BALANCE OF PAYMENTS DEVELOPMENTS JANUARY-MAY 2002

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➢ Overall Position

The BOP yields a surplus due to the continued strength of the current account and lower net outflows in the financial account.

Backed by the strong performance of the current account and the substantial improvement in the capital and financial account, the country's balance of payments (BOP) for the first five months of the year registered a surplus of $1.889 billion. These developments represented a favorable turnaround from the $797 million BOP deficit posted in January-May 2001 (Table 1).

Balance of Payments (US$ m)

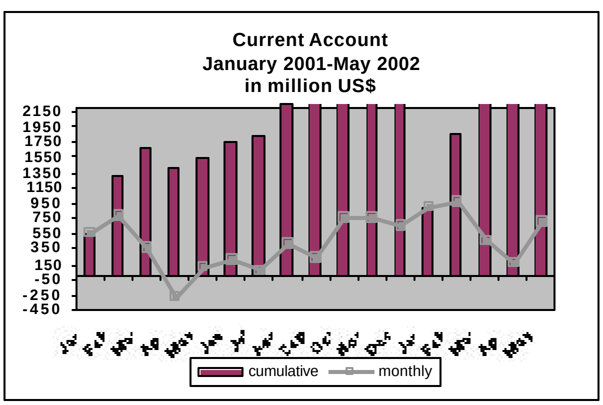
	Jan-May		
	2002	**2001**	**Growth Rate (%)**
I. Current Account	3182	1498	112.4
II. Capital & Fin'l.	-821	-2606	68.5
III. Net Unclassified	-472	311	-251.8
IV. Overall BOP *	**1889**	**-797**	**337.0**

* Totals may not add up due to rounding.

➢ Current Account

Strong net income receipts result in the substantial growth of the current account surplus.

The current account realized a surplus of $3.182 billion for the first five months of 2002. This positive development was attributed to the net inflow in the income account of $2.526 billion, which was more than twice the amount of the net inflow last year. The sustained surplus in the goods account and the lower net outflow in the services account also contributed to the improvement of the current account surplus from the level in the comparable period last year, which was at $1.498 billion.

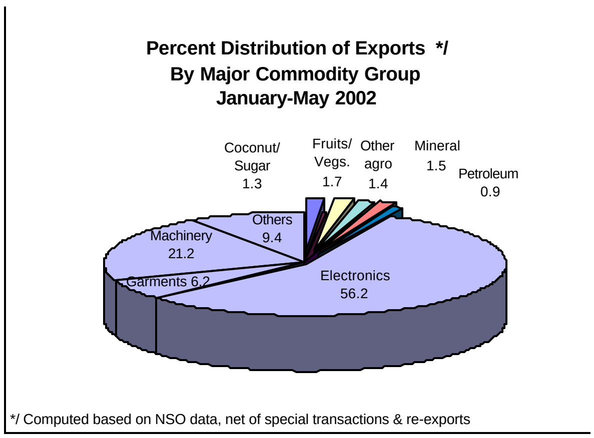


➢ Trade in Goods

Merchandise exports post double-digit growths in April and May, after more than a year of decline.

Exports, after contracting for several months, posted a double-digit growth rate for the second consecutive month at 13.8 percent in May, albeit slower than the 23.2 percent growth in April.[1] This favorable development brought the year-to-date exports to $13.425 billion or an increase of 3.1 percent compared to last year's level. The upturn in exports was traced to sustained higher export shipments of machinery and transport equipment, processed food and beverages, and sugar and products. Moreover, electronics exports continued to rebound, growing at 23.1 percent in May (from 29.9 percent in April), reversing the electronics performance to 2.2 percent growth in the first five months of 2002 from a contraction last year. Increased demand came from Asian markets particularly Taiwan, China, Korea, Malaysia and Hong Kong. Exports to these markets compensated for the lower demand from the U.S. and Japan, the country's traditional major export destinations.

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



Electronics exports continue to rebound in May, while exports of machinery and transport equipment help boost export earnings.

a) *Machinery and Transport Equipment*. Exports of electronics-related products such as input/output of peripheral units and parts and accessories of automatic data processing machines continued their uptrend. This, together with the upsurge in demand for automotive components e.g., auto wiring harness, transmission gears, alloy wheels, gas and air filters, batteries and fan belts, made possible the 14.8 percent growth for this commodity group in the first five months of 2002. The January-May 2002 performance was higher than the 6.9 percent expansion in the comparable period in 2001.

