system (ASNIS); (4) optically variable device (OVD) patch hot stamping machine; (5) acquisition of demineralize; and (6) procurement of plastic pallet boards. This is in consideration of bidding and technical concerns, numerous testing runs, and design issues.

Mint and Refinery

The BSP's mint and refinery operations delivered a total of 1,729.3 million pieces of circulation coins of various denominations to the Cash Department (CD). Meanwhile, the mint produced a total of 1,646.1 million pieces of coins in 2013, slightly exceeding its production target at 101.5 percent. Out of the circulation coins produced, around 10 million pieces were 10-piso Andres Bonifacio commemorative coins.

The mint also produced and delivered 162 sets of various presidential medals and state decorations to the Office of the President, Civil Service Commission, National Commission for Culture and the Arts, and BSP-Corporate Affairs Office. In addition, the mint produced 1,000 sets of St. Pedro Calungsod commemorative medals and 24 pieces of BSP-Security Plant Complex Fun Run medals.

The refinery produced 66 pieces of “good delivery bars” (GDBs) out of the target of 120 GDBs. The production was not met due to the decline in gold sales to the BSP. Together with the BSP regional gold-buying stations, the Mint and Refinery Operations Department (MROD) purchased a total of 18,948.1 troy ounces of panned gold in 2013, 46 percent lower compared to its gold purchases of 35,053.3 troy ounces a year ago.

Currency Issuance and Retirement

Currency notes and coins issued increases

Total currency notes and coins issued by the BSP as of 31 December 2013 amounted to ₱852.1 billion (24,264.5 million pieces), 97.1 percent of which were currency notes while the rest were coins. Total currency notes issued by the BSP amounted to ₱827.1 billion (3,178.9 million pieces), 11.6 percent higher than the year-ago level of ₱741.4 billion (2,864.4 million pieces). Meanwhile, total coins issued stood at ₱24.96 billion (21,085.5 million pieces) reflecting an increase of 10.3 percent from the year-ago level of ₱22.6 billion (19,427.6 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 1,055.8 million pieces in 2013, lower by 138.5 million pieces or 11.6 percent than the previous year’s level. Out of the total volume retired, 586.0 million pieces or 55.5 percent were retired manually through the SEM disintegrator, while the rest were retired on-line through the ABPMs.

To provide timely, good-quality, and adequate currency to meet the requirements of the economy, the BSP also 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 adopted stop-gap measures to ensure delivery of notes.

Targets related to currency management are exceeded

The BSP was also able to exceed the targets for the following metrics for 2013: (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) percentage of total banknotes and coins served to total banknotes and coins requested. During the year, the BSP was likewise able to retire all manually-counted unfit notes, which led to the release of fit or new notes into the banking system to replace the unfit ones destroyed.

Similarly, the BSP conducted 68 briefings and 214 seminars to educate the public on currency detection, Clean Note Policy, Coin Recirculation Program, and Rules and Regulations on Currency, and other currency-related matters. The BSP likewise strengthened its counterfeiting drive with the conduct of 11 successful operations that led to the arrest of 13 suspects, as well as seizure of counterfeit currencies and printing paraphernalia. Amendments to certain provisions of the Consolidated Rules and Regulations on Currency Notes and Coins (BSP Circular No. 1, Series of 1995) were also proposed.[61] In addition, periodic tests of the ABPMs were conducted to ensure that doubtful/counterfeit notes, which were undetected by the banks and the public, were screened out by the machines during the banknote verification process and would no longer be re-issued into the system.

Economic Research, Statistical, and Information Dissemination Activities

Research activities serve as tools for monetary policy decision-making

The BSP continued to deliver high-quality outputs from its economic research, forecasting, modeling and policy analysis, statistical data compilation and report generation, and information dissemination 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), these activities provided the monetary authorities the technical resources to make better-informed policy decisions; assisted economists, investors, statisticians, analysts, and students in their research and information needs; enhanced data availability, quality, and transparency to the BSP's stakeholders; and promoted better awareness to the public on the role of the BSP in the domestic and international financial community.

The BSP provides technical assistance to the needs of its stakeholder

The Advisory Committee (AC) held eight meetings in 2013. The AC advises the Monetary Board (MB) on issues relating to the formulation and implementation of monetary policy. During these meetings, monetary policy papers contained latest analyses of domestic and global economic and financial developments, assessments of the outlook for prices in line with the inflation

[61] The amended Circular was approved by the Monetary Board (MB) per MB Resolution No. 48 dated 9 January 2014.

targeting framework, and discussions on selected topical issues that were relevant to the conduct of monetary policy.

The BSP also delivered technical notes, position papers and policy briefs in 2013 covering topics that included: inflation-linked bonds; benchmark yield curve; foreign exchange liberalization; BSP preparedness for the unwinding of monetary policies in the United States; housing and consumer credit; financial market infrastructure; and, banking system fragility measures. The BSP website also featured a working paper on *Identifying Sectoral Vulnerabilities and Strengths for the Philippines: A Financial Social Accounting Matrix Approach,* while on-going studies include those centered on capital flows, the Philippine business cycle, early warning system for banking crisis, and financial social accounting matrix.

The BSP received 208 requests for MB opinion on proposed borrowings by the National Government (NG), government-owned and controlled corporations (GOCCs), local water districts (LWDs), state universities and colleges (SUCs), and local government units (LGUs).

The BSP promotes operational transparency and public awareness

To increase public awareness on various economic and financial issues, as well as promote transparency in its operations, the BSP released various publications, reports, media releases and other relevant resource materials. These included regular reports such as the BSP Annual Report, International Investment Position (IIP), Philippine Flow of Funds (FOF), Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS), Financial Stability Report (FSR), Year-End Report to the President, Regional Economic Developments in the Philippines; Survey of Information Technology-Business Process Outsourcing (IT-BPO) Services; biannual report on the Status of the Philippine Financial System; quarterly reports on the Balance of Payments (BOP), Business Expectations Survey (BES), Consumer Expectations Survey (CES), Quarterly 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; statement on monetary policy decisions (after the policy meetings); and highlights of the MB policy meeting (one month after the meeting).

The *BSP Economic Newsletter*, which provides the BSP community and the public readily accessible, concise, and reader-friendly compendium of studies on current economic and financial issues, featured in its 2013 issues the topics: *The Financial Social Accounting Matrix: Evolution, Framework and Applications* (January-February 2013) and *The Road Towards Retail Competition and Open Access* (March-April 2013).

Meanwhile, the *Bangko Sentral Review*, which serves primarily as a forum for presenting studies conducted by the BSP staff on various economic, financial and statistical issues, published the following articles: (1) *Innovative Solutions to Increase Access to Finance: The Role of Enabling Policy and Regulation*; (2) *Impact of Monetary Policy on Consumer Loan Delinquency*; (3) *Capital Requirements of Rural Banks in the Philippines*; (4) The IMF Quota Formula Review *Measuring the Contribution to the Philippine Economy of Information Technology-Business Process Outsourcing (IT-BPO) Services*; (5) *Tenets of Effective Monetary Policy in the Philippines*; (6) *An Assessment of the Transparency and Communication Practices in Monetary Policy of the Bangko Sentral ng Pilipinas*; and (7) *Views from Washington: Reforms of the IMF's Surveillance*.

Seven (7) Brown Bag sessions for the BSP community were conducted in 2013. Issues discussed included: (1) *The New REER and NEER Indices of the Philippine Peso*; (2) *Implementation and Impact of the BSP's shift to the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6)*; (3) *2013 Asia Pacific Economic Outlook with a special discussion on the Middle-Income Trap*; (4) *How Central Banks React to Growth and Inflation*; (5) *Supply Shocks, Inflation and Monetary Policy: Philippine Experience*; (6) *Some Monetary Policy Challenges for the North Atlantic Economies: Inflation, Inflation Expectations and Financial Stability: A Tightrope, a Trap, Three Teasers and a Troubling Test*; and (7) *Asian Economic Integration Monitor-Tracking Asian Regionalism*.

BSP's economic models go through continuous review and improvement for more credible forecasts and policy analyses

The BSP completed model development initiatives that included: (1) the re-specification of its workhorse monthly inflation forecasting models namely the Multiple Equation Model (MEM) and the Single Equation Model (SEM); (2) the completion of the semi-structural quarterly gap model called the Macroeconomic Model for the Philippines (MMPH); and (3) the development of Gross Domestic Product (GDP) nowcasting models which use higher frequency data to inform current-period demand analysis. The BSP also undertook an internal study on the estimation of total factor productivity to determine whether there have been productivity gains in the economy over time. Another internal study provided an analysis and outlook on the BSP financial position using various macroeconomic assumptions.

Ongoing efforts to support economic modeling and forecasting activities included the refinements of the BSP's existing models as well as the completed structure of the quarterly Medium-Term Macroeconometric Model (MTMM) to enhance their forecasting capabilities, building of a liquidity forecasting model for the BSP, preparatory activities for possible development of an Financial Computable General Equilibrium Model (FCGE), and subscription to the services of the Global Projection Model (GPM) network, which will allow real-time access to the latest data and forecasts on the world economy. In addition, a mapping system of selected economic variables to analyze possible "overheating" of the economy is being studied as an additional early warning method.

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 2013 Exporters' Forum with the theme *Philippine Exports: Adapting to Changing Global Dynamics*.

The BSP generates new data series for the chain-type GDP and price indices, an index for residential real estate property, and real effective exchange rate

A collaborative project on the development of chain-type measures of GDP and price indices led by the BSP together with other major statistical agencies of the Philippines namely, National Statistical Coordination Board (NSCB), National Statistics Office (NSO), Bureau of Agricultural Statistics (BAS), and the Statistical Research and Training Center (SRTC) was completed in June 2013. The project measures the changes in the real national output (GDP) and inflation by chaining together year-by-year changes using data in adjacent years that will provide more accurate estimates of GDP growth and inflation which are important indicators for inflation targeting and monetary policy formulation. Final project outputs will be presented to the BSP Monetary Board and the Philippine Statistics Authority (PSA) Board by first quarter of 2014.

Meanwhile, the BSP presented to the MB the preliminary results of the Residential Real Estate Property Index (RREPI) to monitor movement of asset prices in the Philippines, and the revised Real Effective Exchange Rate (REER) to provide export competitiveness indicator relative to the Philippines' trading partners.

As part of the efforts of the BSP to provide more accurate estimates of the peso's effective exchange rate, revisions were made in the methodology for the computation of the nominal and real effective exchange rate (NEER/REER) indices of the Philippine peso. Particularly, the methodology was changed from the arithmetic base year to geometric chained method. Moreover, the basket of currencies was expanded to reflect recent developments in

Philippine trade. Three sets of nominal and real effective exchange rate indices were developed to gauge more objectively the overall movements in the exchange rate of the peso across currencies of its 14 major trading partners. These indices are the (1) Trading Partners Index (TPI); (2) Trading Partners Index – Advanced Countries (TPI-A); and (3) Trading Partners Index – Developing Countries (TPI-D). In 2013, the new indices were computed in parallel with the current series and by 2014, the new indices will become the official effective exchange rate indices of the BSP.

The BSP shifts to a new format for reporting the country's balance of payments

The BSP continued to strengthen the compilation of the BOP statistics by being constantly attuned with the latest developments in international standards and best practices. Since March 2013, the BSP has implemented the new framework in compiling and reporting the country's BOP statistics in accordance with the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) prescribed by the International Monetary Fund. The shift to BPM6 entails various phases of implementation and is expected to be completed by 2014. In the initial phase, the BOP data for 2011-2012 were converted to the BPM6 format and data coverage of some components was expanded to enhance the completeness of statistics. A parallel presentation of BOP statistics for 2011-2012 under BPM5 and BPM6 formats was included in the BOP report to enable users to relate the transaction categories under the two frameworks. The succeeding phases of implementation will involve further changes in compilation methodologies and data sources as well as enhancements in data coverage which will likewise be reflected in the historical BOP data starting with the 2005 series. In line with the shift to BPM6 framework, the BSP implemented a communication strategy to inform the BOP data users on the changes in the BOP.

The BSP adopts the standard report form-based depository corporations survey

The BSP generated monetary statistics in accordance with the IMF's Standardized Report Form (SRF) and started submission through the Integrated Correspondence System (ICS) of the IMF. The SRF is a new reporting format that conforms to certain principles and concepts to ensure internal consistency with other macroeconomic statistics and facilitate cross-country comparison. In the SRF, assets and liabilities are reported according to the residency of counterparties and expressed in national currency units. The adoption of the SRF provided enhanced clarity by showing domestic assets and domestic liabilities that are disaggregated by sector. The SRF shows more details, i.e., types of financial instruments, currency of denomination of accounts, residency classification and type of asset/liability, as well as identifies which of these financial instruments are components of broad money. The IMF-prescribed reporting forms of the Central Bank Balance Sheet (1SR) and the

Other Depository Corporations' Sectoral Balance Sheet (2SR) were uploaded initially in the ICS in November 2011. In August 2013, the BSP adopted the SRF-based Depository Corporations' Survey (DCS) beginning with the July 2013 data. To ensure smooth transition to the SRF-based series, a parallel publication of the pre-SRF DCS will be maintained for one year. SRF series was also backtracked through December 2011.

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). The Total Credit Reporting System is a stand-alone system of DES. It is a reportorial requirement in the generation of loans granted and loans outstanding data of commercial banks. It is an indicator for monitoring loan growth in the economy as it provides amount of loans approved by banks to a borrower's account (loans granted) as well as the unpaid balance of loans (loans outstanding) for a particular period with various disaggregation such as maturity of loan and economic activity, and type of borrower. An IT-supported extraction system for FRP-based TCR is being developed for possible JAVA-based system enhancement.

Environmental scanning exercises tackle issues on real estate and corporate leverage

Environmental Scanning Exercises (ESEs) were conducted twice in 2013, one in June and the other in December. Resource persons from the banking community, government, private sector, and the academe participated actively in the exchange of knowledge and position on topics relevant to monetary policy formulation. The ESE topic for the first semester of 2013 was *Recent Developments in the Equities Market and Real Estate Sector: Issues and Policy Implications,* which aimed to identify potential vulnerabilities/risks, particularly on the possible build-up of asset price bubble in the equities and property market, and the measures that could be adopted to prevent overvaluation in asset prices. The topic in the second semester was *Impact of Rising Interest Rates on Corporate Leverage and Implications on the Banking System,* which discussed the concerns on the accumulation of domestic vulnerabilities arising from the increasing non-financial corporate leverage in the country bolstered by favorable external financing conditions, lower borrowing costs, and wider range of financing sources.

New indicators were included in measuring the business cycle such as growth rates of the number of passenger cars sales, savings deposit rate, and price-to-rent ratio of the office sector. This is in addition to the existing indicators which cover the following: BES confidence index, BES total order book index, commercial electricity consumption growth rate, exports growth rate, imports growth rate, volume of production index (VOPI) growth rate, book-to-bill ratio, employment in industry and services growth rate, inflation, price earnings ratio growth rate, and the Philippine Stock Exchange index (PSEi) growth rate.

