BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-FEBRUARY 2003

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➢ Overall Position

The BOP yields a surplus, although lower than last year.

For the first two months of 2003, the country's balance of payments (BOP) yielded a surplus of $55 million, albeit lower than the $654 million surplus posted in the comparable period last year. The weakening of the overall BOP position was due to the lower current account surplus which offset the narrowing of the deficit in the capital and financial account (Table 1).

Balance of Payments (US$ m)

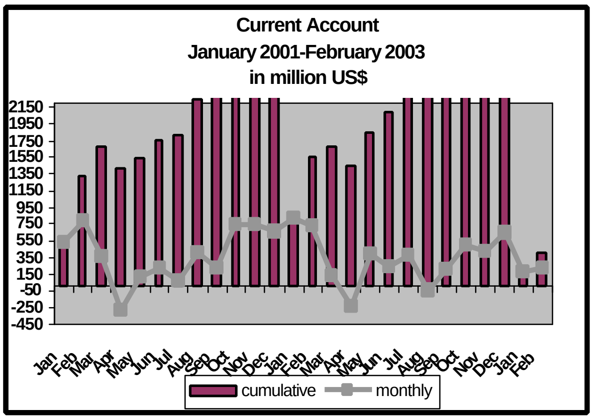
	January-February		
	2002	**2001**	**Growth Rate (%)**
I. Current Account	409	1553	-73.7
II. Capital & Fin'l.	-208	-576	63.9
III. Net Unclassified	-146	-323	54.8
IV. Overall BOP *	**55**	**654**	**-91.6**

* Totals may not add up due to rounding.

➢ Current Account

The current account remains in surplus.

The current account yielded a surplus of $409 million in January-February 2003, although lower than the $1,553 million surplus posted in the comparable period last year. This can be traced to the weaker performance of the trade-in-goods account as it deteriorated to a deficit from a surplus, coupled with the increase in the net services outflow. Thus, even with higher net inflows in the income account, the current account declined by 73.7 percent from the previous year's level.



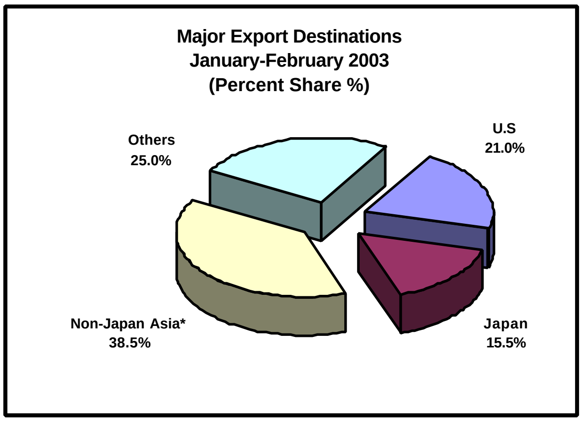
➢ Trade-in-Goods

Exports expand moderately as the global economy continues to be clouded by uncertainties.

Exports of goods for the first two months of the year posted a modest growth of only 3.2 percent to reach $5,291 million, in stark contrast with the strong performance of imports of goods as it soared by 31.7 percent to $5,557 million.[1] This development led to a trade-in-goods deficit of $266 million, a turnaround from the surplus of $904 million in the same period last year. The faster rate of growth in imports was due largely to inventory build-up for raw materials and oil products in anticipation of the possible supply disruption caused by the tension in the Middle East. Shipments of capital goods likewise expanded, spurred by the strong demand for telecommunication equipments with the entry of new player in the mobile phone business.

Meanwhile, the moderate growth in exports of goods was brought about by the weak demand from the country's major trading partners, as the global economy continued to be clouded by uncertainties.

However, the increasing intra-regional trade in Asia, absorbed the slack in demand from traditional trading partners particularly the U.S. It should be noted that the growth in intra-regional trade was still anchored on semiconductor exports.[2] For January-February 2003, the combined market share of these Asian economies (Hong Kong, Taiwan, Singapore, Malaysia, South Korea, China, and Thailand) at 38.5 percent exceeded the combined share of the U.S. (21.0 percent) and Japan (15.5 percent).

