



CONVERTING FOREIGN DEBT TO PESO DEBT

A sensible debt management strategy

A high level of external debt could get in the way of a credit rating upgrade for the Philippines. To address this issue, we should consider a debt management program similar to the buybacks conducted by Latin American countries that have achieved an economic turnaround as well as investment grade status.

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The interest payments of the National Government (NG) in August 2013 showed an 8.8% decline, according to the Bureau of Treasury. On a year-to-date basis, these payments have risen by only 3.5% compared to overall expenditure growth of 12.6%. These figures reflect good debt management on the NG's part. But can it do more to reduce the country's external debt which, at 40% of total public debt, is significantly higher than that of our peers, as noted by Standard & Poor's (S&P)? This high level of external debt could be an obstacle to a further credit upgrade given by S&P in May of this year.

This paper examines the benefits of domestic financing of debt relative to foreign financing. Specifically, it looks at potential benefits of an aggressive dollar-debt buyback program, and the conditions under which it should be implemented.

Trends in the borrowing mix

This year, the borrowing mix of the NG has shifted drastically to domestic sources. For the January to August period, gross foreign financing accounted for only 6% of total borrowing, and the rest came from domestic sources. This is even better than the original 10%-90% plan of the Department of Finance (DOF) for foreign and domestic financing of its new debt. And yet, except for May-September 2013 during which the adverse impact of the Federal Reserve’s announcement of its broad plan to “taper” its long-term government bond purchases ran through the bond markets, domestic interest rates have fallen compared to a year ago.

This low share of foreign financing has not always been the NG stance in the past. For 2000-2011, the average foreign financing of public debt was 35.5%, with a high of 45.9% in 2002. Only in 2008 was an extremely low 14.4% level of foreign sourcing observed because of the financial crisis that erupted in the United States and spread to the rest of the world late that year, which increased the cost of borrowing from abroad. However, since 2012, there has been a clear decision to minimize foreign borrowings in the face of a large and widening gap between savings and investments (see Figure 1). Thus, last year the percentage of foreign borrowing to total

NG borrowing fell to 16.4% and dropped further this year.

Figure 1 • Savings-investments gap as a percentage of GNP (1991-2012)

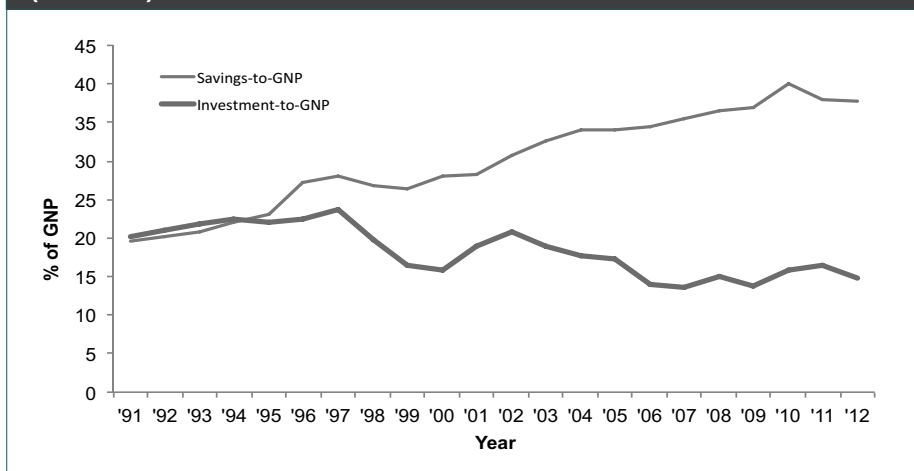
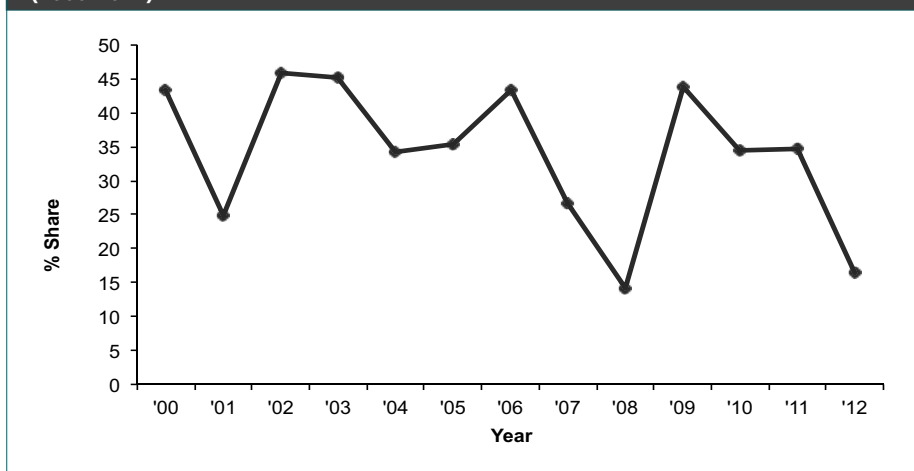


Figure 2 • Percentage share of foreign sources to total financing (2000-2012)



At the beginning of the millennium, foreign borrowing was preferred because domestic interest rates were much higher than foreign rates. However, this scenario has significantly changed, as these borrowings coupled with increased remittances from overseas Filipino workers (OFWs) led to an appreciation bias for the peso starting 2006. At that time and perhaps until the present, the DOF did not mind the currency appreciation as it meant lower peso cost in debt servicing and in valuing foreign debt. But does it provide a full picture of the benefits and losses for NG and the entire Philippine economy?

Latin America and debt buybacks

When Latin America is mentioned with regard to foreign debt, we would commonly think that the region is heavily indebted. After all, Brazil, Mexico, Peru, and Argentina, besides had mountains of debt in the 1990s and experienced the “Tequila crisis” of 1993-94. Argentina defaulted in 2002. However, the region has had a major turnaround as evidenced by its average debt-to-GDP ratio at only 32.4% in 2012 or much lower than the Philippines’ 51.5%. How did they achieve this? By pursuing an aggressive foreign debt buyback program for a number of years.