With aim towards quality improvement, regular surveys expand its coverage

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 current quarter and full-year inflation as part of its assessment of the inflation outlook. Meanwhile, surveys conducted through the monthly Cross-Border Transactions Survey (CBTS), in particular the CBTS1 on intercompany accounts with non-residents, CBTS2 on companies that maintain bank accounts abroad where transactions with non-residents are settled, and CBTS3 which covers build operate transfer companies with offshore accounts, as well as the quarterly Survey on FDI and Related Data, 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. To further enhance the survey coverage, in particular, of the CBTS, CPIS and CDIS (outward investments), target respondents for 2013 were expanded to include the results of the screening survey conducted in August 2012. The following additional companies were generated out of the screening survey: 10 companies with bank accounts abroad (for CBTS), 11 companies with direct investment in foreign companies (for CDIS), and 2 companies have holding of securities issued by non-residents (for CPIS).

The Senior Bank Loan Officers' Survey was conducted four times in 2013 as part of the BSP's efforts to track trends in the supply of, and demand for bank loans to enterprises and households on a quarterly basis. To improve the survey, the BSP also conducted a consultation meeting with respondent banks to assist and guide the latter in filling out the survey questionnaire. The meeting also provided an opportunity to collect feedback from respondents on the usefulness of the survey.

Moreover, the BSP conducted its regular, 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 Survey of IT-BPO Services, CDIS and CPIS were likewise carried out. 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. Meanwhile, the CDIS collects inward and outward direct investment positions and transactions by country of source/destination of investment, while the CPIS collects information on residents' portfolio investments, by type, by currency, by sector, and by country of issuer. Starting 2013, as part of the BSP's adherence to international best practices in statistical compilation, the CPIS shifted from annual to a semi-annual reporting. It is in accordance with the IMF's enhancements of the frequency and timeliness of data availability to meet users' demand for more timely statistics as a result of the financial crisis.

The results of the 2009 Consumer Finance Survey (CFS), which covered NCR and Regions I, VII, and XI were released in April 2012. The CFS is the first household-based survey on consumer finances in the Philippines. Roll-out of the results of the CFS through multisectoral fora and press conferences were held in the four regions. In view of growing interest of researchers in carrying out further studies using the CFS data, the public use file (PUF) of the 2009 CFS was released in MS Excel format in 2013. The CFS raw data contains 3,500 variables representing various socio-economic, demographic and financial characteristics of 9,402 respondent households surveyed. The key variables covered by the 2009 CFS are: (1) demographic characteristics; (2) respondent's residence and other real property ownership; (3) deposit accounts; (4) vehicles and household appliances; (5) loans and credit cards; (6) insurance and pension; (7) employment; (8) businesses; and (9) income and expenditures. Compact disks containing the CFS database are available free of charge at the Economic and Financial Learning Center (EFLC) of the BSP Main Office. The second round of the CFS will be conducted in 2014 with an expanded sample size of 18,000 households all over the country, except ARMM and Region VIII. Furthermore, selection of contractor for the conduct of 2014 CFS was completed in 2013.

The Flow of Funds Report covers more institutions

The FOF Report continued to provide information on various financial transactions of resident units in the economy and their link to the global financial market. The report was enhanced through the inclusion of the following institutions: a) public and private non-financial corporations for the non-financial corporations sector; b) the depository corporations, insurance and pension funds and other financial corporations for the financial sector; and c) the NG, LGUs, and social security agencies for the general government sector. For the 2013 compilation of the financial and public non-financial sub-sector, the sequence of accounts (SOA) approach was used to better identify the source of savings for these institutions. Moreover, in compliance with the timely publication of the FOF report based on international recommendation of data release, the 2012 FOF was released in January 2014.

The Data WarehouseI (DW I) of the BPS's Supervision and Examination Sector(SES) has been operational since 2009. Preparatory work on the second phase of the data warehousing project (DW II) to centralize the data repository and to improve the database of the Monetary Stability Sector (MSS) is still ongoing.

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

The BSP provides the venue to recognize its partners in statistical activities and advocacies

The BSP held the 2013 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 nine (9) regions of country. Other endeavors to promote greater statistical awareness among the public were the 15th 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. The BSP also participated in the 12th National Convention on Statistics in October 2013.

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

The BSP continued to work towards enhanced relationships with various organizations as it actively participated in the meetings of inter-agency committees on discussions of economic policies and macroeconomic assumptions at the Development Budget Coordination Committee (DBCC) and its sub-committees, and the pric-related concerns at the National Price Coordinating Council (NPCC).

The BSP was also involved in the activities of various committees on statistics such as: the Technical Committee on Price Statistics (TCPS); the Inter-Agency Committee on Trade Statistics (IACTS); the Inter-Agency Committee on Foreign Direct Investment Statistics (IACFDIS); the technical working group (TWG) on OF statistics, trade in goods and in services, CPI and related indices; IAC and TWG on tourism statistics; BSP-Department of Trade (DTI) working group on data exchange; and various committees of the PSA. The BSP also participated actively 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). Also, the BSP participated in all activities of the Irving Fisher Committee on Central Bank Statistics of the Bank for International Settlements (BIS) as member of the Committee. The BSP was also an active member of the Mining Industry Coordination Council (MICC).

In addition, the BSP reinforced its working relationships with the academe and other organizations by organizing two legs of the BSP-UP Professorial Chair Lectures on 24 May 2013 and 29 November 2013.

The BSP supports the implementation of the Treasury Single Account

In December 2013, the BSP and the Bureau of the Treasury signed the Memorandum of Agreement for the implementation of the Treasury Single Account (TSA). The TSA is a unified structure of government bank accounts, enabling consolidation and optimum utilization of government cash resources, usually and preferably kept in the central bank. It aims to address the weaknesses of the present fragmented banking arrangements of the government through efficient government cash management and greater oversight over government funds allocated to various government agencies.

The BSP co-hosts the 6th Asian Research Network with the BIS

In March 2013, the BSP co-hosted the 6th Asian Research Network (ARN) with the BIS. The ARN, which was established in 2007, consists of two networks, namely, the Monetary Policy and Exchange Rate (MPER) Network and the Financial Markets and Institutions (FMI) Network. These networks aim to facilitate the information sharing among Asia-Pacific central banks with interest in research on monetary policy, exchange rate, financial markets and financial stability.

The hosting of the research workshop expanded the BSP's awareness and understanding of research issues which are of interest to central banks in the Asia-Pacific region and provided an opportunity for greater research collaboration among central bank economists. The BSP was also able to enhance its research agenda with more in-depth and strategic studies in aid of policy discussions and decision-making process.

The BSP together with ADB, conducts a technical assistance mission for the Central Bank of Myanmar

As part of BSP's engagement with Myanmar authorities on economic policy capacity development, the BSP and ADB conducted a joint technical assistance mission aimed at providing the staff of the Central Bank of Myanmar, technical expertise on monetary policy and central banking. The mission provided the BSP an opportunity to expand its awareness and understanding of issues that are of interest to central banks, as well as to foster deeper cooperation with its peers in the Southern Asian region.

Supervisory Research Activities

Banking Statistics

BSP improves further integrity and delivery of data

To promote data integrity and timely delivery to end-users, existing systems and approaches related to data capture, processing and dissemination were further improved. Major accomplishments in this area included the following:

1. **Implementation of the Data Warehouse (DW) – Dynamic Facility (DF)**. In 2013, the DW-DF was implemented to complete the migration of the Financial Reporting Package (FRP) and FRP-based Bank Performance Report.

2. **Development of Statistical Analysis Software- Enterprise Guide (SAS-EG) Programs**. Pending full implementation of the on-going enhancements on the data warehouse project, the BSP internally designed and developed several SAS-EG programs to facilitate the automated generation of relevant, mission critical reports and statistics. The SAS-based programs that have been developed include the following:

   a. Non-Performing Loans based on Circular 772;
   b. Real Estate Exposure;
   c. Insured Deposits;
   d. Financial Assets (combination of several FRP schedules);
   e. SDA and UITF;
   f. Dormant Accounts;
   g. Published Balance Sheet (new template);
   h. CAR 688 version 1 (summary tables);
   i. Eligibility Requirements (UKB, TB and RCB);
   j. Liquidity Floor Position on Government Funds Held (UKB and TB);
   k. EMEAP statistics;
   l. MSME and BMBE tables;
   m. Modified Banking Indicators based on Circular 772; and
   n. Adjusted/Unimpaired Capital (revised computation).

3. **Phased Implementation of the Financial Institution (FI) Portal.** Tests were conducted in 2013 to prepare the FI Portal for the pilot run scheduled within the first quarter of 2014. Initial rollout will be for Reserves Report (RR). Various enhancements to the reporting format and submission procedures for the RR were also performed to ensure compatibility of current systems with the FI Portal. Other reports like the FRP and its related reports will be for staggered implementation after the roll-out of the RR.

4. **Data Entry Template for Credit, Market and Liquidity Risks Stress Testing**. The BSP developed and enhanced further the data entry template for the credit, market and liquidity stress test exercise conducted on all U/KBS and selected TBs. Stress test exercises focused on the impact to a bank's capital adequacy ratio (CAR) of certain situations/scenarios, such as risk concentration, interest rate movements, and other similar factors based on certain defined default scenarios.

5. **Interface of Capital Adequacy and Reserves (CARE) System and E-Rediscounting (E-Red) System**. To streamline the process of determining the eligibility of a bank to avail of BSP's rediscounting facility, the SDC, DLC, and ITSS coordinated to develop an interface between DLC's E-Red system and SES' CARE system to enable the E-Red to automatically obtain the current reserve position of banks, which is one of the criteria for a bank to obtain a loan from the BSP. The development and testing of the interface program is currently ongoing.

6. **Development of Report Monitoring Tools**. Ad hoc monitoring systems using MS Access programs were developed to track the status of report submissions, as well as to prompt ITSS to process reports that were skipped for validation by the system. The monitoring programs developed include reports for real estate exposure, capital adequacy ratio, microfinance, and inventory of branch network (UKB, TB and RCB).

7. **Issuance and/or enhancement of Reports**. The BSP issued Circular No. 812 dated 23 September 2013 which require the submission of the Credit Card Business Activity Report (CCBAR) from all BSP-supervised financial institutions with credit card operations and their subsidiary/affiliate credit card companies. This is intended to enhance the BSP's database of both credit card issuers/acquirers and cardholders, ensure transparency and availability of information on credit card operations and complaints resolution, and afford a more in-depth analysis of the credit card industry for policy-making purposes.

Banking Reports

The BSP also published various reports on the condition and performance of the Philippine financial system, which recipients include, among others, the President, both Houses of Congress and the Monetary Board (MB). The following are among the vital reports prepared during the year:

a. *Status Report on the Philippine Financial System* - A semestral status report on the condition and performance of the Philippine Financial System (Financial Health) is submitted to the Office of the President and both Houses of Congress pursuant to Section 39c, Article V of the New Central Bank Act (R.A. No. 7653). Highlights of the report are posted in the BSP website, circulated to news organizations, furnished to industry organizations and sold to outside recipients (i.e., academic organizations) via subscription. The report, at the end of every year, incorporates the progress on the implementation of Republic Act No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks and for Other Purposes), Republic Act No. 7906 (Thrift Bank Act of 1995), Republic Act no. 7353 (Rural Bank Act of 1992) and Republic Act No. 8367 (Revised Non-Stock Savings and Loan Association Act of 1997).

b. *Report on the Implementation of R.A. No. 9178 "Barangay Micro Business Enterprises (BMBEs) Act of 2002"* - An annual report on the status of implementation of BMBE Act (R.A. No. 9178) which is submitted to both Houses of Congress and the Office of the President.

c. *Report on Capital Adequacy Ratio (CAR) of Banks* - A quarterly report on the capitalization of banks in line with BSP's risk-based capital adequacy framework. Highlights of the report are posted in the BSP website, circulated to news organizations and furnished to concerned SES units for their appropriate action.

d. *Report on the Non-Performing Loans (NPL) of Banks* - A monthly report on the asset quality of universal and commercial banks (U/KBs), as an off-site supervisory tool, to help banks improve their positions and alert them to undertake remedial measures if their non-performing loans (NPL) and non-performing assets (NPA) ratios fall above the industry average. The report is posted in the BSP website, circulated to news organizations and furnished to concerned units for their appropriate action.

In 2013, the BSP also published three quarterly reports on financial inclusion which were distributed through various domestic and international events as well as through the BSP website and the Alliance for Financial Inclusion (AFI) member zone. These reports aim to highlight policy areas of financial inclusion and increase understanding and awareness of various audiences.

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 banknotes and coins in the regions were ensured throughout the year even during emergency situations resulting from the Zamboanga crisis, the earthquake in Bohol and Cebu, as well as the devastation brought about by Typhoon “Yolanda” in the Visayas areas.

To guarantee the availability of banknotes and coins across the regions, the ROs/branches maintained a manageable currency stock level equivalent to four months and two months cash requirements of banks, respectively. However, due to increased withdrawals of banks during the months of March, and from October to December 2013, aggregate currency inventory available as of end-December 2013 dropped to ₱31.29 billion. This was equivalent to 46.3 percent of the ideal level of ₱67.59 billion.

To continue its proactive role in the economic and financial education campaigns of the BSP, the economic and financial learning centers (EFLCs) in the regional offices and branches stepped-up their operations. The Public Information Campaigns (PICs) have been extended even to provinces and cities outside of the area of coverage of their regional offices and branches. In 2013, regional EFLCs conducted 1,465 briefings and lectures on the New Generation Currency, the Role of the BSP in the Economy and other related topics with a total of 153,788 participants.

The ROs/branches continued to extend 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 User’s Forum, Awarding Ceremony and Appreciation Lunch for Stakeholders in the Business Expectations and other surveys; briefing for pawnshops, lending investors, and foreign exchange dealers; financial learning campaigns for overseas Filipinos (OFs) and their beneficiaries and other economic briefings.

The ROs/branches maintained their role as the listening posts of the Bank in the countryside through their conduct of economic, social and political surveillance. The heads of RO/branches maintained their active participation and attendance in the regular meetings of the Regional Development Council (RDC) in their respective areas where regional development plans and programs are discussed. Moreover, comprehensive quarterly regional economic development reports, analysis of the results of the quarterly business expectation survey and other updates in the areas of money, credit and banking were prepared to continuously update the BSP's Management on the economic and financial developments in the regions.

In 2013, gold purchases in the four regional gold buying stations (Davao, Baguio, Naga, and Zamboanga) dropped by 3.49 percent, from 30,429.56 troy ounces of gold to 29,366.98 troy ounces. The continued decline in the gold purchases of the regions started in July 2011 when the Bureau of Internal Revenue (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 enhance advocacy campaigns in the areas of microfinance and financial inclusion, economic and financial education as well as consumer protection in 2013.

Microfinance and Financial Inclusion

The BSP continues to implement its financial inclusion agenda

In 2013, the Philippines was once again recognized as first in the world in terms of its regulatory framework and practices for microfinance. The Economist Intelligence Unit (EIU), in its annual global survey, noted that the BSP continued to promote an enabling environment for microfinance as a key advocacy to support poverty reduction. It also cited advances in mobile access to bank accounts, the agent relationships for cross-selling of microinsurance products and the geospatial mapping currently being undertaken to account for different types of financial service access points in the country. From 2009 to 2013, the regulatory environment for microfinance in the Philippines is consistently ranked as one of the best in the world by the EIU Global Microscope on the Microfinance Business Environment.

