BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY - JULY 2003

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➢ Overall Position

BOP rebounds in July as geopolitical uncertainties diminished and SARS was put under control.

The balance of payments (BOP) recorded a strong turnaround in July to a surplus of $377 million after successive months of deficit as geopolitical tensions eased up and SARS was put under control. In July, the capital and financial account recorded a surplus even as the current account surplus weakened from its level in July last year. Consequently, the BOP deficit for the first seven months of the year narrowed down to $239 million, although a reversal from the $1,084 million surplus posted in January-July 2002. (Table 1).

Balance of Payments (US$ m)

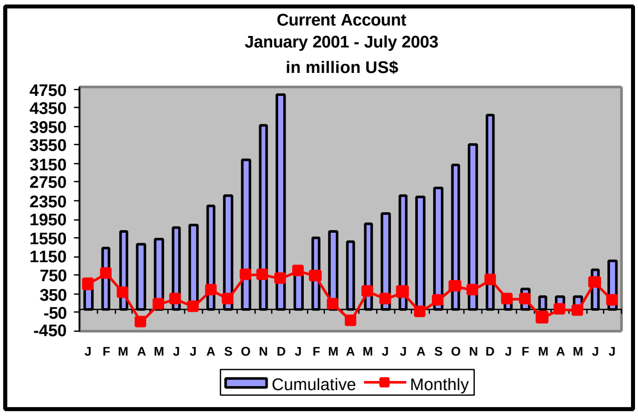
		January-July 2003	January-July 2002	Growth Rate(%)
I.	Current Account	1064	2466	-56.9
II.	Capital & Fin'l Account	-2083	504	-513.3
III.	Net Unclassified Items	780	-1886	141.4
IV.	**Overall BOP**	**-239**	**1084**	**-122.0**

* Totals may not add up due to rounding.

➢ Current Account

The current account sustains its surplus position.

Bolstered by the continued strength in the income account, the current account registered a $1,064 million surplus in January-July 2003, albeit, lower compared to the $2,466 million surplus posted in last year's comparable period. This development was more than enough to offset the reversal of the trade-in-goods account to a deficit and the net outflow in the services account. Higher net inflows from current transfers also helped the current account sustain its surplus position.



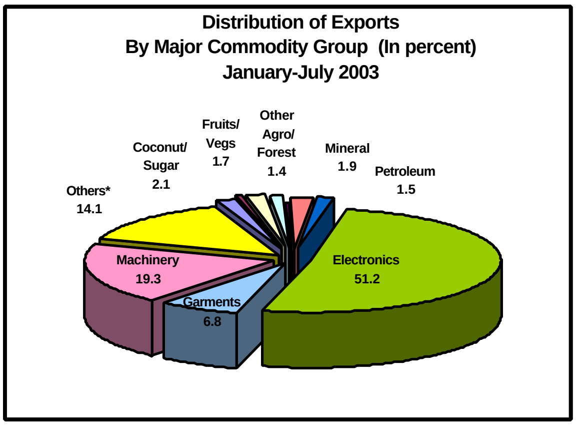
➢ Trade-in-Goods

The deficit in trade-in-goods reflects the 1st quarter surge in imports.

The trade-in-goods balance for the first seven months of 2003 reversed to a deficit of $1,534 million from a surplus of $197 million in the same period last year due mainly to the first quarter stockpiling of raw materials during the height of the tension in Iraq.[1] Imports of goods during the review period expanded by 9.3 percent to reach $21,060 million in contrast to the slowdown in exports.

Export growth slides in July.

Exports continued to exhibit mixed trends, trekking upwards in the first three months of the year followed by dips in April and May. The June rebound appeared temporary as exports fell anew in July to 8.8 percent. The decline in July pulled the cumulative export growth down to less than half a percent during the first seven months of 2003 compared to 7.9 percent during the same period a year ago.[1]



* Includes special transactions & re-exports.
Source: National Statistics Office (NSO)

Electronics exports remain sluggish.

a) *Electronics*. Exports of electronics, which comprised more than 50 percent of total exports declined by 3.7 percent in the first seven months to reach $10,255 million.[2] This downtrend was a reversal from the growth of 9.7 percent in the same period last year. Exports of electronics started to drop in April, largely on account of inventory clearing and could be gleaned from the book-to-bill ratio, which has remained below the unity mark in the first seven months of the year.[3] However, the electronics industry is likely to recover in the months ahead given an improving global economic outlook.

