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# The Philippines: Sustaining Economic Momentum

40<sup>th</sup> ADB Annual Meeting  
4-7 May 2007  
Kyoto, Japan

## Monetary, External and Banking

Governor Amando M. Tetangco, Jr.  
Bangko Sentral ng Pilipinas





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# Outline of Presentation

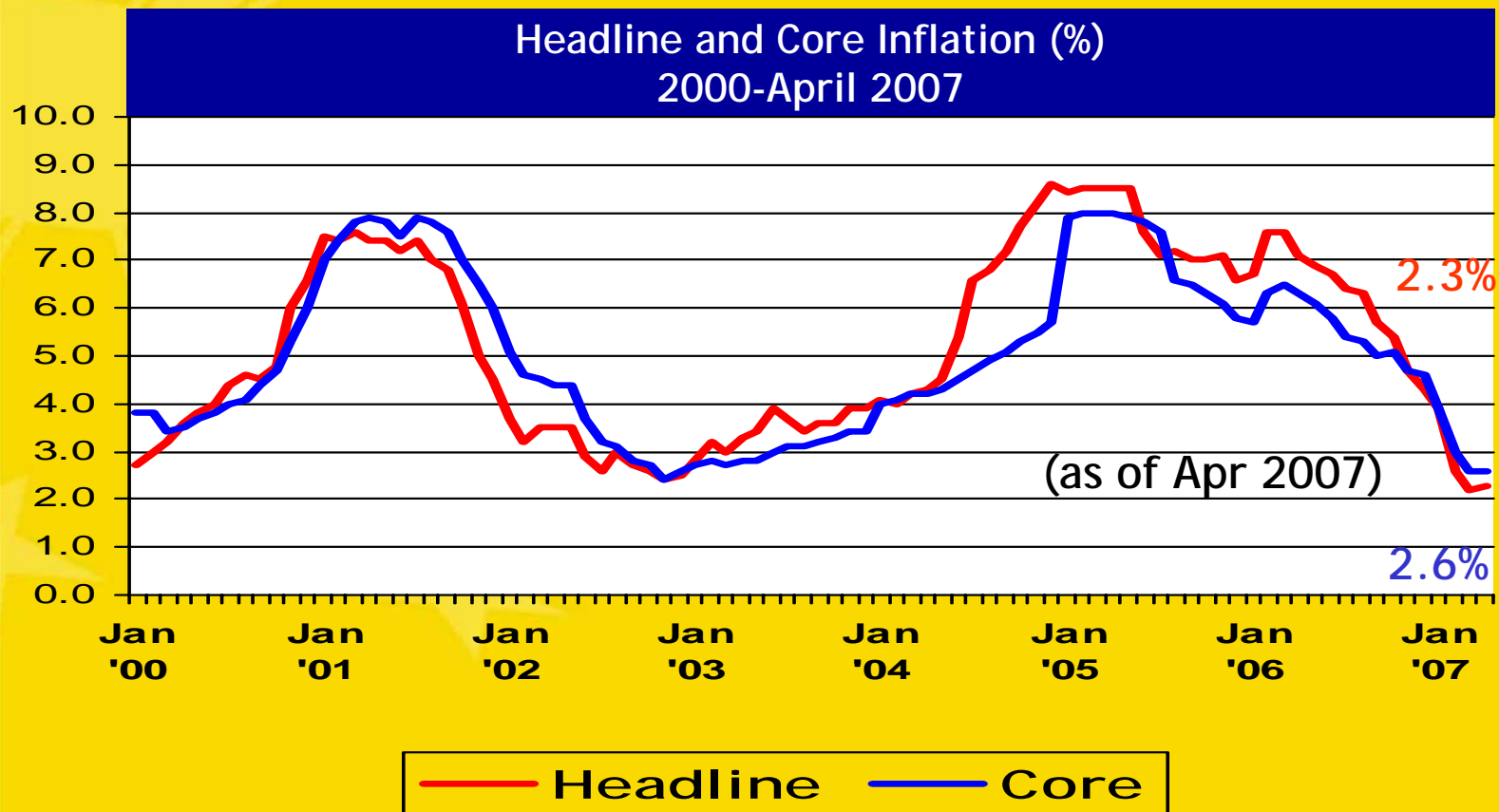
- I. Where We Are Now
  - Policy Developments and Reform Milestones
- II. Where We Are Headed
  - Outlook and Policy Directions



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## Inflation has been on a trend decline



