BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-DECEMBER 2002

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➢ Overall Position

The BOP reverses to a surplus due primarily to the consistently robust performance of the current account.

The country's balance of payments (BOP) yielded a surplus of $660 million, a reversal from the $192 million deficit posted last year. This positive development was spurred mainly by the strong performance of the current account, which offset in part the weak performance of the capital and financial account (Table 1).

Balance of Payments (US$ m)

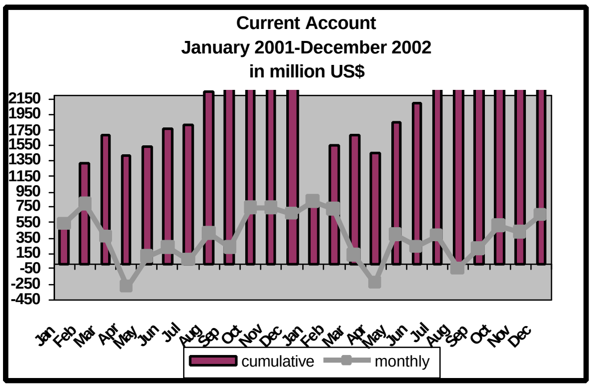
	2002	2001	Growth Rate (%)
I. Current Account	4197	1323	217.2
II. Capital & Fin'l.	-2104	-1080	-94.8
III. Net Unclassified	-1433	-435	-229.4
IV. Overall BOP *	**660**	**-192**	**443.8**

* Totals may not add up due to rounding.

➢ Current Account

The current account surplus is sustained.

The current account surplus more than tripled to $4,197 million for 2002 from US$1,323 million in 2001. This positive development was attributed to the combined effects of higher net inflows in the income account, the reversal of the trade-in-goods balance to a surplus from a deficit and lower net outflows in services. Higher net inflows from current transfers also helped strengthen the current account's performance for the year.



➢ Trade-in-Goods

Export exhibits stronger performance.

The trade-in-goods balance for 2002 reversed to a surplus of $408 million from a deficit of $743 million last year as growth of exports outpaced that of imports. Exports of goods continued to gain headway in 2002 growing by 10.1 percent to reach $34,383 million.[1] After experiencing more than a year of decline, exports began to recover in April 2002 posting successive double-digit growths in most of the remaining months of the year. This was achieved despite adverse international market conditions and strong competition from China.

The strong export performance was supported by increasing intra-regional trade in Asia, absorbing the slack in demand from traditional trading partners — the US and Japan. Exports have slowly veered away from traditional export destinations and have successfully penetrated other Asian markets such as Hong Kong, Taiwan, Singapore, Malaysia, South Korea, China, and Thailand. For 2002, the combined market share of these Asian economies at 36.2 percent was close to the combined share of the U.S. (24.7 percent) and Japan (15.0 percent). During the period in review, electronics, machinery and transport equipment, and garments remained to be the country's leading export earners.

Largely supporting the export sector's recovery was the new export plan that focused on industry clustering to enhance the country's competitive advantage and adoption of an aggressive marketing program in both traditional and non-traditional markets. The government's economic priority to develop the small and medium enterprises to promote other export goods such as gifts and houseware, furniture, construction materials, food, marine and organic goods (collectively known as Category II exports) also contributed to the strong performance of exports. These commodities exhibited double-digit growth in 2002.

Imports continue to expand.

Boosted by increased demand for electronic inputs by export-oriented industries, imports of goods registered 10 consecutive months of year-on-year growth since February 2002 after six months of year-on-year contractions. This recovery led to a 6.2 percent modest growth in imports for 2002 to $33,975 million, a reversal from the 4.5 percent contraction in 2001.[2]

[1] Per BPM5 concept
[2] Per BPM5 concept

➢ Trade In Services

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

The trade-in-services account for 2002 posted a net outflow of $1,264 million, 38.3 percent lower compared to the level in 2001 mainly on account of the lower net payments for transportation services, construction services and for miscellaneous business, professional and technical services (Table 3). Higher net receipts from travel and communication services also contributed to the reduction of the deficit in the trade-in-services account. The net receipts from travel services rose by 75.9 percent to $869 million following the 29.1 percent contraction in travel-related expenditures coupled with the modest increase in travel receipts. This can be traced to the Government's aggressive promotion blitz to attract both local and foreign tourists and the weaker peso that discouraged residents from traveling abroad. The continuing effort of the government, through its aggressive promotion abroad such as "Visit Philippines 2003" and "Volunteer 12 Program", are expected to revitalize tourism in the country.[3]

➢ Income

The income account realizes a higher surplus through increase in OFW remittances.