[1] Based on BPM5 concept
[2] In March 2003, the National Statistics Office (NSO) expanded the coverage of electronics exports from four (4) to nine (9) major classifications as follows: 1) components/devices (semiconductors), 2) electronic data processing, 3) office equipment, 4) consumer electronics, 5) telecommunications, 6) communication/radar, 7) control and instrumentation, 8) medical/industrial instrumentation and 9) automotive electronics. The BSP has not yet adopted said classification as of date. Some of the electronics products included under the new classification are covered under machinery and transport equipment.
[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.

Exports of machinery and transport equipment drops.

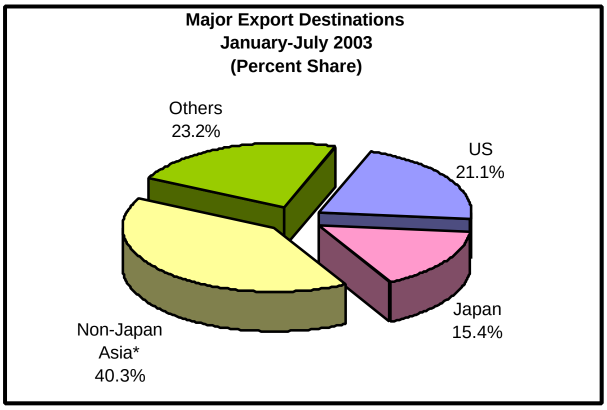
b) *Machinery and Transport Equipment*. Exports of machinery and transport, the second largest export earner failed to recover from a flat growth in the first half of 2003 and began the second half of 2003 with a 10.9 percent decline. The decline was in line with the movement in electronics since about 56 percent of exports from this commodity group consisted of input/output peripheral units of computers. This development led to the 1.8 percent decrease in export earnings in the first seven months of the year to reach $3,861 million from $3,931 million last year.

Garments exports post a modest seven-month expansion.

c) *Garments*. Exports of garments made a strong head start, achieving a double-digit growth in the first quarter with the annual quota almost fully utilized. Thus, a marked slowdown was observed in the recent months. Aggregate sales from garments reached $1,358 million, 5.2 percent higher than last year's level. This was in contrast to the 10.2 percent contraction in the same period last year. The industry expects to achieve a 5 percent annual growth for 2003 as it continued to shift to the high-end segment in traditional quota-driven markets. It has also increased its access to non-quota markets such as Japan, United Arab Emirates, Hong Kong and Mexico. These efforts are on top of the comprehensive program set in the Garments Industry Transformation Plan (GITP) that focuses on cost reduction, productivity enhancement, market and product development, trade facilitation and re-engineering of the garments industry to be competitive in a quota-free environment in 2005.

Growing intra-Asian trade underscores the importance of non-Japan Asia as a major export destination.

The growing intra-Asian trade dominated by non-Japan Asia continued to absorb the slack in demand from major traditional markets such the U.S. and Japan. Among the non-Japan Asian countries, Hong Kong, and Malaysia were the leading export destinations garnering more than one-third of the non-Japan Asia market share. However, the People's Republic of China remained an important growth area as its demand for Philippine-made goods continued to expand robustly at 40.0 percent in the first seven months of 2003. Behind this development was the relocation to Asia of some electronics manufacturing firms affiliated with local electronics producers to take advantage of the region's potentially large consumer market. Moreover, this move was undertaken to reduce manufacturing costs as production processes and marketing systems that have become increasingly integrated became geographically closer to one another.



* Comprised of China, Hong Kong, South Korea, Singapore, Taiwan, Malaysia and Thailand.
Source: National Statistics Office

Imports grow at decelerating pace.

Imports of goods in the first seven months reached $21,060 million, with the bulk of the expansion observed in the first quarter due to US-Iraq war concerns, and followed by a gradual contraction in the second quarter with the resolution of the US-Iraq conflict. There was a modest pick up in July with a year-on-year growth of less than 1 percent, which brought the seven-month performance to a cumulative growth of 9.3 percent (Table 2.2).[4]

