BALANCE OF PAYMENTS DEVELOPMENTS JANUARY-FEBRUARY 2002

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➢ Overall Position

Stronger current account and lower net outflow in the capital and financial account contributed to the BOP surplus.

The country's balance of payments (BOP) yielded a surplus of $654 million for the first two months of the year with the sustained strengthening of the current account and the substantially lower net outflow of the capital and financial account. The BOP surplus marked a turnaround from the $1.087 billion deficit in the same period last year.

Balance of Payments (US$ m)

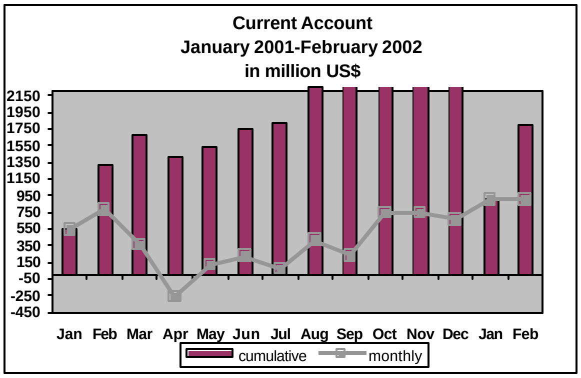
	Jan-Feb 2002	Jan-Feb 2001	Growth Rate (%)
I. Current Account	1802	1296	39.0
II. Capital & Fin'l.	-1421	-2096	32.2
III. Net Unclassified	273	-287	195.1
IV. Overall BOP *	**654**	**-1087**	**160.2**

***** Totals may not add up due to rounding.

➢ Current Account

Sustained trade-in-goods surplus and net income receipts contribute to higher current account surplus.

The current account surplus of $1.802 billion for January-February 2002 was attributed to the net inflows in the goods and income accounts that were more than enough to offset the net outflow in the services account. Relative to the levels last year, the trade-in-goods surplus during the period in review was steady at $1.074 billion (vis-a-vis last year's $1.075 billion) while the net inflow in the income account of $753 million was 49.7 percent higher. These, together with the reduced net outflow in the services account, drove the current account surplus higher by 39 percent than the level attained in the comparable period a year ago, which was $1.296 billion.

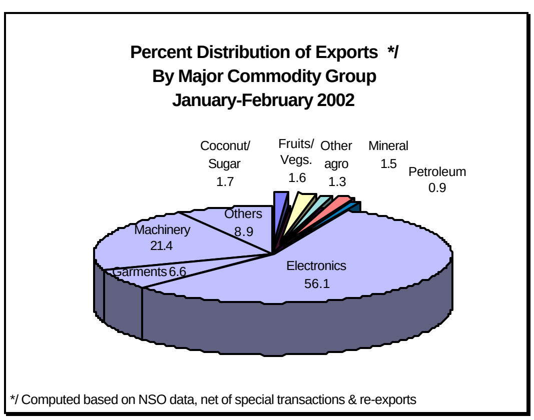


➢ Trade in Goods

Contraction in merchandise exports shows signs of bottoming out.

Exports for the first two months of 2002 at $5.125 billion fell by 7.9 percent from last year's level, a reversal of the 1.7 percent growth recorded in the same period a year ago. This was due to lower shipments of manufactured goods, particularly electronics and garments. However, exports of machinery and transport equipment, sugar and products and forest products grew relative to last year's levels. Nonetheless, on a monthly basis, the year-on-year rate of contraction of exports was slower for January and February at 9.2 percent and 6.6 percent, respectively, compared with the double-digit year-on-year drops observed during the last nine months in 2001. This development was influenced largely by the trend in electronics exports whose monthly year-on-year contraction slowed down considerably. This indicates that the technology sector is on the rebound and that the downward trend in exports is showing signs of bottoming out.

