BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY 2002

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➢ Overall Position

The year starts off favorably with a BOP surplus.

The year started on a positive note, with the balance of payments (BOP) yielding a surplus of $806 million, a reversal of the $597 million deficit in the same period last year. Behind this favorable development was the strong performance of the current account coupled with the substantially lower net outflow in the capital and financial account.

Balance of Payments (US$ m)

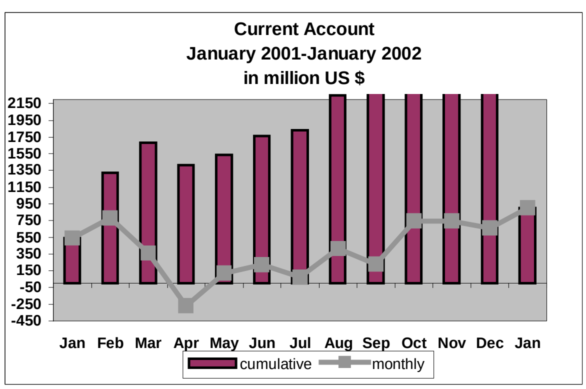
	January		
	2002	**2001**	**Growth Rate (%)**
I. Current Account	900	543	65.7
II. Capital & Fin'l.	-265	-948	72.0
III. Net Unclassified	171	-192	189.1
IV. Overall BOP *	**806**	**-597**	**235.0**

* Totals may not add up due to rounding.

➢ Current Account

The current account yields a higher surplus than last year's level.

The current account yielded a surplus of $900 million for January 2002 as the combined surplus in the goods and income accounts more than offset the net outflow in services. The trade-in-goods balance netted a surplus of $631 million, 44.7 percent higher than last year's level as the contraction in exports of goods was lower than that of imports. On the other hand, the services account showed a markedly lower net outflow compared to the level in the same period last year. Bolstered by these developments, the current account surplus gained strength as it registered a 65.7 percent growth.



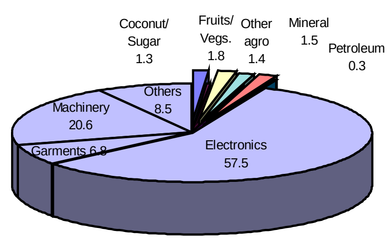
➢ Trade in Goods

The drop in exports tapers off.

Exports for January 2002 fell by 9.2 percent from last year's level to $2.563 billion. Nonetheless, this compared favorably with the double-digit year-on-year declines observed during the previous nine-month period. The drop in exports, however, was a reversal of the 6.0 percent growth recorded in January last year.

Exports of electronics fell at a slower pace relative to past nine months' rate of decline. The semiconductors' book-to-bill ratio,[1] which compares customers' new orders with export shipments, showed the ratio at 0.81 in January 2002. It is instructive to note that this ratio has been consistently rising since May 2001. Exports of garments dipped due largely to weak demand particularly from the country's major trading partner, the US. The decline in exports, however, was moderated by exports of machinery and transport, fruits and vegetables, coconut and mineral products, whose levels registered growth over the previous year's numbers. Electronics, machinery and transport equipment, and garments remained the top three export commodities (Table 2.1).

Percent Distribution of Exports */
By Major Commodity Group
January 2002



*/ Computed based on NSO data, net of special transactions & re-exports

Machinery and transport equipment remains a growth sector.

