BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-APRIL 2003

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➢ Overall Position

BOP posts a much lower deficit in April as geopolitical uncertainties dissipate.

The quick end to the hostilities in Iraq provided a glint of optimism to the country's external transactions account. However, as the threat of the spread of the severe acute respiratory syndrome (SARS) loomed in Asia and other major economies, the BOP position ended in a $17 million deficit in April 2003. This, notwithstanding, the BOP deficit in April was significantly lower compared to the $557 million deficit in March. This brought the cumulative balance of payments (BOP) position for the first four months of the year to a deficit of $519 million, a reversal from the $1,891 million surplus registered in the comparable period last year. Both the current and the capital and financial accounts weakened from their year-ago levels (Table 1).

Balance of Payments (US$ m)

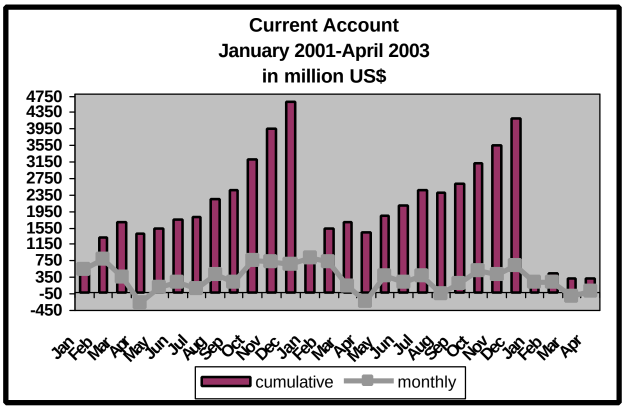
	January-April		
	2003	**2002**	**Growth Rate (%)**
I. Current Account	342	1455	-76.5
II. Capital & Fin'l.	-612	1734	-135.3
III. Net Unclassified	-249	-1298	80.8
IV. Overall BOP *	**-519**	**1891**	**-127.4**

* Totals may not add up due to rounding.

➢ Current Account

The current account remains in surplus.

The strong income account kept the current account in surplus at $342 million in January-April 2003, albeit, lower compared to the $1,455 million surplus posted in the comparable period last year. The trade-in-goods account reversed to a deficit from a surplus which, despite the drop in imports in April 2003, was influenced by the first quarter surge in imports caused in turn by the frontloading of raw materials and crude oil as part of the Iraq war contingency measures. The services account was also weaker due to the increase in freight expenditures and lower travel receipts.



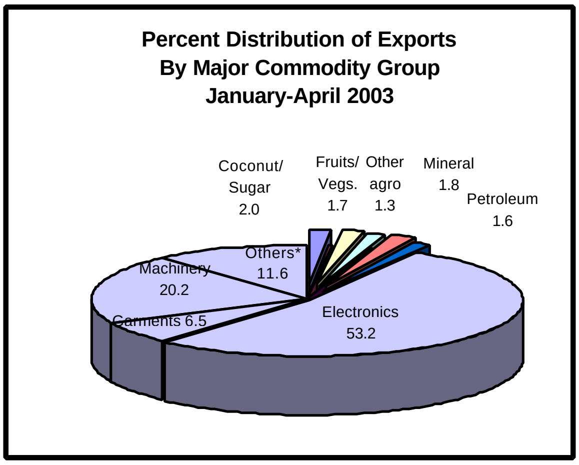
➢ Trade-in-Goods

The tension in the Middle East triggers the surge in imports and the deficit in the trade-in- goods balance.

The substantial rise in imports of goods in the first quarter of the year brought the trade-in-goods balance for the first four months to reverse to a deficit of $1,021 million from a surplus of $133 million in the same period last year. Total imports of goods at $11,962 million expanded by 14.5 percent exceeding the 3.4 percent growth of exports at $10,941 million.[1] Imports posted double-digit growths during the period January-March 2003 before dropping by 6.7 percent in April following the easing of tension in Iraq.