In early January 2007, Brazil’s Treasury said that it might permanently extend buybacks of its foreign bonds as the government works to improve its debt profile and gain higher credit ratings. The Treasury announced that it might buy back bonds of any maturity at any point along its yield curve. According to Paulo Valle, adjunct treasury secretary, the Brazilian government would try to fund most buybacks with dollars the treasury purchases in the spot foreign exchange market instead of greenbacks purchased by the central bank under its program to boost foreign reserves. “In principle, we would buy (the dollar) in the open market,” Mr. Valle reportedly said. Repurchases could go on for years, although Brazil did not have any plans to get rid of all foreign paper. “They will continue without a defined timeframe,” he said. “The idea is to have more active (debt) management.” (*Bloomberg*, January 15, 2007). Buying these from the spot foreign exchange market prevented severe appreciation of Latin American currencies, as these countries were enjoying a commodity price boom.

The debt buyback spree went on and so by 2008, Brazil and Peru achieved their goal of obtaining investment grade status. Peru, it must be recalled, had reneged on its foreign debt in the late 1980s. At present, both countries have a BBB rating, a notch higher than the Philippines’ rating, and Mexico has a BBB+ rating.

We can see that a debt buyback strategy is highly effective when one’s bonds are selling at a discount.

But what about the Philippines, whose dollar-denominated bonds are commanding a premium? Is a debt buyback still worth pursuing?

Evaluating the benefits and costs

What should be our approach in analyzing whether or not the Philippines should take a similar strategy to manage its debt and avoid competition-wrecking peso appreciations?

We will use two bases for analysis: (1) a balance sheet approach and (2) a discounted cash flow approach. Oftentimes, the government uses the balance sheet approach in which a peso appreciation lowers the local currency equivalent compared to the original exchange rate when the debt was contracted. Thus, most government officials think that peso appreciation is good. We have already shown empirically that an undervalued currency fosters faster economic growth (see *REI*, January 2013). But should government officials and the *Bangko Sentral ng Pilipinas* (BSP) continue to think this way?

The balance sheet approach

In this method, what is important is the consolidated public sector balance sheet with regard to foreign assets and liabilities. The reason for using this consolidated view is to consider the entire public sector and not only the NG.

If we consider the NG and government-owned and controlled corporations, excluding government banks and the BSP, we will see that their total external debt as of March 2013 (latest data published in BSP’s SPEI) was around \$47 billion. They have minimal foreign assets because BSP holds them by and large. Therefore, that amount puts them in a net debt position. If the NG would look only at its own balance sheet, every peso appreciation would lower the debt (in pesos) by P47B, and is therefore beneficial. Note, however, that this is a paper gain that is realizable only upon maturity (if the exchange rate by then would still be lower than when the FX debt was contracted). This approach ignores the foreign assets (gross international reserves) and liabilities of the BSP.

In March 2013, the BSP had GIR amounting to \$83.9B (although it was down to \$83.0B as of September, the exact figures do not matter much). At that time, the BSP had external debt worth \$1.4B. Subtracting this from its GIR, BSP, thus has a net asset position of \$82.5B. Thus, for every peso appreciation, it would have to book a loss of P82.5B. The flipside would be true. The BSP would gain that much for every peso depreciation.

The logical thing to do is to consolidate the NG and the BSP for a total view. This time, the consolidated assets remain at \$83.9B while the consolidated external public debt amounts to \$48.4B. This would give a consolidated public sector net asset position of \$39.5B, and not a net debt position. According to this global view, the entire government (including BSP) would lose \$39.5B for every peso appreciation, and would gain similarly from a peso depreciation. This contradicts the usual partial view.

From this global view, foreign debt buyback would cause some peso depreciation and result in further gains for the government and the BSP. The foreign debt can be replaced by domestic debt, which the economy can afford to provide without altering the low interest rate environment since there is a lot of liquidity frozen in the Special Deposit Accounts in the BSP, and the NG's purchase of dollars would infuse pesos into the financial system.

The discounted cash flow approach

We examine alternative discounted cash flows or net present values (NPV) comparing (a) foreign debt (converted to pesos) payments that are allowed to continue until maturity versus (b) foreign debt converted to peso debt at current market values of debt papers, since this assumes that the debt is bought in the market. When the discounting rate is equal to the yield-to-maturity of the new peso bonds, its NPV is the same as the new peso debt used to finance the buyback. With this approach, if (b) is

NPV of FX debt held to maturity versus NPV of FX debt conversion to peso debt						
FX debt info (the number refers to year of maturity)	Coupon rate	Current market price of FX debt	Replacement peso debt (PM) at current market price & exchange rate for \$1M	NPV when FX debt is retained (a)	NPV when FX debt is bought back and converted to peso debt (b)	(a) - (b)
ROP-19	9.875	125.085	54.762	54.799	54.762	0.037
ROP-24	7.500	125.890	53.502	59.247	53.502	5.735
ROP-24	9.500	140.930	61.310	67.087	61.310	5.776

less than (a), then debt buyback (and transformation into domestic debt) is a better alternative than keeping the foreign debt.

In this exercise, we use only three ROP bonds with different maturities and coupon rates. We assume a constant exchange rate of P43.50. We also use a 3.5% per annum discount rate because this is roughly the yield of 10-year peso-denominated government securities (GS) in the secondary market. We summarize our results in the table above, based on the assumption of a \$1 million debt and buyback.

The last column in the table shows that the NPV of keeping the foreign debt is higher than the NPV for a FX debt buyback and conversion to peso debt. Concretely, for ROP-24, for every \$1M of outstanding, the government benefits by P5.77M if it is replaced by the equivalent peso debt. Extrapolating to say a total of \$10B foreign debt and the public sector will benefit by a whopping P577B following a FX debt buyback and conversion to peso debt program. This supports the general proposition that conducting a debt buyback program (and conversion to peso debt) is clearly more advantageous even for the NG alone. However, the benefit is not always the same. It would depend on the current market price of the FX bond to be bought back, its coupon rate, remaining time to maturity, and the current yield of the equivalent maturity local debt.

From this exercise (and a mathematical proof that can be provided), we could say that:

- FX bonds with longer maturities are more advantageous to convert to peso debt because

the discount rate (local yield) would have a stronger impact on negative cash flows further into the future.

- The smaller the differential between current yields of ROPS and local debt, the better it is to convert to peso debt, although the extent depends on the premium of the ROPS. Besides, the conversion will be neutral with respect to creating liquidity in the financial system.
- The larger the differential between FX-debt coupon rates and domestic bond yields, the more beneficial is a debt buyback and conversion to peso debt.

