BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-SEPTEMBER 2002

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➢ Overall Position

The BOP reverses to a surplus due mainly to the continuous strength of the current account.

The country's balance of payments (BOP) in the first nine months of 2002 yielded a $751 million surplus, a reversal of the $1,308 million deficit posted in the same period last year. Underpinning this positive development was the consistently strong performance of the current account (Table 1).

Balance of Payments (US$ m)

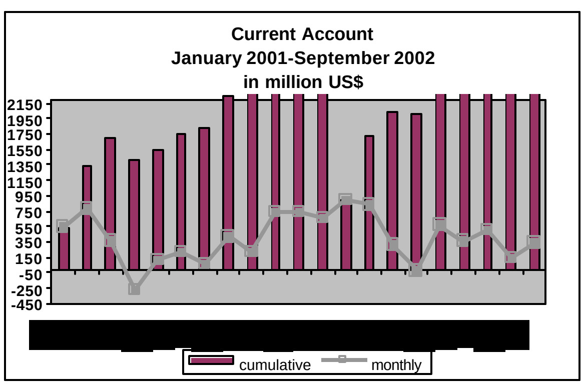
	January-September		
	2002	**2001**	**Growth Rate (%)**
I. Current Account	3929	2070	89.8
II. Capital & Fin'l.	-3745	-2544	-47.2
III. Net Unclassified	567	-834	168.0
IV. Overall BOP *	**751**	**-1308**	**157.4**

* Totals may not add up due to rounding.

➢ Current Account

The current account gains headway due to the favorable performance of the income account.

The current account surplus nearly doubled to $3,929 million in January-September 2002 primarily propelled by higher net inflows in the income account and the continued favorable performance of the trade-in-goods account. The significantly lower net outflow in the services account combined with the robust growth of the trade-in-goods surplus to reverse the balance in the goods and services account to a $361 million surplus from the $345 million deficit in the comparable period last year. Higher net inflows from current transfers also contributed to the current account's strong performance.



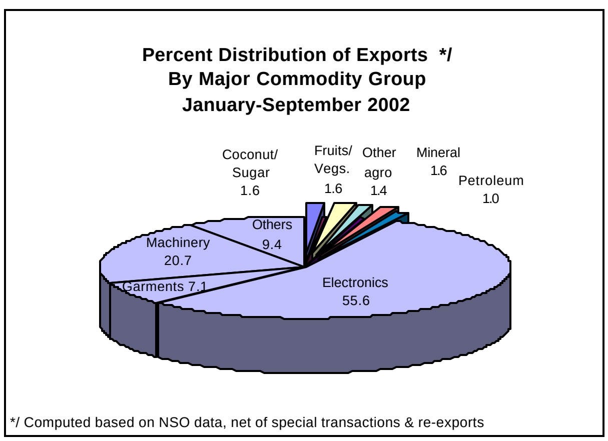
➢ Trade in Goods

Strong export performance continues as indicated by six consecutive months of double-digit growth since April, after more than a year of decline.

The strength of exports continued in the first nine months of the year as exports reached $25,422 million, marking the sixth successive month of double-digit growth after more than a year of weak performance. The implementation of the two-pronged strategy in the new export plan—industry clustering to enhance competitive advantage and an aggressive marketing program in both old and new markets—has helped in bringing export performance back to the growth path. Another contributory factor was the growth in the country's trading partners.[1] After July exports reached a peak growth of 23.6 percent, September exports sustained its growth at 17.1 percent to reach $3,103 million. This development brought the year-to-date export growth to 9.3 percent, a reversal of the 14.7 percent decline last year.[2]

Recent trends in market penetration pointed to rising intra-Asian trade as the combined shares of non-Japan Asian economies like Hong Kong, Taiwan, Singapore, Malaysia, South Korea, China, and Thailand have overtaken the U.S. and Japan in terms of market share. Their combined market share of 35.4 percent of total exports for the first nine months of the year compared favorably with 25.5 percent share of the U.S. and 14.9 percent of Japan.