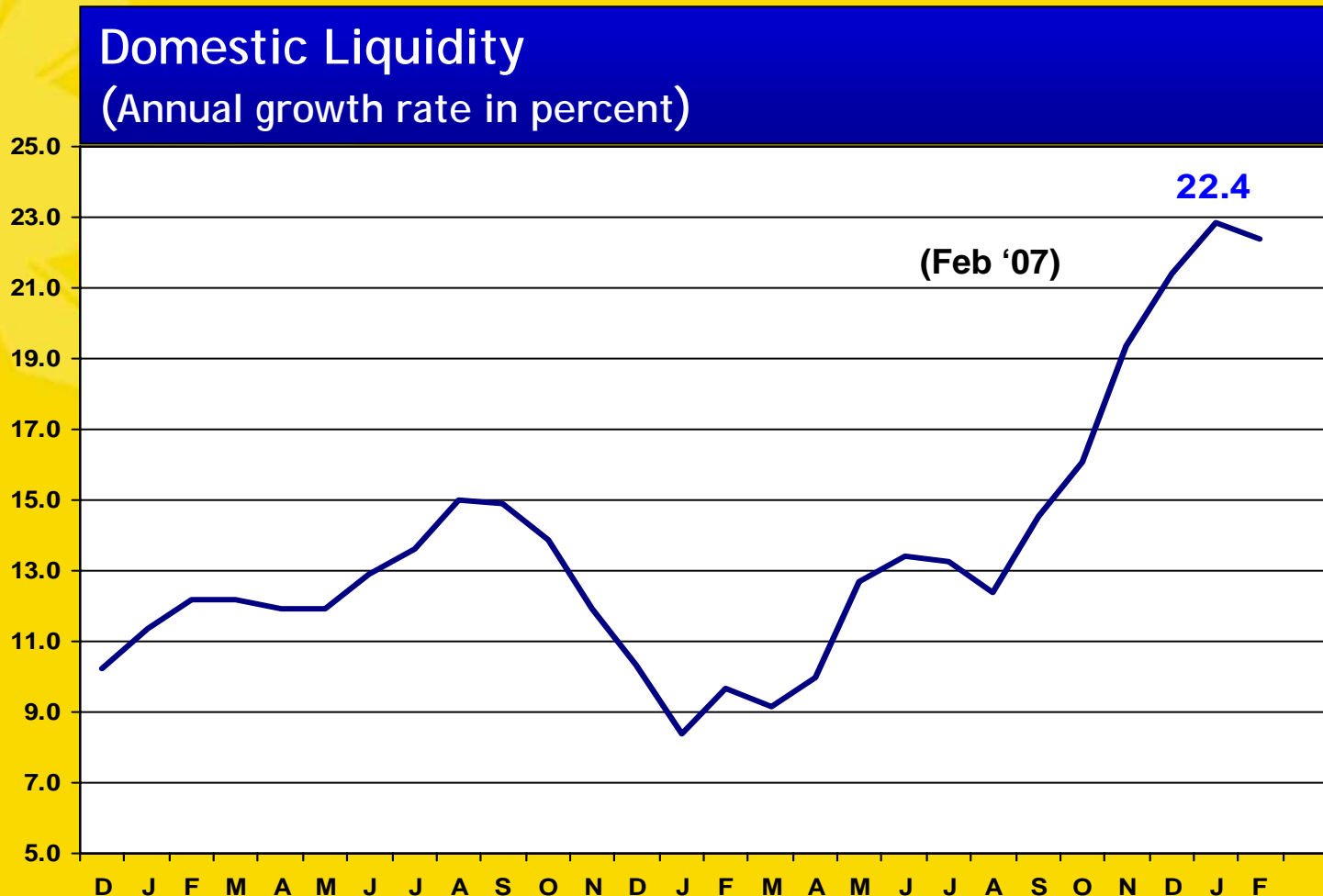




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## Domestic liquidity remains strong





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Strong BOP position underpinned by robust OFW remittances and continued inflows from exports and investment

In US\$ Million	2003	2004	2005	2006
Balance of Payments	115	-280	2,410	3,769
Current Account	288	1,628	1,984	5,022
Capital and Financial Account	726	-1,630	2,229	-1,722

- Latest overall BOP position for January-March 2007 was a surplus of US\$1.4 billion



