BALANCE OF PAYMENTS DEVELOPMENTS JANUARY-MARCH 2002

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➢ Overall Position

BOP reverses to a surplus.

The country's balance of payments (BOP) for March yielded a surplus of $1.503 billion bringing the overall BOP surplus for January to March to $2.157 billion. This amount was a reversal of the $512 million BOP deficit recorded for the first quarter last year. Behind this positive development were the turnaround in the capital and financial account from a net outflow to a net inflow and the substantial increase in the current account surplus.

Balance of Payments (US$ m)

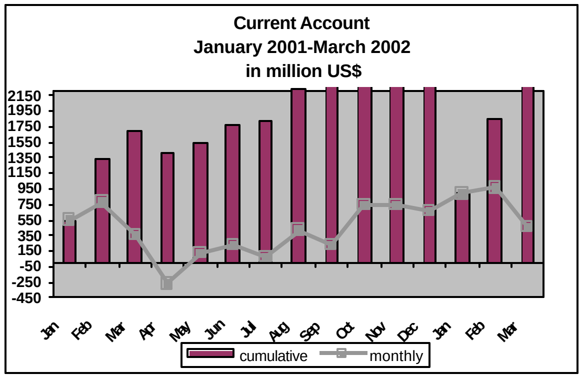
	Jan-Mar 2002	Jan-Mar 2001	Growth Rate (%)
I. Current Account	2323	1675	38.7
II. Capital & Fin'l.	357	-1674	121.3
III. Net Unclassified	-523	-513	-1.9
IV. Overall BOP *	**2157**	**-512**	**521.3**

* Totals may not add up due to rounding.

➢ Current Account

Strong net income flows and favorable balance in the trade-in-goods account strengthened the current account position.

The current account surplus of $2.323 billion for the first three months of 2002 was traced to higher net inflows in the income and goods accounts that more than offset the deficit in the services account. The net inflow in the income account of $1.331 billion during the review period was nearly twice the amount of net inflow a year-ago while the trade-in-goods account continued to be in surplus at $1.113 billion. Together with the reduced net outflow in the services account, these developments caused the current account surplus to increase by 38.7 percent from the level realized in the comparable period last year.



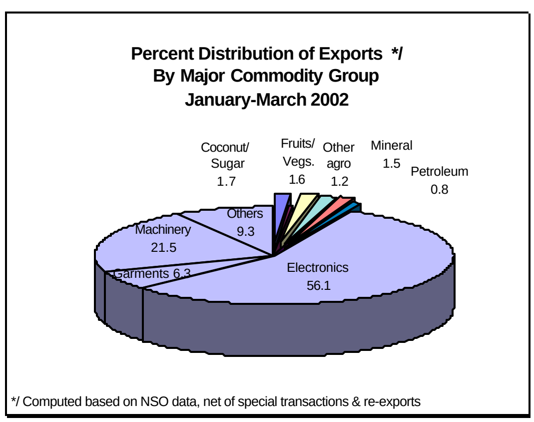
➢ Trade in Goods

Rate of contraction in merchandise exports continues to decelerate.

Exports for the first three months of 2002 at $7.902 billion dropped by 5.3 percent from last year's level largely on account of lower shipments of manufactured goods, particularly electronics and garments. On the other hand, exports of machinery and transport equipment, processed food and beverages, and sugar and products grew relative to last year's levels.

It is worthy to mention, however, that the year-on-year rate of contraction of exports has slowed down considerably from the double-digit declines in 2001 to less than one percent in March 2002. Mainly contributing to this development was the marked deceleration in the rate of decline of electronics exports whose monthly year-on-year contraction was only 2.3 percent in March 2002 from a high of almost 39 percent in May 2001. The continued expansion in exports of machinery and transport also contributed to the relatively improved export performance.

