The impact of the global financial crisis on the Philippine financial system – an assessment

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"The problem in politics is this: you don't get any credit for disasters averted."

Henry M Paulson Jr, Former US Treasury Secretary

I. Introduction

The crisis that originated from the US subprime mortgage market escalated into a global phenomenon. Earlier debates on "decoupling"[2] died down as the crisis' contagion effects proved headstrong, cascading to the financial markets of advanced and emerging economies and unleashing a full-blown systemic crisis. Aside from causing huge wealth destruction, this development eroded confidence in financial institutions and markets worldwide, causing intensified concerns over liquidity, as well as a plethora of bankruptcies, forced mergers and massive monetary intervention from financial authorities, thereby leading to a drastically reshaped financial landscape.[3]

Nonetheless, East Asia in particular was in a much better position to weather a financial crisis compared to a decade ago. At the time of the crisis until today, its economic fundamentals have been generally stronger. Banking systems in the region have, in general, become more resilient, sound and stable. The region has accumulated high levels of foreign reserves that have also helped it to absorb shocks well. The adoption of conservative financial policies has paid off. In addition, regional economic integration and open global markets have expanded and deepened East Asia's production networks and export markets.[4]

In the case of the Philippines, the conservative attitude of Philippine banks led to only marginal exposure to derivatives/structured products. Adequate information disclosure practices and the implementation of banking reforms are now yielding fruit, particularly in terms of better risk management and consolidated supervision. These have contributed to the limited impact of the crisis on Philippine financial markets.

This paper examines the extent of the impact of the financial crisis on emerging Asia's financial system, namely the equity markets, bond market, foreign exchange market, money market, and the banking sector, with a focus on the Philippines. The paper also analyses the Bangko Sentral ng Pilipinas' (BSP) responses to the challenges that emerged as a result of the recent global financial turmoil.

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[1] Deputy Governor, Monetary Stability Sector, Bangko Sentral ng Pilipinas.

[2] At the onset of the crisis, many believed that emerging market economies would avoid the negative spillovers of the US subprime fallout as they had already broadened and deepened to the point where they were less dependent on the United States and other advanced economies. (27 January 2008: "Decoupling: theory vs reality", *International Herald Tribune*.)

[3] Loser, C M (2009): "Global financial turmoil and emerging market economies: a major contagion and a shocking loss of wealth?", Asian Development Bank.

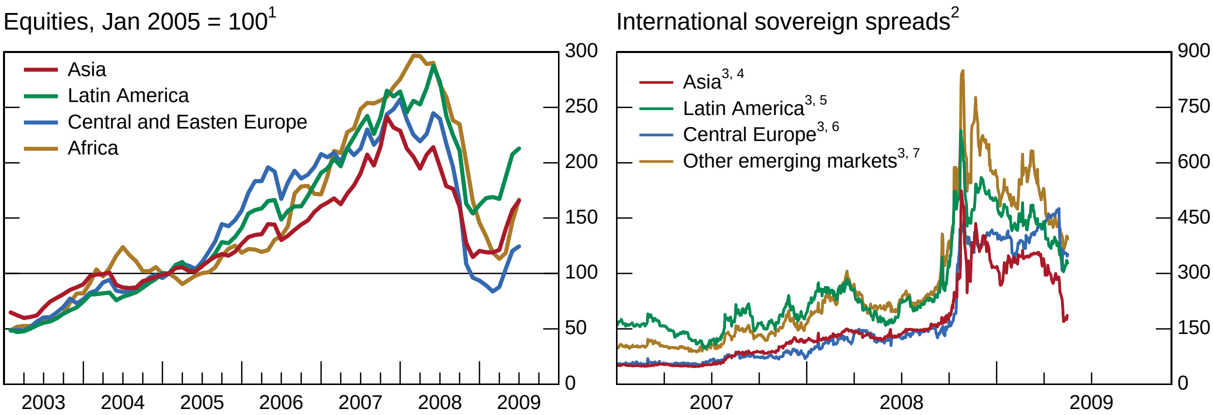
[4] Soesastro, H: "Policy responses in East Asia to the global financial crisis" (11 December 2008).

II. Spillover effects in emerging Asia

Although emerging Asia has not been at the core of the crisis, negative developments in the global financial and macroeconomic environment spilled over to the region. This was primarily due to Asia's greater market integration with the rest of the world, which necessarily amplified the magnitude of the cross-country transmission of shocks.[5]

While financial markets in emerging Asia had relatively limited exposure to subprime-related instruments, increased global market integration meant that the deleveraging process in advanced economies led to a substantial liquidation of assets in emerging Asian markets and large capital outflows. These developments, in turn, contributed to a sharp decline in the Asian equity markets, the widening of sovereign bond spreads, the depreciation of regional exchange rates and the decline in offshore bank lending in the region.[6]

Asian equity markets and debt spreads



[1] Morgan Stanley Capital International equity indices; total return indices. [2] JPMorgan EMBI Global (EMBIG) sovereign spreads over US Treasury yields (for Korea and Thailand, CMA five-year credit default swap premia), in basis points. [3] Median of the economies listed. [4] China, Hong Kong SAR, Indonesia, Korea, Malaysia, the Philippines and Thailand. [5] Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. [6] Hungary and Poland. [7] Russia, South Africa and Turkey.

Sources: Datastream; JPMorgan Chase.

After the collapse of Lehman Brothers in September 2008, global investors reduced their exposure to the region amid heightened concerns over counterparty risks.[7] From July 2007 to August 2009, Asian stock markets fell between 38% and 62%, with the largest market declines coming from Singapore (27%), Thailand (21%) and the Philippines (21%).[8] Meanwhile, sovereign bond spreads peaked in the region as concerns over a slowing global economy intensified in the final quarter of 2008. Among the emerging economies in Asia, Indonesia experienced the largest increase in spreads, with the Emerging Market Bond Index (EMBI)+ spread jumping from 168 basis points (bp) in July 2007 to more than 928 bp in

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5 "Recent financial turbulence – course of action", presented at the 44th SEACEN Governors' Conference on 30 January 2009, Bank Negara Malaysia.

6 Ibid.

7 Kato, T: "Implications for Asia from the global financial crisis and policy perspectives", Harvard Asia Business Conference, 14–15 February 2009.

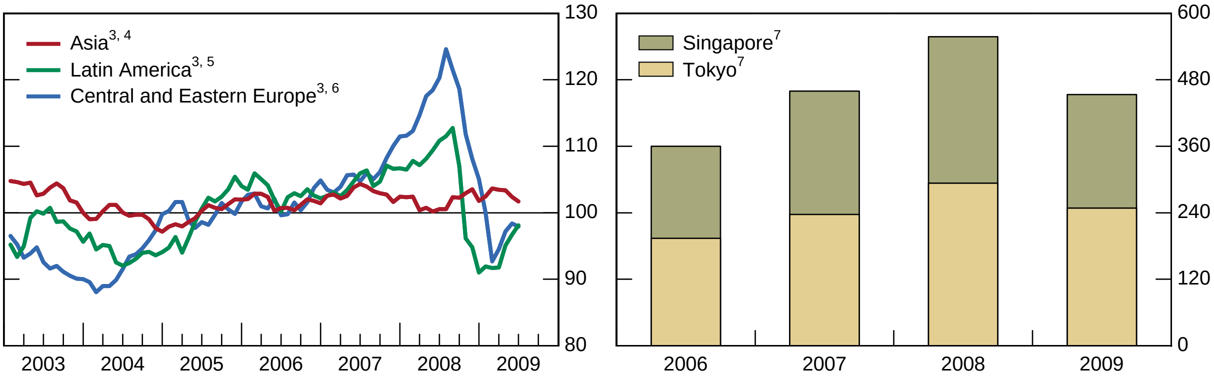
8 Goldstein, M and D Xie, P: "The impact of the financial crisis on emerging Asia", Peterson Institute for International Economics, 20 October 2009.

December 2008. On the other hand, China experienced a spread increase of about 270 bp from the start of the crisis up to 8 October 2008.[9]

Foreign exchange market

Exchange rate by region[1]

Total foreign exchange transactions[2], average daily volume in billions of US dollars



[1] Nominal effective exchange rate; 2005 = 100. [2] Annual April survey results; include spots, forwards and swaps. [3] Weighted average of listed economies based on 2005 GDP and PPP exchange rates. [4] China, Chinese Taipei, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand. [5] Argentina, Brazil, Chile, Mexico, Peru and Venezuela. [6] The Czech Republic, Hungary and Poland. [7] Transactions include spots, forwards, and swaps. Japan and Singapore account for 11 percent of global foreign exchange trading, BIS Triennial Survey 2010.