As of end-September 2013, there were 183 banks providing microfinance services. These banks served 1,017,351 borrowers with an outstanding loan portfolio of ₱8.1 billion and savings component of ₱8.8 billion.

Policy and regulatory refinements

In the past 10 years, the BSP has issued over 40 regulations related to microfinance and financial inclusion. In light of industry developments and changing markets, the BSP recognizes the need to remain responsive and relevant. In 2013, the BSP refined existing regulations to increase the average daily balance of microdeposits (Circular No. 796), in recognition that microfinance clients have the capacity to build up their savings. The increase was from ₱15,000 (US$340) to ₱40,000 (US$910) given the objective of promoting higher savings rate among microfinance clients.

This regulatory refinement will be showcased as a concrete example of evidence-based policymaking by the G20 Global Partnership for Financial Inclusion (GPFI) in its forthcoming case study on how data can influence the policymaking process. The BSP issued the regulation only after thorough analysis of data gathered from top banks offering microdeposit accounts. The results confirmed that microfinance clients are increasingly saving, and enhance the characteristics of microdeposit accounts is needed.

Results also showed that savings is indeed a valued microfinance product that clients access even without a bundled credit facility. This reaffirmed the important role of banks as deposit-taking institutions.

The BSP's regulatory refinements included:

- Redefining "low-income households" for purposes of providing microinsurance (Circular No. 782), in order to enable providers to expand coverage to families of microfinance clients.
- Improving procedures in the product approval of housing microfinance loans and micro-agri loans (Circular No. 817), to simplify the process by which banks can offer innovative microfinance products.
- Enhancing the reporting of microfinance loans and microdeposits in order to capture the wide range of product offerings of banks with microfinance operations.

E-money regulatory framework

The BSP issued comprehensive guidelines on technology risk management (Circular No. 808). This was a timely issuance as the market continues to innovate, and technology pervades banking and financial services. The issuance highlighted the importance of an integrated, comprehensive, yet proportionate approach in identifying, measuring, monitoring and addressing technology related risks.

While the guidelines have general application on all BSP-supervised institutions, they have significant impact on Electronic Money Issuers (EMIs). EMI operations primarily depend on technological innovation and leverage on virtual linkages with agent networks. Technology risk management is therefore imperative for EMIs. The guidelines also include consumer protection rules specific to electronic banking products and services; outsourcing to technology vendors and service providers; and business continuity and recovery.

Conduct of workshop with other institutions

The BSP, with support from the United States Agency for International Development (USAID), Bankable Frontier Associates (BFA) and the National Payment System Institute (NPSI), conducted the National Payment Systems (NPS) Workshop in 2013. The first of its kind, the workshop gathered key public and private sector stakeholders and payment system experts to unravel critical payment system issues, challenges and potential solutions.

An important learning from this workshop is for a regulator to set an appropriate framework (e.g., infrastructure, governance, players and market conduct rules) as foundation for a fully efficient and inclusive retail payments system, where mobile payments can be safely and meaningfully integrated.

Responding proactively to customers' needs

The year 2013 showed the market taking advantage of the regulatory environment to proactively respond to customer needs. The following transactions were enabled through important linkages between EMIs, social welfare and social security agencies:

- Donation to the Department of Social Welfare and Development (DSWD) for the relief and rehabilitation of areas devastated by Typhoon Yolanda.
- Payment of contributions to Social Security System (SSS), Home Development Mutual Fund (HDMF or PAG-IBIG), and Philippine Health Insurance Corporation (PhilHealth).
- Payment of real estate taxes to local governments.

The abovementioned transactions were added on top of existing e-money enabled services like payment of salaries, goods and services; disbursement of loan proceeds; transfers to deposit accounts; and payouts to conditional cash transfer beneficiaries.

Accepting other identification documents

Another regulatory refinement contributing to greater financial inclusion was the acceptance of other Identification Documents (ID) to cover populations under government welfare systems and the disabled (Circular No. 792).

The expansion of acceptable IDs, which is consistent with Financial Action Task Force (FATF) guidance on financial inclusion, addresses one of the major barriers for the poor, low-income, seasonal workers, self-employed individuals, and other traditionally marginalized sectors, to transact with banks.

The 2013 regulation builds upon the anti-money laundering rules that were issued in 2011, which identified a wide array of IDs, including certifications issued by village chiefs, which may be used to open bank accounts. The said regulation now deems the following as valid IDs that may be relied by banks in customer due diligence:

- Certification from the Department of Social Welfare and Development (DSWD);
- ID issued by the National Council on Disability Affairs (NCDA); and
- PhilHealth Card ng Bayan

Relaxing know-your-client (KYC) requirement

In light of the massive damage caused by Typhoon Yolanda, the BSP temporarily relaxed the KYC requirement, allowing the non-presentation of valid IDs in processing transactions of typhoon victims.

This relaxation applies to BSP-supervised institutions, provided the transactions are below ₱50,000 or its equivalent in foreign currency (about US$1,000), and the customer identification documents are updated after 31 December 2013. The BSP issued this regulatory relief immediately after Typhoon Yolanda.

Alliance for Financial Inclusion

The BSP plays an important leadership role as chair of the Alliance for Financial Inclusion (AFI) Steering Committee. AFI is a knowledge-sharing network of over 100 policymakers and regulators from 89 developing countries. In 2013, the BSP chaired and participated in the following major events:

- 5th Annual AFI/G24 Policymakers' Roundtable on Financial Inclusion on 17 April 2013 in Washington D.C., USA, to discuss possible peer learning with standard setting bodies (SSBs) to ensure that inclusion objectives are equally considered in setting prudential standards that promote financial stability and integrity.
- Global Dialogue on Developed and Developing Country Perspectives on Financial Inclusion, co-hosted by AFI and the Frankfurt School of Finance and Management on 28 June 2013 in Frankfurt, Germany, which was the first ever north-south discussion on financial inclusion issues.
- AFI Leaders Roundtable Discussion with Her Majesty Queen Maxima of the Netherlands and the Basel Committee for Banking Supervision (BCBS) in Kuala Lumpur, Malaysia on 11 September 2013, which was a step forward in engaging SSBs like the Basel Committee on Banking Supervision (BCBS).
- AFI 2nd Annual General Meeting and 5th Global Policy Forum from 9-12 September 2013 in Kuala Lumpur, Malaysia, primarily to agree on the AFI independence process and selection criteria for the future country host of AFI headquarters.

Economic and Financial Education

The BSP remains committed to promote greater awareness and understanding of economic and financial issues

The BSP Economic and Financial Learning Program (BSP-EFLP) continued 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.

The BSP-EFLP embodies the BSP's thrust to promote inclusive and proactive economic and financial education among its stakeholders, the underlying philosophy of which is that a citizenry that is well informed in economics and finance is a more effective partner of the BSP in maintaining the effectiveness of monetary policy as well as in ensuring a stronger and safer banking and payments system.

The following learning programs have been conducted in 2013:

- *"Be up to SPeed on BSP" Public Information Campaign (PIC) on the Role of the BSP in the Philippine Economy.* The PIC intends to enhance public awareness on the BSP's core functions and responsibilities and its role in the economy, particularly those relating to the three pillars of central banking. It also aims to generate public understanding of policies and programs implemented by the BSP. In 2013, PICs conducted in twelve sessions in different parts of the country reached a total of 1,311 participants, largely composed of students, teachers and school officials, as well as representatives from private and public offices, banks, and the media.

- *"Paghahanda sa Kinabukasan" Financial Learning Campaign (FLC) for Overseas Filipinos (OFs) and their Beneficiaries.* The BSP's FLCs, organized in coordination with the Overseas Workers Welfare Administration (OWWA), aim to educate participants on the importance of using remittances to build up savings and directing these into investments in financial products and business ventures. The BSP conducted six sessions in different parts of the country attended by 1,091 participants, mainly family members and other beneficiaries of OFs.

- *Users' Forum (UF) on BSP-Produced Statistics.* The forum aims to explain to the public the methods and processes employed by the BSP in gathering and analyzing data that it compiles and monitors. It covers topics on monetary, banking, financial, and external sector statistics, expectations surveys and balance of payments. The UF was conducted as part of the BSP's celebration of the National Statistics Month (NSM) in October 2013 in BSP Manila and Sta. Cruz, Laguna. This was attended by a total of 166 participants, mostly members of the academe and representatives of government offices.

- *Financial Literacy (FinLit) Session for the Beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps)*. FinLit supports the Department of Social Welfare and Development's (DSWD) program to provide a bridge to financial self-sufficiency, especially among households from the grassroots level. It aims to equip 4Ps beneficiaries with financial learning skills for them to better manage their finances, learn about potential ways to protect or grow their funds, be protected from scams, and maximize the benefits of the 4Ps. Four FinLit sessions attended by 300 participants were conducted in 2013.

- *Financial Education Expo (Fin-Ed Expo).* The Fin-Ed Expo aims to instill awareness on the availability and accessibility of financial education programs, increase personal financial consciousness on the values and benefits of being financially empowered and orient the public on available financial tools that will help in the promotion of their financial well-being. Ten Fin-Ed Expos were conducted in 2013 with 2,030 participants from the academe and local workforce. As part also of its financial education initiatives, the BSP developed and issued financial learning materials, which include Weekly Wealth Watch issues and primers. The BSP likewise developed the following learning modules:

a) Financial empowerment course for the youth;
b) Saving is more than just not-consuming; and
c) Financial planning and wealth management.

- *Conference on Gearing Up for External Competitiveness (CGEC).* The conference aims to raise awareness of exporters, importers, organizations of OFs, business process outsourcing firms (BPOs), entities with foreign exchange obligations, among others, on the various ways to manage their foreign exchange risks and to highlight the factors that determine the country's external competitiveness. The conference was conducted in Cebu and was attended by 177 exporters and representatives from banks, government agencies, schools, and the media.

In 2013, the participation rates of the abovementioned EFLP component programs were mostly more than 100 percent as the number of participants exceeded the target.[62] Meanwhile, based on the results of the program evaluation, the overall conduct of these component programs yielded an average rating of 4.5.[63] Participants were also asked to rate the learning they gained from attending the programs and this averaged 4.4.[64]

Meanwhile, the Economic and Financial Learning Center (EFLC) continued to offer information and learning services to the general public. It accommodated 11,225 visitors, mainly students, who visited EFLC for their research needs, tours, and attendance to in-house lectures. Other guests, with similar purpose, were from the private and government institutions. The EFLC aims to provide information services, programs and materials covering the work of the BSP and its role in the Philippine economy and to promote greater understanding of essential economic and financial concepts and issues.

The BSP also conducted briefings/trainings on enhanced banking courses for rural bankers, pawnshop owners, prudential reporting and updates on regulations for rural and cooperative banks, banking regulations, financial inclusion, microfinance, e-money/mobile banking, payments and settlements, financial education and consumer protection for various central bankers

[62] Participation rate is defined as the percent of actual number of participants to number of invitees.
[63] Average rating for PIC, FLC, UF, FinLit, Fin-Ed Expo, and CGEC based on a scale of 1.0 to 5.0, 5.0 being the highest score.
[64] Average learning gained rating for PIC, FLC, UF, FinLit, and Fin-Ed Expo based on a scale of 1.0 to 5.0, 5.0 being the highest score.

and international delegations (e.g., Afghanistan, Bangladesh, China, Ethiopia, Ghana, Guinea, India, Indonesia, Kenya, Lao PDR, Madagascar, Malawi, Myanmar, Nigeria, Pakistan, Peru, Uganda and Zimbabwe).

Consumer Protection

The BSP conscientiously seeks ways to improve consumer protection regulations and activities

In 2013, the BSP has undertaken significant steps to rigorously evaluate the effectiveness of its initiatives, with the end-goal of addressing potential limitations and improve their overall implementation.

With technical assistance from the World Bank, the BSP participated in a diagnostic review of consumer protection in the banking sector. The review assessed whether existing legal, regulatory, and institutional systems and practices pose significant barriers to effective consumer protection. Results of this review may be used to inform the BSP's future actions to further improve its consumer protection policies and programs.

To assess the effectiveness of BSP regulations on transparency and disclosure of the true cost of credit (Circular Nos. 730, 754 and 755), another round of mystery shopping was conducted in 2013, with support from the Consultative Group to Assist the Poor (CGAP). It may be noted that, prior to the effectivity of these regulations, an initial mystery shopping exercise was conducted to establish baseline market practice. Comparative results of these exercises can be useful in improving the enforcement of the BSP's transparency regulations.

The BSP, through the Financial Consumer Affairs Group (FCAG), has substantially acted upon complaints/inquiries/requests (CIRs) received. Of the 2,446 simple CIRs received, 99.5 percent or 2,433 CIRs were substantially acted upon in compliance with the mandated ten-banking-day timeline. On the other hand, 556 or 99.8 percent of the complex cases were acted upon in compliance with the 30-day timeline posted. The almost 100 percent action rate are attributed to enhancement in processes (e.g., enhanced tracking system, strict compliance with Anti-Red Tape Act (ARTA) standards), as well as responsiveness of consumer specialists in addressing each financial consumer concern raised.

Institutional Building

Corporate Planning

Enhanced strategy management system remains in place

The enhanced strategy management system using the Balanced Scorecard framework remained in place in 2013, with four strategy review meetings (SRMs) conducted during the year. The BSP's Corporate Planning Office (CPO) presented a report on the progress of the strategy execution in terms of achievement of targets for 2012; as well as the status of initiatives under the four strategic themes (Good Governance, Operational Excellence, Engaged Stakeholders and Organizational Readiness) during the Annual Strategy Review held on 1 March 2013 at the PICC. Theme leaders presented their proposed enhancements in the BSP strategy, in terms of revisions in Strategic Objectives and Measures. The proposed revisions were areas for refinement and fine-tuning for a better coherence and tighter linkage among the strategic objectives and initiatives arising from the discussions during the 2012 quarterly SRMs. The program also included a session that engaged Monetary Board members to discuss two strategic issues, namely: 1) integration/interface of BSP IT applications; and 2) financial implications of BSP policies.

Meanwhile, under the Project Management Excellence Program (PMEP), the enterprise project management system portal called Project Information Management System (PrIMS) was launched by in 2013. Workshop sessions with Project Management Teams and demo sessions on the use of PrIMS with the Sector Heads were then conducted. To enhance the training component of the program, meetings with the BSP Institute (BSPI) were held to discuss facilitation of the conduct of: a) executive briefings on the appreciation of the BSP PM methodology; b) project planning for project teams; and c) development of course on business case.

Through the inclusion of a special session on values and culture in the Induction Course for New Employees, the BSP continued to cascade its vision and mission statements. The session aimed to ensure awareness and understanding of the BSP vision and mission by all employees of the Bank.

Information Technology

BSP continues to set up infrastructure for application system and to maintain and enhance systems on production

In 2013, the BSP through the Information Technology Sub-Sector (ITSS) continued to provide information and communication technology support to various BSP offices, ensuring the delivery of the Bank's functions. Toward this end, the following were accomplished:

1) Continued to set up the infrastructure requirements of the application systems[65];
2) Implemented major enhancements of systems on production;
3) Resolved audit issues involving the Financial Institution Library (FILS);
4) Completed the e-Passport Middleware Development; and
5) Continued maintenance of application systems on production.

