



OXFORD ANALYTICA

PHILIPPINES MONETARY TRANSPARENCY

Country Report 2006

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5 Alfred Street
Oxford OX1 4EH

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PHILIPPINES



COMPLIANCE RATINGS

<i>Monetary transparency</i>	2006	2005	2004	2003
Clarity of roles	●●●●	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●
Score	4.00	4.00	4.00	3.75

OUTLOOK & COMMENTARY

During 2006, the central bank of the Philippines -- Bangko Sentral ng Pilipinas (BSP) -- took further steps to enhance monetary transparency, as well as its existing strong operational autonomy. Timeliness of publicly available information on monetary policy has improved, as the highlights of the minutes of Monetary Board meetings are now released with a time lag of four weeks, instead of the previous six weeks. The Philippines is also making progress in compiling monetary data on the basis of the IMF's Government Finance Statistics Manual 2001 and the new IMF Monetary and Financial Statistics Manual. The central bank has also arranged liability insurance for its senior officers to protect them from legal action while performing their duties.

A new Financial Reporting Package for banks is expected to be implemented in January 2007. These regulations will enhance the transparency of data reporting to the central bank.

A bill to amend the New Central Bank Act (NBCA) is pending on both Houses of Congress, but is not being given priority by legislators. If the bill is passed, it will augment the financial supervisory powers of the BSP. The amendments also contain a provision for strengthening the indemnification of central bank officials who perform supervisory and administrative functions. Approval of the NBCA would improve monetary transparency in the Philippines by strengthening bank supervision and reducing the political vulnerability of officials.

EXECUTIVE SUMMARY

4.00 Compliance in progress

There have been important improvements in the Philippines' monetary transparency in 2006, particularly regarding statistical coverage and financial reporting by banks.

From mid-2006, the central bank of the Philippines -- Bangko Sentral ng Pilipinas (BSP) -- commenced publishing the minutes of Monetary Board meetings with a lag of four weeks, reduced from the previous lag of six weeks. Progress is underway to compile monetary and financial data on the basis of the new IMF Monetary and Financial Statistics Manual (MFSM). In early 2006, an IMF mission provided technical assistance on compiling and disseminating government financial statistics in line with Government Finance Statistics Manual 2001 methodology.

Progress is also being made in standards for regulations on the financial reporting of banks to the BSP. A Financial Reporting Package (FRP) will replace the Consolidated Statement of Condition (CSOC) bank reports by January 2007. The FRP is primarily designed to align the BSP prudential reports with the provisions of the Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS), Basel II Capital Adequacy Framework and to meet BSP statistical requirements. This will facilitate the compilation of monetary and financial statistics following the guidelines of the MFSM. In addition, this will help establish sectorisation or delineation of bank assets and liabilities in line with changes in the composition of the different levels of government as recommended by the IMF.

The BSP has tightened anti-money-laundering regulations and has required banks to implement a system of electronic money-laundering transaction monitoring by October 2007. In addition, Basel II will be introduced in two stages. On 1 July 2007, banks will be required to implement a standardised approach for credit risk and operational risks. In the second stage, effective in 2010, banks will be allowed to move to an advanced internal ratings based approach. Higher risk-weightings on non-performing loans have been introduced as a first step towards Basel II.

A bill to amend the New Central Bank Act (NCBA) and thus strengthen the BSP's financial supervisory powers has long awaited Congress approval. The draft bill is pending in both Houses of Congress, but has not been certified as urgent by the President of the Philippines. In the absence of these amendments, the authorities are attempting to engage banks beginning to face difficulties in a new Prompt Corrective Action (PCA) framework, outlined in March 2006.

The BSP has proposed further amendments to the NCBA that would minimise the risk of legal action against its staff. In addition to these legal initiatives, the BSP has recently established insurance to protect its officers. It has arranged liability insurance from the Government Service Insurance System (GSIS) to cover members of the Monetary Board, directors of departments and other officers judged to be the most likely subjects of lawsuits. This is expected to help enhance the independence of central bank policy.

The Philippines' overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●●● Compliance in progress

The objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

The New Central Bank Act of 1993 (NCBA) regulates the activities of the Central Bank of the Republic of the Philippines -- *Bangko Sentral ng Pilipinas* (BSP). The act establishes the BSP as an independent monetary authority and mandates it to maintain stability of prices conducive to balanced and sustainable economic growth, while also aiming to promote monetary stability and convertibility of the Philippine currency. The BSP is responsible for the formulation and implementation of policy in the areas of money, exchange rate, banking and credit, as well as the supervision and regulation of banks and non-bank financial institutions with quasi-banking functions. The NCBA empowers the BSP to acquire any assets and incur any liabilities that are necessary to attain its policy objectives.¹

In 1993, the restructuring of the old Central Bank of the Philippines (CBP) into the BSP was made necessary by the CBP's accumulation of around 308 billion pesos (6.2 billion US dollars) in liabilities, as a result of quasi-fiscal operations carried out on behalf of the government.² Under the NCBA, the BSP is granted increased fiscal and administrative autonomy from the central government.³ As a result, it has largely ceased quasi-fiscal activities.