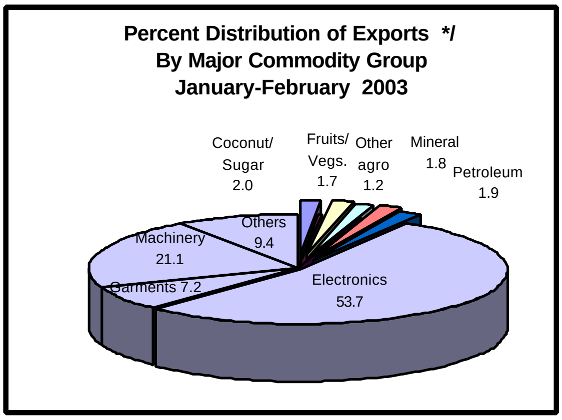


' Comprised of China, Hong Kong, South Korea, Singapore, Taiwan, Malaysia and Thailand.

During the period in review, electronics, machinery and transport equipment, and garments remained to be the country's leading export earners.

[1] Per BPM5

[2] The main reasons for the increasing share of Asia were: a) the relocation of multinational electronics firms to Asia for greater cost efficiency and b) the increasing level of integration among Asian subsidiaries in raw material procurement, production processes and marketing.



* Computed based on NSO data, net of special transactions

Electronics exports continue to recover.

a) *Electronics.* The rebound in the electronics sector continued in the first two months of the year as total exports grew by $4 million or 0.2 percent in contrast with the 13.5 percent decline in the same period last year (Table 1.1). The gradual recovery in electronics exports was also reflected in the book-to-bill ratio in February which is nearing the demand-supply unity mark, after posting below unity ratios since September last year. The strengthening of the ratio and the steady rise in imported inputs provides some degree of optimism on the industry outlook.[3]

Driving the electronics exports is the strong back-end semiconductors operations, assembly and test centers. Close to 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 motor vehicles, as well as servo controls, which help operate aircraft wings, are also being manufactured in the country.

[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 indicates that demand exceeds supply.

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 competitive 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.

Machinery and transport equipment remains a major export driver, next to electronics.

b) *Machinery and Transport Equipment*. Exports of machinery and transport equipment continued to be a major export earner, next to electronics, expanding by 2.7 percent to $1,097 million in the first two months of 2003, albeit lower than the previous year's 11.0 percent growth. Major contributory factors were the increased exportation of input/output peripheral units, other parts and accessories of motor vehicles and other vessels for transport of goods and passengers.

Exports of garments sustain its recovery.

c) *Garments.* Garments sustained the recovery it posted since June last year, recording a year-on-year expansion rate for the first two months of 2003 at 15.6 percent to reach $377 million, reversing last year's contraction of 18.1 percent. Behind this positive development were the twin strategies to tap the high-end segment in traditional quota-driven markets and to increase access to non-quota markets such as Japan, United Arab Emirates, Hong Kong and Mexico. With the impending quota phase-out in 2004, it is imperative for the local garments and textile industry to shift to high-value items and veer away from traditional markets like the U.S. which is saturated with garments and textile items from low cost producing countries. 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 grow vigorously.

For the first two months of 2003, imports of goods surged by 31.7 percent to reach $5,557 million.[4] The robust upturn in imports was attributed to three major developments: a) the inventory build-up for raw materials and oil products in anticipation of the war in Iraq; b) the continued upgrading by local companies of their computer systems and

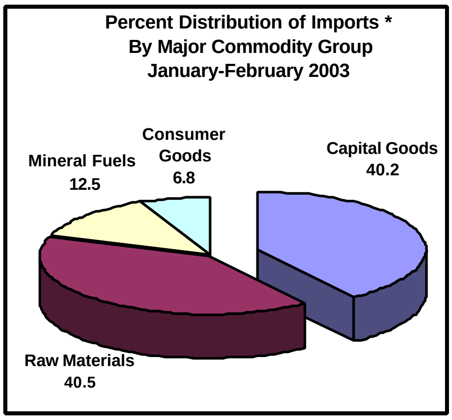
[4] Per BPM5 concept

telecommunication technologies; and c) the increased local demand for Asian and sports utility vehicles (Table 1.2).