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



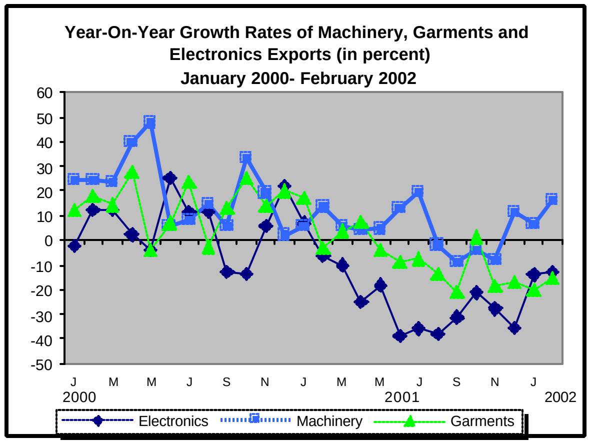
Growth in exports of machinery and transport equipment accelerates while fall in exports of electronics slows down.

a) *Machinery and Transport Equipment.* For the first two months of 2002, exports of machinery and transport equipment expanded by 11.3 percent. This growth was higher compared to the 9.5 percent expansion in the comparable period in 2001. Close to ninety percent of this category consist of electronics-related products such as input/output of peripherals units and parts and accessories of automatic data processing machines. In particular, the automotive components of this sector continued to be on the growth path, supporting the industry's claim of improved capability to compete in the production of auto wiring harness, transmission gears, alloy wheels, gas and air filters, batteries and fan belts.

b) *Electronics.* For January-February 2002, electronics exports dropped by 13.6 percent compared to the 0.1 percent growth in the comparable period a year ago. However, the monthly year-on-year drop in electronics exports at 14.0 percent and 13.1 percent in January and February 2002, respectively, has slowed down considerably compared to the consecutive declines registered in the last nine months in 2001 when the contractions ranged from 18-38 percent. While the book-to-bill ratio[1] remained below one, it has been on an uptrend from 0.42 in April 2001 to 0.90 in February 2002 as demand has picked up gradually.

c) *Garments.* Meanwhile, garments exports contracted by 17.9 percent, a turnaround from the 6.7 percent growth in January-February 2001 despite relatively strong consumer spending in the U.S. The U.S. market accounts for more than three-fourths of the country's exports of garments. Behind this development was the stiff competition posed by low-wage cost countries like China, Bangladesh and Vietnam, as well as the preferential trading arrangements of the U.S. with Caribbean countries and the Sub-Saharan African countries. To address these challenges, the DTI-GTEB crafted a Transformation Plan that sets the imperatives for a competitive industry in a quota-free environment. Among the strategies are cost-reduction schemes and measures to improve productivity. Meanwhile, the industry is collaborating with 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.

[1]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.



Imports continue to decline across the board.

For the first two months of the year, imports registered a cumulative amount of $4.051 billion, down by 9.8 percent from the year-ago level as all major commodity groups declined. However, it is worth noting that imports for February 2002 edged up by 0.8 percent year-on-year, the first after seven consecutive months of declines.[2]

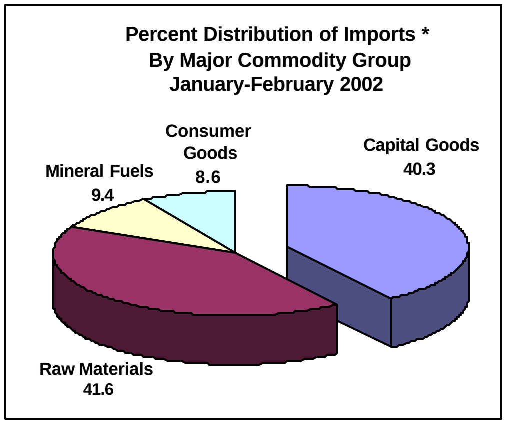
Imports of mineral fuels and lubricants registered the steepest drop at 33.6 percent during the period in review due to the combined impact of the decline in the volume and price of petroleum crude. The average price of petroleum crude for the first two months of the year fell to $18.84 per barrel from $23.50 per barrel last year. Meanwhile, the decline in the volume of oil imports can be partly attributed to generally weak domestic demand during the period.[3] Going forward, it is expected that the increased supply of indigenous energy, which is projected to meet more than half of the country's energy requirement in 2002, will contribute to the further decline in the volume of petroleum crude imports.

Capital goods imports, accounting for about 40 percent of total imports, dipped by 11.0 percent. The 35.3 percent drop in shipments of power generating and specialized machines and the 9.1 percent decline in imports of telecommunication equipment, mainly inputs to electronics production, negated the effect of the increase in importation of office and EDP machines and aircraft, ships and boats.