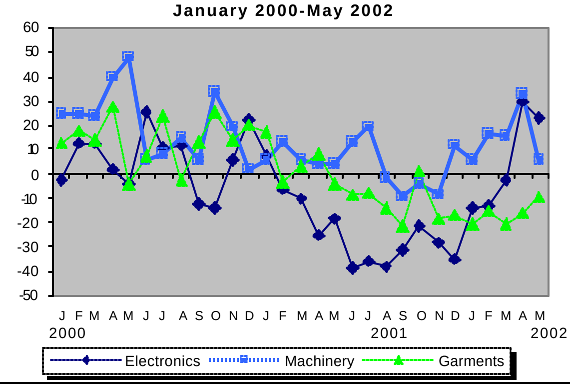
b) *Electronics*. For the first five months of 2002, electronics exports recorded a 2.2 percent growth compared to the decline of 10.4 percent a year ago. The turnaround in performance was made possible by the rebound in exports in April

[1] Per BPM5 concept

and May 2002, which grew by 29.9 percent and 23.1 percent, respectively, after experiencing several months of double-digit contractions. This development is a confirmation of market expectations of a recovery in the electronics industry following the steady increase in the book-to-bill ratio.[2] For the first time since December 2000, the ratio breached the demand-supply unity mark at 1.05 in March, gradually climbing to 1.27 in May 2002. The recovery of the electronics industry augurs well for the manufacturing sector.

c) *Garments*. Meanwhile, exports of garments contracted by 16.5 percent, a reversal of the 4.2 percent growth in January-May 2001. This developed following lower exports to the U.S market, the major destination of the country's exports of garments as a result of 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 in other markets in Europe such as the U.K. to lessen the Philippines' dependence on the U.S. market.

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



Growth in imports continues. Imports of goods grew for the fourth consecutive month beginning in February, peaking in April at 18.8 percent but tapering off in May at 3.9 percent.[3] The rise in imports reflected in part replenishment and inventory build-up as manufacturers have geared up

[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.
[3] Per BPM5 concept

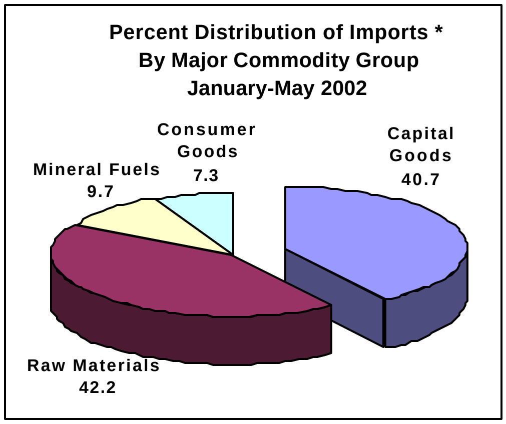
following expectations of increased domestic demand. As a result, total imports for January-May 2002 reached $12.547 billion, up by 3.2 percent from the year-ago level. The current growth rate was a reversal of the 1.7 percent contraction recorded in the first five months in 2001 (Table 2.2).

Capital goods imports, which accounted for about two-fifths of total imports, grew by 6.3 percent compared with last year's decline of 5.8 percent. The expansion was traced to increased importations of telecommunication equipment? mainly inputs to electronics production? and office and EDP machines.

Meanwhile, higher imports of raw materials and intermediate goods, which commenced in February following inventory build-up by producers/manufacturers, resulted in a year-to-date expansion of 7.4 percent. Double-digit year-on-year growths ranging from 32 to 49 percent were noted in the importation of materials/accessories for the manufacture of electrical equipment starting February to May 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 in the electronics industry.

By contrast, imports of mineral fuels and lubricants registered the sharpest drop among the major import commodity groups at 15.7 percent during the period in review. This was due to the combined impact of the decline in the volume of imports and the price of petroleum crude. The average price of petroleum crude for the first five months of the year fell to $22.06 per barrel from $24.10 per barrel last year. Meanwhile, the decline in the volume of oil imports was attributed mainly to: i) the shutdown of some refinery units of oil companies because of excess capacity and for check-up and maintenance purposes, and ii) the high oil stockpile following relatively weak domestic demand.

[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 22.2 percent during the review period as against the 11.0 percent decline in January-May 2001.