Sources: Tokyo Foreign Exchange Market Committee's Survey of Tokyo FX Market and the Singapore Foreign Exchange Market Committee Survey of Singapore Foreign Exchange Volume; BIS.

The currencies of emerging Asian countries weakened as investors sought the safe haven of the US dollar while a slowdown in world economic growth also limited export earnings of member countries. Among the currencies in East Asia, it was the Korean won that depreciated the most by end-2008, along with the Indonesian rupiah, the Malaysian ringgit, the Philippine peso and the Thai baht, which fell in the range of 4–15% against the US dollar. On FX turnover, FX transactions across two major Asian foreign exchange markets, namely Tokyo and Singapore, managed to show some increase in volume in 2008. However, by April 2009, average monthly FX turnover had declined sharply by around 15.3 percent in Tokyo and 22.5 percent in Singapore. The shrinkage in FX swap transactions reflected higher risk aversion. Moreover, trade financing tightened in the wake of lower growth prospects leading to a further squeeze in the FX markets.

International bank lending

Offshore banking in emerging Asia declined as a result of the crisis.[10] From the third quarter of 2008, international bank credit flows turned negative in Asia as accelerating losses pushed developed economies to reduce their exposure to developing countries.

[9] Ibid.

[10] Based on the BIS' international banking statistics, loans to developing countries fell from US$ 514 billion in 2007 to US$ 109 billion in 2008.

Cross-Border Loans of BIS Reporting Banks[1]
In billions of US dollars

			2008		2009	
	2007	**2008**	**Q3**	**Q4**	**Q1**	**Q2**
Cross-Border Loans to Developing Countries	514	109	45	-204	-102	-13
of which: Asia-Pacific	126	-47	-13	-134	-52	3

[1]External loans of BIS reporting banks vis-à-vis individual countries, estimated exchange rate adjusted changes.

Source: Bank for International Settlements

The cause of the decline in cross-border bank lending was two-pronged. On the supply side, it reflected the virtual drying up of credit following the panic in financial markets. Massive deleveraging on the part of international banks, accompanied by the increase in bank losses and resurgence of cost savings constrained their credit operations. The Institute of International Finance (IIF) noted in its report dated October 2009 that new regulations requiring banks to hold high-risk-based levels of capital were expected to prod international banks to retrench from emerging market lending. Meanwhile, on the demand side, bank lending was also expected to decline due to the limited demand for loans resulting from the recession.

Private sector companies with high levels of external debt due for rollover were particularly hard hit by the reduced access to international markets. Creditors were reluctant to rollover these debts for fear that borrowers would not be able to service their debts. In addition, private borrowers from emerging economies faced the prospect of being “crowded out” by the huge borrowing needs of governments to finance fiscal stimulus packages implemented to avert a recession in their countries.

Given this scenario, the corporate sectors in emerging markets faced difficulties in raising capital, as they were limited to local borrowing and internally generated funds to meet their obligations. In 2009, the corporate sectors from emerging economies needed US$ 200 billion to refinance their external debts. The corporate challenges faced by emerging market economies (EMEs) included revenue shortfalls, refinancing needs and volatile investor sentiment.[11]

III. Impact on Philippine financial markets

Like their neighbouring countries in Asia, Philippine financial markets were not spared from the ripple effects of the crisis.

Equity market

The Philippine equity market came under considerable stress in 2008 amid a deteriorating global economic outlook. Concerns over the global financial turmoil and the related

[11] See www.rgemonitor.com/22. RGE Monitor: “EM corporates: financing outlook 2009“ (released on 9 December 2009).

slowdown of the global economy resulted in heightened risk aversion and uncertainty, which saw investors, both foreign and domestic, either unload their holdings of stocks or stay in the sidelines awaiting better news. Subsequently, the ability of the stock market to raise fresh capital declined during the year.

Following the collapse of Lehman Brothers, the benchmark Philippine Stock Exchange Index (PSEi) dropped, on 16 September 2008, by 9.3% or 224.3 index points to 2,421.7 from the 12 September level of 2,646.1 (Table 1). The index had been on a downtrend since early September 2008 following reports of the Freddie Mac and Fannie Mae bailouts by the US Federal Reserve. The downtrend continued, and on 28 October, the composite index fell to a record low of 1,704.41 index points, the lowest level since January 2007. By end-December 2008, the PSEi had declined by 48.3%, year-on-year, to close at 1,872.85 index points. This reflected the movement of equity prices worldwide as risk aversion and uncertainty over the earnings of listed firms intensified.

Table 1

Daily Philippine Stock Exchange Index

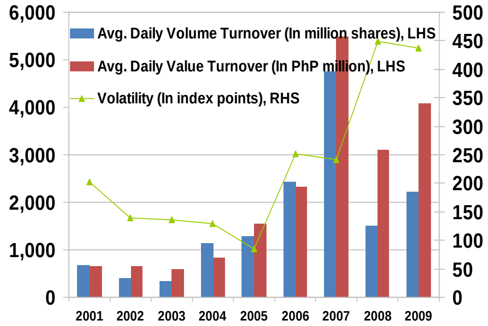
January 2007 to December 2009

Source: Philippine Stock Exchange

Table 2

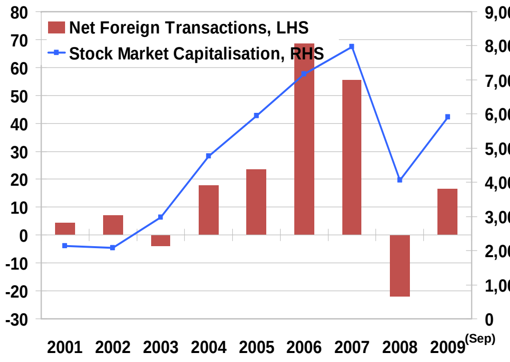
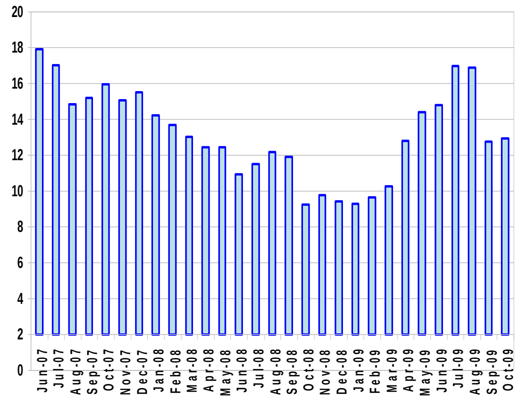
Market turnover and volatility

January 2007 to December 2009



Source: Philippine Stock Exchange

Investor sentiment on the Philippine stock market turned sharply cautious, especially at the height of the crisis in 2008. Market capitalisation reached PHP 4.1 trillion at end-2008, nearly half of the PHP 8.0 trillion registered in December 2007 (Table 2). Meanwhile, foreign investors posted net sales amounting to PHP 22.2 billion in 2008, a reversal of the net buying activity of PHP 55.6 billion posted in 2007 (Table 3). The price to earnings (P/E) ratio also declined to 9.42 in 2008 from 15.49 in 2007, indicating that investors were expecting lower future earnings growth (Table 4). Likewise, market volatility, measured as the standard deviation of daily stock indices, nearly doubled to 448 index points in 2008 relative to the previous year's level of 242 index points.