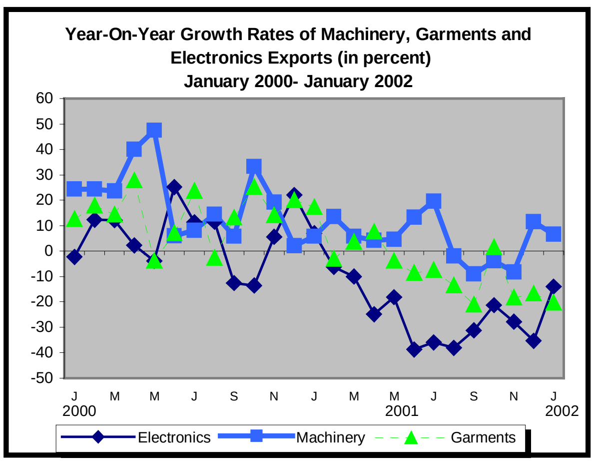
a) *Machinery and Transport Equipment.* For January 2002, exports of machinery and transport equipment expanded by 6.5 percent. This was slightly higher than the 5.7 percent expansion in January 2001. Higher sales of data processing equipment, as well as parts and accessories of machines and motor vehicles brought about the expansion. These developments supported 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.* During the review period, electronics exports dropped by 14.0

[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.

percent compared to the 6.9 percent growth in the comparable period a year ago. However, the drop in electronics exports was considerably lower than the consecutive double-digit declines registered in the past nine months. While the book-to-bill ratio remained below one, it has improved gradually from 0.54 in July 2001 to 0.81 in January 2002. Industry experts noted that the pick-up in the information technology business cycle could be earlier than expected.

c) *Garments.* Meanwhile, garments exports contracted by 20.3 percent, a turnaround from the 17.2 percent growth in January 2001 despite relatively strong consumer spending in the U.S., which accounted 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 which ate part of the country's market share in garments. 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.



Imports continue to decline.

During the review period, aggregate imports dropped by 19.1 percent, steeper than the 7.6 percent dip in the comparable period a year ago. All major commodity groups, with the exception of consumer goods, posted declines. The rise in consumer goods imports was largely due to food imports such as fruits and vegetables, rice, corn and other food products. The increase in rice and corn imports was attributed to the government's contingency measure to build-up appropriate inventory levels of these commodities to address potential supply shortage that may arise from the El Niño phenomenon expected this year.

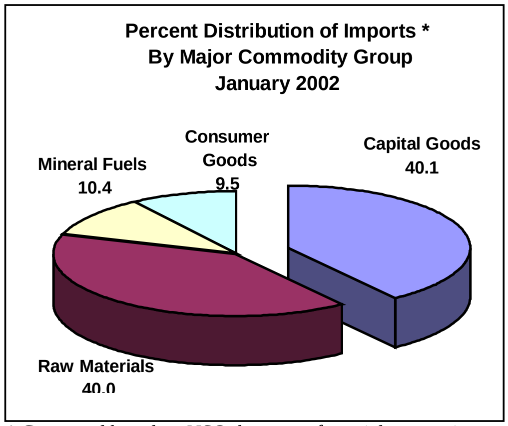
Capital goods imports, accounting for about four-tenths of total imports, decreased by 20.9 percent. This was traced to the 18.8 percent decline in imports of telecommunication equipment, mainly inputs to electronics production, and power generating and specialized machines.

Imports of mineral fuels and lubricants also declined by 31.9 percent as both the volume and price of petroleum crude posted declines of 30.5 percent and 19.9 percent, respectively, from the year-ago levels. The average price of petroleum crude for January 2002 fell to $18.47 per barrel from $23.07 per barrel last year. The decline in oil import volume was attributed in turn to lower demand for petroleum following the still weak domestic production.[2] 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 during the year.

Meanwhile, imports of raw materials and intermediate goods declined by 18.1 percent, higher than the 6.3 percent drop in the same period last year. This could be attributed mainly to the declines in the importation of materials/accessories for the manufacture of electrical equipment,[3] and semi-processed raw materials such as chemical products as well as the reduced importation of other manufactured goods like iron and steel and textile yarn, fabrics and made-up articles. The decline in imported inputs for electronics exports and the drop in imports of capital goods for electronics production indicated that the industry could have opted to run down its inventory. However, the electronics industry expects recovery in global demand in the second half of this year which would bring about a turnaround in raw material imports. Thus, the need to build-up raw material inventory is one of the likely developments behind the projected increase in imports in 2002.