If the FX debt buyback and conversion to peso debt strategy is pursued, the implementation should be done by the NG through the market (for both foreign exchange requirements and actual buying back of FX debt). A debt exchange is not advisable because the gains would go to fund managers rather than to the combined government accounts (or the country).

Additional advantages

Apart from the financial benefits for the public sector (and the economy) as a whole, reduction of foreign debt through an aggressive FX buyback program would mean less foreign exchange risk (zero to the extent of the buyback). Less external debt as a percentage of GDP would also translate into less economic vulnerability to external shocks, as pointed out by S&P.

Finally, by converting foreign-denominated debt into peso debt, the domestic bond market would be further enlarged. Such a development would make the secondary markets more liquid and consequently, the spread between bids and offers will tend to narrow. In other words, it would make the domestic GS bond market more efficient, thereby contributing to greater maturity of the country's capital markets.

Considering the clear benefits mentioned, we hope that the NG and the BSP can pursue this scheme immediately. **REI**

I EXTERNAL SECTOR

TABLE 1 PHILIPPINE BALANCE OF PAYMENTS (NEW CONCEPT) (US\$ million)

	Accounting period						Growth (%)		Year-to-date
	2012 Dec	2013 Jan	Feb	Mar	Apr	Dec-Apr	Monthly	Annual	
CURRENT ACCOUNT	918	2,610	2,863	2,059	2,331	10,781	13.21	170.42	869.38
Goods and services	(871)	1,087	1,178	874	603	2,871	(31.01)	176.23	(107.51)
Exports	5,881	7,558	7,320	8,015	7,561	36,335	(5.66)	33.59	342.30
Imports	6,752	6,471	6,142	7,141	6,958	33,464	(2.56)	7.86	309.01
Goods	(1,651)	(924)	(1,158)	(842)	(1,188)	(5,763)	(41.09)	(128.02)	(310.19)
Credit: Exports	3,961	3,727	3,445	3,977	3,851	18,961	(3.17)	(9.66)	291.04
Debit: Imports	5,612	4,651	4,603	4,819	5,039	24,724	4.57	5.33	295.07
Services	780	488	651	530	1,360	3,809	(87.74)	(74.51)	293.67
Credit: Exports	1,920	1,656	1,723	1,784	1,360	8,443	(23.77)	(2.65)	337.86
Debit: Imports	1,140	1,168	1,072	1,254	1,295	5,929	3.27	13.40	351.77
Income	14	40	193	(393)	127	(19)	132.32	13.39	(224.31)
Credit: Receipts	679	648	618	631	693	3,269	9.83	8.79	317.60
Debit: Disbursements	665	608	425	1,024	566	3,288	(44.73)	7.81	312.45
Current transfers	1,775	1,483	1,492	1,578	1,601	7,929	1.46	3.89	347.65
Credit: Receipts	1,819	1,526	1,534	1,623	1,658	8,160	2.16	5.14	341.09
Debit: Disbursements	44	43	42	45	57	231	26.67	58.33	205.88
CAPITAL AND FINANCIAL ACCOUNT	930	975	(1,393)	263	120	895	(54.37)	122.22	270.30
Capital account	22	8	7	7	8	52	14.29	(42.86)	303.64
Credit: Receipts	27	9	9	9	9	63	-	(50.00)	258.82
Debit: Disbursements	5	1	2	2	1	11	(50.00)	(75.00)	176.67
Financial account	908	967	(1,400)	256	112	843	(56.25)	120.22	267.74
Direct investments	148	293	560	(151)	79	929	152.32	(25.47)	73.65
Debit: Assets, residents' investments abroad	30	43	13	239	30	355	(87.45)	150.00	785.96
Credit: Liabilities, non-residents investments in the Phils.	178	336	573	88	109	1,284	23.86	(7.63)	165.86
Portfolio investments	(373)	1,063	494	197	1,088	2,469	452.28	(32.17)	300.19
Debit: Assets, residents' investments abroad	648	(585)	(12)	(177)	217	91	222.60	467.80	(9.03)
Credit: Liabilities, non-residents' investments in the Phils.	275	478	482	20	1,305	2,560	6,425.00	437.04	190.16
Financial derivatives	(8)	(31)	(11)	(8)	16	(42)	300.00	(61.90)	(150.00)
Debit: Assets, residents' investments abroad	(15)	(19)	(17)	(12)	(33)	(96)	(175.00)	(312.50)	(168.92)
Credit: Liabilities, non-residents' investments in the Phils.	(23)	(50)	(28)	(20)	(17)	(138)	15.00	34.62	(315.38)
Other investments	1,141	(358)	(2,443)	218	(1,071)	(2,513)	(591.28)	(13.45)	(177.02)
Debit: Assets, residents' investments abroad	(382)	121	1,275	855	1,455	3,324	70.18	58.15	517.04
Credit: Liabilities, non-residents' investment in the Phils.	759	(237)	(1,168)	1,073	384	811	(64.21)	1,700.00	436.12
NET UNCLASSIFIED ITEMS	(957)	(565)	(973)	(764)	(360)	(3,619)	52.88	58.09	(101.37)
OVERALL BOP POSITION	640	2,043	(960)	452	274	2,449	(39.38)	446.84	848.88

*Undefined: The divisor or the dividend is either zero or unavailable.

Source: *Bangko Sentral ng Pilipinas (BSP)*

TABLE 2 TRADE INDICATORS

	Accounting period						Growth (%)		Year-to-date
	2012 Dec	2013 Jan	Feb	Mar	Apr	May	Monthly	Annual	
Foreign-exchange rate (P/\$)	41.01	40.73	40.67	40.71	41.14	41.30	0.38	(3.63)	(2.55)
Gross international reserves (in US\$ million)	83,831	85,274	83,623	83,951	83,213	81,967	(1.50)	7.74	5.13
Import cover of reserves (months)	15.79	16.06	15.75	15.81	15.67	15.44	(1.50)	9.29	3.80

Note: Gross International Reserves includes the reserve position in the Fund.

Import cover is normally computed as gross international reserves over merchandise imports (of the same month). If the corresponding data are unavailable, the import cover is computed as current GIR over the average import of the latest three months.