Net inflows of income account for 2002 grew by 24.0 percent to $4,550 million, a turnaround from a 17.3 percent decline in 2001. The higher surplus was realized on account of the continued remittances from overseas Filipino workers (OFWs). OFW remittances expanded by 18.9 percent to $7,171 million relative to level in 2001.[4] Contributing to this favorable development was the 2.6 percent rise in the number of deployed OFWs particularly medical workers, teachers, entertainers, caregivers, clerks and other service workers. A large portion of these OFWs was deployed in the Middle East, Asia and Europe. Meanwhile, the bulk of OFW remittances, which comprised about 90 percent of gross income receipts, came from the U.S., Saudi Arabia, Japan, Hong Kong, U.K. and Singapore.[5]

In response to the emerging trend towards "localization" and the economic slowdown in host economies, the government has intensified its marketing of Filipino skills abroad.[6] In the next three years, higher remittances are expected from the increased deployment of medical workers and caregivers in countries such as U.K. and the U.S.

Meanwhile, the net outflow in the investment income account at $2,621 million was higher in 2002, albeit at a slower pace of 11.0 percent compared to 46.4 percent in 2001. This was attributed mainly to the decline in reinvested earnings (Table 4).

[3] The "Visit Philippines 2003" aims to showcase the country's tourist attractions in North America, Asia and Europe. On the other hand, the "Volunteer 12 Program" will mobilize and tap all overseas Filipinos to encourage friends, relatives and associates to visit the country.
[4] Revised to reflect late reports of banks and after audit revisions.
[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.
[6] Localization means the preferential hiring by a country of its own residents.

➢ Current Transfers

The surplus in current transfers increases.

The current transfers account for 2002 amounted to $503 million, 12.5 percent higher than the level registered in 2001 (Table 5). The improvement was due to the higher transfers from migrant workers as well as receipts in the form of gifts, grants and donations from individuals and non-governmental institutions.

➢ Capital and Financial Account

The net outflow in the capital and financial account widens.

The capital and financial account for 2002 posted a higher net outflow of $2,104 million, compared with a net outflow of $1,080 million in 2001. The weaker performance of this account was attributed to the decline in net inflow of direct investments, which together with the net outflow in other investments negated the positive impact of higher net inflow of portfolio investments.

➢ Capital Account

The capital account posts a higher deficit.

The capital account for 2002 posted a higher net outflow of $19 million compared to deficit of $12 million in the same period last year, owing mainly to increased net outflow of migrants' transfers (Table 6).[7]

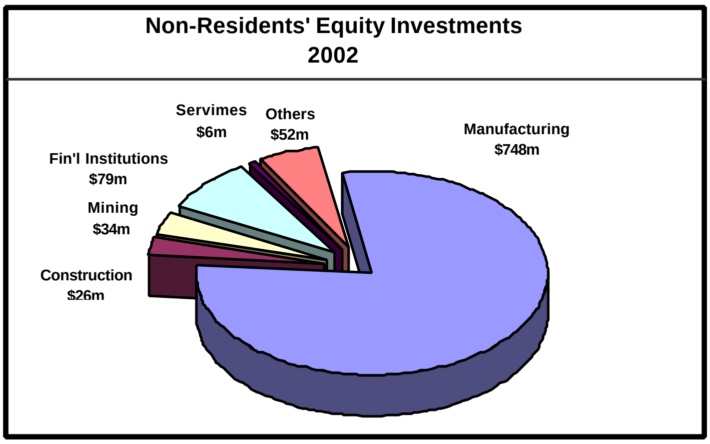
➢ Direct Investments

Infusion of direct equity investments by non-residents continues.

Non-residents' investments in equity capital during the period in review increased by 50.5 percent to $945 million compared to the level in 2001. The bulk of non-residents' equity investments came from Japan following the investment of $544 million worth of shares by a Japanese firm in a local brewery company in March 2002. Equity funds were also channeled to other manufacturing companies, financial institutions, mining corporations, and construction companies. Other major sources of direct investments were the U.S., Singapore, the U.K. and the Netherlands (Table 7).

The infusion of these new equity investments, however, were offset by the substantially lower net investments in the form of intercompany loans as well as equity investments by residents to their affiliates abroad, thus, bringing total net direct investments to only $1,026 million, or 10.2 percent below the level posted in 2001.

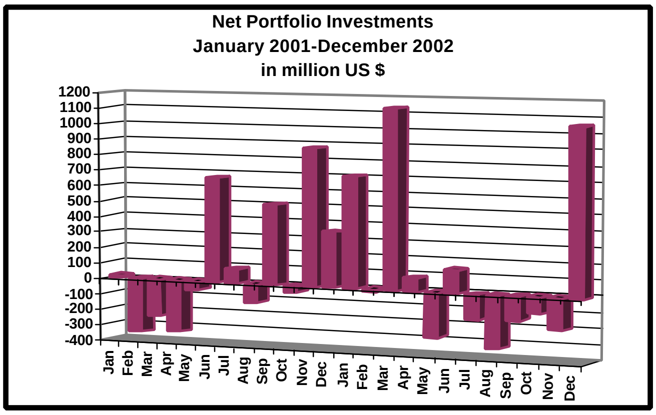
[7] The capital account consists largely of capital transfers. Capital transfers are transactions that involve a change in the stocks of assets of one or both parties and therefore relate to investments. By contrast, current transfers involve transactions that affect the level of disposable income and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



➢ Portfolio Investments

Non-residents' investments in equity and debt securities account mainly for the higher net inflows in portfolio investments.