[2] Per BPM5 concept

[3] The Volume of Production Index of the manufacturing industry for January-February 2002 based on the Monthly Integrated Survey of Selected Industries (MISSI) was steady at 115 compared to same period last year.

Meanwhile, the substantial growth in the importation of materials/accessories for the manufacture of electrical equipment[4] in February tempered the decline in the imports of raw materials and intermediate goods, which decelerated to 2.2 percent from 11.9 percent a year ago. The increase in imported inputs for electronics exports and the lower contraction in imports of capital goods for electronics production could be taken as signals of the gradual upturn of the electronics industry.



*Computed based on NSO data, net of special transactions

➢ Trade In Services

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

During the review period, the trade-in-services deficit of $88 million compared favorably with the $355 million deficit in the comparable period in 2001. The significant narrowing of the deficit was brought about largely by lower net outflows for transportation services and the higher net inflow for travel. The lower net outflow for transportation services was a result of the reduced payment for freight following the contraction in merchandise imports. On the other hand, the travel account managed a surplus of $215 million, 60.4 percent higher than last year's level. This could be explained, however, by the larger decline in travel payments relative to the drop in travel receipts. It is also worth mentioning that, although travel receipts were lower compared to last year's level, receipts have been on an uptrend since September 2001. The aggressive tourism blitz of the government together with the favorable impact of the joint Philippine-US military exercise in the South on the peace and order situation are expected to enhance the country's tourism prospects.

[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 decreased by 3.2 percent during the review period, markedly lower than the 29.5 percent decline in January-February 2001.

➢ Income

The income account surplus improves from the year-ago level.

The income account in January-February 2002 yielded a surplus of $753 million, 49.7 percent higher than last year's surplus of $503 million. This developed on account of higher remittances from overseas Filipino workers (OFWs), which grew by 13.5 percent to $1,059 million relative to the $933 million remitted in the same period last year. This development partly reflected the increase in the deployment of Filipino workers abroad as indicated in the observed 3 percent rise in the daily departure of OFWs since January this year. The remittances from OFWs comprised about 88 percent of gross income receipts. The bulk of OFW remittances came from the U.S., Saudi Arabia, Japan, Hong Kong and Singapore.[5] OFW remittances are expected to reach higher levels this year as the government's efforts in marketing Filipino skills in new markets as well as in other professional fields gain headway. On the domestic front, the government is also streamlining its procedures for overseas employment with the view to facilitating the deployment of OFWs.

On the other hand, the net outflow of investment income was significantly lower by 28.8 percent as interest payments on portfolio and other investment accounts fell with the drop in global interest rates. The low interest rate environment had a greater impact on the payment side than on the income side, thus yielding a favorable net result (Table 4).

➢ Current Transfers

Net inflow from current transfers decreases.

Current transfers for the first two months of 2002 posted a surplus of $63 million, $10 million lower compared to the surplus in the same period last year. The 13.7 percent drop in net inflows was traced mainly to lower receipts of transfers by the general government[6] as well as workers' remittances[7] (Table 5).

➢ Capital and Financial Account

The net outflow in the capital and financial account narrows following surplus

The net outflow in the capital and financial account for the period in review was reduced by 32.2 percent to $1.421 billion from the net outflow of $2.096 billion registered in January-February 2001. This developed as a result of the net inflows of portfolio investments even as the direct investments account posted a lower surplus while net outflows in other investments rose.

[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] General government transfers comprise current international cooperation, which covers current transfers in cash or in kind between governments of different economies or between governments and international organizations. General government includes the National Government, its political subdivisions and its instrumentalities except for financial and non-financial government-owned and-controlled corporations.

[7] Workers' remittances refer to transfers by Filipinos who have migrated permanently. This differs from the compensation of employees earned and remitted by OFWs who are expected to return to the country after their term of employment.

in portfolio investments.

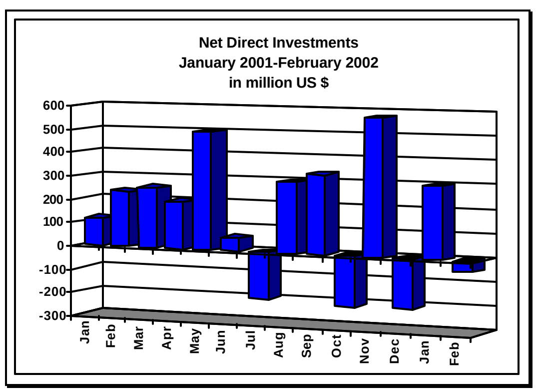
The deficit in the capital account increases relative to the year-ago level.