*Computed based on NSO data, net of special transactions

➢ Trade In Services

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

For the first five months of 2002, the trade-in-services account registered a reduced net outflow of $405 million. The 48.5 percent narrowing of the deficit was due mainly to lower net payments for transportation services and for miscellaneous business, professional and technical services by 32.2 percent and 48.6 percent, respectively, from the comparable levels last year. Meanwhile, increased net receipts from travel services, which rose by 19.9 percent to $416 million, likewise helped trim down the net service outflow during the period in review. This was due to the higher rate of decline in travel payments relative to that of travel receipts. The lower travel payments reflected in part the weaker peso that made the cost of foreign travel more expensive and the success of the government to encourage residents to support domestic tourism. Meanwhile, although travel receipts were lower compared to last year's level, it has been on an uptrend since September 2001. Looking forward, the country's tourism industry is expected to remain to be a growth sector of the economy following the promotion efforts of the government to attract tourists and the improving peace and order situation in the South.

➢ Income

Higher OFW remittances and lower interest payments contribute to the income account surplus.

The income account for the first five months of the year showed a strong performance, with net receipts reaching $2.526 billion, more than double that of last year's surplus of $1.236 billion. Behind this development was the significant contribution from overseas Filipino workers (OFWs) remittances, which expanded to $3.618 billion in January-May 2002 from the $2.493 billion level recorded in the same period last year. Remittances from OFWs comprised about 90 percent of gross income receipts, the bulk of which came from the U.S., Saudi Arabia, Japan, Hong Kong and Singapore.[5]

[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.

The growth in remittances was attributed to the 3.8 percent increase in the number of newly deployed OFWs during the period in review as the government pursues programs to promote the Filipinos' skills in new markets abroad.

Meanwhile, investment income yielded a lower net outflow by 13.1 percent as interest payments on portfolio and other investments 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

The surplus in current transfers remain unchanged.

The net inflow from the current transfers account for January-May 2002 was steady at $183 million, matching the level in the same period last year (Table 5).

➢ Capital and Financial Account

Net inflows in portfolio investments help reduce the net outflow in the capital and financial account.

The capital and financial account for the period in review yielded a significantly lower deficit of $821 million from a net outflow of $2.606 billion in January-May 2001. This can be attributed mainly to the reversal of the balance of the portfolio investment account to a net inflow from a net outflow last year. The improvement in the portfolio investment account mitigated the net outflow in other investments and the lower net inflows of direct investments.

➢ Capital Account

The capital account posts a deficit.

The capital account for January-May 2002 posted a net outflow of $6 million.[6] Compared to last year's level, receipts from migrants' transfers were nil while disbursements were lower by 45.5 percent (Table 6).

➢ Direct Investments

Higher direct equity investments boost

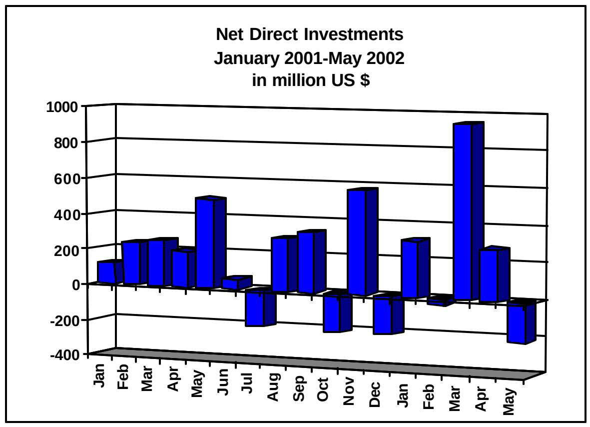
Non-residents' investments in equity capital rose by more than threefold to reach $682 million during the period in review. The bulk of non-residents' equity investments represented the $557 million worth of shares in a local brewery company purchased by

[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.

the direct investments account.

a Japanese firm in March 2002. The rest was directed to other manufacturing companies, financial institutions and transport and storage services. The major sources of direct investments were Japan, U.S., and the U.K. (Table 7).

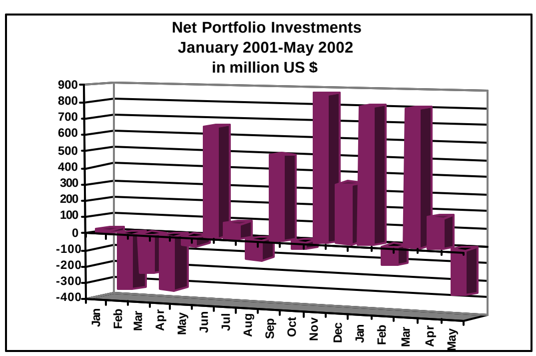
This notwithstanding, net direct investments for January-May 2002 registered a net inflow of $1.289 billion, slightly lower than the $1.305 billion posted in the comparable period last year. Accounting for this development were lower intercompany loans, particularly in May, and higher residents' placements of equity capital abroad.



