Bangko Sentral ng Pilipinas

THE PHILIPPINES – TEN YEARS AFTER THE CRISIS

AMANDO M. TETANGCO, JR.
Governor

Tokyo, Japan
22 January 2007

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Outline

I. Impact of the Crisis

II. Recovery from the Crisis

III. Future Challenges and Policy Directions

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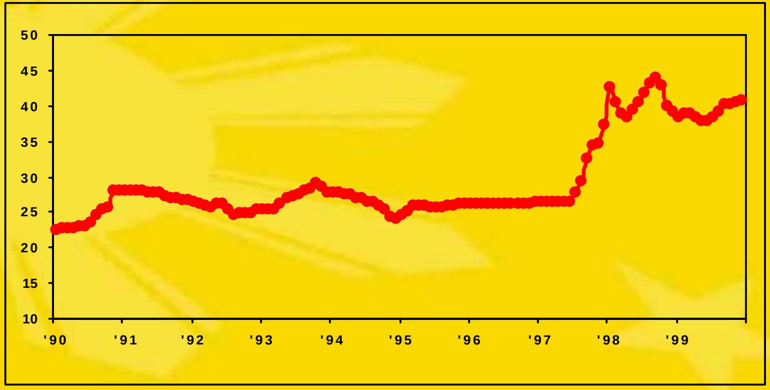
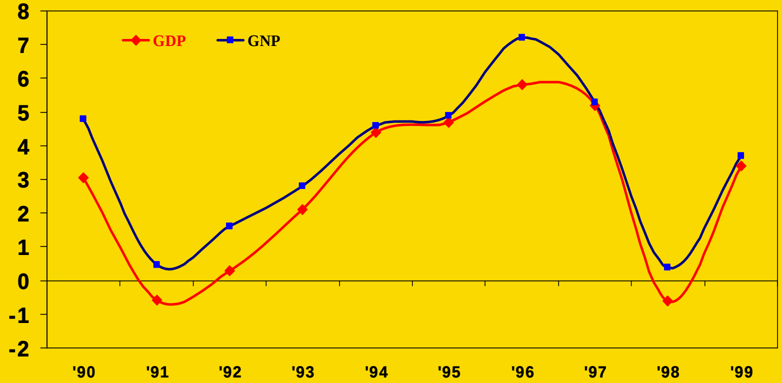
Impact of the Crisis

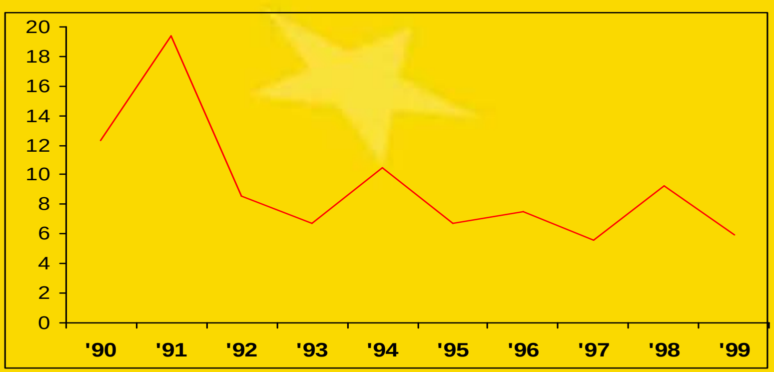
Exchange Rate 1990-1999



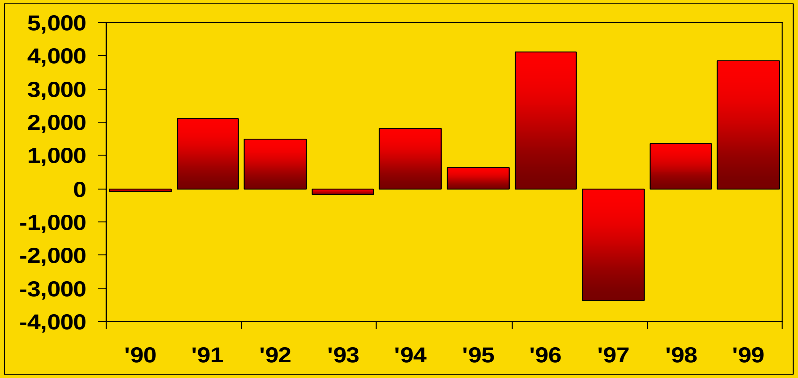
Real GDP and GNP Growth (in %) 1990-1999



Headline Inflation (in %) 1990-1999



Balance of Payments (in million US$) 1990-1999



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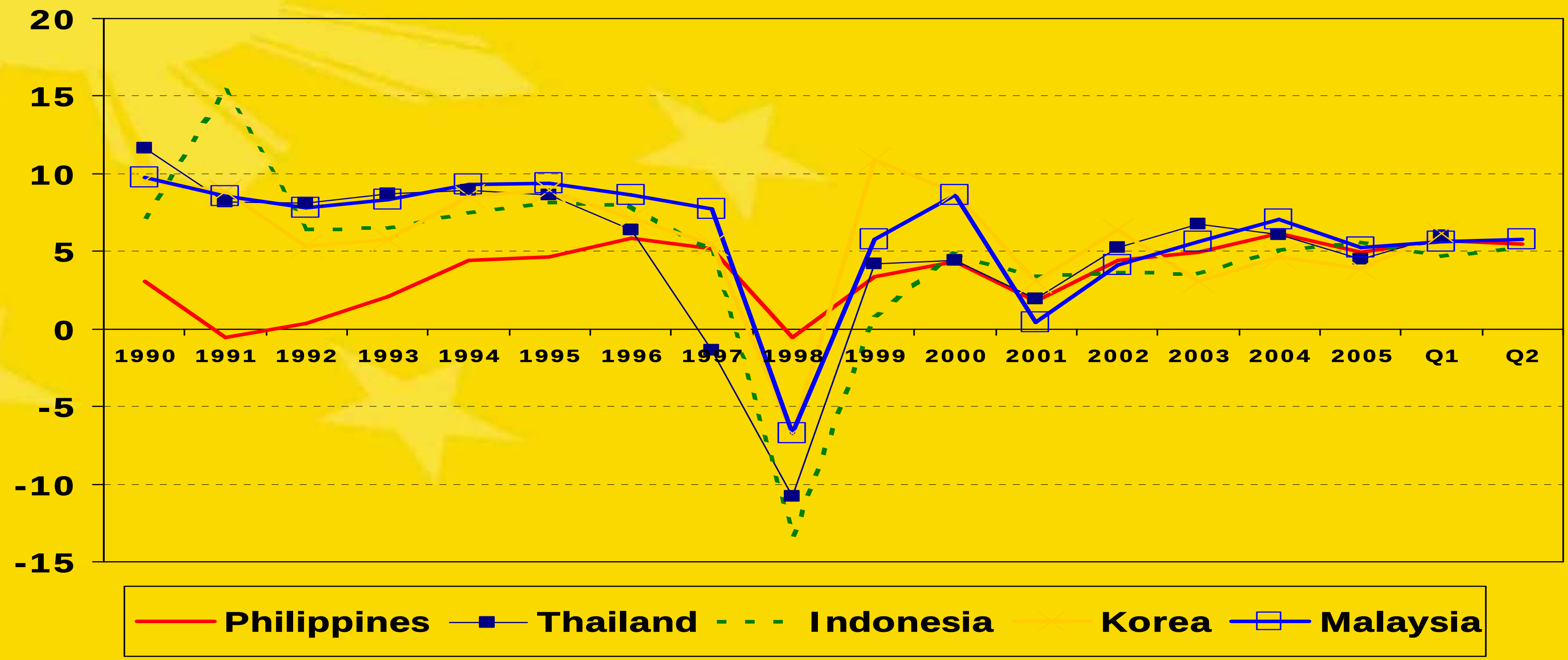
Philippine economy was spared the harshest effects of the crisis