[2] The Monthly Integrated Survey of Selected Industries (MISSI) for January 2002 showed that the volume of Production Index of the manufacturing industry fell to 112.6 in January 2002 from 113.2 in January last year.

[3] About half of the imported raw materials needed for electronics production were 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 26.2 percent during the review period, slightly higher than the 23.7 percent decline in January 2001.



* Computed based on NSO data, net of special transactions

➢ Trade In Services

The deficit in trade-in-services narrows.

For January 2002, the trade-in-services account posted a deficit of $64 million. This compared favorably with the $188 million deficit in January 2001. The significant reduction in the deficit was brought about by lower net outflows in transportation services particularly freight (following the decline in goods imports), royalties and fees, and other business services as well as personal, cultural and recreational services. Meanwhile, the September 11 terrorist attack continued to take its toll on tourism as both exports and imports of travel services declined. However, the decline in imports outpaced the decline in exports, thus resulting in a higher net inflow of $92 million (Table 3). However, the travel receipts of $180 million in January2002 surpassed significantly past months' levels. This may be attributed to the improved security measures in the South and the joint Philippine-US military exercise that started in mid-January 2002.

➢ Income

The income account surplus increases relative to the year-ago level.

The income account in January 2002 yielded a surplus of $300 million, 17.2 percent higher than last year's surplus of $256 million. Remittances from overseas Filipino workers (OFWs) continued to be the major contributor in the income account at $476 million, holding steady relative to the $477 million remitted in January last year. OFW remittances comprised more than 85 percent of gross income receipts. The bulk of OFW remittances came from the U.S., Saudi Arabia, Japan, Hong Kong and Singapore.[4]

On the other hand, the net outflow of investment income was significantly lower by 20.4 percent as interest payments on portfolio and other investment accounts fell with the drop in global interest rates. Being a debtor country, the low

[4] 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.

interest rates 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 inflows from current transfers decrease.

The current transfers account for the first month of the year posted a surplus of $33 million, lower than the $39 million surplus in the same period last year. The 15.4 percent drop in net inflows was traced mainly to lower receipts of transfers by the general government[5] as well as workers' remittances[6] (Table 5).

➢ Capital and Financial Account

The net outflow in the capital and financial account declines.

Bolstered by higher net inflows of portfolio and direct investments, the net outflow in the capital and financial account for the period in review was reduced by 72.0 percent to $265 million from the net outflow of $948 million registered in January 2001.

The capital account balance is steady relative to the year-ago level.

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

Intercompany loans contributed to the surplus in the direct investment account.

The direct investment account for January 2002 posted a net inflow of $303 million, more than twice the net inflow recorded in the comparable period last year. The improvement came mainly from the reversal of non-residents' investments in equity capital to a net inflow. Moreover, substantial increase of investments in the form of intercompany loans, which expanded by more than a 100 percent also contributed to the net inflow (Table 7). The bulk of equity capital—which came mostly from the U.S., U.K., Japan, and Ireland—were directed to banks and financial institutions, services, manufacturing, and telecommunications.

Meanwhile, divestment by residents of their equity investments abroad remained unchanged at $1 million from the level recorded during the same period a year ago.

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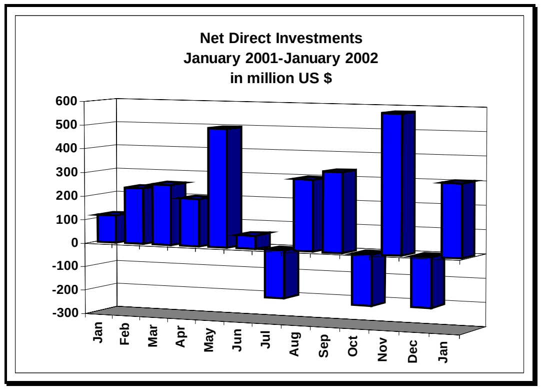
5 General government transfers comprise current international cooperation, which covers current transfers in cash or in kind between governments of different economies or between governments and international organizations. General government includes the National Government, its political subdivisions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