During the period in review, electronics, machinery and transport equipment, and garments continued to be the country's top export earners (Table 2.1).



Electronics exports continue to recover in September.

a) *Electronics.* Electronic exports for the first nine months of 2002 rose by 10.7 percent to $13,807 million, after posting successive double-digit year-on-year increases since April 2002, with the highest growth in July at 39.4 percent. However, the book-to-bill ratio in September fell below the demand-supply unity

[1] WEO estimated that the GDP of advanced economies accelerated to 1.7 percent in 2002 from a mere 0.2 percent in 2001.
[2] Per BPM5 concept

mark, after posting six consecutive months of greater than one. The weakening of the ratio could be an indication of another slowdown in electronics exports next year, although the steady rise in imported inputs provides some degree of optimism for the industry.[3]

Driving the performance of Philippine electronics exports is the strong back-end semiconductors operations, assembly and test centers. It is instructive to note that 70 percent of Digital Signal Processors or DSP (main component of mobile cellular phones) worldwide are manufactured in the Philippines. In addition, the country is one of the major Pentium (brain of computers) and disk drive (memory of computers) centers of the world. Electronic Braking Systems, which serve as a safety feature of vehicles, as well as servo controls, which help operate aircraft wings, are also being manufactured in the country.

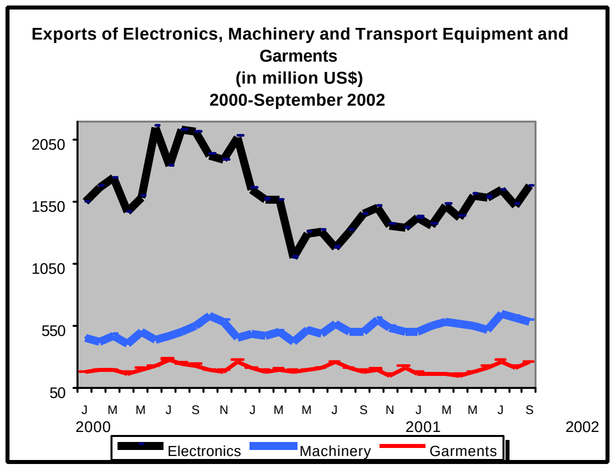
To improve global competitiveness, the Semiconductor and Electronics Industries in the Philippines (SEIPI), an umbrella organization of semiconductor producers in the country, with the aid of the government, hammered out a five-point strategy to make the Philippines a regional center of excellence in selected electronics products and processes. These include: (1) capitalizing on the country's historical edge as a transshipment point in Asia, taking full advantage of the relocation of major logistics and transportation operations in the country like Federal Express and United Parcel Service; (2) improving the industry's supply chain by developing backward linkages; (3) improving research and development to face the China challenge; (4) introducing low-end wafer fabrication? the backbone of the electronics industry? which will require specialized inputs that are available in the Philippines; and (5) cutting power costs to bring down cost of production. The industry predicts that the future growth of electronics will be towards electronic manufacturing services involving primarily contract manufacturing of electronics assemblies and sub-assemblies for original equipment manufacturers such as Compaq, Lucent Technologies, Alcatel, Ericsson, Nortel Networks, and Philips.

b) *Machinery and Transport Equipment.* Exports of machinery and transport equipment, a major export commodity group that has shown consistent strength during the year, grew by 14.7 percent to $5,139 million. Major contributory factors were the increased exportation of input/output peripheral units, parts/accessories of automatic data processing and machineries and units as well as other parts and accessories of motor vehicles.

c) *Garments*. After rebounding in June, exports of garments continued to recover, posting a year-on-year expansion rate of 40.4 percent in September. This brought the year-to-date decline of garment exports to a cumulative 3.5 percent to reach

[3] 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. Conversely, a ratio of one or more indicated that demand exceeds supply.