The portfolio investments account during the year yielded a net inflow of $1,912 million, up by 82.1 percent from last year's net inflow of $1,050 million due mainly to the substantially higher non-residents' investments in resident issued foreign-denominated debt securities. Significant portfolio inflows were registered in government-issued medium-term bonds, which amounted to $2.54 billion.[8] In addition, the National Power Corporation (NPC) issued $300 million worth of Zero Coupon Notes and $504 million worth of PSALM's bond issuance in Japanese yen in December 2002. Meanwhile, net inflows of non-residents' investments in equity securities also rose slightly by 7.0 percent to $410 million during the review period, with the bulk of the net inflows recorded in the early part of the year (Table 8).



➢ Other Investments

The net outflow of other investments

The net outflow in the other investment account widened by 54.1 percent to $5.023 billion during the year in review. This developed mainly on account of withdrawals by non-residents of their maturing foreign currency deposits from their

[8] The government issued $2.54 billion worth of foreign currency-denominated bonds and notes in January, March, June and September and November while the BSP issued $250 million worth of 4-year fixed rate notes in January and $675 million 5-year floating rate notes in September. Proceeds were earmarked for budgetary support and international reserve management.

widens. FCDU accounts in local banks as well as increased net deposits abroad by resident non-banks—majority of which were corporations involved in build-operate-transfer schemes—to fund their future obligations, such as debt servicing and import payments (Table 9).

➢ Reserve Assets

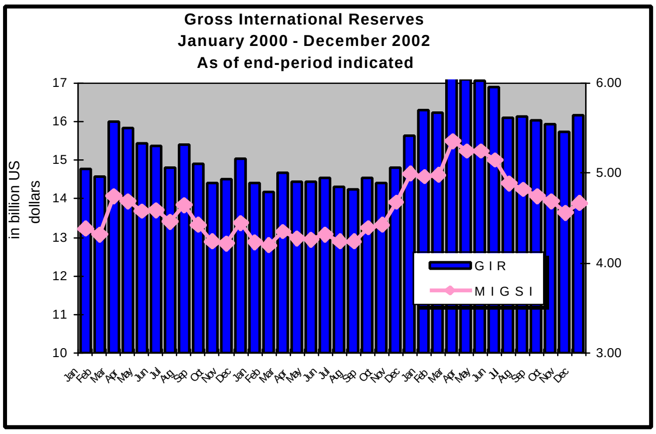
NG deposits raise the GIR to $16.2 billion.

The BSP's gross international reserves (GIR) rose to $16.2 billion as of end-December 2002. This was 3.3 percent higher relative to the end-December level of $15.7 billion.

The increase in GIR during the period was due mainly to foreign exchange inflows in the form of net deposits by the Treasurer of the Philippines.[9] However, these were partly offset by outflows to meet the foreign exchange requirements of the BSP and the National Government.

The BSP's GIR were adequate to cover 4.7 months' worth of imports of goods and payment of services and income. Using other reserve coverage measures, the level of reserves was 2.9 times the amount of the country's short-term external debt based on original maturity or, alternatively, 1.4 times the amount of short-term external debt based on residual maturity.[10]

During the review period, the bulk of reserves consisted of foreign investments (77.7 percent), while the balance were in gold (18.8 percent), foreign exchange (2.8 percent), and combined SDRs and reserve position in the Fund (0.7 percent). In terms of the currency composition of reserves excluding gold, 92.0 percent were in US dollars, 3.7 percent in Japanese yen, 1.7 percent in pound sterling and the balance of 2.6 percent in other foreign currencies.



[9] Sources of deposits were mainly from government borrowings, i.e., net proceeds of the RP US Securities Registered Global Bond ($2.537 billion), RP Euro Fixed Rate Notes ($298 million), JBIC Co-Financing of the Power Sector Loan ($201 million) and ADB Power Sector Loan ($100).

[10] 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.