A bill to amend the NCBA and thus strengthen the supervisory powers of the BSP has long awaited Congress approval. The bill is certified as urgent by the BSP, albeit not by the President of the Philippines; its second reading is pending in the Senate as well as with the Committee on Banks and Financial Intermediates in the House of Representatives.⁴ The amendments would not modify the underlying objectives or key institutional framework set out in the NCBA. The draft bill includes provisions aimed at: authorising the BSP to examine and sanction subsidiaries and affiliates of banks, giving authority to the Monetary Board to prescribe guidelines for the examination of supervised entities, and authorising the BSP to monitor more closely the operations of trust entities and non-stock savings and loan associations, enhancing supervisory standards (including clearer definitions of stockholders' 'control' over banks, waiver of deposit secrecy laws for directors, officers, stockholders and related interests), and defining periods when banks may be subject to examination; strengthening receivership and prescribing additional transparent grounds for bank closure.⁵ The bill also seeks to introduce amendments to: 1) give the BSP oversight powers of the payments system, and 2) require prior BSP approval for transfers and acquisition of shares sufficient to elect at least one seat in the board of directors, or to effect a change in the majority ownership or control of the relevant institution.⁶ In the absence of these amendments, the authorities are attempting to engage banks beginning to face difficulties in a new Prompt Corrective Action (PCA) framework outlined in March 2006.⁷

Another bill is currently being drafted, with the temporary name of 'Payment and Systems Law', to integrate and clarify all laws on payment systems. This law is expected to strengthen BSP authority to administer the payment system.⁸

Operational autonomy

The NCBA made the BSP formally independent. Therefore, the government does not have the legal authority to override central bank decisions and can only apply informal pressure.⁹ Board members are appointed by the president of the Philippines and may be dismissed by the president if they are guilty of fraudulent or illegal

behaviour, or become unfit to hold office.¹⁰ No board dismissals have occurred since the NCBA took effect. However, commentators noted that the criteria and process for selecting Monetary Board members are not transparent, thus allowing the President to exercise wide latitude in the selection process. In recent years, the public has been concerned about appointments to the Monetary Board being based more on political factors than qualifications of the candidates.¹¹

The BSP's operational autonomy has remained strong. Fiscal constraints over the past few years have not led to government pressure on the central bank's monetary policy settings.

Institutional relationship between monetary and fiscal operations

Lending to government

The BSP does not regularly extend credit to the government, but is permitted to buy and sell government securities in the secondary market in connection with its open market operations. The purchase and sale of such debt securities may be made outright or using repurchase agreements. The BSP may also issue, buy, and sell its own securities in cases of extraordinary movements in price levels.¹²

The BSP is permitted to make direct provisional advances (with or without interest) to the national government to finance authorised expenditures in the annual budget, provided that such advances are repaid within three months. Advances are renewable for another three months but may not, in aggregate, exceed 20% of the average annual income of the borrower for the last three years. Since the establishment of the BSP, no such advances have been made. Commentators noted that when this legal provision was passed, the expectation was for the BSP and the government to adopt a clarifying memorandum of agreement. However, the absence of a clear definition of government annual income partly contributed to the inability of the government to access these advances.¹³

The monthly analytical accounts of the monetary authorities -- including BSP net claims on the national government, non-financial public corporations, and financial public corporations -- are reported in the *Selected Philippine Economic Indicators* and the International Financial Statistics (Table 10G). These are available on the BSP's website within two months from the end of each reference month.¹⁴ The data are presented on a consolidated basis and contain no information on the interest rate or repayment period of BSP loans to the government.¹⁵

Central bank involvement in the rest of economy

BSP involvement in the rest of the economy is clearly proscribed by the NCBA. The central bank cannot acquire shares or participate in the ownership or management of any firm, whether directly or indirectly.¹⁶ In addition, employees are forbidden from concurrent employment in any institution subject to supervision or examination by the BSP. Members of the Monetary Board are not permitted to hold any other public office or public employment during their period of tenure. Individuals connected with multilateral banking institutions or with a stake in Philippine private banks cannot be appointed to the Monetary Board for one year after renouncing their external interests. Likewise, members of the Board cannot be employed by private or multilateral banking institutions for two years after the termination of their Board membership.¹⁷ However, commentators noted that these rules are not clear. Since the passage of the NBCA, there have been BSP officials who, immediately after their retirement from BSP, have been hired by non-bank private corporations with significant shares of stock in banks and non-bank financial institutions with quasi-banking functions.¹⁸

Central bank profit allocation

The NCBA requires the BSP to calculate its net profits/losses on a monthly basis. In the calculation of net profits, the BSP is obliged to make adequate reserves for bad accounts. Within the first sixty days of the end of each fiscal year, the BSP is required to transfer 50% of its net profits to the national treasury and retain the remaining 50%, unless otherwise provided under the transitory provisions of the NCBA. Currently, the BSP follows the transitory provisions, under which it is required to place 75% of its net profits into a special deposit account (sinking fund) until the net liabilities of the central bank are liquidated. Any profit or loss arising from revaluation of BSP net assets or liabilities in gold or foreign currencies, with respect to the Philippine peso, is not included in the computation of BSP annual profits and losses but is carried in a special frozen account in the BSP General Balance Sheet under the 'Revaluation of International Reserves' account.¹⁹

