BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-APRIL 2002

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➢ Overall Position

Strong current account position reverses the BOP to a surplus.

The country's balance of payments (BOP) for the first four months of the year posted a surplus of $1.891 billion. Behind this development was the continued surplus in the current account and the strengthening of the capital and financial account as it posted a significantly reduced net outflow. The year-to-date BOP surplus was a turnaround from the $755 million BOP deficit recorded in the comparable period last year.

Balance of Payments (US$ m)

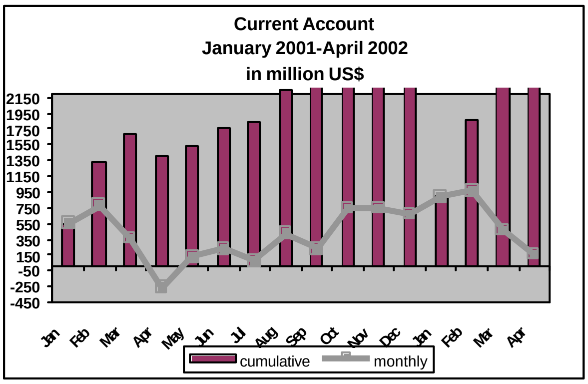
	Jan-Apr 2002	Jan-Apr 2001	Growth Rate (%)
I. Current Account	2484	1382	79.7
II. Capital & Fin'l.	-506	-2311	78.1
III. Net Unclassified	-87	174	-150.0
IV. Overall BOP *	**1891**	**-755**	**350.5**

* Totals may not add up due to rounding.

➢ Current Account

Substantial net income flows trigger remarkable increase in the current account surplus.

Strengthened by increased net inflows in the income account, the current account realized a surplus of $2.484 billion for the first four months of 2002. The net inflow in the income account of $1.962 billion during the review period was more than twice the amount of net inflow a year-ago. This, together with the reduced net outflow in the services account and the sustained surplus in the goods account, resulted in the 79.7 percent improvement in the current account surplus from the level registered in the comparable period last year.

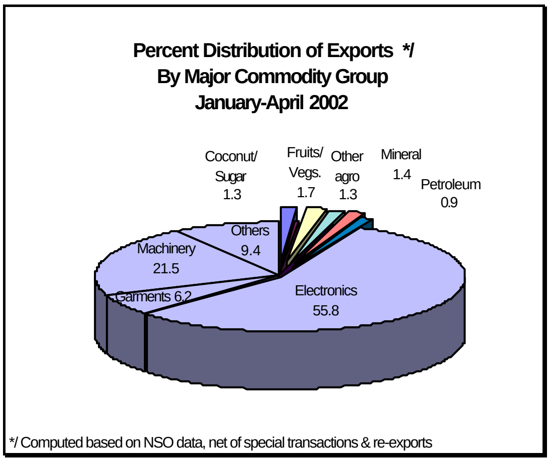


➢ Trade in Goods

Merchandise exports in April recover from more than a year of continuous declines.

Exports rebounded in April with a year-on-year growth of 23.2 percent,[1] after more than a year of continuous declines. This favorable development brought the cumulative total for the first four months of 2002 to $10.577 billion or an increase of 0.6 percent compared to last year's level. Contributing to the turnaround was the robust growth in exports of machinery and transport equipment, processed food and beverages, and sugar and products as exports of these products continued to be higher than their corresponding levels last year. More importantly, electronics exports turned in an impressive year-on-year growth of 29.9 percent in April after posting fourteen consecutive months of declines. This upsurge brought down the year-to-date decline in electronics exports to 2.4 percent. The stronger export performance reflected the increased demand from Asian markets particularly Taiwan, China, Korea, Malaysia and Hongkong. Demand from these markets helped to offset lower exports to the U.S. and Japan, the country's traditional export destinations.

The leading export commodities during the review period remained to be electronics, machinery and transport equipment, and garments (Table 2.1).