Imports of raw materials and intermediate goods—which comprised about 40.5 percent of total imports—expanded by 20.3 percent to $2,245 million. The uptick was due to increased demand for materials/accessories for the manufacture of electrical equipment, chemicals, specifically chemical compounds and artificial resins, iron and steel and textile yarn, fabrics and made-up articles.

Meanwhile, imports of capital goods jumped 34.5 percent to $2,228 million, during the review period, a reversal of the 9.5 percent contraction in the comparable period in 2002. The expansion was due to higher importation of telecommunications equipment, office and EDP machines, and power generating and specialized machines by local companies.

Imports of mineral fuels and lubricants, comprising about 12.5 percent of total imports, surged 78.4 percent to reach $694 million during the period in review, with the increase in both volume and price of petroleum crude. The volume of petroleum crude imports grew by 38.1 percent to 16.72 million barrels in January-February 2003 from 12.11 million barrels in the comparable period last year. Meanwhile, the average price of petroleum crude during the review period rose sharply to $29.11 per barrel from $18.84 per barrel during the same period last year. The hike in the volume of petroleum crude was attributed to the stockpiling of oil products by local oil companies while price developments reflected the uncertainty of oil supply in the international market given the situation in Iraq.



* Computed based on NSO data, net of special transactions

➢ Trade In Services

The deficit in the trade-in-services

The trade-in-services account for January-February 2003 posted a net outflow of $242 million, 63.5 percent higher compared to the level in the *account widens due to the decline in receipts and rise in payments.*

comparable period in 2002. The deterioration was due to the combined effects of the decline in services receipts and the rise in services payments. Notably, the net inflow from travel declined by almost 40 percent to $110 million, due to external and domestic factors such as the contraction in global income and security concerns on the number of inbound travelers. However, the government thru its aggressive promotion abroad of the "Visit Philippines 2003" and "Volunteer 12 Program", is expected to revitalize tourism in the country.[5] Meanwhile, the increase in the net outflow of transportation services was accounted for by the increase in freight outlays for imports of goods (Table 3).

➢ Income

The income account realizes a higher surplus due mainly to increase in OFW remittances.

Net inflows in the income account for January-February 2003 grew by 11.4 percent to $813 million due to the combined effect of higher OFW remittances and lower net outflow of investment income. OFW remittances expanded by 5.5 percent to $1,141 million relative to level in January-February 2002.[6] The increase in remittances can be partly attributed to the slight increase in deployment of OFWS during the period in review to 165,907 from last year's level of 165,198, as well as the increase in the deployment of higher-paid OFWs such as teachers, architects, clerks and caregivers. Major deployment destinations for these OFWs were the Americas, Middle East, Asia and Europe. Meanwhile, the bulk of OFW remittances, which comprised about 90 percent of gross income receipts, came from the U.S., Saudi Arabia, Japan, Hong Kong, U.K. and Singapore.[7]

In response to 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 expected from the increased deployment of medical workers and caregivers in countries like the U.K. and the U.S.

Meanwhile, the investment income account continued to post a net outflow of $328 million, although lower than the year-ago level. This was attributed largely to the decline in interest payments on debt with the continued drop in interest rates (Table 4).

➢ Current Transfers

[5] The "Visit Philippines 2003" aims to showcase in North America, Asia and Europe, the country's tourists attractions. On the other hand, the "Volunteer 12 Program" will mobilize and tap all overseas Filipinos to encourage friends, relatives and associates to visit the country.
[6] Revised to reflect late reports of banks and after audit revisions.
[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.

The surplus in current transfers increases.

Net current transfers for January-February 2003 amounted to $104 million, 55.2 percent higher than the level registered in the same period in 2002 (Table 5). The improvement was due to the higher transfers from 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 remains in deficit but shows improvement.

The capital and financial account for the first two months of the year posted a net outflow of $208 million, 63.9 percent lower than the net outflow of $576 million in the same period in 2002. This developed on account of the sustained net inflows of portfolio investments combined with the lower deficit in other investments, which more than offset the weak performance of the direct investment account.