## Exports sustain growth

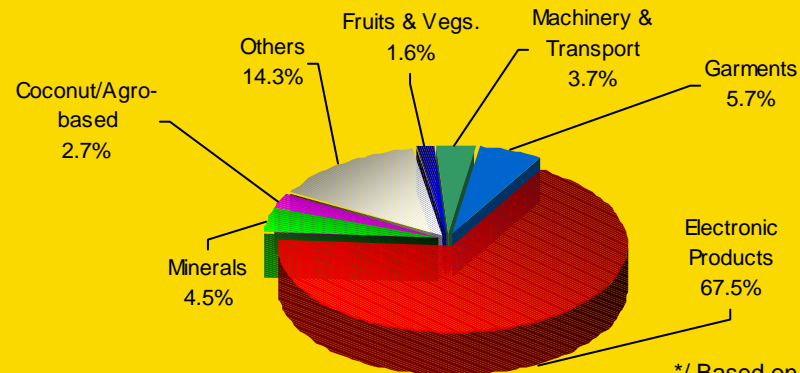
- Backed by demand for electronics, garments, and mineral products
- Early indication from NSO showed exports for first two months of 2007 rising by 14.2% to US\$7.7 billion

	Levels (US\$ million)				Growth Rate (%)	
	2005 <sup>a/</sup>	2006 <sup>a/</sup>	J-Feb 2006 <sup>b/</sup>	J-Feb 2007 <sup>b/</sup>	2006	J-Feb 2007
<b>Exports, of w/c:</b>	<b>40,263</b>	<b>46,158</b>	<b>6,719</b>	<b>7,676</b>	<b>14.6</b>	<b>14.2</b>
Electronics	28,487	31,144	4,358	5,095	9.3	16.9
Garments	2,309	2,626	426	405	13.7	-4.9
Mineral Products	819	2,058	196	361	151.2	84.3
Mach./Transport	1,836	1,716	245	272	-6.6	11.1

a/ Based on BOP concept

b/ Based on NSO data

Percent Share to Total Exports \*/  
January-December 2006



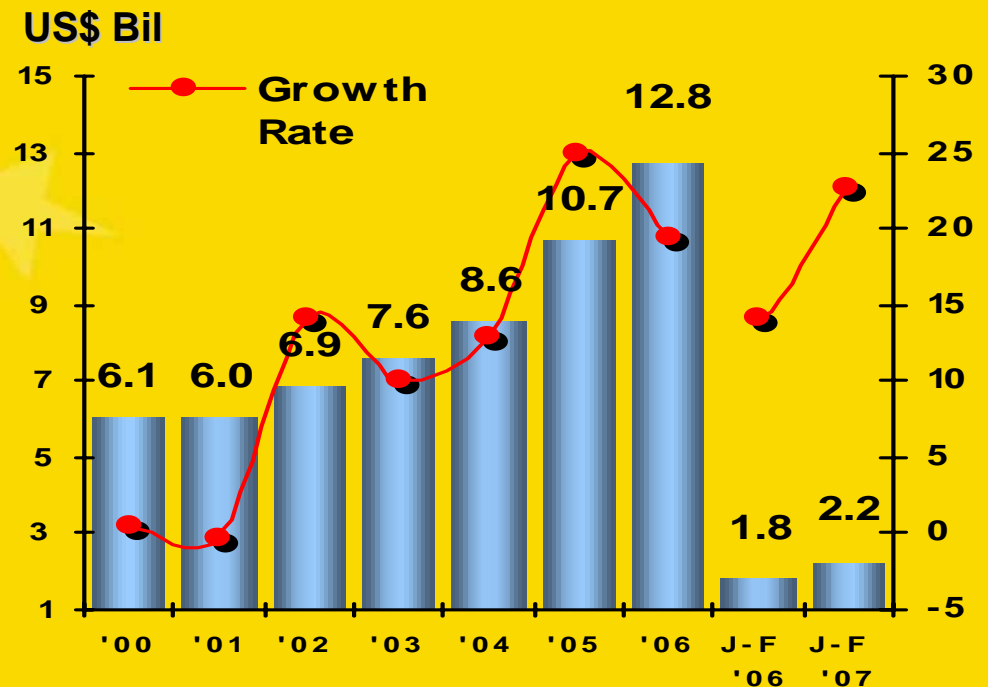
\*/ Based on BOP concept



# OFW remittances remain robust

- Cash remittances coursed through banks rose by 19.4 percent in 2006
- Robust inflows due to continued demand for OFWs and improved access to financial services
- First two months of 2007 showed remittances reaching US\$2.2 billion