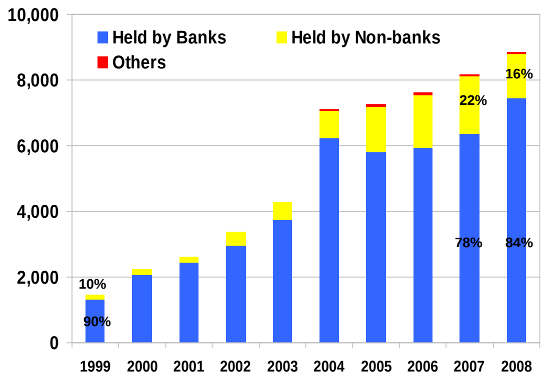
Table 3	Table 4
Net foreign transactions and market capitalisation January 2007–September 2009	**Price/earnings ratio** January 2007 to October 2009
 Source: Philippine Stock Exchange	 Source: Philippine Stock Exchange

In the first quarter of 2009, investors' appetite remained weak amid deepening concerns that the global recession would pull down domestically listed firms' earnings. Withdrawal from the equity market continued and net selling reached PHP 7.4 trillion from January to March. The composite index closed at 1,986.2 index points at end-March, which was higher by 6.1% on the year-to-date level but lower by 33.4% year-on-year. However, starting from the second quarter until end-2009, the equity market's performance improved as investor confidence gradually increased, perceiving that the global recession was bottoming out in major economies and that the Philippines was generally resilient in withstanding the equity shocks. Foreign investors posted a net buying activity of PHP 13.5 billion by end-November 2009, while the PSEi composite index closed at 3,052.7 index points at end-December, higher by 70% relative to the end-2008 level, but lower by 17% compared to the end-2007 level.

Government bond market

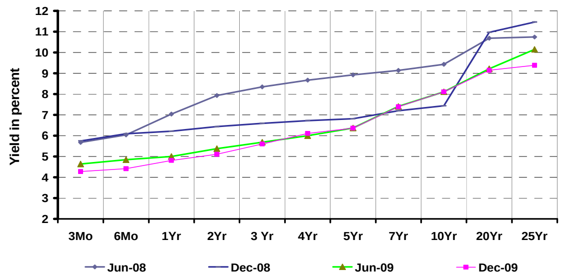
Resident holders of ROP bonds

(in millions of USD)



Benchmark yield curve – peso-denominated government securities

(in per cent)



Government securities (GS), which have been the key feature of the Philippine debt market, continued to dominate in 2008, accounting for 89% or PHP 998 billion of the total bond issuances in 2008.[12]

Non-residents remained the major holders of the Republic of the Philippine (ROP) bonds, holding 58% of the total outstanding issuances as of end-2008. This was, however, lower than the previous year's level of 62%, reflecting heightened investor risk aversion in the global market. On the other hand, resident holdings of ROPs increased in 2008, amounting to US$ 8.9 billion or 42% of the total outstanding ROPs. Of the total resident ROP holdings, Philippine banks accounted for the bulk or 84% (US$ 7.5 billion). Banks were also the primary buyers/holders of peso-denominated GS.

The cost of borrowing funds initially rose in the primary market in 2008. The Bureau of the Treasury (BTr) sold less than half its programmed T-bill and fixed-rate Treasury bond (FXTB) issuances for the year as it rejected bid rates, which carried high premia caused by rising inflation, BSP rate hike concerns and the global financial crisis that exploded in the third quarter of the year. The government's reported comfortable cash position, however, enabled the BTr to award bids that it deemed reasonable. Rates of accepted tenders subsequently dropped in the fourth quarter as the BSP cut its policy rates in light of the improving inflation picture as well as the need to support economic growth.

In the secondary market, the cost of borrowing funds likewise increased. In the first half of 2008, investors demanded higher premia for holding government securities as they were priced according to lower short-term growth prospects and the possibility of higher inflation in the long term. After a brief recovery wherein yields fell in July and August, GS yields rose again, starting in September, as investors' worries intensified with the collapse of major investment banks and growing signs of economies going into recession. However, the BSP's measures to provide liquidity to the market starting in the fourth quarter of 2008 helped ease the market's bearishness and caused yields to fall. The deceleration in inflation rates towards

[12] Corporate bond issuances comprised the rest of the domestic debt market in 2008 at PHP 125.0 billion, capturing 11% of total issuances, an improvement from the 9% share posted in 2007.

the end of the year was also a source of optimism as it gave the monetary authorities the flexibility to reduce their policy rates which, in turn, led to the easing of GS yields in the secondary market.

In 2009, the downward shift in the yield curve continued with yields dropping faster at the shorter end following the monetary easing by the BSP.

Sovereign spreads

Table 5

JP Morgan EMBI + sovereign bond spreads (in basis points)

January 2007 to December 2009

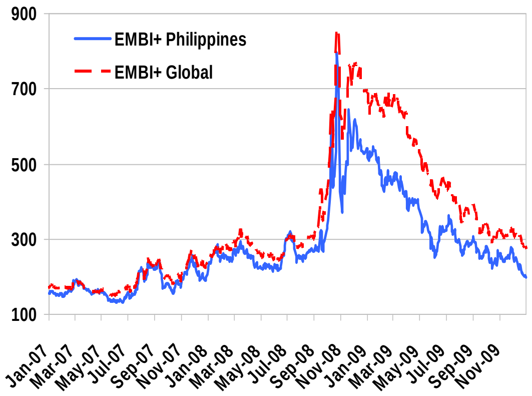
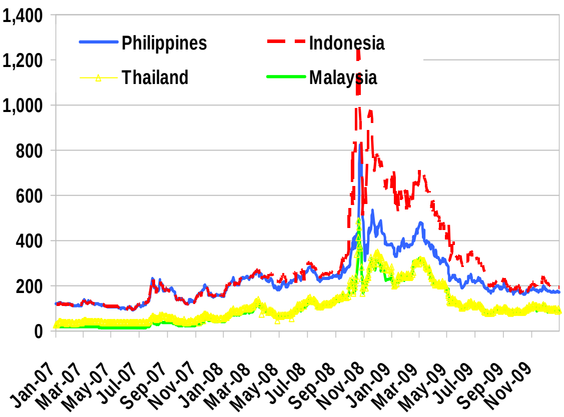


Table 6

Senior five-year CDS spreads (in basis points)

January 2007 to December 2009



Spreads in dollar-denominated ROP bonds have remained on the high side since mid-2008. The extra premium for holding Philippine bonds over US Treasuries, as measured by the EMBI+ Philippines spread, rose by 335 bp during the year. Sovereign spreads peaked in October–November 2008 as depressed risk appetite and associated pressures in developed economies spilled over into the emerging financial market. As of 30 June 2009, the EMBI+ Global spread narrowed to 424 bp from the average of 481 bp recorded in May 2009. The EMBI+ Philippines spread likewise tightened to 323 bp by end-June compared to the previous month's average of 330 bp. By end-December 2009, both the EMBI+ Philippines and EMBI+ Global spreads had further narrowed to 198 and 274 bp, respectively (Table 5).

The trend in the ROP spreads closely followed the CDS spread which significantly swelled to 825 bp on 24 October 2008 (Table 6).[13] By the end of the year, the Philippine CDS spread had retreated to 386 bp. Against neighbouring economies, the Philippine CDS spread remained below Indonesia's CDS level at 691 bp. However, the cost for holding Philippine bonds was higher than in Malaysia and Thailand with CDS spreads at 230 bp and 255 bp, respectively.

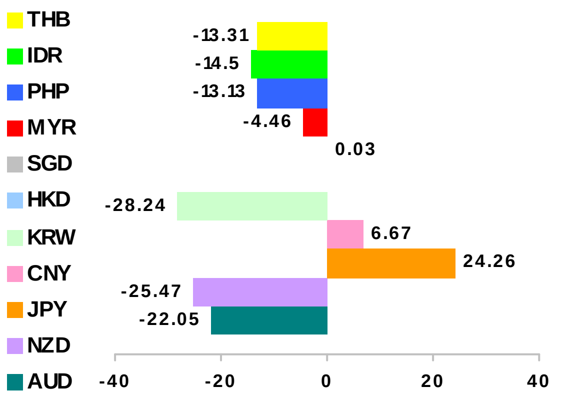
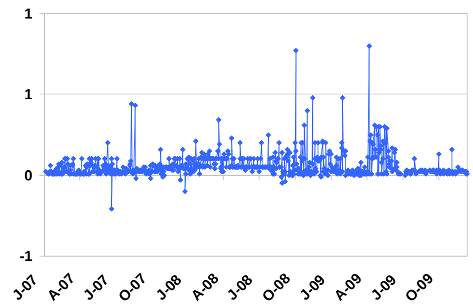
As of 30 June 2009, the Philippine CDS spread narrowed to 216 bp. This was lower than Indonesia's 310 bp, but remained higher than Malaysia and Thailand with CDS spreads at 108 and 111 bp, respectively. Relatively weak economic data and corporate earnings reports

[13] This means that it costs US$ 825,000 to insure US$ 10.0 million of Philippine sovereign debt from default.

and the resulting expectations of rising defaults contributed to the relatively higher spreads.[14] However, by end-December 2009, CDS spreads had eased to 173 bp.