➢ Capital Account

The capital account posts a higher deficit.

The capital account for January-February 2003 posted a higher net outflow of $5 million relative to a deficit of $3 million in the comparable period last year owing to the increase in the net outflow of migrant's transfers (Table 6).[9]

➢ Direct Investments

Direct investment account reverses to a net outflow.

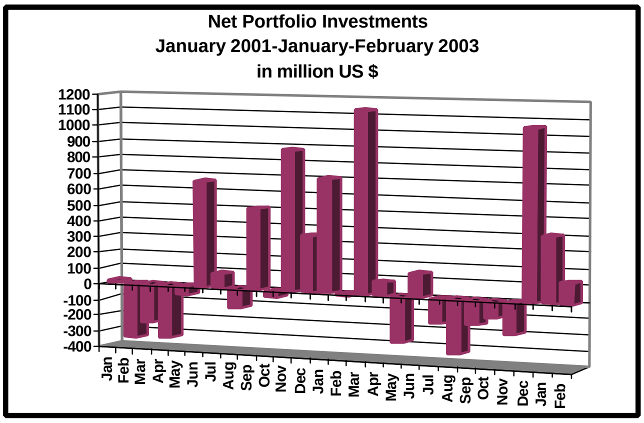
Transactions under the direct investment account were very minimal in the first two months of the year, reflecting the cautious mood among investors brought about by the weak prospects for global recovery and geopolitical uncertainties. The direct investment account posted a net outflow of $8 million, a reversal from the net inflow of $203 million in the same period last year. Non-residents' investments in equity capital in the first two months of the year was down to only $4 million compared to a high of $69 million last year. This can be traced to the $12 million reduction in equity participation in manufacturing and financial services that almost offset the $19 million infusion of capital in other manufacturing activities as well as construction activities (Table 7).

➢ Portfolio Investments

[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.

The portfolio investment account declines but remains in surplus.

The portfolio investments account in the first two months of the year registered a lower net inflow of $541 million compared to the net inflow of $697 million last year. The 22.4 percent decline was due mainly to the higher investments in foreign-issued debt securities by resident banks, which negated the increase in non-residents' investments in resident issued foreign-denominated debt securities particularly by the National Government. The government issued a total of $822 million worth of foreign currency-denominated bonds consisting of $500 million RP Global Bonds issued in January and $322 million RP Euro Bonds in February, proceeds of which were earmarked for budgetary support. (Table 8).



➢ Other Investments

The net outflow of other investments declines.

The net outflow in the other investments account was halved from $1,473 million to $736 million during the review period. This developed largely on account of the withdrawal in currency holdings and deposits abroad of local banks, which were used to fund portfolio investments (Table 9).[10]

➢ Reserve Assets

GIR remain steady at $16 billion.

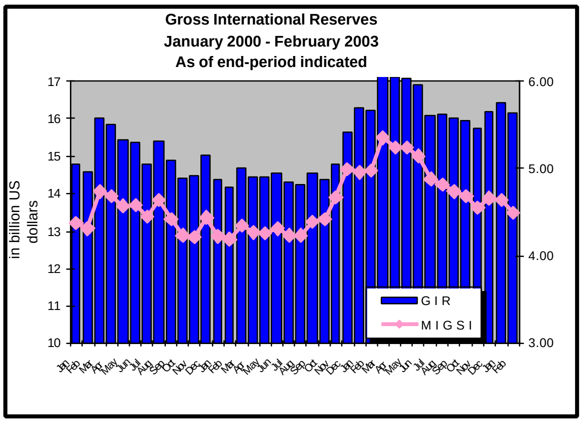
The BSP's gross international reserves (GIR) reached $16.1 billion as of end-February 2003. This was slightly lower relative to the end-December 2002 level of $16.2 billion.

The decrease in GIR during the period was due to higher outflows to meet the debt service requirements of the BSP and the National Government that partly offset the foreign exchange inflows in the form of net deposits by the Treasurer of the Philippines.[11]

[10] The withdrawal in currency holdings and deposits abroad of a resident (treated as an inflow in the BOP) was matched by an increase in portfolio investment by a resident in a foreign-issued bonds and notes (treated as an outflow in the portfolio investment account).
[11] 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.