Agency roles performed by the central bank on behalf of the government

The central bank performs several agency roles on behalf of the government. It acts as a banker to the government, represents it in all dealings, negotiations, and transactions with the IMF and the Bank of International Settlement, acts as a financial adviser to government, and is the official depository of the cash balances of all government agencies. For this reason, the BSP operates a general cash account for the Treasurer, in which the liquid funds of the government are deposited.²⁰

BSP representatives sit on a range of government committees, including the Investment Coordinating Committee and the Committee on Tariffs and Related Matters. The BSP sits as an observer in the Development Budget and Coordination Committee (DBCC) -- the members of which are the other managers of the economy, namely the Department of Finance (DoF), the Department of Budget and Management (DBM), and the National Economic and Development Agency (NEDA) -- which sets the desirable level of revenue expenditure and debt for the annual budget.²¹ In addition, under section 124 of the NCBA, the BSP is an ex-officio member of the NEDA Board.

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

●●●● Compliance in progress

The framework, instruments, and targets of monetary policy

Framework and monetary targets

In January 2002, the BSP shifted its policy-making framework from monetary targeting to explicit inflation targeting, based on the consumer price index (CPI) or headline inflation (published by the National Statistics Office). The policy target is expressed in the form of a range for a given year and is set by the national government in coordination with the central bank. The central bank has adequate mechanisms to inform the public on how the inflation targeting regime works. The BSP regularly disseminates quarterly inflation reports, reports on monthly inflation, and the minutes of its Monetary Board meetings. Commentators noted that actual inflation rates have been deviating substantially from targeted inflation rates. The BSP explains inflation developments and deviations from its targets in its quarterly inflation reports. In addition, the central bank has been intervening in the foreign exchange market and building reserves.²²

Monetary instruments

The BSP uses short-term interest rates, specifically the overnight RREPO (Reverse Repurchase Rate) and the overnight REPO (Repurchase Rate), as the key policy rates in the BSP open market system to set the stance of monetary policy. Other instruments used include the special deposit accounts (SDA) facility, reserve requirements, and rediscounting transactions. Rules and procedures governing the central bank's relations with financial institutions for the purpose of monetary policy-making are publicly disclosed on the BSP's website and are addressed in the NCBA.²³

The monetary policy-making body

Monetary board

The Monetary Board is empowered to exercise the powers and functions of the BSP. It consists of seven members -- the governor of the BSP, a member of the cabinet, and five individuals from the private sector -- each one appointed by the president. Information on the composition, structure and functions of this policy-making body is publicly disclosed on the BSP website.²⁴

The NCBA stipulates that the Monetary Board should meet at least once a week, and that the presence of four members constitutes a quorum, provided that the governor or a duly designated alternate is among the four. In case of emergencies where there is insufficient time to call a board meeting, the governor may, with the concurrence of two other members, take decisions.²⁵

The NCBA establishes a clear framework of accountability for BSP officials. Monetary Board members and other officials are liable for losses that the BSP or other banking institutions incur as a result of abuse of responsibilities, negligence or imprudence.

Advance meeting schedule

The BSP publishes the schedule of Monetary Board meetings and advisory committee meetings, as well as the release dates of highlights from the Monetary Board meetings, two years in advance. They are published on the BSP website and also in the BSP quarterly inflation report.²⁶

Public statements on monetary policy

The BSP publishes 'highlights' that incorporate the main considerations underlying the BSP Monetary Board's policy decisions and a summary of the discussions of Monetary Board meetings. Also included in the highlights are the board's assessment of the inflation outlook, macroeconomic conditions, the exchange rate, the world economic outlook and production and consumption indicators. The BSP reports the voting of the Monetary Board, but not the individual voting record of members. The BSP is also required by the NCBA to report any new rules or regulations to the president and Congress. Moreover, the Monetary Board must publish comprehensive quarterly and annual reports, including an analysis of economic and financial developments (in the quarterly reports), and a review of the policies adopted and the reasons that prompted individual policies (in the annual reports).²⁷ In addition, a statement on the Monetary Board's decisions on monetary policy is released to the press and posted on the BSP website immediately after Monetary Board meetings on the monetary policy stance. In mid-2006, the BSP commenced publishing highlights of minutes of Monetary Board meetings with a lag of four weeks, as opposed to the previous lag of six weeks.²⁸

Periodic publications

In addition to summary statements on Monetary Board decisions, the BSP publishes a variety of documents, reports, and press statements on a range of macroeconomic and financial issues. These include monthly issues of *Selected Philippine Economic Indicators*, the quarterly and annual *Report on Economic and Financial Developments*, a twice-yearly *Status Report on the Philippine Financial System*, quarterly balance of payments (BOP) reports, quarterly inflation reports (with an accompanying briefing), fact sheets on the exchange rate and the inflation-targeting framework and a *Business Expectations Survey* and *Consumer Expectations Survey* (both published quarterly and posted on the BSP website). Press statements and full reports on the BOP and inflation developments, and selected speeches by the governor, are also available on the BSP's website.²⁹