Foreign exchange market

Against the backdrop of the global financial crisis that was characterised by massive financial deleveraging and heightened risk aversion, the peso, like the other regional currencies, started to depreciate in March 2008 to an average of PHP 41.25/US$ 1, from PHP 40.67/US$ 1 in February, particularly following the bailout of Bear Stearns on 14 March 2008. The intensification of the financial crisis in September 2008 following the collapse of Lehman Brothers and the sharp deterioration in economic prospects in emerging countries led to the further depreciation of the peso to an average of PHP 46.69/US$ 1 during the month.

Regional currencies YTD	**Average peso bid-ask spread** **January 2007 to October 2009**
	

The resulting large capital outflows by portfolio investors exerted pressure on the FX market. Reflecting the increased demand for dollar liquidity amid the massive capital outflows in 2008, the average daily volume of transactions in the FX market rose from US$ 583.5 million in March to US$ 777.0 million and US$ 876.2 million in September and October 2008, respectively. Likewise, the average bid-ask spread quoted in 2008 reflected market strains as the spread widened to an average of PHP 0.08 during the year from PHP 0.04 in 2007, suggesting increased pressure in dollar liquidity in the FX market following the onset of the financial crisis.

The peso continued to weaken against the US dollar in the last three months of 2008 as risk aversion rose further due to market concerns over the contagion effect of the US financial turmoil and its impact on the global economy. Volatility, as measured by the coefficient of variation, rose from 1.6 in October to 1.8 in December 2008.

The peso regained stability in 2009 as the Government, together with the monetary authorities, implemented several measures to mitigate the impact of the global financial crisis. On a year-to-date basis, the peso appreciated against the US dollar by 2.9% to close at PHP 46.20/US$ 1 in 2009. In 2009, the average peso-dollar bid-ask spread tightened to PHP 0.05, indicating improvements in FX market liquidity. Moreover, the peso's volatility declined to a monthly average of 0.7% in 2009.

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14 *BIS Quarterly Review*, March 2009.

The developments in the global market during the global financial turmoil were also reflected in the interbank transactions in the Philippines. In particular, this was observed in the movement of the Philippine Interbank Reference Rate (PHIREF), which is the implied Philippine peso interest rate derived from all completed US dollar/peso swap and forward transactions.

The PHIREF for overnight swap transactions declined markedly in the last three months of 2008, which indicated strong demand for the US dollar as a result of the financial turmoil. The demand for dollars rose sharply during this period, such that market participants were willing to pay more in terms of pesos (or, conversely, they were willing to receive negative returns for their peso funds) just to obtain the required financing in US dollars. This drove the PHIREF rate down to zero and then to negative territory.

On 24 September 2008, for example, the PHIREF for daily overnight swap transactions reached –7.55%, the lowest rate in the interbank swap market since the start of the US subprime crisis. Moreover, the volume of overnight swap transactions on 24 September reached US$ 431.5 million, significantly higher than the US$ 335.7 million in 2008.

Nonetheless, as market sentiment improved and following several reductions in the BSP's key policy rates, the overnight PHIREF adjusted towards its normal level.[15] In 2009, the PHIREF averaged 4.21% while the average daily volume of transactions reached US$ 309.9 million.

Domestic money market

The money market continued to be generally liquid in 2008 despite the global financial turbulence that had escalated during the year. The weighted average interest rate (WAIR) on money market transactions declined from 6.1% in 2007 to 5.4% in 2008.[16]

The volume of money market transactions (inclusive of placements with the BSP, interbank call loans, interbank swap transactions and Treasury bills) aggregated PHP 84,259 billion in 2008, 23% higher than the previous year's level and the highest volume recorded in the last nine years. Growth was driven primarily by increased short-term placements with the BSP which rose markedly by more than 20% to PHP 76,217 billion. This notable rise in short-term placements with the BSP reflected banks' preference to remain liquid amid generalised risk aversion and cautiousness given the challenging economic conditions. It could also be explained by the reduced demand for loans because of lower growth prospects. During the year, repurchase agreements (RP) were the most actively traded instrument in the money market, comprising 75% of the total volume of money market transactions.

Banks' placements with the BSP started to grow in April and rose to an average of PHP 7,955 billion in July. From August to November, transactions remained elevated, averaging PHP 6,634 billion per month.

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[15] The BSP reduced its policy rates six times from December 2008 given an easing inflation outlook. On 18 December 2008 and 29 January 2009, the BSP reduced its key policy rates by 50 bp on each occasion while on 5 March, 16 April, 28 May, and 7 July 2009, the BSP's key policy rates were reduced by 25 bp. These policy reductions brought the overnight borrowing or reverse repurchase (RRP) facility and the overnight lending or repurchase (RP) facility to 4% and 6%, respectively. The decision to reduce the policy rates was expected to help bring down the cost of borrowing, thus relieving corporates' and households' financial burden and promoting wider access to domestic financing amid tight external financing conditions.

[16] The computation for the weighted average interest rates is based on money market transactions on interbank call loans, promissory notes, repurchase agreements, commercial papers, Treasury bills and other government securities. The sources of basic data used in the analysis/text (unless otherwise stated) come from the daily money market reports of banks and other financial institutions with quasi-banking functions submitted to the Department of Economic Statistics (DES).

Loans at the interbank call market also increased, rising by 41% to PHP 1,710 billion in 2008. The average interest rate in this market dropped to 5.5% during the year compared to the 7.2% posted in 2007, indicating that banks had sufficient liquidity.

On a month-on-month basis, however, interbank call loan (IBCL) transactions fell steadily, indicating banks' reluctance to lend. Banks' cautiousness to lend was likewise reflected in the call rates which rose to a peak in August in tandem with the BSP's earlier tighter monetary policy stance to address the build-up of inflationary pressures brought about by the continued rise in commodity and oil prices during the latter period of 2007 and the early period of 2008.

During the first half of 2009, placements in the BSP's facilities continued to be the preferred money market instrument, accounting for 88% of total money market transactions. As for the interbank market, the total volume of transactions fell by 62% relative to the same period in 2008, suggesting that there was sufficient liquidity in the system.

The continued rise in repo transactions in 2009 indicated that banks remained cautious over a possible lengthening of crisis conditions that could drain liquidity in the short-term funding market. Banks' further reluctance to lend to each other, as evidenced partially by the decline in interbank lending transactions, as well as the drop in the commercial paper and short-term government securities transactions in the secondary market, reflected the persisting elevated uncertainties over lending to counterparties other than the government.

Domestic banking

The Philippine banking system[17] has remained resilient despite the heightened level of global financial distress. This is primarily due to several factors: first, the limited exposure of domestic banks to the US subprime fallout and other related securitised assets, which accounted for only 0.4% of the banking system's total assets as of 30 June 2008; second, its relatively strong bank balance sheets with a return to profitability; third, improvements in risk and liquidity management; fourth, strengthening of supervisory and regulatory systems; and fifth, moves by banks into more profitable domestic business lines such as consumer lending.[18]

In fact, in the first half of 2009, local banks managed to register respectable growth in their key balance sheet accounts. During the period, banks were able to provide higher provisions for credit losses, plough back undivided profits to reinforce their capital base and achieve greater efficiency in their operations on account of greater maximisation of e-banking technologies. Philippine banks recorded solid performances in terms of asset quality, capital position and profitability. Overall, the system was able to maintain net profit despite the decline in treasury-related operations due to substantial revaluations of unrealised gains from banks' FX transactions.

Funding

Prior to the crisis, the domestic banking system was focused on the traditional banking business of accepting deposits and making loans. In addition, banks' composite asset and funding mix were mainly domestic-oriented. The prudential measures put in place after the Asian crisis (geared towards maintaining a strong banking system, strengthening bank

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[17] For the purposes of this paper, the Philippine banking system refers to the Philippine universal and commercial banking system (UKBs), unless otherwise specified. The UKBs accounts for the bulk (89.5%) of total resources of the Philippine banking system as of the fourth quarter of 2008, and generally drives developments for the whole system.