Source: *BSP*

TABLE 3 IMPORTS (US\$ million)

	Accounting period						Growth (%)		Year-to-date
	2012 Dec	2013 Jan	Feb	Mar	Apr	May	Dec-May	Monthly	
CAPITAL GOODS	1,830	1,366	1,184	1,323	1,464	1,109	8,275	(24.27)	(21.75)
Power generating and specialized machines	343	310	278	311	320	325	1,886	1.70	3.70
Office and EDP machines	149	130	118	130	117	123	767	5.32	(32.93)
Telecommunications equipment and electrical machinery	730	683	628	630	544	476	3,690	(12.36)	(32.45)
Land-transport equipment except passenger cars and motorcycles	101	108	107	107	105	110	639	4.12	12.17

TABLE 3 IMPORTS (US\$ million)

	Accounting period							Growth (%)	
	2012 Dec	2013 Jan	Feb	Mar	Apr	May	Oct-Mar	Monthly	Annual
RAW MATERIALS AND INTERMEDIATE GOODS	1,857	1,766	1,685	1,904	1,741	2,220	11,173	27.49	13.25
Unprocessed raw materials	325	268	136	253	165	292	1,438	77.58	29.99
Wheat	64	92	74	50	50	61	393	21.69	(51.74)
Crude materials, inedible	252	162	50	186	99	207	956	108.85	160.73
Semiprocessed raw materials	1,533	1,499	1,549	1,651	1,577	1,927	9,735	22.26	11.09
Chemical	474	495	452	476	516	542	2,955	4.94	(0.94)
Manufactured goods	447	468	397	491	489	513	2,804	4.96	13.20
Embroideries	8	12	12	18	12	20	82	67.10	211.52
Material and accessories for the manufacture of electrical equipment	471	392	567	573	469	743	3,215	58.59	20.60
MINERAL FUELS AND LUBRICANTS	881	927	1,209	1,040	1,284	1,178	6,520	(8.26)	(8.68)
Crude petroleum	477	484	682	380	543	630	3,196	16.07	13.98
CONSUMER GOODS	688	662	592	613	614	713	3,881	16.15	7.89
Durable	341	312	307	294	296	347	1,897	17.09	4.58
Passenger cars and motorcycles	198	166	182	171	143	174	1,035	21.55	(13.94)
Non-durable	347	310	284	318	318	366	1,944	15.28	11.22
Food	318	274	256	285	285	335	1,752	17.59	9.56
Special transactions	45	45	38	42	38	38	247	0.70	(33.96)
Articles temporarily imported and exported	18	18	16	17	14	14	98	(0.99)	(25.07)
TOTAL IMPORTS	5,300	4,727	4,707	4,922	5,141	5,258	30,056	2.27	(2.38)

Breakdown may not add up to totals due to rounding off

Note: The items in this table have been changed to conform with the BSP's classification.

Source: National Statistics Office (NSO)

TABLE 4 EXPORTS (US\$ million)

	Accounting period							Growth (%)	
	2012 Dec	2013 Jan	Feb	Mar	Apr	May	Dec-May	Monthly	Annual
COCONUT PRODUCTS	129	152	113	168	112	112	813	24.44	8.40
Coconut oil	93	112	79	129	73	73	578	24.95	(9.96)
Desiccated coconut	17	11	19	15	19	19	98	(6.24)	4.41
Copra meal/cake	15	27	13	22	17	17	122	66.74	304.90
SUGAR AND SUGAR PRODUCTS	51	45	42	22	3	3	179	492.29	84.29
Centrifugal and refined	19	39	40	19	1	1	134	2,609.85	87.95
FRUITS AND VEGETABLES	129	121	104	116	123	123	736	16.54	27.66
Canned pineapple	18	13	10	11	12	12	79	26.92	(28.70)
Pineapple juice	4	5	3	5	4	4	24	(29.68)	(7.59)
Pineapple concentrates	8	3	3	3	4	4	25	(0.07)	(2.98)
Bananas	97	75	63	69	75	75	450	22.37	60.04
Mangoes	1	0	0	0	1	1	4	29.67	(33.48)
OTHER AGRI-BASED PRODUCTS	71	72	85	104	74	74	480	2.24	(6.57)
Fish, fresh or preserved									
Shrimps and prawns	30	35	36	49	38	38	223	(6.00)	(13.31)
FOREST PRODUCTS	6	6	6	6	6	6	58	375.37	733.37
MINERAL PRODUCTS	190	193	99	228	314	314	1,515	56.57	136.80
Copper concentrates	7	13	16	20	21	21	121	100.71	71.77
Copper metal	38	23	a	72	70	70	299	34.48	-
PETROLEUM PRODUCTS	95	73	29	74	30	30	430	330.33	521.29
MANUFACTURERS	3,231	3,281	3,173	3,514	3,396	3,396	20,377	11.37	(10.58)
Electronic products, electronic equipment and parts	1,506	1,466	1,483	1,757	1,630	1,630	9,572	6.21	(17.42)
Garments	122	100	145	150	152	152	798	(15.59)	(14.66)
Furniture and fixtures	15	15	17	19	20	20	108	14.81	(6.37)
Chemicals	191	478	128	143	146	146	1,341	74.05	55.04
Machinery and transport equipment	402	296	422	289	315	315	2,206	52.89	(32.77)
Processed foods and beverages	128	78	116	142	141	141	776	19.89	59.77
Basketwork, wickerwork, and other activities of plaiting materials	5	4	6	5	6	6	31	0.10	32.48
Miscellaneous manufactured articles, n.e.s.	43	32	51	44	49	49	257	(20.35)	(90.60)
Others	367	314	335	416	372	372	2,272	9.60	26.69
SPECIAL TRANSACTIONS	68	69	90	95	65	65	473	33.30	(38.36)
RE-EXPORTS	14	16	23	18	15	15	113	94.16	3.91
TOTAL EXPORTS	4,011	4,011	3,741	4,329	4,121	4,121	25,062	18.67	(0.83)

Breakdown may not add up to totals due to rounding off

Source: NSO

TABLE 5 OFW REMITTANCES BY COUNTRY OF ORIGIN AND TYPE OF WORKER (US\$ million)