Export growth decelerates.

After 12 consecutive months of expansion, exports of goods declined in April 2003 due mainly to the decline in demand from the country's major trading partners. However, despite weak global prospects exports managed to post a modest growth of 3.4 percent during the first four months at $10,941 million.



* Includes special transactions & re-exports net of returned goods and temporary exports

[1] Per BPM5

Electronics exports growth slows down.

a) *Electronics.* After turning in double-digit expansion rates in most months of the last three quarters of 2002, exports of electronic products at $5,825 million in January-April 2003 slowed down to post a cumulative growth of 1.2 percent. This performance, however, remained favorable compared to the 2.4 percent contraction in the same period last year (Table 2.1). The downturn was also reflected in the April book-to-bill ratio of less than unity (0.90). However, the industry players are confident that exports of Philippine electronics could end the year on a positive territory mainly on account of the increasing use of electronics products in industrial and medical sectors. Exports of electronics comprised 53.2 percent of total exports.

Machinery and transport equipment exports weaken.

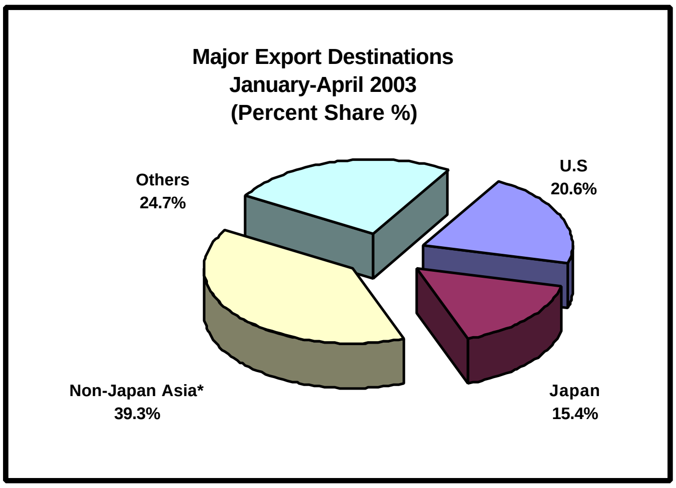
b) *Machinery and Transport Equipment.* Exports of machinery and transport equipment continued to be the second largest export earner, next to electronics valued at $2,215 million in the first four months of 2003. However, this industry has also showed signs of weakening after recording respectable growth rates in 2002 until January 2003. This can be gleaned from the three consecutive months of decline starting February 2003 that resulted in the cumulative drop of 0.1 percent for the first four months of the year. The decline was influenced in part by the slack in demand for electronics exports since more than half of the exports from this commodity group consisted of input/output peripheral units of computers. Other major product lines of machinery transport and equipment included other parts and accessories of motor vehicles.

Garments exports rebound.

c) *Garments.* Exports of garments, representing 6.5 percent of total exports, managed to achieve a double-digit growth of 11.2 percent in the first four months of the year despite the 8.8 percent decline in April. The reversal from the last year's contraction of 18.3 percent could be attributed to the twin strategies of tapping the high-end segment in traditional quota-driven markets and increasing access to non-quota markets such as Japan, United Arab Emirates, Hong Kong and Mexico. These form part of the aggressive market and product development and promotion schemes set in the Garments Industry Transformation Plan to re-establish the backbone of the garments export sector. Developed in January 2001, the Garments Industry Transformation Plan is a comprehensive program that focuses on cost reduction, productivity enhancement, market and product development, trade facilitation and the re-engineering of the garments industry to meet the challenges of the quota phase-out in 2005 and achieve competitiveness in a quota-free environment.

Intra-Asian trade reduces U.S. market share.