[18] "Ímpact of the global financial and economic crisis on the Philippines", J T Yap et al.

balance sheets, promoting corporate governance and transparency, upgrading risk management standards and improving consumer protection) helped to curb excessive risk-taking of domestic banks. These factors helped to insulate them to a considerable degree from the negative impact brought about by the credit crisis.

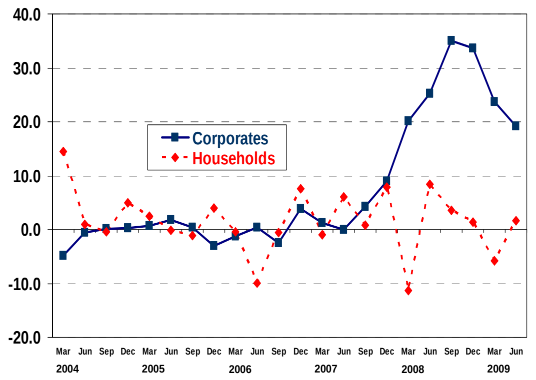
Deposits have remained the main funding source of banks, making up more than 82% of total liabilities as of end-September 2009 from 83% for the whole year of 2008. Meanwhile, retail deposits made up more than half of total deposits at 56%.

Meanwhile, in response to heightened concerns over liquidity, domestic banks increased their reliance on short-term funding (with maturities of up to one year) in 2009. From 86% in September 2008, the share of short-term funding to total funding increased to 89% in September 2009. In contrast, the share of long-term funding (with maturities over five years) to total funding decreased to 5% from 10% in the same period.

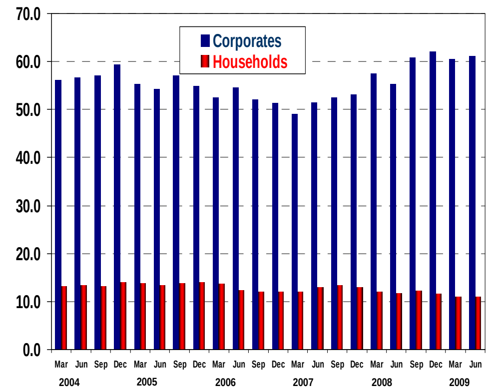
Lending

Even amid the global financial crisis, the total loan portfolio of the domestic banking system grew by 7.7% and 1.4% in the third quarter of 2009 year-on-year and quarter-on-quarter, respectively. In the same period, loans to the corporate sector grew by 19.2% relative to the level of the previous year. Likewise, total loans to the household sector grew modestly by 0.6% compared to the third quarter level of 2008. As of June 2009, loans to the corporate sector comprised 61.2% of total loans. Meanwhile, loans to households made up 11.0% of total loans.

Total loans
Corporates vs households, growth rates (y-o-y)



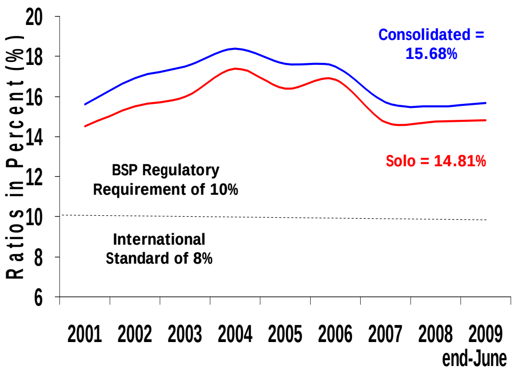
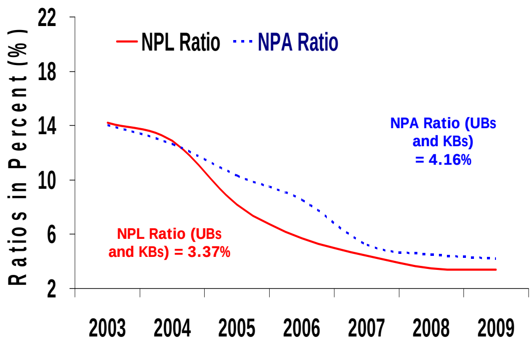
Total loans
Corporates vs households, % share



Since 2007, the proportion of corporate sector loans in the banking system's loan portfolio declined from a high of 67% immediately after the Asian crisis to a low of 49% in 2007, as excess production capacity dimmed the appetite for corporate borrowing. The proportion of such loans partially recovered at 61% as of June 2009. Besides financial intermediation and the interbank market, the top three loan recipients were real estate, manufacturing and agriculture-related sectors. Meanwhile, the proportion of household loans to total loans likewise showed a general downtrend during the same period.

Similarly, there were some changes in banks' loan structure in terms of the types of maturity issued and profile of counterparties transacted with. In terms of maturity, the proportion of short-term lending (with maturities of up to one year) to total lending declined from 72% as of end-June 2008 to only 61% as of end-September 2009, indicating the shift of banks' lending activities to longer-term maturities in the face of the uncertain environment during the period.

Asset quality

Capital adequacy ratio (CAR) 2001 to June 2009	Loan and asset quality ratio As of end-October 2009
	

In 2009, the banking system's capital adequacy ratio (CAR) remained above regulatory and international standards at 14.8% on a solo basis and 15.6% on a consolidated basis. This indicates that local banks had adequate capital buffers to absorb potential losses.

In the first half of 2009, non-performing loans (NPLs) decreased by 10.0% from PHP 94.1 billion in the previous year to PHP 84.6 billion. This consequently brought down the banking system's NPL ratio to its eleven and a half-year low of 3.4%. As a corollary, non-performing assets (NPAs) decreased by 5.9% in the same period at PHP 225.5 billion from PHP 239.7 billion in the previous year. Both NPL and NPA ratios further eased to 3.37% and 4.16% respectively by end-October 2009.

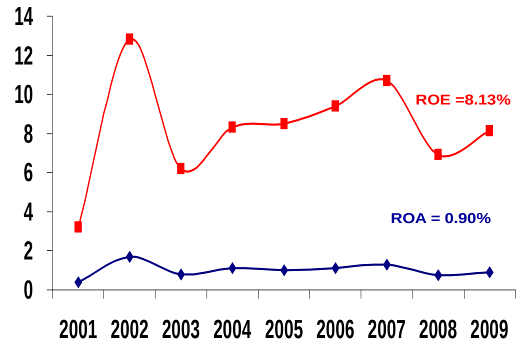
Lastly, total resources of the banking system rose by 7.2% to PHP 6.1 trillion as of end-October 2009 from the previous year level of PHP 5.7 trillion. The increase was mainly due to the rise in debt securities. U/KBs continued to account for almost 90% of the total resources of the banking system.

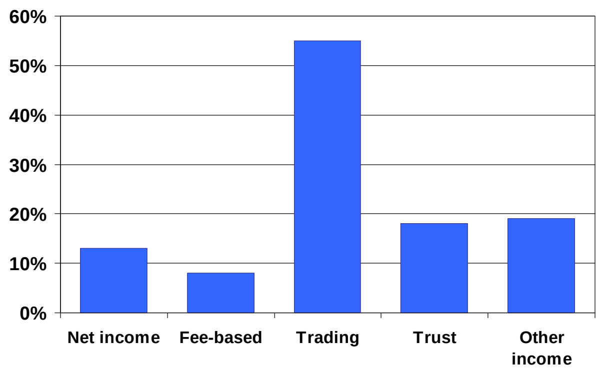
Profitability

The banking system's profitability improved during the first quarter of 2009. Net income after tax (NIAT) was at PHP 14 billion, reflecting an increase of 101% and 5% compared to the previous quarter and a year ago levels, respectively. The increase in NIAT could be attributed to the decline in the cost-to-income (CTI) ratio at 66% in end-March relative to 69% in the previous quarter and 70% in the previous year. The decline in CTI was driven by the reduction in compensation/fringe benefits and other administrative expenses.

Meanwhile, return on equity (ROE) and return on assets (ROA) increased to 8.13% and 0.90% in the first three months of 2009 from 6.86% and 0.78%, respectively, in the previous quarter.

Return on assets (ROA)/return on equity (ROE)	Volatility of annual growth rates of profitability
Jan 2001 – June 2009	1999 – 2008





Source: BSP

Liquidity

Liquidity, next to capital adequacy, is key to financial stability. The reduction in reserve requirements (19% of peso deposit liabilities/substitutes effective 14 November 2008 pursuant to Circular no 632 dated 13 November 2008) and prudent credit allocation (loan-to-deposit ratio stood at 63.0% as of end-September 2009) of banks led to ample liquidity in the system. Parallel to this, the BSP implemented other liquidity management measures to ensure liquidity in the system (ie peso and dollar repo windows).