	Accounting period							Growth (%)	
	2012 Dec	2013 Jan	Feb	Mar	Apr	May	Dec-May	Monthly	Annual
ASIA	251	250	209	247	272	264	1,494	(3.09)	6.97
Land-based	190	193	150	185	197	192	1,107	(2.62)	3.01
Sea-based	60	58	58	62	76	72	387	(4.31)	19.12
Japan	77	54	52	62	57	48	351	(15.97)	(43.74)
Land-based	51	31	28	40	31	22	204	(29.47)	(62.75)
Sea-based	26	23	11	22	36	26	144	(27.52)	(0.69)
Hong Kong	33	33	36	50	50	35	237	(30.75)	2.86
Land-based	30	24	26	34	30	24	168	(18.26)	(3.94)
Sea-based	9	9	11	16	20	10	75	(48.92)	23.08
Singapore	73	66	73	75	77	129	493	67.36	75.18
Land-based	54	48	56	59	55	99	370	80.60	77.41
Sea-based	20	18	17	16	22	30	123	34.74	68.17
AMERICAS	1,008	744	826	867	856	979	5,280	14.30	0.80
Land-based	777	525	607	661	633	755	3,957	19.31	3.10
Sea-based	231	219	219	207	223	224	1,323	0.10	(6.26)
North America	850	654	739	785	772	904	4,705	17.09	17.30
Land-based	621	437	521	580	554	682	3,395	19.31	27.55
Sea-based	229	217	218	205	218	223	1,310	1.99	(5.86)
Canada	145	80	80	74	72	69	520	(3.67)	(64.06)
Land-based	144	79	80	74	71	69	517	(2.12)	(63.92)
Sea-based	0	1	1	1	1	0	4	(91.94)	(90.46)
OCEANIA	29	33	23	39	42	21	188	(49.10)	(21.97)
Land-based	28	32	21	38	40	20	179	(48.83)	(23.19)
Sea-based	1	1	2	1	2	1	9	(54.27)	17.48
Australia	21	23	15	32	31	16	139	(47.93)	(25.35)
Land-based	20	22	14	31	30	16	134	(48.40)	(25.63)
Sea-based	1	1	1	1	1	1	5	(33.47)	(17.92)
EUROPE	314	331	331	302	335	276	1,889	(17.44)	4.77
Land-based	178	201	207	176	184	135	1,081	(26.78)	(15.52)
Sea-based	136	129	124	126	150	141	807	(6.01)	35.91
Italy	24	26	21	23	22	23	140	5.22	(26.75)
Land-based	21	23	18	20	19	18	120	(2.51)	(35.91)
Sea-based	3	3	3	3	3	5	19	52.13	65.11
Germany	50	63	44	47	61	46	311	(24.12)	(9.81)
Land-based	27	41	24	23	29	14	158	(52.41)	(57.60)
Sea-based	23	21	21	24	32	33	153	1.17	71.43
United Kingdom	98	86	88	105	98	94	569	(4.74)	14.21
Land-based	61	54	54	71	62	55	357	(10.60)	1.95
Sea-based	37	32	34	34	36	38	211	5.30	38.43
MIDDLE EAST	369	320	290	290	295	323	1,886	9.36	23.42
Land-based	367	317	289	287	293	318	1,870	8.64	22.52
Sea-based	3	3	2	2	2	5	16	97.18	140.83
Kuwait	13	22	21	14	18	11	99	(34.57)	(11.77)
Land-based	12	22	21	13	17	11	96	(37.06)	(17.03)
Sea-based	0	0	0	1	0	1	3	71.22	*
Saudi Arabia	205	128	138	136	145	160	911	10.92	34.44
Land-based	205	127	138	136	144	160	909	10.94	34.27
Sea-based	0	1	0	0	0	0	2	5.59	195.31
AFRICA	3	3	4	3	4	4	21	4.02	21.74
Land-based	2	1	2	1	1	2	10	14.65	50.67
Sea-based	2	2	2	1	2	2	11	(3.59)	4.58
OTHERS	0	0	0	0	0	0	*	*	*
Land-based	0	0	0	0	0	0	*	*	*
Sea-based	0	0	0	0	0	0	*	*	*
TOTAL	1,975	1,681	1,682	1,749	1,804	1,867	10,758	3.48	5.27
Land-based	1,542	1,269	1,275	1,349	1,348	1,422	8,205	5.47	4.13
Sea-based	432	412	407	399	456	445	2,552	(2.40)	9.07

0 - less than 1 million \$

Breakdown may not add up to totals due to rounding off

*Undefined: The divisor or the dividend is either zero or unavailable

Source: Bangko Sentral ng Pilipinas (BSP)

II SELECTED INTERNATIONAL ECONOMIC INDICATORS

TABLE 1 SELECTED FOREIGN INTEREST RATES (%)

	Accounting period								Basis pts change
	2012 Aug	Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	
United States	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	-
Germany.....	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	-
Japan.....	1.48	1.48	1.48	1.48	1.48	1.48	1.48	1.48	-
Hong Kong.....	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	-
Switzerland.....	0.52	0.51	0.50	0.51	0.50	0.50	0.52	0.50	(0.05)
LIBOR									
Three months	0.43	0.39	0.33	0.31	0.31	0.30	0.29	0.28	(0.86)
Six months.....	0.72	0.67	0.58	0.53	0.51	0.49	0.46	0.45	(1.56)
SIBOR									
Three months	0.44	0.39	0.33	0.31	0.31	0.31	0.30	0.28	(1.21)
Six months.....	0.72	0.67	0.59	0.53	0.52	0.49	0.46	0.45	(1.23)

Source: BSP

TABLE 2 FOREIGN EXCHANGE RATES (currency units per US\$)

	Accounting period								Growth (%)	
	2012 Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	Monthly	Annual	
Japanese yen	78.16	78.84	80.93	83.44	88.93	93.02	94.83	1.94	15.04	
British pound sterling	0.62	0.62	0.63	0.62	0.63	0.64	0.66	2.87	5.00	
Australian dollar.....	0.96	0.97	0.96	0.95	0.95	0.97	0.97	0.01	2.27	
Hong Kong dollar	7.75	7.75	7.75	7.75	7.75	7.76	7.76	0.04	(0.05)	
Singapore dollar.....	1.23	1.22	1.22	1.22	1.23	1.24	1.25	0.61	(0.97)	
New Taiwanese dollar	29.54	29.25	29.12	29.05	29.07	29.63	29.72	0.30	0.70	
Swiss franc.....	0.94	0.93	0.94	0.92	0.92	0.92	0.95	2.73	0.54	
Thai baht	31.00	30.67	30.69	30.63	30.06	29.80	29.53	(0.92)	(3.72)	
Malaysian ringgit	3.08	3.05	3.06	3.05	3.04	3.10	3.11	0.38	2.23	
European Monetary Union	0.78	0.77	0.78	0.76	0.75	0.75	0.77	2.91	1.73	
Canadian dollar	0.98	0.99	1.00	0.99	0.99	1.01	1.03	1.75	3.27	
Brunei dollar.....	1.24	1.23	1.23	1.22	1.23	1.24	1.25	0.61	(0.97)	
S.Korean won	1,124.86	1,107.42	1,086.96	1,076.43	1,064.96	1,086.96	1,100.11	1.21	(2.31)	
Indonesian rupiah	9,523.81	9,615.38	9,615.38	9,615.38	9,615.38	9,708.74	9,708.74	0.00	6.80	
Saudi rial.....	3.75	3.75	3.75	3.75	3.75	3.75	-	(100.00)	(100.00)	