Following the reduction in receipts from migrants' transfers and bilateral transfers to the general government, the capital account[8] for January-February 2002 posted a net outflow of $3 million. This was $1 million higher than the level posted in the comparable period a year earlier (Table 6).

Direct investment account remains in surplus.

The direct investment account for January-February 2002 posted a net inflow of $259 million, albeit 26.6 percent lower than the net inflow recorded in the comparable period last year. Non-residents' investments in equity capital, mostly in manufacturing and financial institutions, rose by 85.3 percent to $63 million in the first two months of the year. By contrast, other capital, which consists of intercompany accounts, saw a 63.1 percent decline mainly due to the reduced working funds provided by foreign parent banks to their local branches (Table 7).

Meanwhile, local banks' withdrawal of equity funds from their foreign branches and other allied undertakings resulted in the $27 million reflow of residents' investment abroad, a reversal of the $8 million net placement a year ago.



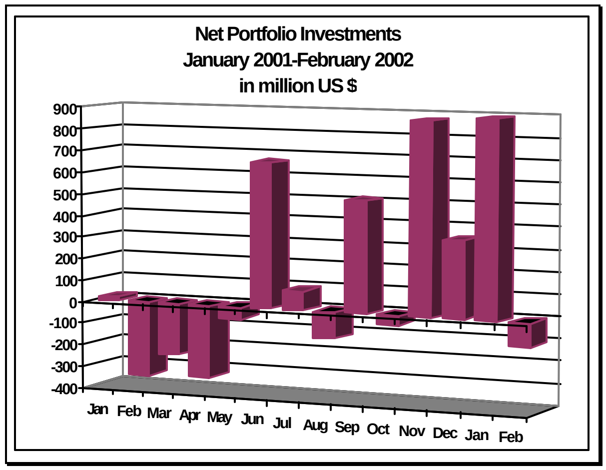
Non-residents' investments in debt securities contribute to the net inflow in the portfolio investment

Portfolio investments for the first two months of the year reversed to a net inflow of $787 million in January-February 2002 from a net outflow of $320 million in the same period last year. Behind this positive development was the increase in non-residents' investments in debt securities, particularly government-issued bonds, amounting to $1.0 billion, the proceeds of which were intended for budgetary support and international reserve management (Table 8). Meanwhile, non-residents' investments in equity securities dropped to $88 million, 28.5 percent lower than the level posted last year.

[8] 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.

account… However, the January and February net flows of non-residents' investments in equity securities far exceeded the monthly levels of the last six months of 2001, indicating resurgence of investors' confidence in the local equities market.

Repatriation by residents of proceeds of their maturing placements abroad ($115 million) also contributed to higher net portfolio investment inflows during the month.



…while net outflow of other investments expands. The net outflow in the other investment account increased by 15.8 percent to $2.464 billion in the first two months of 2002 from $2.127 billion in the comparable period last year. This developed following higher resident banks' net deposits abroad to cover their clients' import payments and for portfolio diversification. Repayment of maturing non-residents' deposit placements in local banks also contributed to the net outflow in other investments account (Table 9).

➢ Reserve Assets

Notes and bond flotations raise the GIR to over the $16 billion mark. As of end-February 2002, the BSP's GIR rose to $16.2 billion, higher by 3.7 percent than the end-December 2001 level of $15.7 billion.

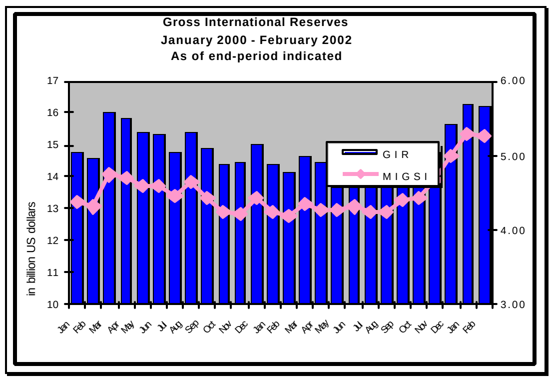
The increase in GIR during the period was attributed mainly to foreign exchange inflows, notably from the issuance of the BSP of its four-year Fixed-Rate Notes and net deposits by the Treasurer of the Philippines.[9] However, the impact of these inflows was partly mitigated by foreign exchange requirements of the BSP and the National Government, and the net foreign currency withdrawals by government-owned and -controlled corporations.