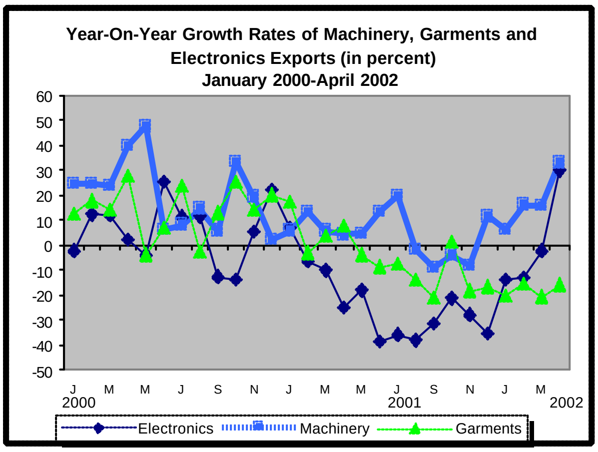
Electronics exports recover in April, while exports of machinery and transport equipment remain a major source of export growth.

a) *Machinery and Transport Equipment.* Sustained demand for electronics-related products such as input/output of peripheral units and parts and accessories of automatic data processing machines, made possible the relatively high 17.2 percent growth for this commodity group in the first four months of 2002. This was higher than the 7.5 percent expansion in the comparable period in 2001. The automotive components of this category particularly auto wiring harness, transmission gears, alloy wheels, gas and air filters, batteries and fan belts also contributed to the continued upsurge of this commodity group.

[1] Per BPM5 concept

b) *Electronics*. For the first four months of 2002, the rate of contraction in electronics exports slowed down to 2.4 percent from 8.4 percent a year ago. Electronics exports rebounded in April 2002, growing by 29.9 percent after experiencing several months of double-digit contractions. This positive development is in line with market expectations of a recovery in the electronics industry following increasing trend of the book-to-bill ratio[2]. For the first time since December 2000, the ratio breached the demand-supply unity mark at 1.04 in March and further climbed to 1.22 in April 2002.

c) *Garments*. Meanwhile, exports of garments contracted by 18.2 percent, a reversal from the 6.4 percent growth in January-April 2001. This developed following lower exports to the U.S market, the major destination of the country's exports of garments, due, in turn, to stiffer competition from low-wage cost countries, e.g., China, Bangladesh and Vietnam, as well as from countries enjoying regional preferential trading arrangements with the U.S., e.g., Caribbean and the Sub-Saharan African countries. To recapture the Philippine market share, the DTI-GTEB mapped out a Transformation Plan to set the imperatives for a competitive industry in a quota-free environment. Strategies are focused on schemes to improve productivity and reduce costs. Complementing these efforts is the collaborative endeavor between the garment industry and the government to continuously conduct an aggressive marketing campaign to other markets in Europe such as the UK to lessen its dependence on the U.S. market.



[2]The book-to-bill ratio is the ratio of three-month moving average bookings (demand) to three-month moving average shipments (supply). A ratio of less than one indicates that demand is lower than supply.

Growth in imports accelerates.

After exhibiting consecutive declines from July 2001-January 2002, imports of goods grew three months in a row beginning in February, climbing a high of 18.8 percent in April.[3] Consequently, total imports for January-April 2002 reached $9.890 billion, up by 3.0 percent from the level a year ago. The current growth rate was a reversal from the contraction of 4.2 percent recorded in the first four months in 2001. Imports of capital goods and raw materials and intermediate goods, particularly materials and accessories for the manufacture of electrical equipment, expanded by 8.8 percent and 5.6 percent, respectively, a turnaround from 10 percent and 0.6 percent declines last year.

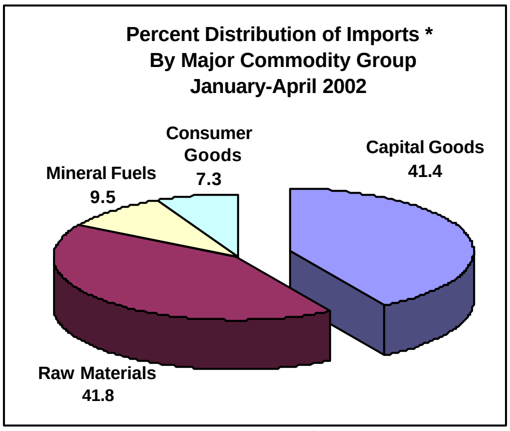
Capital goods imports, which accounted for more than two-fifths of total imports, grew by 8.8 percent. The expansion was attributed to the increased importations, particularly in March and April 2002, of telecommunication equipment? mainly inputs to electronics production? and office and EDP machines.