Source: BSP

III FISCAL SECTOR

TABLE 1 NATIONAL GOVERNMENT CASH OPERATIONS (P million)

	Accounting period								Growth (%)	
	2012 Aug	Sep	Oct	Nov	Dec	2013 Jan	Feb	Monthly	Annual	
Revenues	129,408	105,309	134,320	155,308	126,357	138,368	112,348	(18.80)	(5.74)	
Tax.....	120,441	95,417	114,762	135,242	114,299	120,438	98,155	(18.50)	6.22	
BIR.....	96,756	71,036	86,105	110,767	88,576	94,718	74,519	(21.33)	8.48	
BoC	22,632	23,208	26,934	26,934	23,749	24,540	22,471	(8.43)	0.17	
Others	1,053	1,173	1,723	726	196	1,180	1,165	(1.27)	(8.70)	
Nontax.....	8,956	9,892	19,558	20,053	12,050	17,930	14,167	(20.99)	(47.09)	
Expenditures	126,885	138,143	145,984	166,783	242,102	157,899	124,097	(21.41)	14.34	
Allotment to LGUs	23,915	24,613	25,899	24,209	24,776	26,006	25,954	(0.20)	8.13	
Interest payments	19,816	24,134	21,440	15,648	30,462	54,842	17,920	(67.32)	(12.89)	
Overall surplus (or deficit).....	2,523	(32,834)	(11,664)	(11,475)	(115,745)	(19,531)	(11,749)	(39.84)	(210.27)	

Source: Bureau of the Treasury (BTr)

TABLE 2 NATIONAL GOVERNMENT OUTSTANDING DEBT (P million)

	Accounting period						Growth (%)		
	2012 Aug	Sep	Oct	Nov	Dec	2013 Jan	Feb	Monthly	Annual
Domestic debt	3,135,538	3,184,859	3,373,145	3,406,073	3,468,375	3,411,095	3,448,346	1.09	21.98
NG direct	3,133,244	3,182,565	3,370,851	3,403,779	3,466,081	3,408,801	3,446,052	1.09	22.00
Government securities	3,133,088	3,182,409	3,370,695	3,403,623	3,465,925	3,408,645	3,445,896	1.09	22.00
Agencies	156	156	156	156	156	156	156	-	-
Assumed	2,294	2,294	2,294	2,294	2,294	2,294	2,294	-	-
Foreign debt	2,045,572	2,028,193	1,986,231	1,974,883	1,968,729	1,923,385	1,876,939	(2.41)	(10.01)
Direct	812,489	804,300	781,045	774,306	764,651	734,293	719,225	(2.05)	(13.94)
Agencies	752,710	746,833	725,912	721,010	713,416	687,824	673,568	(2.07)	(12.99)
Relent	59,779	57,467	55,133	53,296	51,235	46,469	45,657	(1.75)	(25.83)
Assumed	5	5	5	5	2	2	2	-	(60.00)
Foreign bonds	1,233,078	1,223,888	1,205,181	1,200,572	1,204,076	1,189,090	1,157,712	(2.64)	(7.38)
Total	5,181,110	5,213,052	5,359,376	5,380,956	5,437,104	5,334,480	5,325,285	0.17	8.40

Source: BTr

IV MONETARY SECTOR

TABLE 1 MONETARY AGGREGATES (P million)

	Accounting period						Growth (%)		Year-to-date
	2012 Oct	Nov	Dec	2013 Jan	Feb	Mar	Monthly	Annual	
MONEY	1,298,249	1,343,267	1,475,325	1,393,446	1,321,379	1,489,627	12.73	18.55	5.71
SOURCES									
Net foreign assets of the BSP	3,637,969	3,431,142	3,443,545	3,467,509	3,399,924	3,434,574	1.02	5.10	1.96
Foreign assets	3,368,644	3,431,951	3,443,625	3,467,736	3,400,292	3,435,095	1.02	5.10	1.96
Foreign liabilities	675	809	80	227	368	521	41.58	(5.62)	12.26
USES									
Currency issue	592,449	596,955	692,657	601,503	605,132	653,243	7.95	13.37	3.23
Reserves of DMBs with the BSP	705,488	745,996	782,340	791,601	715,903	836,036	16.78	22.99	7.88
MONEY SUPPLY: MEASURE AND COMPONENTS									
M1	1,461,510	1,509,421	1,603,481	1,560,220	1,589,206	1,654,630	4.12	12.55	3.42
Currency in circulation	483,574	485,201	557,490	492,384	502,785	540,426	7.49	13.60	4.69
Demand deposits	977,936	1,024,221	1,045,991	1,067,837	1,086,421	1,114,204	2.56	12.05	2.83
M2	4,612,104	4,816,903	5,085,679	4,877,268	4,928,393	5,040,436	2.27	13.36	5.33
Savings deposits	2,057,538	2,095,947	2,213,306	2,164,387	2,216,105	2,259,119	1.94	14.86	12.52
Time deposits	1,093,056	1,211,534	1,268,893	1,152,661	1,123,082	1,126,687	0.32	11.62	8.71
M3	4,674,728	4,878,706	5,171,689	4,939,850	4,941,159	5,053,391	2.27	11.41	4.87
Deposit substitutes	62,624	61,803	86,010	62,582	12,766	12,955	1.48	(85.51)	(18.00)
Money multiplier	3.55	3.59	3.45	3.50	3.73	3.38			

Source: BSP

TABLE 2 LOANS OUTSTANDING OF UNIVERSAL AND COMMERCIAL BANKS (P million)

