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The Philippines: Standing Firm Amid The Global Economic Crisis

Monetary, External and Banking Sectors

**Philippine Economic Mission
Tokyo, Japan
20-21 January 2009**

**AMANDO M. TETANGCO, JR.
Governor
Bangko Sentral ng Pilipinas**



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OUTLINE

- I. Impact of global financial turmoil**
- II. Buffers we have stored in 2008**
- III. Headwinds going into 2009**
- IV. Policy responses in 2009 and beyond**

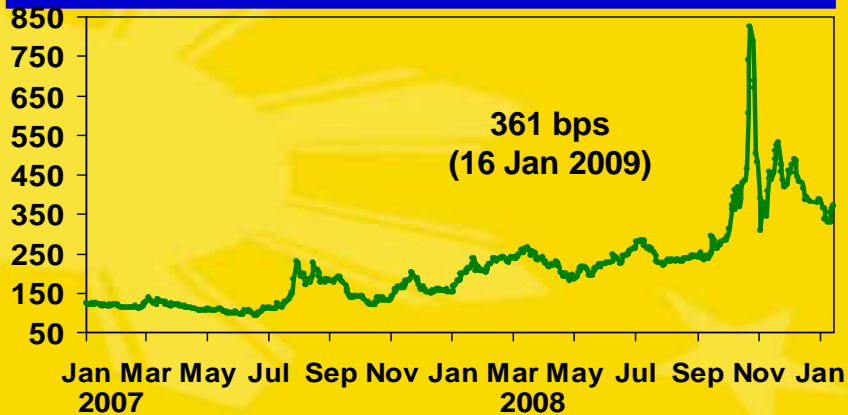


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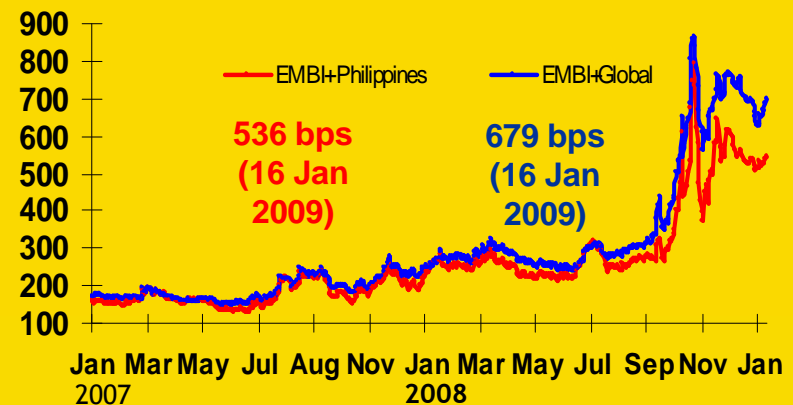


Selected Indicators

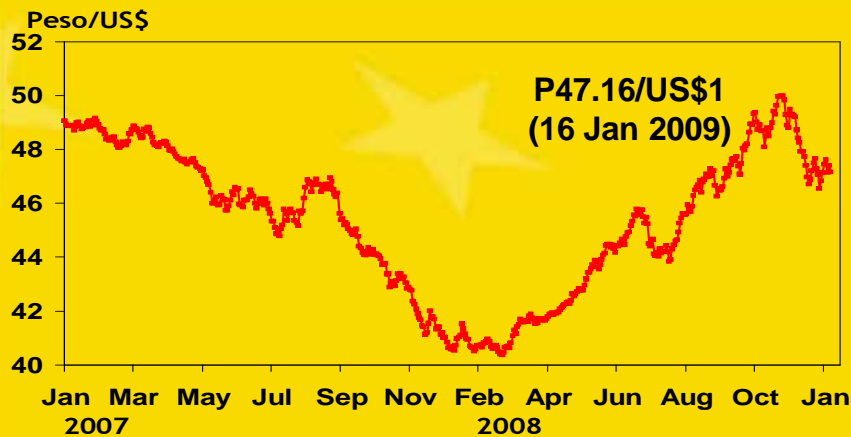
5-year Credit Default Swaps (in basis points)
January 2007 - 16 January 2009