Bangko Sentral Training Programs

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

For 2013, the BSPI focused its efforts in establishing a BSP training curriculum, expanding its e-learning services, and implementing targeted leadership and management courses to support the succession management program.

The BSPI also continued the implementation of training programs aimed at developing and creating the competitive advantage of the Bank's human capital. The BSPI also continued to establish new networks and strengthen existing ones through technical collaboration with foreign and local counterparts and business partners; thus, providing more training and scholarship opportunities to BSP employees.

Moreover, the BSPI executed the following programs in 2013:

1) Creation of a training curriculum anchored on the approved competency models and Implementing Guidelines for the BSP Learning Curriculum. The BSPI also released the training catalogs for the Bankwide Learning Program, the Leadership and Management Learning Program, and the Bank Supervision Learning Series titled Professional Enhancement Program for Bank Supervisors (PEPS). The catalogs for the following learning series have also been released to the concerned departments: Payments and Settlements, Legal Services, Executive Management Services, and Medical and Dental. Training catalogs for Production, Systems and Methods, and Human Resource will be released in January 2014. These training catalogs complete the 12 learning series committed to be developed in 2013;

2) Acquisition of 250 additional FSI Connect licenses for SES personnel and expanded its coverage with the acquisition of 27

[65] This included the BSP Law Library System, Data Warehouse I (FCDU Reports), e-Recruitment, Reporting Systems (CDRC-reserves report for KB and TB; WRRAR-reserves report for RB), SPC production System (SPCPS), Unified Rediscounting and Special lending (URSL) Rediscounting Windows 1 and 2 and Exporters' Dollar and Yen Rediscount facility.

licenses for Payments and Settlements Office, Asset Management Department, Department of Loans and Credit, Department of Economic Research, and Department of Economic Statistics. FSI Connect refers to the library of e-learning courses developed by the Financial Stability Institute for financial supervisors, which includes a wide range of tutorials on capital adequacy and solvency, supervision, risk, accounting, financial instruments, deposit insurance, and payments and settlements systems;

3) 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. This is determined by passing the said assessment that consists of a pen-and-paper exam as well as an application portion. In doing so, the Bank conserves its resources on training people who already have acquired the knowledge and skills from certain programs. Employees who are able to successfully complete the assessment will be granted training credits. A total of eight sessions of equivalency tests were conducted for three computer courses: MS Word (Level 1), MS Excel (Level 1), and MS PowerPoint. A total of 156 BSP personnel took equivalency tests on the various courses, 136 of them passed and received the requisite training credits; and

4) Collaboration with the Financial Accounting Department (FAD) on securing approval for issuances that outline the approval and processes relative to the de-centralization of the foreign travel budget, as part of BSPI's duties as secretariat to the Foreign Travel Committee (FTC).

Likewise, the BSPI was successfully awarded its second certification from TUV Rheinland, in its first follow-up audit for the ISO Standard 9001:2008. This is to ensure effective implementation of the Department's quality and environmental management systems.

In 2013, there were a total of 936 training events. These events were comprised of 360 in-house offerings, 280 local training events, and 296 foreign training events, with total participation of 27,657. Of this total, 7,464 or 27.0 percent participated in in-house training courses, 614 or 2.2 percent participated in local training events, 403 or 1.5 percent attended foreign training events, and 19,176 or 69.3 percent completed online courses.

The BSPI also handled training events conducted by foreign resource speakers on credit risk and series of Executive

Development lectures. Four co-hosting events were likewise conducted during the year in coordination with various international organizations.[66] The BSPI also assisted in the Immersion Course/Program for Central Bank of Myanmar by providing 12 delegates the opportunity to attend the Fundamentals of Central Banking Course, as part of its relationship-building with external counterparts.

Human Resource Development

Programs and initiatives support BSP strategy map

Programs and initiatives were aligned with the BSP Strategy Map through the following: provision of appropriate structure, staffing, and job and competency requirements; implementation of leadership succession program and promotion of high-performance culture needed to execute the strategy map.

In 2013, the highlights of the BSP's accomplishments in the area of human resource development include the following:

1) Facilitation of the submission of Succession Plan reports (SPRs) and Individual Development Plans (IDP);
2) Pursuit of activities geared towards supporting the Bank's objective to foster high performance culture;
3) Presentation to the Governor of the proposed revised Bank-wide organization structure, including structural and non-structural interventions for priority units, as part of the Bank-wide Organization Review;
4) Conduct of Organization and Manpower studies to strengthen delivery of core functions as well as support and executive services; and
5) Implementation of various workplace development interventions, both on the group level and at the individual level. The group level interventions serve as a venue to discuss strategic directions, strengthen communication, work relationships, camaraderie and share institutional knowledge. At the individual level, the interventions are aimed at developing competencies of the individual and provide guidance in individual development and career management.

Human Resource Management

BSP ensures that its human capital management strategies are at par with the trends and best practices

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

[66] The BSP through the BSPI co-hosted training events, as follows: (1) the SEACEN-Deutsche Bundesbank Course on Assessing IT Risk, (2) FSI-SEANZA Regional Seminar on Capital Adequacy and Basel III, (3) SEACEN Expert Group (SEG) Technical Workshop on Financial Stress Indices; and (4) 9th Forum on Asian Insolvency Reform.

1) Implemented of e-Recruitment System;
2) Enhanced the BSP Pre-employment Test;
3) Revised implementing guidelines and policies in support of the Bank's thrust that came up/evolved in 2013;
4) Strengthened the recruitment, selection and placement and appointment process;
5) Facilitated the conduct of various activities that promote wellness, employee engagement and work-life balance; and
6) Approved the Revised Code of Ethics for Personnel of the Bangko Sentral ng Pilipinas, including the implementing rules and regulations of the BSP's "No Gifts Policy" and installation of five Anti-Red Tape Act Monitors; and
7) Implemented the SAP Data Clean-up Project.

Health Services

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

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

1) Enhanced annual medical examination;
2) Expanded adult immunization program for flu, hepatitis B, and pneumonia;
3) Arranged affiliation with service providers;
4) Conducted the following:
   a. Held health education programs such as the weekly "Kapihan sa Medical";
   b. Step-Up program as a support activity for the Weight management program (WMP) of the HSO; and
   c. Break-Free Stop Smoking Program, a smoking cessation program which profiled and targeted employee smokers who wanted to quit smoking.
5) Continuous implementation of The Diabetes Dental Health Program; and
6) Established dental radiographic record of BSP personnel, which will provide permanent documentation of treatment done and constitute the grounds for diagnosis and future treatment plan for concerned personnel.

Enterprise Risk Management

BSP enhances its Enterprise Risk Management framework

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

1) Implemented ERM process in BSP operating units through the conduct of plenary sessions;
2) Submitted annual consolidated bank-wide risk assessment to the Management;
3) Continued the improvement in performance of ERM;
4) Coordinated specific gaps affecting ERM by initiating and participating in crisis management meetings, IT and legal concerns of client units, and strategic roadmap under the good governance theme;
5) Activated the Incident Reporting System;
6) Enhanced the ERM process through the revisions to the ERM Manual based on experiences in 2013; and
7) Involvement in domestic, regional, and global fora.

Crisis Management

BSP promotes effective crisis management leadership and ensures business continuity of the Bank

The Crisis Management Office (CMO) of the BSP, in its promotion of effective crisis management leadership and ensuring the business continuity of the Bank, implemented time-sensitive operations through the following activities:

1) Coordinated with ITSS and HRMS for the linking of the BSP Unified Directory System (BUDS) and Systems, Applications and Products in Data Processing (SAP);
2) Conducted human resources enhancement programs[67] 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

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 2013:

[67] This included (1) tabletop exercises; (2) education and awareness briefing on Business Continuity Management; (3) validation of 20 revised departmental Business Continuity Plans; and (3) Integrated Business Continuity Test/Crisis Simulation Exercise of Mission-Critical Departments.

1) Continued to design, develop and establish quality management systems of BSP departments/offices;
2) Conducted Independent Quality Assessments in the BSP Head Office, three regional offices, seventeen branches, Currency Management Sub-sector and the Security Plant Complex, to maintain certified status; and
3) Conducted Work Environment Measurements (WEM) as part of maintaining a safe and healthy work environment in the Bank;
4) Pursued business process improvement/re-engineering efforts;
5) Integrated the ERM Process in the Quality Management Systems (QMS) of various BSP departments and offices;
6) Developed the BSP Employee Charter as part of the initiatives under the Good Governance Theme of the BSP Strategy Map; and
7) Implemented the requirements of the Constructor's Performance Evaluation System (CPES) as required under R.A. no. 9184 or the Government Procurement Reform Act.

Comptrollership Functions

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

1. Approval of the revised guidelines that will provide departments/offices concerned with ready reference in dealing with issues and concerns relating to closed banks;
2. Settlement of tax assessments which resulted to a tax savings of ₽55.5 billion; and
3. Provision of technical assistance included:
   a. BSP's Working Group which crafted the Memorandum of Agreement (MOA) for the establishment of the Bureau of Treasury's (BTr) Treasury Single Account (TSA). Under the TSA, all peso accounts of the BTr, including the regular demand deposit account (RDDA), Bond Sinking Fund (BSF), and Securities Stabilization Fund (SSF), will be combined into a single peso account;
   b. BSP Charter Amendments Team of the Committee on Legislative Liaison and Research, where the CoSs personnel provided financial data/information to the legislative liaison group of OGCLS in relation to the proposed amendment of the BSP Charter; and
   c. Other committees where the CoSs personnel are providing technical assistance include the following: Information and Communication Technology Committee (ICT); Currency Management Committee (CMC); Chiang Mai Initiative Multilateralization (CMIM) Committee; BSP Praise

Committee; RMS Sectoral Review Committee; Ad Hoc Committee on the Accreditation of Insurance Companies and Travel Agencies; and Working Group on the Integrated Financial and Management Information System (IFMIS).

Major Infrastructure Projects

As of end-2013, 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	
Surface cleaning, water repellant and re-sealing of pre-cast joints at building facades (BSP Main Office)	30,656
Rehabilitation and upgrading of water supply system (BSP Main Office)	14,973
Construction of Executive Offices (Phase 2, BSP Main Office)	14,069
Construction of Executive Offices (Phase 3, BSP Main Office)	13,929
Supply and installation of fabricated aluminum window panel sets (Phase 5, BSP Main Office)	12,897
Installation of building signage with the new BSP logo	10,569

* 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/Partially Accomplished Projects		
Renovation of BSPI offices and training center	239,908	88.9
Construction of BSP Butuan branch building	253,091	16.6
Construction of BSP Lucena branch building annex	129,622	12.9
Installation of desking system (Space Rationalization Project)	122,312	90.9
Installation of portable walls (Space rationalization Project)	74,800	46.1
Supply, delivery, and	18,170	54.5

installation of fire detection and alarm system (BSP Main Office)		
Construction of Executive Offices (Phase 4, BSP Main Office	14,139	35.0
Repair of centralized air conditioning system (BSP Main Office)	9,690	99.0
Enhancement works for BSP multi-purpose building (BSP Main Office)	4,169	55.9

*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

Participates actively in international economic cooperation fora

In 2013, the BSP continued its pro-active engagement in the international, regional and bilateral fronts in the areas of monetary and financial cooperation and integration guided by the BSP Strategy Map, 2012-2017 and the Operational Excellence pillar.

In particular, the BSP represented the country in various engagements to exchange views and elevate positions on issues related to the conduct of global and regional economic surveillance; policy dialogue; consultation missions of international institutions; 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 and conferences and hosted international conferences and workshops.

International Cooperation Activities

Economic Surveillance and Policy Dialogue

The BSP, as the Philippine representative in the International Monetary Fund (IMF) and as member of the ASEAN+3 Macroeconomic Research Office (AMRO), facilitated the conduct of regular surveillance activities in the country through the IMF Staff Visit and the AMRO Consultation Visit held on 17-20 September 2013 and 22-26 July 2013, respectively. Said surveillance missions assessed the country's macroeconomic conditions as well as emerging risks and outlook of the economy. The BSP also participated in the Fund's regular meetings, submitted positions on IMF staff papers and membership concerns, and hosted the visits of IMF senior officials to share information and exchange views.

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

The BSP also continued to contribute to the surveillance initiatives of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) through weekly financial market monitoring which tracked quick moving financial indicators and helped pinpoint trends and potential risks to regional stability. Monthly reports were also prepared summarizing policy actions and risks for the EMEAP region.

In addition, the BSP contributed to the preparation of various regional economic monitoring reports such as the ASEAN Surveillance Report, ASEAN Integration Monitoring Report, ASEAN Financial Integration Monitoring Report, ASEAN Self-Assessment Reports, ASEAN+3 Regional Economic Monitoring (AREM) report, and IMF Staff Report, among others.

BSP continues representation in international policy dialogues

The BSP actively participated in various forums organized by the IMF, Bank for International Settlements (BIS), EMEAP, Association of Southeast Asian Nations (ASEAN), ASEAN+3, and the South East Asian Central Banks (SEACEN), among others, to discuss relevant monetary, economic and financial cooperation issues.

To facilitate policy dialogue and provide the platform for the IMF's outreach activities, the BSP organized five seminars/workshops on: (a) sustaining the resilience of the Philippine economy (22 January 2013); (b) the quest for inclusive economic growth (13 March 2013); (c) Asia-Pacific economic outlook with special focus on the middle-income trap (10 May 2013); (d) liberalization and management of capital flows (19 June 2013); and (e) balancing capital inflows with capital outflows (23 October 2013). The BSP likewise participated in the ASEAN policy dialogue with the IMF on recent economic and financial developments and policy reforms during the ASEAN Central Bank Governors Meeting held on 3 April 2013 in Brunei Darussalam. Moreover, the BSP participated in the high-level policy dialogue under the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting and ASEAN+3 Finance and Central Bank Deputies' Meeting (AFCDM+3).

Meanwhile, in the areas devoted to preserving financial stability and enacting regulatory reforms in the financial and banking sectors, the BSP, at the Governor and Deputy Governor levels, participated in various regular and special fora of the BIS. The discussion focused on issues related to domestic and international financing in emerging market economies, capital flows, pricing of sovereign risk, global interest rate risk and adjustments, and structural bank regulation, among others. The Governor continued to chair the Meeting of Central Bank Governors from Small Open Economies, which meets regularly alongside BIS bi-monthly meetings. As Chair, the BSP is responsible for taking the lead in identifying issues for discussion during the group's meetings. These included the risks of capital flow reversals, exchange rate policies, macroprudential measures in small open economies, managing increased uncertainties related to the eventual exit of accommodative monetary policies in advanced economies, and reserve management.

The BSP also actively participated in high-level and technical-level EMEAP meetings 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; (c) impact of ongoing international regulatory reforms; and (d) research studies in the areas of financial markets, banking supervision, payment and settlement systems, and other monetary and financial stability related topics.

Financial Arrangements and Contributions

Participation 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 stability of the international and regional financial systems.