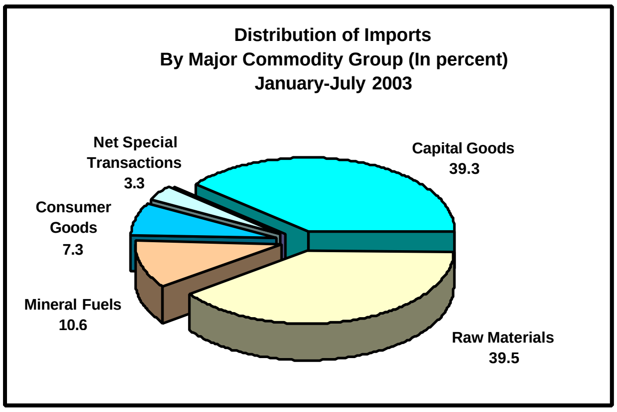
Imports of raw materials and intermediate goods, which comprised almost 40 percent of total imports reached $8,611 million in January-July 2003, exhibiting an almost a flat growth from last year's level. However, this was an improvement from the 8.7 percent decline posted in the same period last year. The commodities that largely contributed to the increase were chemical compounds and artificial resins, iron and steel, non-ferrous metals and paper and paper products—basic raw materials that could indicate a broad-based industry growth in the coming months.

Imports of capital goods, which cornered close to 40 percent of total imports, grew by 13.8 percent during the review period to $8,565 million. The growth compared favorably with last year's performance of 9.2 percent and fuelled largely by purchases by the telecommunications sector, the most robust industry in recent years. This outperformed the increases in the procurement of land transport equipment excluding passenger cars and motorized cycles and power generating and specialized machines.

Imported mineral fuels and lubricants, comprising nearly 11 percent of total imports performed strongly, growing by 21.1 percent to $2,303 million during the first seven months of 2003. This was mainly accounted for by the increase in both the average price and volume of petroleum crude, at 20.0 percent and 8.4 percent, respectively. The

[4] Based on BPM5 concept

average price of petroleum crude went up to $27.55 per barrel from $22.96 per barrel during the same period in 2002. At the height of the US-Iraq conflict, the average price of petroleum crude peaked at $31.55 per barrel in March but subsequently eased to $26.62 per barrel in July. Meanwhile, the volume of imported petroleum crude rose to 58.5 million barrels in the first seven months of the year from 54.0 million barrels last year, with the bulk of the volume acquired in the first quarter when the government directed oil companies to maintain a buffer supply for at least 30 days for big oil players and 15 days for small oil players as a contingency measure to ensure adequate domestic oil supply.[5]



Source: National Statistics Office

➢ Trade-in-Services

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

The trade-in-services account posted a net outflow of $948 million, 47.4 percent higher than the year-ago level of $643 million. The widening of the deficit was due to the decline in net travel receipts and the rise in import-related freight payments in the first seven months of the year. Net inflows from travel were 32.0 percent lower at $395 million as threat of terrorism and fears of the SARS epidemic dampened global tourism. Tourist arrivals from countries such as the U.S., Japan, Korea, Hong Kong, Taiwan, Australia and Singapore registered the highest decline, which contributed to the 10.2 percent decline of total tourist arrivals to 1,028 thousand and 26.2 percent decline in travel receipts during the seven-month period. Likewise, resident's travel expenditures abroad dropped by 19.9 percent.

Meanwhile, higher freight expenditures following the first quarter surge in imports of goods led to increased net outflows of net transportation services during the review period. Another contributory factor was the shift in the use of foreign carriers for shipment of goods following the decision of some domestic shipping companies to pull out of international routes due to high maintenance costs.

[5] 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.

➢ Income

OFW remittances remain strong.

The income account increased by 20.3 percent at $3,182 million, driven mainly by the sustained growth in Overseas Filipino Workers' (OFWs) remittances. In the first seven months of the year, remittances from OFWs rose by 6.0 percent to $4,521 million, even as total deployed overseas workers slid by 5.3 percent.[6] The continued hiring of higher-paid professionals such as engineers, caregivers, performing artists, clerks and sales workers made up for the decline in the number of deployed workers, specifically land-based workers which fell by 8.0 percent due to the SARS outbreak, the temporary suspension of deployment in Hong Kong because of the minimum wage cut issue and the uncertainties brought about by the US-Iraq conflict. By contrast, the deployment of sea-based workers remained unaffected by these developments as shown by the 4.3 percent increase during the review period. Lower net outflows for dividends and interest repayments due in turn to the decline in global interest rates also contributed to higher net receipts in the income account.

➢ Current Transfers

The current transfers account posts a higher surplus.

Net current transfers for the first seven months of 2003 realized a higher surplus of $364 million. The 36.3 percent improvement was accounted for by the increase in transfer of income by migrant workers coupled with receipts in the form of gifts, grants and donations from individuals and non-governmental institutions (Table 5).