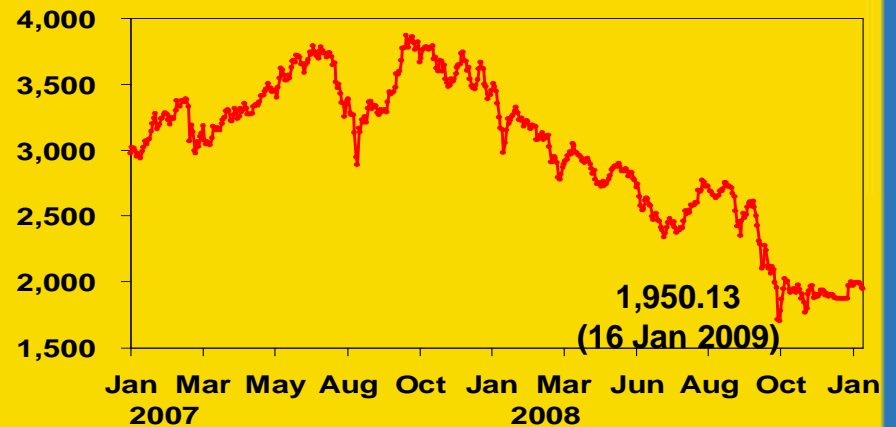
Emerging Markets Bond Index Spread
January 2007 - 16 January 2009



Peso-USD Daily Average Exchange Rate
January 2007 - 16 January 2009



Philippine Stock Exchange Index
January 2007 - 16 January 2009





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Buffers

- Disciplined and calibrated monetary policy formulation
- Manageable external payments position
- Sound and stable banking system
- Domestic demand as major growth contributor
- Improved fiscal position