Global Arrangements. In line with the establishment of global financial safety nets, the BSP facilitated contributions to various IMF lending facilities. As of 17 December 2013, seven countries had drawn from funds contributed by the Philippines to the IMF's Financial Transactions Plan[68] (FTP) amounting to SDR218.80 million (about USD338.24 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. On the other hand, the Fund has made a

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

total of SDR48.10 million (about US$73.56 million) in drawdown from the BSP's New Arrangements to Borrow (NAB) commitment to finance extended arrangements for Greece, Portugal, Tunisia, and Cyprus. With regard to the BSP's loan commitment of US$1 billion to the IMF in support of efforts to strengthen its capability to secure global economic and financial stability, the Governor signed on 13 September 2013 the Note Purchase Agreement (NPA) between the BSP and the IMF.

The BSP also renewed its engagement with the Group of Thirty (G30), formally known as the Consultative Group on International Economic and Monetary Affairs, allowing the BSP to benefit from the G30's analysis of global trends, market practices and public policy challenges, as well as participation in G30's International Banking Seminar.

Regional Arrangements. The BSP actively participated in the amendment of the Chiang Mai Initiative (CMI) Multilateralization[69] (CMIM) Agreement, which was finalized at the 16th ASEAN+3 Finance Ministers and Central Bank Governors Meeting (AFMGM+3) held in New Delhi, India on 3 May 2013. Said amendments include the increase in the size of the CMIM from US$120 billion to US$240 billion comprised of contributions from the CMIM Parties. Said amendment will also enhance the key features of the CMIM as a regional financing mechanism to ensure its effectiveness, including the introduction of a crisis prevention facility and lengthening of the maturity and support periods. The Philippines, through the BSP, has doubled its contribution to the CMIM from USD4.552 billion to USD9.104 billion, which reflects the country's strong solidarity and cooperation with ASEAN+3 members in the area of regional financial cooperation and in maintaining confidence and stability in the regional financial markets. To help ensure the effectiveness of the CMIM, the AFMGM+3 also reached consensus on the draft Agreement to transform AMRO into an international organization which is expected to further strengthen the surveillance capacity of the AMRO. The CMIM member countries, including the Philippines, are now in the process of facilitating internal approval process for the signing of the AMRO Agreement.

Bilateral Arrangements. On the bilateral front, the BSP and the Japan Ministry of Finance (JMOF) had reached an agreement-in-principle on the enhancement of the existing BSA with the Bank of Japan (BOJ) as agent of JMOF. The ongoing discussions on the enhanced BSA will double the size of Japan's contribution

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

commitment from USD6 billion to US$12 billion and the introduction of a crisis prevention function. The BSP has an existing contribution commitment of US$500 million under the BSA. The BSP is continuing discussions with the JMOF on the remaining elements of the BSA that will be enhanced.

The BSP also engaged with senior Japanese officials from the Embassy of Japan, Bank of Japan, Japan Bank for International Cooperation (JBIC), and the Japan International Cooperation Agency (JICA), among others, to discuss ways that would further enhance the financial cooperation between the two countries. Toward this end, the BSP, along with the Department of Finance (DOF), and Japan agreed to continue the discussion on a number of initiatives that would facilitate local Philippine peso financing for Japanese firms operating in the country involving the following initiatives: two-step loans, currency swap arrangement between the BSP and JBIC, peso to yen direct exchange, support for the country's infrastructure development and reinforcing the country's regional financial safety net through the renewal of the BSA and the establishment of the cross-border liquidity arrangement (CBLA).

Regional Financial Cooperation and Integration

Strong commitment towards regional financial cooperation and integration

In line with the Philippines' continuing commitment on the attainment of the ASEAN Economic Community (AEC), the BSP actively participated in implementing the AEC Blueprint.

To ensure that the path towards the attainment of the AEC by 2015 is on track, the ASEAN Central Bank Governors published and launched the Summary Report of the Combined Studies on Assessing Financial Landscape and Formulating Milestones for Monetary and Financial Integration in ASEAN in April 2013. Initiatives to implement the ASEAN Financial Integration Framework (AFIF) in achieving a semi-integrated region by 2020 included identification of capacity building demand and supply in support of financial integration. Meanwhile, the Senior Level Committee (SLC) on ASEAN Integration continued to monitor progress of the implementation of the AFIF by the Working Committees Task Force on ASEAN Banking Integration Framework (TF-ABIF) and capacity-building under the Steering Committee on Capacity Building (SCCB). At the 9thASEAN Central Bank Governors' Meeting on 3 April 2013 in Brunei Darussalam, the Governors endorsed, in principle, the ABIF which aims for a semi-integrated banking market in ASEAN by 2020, with the meaningful presence of Qualified ASEAN Banks (QABs) across ASEAN countries. The TF-ABIF is leading the development of the ABIF Guidelines which outline the principles and understanding in the implementation of the ABIF.

In the area of regional capital account liberalization, the BSP continued to serve as the Co-Chair of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL) with the State Bank of Vietnam for another two-year term (2013-2015). In 2013, the ASEAN Member States (AMS) drafted individual CAL Heat Maps to assess the level of openness of the capital account regime in ASEAN; and individual milestones blueprints, which identify AMS' plans and timelines to progressively liberalize their capital account regimes. The first reporting is targeted to be held in the first quarter of 2014. The BSP also continuously participates in the activities of the Working Committees on Capital Market Development and the Payment and Settlement Systems, where the BSP serves as Co-Chair of the Taskforce on Money Remittances.

Under the Working Committee on Financial Services Liberalization (WC-FSL), the BSP continued its active engagement in the negotiations for the 6th Package of FSL commitments, discussions under the ASEAN Framework Agreement in Services (AFAS), the Annex on Financial Services under the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and the Regional Comprehensive Economic Partnership (RCEP).

The BSP continued to support the 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 the ABF and discuss enhancements to ABF governance, marketing strategies for the ABF, and development of other areas of the debt market landscape.

The BSP led the following SEACEN Ad Hoc Committees: a) Taskforce (TF) on SEACEN Membership Criteria; and b) TF to Determine the Optimal SEACEN Membership Size. The BSP, as Chair of both committees, initiated the groundwork in preparing the concept papers for the membership criteria and framework adopted and approved at the 33rd SEACEN Board of Governors Meeting (BOG) held on 22 November 2013 in Kathmandu, Nepal.

Focus on Capacity-Building Initiatives

To ensure that all AMS are ready for the AEC, the SCCB was established by the SLC to work on matching capacity-building requirements and supply that will support AMS in the process of integration. Funding for these programs has been sourced from various sponsors, such as the Asian Development Bank, SEACEN, and the ASEAN-Australia Development Cooperation Program II. In support of the SEACEN capacity-building programs, the BSP participated as a resource speaker in the 3rd SEACEN-Center for Latin American Monetary Studies (CEMLA): New Paradigm in Central Banking and SEACEN 30th Anniversary Conference on Greater Financial Integration and Financial Stability, which was held on 20-22 October 2013, in Kuala Lumpur Malaysia. The BSP was also invited to become a member of the Editorial Board of the SEACEN Financial Stability Journal which was launched during the said conferences[70].

Hosting of International Cooperation Events

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

Conference/Workshop/Meeting	Date and Venue	Extent of BSP Participation
25th Meeting of the ASEAN Working Committee on Capital Account Liberalization (WC-CAL)	6 February 2013, Brunei Darussalam	Co-Chair
6th Annual Workshops on Financial Stability and Monetary Policy and Exchange Rates	21-22 March 2013, Manila	Co-host
Study Visit by the Indonesian Banking Development Institute	20-21 June 2013, Manila	Host
26th Meeting of the WC-CAL	12 September 2013, Yangon, Myanmar	Co-Chair
10th Meeting of the SEACEN Experts Group on Capital Flows (SEG)	7-9 October 2013, Manila	Host
FSI-SEANZA Regional Seminar on Capital Adequacy and Basel III	24-27 September 2013, Cebu City	Co-host
SEACEN Course on Assessing Information Technology Risk of a Bank	6-11 October 2013, Manila	Host

[70] The Deputy Governor, Supervision and Examination Sector, was designated by the BSP Governor to be the resource speaker for the two (2) conferences and as member of the Editorial Board of the SEACEN Financial Stability Journal.

PART THREE: FINANCIAL CONDITION OF THE BSP

The BSP Balance Sheet (as of end-December 2013)

BSP's net worth declines

As of end-December 2013, total assets reached ₱4,202.1 billion, 5.7 percent or ₱226.2 billion higher than the year-ago level.[71] The BSP's liabilities increased by ₱249.9 billion or 6.4 percent y-o-y to ₱4,161.3 billion. Meanwhile, the BSP's net worth declined to ₱40.8 billion compared to the year-ago level of ₱64.5 billion.

Balance Sheet of the BSP*
in billion pesos

	As of end-December	
	2013*	2012
Assets	4,202.1	3,975.9
Liabilities	4,161.3	3,911.4
Networth	**40.8**	**64.5**

* Unaudited and preliminary

The y-o-y expansion in the BSP's assets was largely due to the build-up of international reserves, which accounted for around 87.3 percent of total assets. The ₱245.7 billion expansion in international reserves was principally due to the inflows from foreign exchange operations and income from investments abroad of the BSP.

The BSP's liabilities similarly increased during the review period due mainly to higher deposits, as part of the BSP's continued liquidity management operations, but was subdued by the unwinding of deposits from the Special Deposit Accounts (SDA) facility. In particular, reserve deposits of other depository and other financial corporations increased by ₱345.8 billion to ₱1,128.8 billion from ₱782.9 billion posted a year ago, while deposits of the Treasurer of the Philippines increased by ₱71.4 billion to ₱412.3 billion. On the other hand, placements in the SDA facility decreased by ₱272.8 billion to ₱1,367.3 billion from ₱1,640.1 billion registered a year ago. The decline in placements in the SDA facility may be traced to the BSP's decision to fine-tune access of banks and trust departments/entities (acting as trustees) to the said facility. In May 2013, the Monetary Board, following consultations with the trust industry, decided that all other SDA placements of trust departments/entities such as investment management accounts (IMA) shall be reduced by at least 30 percent by end-July 2013

[71] Based on preliminary and unaudited statement of financial condition of the BSP

(relative to the outstanding balance as of 31 March 2013) and the remaining balance shall be phased out by end-November 2013.[72]

The BSP Net Income (January-December 2013)

BSP narrows further its losses

For the year 2013, the BSP recorded a loss of ₱24.3 billion (Table 16).[73]

Income Statement of the BSP* **in billion pesos**		
Accounts	**2013*** **(Jan-Dec)**	**2012** **(Jan-Dec)**
Revenues	56.5	65.7
Less: Expenses	84.1	110.7
Net Income Before Gain/Loss(-) on FX Rate Fluctuations, Provisions for Income Tax and Capital Reserves	-27.6	-45.0
Add/Less: Gain/Loss(-) on FX Rate Fluctuations	5.6	-50.4
Provision for Income Tax	2.3	0.0
Net Income Available for Distribution	**-24.3**	**-95.4**
*Unaudited and preliminary		

Total revenues for 2013 amounted to ₱56.5 billion, significantly lower than the ₱65.7 billion posted last year. This was mainly due to the combined decrease in interest and miscellaneous earnings of around ₱10.1 billion from the previous year's aggregate level. Meanwhile, net income from branches improved by 169.6 percent or ₱0.9 billion higher than the level posted during the same period a year ago.

Total expenditures amounted to ₱84.1 billion, ₱26.6 billion lower than the level posted for the same period last year. The y-o-y decrease in expenditures was due mainly to lower interest expense, which fell by 35.3 percent, on account of the reduction of interest rates on placements in the SDA facility by 50 bps each in January, March and April 2013 and of lower SDA placements.

[72] The BSP required trust entities to reduce by November 2013 their SDA placements that are inconsistent with the BSP's revised SDA guidelines as contained in Memorandum No. M-2013-021 dated 17 May 2013.
[73] Based on preliminary and unaudited data of financial operations of the BSP

List of Statistical Tables

1	Gross National Product by Industrial Origin
1a	Gross National Product by Expenditure Shares
2	Selected Labor, Employment and Wage Indicators
3	Consumer Price Index in the Philippines, Metro Manila and All Areas Outside Metro Manila
4	Cash Operations of the National Government
5	Depository Corporations Survey
6	Selected Domestic Interest Rates
7	Cross Rates of the Peso
7a	Effective Exchange Rate Indices of the Peso
7b	New Effective Exchange Rate Indices of the Peso
8	Outstanding Deposits of the Depository Corporations
9	Total Resources of the Philippine Financial System
9a	Number of Financial Institutions
10	Stock Market Transactions
11	Balance of Payments
12	Gross International Reserves of the Bangko Sentral ng Pilipinas
13	Total External Debt
14	Selected Foreign Debt Service Indicators
15	Balance Sheet of the Bangko Sentral ng Pilipinas
16	Income Position of the Bangko Sentral ng Pilipinas
17	Condensed Statement of Condition of the Bangko Sentral ng Pilipinas
18	Condensed Statement of Income and Expenses of the Bangko Sentral ng Pilipinas

1 GROSS NATIONAL INCOME (GNI) BY INDUSTRIAL ORIGIN

for periods indicated
in million pesos; at constant 2000 prices

	2011	2012	2013	Percent Change 2011	Percent Change 2012	Percent Change 2013
Agriculture, Fishery and Forestry	679,835	698,937	706,647	2.6	2.8	1.1
Industrial Sector	1,893,256	2,022,623	2,213,892	1.8	6.8	9.5
Mining and Quarrying	70,509	72,047	70,266	7.0	2.2	-2.5
Manufacturing	1,324,330	1,395,711	1,542,405	4.7	5.4	10.5
Construction	293,870	339,921	377,743	-9.8	15.7	11.1
Electricity, Gas and Water	204,547	214,944	223,478	0.6	5.1	4.0
Service Sector	3,335,909	3,590,111	3,843,229	4.9	7.6	7.1
Transport, Storage & Communication	446,026	482,095	508,667	4.3	8.1	5.5
Trade and Repair of Motor Vehicles, Motorcycles, Personal and Household	980,514	1,054,392	1,122,975	3.3	7.5	6.5
Financial Intermediation	394,371	426,787	479,905	5.2	8.2	12.4
R. Estate, Renting & Business Activities	638,244	686,430	744,135	8.4	7.5	8.4
Public Administration & Defense: Compulsory Social Security	259,962	275,835	286,878	1.9	6.1	4.0
Other Services	616,791	664,573	700,669	5.6	7.7	5.4
Gross Domestic Product	**5,909,000**	**6,311,671**	**6,763,767**	**3.6**	**6.8**	**7.2**
Net Primary Income from the rest of the worl(	1,130,948	1,184,875	1,296,710	-1.6	4.8	9.4
Gross National Income	**7,039,948**	**7,496,546**	**8,060,477**	**2.8**	**6.5**	**7.5**

Notes:
(1) The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.
(2) Numbers may not add up to total due to rounding.
Source: Philippine Statistics Authority (PSA) *
* Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the PSA which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).