## OFW Remittances <sup>\*/</sup>



<sup>\*/</sup> Cash Remittances coursed through banks  
Source: BSP



## Inflows from investments continue

Foreign portfolio investment gains momentum

Strong foreign direct investment flows, likewise, sustained

(US\$M)	2005 <sup>a/</sup>	2006 <sup>a/</sup>	Jan-06April <sup>1/</sup>		Growth Rate (%)
			2006	2007	
Foreign Portfolio Invest., net	3,621	3,205	515	967	87.8

(US\$M) <sup>*/</sup>	2005	2006	January		Growth Rate (%)
			2006	2007	
Foreign Direct Investment, net	1,854	2,345	237	357	50.6

<sup>1/</sup> Based on custodian banks' report and BSP registration records  
<sup>a/</sup> Non-residents' portfolio investments (BOP concept); preliminary

<sup>\*/</sup> Non-residents' direct investments (BOP concept); preliminary



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## Peso has strengthened appreciably

Year-to-Date Changes in Selected Dollar Rates  
Appreciation/(-Depreciation), In Percent

	2003	2004	2005	2006	2007*
Korean Won	0.2	14.5	2.16	8.66	0.29
<i>Philippine Peso</i>	<i>-4.2</i>	<i>-1.4</i>	<i>6.01</i>	<i>8.28</i>	<i>3.03</i>
New Taiwan Dollar	2.2	6.3	-3.60	0.92	-2.14
Thai Baht	8.8	1.4	-4.90	13.91	3.77
Japanese Yen	10.8	3.9	-12.97	-0.97	-0.98
Indonesian Rupiah	5.4	-9.4	-5.79	9.34	-0.74
Malaysian Ringgit	-0.01	0.00	0.54	7.31	3.03
Singaporean Dollar	2.06	4.16	-2.04	8.58	0.69

\*As of 3 May 2007



## GIR sufficient to cover liquidity requirements

- GIR reaches new peak at US\$24.7 billion as of end-March 2007

### GIR & Reserves Ratios

	2003	2004	2005	2006	Mar 2007
GIR (US\$ bil)	17.06	16.23	18.49	22.97	24.70
Import Cover	4.0	3.6	3.8	4.3	4.6
GIR/S-T Debt <sup>1</sup>	2.8x	3.2x	2.9x	4.6x	4.9x
GIR/S-T Debt <sup>2</sup>	1.4x	1.6x	1.3x	2.5x	2.7x

<sup>1</sup> Based on original maturity

<sup>2</sup> Based on residual maturity

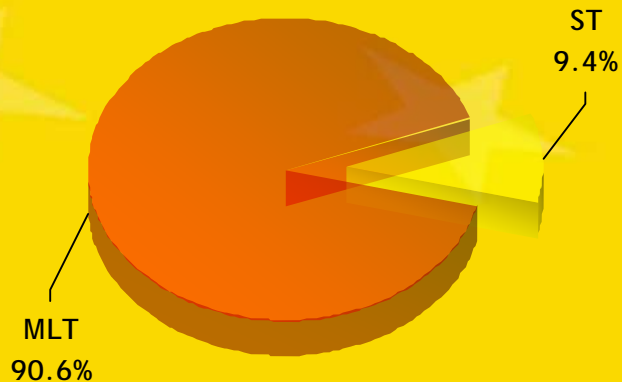
Source: BSP



## External debt level remains manageable

- No bunching of maturities
- Adequate external liquidity to service foreign debt
- Key debt ratios continue to improve

Total Debt By Maturity as of end-Dec 2006  
(% to Total Debt)