The ratio of banks' liquid assets to total assets increased to 30.6% as of end-September 2009 from the previous year's ratio of 29.7%. Investment in government securities and amounts due from banks comprised total liquid assets at 53% and 41%, respectively. The loan-to-deposit ratio remained modest at 63.0%. Excluding lending to and deposits from banks, the loan-to-deposit ratio was even lower at 47.0%.

Foreign banks

While domestic banks registered positive growth in assets, loans and liabilities, foreign-owned banks suffered a general decline in their balance sheets. Foreign-owned banks' assets plummeted by 12.0%, loans by 15.0% and liabilities by 13.0% year-on-year as of September 2009.

It would seem that foreign banks were still risk-averse regarding the financial markets, since 94% of the decline in their loan portfolio was accounted for by the drop in their interbank loans (IBL) and repurchase (repo) activities. It should be noted that foreign banks are significant players in the IBL and repo markets, accounting for 31% and 24% of the total of these markets (this is quite large given that foreign banks only account for around 13% of banks' total assets). The decline in total IBLs can be attributed mainly to one foreign bank's IBL transactions, which decreased by PHP 21.6 billion.

This was in sharp contrast to the IBL and repo activities of domestic banks, which increased by 45% and 71%, respectively. Domestic banks appeared to regain their confidence in the financial markets sooner than foreign banks (domestic banks' IBLs dropped in 2008 and early 2009). This was expected given the vulnerability of foreign banks' head offices.

Foreign-owned banks' loan portfolios remained the bulk of their assets. As of September 2009, their loan portfolio share to total assets was 57%, 10 percentage points higher than that of domestic banks. The contraction in foreign-owned banks' loan portfolios offset the 50% growth in their investment portfolios, which comprised 15% of total assets in the same period. Investments in government securities comprised 68% of total investments. Meanwhile, domestic banks' investment portfolios, which made up 29% of their total assets, grew by 25%.

Like domestic banks, deposits have remained the core source of foreign-owned banks' funding. As a share of total liabilities, deposits of foreign-owned banks went up from 58% in September 2008 to 65% in September 2009.

Foreign-owned banks posted an increase in their liquidity ratio from 23.4% in September 2008 to 27.0% in September 2009, due mainly to the 12% decline in their total assets. Liquid assets per se increased by only 1%. This ratio, however, was lower than domestic banks' liquidity ratio at 31%.

IV. The BSP's response to the crisis

In response to the global financial turmoil, the BSP carefully considered opportunities for monetary policy easing amid the potential tightening of financial conditions while remaining faithful to its core mandate of maintaining price stability. The BSP pursued policies that would infuse appropriate levels of liquidity to maintain the efficient functioning of the financial markets and help avert the shrinkage of domestic markets while keeping its eye on price developments.

Because the Philippine economy did not experience as deep a crisis as the advanced economies, monetary easing by the BSP was of a relatively smaller magnitude and thus involved conventional measures.

In many ways, the BSP's interest rate easing and liquidity provision measures were confidence-building moves, signalling the BSP's commitment to ensuring ample money supply in order to fuel the economy's growth engine and maintaining low interest rates to reduce the cost of borrowing to firms and households and therefore support investment and consumption growth.

Policy rate reduction

With easing price pressures due to muted demand pressures, the BSP moved to cut policy rates by 200 bp from December 2008, bringing the overnight borrowing or reverse repurchase rate to 4.0% and the overnight lending or repurchase rate to 6.0%. The rate reductions were intended to help stimulate economic growth and/or dampen the slowdown in economic activity by reducing the cost of borrowing, thereby reducing the financial burden of firms and households. Reduced policy rates also helped to mitigate the negative feedback loop between weakening economic conditions and a more cautious financial sector. The action also helped to boost business and consumer confidence.

Policy rate reductions	
18 December 2008	50 bp reduction
29 January 2009	50 bp reduction
5 March 2009	25 bp reduction
16 April 2009	25 bp reduction
28 May 2009	25 bp reduction
7 July 2009	25 bp reduction

Liquidity-enhancing measures

With the growing concern that local banks could encounter problems in sourcing dollars, the BSP implemented several measures to help infuse dollar liquidity into the domestic financial system. The BSP opened a US dollar repo facility to augment dollar liquidity in the FX market and ensure the ready availability of credit for imports and other legitimate funding requirements. For this facility, the Monetary Board (MB) approved the use of foreign-denominated sovereign debt securities (ROP) as collateral for loan availments. The guidelines were amended the following month to limit the facility only to banks with legitimate foreign currency-denominated funding needs, provided that the borrowing would be for the account of the applicant bank and would not be used to fund the liquidity requirements of foreign branches, affiliates or subsidiaries.

In addition to the foreign currency refinancing measures, the BSP implemented the following liquidity support measures for the purpose of pre-emptively providing ample liquidity and credit in the banking system:

Other liquidity support measures	
7 November 2008	Increased the rediscounting budget from ₱20B to ₱40B
14 November 2008	Reduced the reserve requirement by two percentage points
2 March 2009	Increased further the rediscounting budget from ₱40B to ₱60B. A larger rediscounting budget would enable banks to refinance more loans extended to their clients Liberalised rediscounting guidelines to enable banks to rediscount more loan papers and therefore have access to additional funds that they could relend to the public. These included: • Aligning the peso rediscount rate with the BSP’s RRP rate, less 50 basis points. • Increasing the loan value of all eligible rediscounting papers from 80% to 90% of the outstanding balance of a borrowing bank’s credit instrument. • Lifting the requirement to execute a Surety Agreement (SA) by any single stockholder, natural or juridical, owning more than 50% of the voting stocks of a bank with approved rediscounting lines with the BSP. • Lifting the imposition of a ceiling on the outstanding papers that a bank may rediscount equal to the rediscounting bank’s single borrower’s limit. • Easing the NPL ratio requirement.

Lastly, the BSP launched the Credit Surety Fund Programme (CSFP) in the second half of 2008 to help ensure that small businesses had access to financing. The CSFP is a credit enhancement scheme that allows micro, small and medium enterprises (MSMEs) that are members of cooperatives to borrow from banks even without collateral. Loans granted by banks under the Programme are eligible for rediscounting with the BSP through the Department of Loans and Credit (DLC).

Regulatory forbearance

Complementing the aforementioned measures, the BSP also responded to the global financial crisis with regulatory forbearance. To safeguard confidence in the banking system, on 30 October 2008 the Monetary Board approved the guidelines allowing financial institutions to reclassify financial assets from categories measured at fair value to those measured at amortised cost. Financial institutions were allowed to reclassify their investments in debt and equity securities from their “held for trading” or “available for sale” categories to the “held to maturity” or the “unquoted debt securities classified as loans” categories. Likewise, the maximum deposit insurance coverage was increased to PHP 500,000 from PHP 250,000.

Cooperation and communication

Lastly, in response to the BSP’s call for a coordinated domestic response to the global financial turmoil, the Bankers’ Association of the Philippines (BAP) adopted several measures by way of a gentlemen’s agreement at end-October 2008. For example, banks agreed to voluntarily halve their purchases or “overbought” position in the FX market to US$ 25 million (or 10% of unimpaired capital) from the prevailing US$ 50 million (or 20% of unimpaired capital), which helped to ease pressure on the demand for dollars. Moreover, the BSP further strengthened engagements with regional peers to share information, discuss emerging developments and pool resources, if necessary – even FX reserves.

In responding to the crisis, the BSP also found it important to improve transparency and communicate its near-term policy objectives. Communicating to the market and the public that the BSP is committed to ensuring that there is ample liquidity to keep the financial markets functioning and to helping fund the growth requirements of the economy has helped to stabilise financial markets and anchor inflation expectations going forward. Markets have, for instance, reacted positively to monetary policy actions that reassure them of the BSP’s commitment to keeping inflation in check. Clear communication will also avoid confusion about the BSP’s monetary policy stance going forward.