1a GROSS NATIONAL INCOME (GNI) BY EXPENDITURE SHARES

for periods indicated
in million pesos; at constant 2000 prices

Item	2011	2012	2013	Percent Change 2011	Percent Change 2012	Percent Change 2013
Household Final Consumption Expenditure	4,168,910	4,442,523	4,691,060	5.7	6.6	5.6
Government Consumption	582,099	653,067	709,109	2.1	12.2	8.6
Capital Formation	1,206,763	1,168,386	1,381,256	2.0	-3.2	18.2
Fixed Capital	1,159,001	1,280,042	1,430,348	-2.0	10.4	11.7
Construction	449,385	517,184	573,475	-8.4	15.1	10.9
Durable Equipment	583,225	630,084	720,598	2.7	8.0	14.4
Breeding Stocks and Orchard Development	98,678	100,069	98,536	-0.3	1.4	-1.5
Intellectual Property Products	27,712	32,705	37,739	11.8	18.0	15.4
Changes in Inventories	47,762	-111,656	-49,092	3,208.1	-333.8	56.0
Exports	2,805,415	3,054,071	3,077,984	-2.8	8.9	0.8
Less: Imports	2,854,187	3,006,376	3,136,324	-1.0	5.3	4.3
Statistical Discrepancy	0	0	40,682			
Gross Domestic Product	**5,909,000**	**6,311,671**	**6,763,767**	**3.6**	**6.8**	**7.2**
Net Primary Income from the rest of the world	1,130,948	1,184,875	1,296,710	-1.6	4.8	9.4
Gross National Income	**7,039,948**	**7,496,546**	**8,060,477**	**2.8**	**6.5**	**7.5**

Notes:
(1) The use of terminology Gross National Income (GNI) in place of Gross National Product (GNP) has been adopted in the revised/rebased Philippine System of National Accounts (PSNA) in accordance with the 1993/1998 System of National Accounts prescribed by the United Nations.
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* Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the PSA which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).

2 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
for periods indicated

	2010	2011	2012	2013 p	Percent Change 2012	Percent Change 2013
Employment Status [1]						
Labor Force (In Thousands)	38,893 r	40,006 r	40,426 r	40,813	1.1	1.0
Employed	36,035	37,192 r	37,600 r	37,917	1.1	0.8
Unemployed	2,859	2,814	2,826 r	2,896	0.5	2.5
Underemployed	6,762	7,163 r	7,514 r	7,325	4.9	-2.5
Employment Rate (%)	92.7	93.0	93.0	92.9		
Unemployment Rate (%)	7.4	7.0	7.0	7.1		
Underemployment Rate (%)	18.8	19.3	20.0	19.3		
Overseas Employment (Deployed)	1470826	1687831	1802031 r	1802491	6.8	0.0
Land-Based	1123676	1318727	1435166 r	1469489	8.8	2.4
Sea-Based	347150	369104	366865 r	333002	-0.6	-9.2
Strikes						
Number of new strikes declared	8	2	3	1	50.0	-66.7
Number of workers involved	3034	3828	209	400	-94.5	91.4
Legislated Wage Rates [2]						
In Nominal Terms						
Non-Agricultural						
National Capital Region (NCR)	404.00	426.00	456.00	466.00	7.0	2.2
Regions Outside NCR (ONCR)	320.00	337.00	349.50	349.50	3.7	0.0
Agricultural						
NCR						
Plantation	367.00	389.00	419.00	429.00	7.7	2.4
Non-Plantation	367.00	389.00	419.00	429.00	7.7	2.4
ONCR						
Plantation	295.00	312.00	324.50	324.50	4.0	0.0
Non-Plantation	276.00	292.00	309.00	309.00	5.8	0.0
In Real Terms (at 2006 prices) [3]						
Non-Agricultural						
National Capital Region (NCR)	341.22 r	349.18 r	363.64	362.36	4.1	-0.4
Regions Outside NCR (ONCR)	262.08 r	263.28 r	268.23	256.80	1.9	-4.3
Agricultural						
NCR						
Plantation	309.97 r	318.85 r	334.13	333.59	4.8	-0.2
Non-Plantation	309.97 r	318.85 r	334.13	333.59	4.8	-0.2
Regions Outside NCR (ONCR)						
Plantation	241.61 r	243.75 r	249.04	238.43	2.2	-4.3
Non-Plantation	216.47 r	228.13 r	235.34	224.08	3.2	-4.8

[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 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.

[3] 2010 figures were estimated using CPI at 2006 prices

p Preliminary

r Revised

n.a. Data not available

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

* Republic Act No. 1625 (RA 1625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the PSA which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS) and Bureau of Labor and Employment Statistics (BLES).

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	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
All Items	**130.1**	**134.0**	**3.2**	**3.0**	**124.4**	**126.4**	**2.9**	**1.6**	**131.9**	**136.3**	**3.2**	**3.3**
Food and Non-Alcoholic Beverages	139.9	143.8	2.4	2.8	133.5	136.4	1.8	2.2	141.2	145.3	2.5	2.9
Food	141.1	145.0	2.4	2.8	134.6	137.5	1.7	2.2	142.4	146.6	2.4	2.9
Alcoholic Beverages, Tobacco and Narcotics	128.7	167.0	5.0	29.8	123.4	144.3	3.9	16.9	129.7	171.6	5.1	32.3
Non-Food	123.8	126.4	3.7	2.1	120.7	122.0	3.3	1.1	125.0	128.1	3.7	2.5
Clothing and Footware	123.9	128.4	4.6	3.6	127.5	132.2	6.2	3.7	122.8	127.2	4.2	3.6
Housing, Water, Electricity, Gas and Other Fuels	125.8	127.9	4.6	1.7	123.2	123.6	3.7	0.3	126.9	129.8	4.9	2.3
Furnishing, Household Equipment and Routing Maintenance of the House	121.1	125.1	3.7	3.3	115.9	120.8	3.2	4.2	123.0	126.7	3.9	3.0
Health	128.3	132.1	3.2	3.0	131.4	135.6	2.7	3.2	127.4	131.2	3.3	3.0
Transport	125.7	126.5	2.3	0.6	114.3	114.1	1.0	-0.2	129.3	130.4	2.7	0.9
Communication	92.5	92.7	0.1	0.2	93.7	93.9	0.3	0.2	91.9	92.1	0.0	0.2
Recreation and Culture	109.5	112.0	2.6	2.3	111.6	114.2	3.9	2.3	108.8	111.2	2.2	2.2
Education	136.3	142.5	4.6	4.5	138.1	143.6	3.4	4.0	135.7	142.1	4.9	4.7
Restaurants and Miscellaneous Goods and Services	123.1	126.1	3.2	2.4	120.2	121.1	3.7	0.7	124.4	128.2	3.0	3.1

Source: hilippine Statistics Authority (PSA) [1]

[1] *Republic Act No. 10625 (RA 10625) signed on 12 September 2013 mandated the reorganization of the Philippine Statistical System (PSS) and the creation of the Philippine Statistics Authority (PSA) which merged the major statistical agencies engaged in primary data collection and compilation of secondary data, namely: National Statistics Office (NSO), National Statistical Coordination Board (NSCB), Bureau of Agricultural Statistics (BAS), and Bureau of Labor and Employment Statistics (BLES).*

4 CASH OPERATIONS OF THE NATIONAL GOVERNMENT

for periods indicated
in million pesos

	Actual		Program	Actual Vs. Program	Annual Change
	2012	2013	2013	(%)	(%)
Revenues	**1,534,932**	**1,716,093**	**1,745,856**	**-1.7**	**11.8**
Tax Revenues	1,361,081	1,535,310	1,607,869	-4.5	12.8
Bureau of Internal Revenue	1,057,916	1,216,661	1,253,678	-3.0	15.0
Bureau of Customs	289,866	304,537	340,000	-10.4	5.1
Other Offices	13,299	14,112	14,191	-0.6	6.1
Non-tax Revenues	173,851	180,783	137,987	31.0	4.0
of w/c: Bureau of the Treasury	84,080	81,013	57,729	40.3	-3.6
Expenditures	**1,777,759**	**1,880,155**	**1,983,884**	**-5.2**	**5.8**
of which:					
Allotments to Local Government Units	298,322	317,255	241,843	31.2	6.3
Interest Payments	312,799	323,434	332,209	-2.6	3.4
Equity and Net Lending	48,761	28,105	15,815	77.7	-42.4
Surplus/Deficit (-)	**-242,827**	**-164,062**	**-238,028**	**31.1**	**32.4**
Financing	**538,172**	**319,118**	**299,846**	**6.4**	**-40.7**
External Borrowings (Net)	70,046	-83,821	-3,442	-2,335.2	-219.7
Domestic Borrowings (Net)	468,126	402,939	303,288	32.9	-13.9
Total Change in Cash: Deposit/Withdrawal (-)	291,785	65,933	7,903	734.3	-77.4
Budgetary	295,346	155,056	61,817	150.8	-47.5
Non-Budgetary [1]	-3,561	-89,123	-53,914	-65.3	-2,402.8

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

Source: BTr

DEPOSITORY CORPORATIONS SURVEY (SRF-based) *
as of period indicated
in million pesos

	LEVELS Dec-12 P	LEVELS Dec-13 P	GROWTH RATES (%) Dec 13 - Dec 12
1. NET FOREIGN ASSETS	**3,248,487**	**3,574,982**	**10.1**
A. Monetary Authorities	3,382,321	3,643,843	7.7
Claims on non-residents	3,452,034	3,719,803	7.8
less: Liabilities to non-residents	69,713	75,960	9.0
B. Other Depository Corporation	(133,834)	(68,861)	48.5
Claims on non-residents	583,828	695,959	19.2
less: Liabilities to non-residents	717,663	764,820	6.6
2. DOMESTIC CLAIMS	**5,375,439**	**5,999,081**	**11.6**
A. Net Claims on Central Government	952,919	952,163	(0.08)
Claims on central government	1,543,314	1,640,149	6.3
less: Liabilities to central government	590,394	687,986	16.5
B. Claims on Other Sectors	4,422,520	5,046,918	14.1
Claims on other financial corporations	542,125	565,569	4.3
Claims on state and local government	71,213	74,677	4.9
Claims on public nonfinancial corporations	280,260	266,804	(4.8)
Claims on private sector	3,528,922	4,139,868	17.3
3. LIQUIDITY AGGREGATES			
M4 (M3 + 3.e)	**6,227,664**	**8,066,493**	**29.5**
M3 (M2 + 3.d) **	5,227,542	6,937,337	32.7
M2 (M1 + 3.c)	5,008,219	6,701,831	33.8
M1 (3.a + 3.b)	1,606,830	2,045,576	27.3
3.a Currency outside depository corporations (Currency in circulation)	558,782	640,543	14.6
3.b Transferable deposits included in broad money (Demand deposits)	1,048,048	1,405,033	34.1
3.c Other deposits included in broad money	3,401,389	4,656,255	36.9
Savings deposits	2,185,953	2,902,999	32.8
Time deposits	1,215,436	1,753,257	44.2
3.d Securities other than shares included in broad money (Deposit substitutes)	219,324	235,506	7.4
3.e Transferable and other deposits in foreign currency (FCDs-Residents)	1,000,122	1,129,156	12.9
4. LIABILITIES EXCLUDED FROM BROAD MONEY	**2,396,262**	**1,507,570**	**(37.1)**

* Based on the Standardized Report Forms (SRFs), a unified framework for reporting monetary and financial statistics to the International Monetary Fund (IMF).
P Preliminary
**/Derived as Net Foreign Assets + Domestic Claims, net of Liabilities excluded from broad money and transferable and other deposits in foreign currency(FCDs-Residents)
Source: BSP

6 SELECTED DOMESTIC INTEREST RATES [1]

for periods indicated
In percent per annum

	Nominal Interest Rates			Real Interest Rates [8]		
	2011	2012	2013	2011	2012	2013
Borrowing Rates of Banks						
Interbank Call Loans	4.5753	4.0620	2.2176	-0.0247	0.8620	-0.7824
Savings Deposits [2]	1.6200	1.3410	0.8270	-2.9800	-1.8590	-2.1730
Time Deposits [2]						
(All Maturities)	2.8420	2.8260	1.4100	-1.7580	-0.3740	-1.5900
Manila Reference Rates [3]						
(All Maturities)	4.8125	3.9375	1.9375	0.2125	0.7375	-1.0625
Lending Rates						
All Maturities [4]	6.6340	5.6530	5.7640	2.0340	2.4530	2.7640
High [5]	7.7469	7.8382	6.9298	3.1469	4.6382	3.9298
Low [6]	5.6178	5.5649	4.6029	1.0178	2.3649	1.6029
Bangko Sentral Rates [7]						
R/P (Overnight)	6.2500	5.7500	N.T.	1.6500	2.5500	N.T.
R/P (Term)	N.T.	N.T.	N.T.	N.T.	N.T.	N.T.
RR/P (Overnight)	4.3487	3.8540	3.5000	-0.2513	0.6540	0.5000
RR/P (Term)	4.5564	3.8940	3.5210	-0.0436	0.6940	0.5210
Rediscounting	4.3549	3.9015	3.5061	-0.2451	0.7015	0.5061
Rate on Government Securities						
Treasury Bills (All Maturities)	1.8670	1.8260	0.5640	-2.7330	-1.3740	-2.4360
91-Days	1.3710	1.5830	0.3150	-3.2290	-1.6170	-2.6850
182-Days	1.6920	1.7590	0.4840	-2.9080	-1.4410	-2.5160
364-Days	2.2640	1.9650	0.7200	-2.3360	-1.2350	-2.2800
Government Securities in the Secondary Market [9]						
3 Months	1.6581	0.4865	0.4917	-2.5419	-2.5135	-3.6083
6 Months	1.7542	0.7885	0.6000	-2.4458	-2.2115	-3.5000
1-Year	1.9715	0.9885	0.9333	-2.2285	-2.0115	-3.1667
2-Years	2.6673	3.0577	2.5208	-1.5327	0.0577	-1.5792
3-Years	3.4423	3.8258	2.9187	-0.7577	0.8258	-1.1813
4-Years	4.7885	3.9865	3.4521	0.5885	0.9865	-0.6479
5-Years	5.0823	4.1058	3.7625	0.8823	1.1058	-0.3375
7-Years	5.2650	4.1385	3.6850	1.0650	1.1385	-0.4150
10-Years	5.4135	4.4000	3.8038	1.2135	1.4000	-0.2962
20-Years	6.5827	5.9692	5.1875	2.3827	2.9692	1.0875
25-Years	6.5731	5.8962	5.6458	2.3731	2.8962	1.5458