$1,769 million. The twin strategies to tap the high-end segment in traditional quota-driven markets and increase penetration of non-quota markets of Japan, United Arab Emirates, Hong Kong and Mexico were the driving forces behind the gradual recovery of this commodity group. It is important to underscore that, with the impending quota phase-out in 2004, the local garments and textile industry must shift to high-value items and veer away from traditional markets like the U.S. which is saturated with garments and textile items from other countries, particularly those with low wage costs. The Department of Trade and Industry reiterates its call to the industry to continue re-engineering and rethinking its business plans and strategies in order to remain competitive beyond 2004.



Imports continue to expand. Buoyed up by increased shipments of electronic inputs for export-oriented industries, imports of goods climbed for the eight consecutive month since February, accelerating to a 20.6 percent growth in September this year. Relative to last year's level, imports for the January-September 2002 were 9.2 percent higher at $24,204 million, a turnaround from a 2.9 percent decline registered in the comparable period in 2001 (Table 2.2).[4] The steady growth of imports could signal sustained economic expansion in the months ahead.

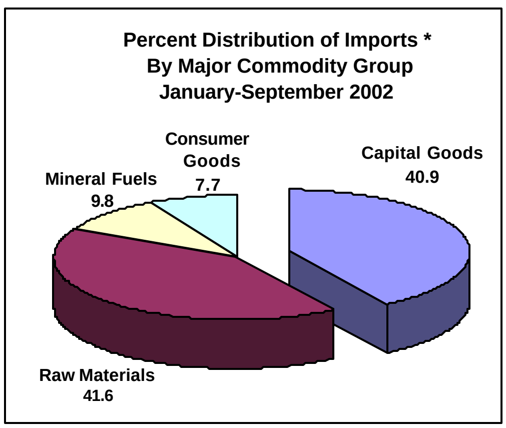
Imports of raw materials and intermediate goods—which accounted for more than 40 percent of total imports—expanded by 12.7 percent to $10,133 million. Double-digit year-on-year growths ranging from 32 to 74 percent were noted in the importation of materials/accessories for the manufacture of electrical equipment starting February until September 2002.[5]

[4] Per BPM5 concept

[5] 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

Meanwhile, imports of capital goods reached $9,946 million in the first nine months of 2002, owing to increased demand for telecommunication equipment? mainly inputs to electronics production? and office and EDP machines. The 13.4 percent expansion was a reversal of the 5.2 percent decline in the comparable period in 2001.

Imports of mineral fuels and lubricants fell by 10.9 percent to reach $2,393 million during the period in review. This development resulted from the decline in both volume of imports and the price of petroleum crude. The volume of petroleum crude fell by 18.9 percent to 69.6 thousand metric tons in January-September from 85.9 thousand metric tons in the comparable period last year. Meanwhile, the average price of petroleum crude for the first nine months of 2002 dropped to $23.70 per barrel from $24.76 per barrel during the same period last year. Meanwhile, the fall in the volume of oil imports was attributed mainly to the temporary slowdown in operations of some refinery units of oil companies for various reasons including check-up and maintenance operations and excess capacity.



* Computed based on NSO data, net of special transactions

electronics lodged in the capital goods and raw materials categories increased by 23.8 percent during the review period as against the 9..0 percent decline in January-September 2001.

➢ Trade In Services

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

The trade-in-services account for the first three quarters of 2002 posted a lower net outflow of $857 million (Table 3). The 40.9 percent narrowing of the deficit was traced to lower net payments for transportation services and for miscellaneous business, professional and technical services. Another contributing factor was increased net receipts from travel services, which rose by 67.4 percent to $715 million, owing 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 and the government program to promote domestic tourism among local residents. The government, through its aggressive promotion efforts, aims to revive interest in the country's tourism attractions. In line with this, the government tourism program? "Visit Philippines" 2003? kicked off on 15 August 2002 and will cover three continents: the North America, Asia (China, Japan and Korea), and Europe (Spain, England and Italy). A strategy to support this program is the "Volunteer 12 Program" which will mobilize and tap overseas Filipinos to encourage friends, relatives, and associates to visit the country.