Source: BSP

Average Maturity for MLT Debt  
as of end-Dec 2006

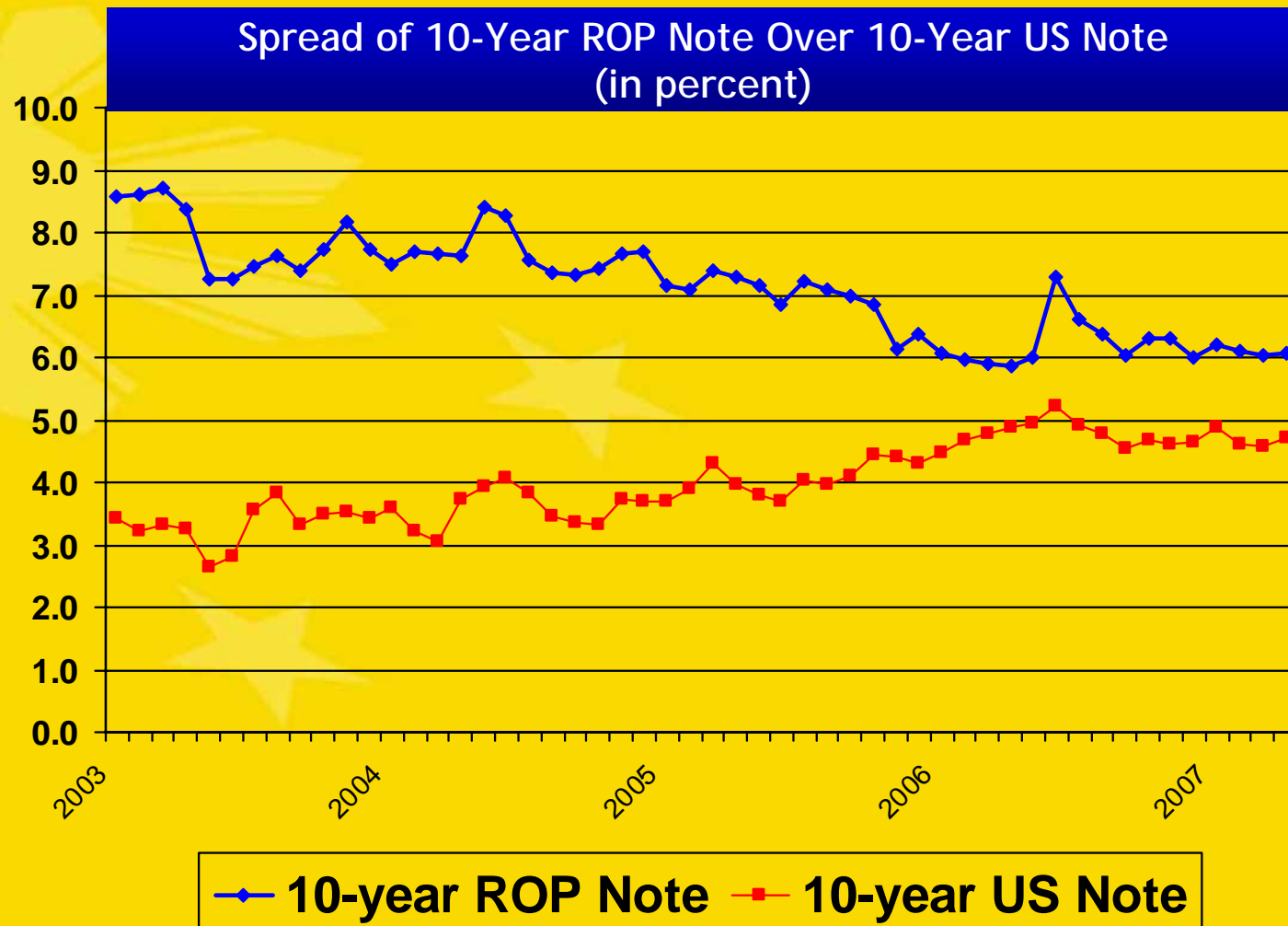
<b>Total External Debt</b>	<b>US\$53.4 B</b>
<b>Of which:</b>	
<b>Short-Term</b>	<b>US\$ 5.0 B</b>
% of Total	9.4%
<b>Medium-to long-term</b>	<b>US\$48.4 B</b>
% of Total	90.6%
<b>Ave Maturity of MLT Debt (years), orig mat.</b>	<b>17.8</b>
<b>Public</b>	<b>20.5</b>
<b>Private</b>	<b>9.2</b>
<b>Ave Maturity (years), remaining maturity</b>	<b>10.8</b>
<b>Public</b>	<b>12.7</b>
<b>Private</b>	<b>4.8</b>
<b>Debt Ratios</b>	
External Debt to GDP	45.6%
DSB to exports of goods, and receipts from services and income	12.0 %



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## ROP spreads have narrowed