➢ Capital and Financial Account

The capital and financial account reverses to a deficit.

The capital and financial account reversed to a net outflow of $2,083 million in January-July 2003 from a net inflow of $504 million posted in the same period in 2002. The deterioration resulted from the weak performance of the direct, portfolio and other investment accounts reflecting the still cautious stance of investors.

➢ Capital Account

The capital account registers a higher net outflow.

The capital account for the first seven months of the year posted a higher net outflow of $13 million relative to a net outflow of $9 million in the comparable period last year owing to the increased net outflow of migrants' transfers (Table 6).[7]

[6] Of the 529,848 Filipino workers deployed abroad for the period January-July 2003 based on Philippine Overseas Employment Association's (POEA) data on rehire and newly hired OFWs, 401,127 were land-based workers and 128,721 were sea-based workers.

[7] The capital account consists largely of capital transfers. Capital transfers are transactions that involve the 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.

➢ Direct Investments

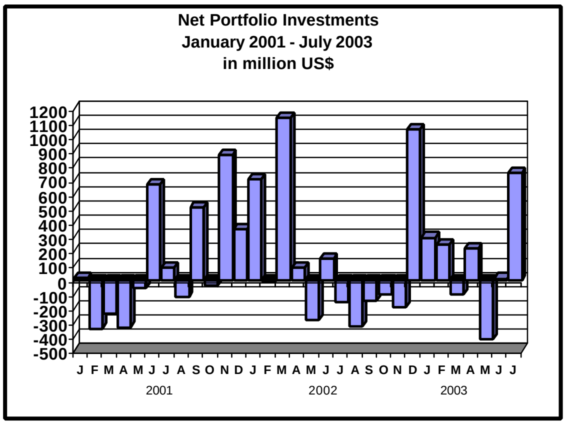
The slowdown in direct investments continues due to the absence of firmer signals of global economic recovery.

The direct investment account for the first seven months of 2003 weakened significantly as non-residents investments in equity capital plunged to $139 million compared to $760 million in the comparable period last year. The absence of solid indications of a sustained global recovery may have prompted investors to put on hold their expansion plans particularly in the manufacturing sector, which accounted for the largest drop in equity infusion. Further cutting down investments was the $62 million net outflow in the other capital, representing net repayment of intra-company loans (Table7).

➢ Portfolio Investments

The portfolio investments account declines but remains in surplus.

Despite the persistently fragile global economic recovery, the portfolio investment account in the review period managed to post a net inflow of $1,005 million, although lower than the $1,280 million realized in the first seven months of 2002. The 21.5 percent drop was attributed to the 55.3 percent contraction in non-resident investments in equity securities on account of weak corporate profits, inducing the shift of funds towards fixed-income debt instruments, which climbed by 65.3 percent during the seven-month period. Also contributing to the weak performance of this account was the significant increase in residents' investments, particularly local banks, in non-residents' debt instruments (Table 8).



➢ Other Investments

The net outflow of other investments increases.

The outflow in the other investment account registered a higher outflow of $3,085 million in the first seven months of 2003 as compared to the year-ago level of $1,640 million. Accounting for the substantial widening of the net outflow was the net repayment of loans by local banks and the National Government (Table 9).

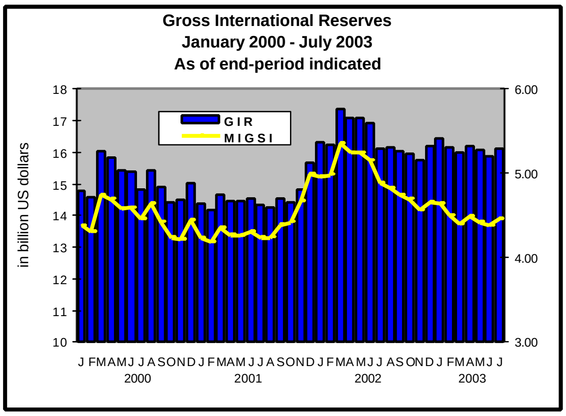
➢ Reserve Assets

International reserves remain sufficient.

The BSP's gross international reserves (GIR) as of end-July 2003 remained adequate at US$16.1 billion. This was slightly lower than the end-December 2002 level of $16.2 billion. The decline in reserves was due mainly to drawdown from reserves to service debt requirements of the National Government and the BSP.