Meanwhile, the increases in imports of raw materials and intermediate goods, which commenced in February, following inventory build-up by producers/manufacturers, expanded imports under this commodity group to 5.6 percent in the first four months of 2002. Double-digit growths were noted in the importation of materials/accessories for the manufacture of electrical equipment, which expanded by 32.4 percent in April 2002.[4] The increase in imported inputs for electronics exports and the growth in imports of capital goods for electronics production supported market expectations of an upturn of the electronics industry.

By contrast, imports of mineral fuels and lubricants registered the sharpest drop among commodity groups at 20.1 percent during the period in review. This was due, in turn, to the combined impact of the decline in the volume of imports and price of petroleum crude. The average price of petroleum crude for the first four months of the year fell to $21.20 per barrel from $23.75 per barrel last year. Meanwhile, the decline in the volume of oil imports was attributed mainly to: i) shutdown of some refinery units of oil companies because of excess capacity and for check and maintenance purposes, and ii) high oil stockpile following relatively weak domestic demand.

[3] Per BPM5 concept

[4] About half of the imported raw materials needed for electronics production are lodged in the capital goods commodity group, particularly under telecommunication equipment and electrical machinery. Only consigned materials/accessories for the manufacture of electrical equipment are classified as raw materials and intermediate goods. Other electronics parts are classified as capital goods. The combined total of imported inputs to electronics lodged in the capital goods and raw materials categories increased by 24.1 percent during the review period as against the 17.0 percent decline in January-April 2001.



*Computed based on NSO data, net of special transactions

➢ Trade In Services

The deficit in the trade-in-services account narrows.

The trade-in-services for the first four months of 2002 registered a net outflow of $315 million, 47.5 percent lower than the net outflow recorded in the comparable period in 2001. The narrowing of the deficit was traced mainly to lower net payment for transportation services and for miscellaneous business, professional and technical services which contracted by 39.2 percent and 65.0 percent, respectively, from the comparable levels last year. Higher net receipts from travel services, which accelerated by 8.0 percent to $325 million also contributed to bring down the net service outflow during the period in review. This was due, in turn, to higher rate of decline in travel payments relative to that of travel receipts. It should be noted, however, that although travel receipts were lower compared to last year's level, it has been on an uptrend since September 2001. Prospects for the country's tourism industry remain positive following the on-going promotion efforts of the government to attract tourists and the relatively improving peace and order situation in the South.

➢ Income

Higher OFW remittances and lower net payment on interest widen the income account surplus.

Higher remittances from overseas Filipino workers (OFWs) continued to be the main factor behind the significant improvement in the income account to $1.962 billion in January-April 2002. This net inflow represented more than a two-fold increment from the $917 million level recorded in the same period last year. Remittances from OFWs, which comprised about 90 percent of gross income receipts, expanded by 45.3 percent to $2.827 billion during the period in review. The growth in remittances reflected in part the 4.4 percent increase in the number of newly deployed OFWs during the first four months. The bulk of OFW remittances came from the U.S., Saudi Arabia, Japan, Hong Kong and Singapore.[5] Going forward, OFW remittances will remain an important source of foreign exchange as the government pursue

[5] Data may not reflect the actual country of deployment of OFWs due to the common practice of remittance centers in various cities abroad to course their remittances through correspondent banks, which are located mostly in the United States. Since banks attribute the origin of funds to the most immediate source, the U.S., therefore, would appear to be the major source of remittances.

programs to promote the Filipino skills in new markets abroad.

Meantime, investment income yielded a lower net outflow by 15.9 percent as interest payments on portfolio fell with the continued drop in global interest rates. The low global interest rate environment had a greater impact on the payment side than on the income side, thus yielding a favorable net result in the country's external transactions (Table 4).