The increasing intra-regional trade in Asia in recent years has established a new market pattern for exports. While Japan and Europe have maintained their share of Philippine exports, the share of U.S., has declined, with the share of non-Japan Asia rising. For January-April 2003, the combined market share of these non-Japan Asian economies[2] at 39.3 percent was a significant increase from the 26 percent share they posted in 1998. By contrast, the share of the U.S. was reduced to 21 percent from 34 percent in 1998. However, there was no significant shift in the commodity pattern for exports as semiconductors remained as the heavily traded product even with Asian countries. Behind this development was the relocation to Asia of some electronics manufacturing firms affiliated with local electronics producers. This move was underpinned by the region's potentially large consumer market and the objective to reduce costs as this brings production processes and marketing systems, that have become increasingly integrated, to be geographically closer to one another.



' Comprised of China, Hong Kong, South Korea, Singapore, Taiwan, Malaysia and Thailand.

Imports expand.

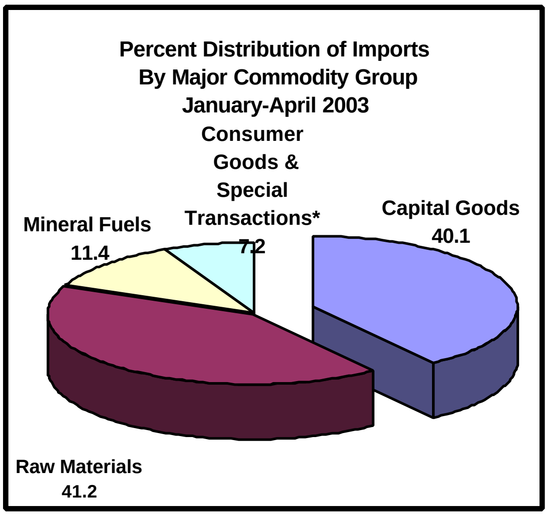
Imports of goods for the first four months of 2003 grew by 14.5 percent to reach $11,962 million driven largely by the surge in imports and the rise in oil prices during the first quarter.[3] However, with the resolution of the war in Iraq, imports declined by 6.7 percent in April. This broke the double-digit growth momentum noted since July last year (Table 2.2).

[2] Includes Hong Kong, Taiwan, Singapore, Malaysia, South Korea, China, and Thailand
[3] Per BPM5 concept

Imports of raw materials and intermediate goods—which comprised more than 41 percent of total imports—grew by 5.1 percent to $4,924 million. This was a reversal from the 17.0 percent contraction last year. The 21.1 percent increased demand for chemicals, a basic raw material for all manufacturing activities, provides an indication of a better performance of the manufacturing sector for the rest of the year. Imports of iron and steel also expanded.

Imports of capital goods, comprising 40 percent of total imports, climbed by 15.2 percent (from only 9.5 percent last year) during the quarter to reach $4,787 million. The expansion was influenced largely by imports of telecommunications equipment and land transport equipment excluding passenger cars and motorized cycles.

Imported mineral fuels and lubricants, comprising 11.4 percent of total imports, soared by 42.6 percent to reach $1,369 million during the period in review, due to the combined effects of the increase in both the volume and price of petroleum crude. The volume of petroleum crude imports grew by 10.9 percent to 32 million barrels in January-April 2003 from 28.8 million barrels in the comparable period last year as the government directed oil companies to maintain at least a 30-day oil inventory for big players and 15 days for small players to ensure continued domestic oil supply.[4] Meanwhile, the average price of petroleum crude during the review period rose sharply to $29.31 per barrel from $21.20 per barrel during the same period last year due mainly to uncertainties in the Middle East. Crude oil price, however, has significantly eased in April as the 'war premium' on oil prices started to fade.



* Special transactions are net of returned goods and temporary imports

[4] On 7 April 2003, the government announced the reduction of the minimum oil inventory to 7-15 days following the easing of hostilities in the Middle East.