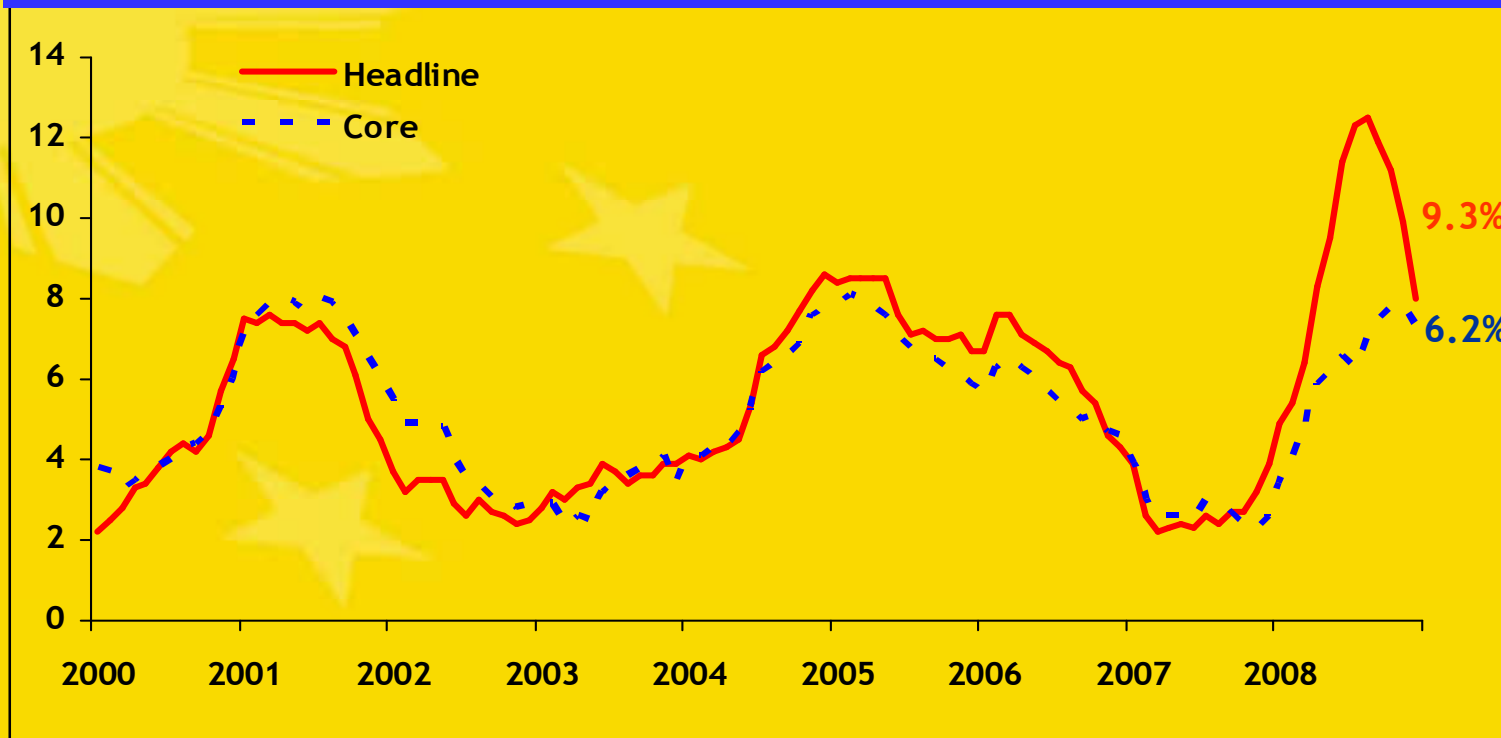


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Manageable Headline Inflation Secured

Headline and Core Inflation (%)
Year-on-year growth rate





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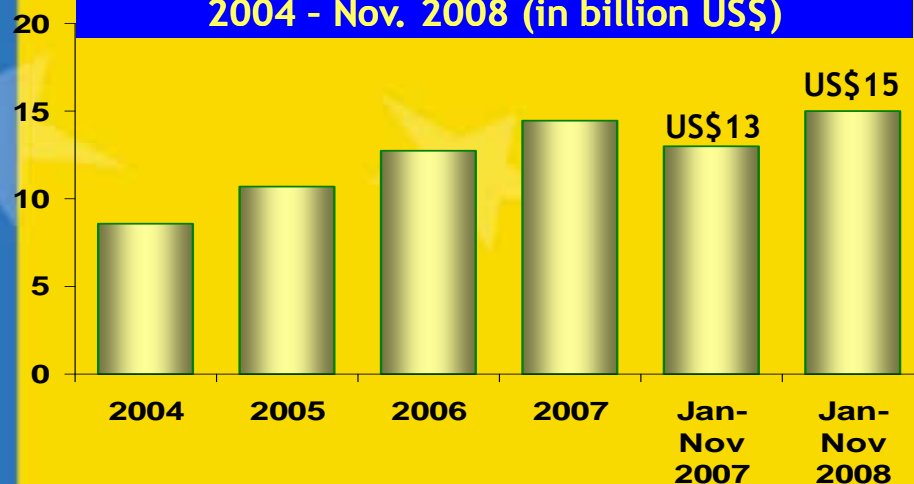
Healthy External Position Sustained

Balance of Payments (BOP) 2004 - 2008
(in million US\$)

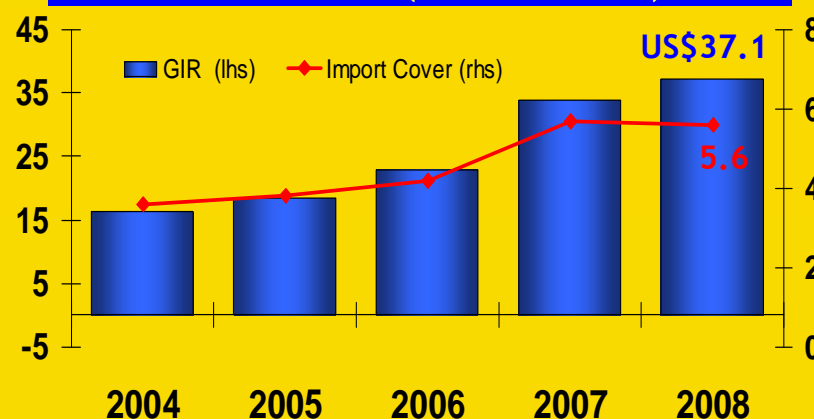
	2004	2005	2006	2007	Jan-Sep 2008
BOP Position	-280	2,410	3,769	8,557	1,540*
Current Account	1,628	1,984	5,347	6,301	1,168
Capital and Financial Account	-1,630	2,229	20	2,889	1,688