➢ Current Transfers

Current transfers post higher net inflows.

Surplus in current transfers for January-April 2002 registered a modest increase to $150 million from $147 million in the same period last year. The 2.0 percent growth was attributed mainly to higher receipts of gifts and donations from private institutions (Table 5).

➢ Capital and Financial Account

Higher net inflows in both the portfolio and direct investment accounts reduce the net outflow in the capital and financial account considerably.

The net outflow of the capital and financial account for the period in review was down to only $506 million from a net outflow of $2.311 billion in January-April 2001. This developed following higher net direct investments inflows and the reversal of the portfolio investment account to a net inflow from a net outflow last year. These negated the net outflow in the other investment account.

➢ Capital Account

The deficit in the capital account increases.

The capital account[6] for January-April 2002 posted a net outflow of $5 million following the reduction in receipts from migrants' transfers as well as from bilateral transfers to the general government (Table 6).

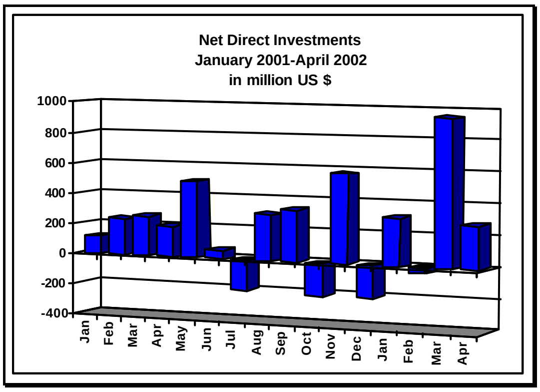
➢ Direct Investments

Direct investments continue to perform strongly due to higher direct equity investments and intercompany

Net inflows of direct investments for January-April 2002 nearly doubled to $1.504 billion compared to $808 million posted in the comparable period last year owing to the remarkable increase in non-residents' investments in equity capital and higher intercompany loans extended by parent companies to their local subsidiaries. Direct equity investments expanded by almost six times to $672 million during the first four months of 2002. The bulk of non-residents' equity investments represented the $557 million worth of shares in a local brewery company purchased by a Japanese firm in March 2002. The rest were directed to other manufacturing companies, services

[6] The capital account consists largely of capital transfers. Capital transfers are transactions that involve a change in the stocks of assets of one or both parties and therefore relate to investments. By contrast, current transfers involve transactions that affect the level of disposable income and should therefore influence consumption of goods and services.

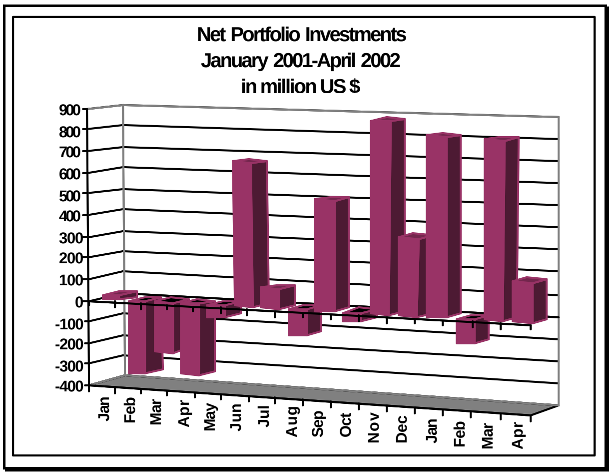
loans. industries, and financial institutions. Meanwhile, intercompany loans to local subsidiaries by their parent companies rose by 26.5 percent to $711 million (Table 7).



➢ Portfolio Investments

Higher non-residents' investments in equity and debt securities reverse the portfolio investment account to a net inflow …

From a net outflow of $884 million in January-April 2001, portfolio investments for the first four months of 2002 reversed to a net inflow of $1.691 billion due to increased non-residents' investments in resident-issued foreign denominated debt securities, particularly government-issued medium-term bonds. The government issued $2.0 billion worth of foreign denominated bonds in January and March this year for budgetary support and international reserve management. Meanwhile, non-residents' investments in equity securities were highest in April 2002 at $175 million, bringing the cumulative portfolio investments in equity securities to $297 million. This level was more than twice that posted last year. This reflected renewed investor confidence in the local equities market (Table 8).