At this level, reserves were adequate to cover 5.3 months' worth of imports of goods and payment of services and income. Reserves were also sufficient to cover more than

[9] Sources of deposit were mainly from the government borrowings, i.e., net proceeds of the RP US Securities-Registered Global Bond ($740 million) and JBIC Co-Financing of the Power Sector Loan ($100 million).

twice the level of the country's short-term external debt based on original maturity or alternatively 1.33 times the amount of short-term external debt based on residual maturity (Table 11).[10]

During the review period, the bulk of reserves were in foreign investments (81.3 percent), while the rest were in gold (14.6 percent), foreign exchange (3.3 percent), and combined SDRs and reserve position in the Fund (0.8 percent). In terms of the currency composition of reserves excluding gold, 93.2 percent were in US dollars, 3.3 percent in Japanese yen, 1.5 percent in pound sterling and the balance of 2.0 percent in other foreign currencies.



➢ Exchange Rate

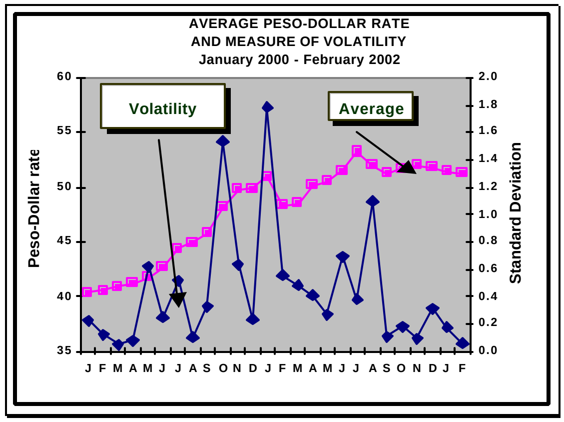
The peso depreciates compared to the level last year...

The peso-dollar exchange rate averaged ₱51.35:US$1 in January-February 2002. This represented a 3.3 percent depreciation compared with the ₱49.63.19:US$1 average 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. Still weak export receipts in the first two 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, 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-February 2002, the standard deviation at ₱0.15 was lower in contrast to ₱1.90 for the same period in 2001. The peso-dollar rate ranged from ₱51.17:$1-₱51.72:$1 during the period under review.

[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.



The peso's external competitiveness weakens slightly in both nominal and real terms.

Relative to its level in the comparable period last year, the peso's average nominal effective exchange rate index (NEERI)[11] for the first two months of 2002 was up by 0.8 percent against the currency basket of the country's major trading partners, by 1.4 percent against the currency basket of a broad group[12] of competitor countries, and by 2.2 percent against the currency basket of a narrow group[13] of competitor countries. This developed as the nominal depreciations of most currencies in the baskets were greater compared to the nominal depreciation of the peso against the US dollar. Likewise, the real effective exchange rate index (REERI)[14] rose by 4.0 percent against the currency basket of the country's major trading partners and by 2.8 percent relative to the currency basket of a broad group of competitor countries. The lower nominal depreciation of the peso and the higher inflation rate accounted for the loss in external competitiveness of the peso against the major trading partners and countries in the broad basket. However, in the case of countries in the narrow basket, the peso's external competitiveness rose slightly (by 1 percent) as the lower nominal depreciation of the peso was offset by the lower inflation gap vis-a-vis these countries.

[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.

[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.

EFFECTIVE EXCHANGE RATE INDICES OF THE PESO For periods indicated							
		NEER			REER		
		MIC 1/	CC		MIC 1/	CC	
			Broad2	Narrow3		Broad2	Narrow3
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-Feb	13.16	33.52	67.58	62.18	112.29	176.91
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	116.77 e/	177.14
	Feb	13.31	33.92	68.75	64.84	114.02 e/	173.36
Ave.	Jan-Feb	13.27	33.99	69.06	64.67	115.40	175.25

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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