The BSP publishes a detailed quarterly advance release calendar of key statistics, reports and press releases on its website. The calendar contains information on the data provider, periodicity, availability, period coverage, and the contact details of institutions where further information can be obtained.³⁰

Public hearings

There is no legal requirement for public hearings on proposed changes to the monetary policy framework, but the BSP is committed to public consultation -- as evidenced by the extensive consultations on the design of the inflation-targeting regime in 2001 -- including meetings with representatives from industry and labour organisations. In addition, the central bank has been conducting a series of public information campaigns as part of the authorities' effort to bring greater transparency to the making of monetary policy. A schedule of public briefings and information campaigns is available on the BSP website.

Regulations on data reporting by financial institutions to the central bank

The BSP has tightened banking supervision in recent years, requiring more extensive reporting, in particular on banks' non-performing loans and transactions with directors, officers, stockholders and related interests. External auditors of commercial banks must report to the BSP on adverse developments, and banks are required to raise their accounting practices to international standards.

While the BSP is mandated to examine every bank branch once every twelve months, it is unable to fulfil this requirement owing to its limited resources and the large number of branches across the archipelago. Rural banks, which pose the greatest regulatory difficulty, only represent about 2% of the banking system in terms of assets. Nevertheless, problems in these areas suggest that BSP supervision of the local banking sector requires further strengthening. Some measures, including increased computerisation and consolidation, are being implemented.

Progress is underway to compile monetary data following the guidelines of the new IMF Monetary and Financial Statistics Manual (MFSM), aimed at improving the coverage, sectorisation and classification/valuation of financial instruments. In response to recommendations from the IMF, expanded institutional coverage and uniform conversion of foreign currency accounts began in March 2004 with the publication of the Depository Corporations Survey (DCS) covering all deposit-taking institutions. Initial periods covered were December 2001, December 2002, December 2003, and January to July 2004.³¹ The most recently published DCS series is September 2006.³² DCS data is released with a time lag of one month.

Another recommendation from the IMF was to establish routine updating of classification of bank assets and liabilities at different levels of government.³³ Classification or sectorisation requirements are expected to be addressed by the implementation of the Financial Reporting Package (FRP) that should replace the Consolidated Statement of Condition (CSOC) reports of banks by January 2007.³⁴

An ad hoc inter-agency group consisting of representatives from the BSP, the National Statistical Coordination Board (NSCB), the DOF and the Commission of Audit (CoA) was organised to update classification of Government-Owned and/or Controlled Corporations (GOCCs). Agreement on the proposed classification or sectorisation was not achieved. The activity was then subsumed by the Inter-Agency Task Force on Public Finance Statistics, which was created in April 2005 by a joint DoF/DBM memorandum circular to facilitate the migration to the GFSM 2001.³⁵ In early 2006, an IMF mission provided technical assistance on compiling and disseminating government financial statistics in line with the GFSM 2001. The IMF mission developed revised conceptual and operational guidelines and therefore a revised sectorisation of GOCCs. The mission recommended that the Inter-Agency Task Force on Public Finance Statistics review and agree on the revised sectorisation in order to prepare for its implementation.³⁶

The Financial Action Task Force (FATF) announced on 13 March 2003 that it would not apply any counter-measures to the Philippines (as had previously been suggested on 14 February 2003), due to the enactment of the Republic Act No. 9194, which amended the Anti-Money Laundering Act of 2001. According to the FATF, the new legislation had addressed the main legal deficiencies in the Philippine anti-money-laundering regime. On 11 February 2005, the FATF removed the Philippines from its list of non-cooperative countries and territories (NCCT) after an FATF inspection confirmed that the Philippines was effectively implementing anti-money-laundering measures. In April 2005, the Financial Crimes Enforcement Network (FinCEN) of the US Department of Treasury withdrew its earlier requirement for enhanced scrutiny of financial transactions with the Philippines and confirmed that the Philippines had enacted significant reforms. In June 2005, the Philippine Anti-Money-Laundering Council was admitted to the Egmont Group, a group of Financial Intelligence Units, after complying fully with the Egmont Group's membership criteria and requirements.³⁷

The BSP has tightened anti-money-laundering regulations by adding moneychangers, pawnshops, and remittance agents to the institutions to be monitored. The BSP has required banks to implement a system of electronic money - laundering transaction monitoring by October 2007.³⁸

Starting in December 2005, the financial statements of banks were required to comply with international accounting standards (IFRS), which imply more rigorous valuation requirements than in the past. In addition, Basel II will be introduced in two stages. On 1 July 2007, banks will be required to implement a standardised approach for credit risk and operational risks. In the second stage, effective in 2010, banks will be allowed to move to the advanced internal ratings based approach. Higher risk-weightings on non-performing loans have been introduced as a first step towards Basel II.³⁹