➢ Other Investments

…while net outflow of other investments expands.

The net outflow in the other investment account went up by 65.4 percent to $3.696 billion in the first four months of 2002. Underpinning this development was the higher net deposits abroad by resident banks' to cover their clients' import payments and to diversify their portfolio (Table 9).

➢ Reserve Assets

Note flotation and NG deposits raise the GIR to $17 billion mark.

As of end-April 2002, the BSP's GIR rose to $17.1 billion, higher by 9.2 percent than the end-December 2001 level of $15.7 billion.

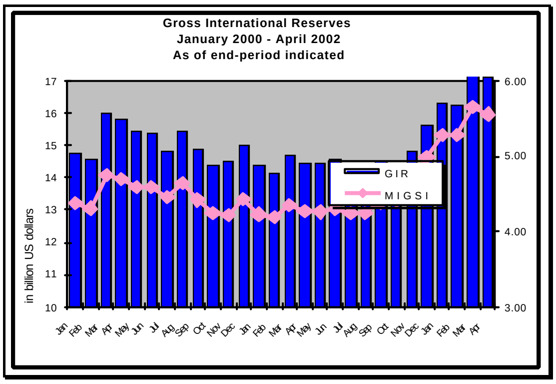
The increase in GIR during the period was attributed mainly to foreign exchange inflows, notably from the reopening of the BSP's four-year Fixed-Rate Notes and net deposits by the Treasurer of the Philippines.[7] However, the impact of these inflows was negated partly by outflows to meet the foreign exchange requirements of the BSP and the National Government, and the net foreign currency withdrawals by government-owned and -controlled corporations from their deposit with the BSP.

The BSP's GIR were adequate to cover 5.5 months' worth of imports of goods and payment of services and income. Using other reserve coverage measures, the level of reserves was 3.2 times the amount of the country's short-term external debt based on original maturity or alternatively, 1.5 times the amount of short-term external debt based on residual maturity[8] (Table 11).

During the review period, the bulk of reserves consisted of foreign investments (81.7 percent), while the rest were in gold (14.6 percent), foreign exchange (2.9 percent), and combined SDRs and reserve position in the Fund (0.8 percent). In terms of the currency composition of reserves excluding gold, 93.8 percent were in US dollars, 2.8 percent in Japanese yen, 1.5 percent in pound sterling and the balance of 1.9 percent in other foreign currencies.

[7] Sources of deposit were mainly from government borrowings, i.e., net proceeds of the RP US Securities-Registered Global Bond ($1,730 million) and JBIC Co-Financing of the Power Sector Loan ($100 million).

[8] Refers to outstanding short-term external debt on original maturity basis plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.



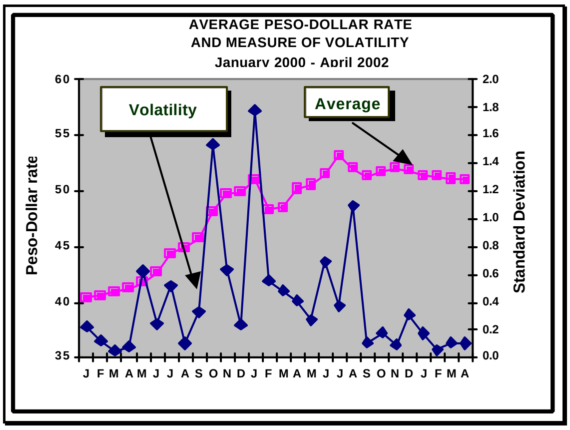
➢ Exchange Rate

The peso depreciates compared to the level last year...

The peso-dollar exchange rate averaged ₱51.19:US$1 in January-April 2002, depreciating by 3.3 percent from the ₱49.48:US$1 average exchange rate for the same period in 2001. The year-on-year depreciation of the peso reflected in part the steady corporate dollar demand and swings in sentiment on regional currencies. The relatively weak export receipts in the first four months of the year—with the global economy expected to strengthen only in the second half—also weighed down on the peso.