Real GDP Growth (1990-2006)



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Major Structural Reforms Prior to the Crisis

- Financial sector reforms
  - ✓ Creation of an independent central bank
  - ✓ Improvement of prudential policies
  - ✓ Liberalization of entry of new banks

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Major Structural Reforms Prior to the Crisis

- Trade liberalization
- Foreign exchange liberalization

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Recovery from the Crisis

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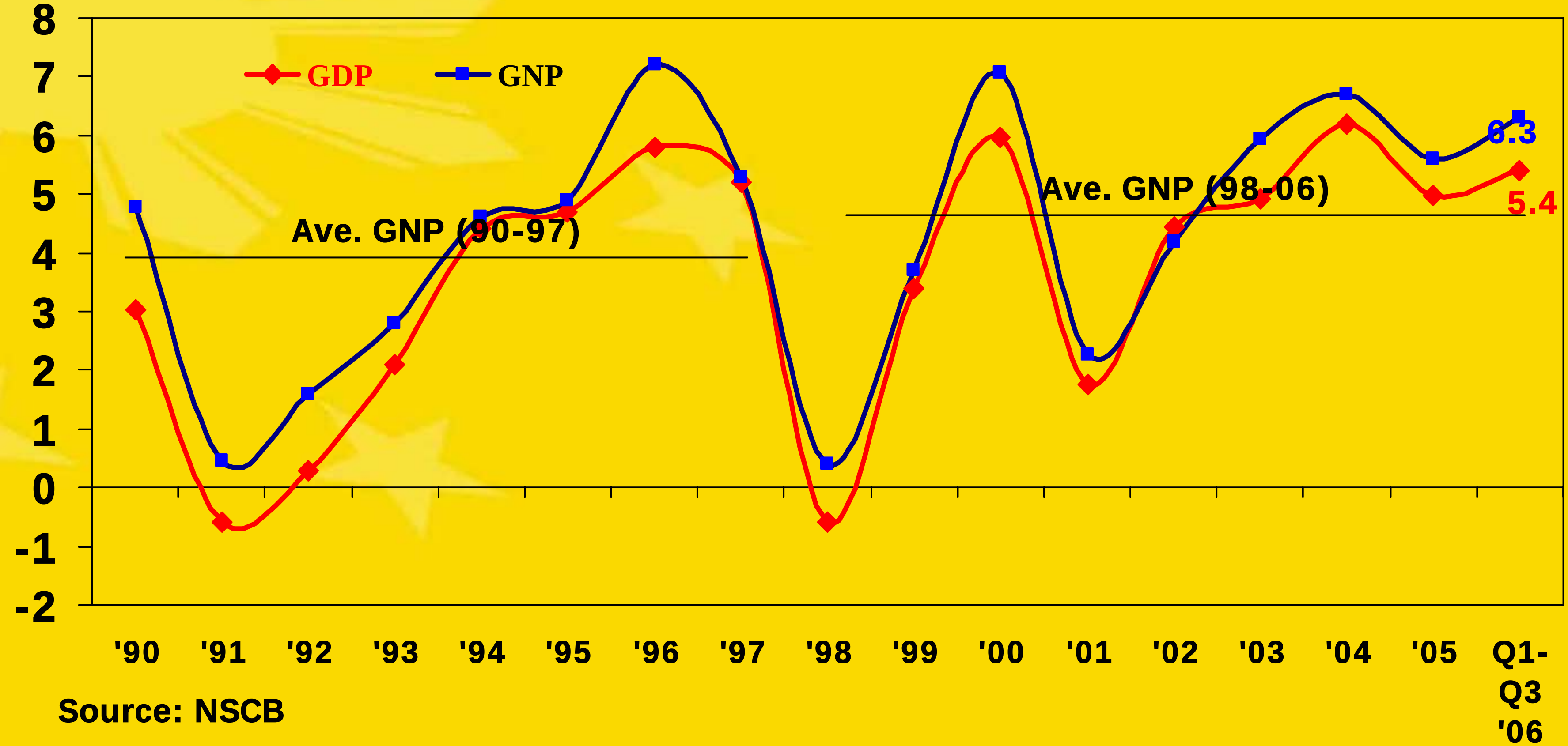
Philippine economy has recovered

Real GDP and GNP Growth (in%)