➢ Income

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

The income account in January-September 2002 grew by 54.0 percent from the year-ago level, to yield a surplus of $3.191 billion, as remittances from overseas Filipino workers (OFWs) remained high. A consistently major source of foreign exchange earnings, OFW remittances expanded by 21.2 percent to $5.365 billion relative to level in the comparable period last year.[6] Contributing to this positive development was the 3.5 percent rise in the number of deployed new hires and rehires OFWs and the increased demand for professional, technical, and service workers during the review period. The growth in OFW deployment was noted in Europe, Asia and the Americas. The bulk of remittances from OFWs, which comprised 90.2 percent of gross income receipts, came from the U.S., Saudi Arabia, Japan, Hong Kong, U.K. and Singapore.[7]

To counteract the emerging trend towards "localization" and the economic slowdown in host economies, the government has intensified its marketing of Filipino skills abroad.[8] In the next three years, higher remittances are anticipated with the expanded hiring of the United Kingdom of OFWs in the medical field.

[6] A downward revision of data for January to June 2002 was made to reflect adjustments caused by erroneous reporting which was discovered after the BSP audit.

[7] 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.

[8] Localization means the preferential hiring by a country of its own residents.

Meanwhile, the net outflow in the investment income account was lower by 7.6 percent relative to the level last year as interest payments in other investments account fell with the continued drop in global interest rates (Table 4).

➢ Current Transfers

The surplus in current transfers increases.

The net inflow from the current transfers account for January-September 2002 amounted to $377 million, 9.9 percent higher than the level in the same period last year (Table 5).

➢ Capital and Financial Account

Higher net inflows of portfolio investments help bring down the net outflow in the capital and financial account.

The net outflow in the capital and financial account expanded by 47.2 percent to $3,745 million during the period in review. Net inflows of portfolio investments increased by more than threefold to $692 million from $208 million in the comparable last year. This favorable development dampened the negative impact of the higher net outflow of other investments and the lower net inflow of direct investments.

➢ Capital Account

The capital account posts a higher deficit.

The capital account for January-September 2002 posted a higher net outflow of $12 million compared to deficit of $6 million in the same period last year, owing mainly to increased net outflow of migrants' transfers (Table 6).[9]

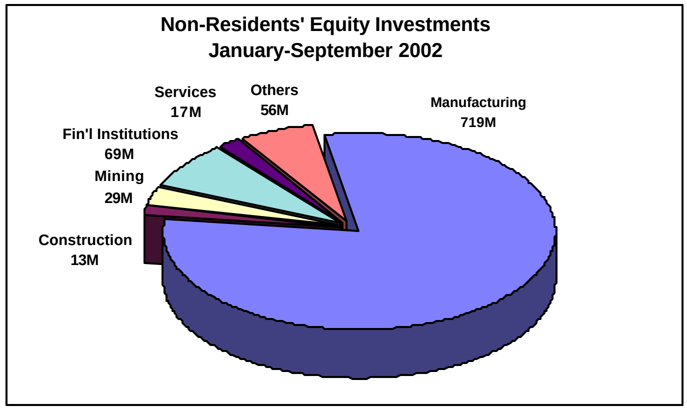
➢ Direct Investments

Higher direct equity investments by non-residents boost the direct investment account.

Non-residents' investments in equity capital in the first three quarters of the year increased by more than twofold to $903 million. The bulk of non-residents' equity investments came from Japan following the investment of $544 million worth of shares by a Japanese firm in a local brewery company in March 2002. Equity funds were also channeled to other manufacturing companies, financial institutions, mining corporations, and transport and storage services. Other major sources of direct investments were the U.S., Singapore, the U.K. and the Netherlands (Table 7).