...but the peso shows continued stability.

Notwithstanding the weaker peso, the exchange rate movements were less volatile as indicated by the declining standard deviation of the daily peso-dollar exchange rate since September last year. In January-April 2002, the standard deviation at ₱0.21 was lower in contrast to ₱1.53 for the same period in 2001. The peso-dollar exchange rate ranged ₱50.74:$1-₱51.72:$1 during the period under review.



Higher nominal depreciation and relatively lower domestic inflation strengthen the peso's external competitiveness against currencies of some competitor countries.

Relative to its level in the comparable period last year, the peso's average nominal effective exchange rate index (NEERI)[9] for the first four months of 2002 depreciated by 0.3 percent against the currency basket of the country's major trading partners, by 2.3 percent against the currency basket of a broad group[10] of competitor countries, and by 3.7 percent against the currency basket of a narrow group[11] of competitor countries. This was due to the larger depreciation of the peso against the US dollar during the period relative to the depreciation of the exchange rates of other currencies in these baskets. In terms of real effective exchange rate index (REERI)[12], the peso appreciated by 2.7 percent against the currency basket of the country's major trading partners indicating weakened price competitiveness of Philippine goods against the countries in the basket. This developed as the nominal depreciation of the peso was not able to offset the positive inflation gap of the Philippines with the countries in the basket during the review period. However, in the case of countries in both the broad and narrow baskets, the peso's external competitiveness was strengthened as REERI depreciated by 0.8 percent and 6.4 percent, respectively. This materialized on account of higher nominal depreciation of the peso and relatively lower domestic inflation vis-a-vis these countries.

EFFECTIVE EXCHANGE RATE INDICES OF THE PESO
For periods indicated

		NEER			REER		
		MIC 1/	CC		MIC 1/	CC	
			Broad[2]	Narrow[3]		Broad[2]	Narrow[3]
2001	Jan	12.80	32.59	65.44	60.39	109.90	171.93
	Feb	13.53	34.46	69.71	63.98	114.69	181.88
	Mar	13.65	35.38	72.46	64.63	117.75	188.96
	Apr	13.29	35.60	74.44	63.04	118.19	192.04
	May	13.17	35.54	74.71	62.41	118.52	195.38
	Jun	12.99	35.00	73.47	61.88	118.10	193.65
	Jul	12.61	33.53	69.64	60.89	114.36	183.81
	Aug	12.76	31.77	62.56	61.70	108.47	166.15
	Sep	12.82	32.50	64.53	61.61	109.93	169.75
	Oct	12.79	33.29	67.42	61.57	111.59	176.25
	Nov	12.79	33.66	69.33	61.84	114.49	179.90
	Dec	12.95	31.04	67.95	63.06	110.46	175.70
Ave.	Jan-Apr	13.32	34.50	70.52	63.01	115.13	183.70
Ave.	Jan-Dec	13.01	33.70	69.31	62.25	113.87	181.28
2002	Jan	13.23	34.05	69.37	64.50	117.01	177.14
	Feb	13.31	33.92	68.75	64.90	113.96	173.53
	March	13.29	33.68	67.61	64.74	113.62 e/	171.24 e/
	April	13.28	33.21	65.91	64.73	112.06	165.68
Ave.	Jan-April	13.28	33.72	67.91	64.72	114.16	171.90

1/ Major trading countries: USA, Japan, Germany and United Kingdom
2/ Competing countries (broad basket): Hong Kong, Singapore, South Korea, Taiwan, Malaysia, Thailand and Indonesia
3/ Competing countries (narrow basket): Indonesia, Malaysia and Thailand
e/ Estimates using the average inflation rate of the previous two months.

[9] The NEER index represents the weighted average exchange rate of the peso vis-à-vis a basket of foreign currencies such as the US dollar, the Japanese yen, the Deutsche mark and the British pound. Major trading partners include the U.S., Japan, Germany and the U.K.
[10] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong.
[11] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.
[12] The REER index is derived from the NEER index by adjusting for inflation differentials.