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



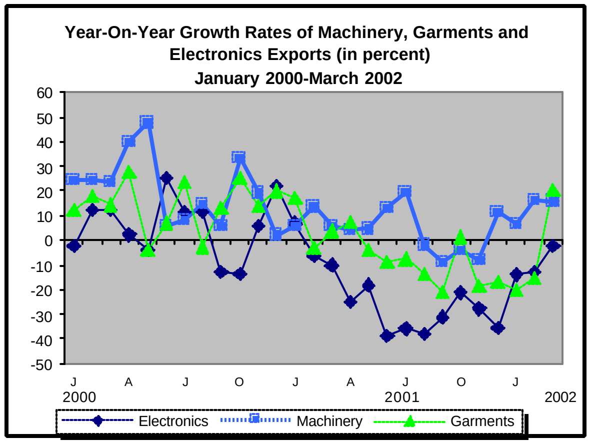
Export of machinery and transport equipment continues its growth path while rate of decline in electronics slows down considerably.

a) *Machinery and Transport Equipment.* For the first three months of 2002, exports of machinery and transport equipment expanded by 12.9 percent. The first quarter growth was higher compared to the 8.3 percent expansion in the comparable period in 2001. About 85 percent of this category consists of electronics-related products such as input/output of peripherals units and parts and accessories of automatic data processing machines. Meanwhile, the automotive components of this category continued to be on the growth path with potentials noted from products such as auto wiring harness, transmission gears, alloy wheels, gas and air filters, batteries and fan belts.

b) *Electronics.* For the first quarter of 2002, electronics exports dropped by 9.9 percent compared to the 3.5 percent growth in the comparable period a year ago. However, the year-on-year rate of contraction in exports of electronics has slowed down considerably to merely 2.3 percent in March 2002 compared to the preceding twelve consecutive months of double-digit contractions. The bottoming out in electronics exports is in line with market expectations of a rebound in the electronics industry following increasing trend of the book-to-bill ratio [1]. For the first time since December 2000, the ratio breached the demand-supply unity mark at 1.04.

c) *Garments.* Meanwhile, exports of garments contracted by 18.9 percent, a reversal from the 5.9 percent growth in January-March 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 countries 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 of 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.

[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.



Year-On-Year Growth Rates of Machinery, Garments and Electronics Exports (in percent)
January 2000-March 2002

Imports growth in March tempers the first quarter rate of decline.

Imports continued to show sign of recovery during the year, expanding by 8.9 percent in March,[2] after exhibiting consecutive declines since July 2001. This tempered the first quarter import contraction to 2.8 percent. Total imports amounted to $6.789 billion during the first quarter. Increases in imports were noted in capital goods and raw materials and intermediate goods particularly materials and accessories for the manufacture of electrical equipment.

Imports of mineral fuels and lubricants registered the steepest drop at 27.7 percent during the period in review due 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 three months of the year fell to $19.63 per barrel from $23.90 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 stock file following relatively weak domestic demand.

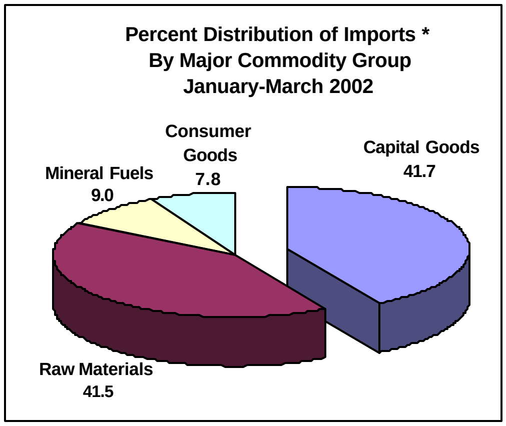
Capital goods imports, which accounted for more than two-fifths of total imports, grew by 2.3 percent. The expansion was attributed to the increased importations of telecommunication equipment, mainly inputs to electronics production, and office and EDP machines, particularly in March 2002.

Meanwhile, the increases in imports of raw materials and intermediate goods in February and March (at 17 percent and 3 percent respectively) narrowed the year-to-date contraction of this import category to half a percent. Double-digit growths were noted in

[2] Per BPM5 concept

[3] 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 18.6 percent during the review period as against the 26.2 percent decline in January-March 2001.

the importation of materials/accessories for the manufacture of electrical equipment[3], which expanded by 38.2 and 49.1 in February and March 2002, respectively. 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.



*Computed based on NSO data, net of special transactions

➢ Trade In Services

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

For the first quarter of 2002, the trade-in-services deficit of $224 million compared favorably with the $494 million deficit recorded in 2001. The 54.7 percent reduction 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 net inflow from travel services accelerated by 26.0 percent to $257 million from last year's level due 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, this type of receipts has been on an uptrend since September 2001. The aggressive tourism promotion 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.

➢ Income

The income account surplus improves significantly.