[9] 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.

These notwithstanding, direct investments for January-September 2002 posted a lower net inflow of $684 million, 61.9 percent below the previous year's level. This developed as the impact of higher new equity investments were negated by repayment by local subsidiaries of loans granted by their foreign affiliates.



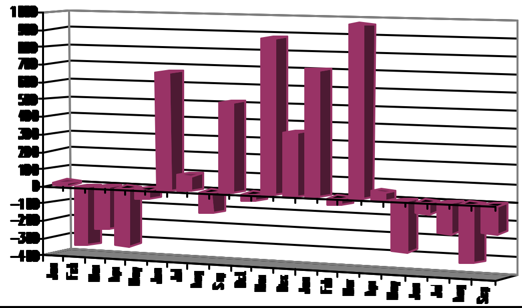
➢ Portfolio Investments

Higher non-residents' investments in equity and debt securities mitigate the rise in residents' investments abroad…

There was a substantially higher net inflow of $692 million in portfolio investments for the first nine months of 2002 compared to the net inflow of $208 million in the comparable period in 2001. The more than threefold expansion was due to increased non-residents' investments in resident-issued foreign- denominated debt securities, particularly government-issued medium-term bonds, which posted a significant increase to $1,876 million from $151 million in the same period a year ago.[10] Net inflows of non-residents' investments in equity securities rose slightly by 1.9 percent to $371 million during the review period, with the bulk of the net inflows recorded in the early part of the year (Table 8).

[10] The government issued $2.34 billion worth of foreign currency-denominated bonds and notes in January, March, June and September while the BSP issued $250 million worth of fixed rate notes in January. Proceeds were earmarked for budgetary support and international reserve management.

Net Portfolio Investments
January 2001-September 2002
in million US $



➢ Other Investments

…while net outflow of other investments increases.

The net outflow in the other investment account expanded by 12.6 percent to $5.109 billion during the review period. This developed mainly on account of higher non-residents' withdrawals from their FCDU accounts in local banks. Another contributory factor was the increased net deposits abroad by resident non-banks—majority of which were corporations involved in build-operate-transfer schemes—to fund their future obligations, such as loan repayment and import payment (Table 9).

➢ Reserve Assets

NG deposits raise the GIR to $16.0 billion.

As of end-September 2002, the GIR of the BSP reached $16.0 billion, 2.3 percent higher relative to the end-December level of $15.7 billion

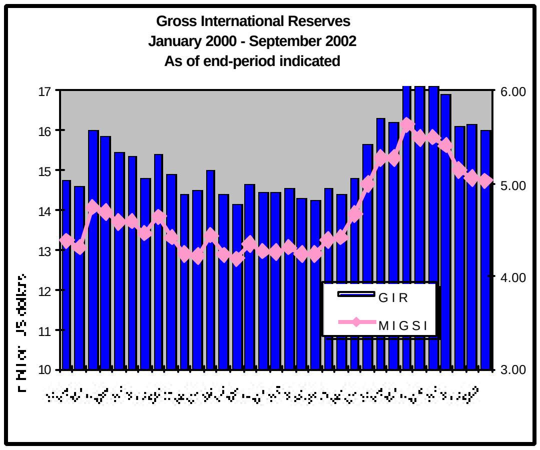
The increase in GIR during the period was due mainly to foreign exchange inflows in the form of net deposits by the Treasurer of the Philippines.[11] However, these were partly offset by outflows to meet the foreign exchange requirements of the BSP and the National Government.