* Update: BOP position as of end-2008: US\$88 M

**Overseas Filipinos' Remittances
2004 - Nov. 2008 (in billion US\$)**



**Gross International Reserves
2004 - 2008 (in billion US\$)**



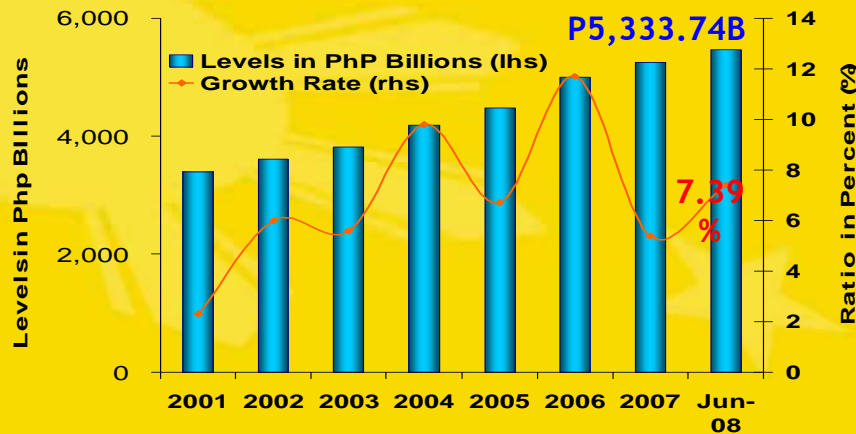


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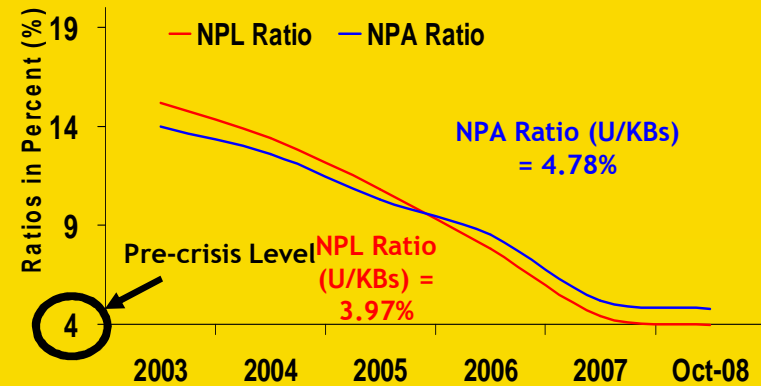