The income account in January-March 2002 yielded a surplus of $1.331 billion, 91.2 percent higher than last year's surplus of $696 million. Accounting for this development was higher remittances from overseas Filipino workers (OFWs) of $1.964 billion from $1.423 billion in the same period last year or an annual expansion of 38.0 percent. The POEA data revealed that deployment of new hires during the first quarter numbered

231,357, higher by 0.3 percent from last year's 230,642. Remittances from OFWs comprised about 89 percent of gross income receipts. The bulk of OFW remittances came from the U.S., Saudi Arabia, Japan, Hong Kong and Singapore.[4] In the period ahead, OFW remittances will continue to be a major source of foreign exchange as government's efforts to promote Filipino skills in new markets as well as in other professional fields gain headway.

Meantime, investment income yielded a lower net outflow by 12.9 percent as interest payments on portfolio and other investment accounts fell with the 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

Net inflow from current transfers declines.

Current transfers for January-March 2002 registered a surplus of $103 million, $12 million or 10.4 percent lower compared to the surplus in the same period last year. Lower receipts from transfers by the general government accounted mainly for the decline[5] (Table 5).

➢ Capital and Financial Account

The capital and financial account reverses to a net inflow following surpluses in both portfolio and direct investments.

From a net outflow of $1,674 million, the capital and financial account for the period in review reversed to a net inflow of $357 million. This favorable development resulted from the net inflows registered in the portfolio and direct investment accounts, which negated the increase in the net outflow in the other investment account.

[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.

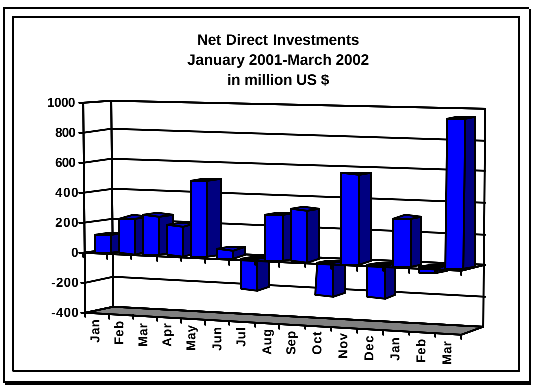
[5] General government transfers comprise current international cooperation, which covers current transfers in cash or in kind between governments of different economies or between governments and international organizations. General government includes the National Government, its political subdivisions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

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

The capital account[6] for January-March 2002 posted a net outflow of $4 million following the reduction in receipts from migrants' transfers and bilateral transfers to the general government. This outflow was $2 million higher than the level posted in the comparable period a year earlier (Table 6).

Direct investment account posts a higher surplus relative to year-ago level.

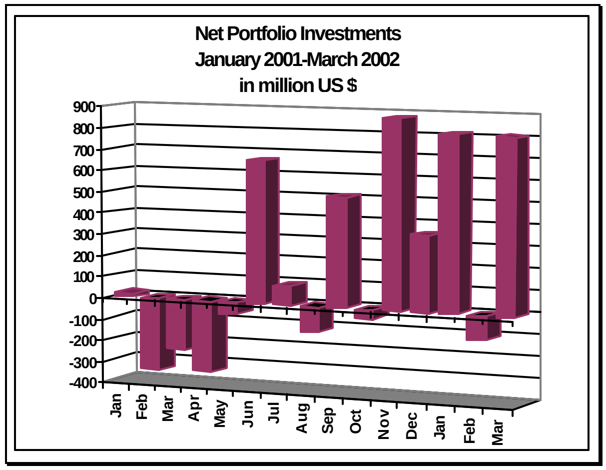
Total direct investments for January-March 2002 more than doubled to $1.224 billion compared to $608 million posted in the comparable period last year. The significant expansion in direct investments was traced to non-residents' investments in equity capital, which rose by almost seven times to $662 million in the first three months of the year. The bulk of this equity investment represented the $557 million worth of shares in a local brewery company purchased by a Japanese firm. The rest were directed to other manufacturing companies, financial institutions, and services industries (Table 7). Higher intercompany loans extended by parent companies to their local subsidiaries, which rose by 15.8 percent to $455 million, also contributed to the favorable performance of the direct investment account during the quarter.



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

Portfolio investments for the first quarter of the year reversed to a net inflow of $1.511 billion in January-March 2002 from a net outflow of $554 million in the same period last year. This positive development was achieved on the strength of increased non-residents' investments in foreign denominated debt securities, particularly government-issued bonds, aggregating $2.0 billion. Proceeds of these government bonds are earmarked for budgetary support and international reserve management (Table 8). Similarly, non-residents' investments in equity securities rose by 22 percent to $122 million from the level posted last year, indicating the resurgence of investors' confidence in the local equities market.