➢ Trade-In-Services

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

The trade-in-services account for January-April 2003 posted a net outflow of $560 million, 60.9 percent higher compared to the level in the comparable period in 2002. The deterioration was due largely to the combined effects of the decline in travel receipts and the rise in freight payments. Net inflows from travel dropped by 35.6 percent to $208 million amid travel advisory issued by the World Health Organization on SARS-affected countries, including the Philippines. Tourist arrival registered the steepest decline at 24.4 percent in April—the height of SARS concern—consequently bringing down travel receipts by 31.8 percent for the month. The total number of tourist arrivals for the first four months declined by 4.4 percent. Contraction was largely evident in arrivals from Hong Kong, Taiwan and the U.S.

Meanwhile, the increase in the net outflow of transportation services was due to higher freight expenditures following the increase in imports of goods. Moreover, with domestic shipping companies having pulled out of international routes due to high maintenance costs, importers have increased their reliance on foreign carriers for shipment of their goods. (Table 3).

➢ Income

OFW remittances continue to boost the income account.

Net inflows in the income account for January-April 2003 grew by 13.1 percent to $1,713 million due mainly to the 8.7 percent rise in OFW remittances[5]. The higher remittances, despite the almost 1 percent drop in deployment, can be traced to the increase in the number of deployed higher-paid professionals such as nurses, engineers, performing artists, clerks and salesmen. It was noted that the number of OFWs deployed declined from 319,373 to 316,209 during the review period due to the combined effects of SARS-related travel risks, the temporary suspension of deployment in Hong Kong because of the minimum wage cut issue and the tension in the Middle East in the first quarter.[6] Notably affected by these developments were the land-based workers whose number decreased by 2.5 percent. Meanwhile, deployment of sea-based workers increased by 4.4 percent.

The investment income account posted a net outflow of $825 million, slightly higher (0.6 percent) compared to past year's level. Lower income received from both direct and portfolio investments were largely influenced by the global decline in interest rates while higher interest payments were due in turn to higher external debt level (Table 4).

[5] This number is higher than the $1.78 billion earlier reported by the BSP to reflect late reports of banks and after audit revisions.

[6] Of the total number of Filipino workers deployed abroad for the period January-April 2003, 242,624 were land-based workers and 73,585 were sea-based workers.

Cognizant of the contribution of OFW remittances to economic growth, the government is pursuing programs that will enhance the competitiveness of OFWs. In line with this, the government is promoting technical education and training programs for OFWs such as foreign language instruction for Filipino nurses; specialized training for household workers and performing artists; and skills proficiency schemes for information technology (IT) professionals.

Meanwhile, the government addresses the emerging trend towards "localization" and the economic slowdown in host economies by exploring and expanding access to more and better markets for overseas employment.[7] Consistent with this effort, the government, through the Department of Labor and Employment (DOLE) will be sending a two-man mission to Croatia and Slovenia to explore job opportunities for Filipinos and to strengthen labor cooperation between the Philippines and the new republics of Eastern Europe.

➢ Current Transfers

The surplus in current transfers increases.

Net current transfers for January-April 2003 amounted to $210 million, 35.5 percent higher than the level posted in the same period last year (Table 5). The improvement was accounted for by the transfer of income by migrant workers as well as receipts in the form of gifts, grants and donations from individuals and non-governmental institutions.

➢ Capital and Financial Account

The capital and financial account reverses to a deficit.

The capital and financial account for the first four months of the year reversed to a net outflow of $612 million from a net inflow of $1,734 million posted in the same period in 2002. This reflected the cautious investors' sentiment amid a weak global economic outlook. During the review period, the direct investment account reversed to a net outflow from a net inflow while the portfolio investment account posted a substantially lower net inflow.

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

➢ Capital Account

The capital account posts a higher deficit.

The capital account for January-April 2003 posted a higher net outflow of $8 million relative to a net outflow of $5 million in the comparable period last year owing to the increase in the net outflow of migrant's transfers (Table 6).[8]

➢ Direct Investments

Direct investment account reverses to a net outflow following weak global economic outlook.