Sound and Stable Banking System Preserved

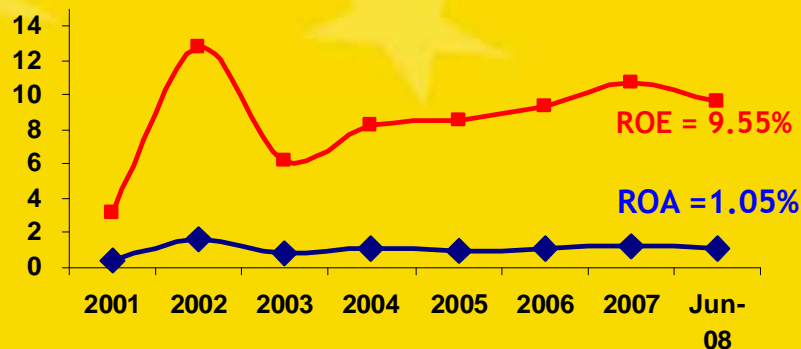
ASSET GROWTH
2001 - June 2008



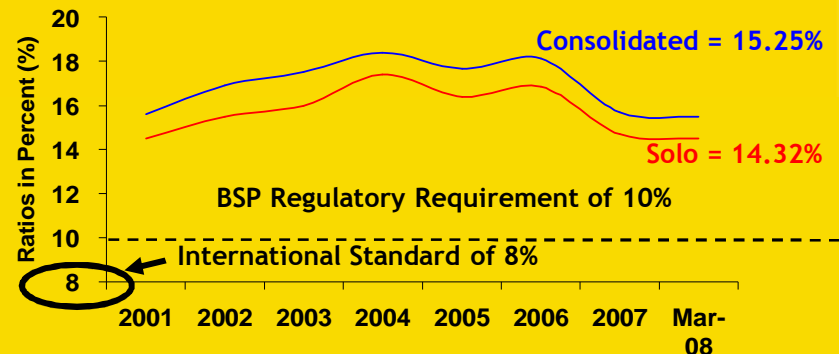
LOAN AND ASSET QUALITY RATIOS
2003 - October 2008



RETURN ON ASSETS (ROA) / RETURN ON EQUITY (ROE)
2001 - June 2008



CAPITAL ADEQUACY RATIO (CAR)
2001-June 2008





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BSP's Response to the Financial Turmoil

- **Strengthening confidence**
 - Speedily reassured stakeholders of the stability of the banking system
- **Addressing liquidity issues**
 - Expanded allowable collateral and eased valuation for Repurchase Facility
 - Created US dollar Repurchase Facility (BSP Circular No. 627)
 - Increased budget for E-rediscounging
 - Reduced reserve requirements for bank deposits
- **Addressing temporary MTM valuation difficulties**
 - Allowed reclassification of financial assets
- **Supporting regional cooperation initiatives**
 - Actively engaged with regional peers to share information, discuss emerging developments and pool resources

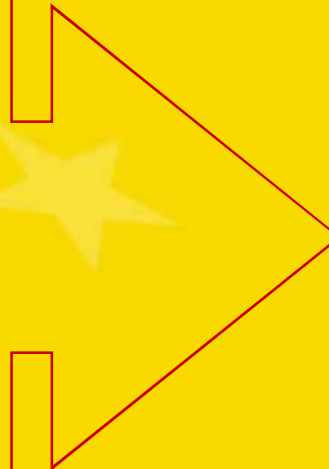


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Key Lookouts and Headwinds

- **Uncertainty in the global markets**
- **Recessionary trends beyond the developed world**
- **Volatilities in commodity prices**



- **Financial Sector**
Credit crunch
- **Real Sector**
Declining external demand & domestic consumption
- **External Sector**
Pressure on balance of payments



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What do we foresee in 2009?

	2008	2009
	Actual	Forecast
Real GDP Growth (%) Third Quarter Forecast	4.6 4.1-4.8	3.7-4.7
Headline Inflation (%)	9.3	6.0 - 8.0
OF Remittances (end-Nov) Amount (US\$ B) Growth Rate	15.0 15.1	6.0 -9.0
Balance of Payments (end-Nov) (US\$ Bn)	0.4	2.3
Current Account (end-Sept) (US\$ Bn)	1.1	2.0
GIR (US\$ Bn)	37.1	37.0 - 37.5



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Policy directions to ensure macroeconomic and financial stability in the Philippines

Monetary Policy

- Continue to closely monitor price developments and calibrate monetary policy to guard price stability
- Ensure sufficient liquidity to preserve macroeconomic stability



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Policy directions to ensure macroeconomic and financial stability in the Philippines

External sector policy

- Maintain market-determined exchange rate with scope for occasional official action to maintain orderly market conditions
- Maintain comfortable level of reserves (self-insurance)
- Ensure sustainability of external debt



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Policy directions to ensure macroeconomic and financial stability in the Philippines

Financial Sector Policy

- Further improve the regulatory and supervisory framework
- Promote improved corporate governance
- Further deepen the domestic capital market
- Improve small businesses' access to credit
- Push for the passage of the amendments to the New Central Bank Act



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