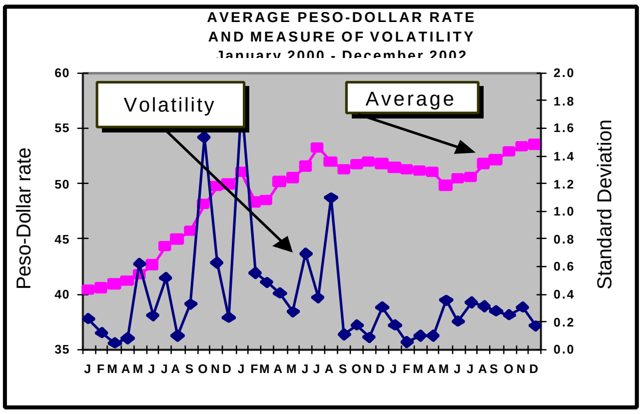
➢ Exchange Rate

The peso depreciates relative to the previous year's level.

The nominal peso-dollar exchange rate averaged ₱51.60:US$1 in 2002, depreciating by 1.2 percent from the ₱50.99:US$1 average exchange rate in 2001. The depreciation of the peso during the year reflected mainly concerns over potential sources of risks in the international financial markets (e.g., U.S. economic recovery, threats of terrorism, tension in the Middle East) and challenges on the domestic front, particularly the budget deficit.

The peso is less volatile in 2002.

Despite heightened pressure on the peso during the year, exchange rate movements were less volatile as indicated by the lower standard deviation of the daily peso-dollar exchange rate. In 2002, the standard deviation at ₱1.13 was lower than the ₱1.57 registered in 2001. The peso-dollar exchange rate ranged from ₱49.336 to ₱53.841 during the period under review.



Higher nominal depreciation and

Relative to its level in the previous year, the peso's average nominal effective exchange rate (NEER) index[11] for 2002 depreciated by 2.4 percent against the

[11] 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.

relatively lower domestic inflation strengthen the peso's external competitiveness against currencies of major trading partners and competitor countries.

currency basket of the country's major trading partners, 4.6 percent against the currency basket of a broad group of competitor countries,[12] and by 7.3 percent against the currency basket of a narrow group of competitor countries.[13] This was due to the larger depreciation of the peso against the US dollar compared to the depreciation of the exchange rates of other currencies in these baskets. On the other hand, in terms of the real effective exchange rate (REER) index,[14] the peso gained external price competitiveness as the REER depreciated by 0.51 percent against the currency basket of the country's major trading partners. Similarly, in the case of countries in both the broad and narrow baskets, the peso's external competitiveness improved as the REER depreciated by 3.7 percent and 9.7 percent, respectively, due to the higher nominal depreciation of the peso and the relatively lower domestic inflation vis-à-vis those of the countries in the broad and narrow baskets.

EFFECTIVE EXCHANGE RATE INDICES OF THE PESO
For periods indicated

		NEER			REER		
		MIC 1/	CC		MIC 1/	CC	
			Broad2	Narrow3		Broad2	Narrow3
2001	Jan	114.35	32.59	64.78	62.13	109.90	171.13
	Feb	15.24	34.46	69.00	65.96	114.69	181.02
	Mar	15.37	35.38	71.71	66.42	117.75	187.98
	Apr	15.01	35.60	73.65	64.74	118.19	191.46
	May	14.95	35.54	73.91	64.38	118.52	194.50
	Jun	14.82	35.00	72.67	64.37	118.10	192.44
	Jul	14.35	33.53	68.91	62.91	114.36	182.79
	Aug	14.39	31.77	62.11	63.14	108.47	165.76
	Sep	14.45	32.50	63.90	63.39	109.93	168.92
	Oct	14.42	33.29	66.77	63.40	111.59	175.46
	Nov	14.48	33.66	68.61	63.98	114.49	178.93
	Dec	14.61	31.04	65.60	64.87	110.46	170.57
Ave.	**Jan-Dec**	**14.70**	**33.70**	**68.47**	**64.14**	**113.87**	**180.08**
2002	Jan	14.90	34.05	68.65	66.38	117.01	176.38
	Feb	15.04	33.92	68.04	66.82	113.96	172.85
	March	15.01	33.68	66.91	66.52	113.53	170.16
	April	14.97	33.21	65.25	66.14	111.99	165.14
	May	15.03	33.08	64.79	66.48	112.12	166.55
	June	14.59	31.87	61.99	64.70	108.85	160.29
	July	14.19	31.68	62.46	63.13	109.29	162.00
	Aug	13.96	31.14	61.31	62.29	107.77	160.03
	Sep	13.89	31.14	61.16	61.95	106.77	158.15
	Oct	13.75	31.13	61.17	61.24	105.62	156.47
	Nov	13.50	30.64	60.44	60.15	104.93	153.22
	Dec	13.40	30.39	59.70	59.98	104.27	151.14
Ave.	**Jan-Dec**	**14.35**	**32.16**	**63.49**	**63.81**	**109.68**	**162.70**

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.

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[12] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong.
[13] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.
[14] The REER index is derived from the NEER index by adjusting for inflation differentials.