[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] *Beginning 2012, the weighted average interest rates for R/P and RR/P are computed as end-of-period total interest expense divided by outstanding principal, while those for earlier periods are computed based on actual transactions during the period.*
[8] *Nominal interest rate less inflation rate*
[9] *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
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
2013	**Ave**	**42.4462**	**0.4356**	**66.4139**	**5.4725**	**45.8201**	**41.2098**	**33.9347**	**41.0195**	**112.5955**	**11.3184**	**33.7996**	**0.0041**	**1.3832**	**11.5567**	**56.3942**
	Jan	40.7295	0.4580	65.0893	5.2537	44.0648	41.0845	33.1823	42.7556	108.0370	10.8608	33.0477	0.0042	1.3549	11.0893	54.1270
	Feb	40.6723	0.4372	63.0701	5.2446	44.2094	40.3725	32.8469	41.9596	107.8863	10.8455	32.7148	0.0042	1.3647	11.0736	54.3618
	Mar	40.7127	0.4293	61.3734	5.2477	43.0786	39.7088	32.6803	41.9971	107.9992	10.8564	32.5497	0.0042	1.3788	11.0848	52.8776
	Apr	41.1422	0.4221	62.9378	5.2999	43.8810	40.3781	33.2313	42.7442	109.1365	10.9711	33.0977	0.0042	1.4164	11.2020	53.5266
	May	41.2976	0.4092	63.1389	5.3210	43.1649	40.4815	33.0769	40.9360	109.5494	11.0124	32.9449	0.0042	1.3898	11.2440	53.5926
	Jun	42.9069	0.4406	66.4568	5.5291	45.9536	41.6091	34.0634	40.5481	113.8188	11.4413	33.9287	0.0044	1.3959	11.6823	56.6122
	Jul	43.3559	0.4350	65.8438	5.5896	45.8749	41.6401	34.2142	39.7304	115.0081	11.5609	34.0798	0.0043	1.3950	11.8044	56.7089
	Aug	43.8639	0.4484	67.8155	5.6559	47.3611	42.2004	34.4837	39.5530	116.3570	11.6961	34.3487	0.0042	1.3899	11.9425	58.4174
	Sep	43.8318	0.4420	69.4375	5.6527	47.4263	42.2985	34.6960	40.6011	116.2681	11.6874	34.5592	0.0039	1.3821	11.9338	58.5044
	Oct	43.1825	0.4415	69.5227	5.5693	47.8228	41.6993	34.7164	41.0612	114.5503	11.5148	34.5774	0.0038	1.3850	11.7573	58.8668
	Nov	43.5546	0.4357	70.1141	5.6184	47.7037	41.5557	34.9239	40.6381	115.5390	11.6137	34.7845	0.0038	1.3786	11.8586	58.7584
	Dec	44.1043	0.4276	72.1669	5.6885	49.3007	41.4886	35.1010	39.7100	116.9964	11.7602	34.9619	0.0037	1.3677	12.0081	60.3768

Source: BSP

7a EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

December 1980 = 100

		NOMINAL			REAL		
		Major Trading Partners [1]	Competing Countries		Major Trading Partners [1]	Competing Countries	
			Broad [2]	Narrow [3]		Broad [2]	Narrow [3]
2011		**13.17**	**40.97**	**85.56**	**86.03**	**143.00**	**176.21**
	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**	**45.56**	**98.91**	**91.89**	**153.40**	**191.78**
	Jan	13.32	43.61	93.49	87.63	145.64	179.75
	Feb	13.55	44.03	94.48	88.46	145.85	179.90
	Mar	13.62	44.24	95.28	88.69	146.66	181.66
	Apr	13.64	44.57	96.06	89.38	147.98	182.36
	May	13.66	44.82	96.59	89.93	151.07	188.90
	Jun	13.78	45.52	98.42	91.15	154.81	193.73
	Jul	14.13	46.32	100.53	95.27	159.02	198.10
	Aug	14.04	46.20	100.60	94.87	159.14	199.40
	Sep	13.95	46.46	101.47	93.02	157.82	199.23
	Oct	14.03	46.80	102.67	93.38	156.93	199.32
	Nov	14.27	47.05	103.55	95.36	158.59	199.70
	Dec	14.30	47.10	103.80	95.49	157.32	199.29
2013		**14.26**	**47.86**	**107.25**	**96.13**	**159.40**	**202.67**
	Jan	14.53	47.31	104.34	97.33	157.81	198.80
	Feb	14.69	47.76	105.05	97.89	157.38	197.84
	Mar	14.88	47.82	104.98	98.94	157.73	196.94
	Apr	14.80	47.36	103.59	98.78	155.98	192.88
	May	14.87	47.30	103.72	99.43	158.37	199.18
	Jun	14.12	46.20	101.51	94.64	155.94	195.84
	Jul	14.10	46.24	102.25	95.87	155.05	193.60
	Aug	13.79	46.87	105.03	93.90	157.70	199.19
	Sep	13.82	48.66	111.62	93.57	162.62	211.45
	Oct	13.89	49.28	113.48	94.21	162.98	212.99
	Nov	13.89	49.42	114.37	94.68	164.57	213.77
	Dec	13.75	50.05	117.06	94.34	166.64	219.55

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

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

[3] *Indonesia, Malaysia, Thailand*

Source: BSP

7b NEW EFFECTIVE EXCHANGE RATE INDICES OF THE PESO

period average

1980 = 100

	NOMINAL			REAL		
		Trading Partners			Trading Partners	
	Overall [1]	Advanced [2]	Developing [3]	Overall [1]	Advanced [2]	Developing [3]
2011	**14.42**	**11.12**	**23.98**	**81.08**	**70.63**	**112.97**
Jan	14.37	11.18	23.75	82.62	73.19	113.77
Feb	14.47	11.23	23.97	82.64	72.90	114.13
Mar	14.45	11.16	24.02	81.98	71.56	114.05
Apr	14.44	11.22	23.91	82.07	71.83	113.97
May	14.38	11.15	23.85	81.32	70.81	113.32
Jun	14.29	11.05	23.72	81.05	70.53	113.00
Jul	14.39	11.15	23.87	80.54	70.59	111.72
Aug	14.44	11.12	24.04	80.34	69.91	112.03
Sep	14.43	11.07	24.09	80.01	69.05	112.20
Oct	14.41	10.97	24.20	80.26	68.93	112.93
Nov	14.50	11.09	24.28	80.98	70.02	113.42
Dec	14.46	11.09	24.14	80.21	69.51	112.16
2012	**14.92**	**11.61**	**24.67**	**84.60**	**75.09**	**116.35**
Jan	14.43	11.08	24.07	83.64	74.10	115.17
Feb	14.64	11.33	24.30	83.55	74.09	114.98
Mar	14.72	11.51	24.24	83.24	74.33	114.01
Apr	14.75	11.51	24.35	84.02	74.59	115.53
May	14.76	11.47	24.43	83.84	74.05	115.69
Jun	14.89	11.52	24.71	84.95	74.79	117.50
Jul	15.17	11.78	25.12	85.95	76.18	118.32
Aug	15.06	11.69	24.93	85.14	75.35	117.32
Sep	15.03	11.66	24.92	84.50	74.41	116.84
Oct	15.09	11.76	24.94	84.90	75.21	116.92
Nov	15.25	12.00	25.02	85.81	76.96	117.19
Dec	15.31	12.11	25.04	85.65	77.24	116.51
2013	**15.27**	**12.43**	**24.48**	**87.48**	**81.90**	**115.98**
Jan	15.54	12.46	25.16	91.17	85.09	121.13
Feb	15.73	12.69	25.36	90.72	85.05	120.16
Mar	15.82	12.85	25.38	90.72	85.12	120.07
Apr	15.70	12.85	25.07	90.35	85.06	119.32
May	15.75	13.01	24.99	90.33	85.48	118.88
Jun	15.15	12.32	24.29	87.17	81.21	115.96
Jul	15.10	12.35	24.12	85.78	80.69	113.34
Aug	14.90	12.07	23.96	84.41	78.46	112.46
Sep	14.92	12.13	23.93	84.46	78.59	112.43
Oct	15.00	12.17	24.08	85.16	79.28	113.34
Nov	14.96	12.21	23.94	85.18	79.83	112.83
Dec	14.89	12.18	23.78	84.99	79.72	112.51

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

[2] *U.S., Japan, Euro Area, and Australia*

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

Source: BSP

8 OUTSTANDING DEPOSITS OF THE DEPOSITORY CORPORATIONS [p]

as of end - December 2012 - 2013

in million pesos

	LEVELS		GROWTH RATE
	2012	2013	(%)
T O T A L	4,449,437	6,061,289	36.2
Demand Deposits	1,048,048	1,405,033	34.1
Savings Deposits	2,185,953	2,902,999	32.8
Time Deposits	1,215,436	1,753,257	44.2

[p] Preliminary

Source: BSP

9 TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM [1]

as of periods indicated

in billion pesos

Institutions	2012	2013	% Change
Total	**10,622.4**	**12,676.1 [p]**	**19.3 [p]**
Banks	8,357.9	10,302.6 [p]	23.3
Universal and Commercial Banks [2]	7,486.7	9,300.4	24.2
Thrift Banks [2]	681.6	809.1	18.7
Rural Banks	189.7	193.1 [a]	1.8
Non-Banks [3]	2,264.4 `	2,373.5	4.8

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

[2] *Data prior to 2008 were based on the Consolidated Statement of Condition which valued asset gross of allowance for probable losses and net of amortization and depreciation. Data from March 2008 onwards are based on the new Financial Reporting Package (FRP) which valued asset gross of amortization, depreciation and allowance for probable losses.*

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

[a] *As of end-September 2013*

[p] *Preliminary*

Source: BSP

9a NUMBER OF FINANCIAL INSTITUTIONS [1]
as of periods indicated

Institutions	2012	2013	% Change
Total	**27,195**	**28,053**	**3.2**
Head Offices	7,242	7,016	-3.1
Branches/Agencies	19,953	21,037	5.4
Banks	9,410	9,935	5.6
Head Offices	696	673	-3.3
Branches/Agencies	8,714	9,262	6.3
Universal and Commercial Banks	5,145	5,461	6.1
Head Offices	37	36	-2.7
Branches/Agencies	5,108	5,425	6.2
Thrift Banks	1,619	1,828	12.9
Head Offices	70	71	1.4
Branches/Agencies	1,549	1,757	13.4
Savings and Mortgage Banks	1,052	1,199	14.0
Head Offices	28	28	0.0
Branches/Agencies	1,024	1,171	14.4
Private Development Banks	385	432	12.2
Head Offices	19	19	0.0
Branches/Agencies	366	413	12.8
Stock Savings and Loan Associations	154	168	9.1
Head Offices	20	20	0.0
Branches/Agencies	134	148	10.4
MicroFinance Banks	28	29	3.6
Head Offices	3	4	33.3
Branches/Agencies	25	25	0.0
Rural Banks	2,646	2,646	0.0
Head Offices	589	566	-3.9
Branches/Agencies	2,057	2,080	1.1
Non-Banks [2]	17,785	18,118	1.9
Head Offices	6,546	6,343	-3.1
Branches/Agencies	11,239	11,775	4.8

[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

	2011		2012		2013		Percent Change 2012		Percent Change 2013	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
T o t a l	**1,056,595.7**	**1,422,591.3**	**1,043,119.0**	**1,771,711.1**	**515,135.0**	**2,546,182.9**	**-1.3**	**24.5**	**-50.6**	**43.7**
Financial	4,123.6	170,154.2	5,198.4	282,982.5	7,614.5	342,310.8	26.1	66.3	46.5	21.0
Industrial	49,117.9	374,093.6	142,663.3	419,111.7	80,766.2	684,087.7	190.5	12.0	-43.4	63.2
Holding Firms	68,701.3	288,733.1	181,570.6	400,478.3	80,453.7	605,710.8	164.3	38.7	-55.7	51.2
Property	64,698.0	150,226.1	76,464.6	244,175.1	68,488.1	409,150.3	18.2	62.5	-10.4	67.6
Services	44,322.9	235,887.4	85,298.6	287,069.4	68,965.5	442,782.3	92.4	21.7	-19.1	54.2
Mining & Oil	825,629.8	203,491.6	551,922.0	137,881.6	208,844.7	62,011.6	-33.2	-32.2	-62.2	-55.0
SME	2.2	5.4	1.7	12.4	1.1	11.1	-23.3	130.7	-32.2	-10.4
ETF					1.2	118.2	n.a.	n.a.	n.a.	n.a.
Composite Index (PSEi)										
Average	**4,188.3**		**5,178.4**		**6,471.3**		**23.6**		**25.0**	
End of Period	**4,372.0**		**5,812.7**		**5,889.8**		**33.0**		**1.3**	

Source: PSE

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

	2012 r	2013 p	Growth (%) 2013 p
Current Account	6949	9423	35.6
Export	95137	96492	1.4
Import	88188	87069	-1.3
Goods, Services, and Primary Income	-12550	-11958	4.7
Export	75080	74534	-0.7
Import	87631	86491	-1.3
Goods and Services	-12747	-11704	8.2
Export	66823	66526	-0.4
Import	79571	78230	-1.7
Goods	-18926	-18525	2.1
Credit: Exports	46384	44736	-3.6
Debit: Imports	65310	63261	-3.1
Services	6179	6821	10.4
Credit: Exports	20439	21790	6.6
Debit: Imports	14261	14968	5.0
Primary Income	197	-254	-228.6
Credit: Receipts	8257	8008	-3.0
Debit: Payments	8060	8262	2.5
Secondary Income	19500	21381	9.6
Credit: Receipts	20057	21959	9.5
Debit: Payments	557	578	3.7
Capital Account	95	115	21.8
Credit: Receipts	111	133	20.1
Debit: Payments	16	18	9.9
Financial Account	-6748	635	109.4
Net Acquisition of Financial Assets	3846	4941	28.5
Net Incurrence of Liabilities	10594	4306	-59.4
Direct Investment	958	-218	-122.7
Net Acquisition of Financial Assets	4173	3642	-12.7
Net Incurrence of Liabilities	3215	3860	20.0
Portfolio Investment	-3205	-1325	58.7
Net Acquisition of Financial Assets	964	-963	-199.8
Net Incurrence of Liabilities	4169	362	-91.3
Financial Derivatives	-14	-88	-543.3
Net Acquisition of Financial Assets	-277	-312	-12.7
Net Incurrence of Liabilities	-264	-224	14.8
Other Investment	-4487	2266	150.5
Net Acquisition of Financial Assets	-1014	2574	353.8
Net Incurrence of Liabilities	3473	308	-91.1
NET UNCLASSIFIED ITEMS	-4556	-3818	16.2
OVERALL BOP POSITION	9236	5085	-44.9
Debit: Change in Reserve Assets	9235	5085	-44.9
Credit: Change in Reserve Liabilities	-1	0	107.6
Use of Fund Credits	0	0	0.0
Short-term	-1	0	107.6

Details may not add up to total due to rounding.
p Preliminary
r Revised to reflect post audit adjustments, data updates and final data from official sources

Technical Notes:
1. Balance of Payments Statistics are based on the IMF's Balance of Payments and International Investment Position Manual, 6th Edition.
2. Financial Account, including Reserve Assets, is calculated as the 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).