Source: NSCB

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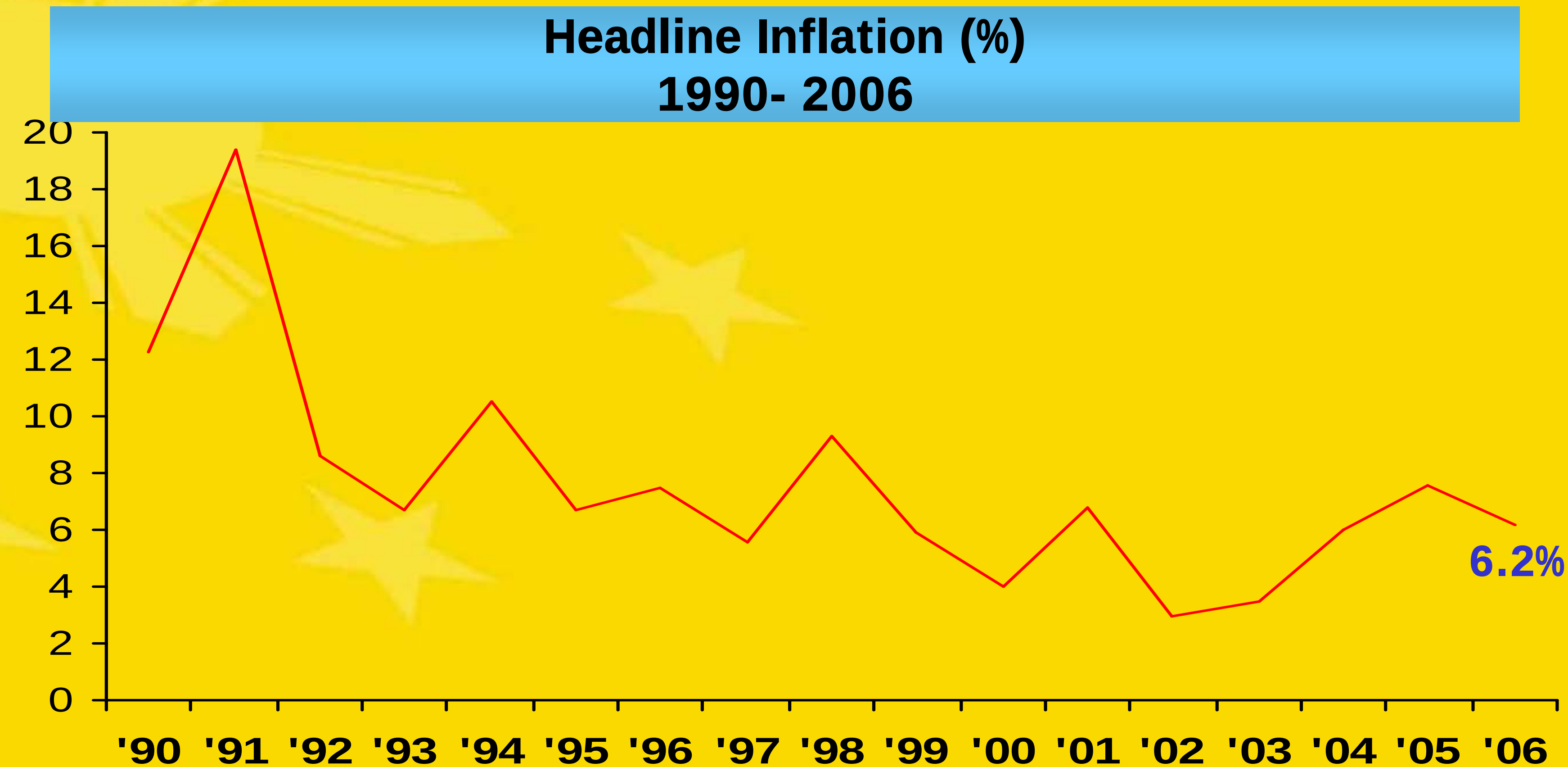
Monetary Policy Reform

- Implemented measured tightening
- Adopted inflation targeting framework
  - Greater transparency and accountability
  - Greater policy discipline

Inflation has generally eased over the years



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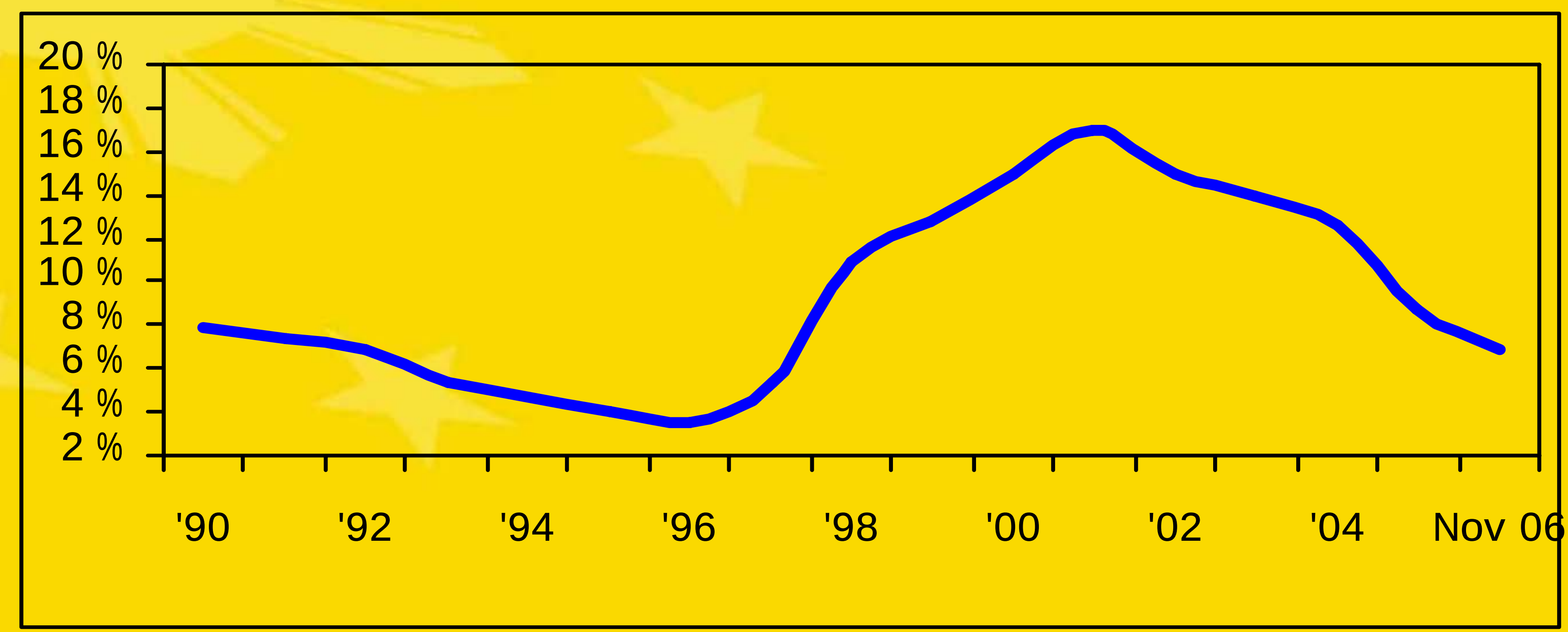
Financial Sector Reforms