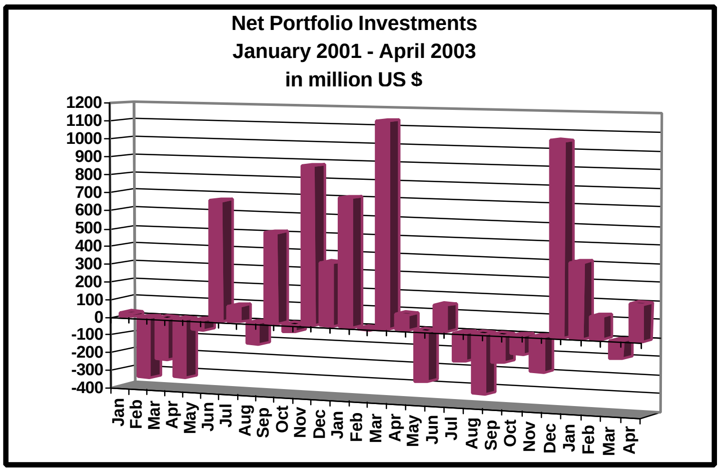
Direct investment account posted a net outflow of $39 million during the first four months of 2003, a turnaround from last year's surplus of $843 million as investors remained in the sidelines due to weak global economic outlook. Non-residents' investments in equity capital in the first four months of the year dipped to $33 million compared to a high of $686 million in the same period last year, with the biggest drop posted in the manufacturing sector. Newly infused capital amounting to only $74 million was substantially below the $694 million posted in the same period last year. The bulk of these investments were mainly channeled to the manufacturing and construction industries as well as financial intermediation services. Also contributing to the weak performance of the direct investment account was the $49 million net outflow in other capital representing net repayment of intercompany loans (Table 7).

➢ Portfolio Investments

The portfolio investment account declines but remains in surplus.

The cautious investors' sentiment was relatively less pronounced in the portfolio investment account, which ended the four-month review period with a $638 million surplus, despite the 48.1 percent contraction in non-residents' investments in both equity and debt securities. However, this was substantially below the $1,919 million surplus realized in the same period last year. The 49.1 percent increase in residents' investment abroad also mitigated the lower net portfolio inflow during the review period (Table 8).

[8] The capital account consists largely of capital transfers. Capital transfers are transactions that involve a change in the stocks of assets of one or both parties and therefore relate to investments. By contrast, current transfers involve transactions that affect the level of disposable income and influence consumption of goods and services.



➢ Other Investments

The net outflow of other investments increases.

During the review period, the other investment account posted a net outflow of $1,203 million, 17.6 percent higher compared with the $1,023 million net outflow registered in the comparable period last year. Largely accounting for the increase in net outflow was the net repayment of loans and withdrawal by non-residents of their foreign currency deposits with local banks. (Table 9).

➢ Reserve Assets

International reserves remain adequate at $16 billion.

The BSP's gross international reserves (GIR) reached $16.21 billion as of end-April 2003. This was slightly higher than the end-December 2002 level of $16.18 billion.

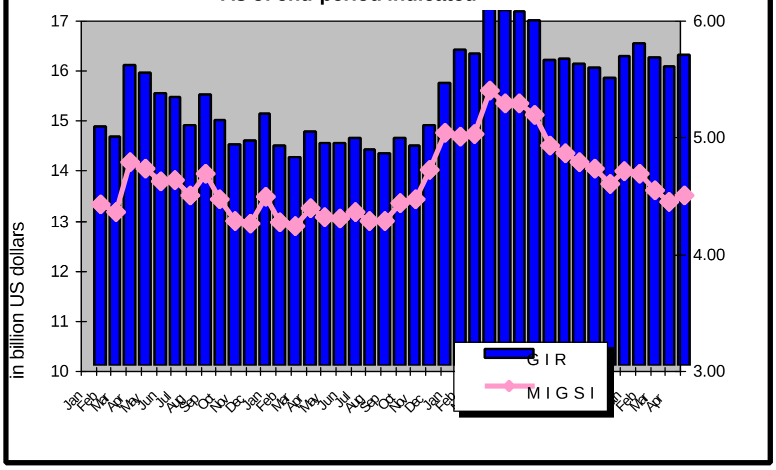
The increase in GIR during the period was due to higher foreign exchange inflows in the form of net deposits by the Treasurer of the Philippines that partly offset the outflows to meet the debt service requirements of the BSP and the National Government.[9]