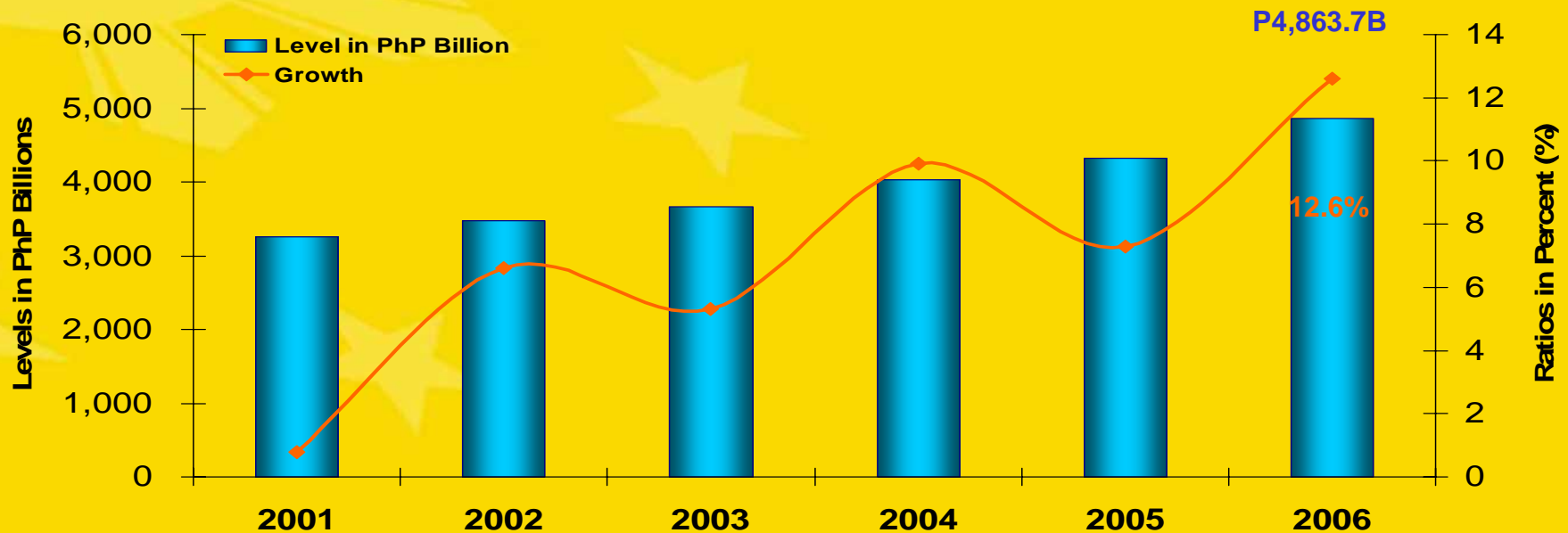
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# Performance of the Banking System

## Steady Asset Growth:

### BANKING SYSTEM: TOTAL ASSETS For End-Years Indicated\*



\* Preliminary



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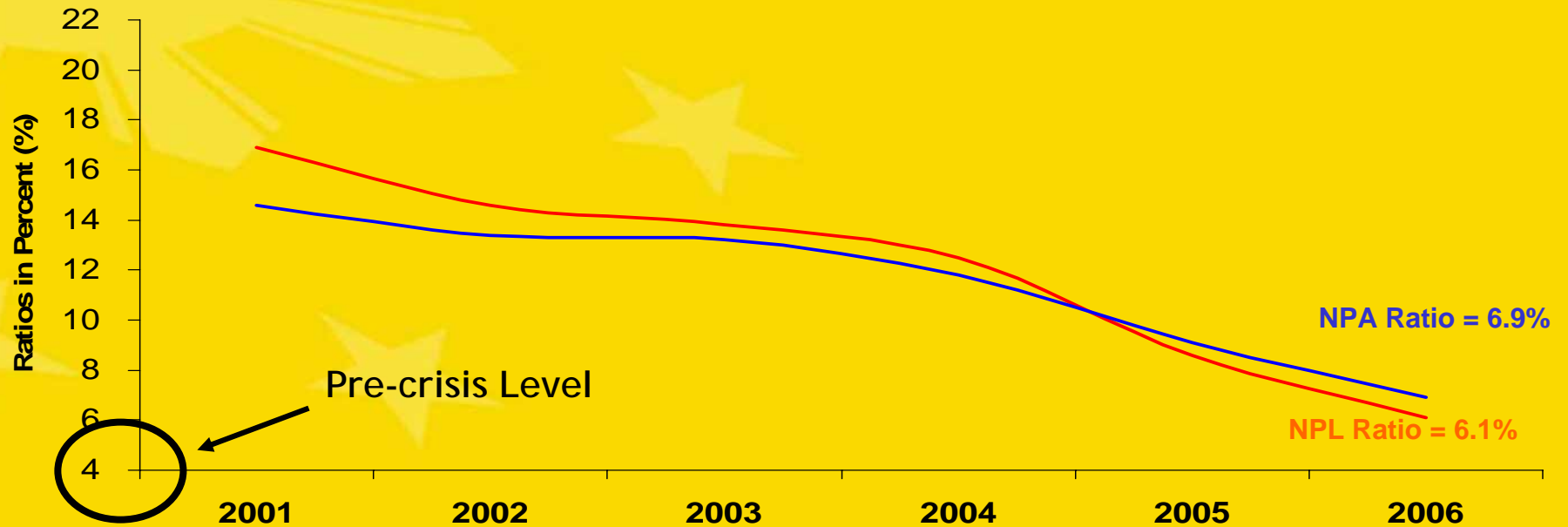