	Accounting period						Growth (%)		Year-to-date
	2012 Sep	Oct	Nov	Dec	2013 Jan	Feb	Monthly	Annual	
TOTAL	2,735,871	2,808,383	2,860,228	2,962,035	2,905,703	2,891,982	(0.47)	8.23	8.64
Agriculture, hunting and forestry	172,468	176,430	173,033	175,928	164,731	160,101	(2.81)	(6.23)	(5.01)
Fishing	6941	7,324	7,565	8,117	7,633	7,708	0.98	1.00	2.20
Mining and quarrying	16,129	16,002	15,434	14,135	13,301	18,123	36.26	(34.71)	(24.10)
Manufacturing	516,051	525,945	535,921	558,414	544,219	538,311	(1.09)	4.78	4.90
Electricity, gas, and water	280,522	284,494	282,817	283,140	297,117	294,472	(0.89)	4.89	5.56
Construction	49,323	50,746	47,587	53,563	53,771	58,879	9.50	24.10	24.70
Wholesale and retail trade	429,169	446,369	458,371	474,600	458,564	450,350	(1.79)	5.40	7.32
Transportation, storage & communication	229,674	233,750	239,187	238,518	241,086	234,218	(2.85)	26.86	27.56
Financial intermediation	269,440	279,367	296,907	312,432	295,769	290,026	(1.94)	24.70	21.11
Real estate, renting and bus. services	525,548	543,437	546,250	578,326	576,897	582,968	1.05	14.24	13.17
Public administration and defense	104,754	105,249	105,264	106,241	106,704	106,664	(0.04)	3.14	4.23
Education	10,613	11,365	10,832	11,908	11,837	11,813	(0.20)	2.84	2.59
Health and social work	13,296	12,587	12,587	14,599	15,249	15,796	3.59	6.69	9.57
Other community, social and personal services	70,689	74,587	84,931	89,384	75,843	76,702	1.13	(13.38)	(8.73)
Hotels and restaurants	41,253	40,731	42,890	42,732	42,981	45,850	6.67	11.98	11.41

Source: BSP

TABLE 3 DOMESTIC INTEREST RATES (%)

	Accounting period							Basis pts change	YTD average
	2012 Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar		
TREASURY-BILL RATE.....	0.80	1.75	1.06	1.64	1.79	2.26	0.41	(12.10)	1.56
91 day.....	0.48	na	0.94	1.56	1.54	1.84	0.08	3.00	1.13
182 day.....	0.68	na	1.14	1.83	1.96	2.31	0.27	(6.00)	1.46
364 day.....	1.00	1.75	1.08	na	2.08	2.56	0.57	(19.80)	1.75
MANILA REFERENCE RATE.....	4.81	4.81	4.81	5.06	5.13	5.00	2.69	(25.25)	4.19
60 days.....	3.88	3.81	3.81	3.75	3.75	3.69	2.38	(25.50)	3.41
90 days.....	6.75	6.69	6.69	6.69	6.56	6.56	3.50	(6.00)	5.42
180 days.....	6.81	6.75	6.81	6.81	6.69	6.69	3.44	(12.25)	5.44
Bank average lending rate.....	6.78	6.78	5.77	6.21	5.91	5.68	na	-	5.70
Time-deposit rate (30-45 days).....	2.94	2.82	3.20	3.08	3.00	2.88	2.02	(28.60)	2.82
Savings-deposit rate*.....	1.77	1.60	1.51	1.57	1.75	1.35	na	-	1.31
Interbank call-loan rate.....	4.73	4.71	4.63	4.68	4.54	4.39	2.76	(43.71)	3.86

na - not available
Source: BSP

TABLE 4 TOTAL LOANS (GROSS), LOAN LOSS PROVISION AND NON-PERFORMING LOANS (P million, unless otherwise indicated)

	Accounting period						Growth (%)		Year-to-date
	2012 Jul	Aug	Sep	Oct	Nov	Dec	Monthly	Annual	
Total loans.....	3,368,321	3,378,117	3,410,680	3,459,613	3,519,500	3,617,679	2.79	12.29	12.66
Universal banks.....	2,296,597	2,362,131	2,409,533	2,418,579	2,463,567	2,581,667	4.79	17.68	17.51
Commercial banks.....	242,403	169,689	165,867	176,883	171,088	172,873	1.04	(24.51)	3.54
Government banks.....	392,050	396,244	405,341	399,525	420,662	443,218	5.36	(1.40)	3.50
Foreign banks.....	437,271	450,053	429,939	464,626	464,183	419,921	(9.54)	20.15	2.52
Non-performing loans.....	69,978	70,428	70,939	69,119	69,520	67,530	(2.86)	(6.13)	(8.72)
Universal banks.....	44,517	45,902	45,549	45,573	45,588	44,458	(2.48)	(3.46)	(11.69)
Commercial banks.....	11,536	9,310	6,903	9,486	9,828	9,168	(6.72)	(25.34)	(11.31)
Government banks.....	11,970	12,491	12,023	11,304	11,318	10,534	(6.93)	3.45	3.53
Foreign banks.....	2,756	2,725	2,764	2,756	2,786	3,370	20.96	(1.58)	0.69
Loan loss provision.....	95,057	95,648	95,117	95,889	95,387	95,383	(0.00)	4.93	(1.14)
Universal banks.....	59,529	62,006	61,569	62,098	61,713	62,249	0.87	9.65	(2.38)
Commercial banks.....	11,110	8,878	8,861	8,957	8,888	8,497	(4.40)	0.35	(5.11)
Government banks.....	15,014	15,385	15,372	15,375	15,340	15,090	(1.63)	(3.85)	(1.95)
Foreign banks.....	9,404	9,379	9,315	9,459	9,446	9,547	1.07	(4.25)	14.07
NPL/Total loans (%).....	2.08	2.09	2.05	2.00	1.98	1.87			
Universal banks.....	1.90	1.94	1.89	1.88	1.85	1.72			
Commercial banks.....	4.76	5.49	5.79	5.36	5.74	5.30			
Government banks.....	3.05	3.15	2.97	2.83	2.69	2.38			
Foreign banks.....	0.63	0.61	0.64	0.59	0.60	0.80			

Source: BSP

V REAL SECTOR

TABLE 1 NATIONAL INCOME ACCOUNTS AT CONSTANT PRICES (P million)