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

Release of central bank data

As a subscriber to the IMF Special Data Dissemination Standard (SDDS), the Philippines provides a range of macroeconomic, financial and monetary statistics. Within this framework, the BSP is responsible for releasing financial data, such as the analytical accounts of the banking sector, the analytical accounts of the central bank, interest rates, the balance of payments, international reserves and foreign currency liquidity, the international investment position, external debt and exchange rates. The stock market share price index, the PSEi, released by the Philippine Stock Exchange is re-disseminated by the BSP on its SDDS webpage.⁴⁰

Data meet the requirements of the SDDS for coverage, timeliness and periodicity. The BSP makes use of the option to publish the Philippines' international investment position with a time lag of nine months, while publishing external debt data on a quarterly basis. The analytical accounts of the banking sector cover data on monetary aggregates, net domestic credit to the public and private sectors, and net foreign assets. The analytical accounts of the central bank cover data on reserve money, net domestic claims on the public and private sectors, and net foreign assets. Both accounts are published on a monthly basis, with a time lag of four weeks for the former and two weeks for the latter. Data on interest rates cover daily BSP policy rates, weekly Treasury bill and bond rates, and monthly BSP rediscount rates.

Balance of payments statistics cover all accounts consistent with the IMF balance of payments manual 5th edition (BPM5). These statistics are produced monthly, but the report on the BOP figures is made and released on a quarterly basis.⁴¹ The government has made considerable progress in eliminating the weaknesses previously found by the IMF in the statistical reporting system. Technical notes on the conceptual revisions to BOP data for 1999-2005 are available on the central bank's website.⁴²

Data on international reserves and liquidity are published on a monthly basis within a month from the end of the reference month. Exchange rate data are published daily and detail the spot exchange rate of the Philippine peso against the US dollar and other currencies. The new composite stock market index, the PSEi, is published on a daily basis.

On the first business day of the month, an advance release calendar, giving one-quarter notice of precise release dates, is posted on the websites of the BSP and the National Statistical Coordination Board.⁴³ Commentators have said they are satisfied with the quality, timeliness and coverage of BSP data, as well as BSP general information and communication.⁴⁴

The central bank balance sheet

In addition to its monthly SDDS releases, the BSP publishes summary analytical accounts on a weekly basis.⁴⁵ A more detailed balance sheet is produced quarterly, in the *Report on Economic and Financial Developments*, and annually, in the *Annual Report*.⁴⁶ An unaudited balance sheet is made available by the BSP's Financial Accounting Department five weeks after the reference month, while the audited version is published at a later stage. Information

on BSP monetary operations is disclosed in the monthly report on *Selected Philippine Economic Indicators*, which includes a table on Reserve Money Movements.⁴⁷

Lender of last resort

The NCBA authorises the BSP to extend emergency loans to banking institutions experiencing serious liquidity problems arising from causes not attributable to, or beyond the control of, bank management. An emergency loan is intended only as a temporary remedial measure to help a solvent bank overcome serious liquidity problems. Section 84 of the NCBA establishes that emergency loans require the support of five members of the Monetary Board and should not exceed 50% of the total deposits and deposit substitutes of the banking institution. Emergency loans may be disbursed in one or more releases. The BSP also assists the Philippine Deposit Insurance Corporation (PDIC) in its function of rehabilitating banks by granting loans to the PDIC at conventional rates.⁴⁸ Under the PDIC Charter, the BSP is authorised to lend to PDIC on terms agreed between the two, provided that the loan is consistent with the BSP's objective of price stability and is made at an interest rate, fixed by the BSP's Monetary Board, which does not exceed the Treasury bill rate.⁴⁹

The BSP recognises concerns relating to stability in the financial markets and takes a conservative stand with regard to making public the details of banks receiving emergency loans. The BSP publishes aggregate figures in its *Annual Report* and *Selected Philippine Economic Indicators*, but no detailed information is released.⁵⁰ Under SEC rules, all publicly listed corporations must publish statements of their financial conditions on a quarterly basis.⁵¹ Although not all banks are publicly listed, the BSP requires banks to publish their statements on a quarterly basis.⁵²

Public information services

The BSP has established and maintains high quality public information services, particularly through its website. There are links to a comprehensive database of macroeconomic and financial statistics, reports, press releases, and speeches by the governor. New regulations are disseminated as appropriate on the BSP website. The central bank has clearly placed special attention on the inflation-targeting framework and has maintained its public information campaign and briefings on inflation targeting.⁵³

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

Accountability to a designated public authority

The BSP is required to submit its written quarterly *Report on Economic and Financial Developments* and its *Annual Report* to the president and Congress.⁵⁴ Senior BSP officials brief Congress as necessary and when invited, although there is no explicit legal requirement in the NCBA for central bank officials to report before public authorities. The BSP governor meets the president frequently at scheduled cabinet meetings.