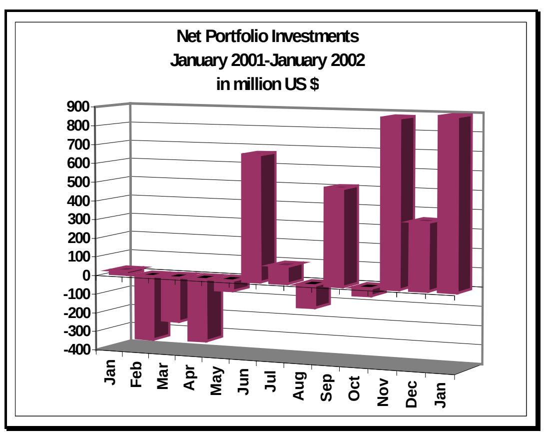
6 Workers' remittances refer to transfers by Filipinos who have migrated permanently. This is in contrast to compensation of employees earned and remitted by OFWs who are expected to return to the country after their term of employment.



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

From a net inflow of only $19 million in January 2001, the portfolio investment account gained strength as it showed a net inflow of $895 million in January 2002. Underpinning this 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 $49 million, nearly 50 percent lower than the level posted in January last year. It is, however, noteworthy to mention that this level was higher compared to the monthly net inflows recorded during the past six consecutive months.

Repatriation by residents of proceeds of their maturing placements abroad ($181 million) also contributed to higher net portfolio investment inflows during the month.



…while net outflows of other investments

The net outflow in the other investment account increased by 35.0 percent to $1.462 billion in January 2002 from $1.083 billion in the comparable period last year. This developed following higher residents' net deposits in banks abroad *expand.*

intended to service forthcoming maturing obligations as well as repayment of maturing non-residents' placements in local banks (Table 9).

➢ Reserve Assets

Notes and bond flotations raise the GIR to over the $16 billion mark.

As of end-January 2002, the BSP's GIR rose to $16.3 billion, higher by 4.1 percent than the end-December 2001 level of $15.7 billion.

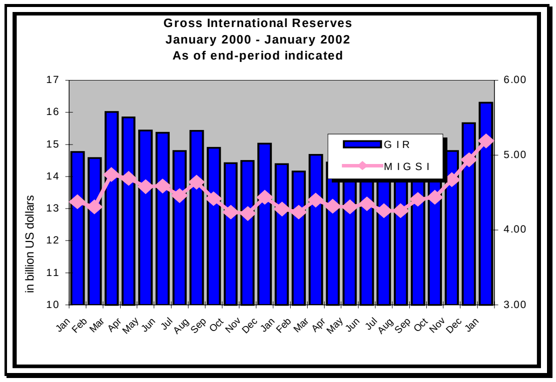
The increase in GIR during the period was attributed mainly to the foreign exchange inflows, notably from the issuance of the BSP's four-year Fixed-Rate Notes ($250 million) and net deposits by the Treasurer of the Philippines ($794 million).[7] However, the impact of these inflows were partly mitigated by foreign exchange requirements of the BSP and the National Government ($371 million), and net foreign currency withdrawals by government-owned and -controlled corporations ($153 million).

At this level, reserves were adequate to cover 5.19 months' worth of imports of goods and payment of services and income. Reserves were also sufficient to cover more than 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).[8]

During the review period, the bulk of reserves were in foreign investments (82.2 percent), while the rest were in gold (13.8 percent), foreign exchange (3.3 percent), and combined SDRs and reserve position in the Fund (0.7 percent). In terms of the currency composition of reserves excluding gold, 92.1 percent were in US dollars, 3.9 percent in Japanese yen, 1.5 percent in pound sterling and the balance of 2.5 percent in other foreign currencies.

[7] 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 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.