- Pursued the passage of the following laws:
  - ✓ General Banking Law of 2000
  - ✓ Special Purpose Vehicle Act of 2002

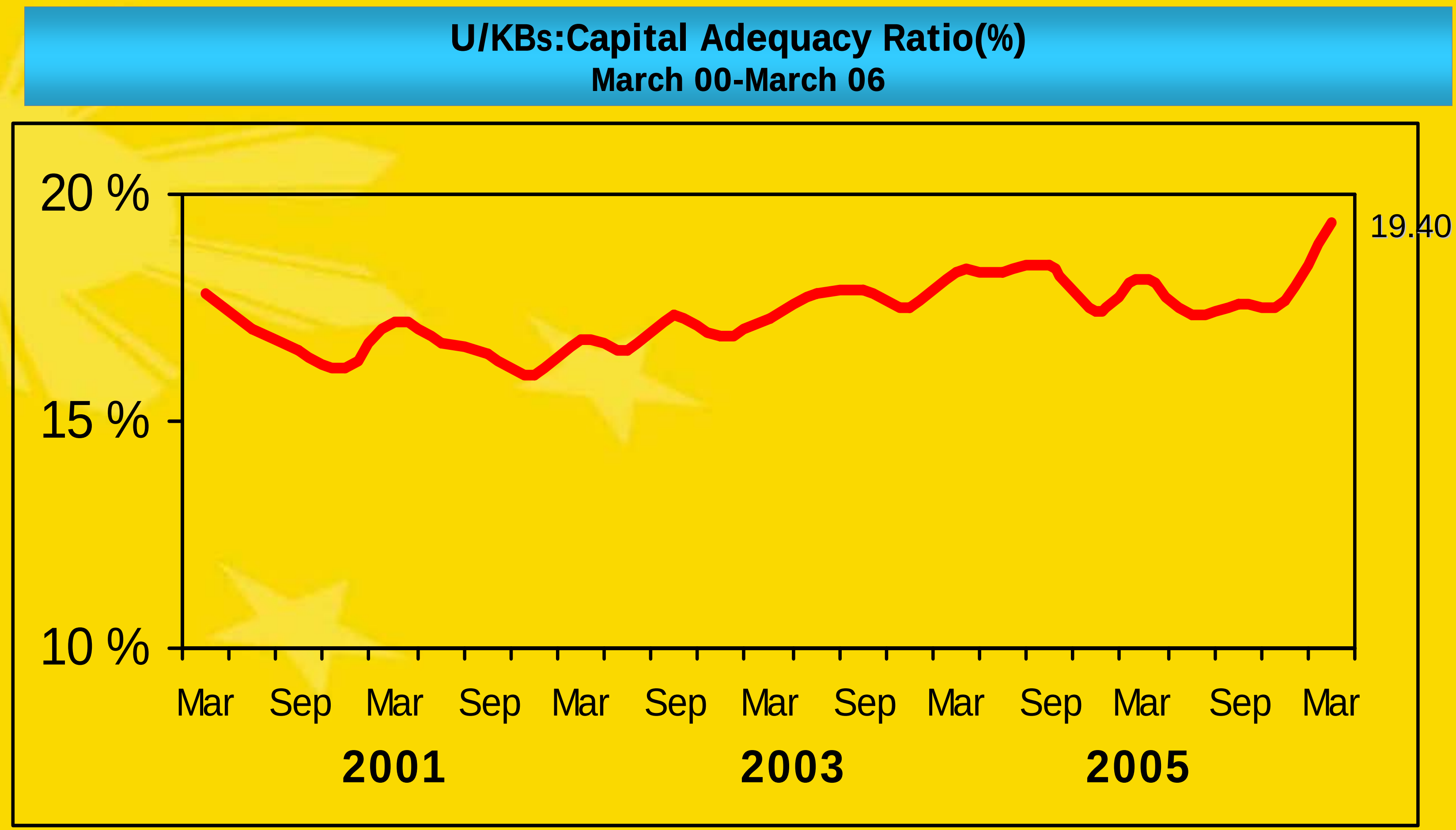
- Aligned prudential regulations with international standards

Banks’ NPL ratio has gone down after peaking in 2001

Commercial Banking System NPL Ratio (%)
1990-November 06



Capital Adequacy Ratio has gone up



Fiscal Consolidation Program

Revenue:

- Increased tax rates
- Broadened tax base
- Implemented efficiency-enhancing administrative measures