V. Effectiveness of the BSP's policy response

Selected economic and financial indicators

	2007	2008	2009
Real GDP growth (%)	7.1	3.8	1.1
Headline inflation (%)	2.8	9.3	3.2
Domestic liquidity, M3			
In billions of pesos	3,174.4	3,668.4	3,971.5
			8.3
(%)	10.6	15.6	12.0
Bank average lending rates (%)	8.7	8.8	8.5
T-bills 91 days (%)	3.4	5.4	4.2
Outstanding loans of universal and commercial banks, net of RRPs (in billions of pesos)	1,618.6	1,907.3	2,098.3
(%)	8.3	17.8	10.0
End-of-period exchange rate (Peso/US$ 1)	41.28	47.52	46.20
Balance of payments			
In billions of USD	8.6	0.1	5.3
Current account			
In billions of USD	7.2	3.9	8.6
As a percentage of GDP (%)	4.9	2.3	5.3
Gross international reserves			
In billions of USD	33.8	37.6	44.2
Months of imports	5.7	5.9	9.0

Evidence suggests that the BSP's policy responses have proven to be effective.

Reduced policy rates boosted business and consumer confidence for economic expansion. As a result, real GDP continued to grow, albeit slower, at 1.1 % for 2009. Year-on-year growth can be traced to personal consumption expenditure and general government expenditure.

Year-on-year headline inflation averaged 3.2% for the whole of 2009, well within the Government's target range of 2.5–4.5% for the year. The subdued inflation environment has allowed the BSP to reduce its policy rates to support the economy.

Market interest rates have trended downwards following the policy rate cuts by the BSP, as banks have passed on reduced lending rates to their borrowers. The average bank lending rates for all maturities for 2009 averaged 8.5% from 8.8% in 2008. The average interest rate for the 91-day T-bill rate went down to 4.2% from 5.4% in 2008.

Sustained liquidity growth was recorded in 2009, indicating that ample funds were available to support the credit needs of firms and households. Domestic liquidity grew steadily at 8.3% year-on-year in 2009.

Outstanding bank lending as of December 2009, net of banks' reverse repurchase placements with the BSP, continued to grow by 10% year-on-year. Loans for production activities expanded year-on-year by 9.9% in December.

The peso-dollar exchange rate has remained generally steady. On a year-to-date basis, the peso appreciated by 2.9% against the US dollar as it closed at PHP 46.20/US$ 1, on 29 December 2009. The peso strengthened due to the increased risk appetite for emerging market assets and continued inflows of OF remittances.

The overall BOP posted a surplus of US$ 5.3 billion in 2009 on the strength of an improved current account balance. This resulted in the build-up of the country's gross international reserves (GIR), which reached US$ 44.2 billion, equivalent to 9.0 times the country's imports of goods and services.

TABLE 1
Philippine Daily Stock Composite Index
2007 to 2009
(end of period)

2007	Jan	3239.27
	Feb	3067.45
	Mar	3203.55
	Apr	3270.73
	May	3474.67
	Jun	3660.86
	Jul	3501.20
	Aug	3365.29
	Sep	3572.90
	Oct	3758.97
	Nov	3578.55
	Dec	3621.60
2008	Jan	3266.00
	Feb	3129.99
	Mar	2984.67
	Apr	2749.77
	May	2827.44
	Jun	2459.98
	Jul	2577.10
	Aug	2688.09
	Sep	2569.65
	Oct	1951.09
	Nov	1971.57
	Dec	1872.85
2009	Jan	1825.09
	Feb	1872.22
	Mar	1986.22
	Apr	2103.50
	May	2389.31
	Jun	2437.99
	Jul	2798.33
	Aug	2884.18
	Sep	2800.82
	Oct	2908.50
	Nov	3044.97
	Dec	3052.68

Source: Philippine Stock Exchange (PSE)

TABLE 2

STOCK MARKET CAPITALISATION [1]

2006-2009
end of period
in million pesos

		Financials	Industrial	Holding Firms	Services	Property	Mining & Oil	SME	Total
2007	Jan	4,429,614.13	762,381.44	698,783.15	944,644.71	534,461.91	67,475.28	322.68	7,437,683.29
	Feb	4,492,380.32	788,248.32	654,902.47	890,486.84	535,920.50	70,841.59	335.28	7,433,115.32
	Mar	4,554,201.89	802,566.61	679,770.78	923,985.21	562,832.09	80,249.68	300.28	7,603,906.55
	Apr	4,627,118.47	810,929.61	699,621.08	934,578.98	577,595.28	87,844.97	325.48	7,738,013.87
	May	4,654,013.88	858,471.82	790,855.12	966,161.01	642,006.26	98,786.27	364.68	8,010,659.04
	Jun	4,721,304.22	907,382.85	839,617.81	988,172.77	771,977.12	97,752.11	342.28	8,326,549.17
	Jul	4,525,377.09	907,414.92	824,962.33	1,017,014.94	744,075.45	101,532.93	473.76	8,120,851.34
	Aug	4,614,380.62	889,202.58	757,637.65	1,025,498.37	670,340.91	91,473.24	13,791.91	8,062,325.28
	Sep	4,686,128.15	863,168.12	792,615.89	1,093,661.32	679,198.92	109,616.89	17,706.61	8,242,095.89
	Oct	5,062,323.45	897,663.46	856,838.94	1,160,267.12	703,781.14	120,311.53	12,082.61	8,813,268.25
	Nov	4,499,508.22	810,899.02	770,988.07	1,138,511.05	635,575.34	115,961.06	4,370.09	7,975,812.86
	Dec	4,395,322.87	861,904.18	793,275.75	1,146,800.86	638,256.04	122,320.49	4,509.43	7,962,399.62
2008									
	Jan	3,882,841.31	769,339.87	672,306.73	1,069,857.82	572,377.76	105,911.04	2,973.28	7,075,607.82
	Feb	4,045,855.79	779,939.09	647,194.80	1,041,518.30	518,692.71	110,284.15	3,047.90	7,146,532.74
	Mar	3,794,323.45	738,969.06	608,321.32	1,015,826.66	473,115.94	105,753.69	2,868.56	6,739,178.68
	Apr	4,065,506.37	721,037.12	559,053.84	944,290.27	432,955.45	101,109.93	2,967.56	6,826,920.53
	May	4,178,254.30	799,704.86	585,867.69	958,264.56	452,117.92	109,192.25	2,878.21	7,086,279.79
	Jun	3,773,537.41	752,396.43	510,276.59	892,387.19	386,759.62	98,981.49	3,218.25	6,417,556.97
	Jul	3,762,959.15	780,191.91	536,039.80	908,183.50	394,710.76	97,852.86	3,173.48	6,483,111.46
	Aug	3,583,045.20	791,106.70	580,575.91	949,090.98	423,368.35	100,148.74	2,716.98	6,430,052.86
	Sep	3,710,188.11	855,182.82	481,583.42	958,267.03	417,062.87	84,497.79	2,331.66	6,509,113.69
	Oct	2,656,212.86	706,803.19	349,653.86	743,731.83	322,782.86	54,880.57	1,699.36	4,835,764.53
	Nov	2,207,099.00	648,048.01	314,831.75	812,541.14	307,269.26	52,673.08	1,328.91	4,343,790.95
	Dec	2,000,833.70	631,743.85	326,037.48	738,512.44	319,220.55	50,652.42	2,226.28	4,069,226.70
2009									
	Jan	2,069,172.04	657,815.79	327,497.33	736,839.43	310,137.67	53,216.19	1,546.53	4,156,224.99
	Feb	1,937,366.97	710,256.98	327,259.19	746,493.00	296,596.66	56,566.90	1,550.35	4,076,090.05
	Mar	1,733,749.03	765,267.25	345,839.82	793,354.33	299,653.94	59,720.67	1,550.35	3,999,135.38
	Apr	2,072,093.99	781,503.27	393,805.45	791,051.17	364,305.26	59,974.88	1,645.87	4,464,379.90
	May	2,321,772.71	858,348.15	581,478.05	865,727.94	397,742.66	81,820.97	2,094.55	5,108,985.03
	Jun	2,409,080.24	906,873.75	530,622.45	894,179.14	389,327.77	83,132.51	341.52	5,213,557.38
	Jul	2,897,835.35	1,055,562.87	606,293.72	962,376.66	455,961.57	94,655.17	341.52	6,073,026.85
	Aug	2,799,579.58	1,051,844.19	641,303.46	977,218.87	509,235.60	111,406.48	341.52	6,090,929.69
	Sep	2,697,591.63	1,013,625.57	603,538.86	964,922.37	504,235.93	123,783.52	1,023.52	5,908,721.39
	Oct	2,608,186.21	1,015,427.67	616,859.90	967,462.50	486,673.72	152,102.29	836.71	5,847,548.99
	Nov	2,477,699.79	1,068,549.90	622,505.91	979,039.09	498,920.60	194,944.04	332.33	5,841,991.67
	Dec	2,603,594.14	1,109,753.24	632,024.01	996,670.43	499,477.05	187,227.43	335.44	6,029,081.74