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)
2012	Jan	77,357.52	476.97	8,895.09	1,299.75	66,293.25	392.46	11.8	1,077.61	718.98
	Feb	77,011.25	478.49	8,888.28	1,303.99	65,992.03	348.46	11.6	1,091.70	683.34
	Mar	76,128.73	516.95	10,443.56	1,298.18	63,535.65	334.39	11.4	1,025.99	656.96
	Apr	76,537.86	531.12	10,386.51	1,300.65	63,925.84	393.74	11.4	1,071.92	678.02
	May	76,082.03	516.83	9,730.18	1,265.77	64,241.09	328.16	11.1	1,058.04	682.38
	Jun	76,129.60	519.32	9,980.57	1,271.88	64,034.92	322.91	11.0	1,083.85	696.91
	Jul	79,758.78	516.17	10,083.72	1,264.15	66,958.34	936.40	11.5	1,083.04	695.01
	Aug	80,728.07	524.04	10,551.54	1,275.75	67,533.33	843.41	11.5	1,160.03	724.26
	Sep	82,028.68	530.99	11,043.33	1,292.67	68,303.66	858.03	11.6	1,027.16	675.40
	Oct	81,747.29	528.31	10,519.82	1,286.13	68,616.16	796.87	11.4	1,042.84	680.13
	Nov	83,933.35	533.74	10,636.75	1,286.57	70,691.48	784.81	11.6	1,088.85	707.47
	Dec	83,831.36	534.48	10,352.97	1,288.34	70,728.19	927.38	11.5	988.23	670.04
2013	Jan	85,273.61	539.40	10,302.16	1,292.05	72,129.72	1,010.27	11.8	1,011.31	660.67
	Feb	83,623.32	530.13	9,787.58	1,269.89	71,165.54	870.18	11.7	944.57	663.50
	Mar	83,950.71	523.91	9,900.79	1,256.79	71,324.98	944.24	11.9	857.87	621.54
	Apr	83,213.28	529.44	9,020.72	1,270.05	71,190.86	1,202.20	11.7	795.08	587.24
	May	81,967.00	523.76	8,642.20	1,256.53	70,600.96	943.55	11.5	782.69	568.60
	Jun	81,255.48	540.16	7,663.37	1,260.87	70,645.36	1,145.72	11.5	850.93	600.90
	Jul	83,172.12	545.01	8,226.69	1,268.67	72,036.08	1,095.66	11.8	841.81	605.39
	Aug	82,891.28	544.85	8,589.49	1,270.45	71,402.70	1,083.79	11.7	868.27	627.07
	Sep	83,507.32	577.59	8,240.70	1,286.21	72,366.94	1,035.88	11.7	841.64	599.86
	Oct	83,607.44	576.71	8,156.29	1,295.73	72,226.90	1,351.81	11.7	838.88	601.50
	Nov	83,572.11	592.14	7,753.97	1,298.75	72,415.04	1,512.21	11.7	818.03	588.14
	Dec	83,187.04	593.98	7,498.43	1,302.81	72,936.26	855.56	11.5	741.95	541.91

[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 2012				31 December 2013			
	Short-term		Medium &	Total	Short-term		Medium &	Total
	Trade	Non-Trade	Long-Term		Trade	Non-Trade	Long-Term	
Grand Total	**3,118**	**5,365**	**51,855**	**60,337**	**2,849**	**8,363**	**47,294**	**58,506**
Public Sector	-	652	44,523 [a]	45,175	-	694	39,830 [a]	40,524
Banks	-	652	4,138	4,790	-	694	3,740	4,434
Bangko Sentral ng Pilipinas	-	-	1,451	1,451	-	-	1,455	1,455
Others	-	652	2,688	3,339	-	694	2,285	2,979
Non-Banks	-	-	40,385	40,385	-	-	36,090	36,090
CB-BOL	-	-	-	-	-	-	-	-
NG and Others	-	-	40,385	40,385	-	-	36,090	36,090
Private Sector	3,118	4,713	7,331	15,162	2,849	7,669	7,464	17,982
Banks	-	4,525	1,222	5,747	-	7,272	1,245	8,517
Foreign Bank Branches	-	788	43	831 [b]	-	1,663	48	1,711 [b]
Domestic Banks	-	3,737	1,179	4,916	-	5,609	1,197	6,806
Non-Banks	3,118	188	6,109 [c]	9,415	2,849	397	6,219 [c]	9,465

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 2012	31 Dec 2013
Inclusion		
a Cumulative foreign exchange revaluation on US dollar-denominated multi-currency loans from Asian Development Bank and World Bank	125	(4)
Exclusions		
b Due to Head Office/Branches Abroad offshore banking units of foreign banks operating in the Philippines	8,077	5,790
c Obligations under various capital lease agreements;	1,214	1,206
Loans without BSP approval/registration	10,202	12,884

Source: BSP

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

	2012 r/	2013 p/
Debt Service Burden (DSB) [1]	6604	6866
Principal	3557	4028
Interest	3047	2838
Export Shipments (XS) [3]	46384	44736
Exports of Goods and Receipts from Services and Income (XGSI) [2, 3]	89948	90463
Current Account Receipts (CAR) [3]	95137	96492
Gross National Income (GNI)	298581	325828
Ratios (%) :		
DSB to XS	14.24	15.35
DSB to XGSI	7.34	7.59
DSB to CAR	6.94	7.12
DSB to GNI	2.21	2.11

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

[3] Based on the accounting principle under the Balance of Payments and International Investment Position Manual, Sixth 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

	2012 Dec	2013 [u] Dec	Percent Change (%)
Assets	**3,975,927.5**	**4,202,085.6**	**5.7**
International Reserves	3,424,294.8	3,670,012.8	7.2
Domestic Securities	218,142.7	219,506.0	0.6
Loans and Advances	118,510.3	94,491.4	-20.3
Revaluation of International Reserves	64,562.9	32,553.6	-49.6
Bank Premises and Other Fixed Assets	16,498.5	17,749.6	7.6
Derivative Instruments in a Gain Position	1,521.1	368.9	-75.7
Other Assets	132,397.2	167,403.3	26.4
Liabilities	**3,911,411.8**	**4,161,314.7**	**6.4**
Currency Issue	692,657.1	797,451.9	15.1
Deposits	2,854,530.5	2,978,406.0	4.3
Reserve Deposits of Other Depository Corporations (ODCs)[1]	782,647.3	1,128,302.4	44.2
Reserve Deposits of Other Financial Corporations (OFCs)[2]	348.5	467.8	34.2
Special Deposit Accounts[3]	1,640,057.3	1,367,302.9	-16.6
Treasurer of the Philippines[4]	340,864.7	412,290.6	21.0
Foreign Financial Institutions	40,331.9	35,464.5	-12.1
Other Foreign Currency Deposits	20,471.7	52.7	-99.7
Other Deposits[5]	29,809.1	34,525.1	15.8
Foreign Loans Payable	52.8	57.7	9.2
Net Bonds Payable	20,537.7	22,198.1	8.1
Allocation of SDRs	52,909.8	57,304.0	8.3
Derivatives Liability	117.9	0.0	
Derivative Instruments in a Loss Position	634.9	0.0	
Net Revaluation of International Reserves	0.0	0.0	
Reverse Repurchase Agreements[3]	278,496.7	293,905.0	5.5
Other Liabilities	11,474.4	11,992.0	4.5
Net Worth	**64,515.7**	**40,770.9**	**-36.8**
Capital	40,000.0	40,000.0	0.0
Surplus/Reserves	24,515.7	770.9	-96.9

Note: Breakdown may not add up to totals due to rounding. Growth rates were derived using figures rounded off to three (3) decimal places.
[1] ODCs are deposit generating institutions other than the BSP such as universal and commercial banks (UB/KBs), specialized government banks (SGBs), thrift banks (TBs), rural banks (RBs) and non-banks with quasi-banking functions (NBQBs).
[2] OFCs are trust units of banks.
[3] Includes accrued interest payables.
[4] Includes foreign currency deposits.
[5] Mostly GOCC deposits.
[p] Preliminary
[u] Based on the unaudited BSP balance sheet as of end-December 2013 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

	2012 Dec	2013 [u] Dec	Percent Change (%)
Revenues	**65.7**	**56.5**	**-14.0**
Interest Income	40.9	32.4	-20.7
International Reserves	30.8	23.4	-24.0
Domestic Securities	4.5	1.9	-57.9
Loans and Advances	3.2	3.9	23.4
Others	2.4	3.2	32.2
Miscellaneous Income	24.2	22.6	-6.9
Net income from Branches	0.6	1.5	169.6
Expenses	**110.7**	**84.1**	**-24.1**
Interest Expenses	90.8	58.6	-35.3
Reserve Deposits of ODCs and OFCs [1]	2.3	0.0	
Special Deposit Accounts	70.8	41.4	-41.5
National Government Deposits	5.7	5.9	3.9
Reverse Repurchase Agreements	10.0	10.2	1.8
Loans Payable	1.9	1.9	0.0
Other Foreign Currency Deposits	0.0	0.0	
Other Liabilities	0.1	-0.8	-1123.1
Cost of Minting	5.6	5.8	3.5
Other Expenses	14.3	19.7	36.6
Net Income Before Gain/(Loss) on FXR Fluctuations, Income Tax Expense and Capital Reserves	**-45.0**	**-27.6**	**38.8**
Gain/Loss(-) on FXR Fluctuations [2]	-50.4	5.6	111.1
Income Tax Expense	0.0	2.3	
Net Income	**-95.4**	**-24.3**	**74.6**
Capital Reserves	0.0	0.0	
Net Income Available for Distribution	**-95.4**	**-24.3**	**74.6**

Note: Breakdown may not add up to totals due to rounding. Growth rates were derived using figures rounded off to three (3) decimal places.

[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 December 2013 prepared by the Financial Accounting Department of the BSP.

17. BSP: CONDENSED STATEMENT OF CONDITION

Assets	As at December 31	
	2013	2012
	PHP000	PHP000
Foreign currency financial assets		
Deposits with foreign banks	492,572,996	198,802,059
Other cash balances	211,211	429,429
Investment securities	2,783,445,559	2,744,317,114
Loan to IMF	3,015,768	2,538,255
Gold	332,915,279	425,279,338
International Monetary Fund special drawing rights	57,852,003	52,928,624
Gross international reserves	3,670,012,816	3,424,294,819
Loans and advances	378,055	1,307,503
Other foreign currency receivables	94,628,416	59,867,701
Non-IR foreign currency	6	19,309
Derivative instruments in gain position	368,889	1,521,056
Total foreign currency financial assets	3,765,388,182	3,487,010,388
Local currency financial assets		
Investment securities	219,505,983	218,142,721
Loans and advances	94,113,365	117,202,782
Due from administrator of funds	29,913,775	29,956,212
Other receivables	12,111,269	14,647,549
Total local currency financial assets	355,644,392	379,949,264
Total financial assets	4,121,032,574	3,866,959,652
Acquired assets held for sale	7,752	467,533
Investment property	14,525,327	10,429,445
Bank premises, furniture, fixtures and equipment	17,749,582	16,498,532
Intangibles assets	237,805	287,442
Inventories	8,233,603	8,729,543
Property dividends to NG	285,214	285,214
Revaluation of foreign currency accounts	32,553,613	64,562,905
Deferred tax assets	6,520,569	6,786,213
Miscellaneous assets	939,539	921,065
Total other assets	81,053,004	108,967,892
Total assets	4,202,085,578	3,975,927,544

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

Source: Financial Accounting Department

17. BSP: CONDENSED STATEMENT OF CONDITION

(continuation)

Liabilities and Capital	As at December 31	
	2013	2012
	PHP000	PHP000
Foreign currency financial liabilities		
Short-term deposits	1,973,760	32,526,990
Loans payable	57,661	52,792
Bonds payable	22,198,052	20,537,695
Allocation of International Monetary Fund special drawing rights	57,304,045	52,909,772
Derivative instruments in a loss position	0	634,857
Derivatives liability	0	117,935
Other liabilities	5,030,581	5,098,612
Total foreign currency financial liabilities	86,564,099	111,878,653
Local currency financial liabilities		
Government deposits	415,039,746	328,778,682
Deposits of banks and quasi banks	1,158,625,171	812,835,655
Deposits of the International Monetary Fund and other FIs	35,464,473	40,331,897
Securities sold under agreements to repurchase	293,904,980	278,496,737
Special deposit accounts	1,367,302,853	1,640,057,265
Total local currency financial liabilities	3,270,337,223	3,100,500,236
Total financial liabilities	3,356,901,322	3,212,378,889
Other liabilities		
Currency in circulation	797,451,937	692,657,077
Retirement benefit obligations	1,479,812	1,501,127
Miscellaneous liabilities	5,031,855	4,424,952
Deferred tax liability	0	0
Dividends payable	449,700	449,700
Interest rebate payable	49	49
Revaluation of foreign currency accounts	0	0
Total other liabilities	804,413,353	699,032,905
Total liabilities	4,161,314,675	3,911,411,794
Capital accounts		
Capital	40,000,000	40,000,000
Surplus	-70,713,262	-45,936,387
Unrealized gains/(losses) on investments	-6,886,064	-8,055,703
Capital reserves	78,370,229	78,507,840
Total capital accounts	40,770,903	64,515,750
Total liabilities and capital accounts	4,202,085,578	3,975,927,544

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

Source: Financial Accounting Department

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

with Budget Information[1]

Period ended December 31	2013 Budget (In Mn PHP)	2013 Actual (In Mn PHP)	2012 Actual (In Mn PHP)
Operating Income:			
Income from foreign currency financial assets			
Interest income	36,184	26,425	33,068
Fees, miscellaneous foreign currency income & trading gains foreign	808	16,872	18,484
Total income from foreign currency financial assets	36,992	43,297	51,551
Expenses on foreign currency financial liabilities			
Interest expense	1,953	1,928	1,900
Other foreign currency expenses	889	841	850
Total expenses on foreign currency liabilities	2,843	2,768	2,751
Net income from foreign currency financial assets and liabilities	34,149	40,528	48,801
Income from local currency financial assets			
Interest income & trading gains local	8,327	6,002	7,849
Total Income from local currency financial assets	8,327	6,002	7,849
Expenses on local currency financial liabilities			
Interest expense	82,227	56,755	88,861
Final tax on interest income/discounts	1,075	377	899
Total expenses on local currency financial assets	83,303	57,133	89,761
Net loss from local currency financial assets and liabilities	(74,975)	(51,131)	(81,911)
Total operating loss	(40,826)	(10,603)	(33,111)
Currency printing and minting cost	8,856	5,766	5,569
Operating expenses:			
Personnel services, development and trainingPersonnel services, developmen	10,139	10,246	9,365
Traveling	362	277	309
Taxes and licenses[2]	127	5,384	103
Currency and gold operations	237	202	209
Acquired Assets	251	298	260
Other services	3,042	1,714	1,850
Depreciation	602	625	646
Fidelity insurance	93	66	60
Light, fuel & water	260	235	240
Repairs & maintenance	703	405	353
Communication services	238	151	131
Supplies	160	77	112
Others[3]	985	155	307
Provision for uncollectible rentals/receivables	0	54	79
Provision for Bad Debts		262	395
Market decline of acquired assets [4]	23	(42)	39
Total operating expenses	14,180	18,395	12,608
Net operating loss	(63,862)	(34,764)	(51,288)

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

[2] Bulk of the actual 2013 includes payments of tax assessment in various years and the corresponding budgetary requirements were approved by the MB through supplemental budget.

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

[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

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

with Budget Information[1]

(continuation)

Period ended December 31	2013 Budget (In Mn PHP)	2013 Actual (In Mn PHP)	2012 Actual (In Mn PHP)
Other operating income	4,129	7,231	6,328
Net realized gains/(loss) on fX rates fluctuations	0	5,598	(50,376)
Loss before income tax	(59,733)	(21,934)	(95,336)
Income tax paid	0	2,321	45
Loss for the year	(59,733)	(24,255)	(95,380)