Financial statement

Audited financial statements

The BSP publishes a monthly financial statement of consolidated revenues and expenses in its *Selected Philippine Economic Indicators* series and a review of its financial condition in the quarterly *Report on Economic and Financial Developments*. The central bank must also attach an audited financial statement to its *Annual Report*.⁵⁵

A number of initiatives were undertaken during 2005-06. A Task Force on Banking and Systems Risk was set up to review the practice of providing financial assistance to troubled banks and the PDIC, in order to identify loopholes in BSP lending policy. The results of the review were taken into account by the Credit Policy Committee, while it was formulating new guidelines for granting loans to banking institutions, including the PDIC. In March 2006, the Monetary Board of the BSP approved these guidelines. In addition, the Department of Loans and Credit (DLC) improved its bookkeeping, monitoring and management of the PDIC loan accounts through closer coordination with the PDIC and the computerisation of loan data/information.⁵⁶

External and internal audit

The external audit of the BSP is undertaken by an auditor appointed by the chairman of the Commission on Audit (CoA), the supreme audit authority of the Philippines.⁵⁷ Under the Administrative Code of 1987 (Article IX-D), the CoA has independent powers to audit all government accounts. The CoA conducts a monthly audit (not real time), which is published in the press. Where the internal control system of the audited agencies is deemed inadequate, the CoA may impose measures -- such as temporary and pre-audits -- that are deemed necessary to remedy such deficiencies.⁵⁸ To date, the CoA has never made an adverse finding against the BSP.⁵⁹

The CoA annual report on the BSP, containing the CoA's audit findings, observations and recommendations, is submitted to the BSP Monetary Board. The BSP Internal Audit Office (IAO) is mandated to monitor the status of actions taken by BSP departments and offices in response to the CoA audit observations. The IAO submits a quarterly compliance update and status report to the BSP Governor through the BSP Corporate Audit Committee; the IAO also submits the quarterly compliance update to the CoA. The BSP Corporate Audit Committee, IAO and Financial Accounting Department meet with the CoA bi-monthly to discuss issues concerning the BSP's financial operations.⁶⁰

In addition, the BSP IAO has recently developed a Quality Management System specifying the conduct of BSP-internal IT and business audits. The IAO undertakes a quarterly follow-up of the status of actions by BSP departments in response to its recommendations on the internal audit findings. It also submits its quarterly report to the BSP Governor through the BSP Corporate Audit Committee.⁶¹

Data on BSP operations are compiled in accordance with CoA rules contained in the Government Accounting and Auditing Manual (GAAM, CoA Circular 91-368). Accounting procedures are prescribed in the Manual on the New Government Accounting System (CoA Circular 2002-002), which replaced the accounting practices established in the GAAM Volume II. Further information on the methodology and sources used is available upon request from the contact person listed on the National Statistical Coordination Board's SDDS metadata website.⁶²

Conduct of officials

Standards for the conduct of personal financial affairs of BSP officials and staff are set out in the Code of Conduct and Ethical Standards for Public Officials and Employees (Republic Act No. 6713).⁶³ These provisions are explained further in the Employee Handbook (distributed internally). The NCBA also establishes rules for BSP employees over potential conflicts of interest.⁶⁴ However, in practice such conflicts have arisen in the past.

Past events concerning a potential suspension of Governor Rafael Buenaventura and four other top central bank officials, with regard to the closure of Urban Bank, highlighted the fact that BSP officials may be vulnerable throughout the political cycle. However, the administrative cases brought against Governor Rafael Buenaventura and against the four other top BSP officials have been dismissed with finality by the Supreme Court.⁶⁵

Article 2, Section 15, Subsection (e) of the New Central Bank Act (R.A. 7653) mandates that the Monetary Board shall "indemnify its members and other officials of the Bangko Sentral, including personnel of the departments performing supervision and examination functions, against all costs and expenses reasonably incurred by such persons in connection with any civil or criminal action, suit or proceedings to which he may be, or is, made a party by reason of the performance of his functions or duties, unless he is finally adjudged in such action or proceeding to be liable for negligence or misconduct." One of the proposed amendments to the NCBA adds formally the word "administrative" to the kind of actions, suits and proceedings BSP personnel can be indemnified for, although commentators stated that current proceedings include indemnification in administrative actions as well as civil and criminal actions. Proposed amendments to the NCBA also expand the coverage of the indemnification of legal costs and expenses to all personnel of the BSP and limit the exclusion for indemnification only to cases of gross negligence and misconduct.⁶⁶ The BSP maintained that it was not able to introduce these amendments to the Senate yet.

Another of the proposed amendments intended to strengthen legal protection seeks to modify the degree of diligence required from BSP personnel under Section 16. The amendment seeks to impose on BSP personnel the same degree of diligence required from other government functionaries in the exercise or discharge of their duties and to remove the previous requirement for the exercise of extra-ordinary diligence.⁶⁷

In addition to the legal initiatives taken to strengthen legal protection, the BSP has recently established insurance to protect its officers.⁶⁸ The BSP arranged liability insurance from the Government Service Insurance System (GSIS) to cover members of the Monetary Board and directors of departments and other officers judged to be the most likely subjects of suits. The liability insurance of 500 million pesos (10 million US dollars), approved by the Monetary Board, would cover the legal costs and damages arising from suits, whether civil, administrative or criminal. The BSP has also established a self-funded insurance account of one billion pesos (200 million US dollars) to provide additional protection for directors and officers covered by the GSIS policy and to protect other officers, including

chief bank examiners and deputy directors.⁶⁹ Only two kinds of claims are excluded from the insurance coverage: claims arising from fraud or dishonesty.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to the Philippines between 21 and 27 November 2006.