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 2.9 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]

During the review period, the bulk of reserves consisted of foreign investments (78.1 percent), while the balance was in the form of gold (18.3 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, 88.2 percent were in US dollars, 5.4 percent in Euros, 3.7 percent in Japanese yen, 1.7 percent in pound sterling and the balance of 1.0 percent in other foreign currencies.



➢ Exchange Rate

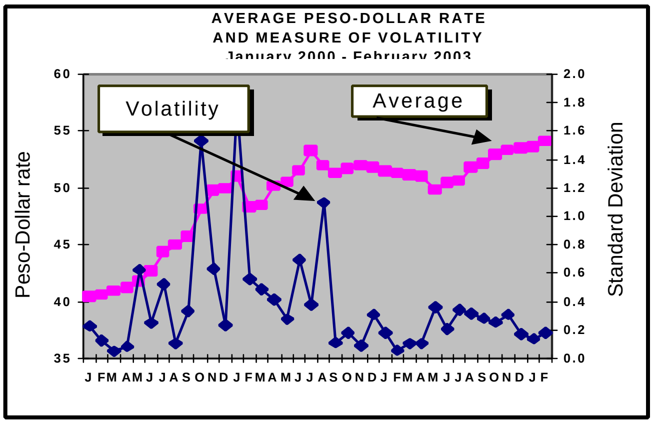
The peso depreciates relative to the previous year's level.

The nominal peso-dollar exchange rate averaged ₱53.82:US$1 in January-February 2003, depreciat5ing by 4.8 percent from the ₱51.35:US$1 average exchange rate in January-February 2002. The depreciation of the peso was caused largely by increased corporate demand to pay for imports, which rose significantly during the review period. Likewise, the fiscal deficit and tension in the Middle East weighed on the peso.

The peso is more volatile.

The peso was more volatile in the first two months of 2003, as indicated by the standard deviation of ₱0.30 compared with the year-ago deviation of only ₱0.15. The peso-dollar exchange rate ranged from ₱53.254 to ₱54.382 during the period.

[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.



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[13] for January-February 2003 depreciated by 12.9 percent against the currency basket of the country's major trading partners, 11.8 percent against the currency basket of a broad group of competitor countries,[14] and by 13.6 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 (REER) index,[16] the peso gained external price competitiveness as the REER depreciated by 12.1 percent against the currency basket of the country's major trading partners. Similarly, in the case of countries in both the broad and narrow baskets, the peso's external competitiveness improved as the REER depreciated by 11.1 percent and 15.1 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	
			Broad[2]	Narrow[3]		Broad[2]	Narrow[3]
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	14.90	34.05	68.65	66.38	117.01	176.38
	Feb	15.04	33.92	68.04	66.82	113.96	172.85
	March	15.01	33.68	66.91	66.52	113.53	170.16
	April	14.97	33.21	65.25	66.14	111.99	165.14
	May	15.03	33.08	64.79	66.48	112.12	166.55
	June	14.59	31.87	61.99	64.70	108.85	160.29
	July	14.19	31.68	62.46	63.13	109.29	162.00
	Aug	13.96	31.14	61.31	62.29	107.77	160.03
	Sep	13.89	31.14	61.16	61.95	106.77	158.15
	Oct	13.75	31.13	61.17	61.24	105.62	156.47
	Nov	13.50	30.64	60.44	60.15	104.93	153.22
	Dec	13.40	30.39	59.70	59.98	104.27	151.14
Ave.	**Jan-Feb**	**14.97**	**33.99**	**68.35**	**66.60**	**115.49**	**174.62**
Ave.	**Jan-Dec**	**14.35**	**32.16**	**63.49**	**63.81**	**109.68**	**162.70**
2003	Jan	13.12	30.09	59.31	58.60 e/	103.91 e/	148.92 e/
	Feb	12.96	29.89	58.76	58.38 e/	101.47 e/	147.46 e/
Ave.	**Jan-Feb**	**13.04**	**29.99**	**59.04**	**58.49**	**102.69**	**148.19**

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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