The BSP's GIR were adequate to cover 4.5 months' worth of imports of goods and payment of services and income. Using other reserve coverage measures, the level of reserves was 2.4 times the amount of the country's short-term external debt based on original maturity or, alternatively, 1.3 times the amount of short-term external debt based on residual maturity.[10]

During the quarter in review, the bulk of reserves consisted of foreign investments (77.8 percent), while the balance was in the form of gold (18.6 percent), foreign exchange (2.8 percent), and combined SDRs and reserve position in the Fund (0.8 percent). In terms of the currency composition of reserves excluding gold, 85.5 percent were in US dollars,

[9] Sources of deposits were mainly from government borrowings, i.e., net proceeds of the RP Global Bond ($489 million) in January; RP Euro Bonds ($322 million) and Zero Coupon Treasury Bills ($194 million) in February.
[10] Refers to outstanding short-term external debt on original maturity basis plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.

7.7 percent in Euros, 3.9 percent in Japanese yen, 1.6 percent in pound sterling and the balance of 1.3 percent in other foreign currencies.



Gross International Reserves
January 2000 - April 2003
As of end-period indicated

➢ Exchange Rate

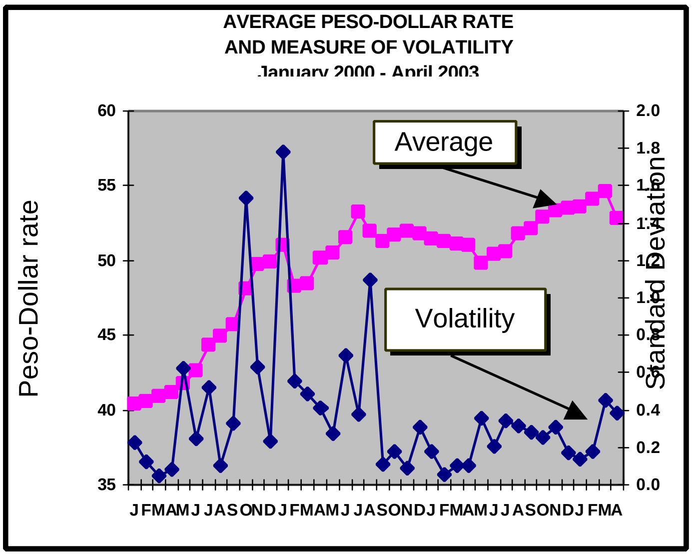
The peso depreciates relative to the previous year's level.

The nominal peso-dollar exchange rate averaged ₱53.76:US$1 in January-April 2003, depreciating by 5.0 percent from the ₱51.19:US$1 average exchange rate in January-April 2002. The depreciation of the peso was due mainly to the surge in corporate demand to settle the rising import bill in the first quarter. Other factors such as concerns over the ballooning budget deficit, spread of the SARS virus in Asia and the conflict in the Middle East, weighed heavily on the peso.

The peso is more volatile.

The peso was more volatile in the first four months of 2003, as indicated by the standard deviation of ₱0.72 compared with the year-ago deviation of only ₱0.21. To address the excessive peso volatility arising from speculative demand particularly in March and avoid the effect on inflationary expectation, the BSP introduced a number of measures.[11] The peso-dollar exchange rate ranged from ₱52.272 to ₱55.075 during the period.