Expenditure

- Adopted a prudent approach to public spending

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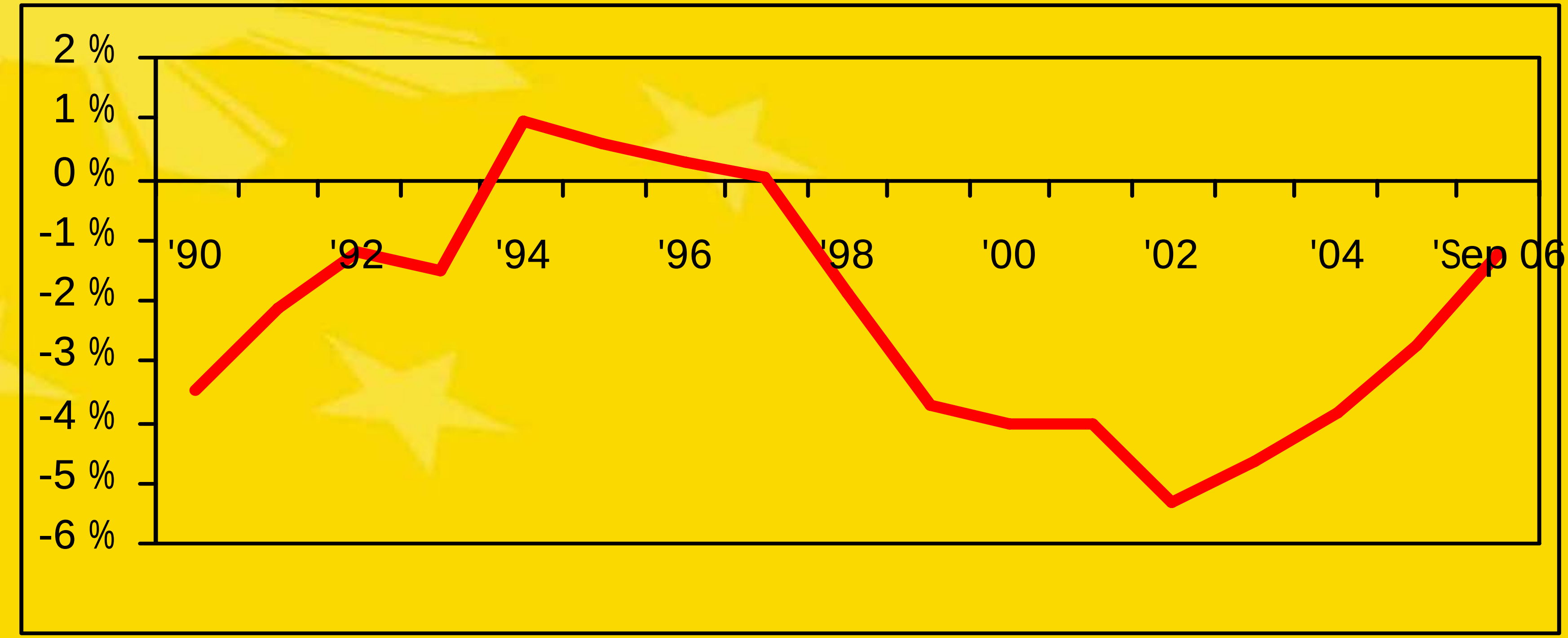
Fiscal position has improved appreciably

Fiscal Deficit as Percent of GDP (%)
1990-Sep 2006



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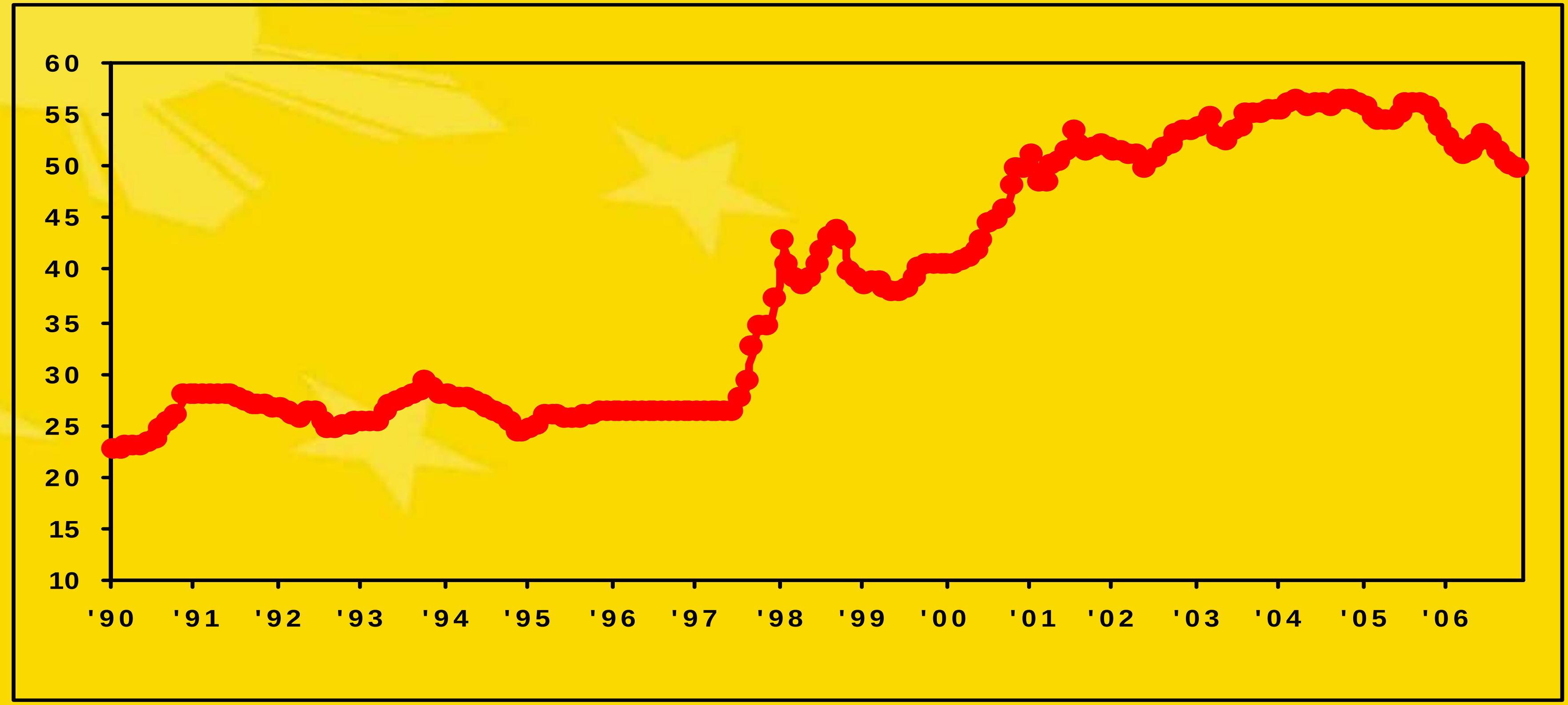
Peso has appreciated over the past two years

Exchange Rate (1990 – 2006)