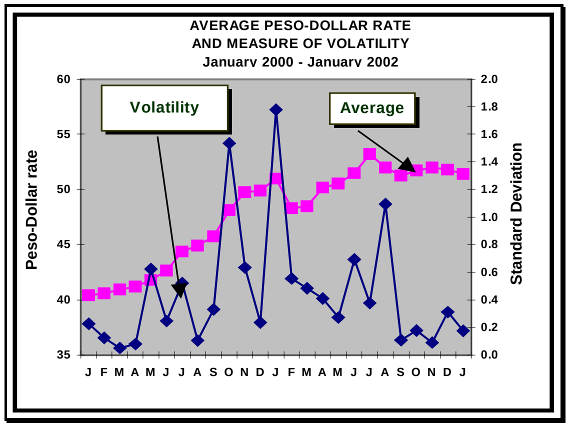
➢ Exchange Rate

The peso depreciates against level last year but appreciates against levels during the last quarter of 2001.

The peso-dollar exchange rate averaged ₱51.41:US$1 in January 2002. This represented a 0.9 percent depreciation compared with the ₱50.97.19:US$1 average rate for January 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 still weak export receipts in January—with the global economy expected to strengthen only in the second half—also weighed down on the peso. The peso strengthened compared to its value in December (₱51.79/US$1), November (₱51.99/US$1), and October (₱51.73/US$1) last year.

Peso shows continued stability.

Notwithstanding the weaker peso, the exchange rate movement was less volatile as indicated by the declining standard deviation of the daily peso-dollar exchange rate since September last year. In January 2002, the standard deviation at ₱0.18 was lower in contrast to ₱1.78 for the same period in 2001. The peso-dollar rate ranged from ₱51.20:$1-₱51.72:$1 during the period under review.



The peso loses external competitiveness 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)[9] for the first month of 2002 was up by 3.1 percent against the currency basket of the country's major trading partners, by 4.3 percent against the currency basket of a broad group[10] of competitor countries, and by 5.8 percent against the currency basket of a narrow group[11] of competitor countries. This developed, as the nominal depreciation of most currencies in the baskets was greater compared to the nominal depreciation of the peso against the US dollar. Likewise, the real effective exchange rate index (REERI)[12] rose by 6.4 percent against the currency basket of the country's major trading partners, by 8.4 percent relative to the currency basket of a broad group of competitor countries and by 3.7 percent relative to the narrow basket of currencies. The lower nominal depreciation of the peso and higher inflation 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 loss of external competitiveness arising from lower nominal depreciation was somehow moderated by lower inflation rate.

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.

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	13.03	30.46	63.08	60.63	106.77	170.81
	Feb	13.78	32.19	67.21	64.22	111.53	181.25
	Mar	13.88	32.99	69.77	64.81	114.18	188.03
	Apr	13.51	33.10	71.56	63.18	114.23	190.73
	May	13.39	33.02 p/	71.80 p/	62.56	114.47 p/	194.12 p/
	Jun	13.20	32.54 p/	70.61 p/	62.04	114.35 p/	193.09 p/
	Jul	12.81	31.21 p/	66.94 p/	61.04	110.86 p/	182.93 p/
	Aug	12.97	29.76 p/	60.28 p/	61.89	105.59 p/	165.60 p/
	Sep	13.05	30.42 p/	62.17 p/	61.81	106.97 p/	169.39 p/
	Oct	13.01 p/	31.09 e/	64.89 p/	61.76 p/	108.35 p/	175.73 p/
	Nov	13.01 p/	31.38 e/	66.71p/	62.04 p/	111.12 p/	179.12 p/
	Dec	13.16 p/	31.21 e/	65.42 p/	63.21 p/	111.36 p/	174.95 p/
Ave.	Jan-Dec	13.23	31.61	66.70	62.43	110.82	180.48
2002	Jan	13.43 e/	31.78 e/	66.77 e/	64.54 e/	115.78 e/	177.14 e/

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

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