Bangko Sentral ng Pilipinas

22 November 2006

Diwa C. Guinigundo	Deputy Governor	Monetary Stability Sector
Carmen V. Hemedes	Acting Deputy Director	Department of Economic Research
Illuminada T. Sicat	Director	Department of Economic Statistics
Regina Juinio	Acting Deputy Director	Department of Economic Statistics
Amy Doreen Cruz	Bank Officer III	
Maria Dorecyl Evidente	Senior Research Specialist	

Department of Finance (DoF)

22 November 2006

Ma.Teresa S. Habitan	Director IV	Fiscal Policy and Planning Office
Stella B. Montejo	Chief	Fiscal Policy and Planning Office

ADDITIONAL INTERVIEWS

21 November 2006

Rene G. Banez	Chief Governance Officer	Philippines Long Distance Telephone Company
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23 November 2006

Guillermo M. Luz	Executive Director	Makati Business Club
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27 November 2006

Joseph Yap	President	Philippine Institute for Development Studies
Rosario F. Manasan	Research Fellow	Philippine Institute for Development Studies

NOTES

- ¹ New Central Bank Act, Republic Act 7653 (1993), Chapter I, Article I (objectives and responsibilities); Chapter IV, Article II, Sec. 74 (exchange rate): www.bsp.gov.ph/about_bsp/ncba/ncba_index.htm
- ² Reuters Business Briefing, *Ramos signs law for new Philippine central bank*, 14/06/93, www.reuters.com
- ³ New Central Bank Act, Chapter I, Article I.
- ⁴ Interviews in the Philippines, 21-27 November 2006.
- ⁵ Interviews in the Philippines, 11-15 October 2004.
- ⁶ Interviews in the Philippines, 3-11 November 2005.
- ⁷ *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006, and www.bsp.gov.ph/downloads/Regulations/attachments/2006/circ523.pdf
- ⁸ Interviews in the Philippines, 3-11 November 2005 and 21-27 November 2006.
- ⁹ Interviews in the Philippines, 14-16 October 2002.
- ¹⁰ New Central Bank Act, Chapter I, Article II, Section 10.
- ¹¹ Interviews in the Philippines, 21-27 November 2006.
- ¹² New Central Bank Act, Chapter IV, Article V, Sections 91, 92.
- ¹³ Interviews in the Philippines, 21-27 November 2006. Commentators noted that the definition of annual income of the government is not clear. For instance, does it refer to total government revenues excluding the internal revenue allotment to local governments, the latter being fixed by the Local Government Code? It is also not clear whether such income would include revenues of government-owned and controlled corporations.
- ¹⁴ For example: 'Table 17a: Monetary Authorities Survey (Sources of Reserve Money Movements),' in *Selected Philippine Economic Indicators*, September 2006, p. 47, also at also at www.bsp.gov.ph/Statistics/stats_SPEI.htm; and 'Table 10G: Central Banks and/or Monetary Authority Accounts' at <http://www.bsp.gov.ph/statistics/ifs/IFS-10G.htm>. In the Philippines, 'monetary authorities' refers to the BSP and the Bureau of the Treasury.
- ¹⁵ www.bsp.gov.ph/Statistics/ifs/IFS-10G.htm; The New Central Bank Act (1993), Chapter I, Article V, Section 39.
- ¹⁶ New Central Bank Act, Chapter VI, Article II, Section 128.
- ¹⁷ New Central Bank Act, Chapter I, Article II, Section 9; Article IV, Section 27.
- ¹⁸ Interviews in the Philippines, 21-27 November 2006.
- ¹⁹ Interviews in the Philippines, 21-27 November 2006.
- ²⁰ New Central Bank Act, Chapter V, Articles I and III.
- ²¹ Administrative Code (1987), Book VI, Chapter 3, Section 13 www.chanrobles.com/administrativecodeofthephilippines6.htm
- ²² Interviews in the Philippines, 21-27 November 2006.
- ²³ New Central Bank Act, Chapter IV.
- ²⁴ www.bsp.gov.ph/about_bsp/about_monet.htm
- ²⁵ New Central Bank Act, Article II and III, Section 19.
- ²⁶ Interviews in the Philippines, 11-15 October 2004. The quarterly inflation reports can be accessed at: www.bsp.gov.ph/publications/regular_inflation.asp
- ²⁷ New Central Bank Act, Chapter I, Article II, Section 15; Article V (publications). For the Annual Reports, see www.bsp.gov.ph/publications/regular_annual.asp, and for Quarterly Reports on Economic and Financial Developments see www.bsp.gov.ph/publications/regular_quarterly.asp
- ²⁸ Interviews in the Philippines, 21-27 November 2006. The Highlights of Monetary Board meetings on Monetary Policy can be accessed at: www.bsp.gov.ph/monetary/highlights.asp
- ²⁹ www.bsp.gov.ph/resources/resources.htm; www.bsp.gov.ph/Statistics/stats_SEFI.htm
- ³⁰ www.bsp.gov.ph/resources/calendar/release_calendar.htm
- ³¹ Interviews in the Philippines, 11-15 October 2004.
- ³² Interviews in the Philippines, 21-27 November 2006.
- ³³ IMF, Philippines: Report on the Observance of Standards and Codes - Data Module, Response by the Authorities, and Detailed Assessments Using Data Quality Assessment Framework, August 25, 2004.
- ³⁴ Interviews in the Philippines, 21-27 November 2006. See also www.bsp.gov.ph/regulations/regulations.asp?type=1&id=639
- ³⁵ Interviews in the Philippines, 3-11 November 2005.
- ³⁶ Interviews in the Philippines, 21-27 November 2006.
- ³⁷ Interviews in the Philippines, 21-27 November 2006.
- ³⁸ Interviews in the Philippines, 21-27 November 2006.