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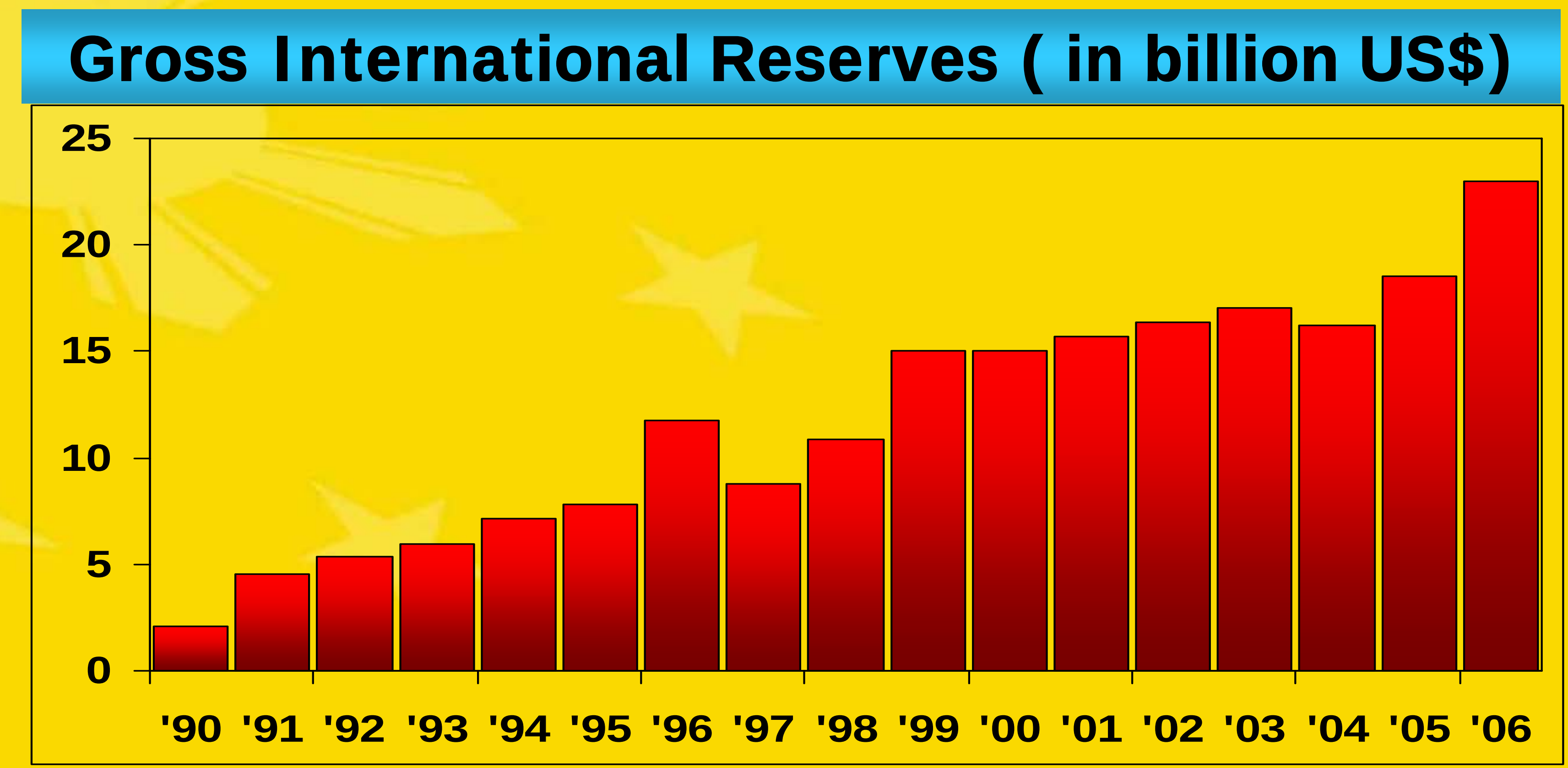
Buildup in international reserves due in part to strong foreign exchange inflows



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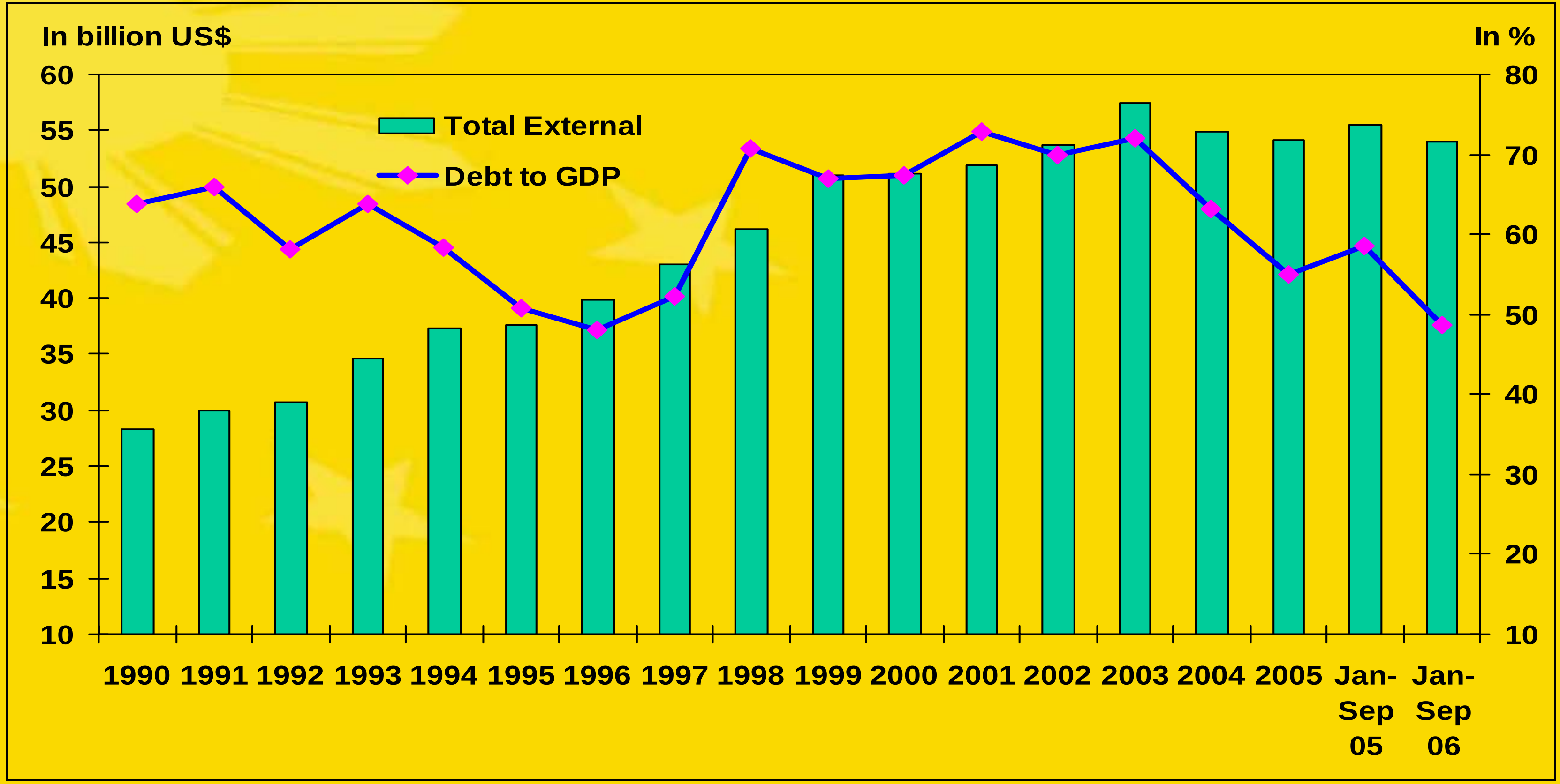
External Debt-GDP ratio has improved