The BSP's GIR were adequate to cover 4.5 months' worth of imports of goods and services and income. Using other reserve coverage measures, the level of reserves was 2.6 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.[8]

During the review period, the bulk of reserves consisted of foreign investments (76.8 percent), while the balance was in the form of gold (19.4 percent), foreign exchange (3.0 percent), and combined SDRs and reserve position in the Fund (0.8 percent). In terms of currency composition of reserves excluding gold, 83.8 percent were in US dollars, 9.4 percent in Euros, 4.0 percent in Japanese yen, 1.6 percent in pound sterling and the balance of 1.2 percent in other foreign currencies.



➢ Exchange Rate

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

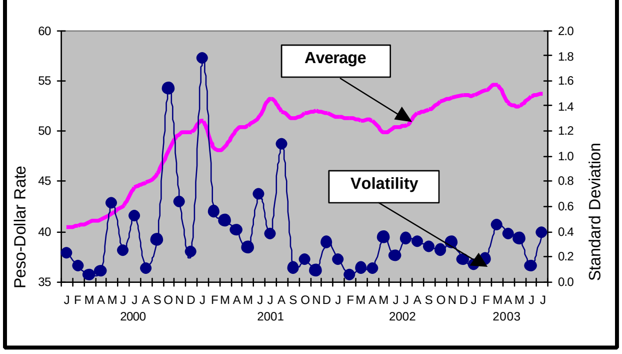
The nominal peso-dollar exchange rate averaged ₱53.52/US$1 in January-July 2003, depreciating by 5.1 percent from the P50.80/US$1 average exchange rate in January-July 2002. The depreciation of the peso reflected mainly the surge in corporate demand by importers in the first quarter due to the US-Iraq conflict, which continued in the second quarter when SARS threatened the

[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.

world economy.

The peso becomes more volatile.

The peso was more volatile during the first seven months of the year, as indicated by the higher standard deviation of ₱0.72 compared with the previous year's level of ₱0.57. In response, the BSP implemented a number of measures to curb the excessive peso volatility arising from speculative demand and to pre-empt possible impact on inflationary expectation.[9] The peso-dollar exchange rate ranged from ₱52.021/US$1 to ₱55.532/US$1 during the period.



AVERAGE PESO-DOLLAR RATE AND MEASURE OF VOLATILITY
January 2000 - July 2003

Higher nominal depreciation and relatively lower domestic inflation strengthen the peso's external competitiveness.

Relative to the previous year's level, the peso's average nominal effective exchange rate (NEER) index[10] for the first seven months of 2003 depreciated by 12.1 percent against the currency basket of the country's major trading partners, 9.3 percent against the currency basket of a broad group of competitor countries,[11] and by 10.9 percent against the currency basket of a narrow group of competitor countries.[12] This was due to the larger depreciation of the peso against the U.S. 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,[13] the peso gained external price competitiveness as the REER depreciated by 11.2 percent against the currency basket of the country's major trading partners. Relative to the countries in both the broad and narrow baskets, the peso's external competitiveness also improved as the REER depreciated by 8.2 percent and 11.8 percent, respectively, due mainly to the higher nominal depreciation of the peso and the relatively lower

[9] 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 forward 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.
[10] 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 euro and the British pound. Major trading partners include the U.S., Japan, European Monetary Union and the U.K.
[11] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Thailand, Indonesia and Hong Kong.
[12] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.
[13] The REER index is derived from the NEER index by adjusting for inflation differentials.

domestic inflation vis-à-vis those of the countries whose currencies are included in the broad and narrow baskets.

EFFECTIVE EXCHANGE RATE INDICES OF THE PESO
For periods indicated

		NEER			REER		
			CC			CC	
		MIC[1/]	Broad[2/]	Narrow[3/]	MIC[1/]	Broad[2/]	Broad[3/]
2001	Jan	14.35	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
	Apr	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
	Jun	14.45	31.02	59.78	64.29	106.01	159.66
	Jul	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-Jul**	**14.66**	**32.12**	**63.00**	**65.28**	**109.06**	**166.14**
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
	Apr	13.17	29.94	57.68	59.03	101.68	148.22
	May	12.95	29.42	56.27	58.13	100.71	147.23
	Jun	12.71	28.65	54.36	57.56	99.79	144.84
	Jul	12.74	28.56	54.52	57.85	100.56	145.93
Ave.	**Jan-Jul**	**12.89**	**29.13**	**56.11**	**57.99**	**100.13**	**146.51**

1/ Major trading countries: USA, Japan, European Monetary Union (EMU) 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.