# Performance of the Banking System

## Improving Asset Quality:

### BANKING SYSTEM: NPL & NPA RATIOS

For End-Years Indicated\*



\* Preliminary



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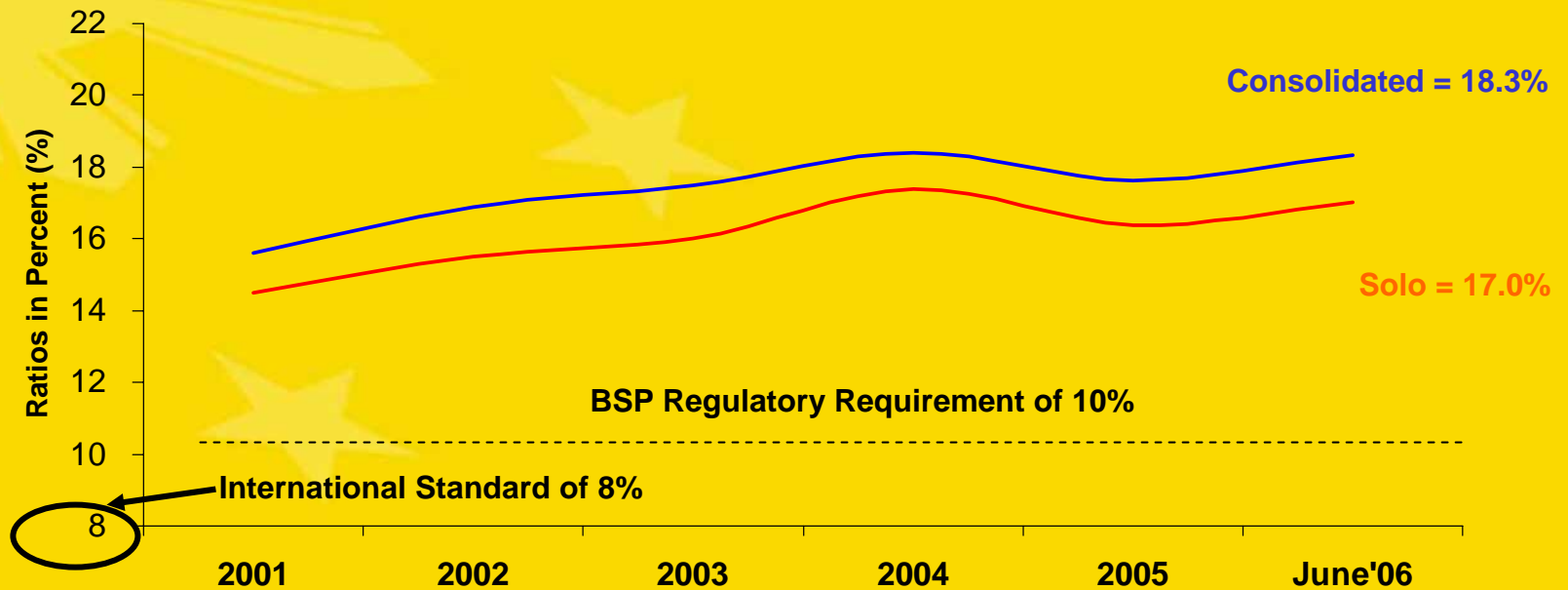