[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.



…but net outflow of other investments expands.

The net outflow in the other investment account increased by 37.5 percent to $2.374 billion in the first three months of 2002 from $1.726 billion in the comparable period last year. Behind this development was the higher resident banks' net deposits abroad to cover their clients' import payments and to diversify their portfolio. Payments arising from maturing non-residents' placements to local banks also contributed to the net outflow in other investments account (Table 9).

➢ Reserve Assets

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

As of end-March 2002, the BSP's GIR rose to $17.4 billion, higher by 10.9 percent than the end-December 2001 level of $15.7 billion.

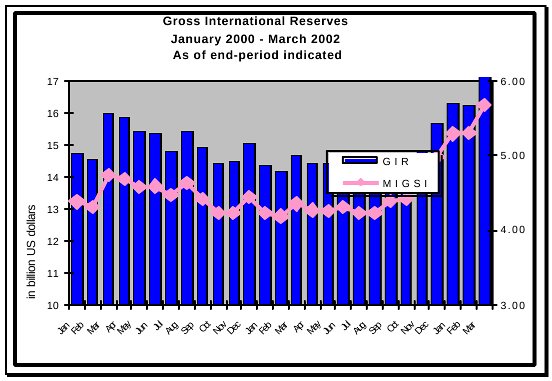
The increase in GIR during the period was attributed mainly to foreign exchange inflows, notably from the issuance of the BSP of its four-year Fixed-Rate Notes and net deposits by the Treasurer of the Philippines.[7] However, the impact of these inflows was negated partly by outflows to meet the foreign 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 5.7 months' worth of imports of goods and payment of services and income. Using other reserve coverage measures, the level of reserves was 3.1 times the amount of the country's short-term external debt based on based on original maturity or alternatively 1.50 times the amount of short-term external debt based on residual maturity (Table 11).[8]

[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.

During the review period, the bulk of reserves consisted of foreign investments (82.8 percent), while the rest were in gold (13.7 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, 94.0 percent were in US dollars, 2.8 percent in Japanese yen, 1.4 percent in pound sterling and the balance of 1.8 percent in other foreign currencies.



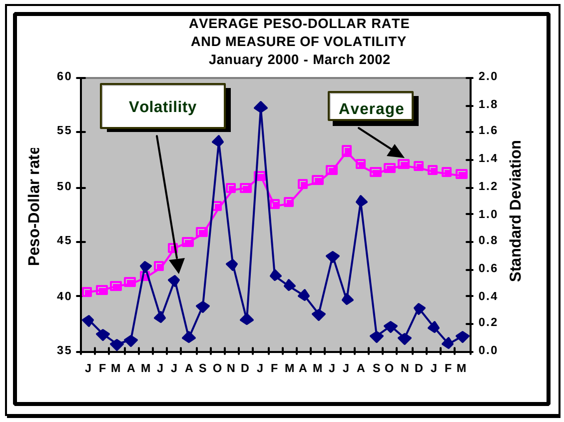
➢ Exchange Rate

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

The peso-dollar exchange rate averaged ₱51.25:US$1 in January-March 2002. This represented a 4.0 percent depreciation from the ₱49.24: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 three 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-March 2002, the standard deviation at ₱0.19 was lower in contrast to ₱1.67 for the same period in 2001. The peso-dollar exchange rate ranged ₱50.91:$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 quarter of 2002 depreciated by 0.4 percent against the currency basket of the country's major trading partners, by 0.8 percent against the currency basket of a broad group[10] of competitor countries, and by 0.9 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. Meanwhile, the price competitiveness of Philippine goods against the country's major trading partners and the currency basket of a broad group of competitor countries weakened slightly during the quarter as indicated by the appreciation of the real effective exchange rate index (REERI)[12] by 1.4 percent and by 0.6 percent against these respective baskets of currencies. 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. However, in the case of countries in the narrow basket, the peso's external competitiveness was strengthened as REERI depreciated by 3.9 percent. This was achieved following the higher nominal depreciation of the peso and relatively lower domestic inflation vis-a-vis these countries.

[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	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-Mar	13.33	34.14	69.20	63.80	114.11	180.92
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
	March	13.29	33.68	67.61	64.79 e/	113.76 e/	171.24 e/
Ave.	Jan-Mar	13.28	33.88	68.58	64.71	114.85	173.91

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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