External Debt (1990-2006)



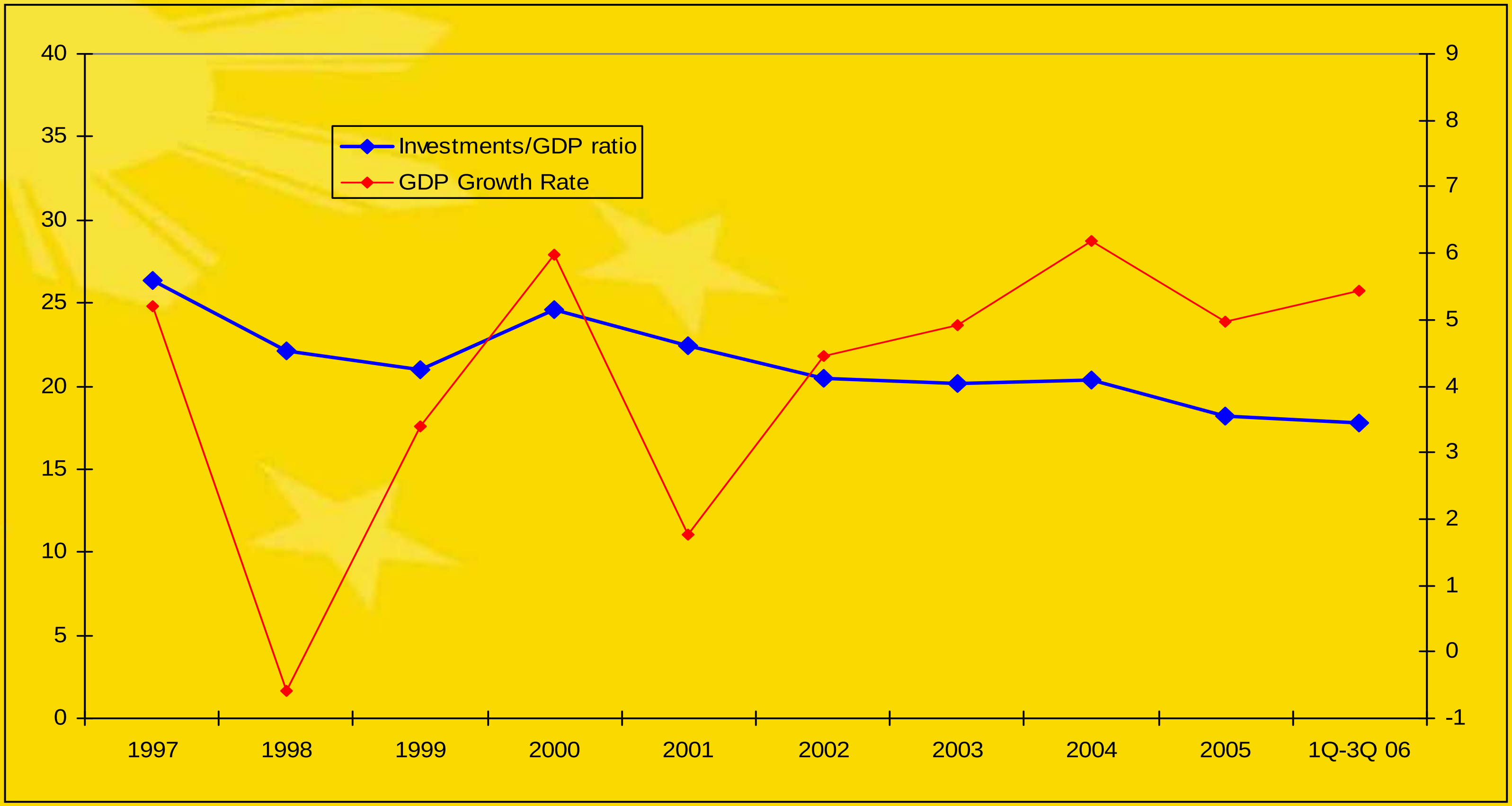
Future Challenges and Policy Directions

Future Challenges: Need to sustain reforms

- Investor confidence
- Higher growth
- Poverty reduction

Future challenges: Need to boost capital spending

Investment to GDP ratio (1990-2006)