[11] Among the measures implemented by the BSP were: a) the reduction of the allowable overbought position of banks to 2.5 percent of unimpaired capital or US$5 million, whichever is lower, b) limiting the tenor of contracts to a maximum of 6 months, c) imposing appropriate sanctions against banks violating BSP foreign exchange regulations, d) raising the liquidity reserve requirement by one percentage point from 7 percent to 8 percent and e) removing the tiering scheme for banks' short-term deposits under BSP's Reverse Repurchase Facility and Special Deposit Accounts.



Higher nominal depreciation and relatively lower domestic inflation strengthen the peso's external competitiveness against currencies of major trading partners and competitor countries.

Relative to its level in the previous year, the peso's average nominal effective exchange rate (NEER) index[12] for the first four months of 2003 depreciated by 12.6 percent against the currency basket of the country's major trading partners, 10.4 percent against the currency basket of a broad group of competitor countries,[13] and by 12.0 percent against the currency basket of a narrow group of competitor countries.[14] 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 (REER) index,[15] the peso gained external price competitiveness as the REER depreciated by 11.9 percent against the currency basket of the country's major trading partners. Relative to the currencies of countries in both the broad and narrow baskets, the peso's external competitiveness improved as the REER depreciated by 9.6 percent and 13.2 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.

[12] 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.
[13] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia and Hong Kong.
[14] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.
[15] 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	114.35	32.59	64.78	62.13	109.90	171.13
	Feb	15.24	34.46	69.00	65.96	114.69	181.02
	Mar	15.37	35.38	71.71	66.42	117.75	187.98
	Apr	15.01	35.60	73.65	64.74	118.19	191.46
	May	14.95	35.54	73.91	64.38	118.52	194.50
	Jun	14.82	35.00	72.67	64.37	118.10	192.44
	Jul	14.35	33.53	68.91	62.91	114.36	182.79
	Aug	14.39	31.77	62.11	63.14	108.47	165.76
	Sep	14.45	32.50	63.90	63.39	109.93	168.92
	Oct	14.42	33.29	66.77	63.40	111.59	175.46
	Nov	14.48	33.66	68.61	63.98	114.49	178.93
	Dec	14.61	31.04	65.60	64.87	110.46	170.57
Ave.	**Jan-Dec**	**14.70**	**33.70**	**68.47**	**64.14**	**113.87**	**180.08**
2002	Jan	14.74	32.99	65.99	65.88	113.22	174.31
	Feb	14.87	32.88	65.42	66.31	110.28	170.85
	Mar	14.84	32.69	64.38	66.01	109.93	168.33
	April	14.81	32.28	62.80	65.65	108.74	163.48
	May	14.87	32.17	62.40	66.02	108.92	165.15
	June	14.45	31.02	59.78	64.29	106.01	159.66
	July	14.06	30.81	60.27	62.78	106.30	161.19
	Aug	13.83	30.28	59.10	61.92	104.80	159.11
	Sep	13.76	30.27	58.92	61.60	103.94	157.23
	Oct	13.63	30.25	58.88	60.90	102.75	155.39
	Nov	13.38	29.77	58.19	59.84	102.05	152.14
	Dec	13.29	29.54	57.49	59.68	100.80	150.05
Ave.	**Jan-April**	**14.82**	**32.71**	**64.65**	**65.96**	**110.54**	**169.24**
Ave.	**Jan-Dec**	**14.21**	**31.24**	**61.13**	**63.41**	**106.48**	**161.41**
2003	Jan	13.02	29.24	57.14	58.35	100.72	147.64
	Feb	12.87	29.05	56.61	57.92	98.83	146.17
	Mar	12.74	29.03	56.18	57.07	98.62	145.53
	April	13.17	29.94	57.68	59.03	101.68	148.22
Ave.	**Jan-April**	**12.95**	**29.31**	**56.90**	**58.09**	**99.96**	**146.89**

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.