[1] *As of January 31, 2006 new sector classification was implemented.*
Source of data: Philippine Stock Exchange (PSE)

TABLE 3
PSE Foreign Transactions Value, 2007 - 2009
(in Philippine Pesos, current prices)

		Foreign Buying	Foreign Selling	Net Foreign Transactions
2007	Jan	54624482460.52	42799836584.00	11824645876.52
	Feb	60348568452.96	57685291927.79	2663276525.17
	Mar	57764292641.44	44942845215.13	12821447426.31
	Apr	42423483237.04	35977257317.38	6446225919.66
	May	65152113300.33	52344613055.95	12807500244.38
	Jun	78117861385.16	60281672927.28	17836188457.88
	Jul	88773900947.40	74311396231.55	14462504715.85
	Aug	61280748349.08	63712137319.42	-2431388970.34
	Sep	43591533123.61	47823694669.05	-4232161545.44
	Oct	50456675289.31	50399856496.89	56818792.42
	Nov	43935164107.63	52475885636.91	-8540721529.28
	Dec	33858361421.76	42004476071.56	-8146114649.80
	Total	**680327184716.24**	**624758963452.91**	**55568221263.33**
2008	Jan	33861538532.55	45760706791.30	-11899168258.75
	Feb	31691841444.11	33393265845.17	-1701424401.06
	Mar	27373456180.72	30484718546.94	-3111262366.22
	Apr	26164040548.26	30554343562.43	-4390303014.17
	May	36473471424.88	34191071678.34	2282399746.54
	Jun	30043182716.40	26397603083.67	3645579632.73
	Jul	53207922751.70	52793292084.20	414630667.50
	Aug	17348560925.64	22518299949.34	-14759547993.43
	Sep	21888434612.93	28630403453.08	-6741968840.15
	Oct	22755088855.15	32564915725.78	-9809826870.63
	Nov	21541270239.59	18425057936.11	3116212303.48
	Dec	38663920067.63	27457672938.48	11206247129.15
	Total	**361012728299.56**	**383171351594.84**	**-22158623295.28**
2009	Jan	11411151991.89	13854622160.43	-2443470168.54
	Feb	15118606687.18	13803356445.37	1315250241.81
	Mar	19393219617.80	25634925928.37	-6241706310.57
	Apr	43402464010.67	26540437959.92	16862026050.75
	May	62937270762.98	64826112157.08	-1888841394.10
	Jun	25461857519.60	24776139494.84	685718024.76
	Jul	26173450243.72	26626967169.41	-453516925.69
	Aug	20417010612.13	21700958689.54	-1283948077.41
	Sep	31614603245.50	21692011565.04	9922591680.46
	Total	**255929634691.47**	**239455531570.00**	**16474103121.47**

Source: Philippine Stock Exchange (PSE)

TABLE 4
Price Equity Ratio
2007 - 2009

2007	Jan	15.97
	Feb	15.45
	Mar	16.01
	Apr	15.79
	May	16.58
	Jun	17.90
	Jul	17.03
	Aug	14.85
	Sep	15.20
	Oct	15.94
	Nov	15.08
	Dec	15.49
2008	Jan	14.21
	Feb	13.67
	Mar	13.01
	Apr	12.43
	May	12.43
	Jun	10.95
	Jul	11.53
	Aug	12.16
	Sep	11.92
	Oct	9.23
	Nov	9.76
	Dec	9.42
2009	Jan	9.29
	Feb	9.65
	Mar	10.27
	Apr	12.81
	May	14.42
	Jun	14.78
	Jul	16.97
	Aug	16.90
	Sep	12.77
	Oct	12.92

TABLE 5

JP Morgan EMBI+Sovereign Bond Spreads

(End-month period, In basis points)

		EMBI+ Philippines	EMBI+ Global
2007	Jan	157	172
	Feb	179	185
	Mar	165	166
	Apr	164	164
	May	138	153
	Jun	154	175
	Jul	215	219
	Aug	220	236
	Sep	183	201
	Oct	171	186
	Nov	228	246
	Dec	206	239
2008	Jan	252	273
	Feb	272	291
	Mar	272	308
	Apr	228	264
	May	220	243
	Jun	302	295
	Jul	250	283
	Aug	267	299
	Sep	321	414
	Oct	427	629
	Nov	544	718
	Dec	541	690
2009	Jan	473	633
	Feb	446	649
	Mar	428	636
	Apr	381	529
	May	305	460
	Jun	323	424
	Jul	300	389
	Aug	296	382
	Sep	264	327
	Oct	258	323
	Nov	274	330
	Dec	198	274

Table 6. Senior 5-Year CDS Spreads

(End-month period, In basis points)

	Philippines	Indonesia	Thailand	Malaysia
31-Jan-07	121.328	119.600	35.989	18.133
28-Feb-07	123.097	123.450	41.108	18.000
30-Mar-07	120.476	119.665	41.514	17.055
30-Apr-07	108.100	106.990	37.350	13.000
31-May-07	100.643	99.400	37.929	14.257
29-Jun-07	110.675	110.260	38.314	16.225
31-Jul-07	206.300	208.900	59.150	36.160
31-Aug-07	180.799	181.940	62.233	37.365
28-Sep-07	143.056	141.264	43.099	24.497
31-Oct-07	132.401	125.563	41.990	23.926
30-Nov-07	159.634	159.003	62.472	45.431
31-Dec-07	153.335	152.830	54.833	41.993
31-Jan-08	209.794	211.827	89.637	72.332
29-Feb-08	241.726	240.041	102.087	82.959
31-Mar-08	240.421	245.033	110.432	98.500
30-Apr-08	195.099	224.997	69.797	65.627
30-May-08	223.208	250.404	80.038	77.244
30-Jun-08	261.647	281.647	132.254	111.914
31-Jul-08	222.495	241.774	105.888	97.759
29-Aug-08	242.769	261.299	135.000	127.505
30-Sep-08	286.383	360.177	169.934	168.325
31-Oct-08	482.575	564.454	189.364	167.199
28-Nov-08	417.657	773.845	334.447	310.825
31-Dec-08	386.213	691.364	255.264	230.058
30-Jan-09	379.925	604.868	238.771	231.320
27-Feb-09	446.650	642.947	295.356	296.389
31-Mar-09	378.300	573.225	242.488	240.850
30-Apr-09	294.63	402.975	187.324	176.7
29-May-09	229.175	333.037	121.682	115.99
30-Jun-09	216.422	310.482	110.698	108.452
31-Jul-09	178.961	199.163	79.832	75.99
31-Aug-09	188.652	213.683	93.973	96.998
29-Sep-09	178.558	186.469	88.524	83.992
30-Oct-09	179.308	191.173	100.129	94.616
30-Nov-09	191.461	229.475	111.004	110.74
31-Dec-09	173.067	192.007	94.6	88.372

Source: Bloomberg

TABLE 7
Peso Per U.S. Dollar Rate
2007 to 2009
(Monthly Average)

2007	Jan	48.91
	Feb	48.38
	Mar	48.52
	Apr	47.82
	May	46.81
	Jun	46.16
	Jul	45.63
	Aug	46.07
	Sep	46.13
	Oct	44.38
	Nov	43.22
	Dec	41.74
2008	Jan	40.94
	Feb	40.67
	Mar	41.25
	Apr	41.82
	May	42.90
	Jun	44.28
	Jul	44.96
	Aug	44.88
	Sep	46.69
	Oct	48.03
	Nov	49.19
	Dec	48.09
2009	Jan	47.21
	Feb	47.58
	Mar	48.46
	Apr	48.22
	May	47.52
	Jun	47.91
	Jul	48.15
	Aug	48.16
	Sep	48.14
	Oct	46.85
	Nov	47.03
	Dec	46.42

Source: Reference Exchange Rate Bulletin, Treasury Department, BSP