The BSP's GIR were adequate to cover 5.0 months' worth of imports of goods and payment of services and income. Using other reserve coverage measures, the level of reserves was 2.9 times the amount of the country's short-term external debt based on original maturity or, alternatively, 1.4 times the amount of short-term external debt based on residual maturity.[12]

[11] Sources of deposit were mainly from government borrowings, i.e., net proceeds of the RP US Securities Registered Global Bond ($2.042 billion), RP Euro Fixed Rate Notes ($298 million) and JBIC Co-Financing of the Power Sector Loan ($100 million)

[12] 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 (79.4 percent), while the rest were in gold (16.9 percent), foreign exchange (2.9 percent), and combined SDRs and reserve position in the Fund (0.8 percent). In terms of the currency composition of reserves excluding gold, 93.0 percent were in US dollars, 3.0 percent in Japanese yen, 1.6 percent in pound sterling and the balance of 2.4 percent in other foreign currencies.



Gross International Reserves
January 2000 - September 2002
As of end-period indicated

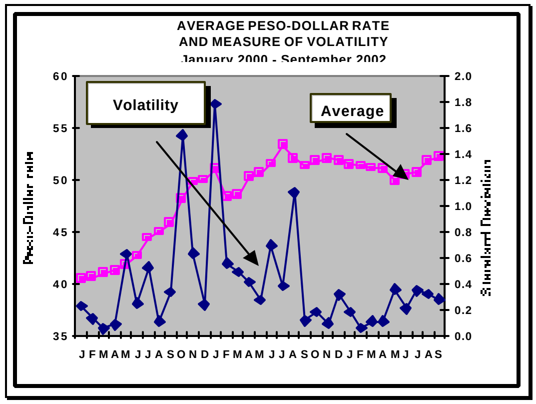
➢ Exchange Rate

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

The peso-dollar exchange rate averaged ₱51.06:US$1 from January to September 2002, depreciating by 0.68 percent from the ₱50.71:US$1 average exchange rate for the same period in 2001. The year-on-year depreciation of the peso reflected partly swings in sentiment on regional currencies and steady corporate demand for dollars in tandem with the rise in imports, as well as concerns over the widening fiscal deficit.

...but the peso shows continued stability.

Notwithstanding the weaker peso, exchange rate movements were less volatile as indicated by the lower standard deviation of the daily peso-dollar exchange rate since September last year. In January-September 2002, the standard deviation at ₱0.72 was substantially less than the ₱1.72 registered for the same period in 2001. The peso-dollar exchange rate ranged from ₱49.336 to ₱52.461 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.

The peso's average nominal effective exchange rate index (NEERI)[13] against the currency basket of the country's major trading partners in January-September 2002 nearly matched the level in the comparable period last year. However, the peso's NEERI depreciated slightly by 4.1 percent against the currency basket of a broad group of competitor countries,[14] and by 6.5 percent against the currency basket of a narrow group of competitor countries.[15] This was due to the larger depreciation of the peso against the US dollar compared to the depreciation of the exchange rates of other currencies in these baskets. In terms of the real effective exchange rate index (REERI),[16] the peso appreciated by 2.5 percent against the currency basket of the country's major trading partners, reflecting the weakened external competitiveness of Philippine goods against those countries in the basket mainly on account of relatively higher domestic inflation. However, in the case of countries in both the broad and narrow baskets, the peso's external competitiveness strengthened as the REERI depreciated by 2.8 percent and 8.9 percent, respectively, due to the higher nominal depreciation of the peso and the relatively lower domestic inflation vis-à-vis those of the countries in the broad and narrow baskets.

[13] 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.

[14] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong.

[15] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.

[16] 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-Sep	13.07	34.04	69.66	62.28	114.43	182.62
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
	June	13.10	31.87	62.60	63.97	108.87 e/	161.06 e/
	July	12.81	31.68	63.09	62.97	109.32 e/	162.79 e/
	Aug	12.57	31.14	61.92	61.98	107.72 e/	160.66 e/
	Sep	12.52	31.14	61.76	61.38 e/	106.61 e/	158.94 e/
Ave.	Jan-Sep	13.06	32.64	65.15	63.84	111.24	166.34

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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