➢ Portfolio Investments

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

From a net outflow of $938 million in January-May 2001, portfolio investments for the first five months of 2002 reversed to a net inflow of $1.429 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 currency-denominated bonds in January and March this year for budgetary support and international reserve management purposes. Meanwhile, non-residents' investments in equity securities—at $312 million—were 48.6 percent higher than last year's level. This indicated renewed investor confidence in the local equities market (Table 8).



➢ Other Investments

…while net outflow of other investments widens.

The net outflow in the other investment account expanded by 18.8 percent to $3.533 billion in the first five months of 2002. This developed on account mainly of 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 the $17 billion mark.

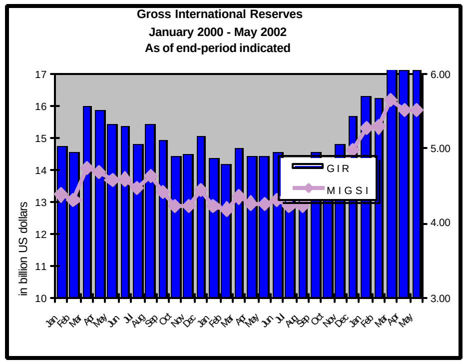
As of end-May 2002, the BSP's GIR rose to $17.1 billion, higher by 9.1 percent than the end-December 2001 level of $15.7 billion.

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 deposits 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 (Table 11).[8]

During the review period, the bulk of reserves consisted of foreign investments (81.1 percent), while the rest was in gold (15.5 percent), foreign exchange (2.7 percent), and combined SDRs and reserve position in the Fund (0.7 percent). In terms of the currency composition of reserves excluding gold, 93.9 percent were in US dollars, 2.7 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



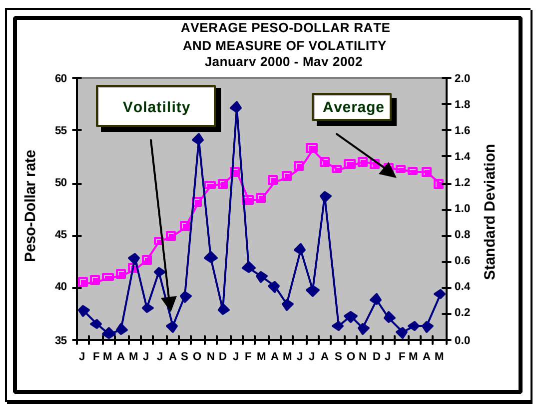
➢ Exchange Rate

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

The peso-dollar exchange rate averaged ₱50.92:US$1 in January-May 2002, depreciating by 2.4 percent from the ₱49.69:US$1 average exchange rate for the same period in 2001. The year-on-year depreciation of the peso mirrored the swings in sentiment on regional currencies and reflected steady corporate demand for dollars.

...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-May 2002, the standard deviation at ₱0.61 was lower in contrast to ₱1.44 for the same period in 2001. The peso-dollar exchange rate ranged ₱49.34:$1-₱51.72:$1 during the period under review.



Higher nominal depreciation and relatively lower domestic inflation

Relative to its level in the comparable period last year, the peso's average nominal effective exchange rate index (NEERI)[9] for the first five months of 2002 appreciated slightly by 0.1 percent against the currency basket of the country's major trading partners. However, the peso's NEERI depreciated by 3.2 percent against the currency

[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.

strengthen the peso's external competitiveness against currencies of some competitor countries.

basket of a broad group of competitor countries,[10] and by 5.6 percent against the currency basket of a narrow group of competitor countries.[11] The drop in the peso's NEERI against the currency baskets of both the broad and narrow groups of competitor countries resulted from the larger depreciation of the peso against the US dollar compared to the depreciation of the exchange rates of other currencies in these baskets. In terms of the real effective exchange rate index (REERI),[12] the peso appreciated by 3.1 percent against the currency basket of the country's major trading partners, reflecting the weakened external competitiveness of Philippine goods against the countries in the basket owing to the lower nominal depreciation of the peso and higher 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 the REERI depreciated by 1.8 percent and 8.2 percent, respectively. This developed on account of the higher nominal depreciation of the peso and the relatively lower domestic inflation particularly vis-a-vis countries in the narrow basket.

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-May	13.29	34.71	71.35	62.89	115.81	186.04
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	113.53	170.88
	April	13.28	33.21	65.91	64.73	111.99	165.41
	May	13.40	33.08	65.30	65.43	112.12	166.68
Ave.	Jan-May	13.30	33.59	67.39	64.86	113.72	170.73

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.

[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.

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