# Performance of the Banking System

## Stronger Capitalization:

### BANKING SYSTEM: CAPITAL ADEQUACY RATIO (CAR)

As of End-Years 2001- 2005 and end-June 2006



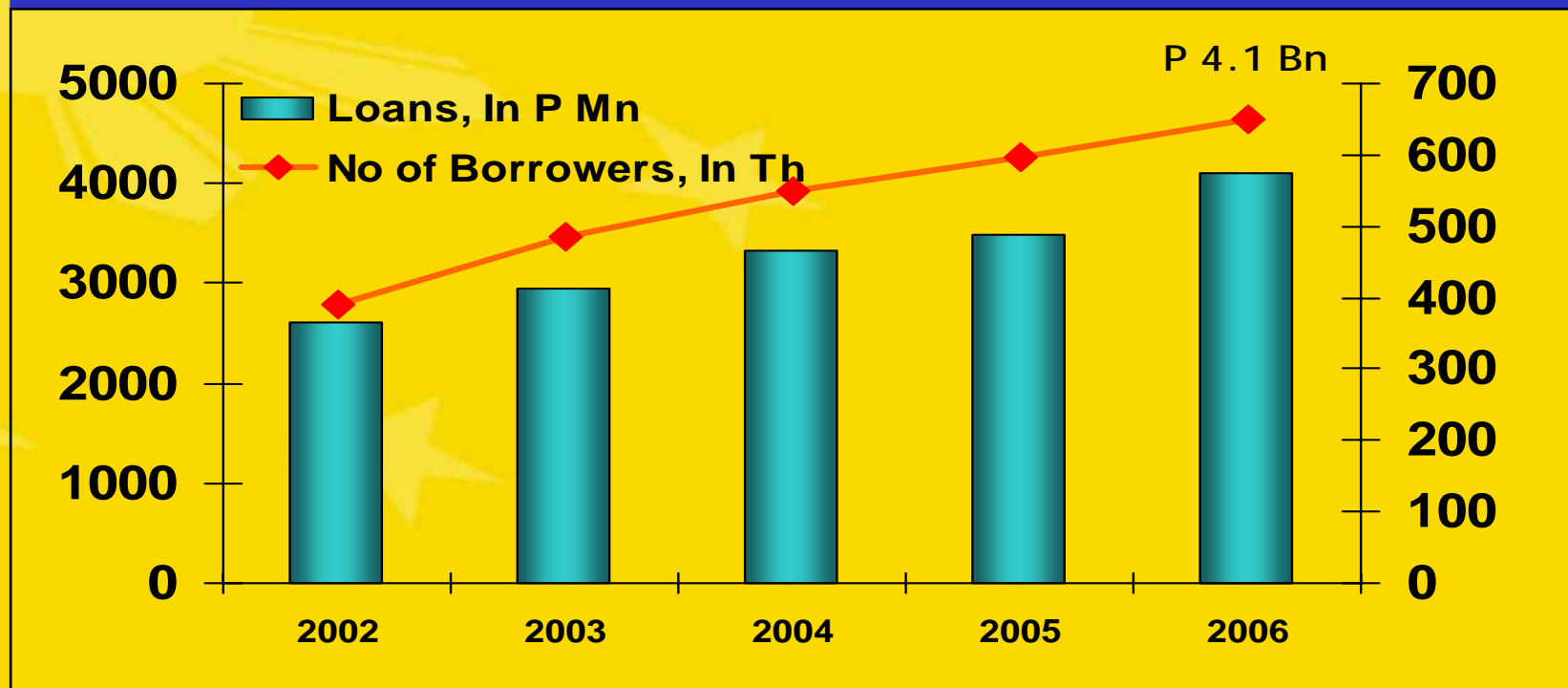


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## Sustained advocacy for micro-finance

### Microfinance Loans Portfolio 2002- December 2006



Source: BSP



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## Outlook and Policy Directions

1. Inflation target for 2007: 4-5 percent;  
Inflation target for 2008: 4.0 percent  $\pm$  1 ppt
2. Continue to monitor risks to the inflation outlook
3. Maintain a market-determined exchange rate
4. Maintain a comfortable level of reserves to cover maturing short term debt



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# Outlook and Policy Directions

## 5. Sustain implementation of key financial sector reforms

- Implementation of SPV II and other innovative modes of asset cleanup
- Implementation of Basel II in 2007/2010
- Full compliance of BSP-supervised institutions with PAS/PFRS
- Harmonization of corporate governance standards with other financial regulators
- Adoption of risk-based supervision technologies
- Enactment of capital market reform bills (e.g., CISA, PERA, RICA, Corporate Recovery Act, Pre-Need Code and Amendments to BSP Charter)



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