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- ³⁹ *Mid-2006 Post-Program Monitoring Discussions*, IMF Country Report No. 06/355, October 2006, and www.bsp.gov.ph/publications/media.asp?id=999
- ⁴⁰ The BSP has had a long practice of re-disseminating the stock exchange index. The PSEi replaced an earlier index in April 2006; it focuses on stocks with a free float the earlier index focused on market capitalisation.
- ⁴¹ Interviews in the Philippines, 11-12 December 2003.
- ⁴² www.bsp.gov.ph/Statistics/stats_conceptsbop.htm
- ⁴³ www.bsp.gov.ph/resources/calendar/release_calendar.htm; www.nscb.gov.ph/sdds/calendar.htm
- ⁴⁴ Interviews in the Philippines, 11-15 October 2004; Interviews in the Philippines, 21-27 November 2006.
- ⁴⁵ www.bsp.gov.ph/Statistics/sdds/SDDS.htm; www.bsp.gov.ph/Statistics/sefi/wmoney.htm
- ⁴⁶ www.bsp.gov.ph/Resources/special_publications/default.htm
- ⁴⁷ See, for example, 'Table 17a: Monetary Authorities Survey (Sources of Reserve Money Movements), in *Selected Philippine Economic Indicators*, September 2006, p. 47, also at www.bsp.gov.ph/Statistics/stats_SPEI.htm
- ⁴⁸ Interviews in the Philippines, 3-11 November 2005
- ⁴⁹ Interviews in the Philippines, 21-27 November 2006. The PDIC Charter is Republic Act 3591 - see Section 18 of the PDIC Charter for the relevant authorisation.
- ⁵⁰ Table 17a, *Selected Philippine Economic Indicators*, September 2006, p. 47.
- ⁵¹ Interviews in the Philippines, 14-16 October 2002 and 11-12 December 2003.
- ⁵² Interviews in the Philippines, 3-11 November 2005
- ⁵³ See, for instance, "Inflation Targeting: The BSP's Approach to Monetary Policy", Bangko Sentral ng Pilipinas, at: www.bsp.gov.ph/monetary/targeting.asp
- ⁵⁴ New Central Bank Act, Chapter I, Article V.
- ⁵⁵ New Central Bank Act, Chapter I, Article V, Sections 40 and 41. The Audited Financial Statement for 2005 can be accessed at: www.bsp.gov.ph/about/financials.asp
- ⁵⁶ Interviews in the Philippines, 21-27 November 2006. The guidelines for granting loans to banking institutions and the PDIC were approved by the Monetary Board in Circular No. 517 of 6 March 2006.
- ⁵⁷ New Central Bank Act, Chapter I, Article VII.
- ⁵⁸ Administrative Code, Book V, Subtitle B, Chapter 4, Section 11.
- ⁵⁹ Interviews in the Philippines, 11-12 December 2003, 11-15 October 2004, and 21-27 November 2006.
- ⁶⁰ Interviews in the Philippines, 21-27 November 2006.
- ⁶¹ Interviews in the Philippines, 21-27 November 2006.
- ⁶² www.nscb.gov.ph/sdds/meta_fin_cenbank.asp
- ⁶³ Code of Conduct and Ethical Standards for Public Officials and Employees, Republic Act No. 6713 (1989); Anti-Graft and Corrupt Practices Act, Republic Act No. 3019 (1960), <http://philippineonation2.tripod.com>
- ⁶⁴ New Central Bank Act, Chapter I, Article II, Section 9, 14; Article IV, Section 27.
- ⁶⁵ For the dismissal of the case against Governor Buenaventura, see Supreme Court resolution GR No. 163765 of 1 October 2004; for the dismissal of the case against other top BSP officers, see Supreme Court resolution GR No. 161276 of 31 January 2005.
- ⁶⁶ Interviews in the Philippines, 11-15 October 2004.
- ⁶⁷ Interviews in the Philippines, 11-15 October 2004.
- ⁶⁸ *E-standards forum Weekly Report*, Vol. VII, No.5, Oct. 9-13, 2006
- ⁶⁹ Interviews in the Philippines, 21-27 November 2006.