	Accounting period					Growth (%)		Year-to-date	
	2011 4Q	2012 1Q	2Q	3Q	4Q	2013 1Q	Quarterly		Annual
PRODUCTION									
Agri, fishery and forestry.....	196,110	172,560	161,887	158,826	205,664	177,845	(13.53)	3.06	408.10
Industry sector.....	511,302	478,924	508,847	477,887	556,965	530,984	(4.66)	10.87	433.20
Service sector.....	885,474	833,337	923,948	889,910	942,916	890,410	(5.57)	6.85	437.66
EXPENDITURE									
Household final consumption expenditure ..	1,188,852	1,035,983	1,092,699	1,051,037	1,262,804	1,092,750	(13.47)	5.48	434.30
Government consumption.....	127,739	162,111	192,079	159,013	139,865	183,505	31.20	13.20	416.05
Capital formation.....	354,579	216,940	263,980	299,035	388,432	313,499	(19.29)	44.51	583.09
Fixed capital.....	302,925	314,530	296,065	306,934	362,512	363,683	0.32	15.63	422.60
Changes in inventories.....	51,653	(97,591)	(32,086)	(7,899)	25,919	(50,185)	(293.62)	(48.58)	65.84
Exports.....	581,411	768,687	863,274	790,719	631,391	710,211	12.48	(7.61)	389.70
Imports.....	674,823	701,245	806,318	770,330	728,483	175,220	(1.82)	1.99	430.71
Statistical discrepancy.....	15,130	2,346	(11,030)	(2,851)	11,536	14,495	25.65	517.86	517.90
GDP.....	1,592,887	1,484,821	1,594,682	1,526,622	1,705,545	1,599,239	(6.23)	7.71	432.79
NPI.....	299,268	289,052	302,187	286,249	307,387	312,839	1.77	8.23	418.15
GNI.....	1,892,155	1,773,874	1,896,869	1,812,871	2,012,932	1,012,932	(5.01)	7.79	430.40

Source: National Statistical Coordination Board

TABLE 2 POWER SALES

	Accounting period							Growth (%)	
	2012 Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	Monthly	Annual
Manila Electric Company sales (gigawatt-hours) (indicator of metropolitan activity)									
TOTAL.....	2,710	2,764	2,736	2,748	2,523	2,653	2,527	(4.75)	(1.52)
Residential.....	809	792	819	807	793	752	738	(1.80)	(2.46)
Commercial.....	1,057	1,091	1,068	1,111	982	1,041	993	(4.59)	(0.38)
Industrial.....	834	871	839	820	737	849	785	(7.62)	(2.06)
Streetlights.....	11	11	11	11	11	11	11	0.00	(0.93)

Source: Manila Electric Company

TABLE 3 LABOR INDICATORS (%)

	Accounting period				2013 1Q	Annual	Year-to- date	Growth (%)	
	2012 1Q	2Q	3Q	4Q				Annual basis pts. change	YTD average
Labor force participation rate.....	64.3	64.7	64.0	63.9	64.1	(0.31)	(0.16)	(20.00)	64.20
Employment rate.....	92.8	93.1	92.2	93.2	92.9	0.11	7.10	10.00	92.98
Unemployment rate.....	18.8	6.9	7.0	6.8	7.1	(62.23)	(50.43)	(1,170.00)	9.32

Source: NSO

VI PRICES

TABLE 1 (2006=100)

	2012				2013			Growth (%)	
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Monthly	Annual
All items, Philippines (2006=100).....	131.40	131.30	131.40	131.30	132.00	132.40	132.50	0.08	3.19
Food and non-alcoholic beverages.....	141.80	141.40	141.30	141.30	141.30	141.60	141.60	(0.07)	2.83
Alcoholic beverages and tobacco.....	129.90	130.30	130.80	131.20	146.80	162.30	166.20	2.40	31.49
Clothing and footwear.....	125.60	125.70	125.90	126.00	126.50	126.70	127.10	0.32	4.87
Housing, water, electricity, gas, and other fuels.....	126.60	126.50	126.70	126.40	127.10	126.70	126.80	0.08	2.09
Furnishing, household equipment and routine maintenance of the house.....	122.80	123.10	123.20	123.40	123.80	124.00	124.20	0.16	4.72
Health.....	129.00	129.20	129.40	129.50	130.10	130.30	130.50	0.15	3.24
Transport.....	126.20	126.10	125.80	125.80	126.00	126.40	126.40	-	0.64
Communication.....	92.60	92.60	92.60	92.60	92.70	92.70	92.70	-	0.54
Recreation and culture.....	110.10	110.10	110.20	110.30	110.50	110.70	110.90	0.18	2.31
Education.....	138.60	138.70	138.70	138.71	138.70	138.70	138.70	-	4.44
Restaurants and miscellaneous goods and services.....	123.90	124.10	124.30	124.30	124.70	124.90	125.30	0.32	2.87
All items, Metro Manila (2006=100).....	125.50	125.40	125.50	125.40	125.80	125.70	125.50	(0.16)	1.95
Food and non-alcoholic beverages.....	136.30	135.40	134.90	135.40	135.20	135.20	134.20	(0.74)	2.29
Alcoholic beverages and tobacco.....	124.60	130.30	130.40	130.40	136.20	141.60	143.00	0.99	18.28
Clothing and footwear.....	130.10	130.30	130.40	130.40	131.10	131.10	131.20	0.08	6.41
Housing, water, electricity, gas, and other fuels.....	122.80	123.30	123.90	123.10	124.00	123.20	123.40	0.16	0.73
Furnishing, household equipment and routine maintenance of the house.....	119.00	119.10	119.10	119.30	120.10	120.10	120.70	-	7.00
Health.....	132.40	132.50	132.60	132.80	120.10	102.70	120.70	-	(7.23)
Transport.....	114.70	114.70	114.20	114.00	114.00	114.50	114.10	(0.35)	(0.52)
Communication.....	93.90	93.90	93.90	93.90	93.90	93.90	93.90	-	0.75
Recreation and culture.....	112.50	112.50	112.50	112.60	112.70	113.10	113.50	0.35	2.90
Education.....	140.00	140.00	140.00	140.00	140.00	140.00	140.00	-	3.32
Restaurants and miscellaneous goods and services.....	120.70	120.70	120.70	120.70	120.80	120.80	121.00	0.17	1.17

Source: NSO

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