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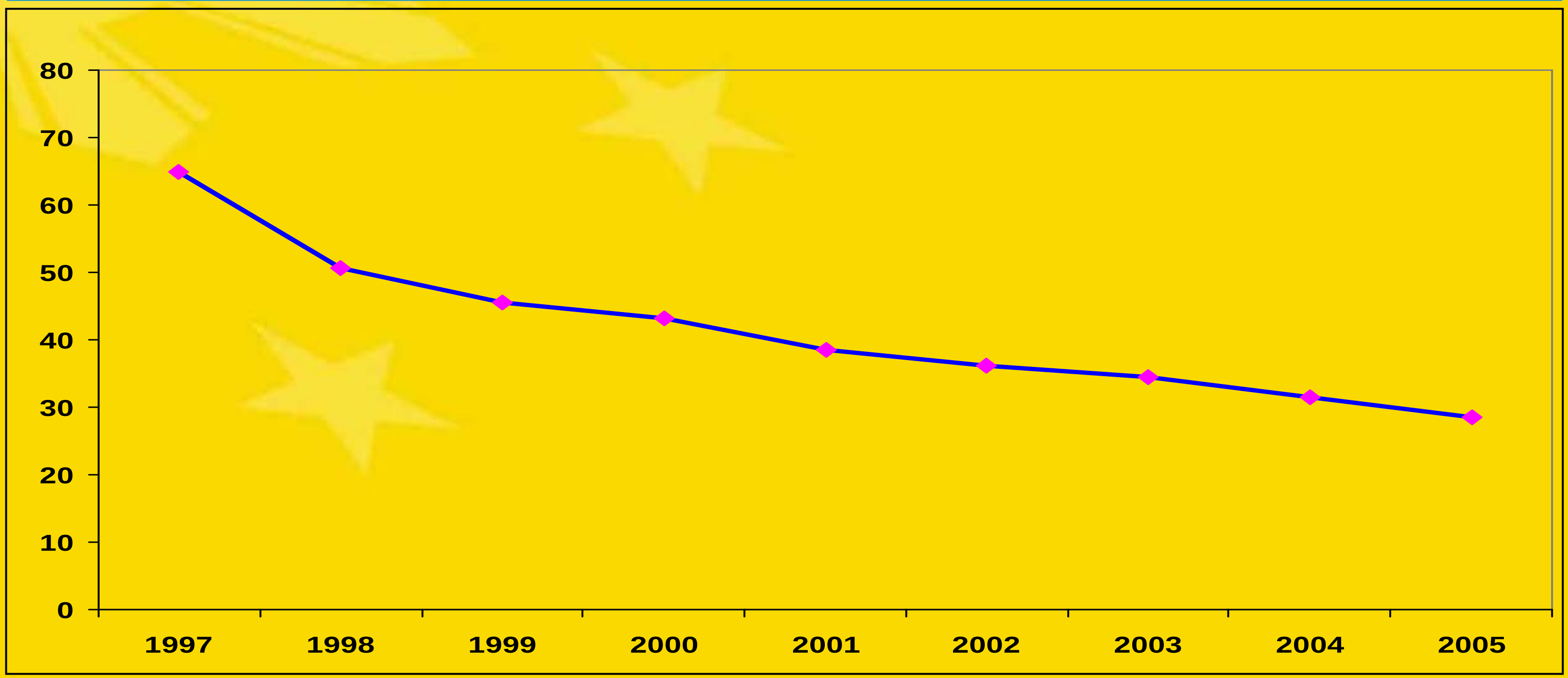
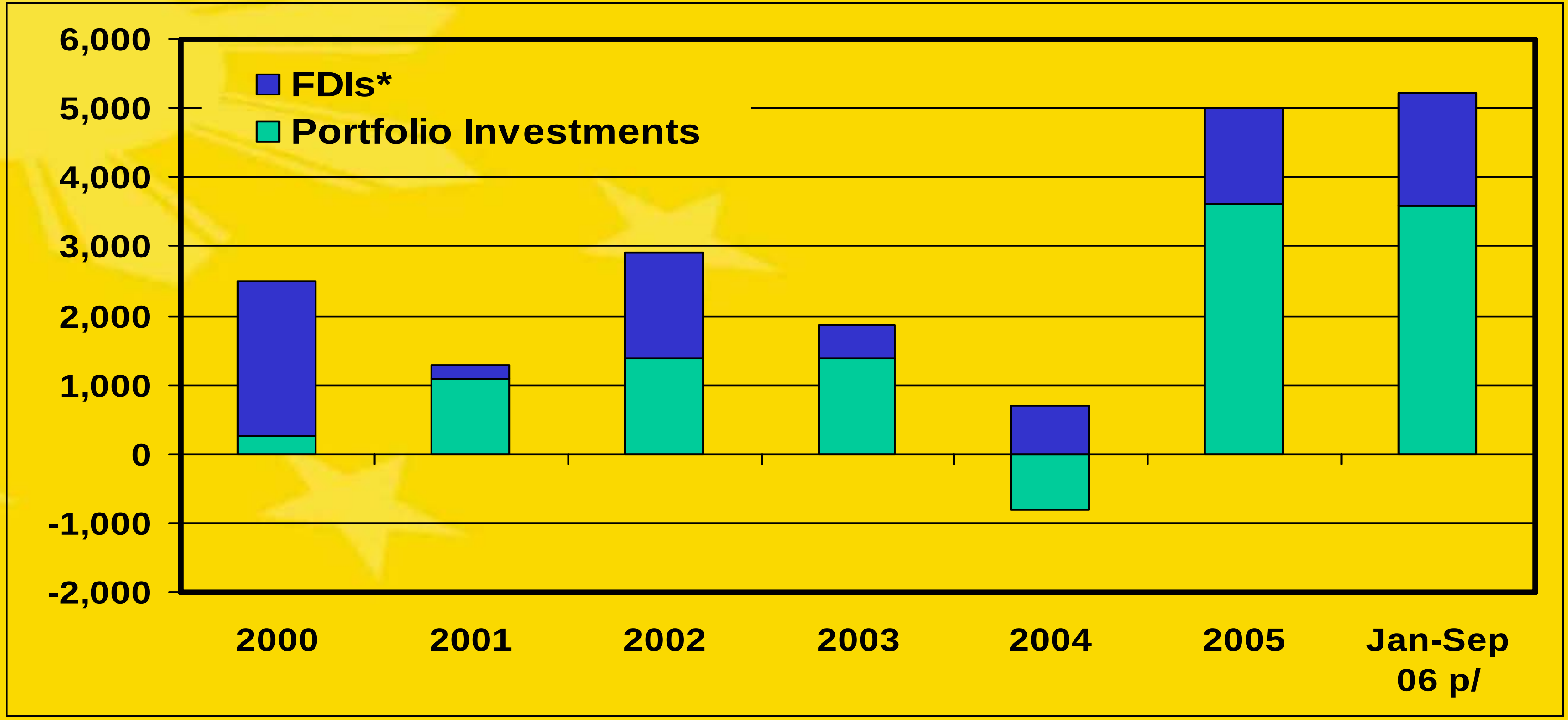
Future challenges: Need to increase growth in bank lending to raise the economy's productive potential

Loans to GDP ratio (1990-2005)



Future challenges: Need to deal with capital surges

Net Investment Flows (2000-Oct 2006, in million US$)



**/ Non-residents' investments (BOP concept); p/ preliminary

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- Monetary policy will focus on protecting the inflation target
- External policy will focus on further strengthening the external position
- Fiscal consolidation will continue

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