BALANCE OF PAYMENTS DEVELOPMENTS
JANUARY-MARCH 2003

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➢ Overall Position

Adverse external and domestic developments weakened the BOP position.

The geopolitical uncertainties caused by tension in Iraq and domestic concerns (i.e., widening fiscal deficit, isolated bombings in the South and fear of FATF sanctions) influenced significantly the outcome of the country's balance of payments (BOP) position as it posted a deficit of $557 million in March, wiping out the $55 million surplus recorded in the first two months of the year. This brought the cumulative BOP position for the first quarter of the year to a deficit of $502 million, a reversal from the $2,157 million surplus registered in the comparable period last year. Both the current and the capital and financial accounts showed significant deterioration from their year-ago levels (Table 1).

Balance of Payments (US$ m)

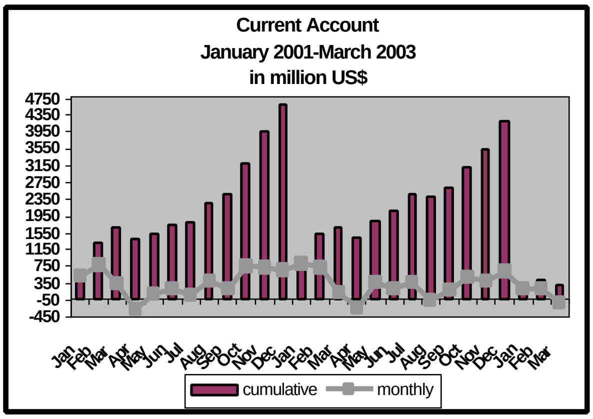
	January-March		
	2003	**2002**	**Growth Rate (%)**
I. Current Account	338	1683	-79.9
II. Capital & Fin'l.	-312	2027	-115.4
III. Net Unclassified	-528	-1553	66.0
IV. Overall BOP *	**-502**	**2157**	**-123.3**

* Totals may not add up due to rounding.

➢ Current Account

The current account remains in surplus.

The strong net inflows from the income account kept the current account in surplus at $338 million in January-March 2003. This surplus, however, was lower compared to the $1,683 million surplus posted in the comparable period last year. The trade-in-goods account reversed to a deficit from a surplus following the surge in imports caused in turn by higher oil price in the global market and stockpiling of crude oil and other raw materials in anticipation of supply disruption. The services account was also weaker due to increase in freight expenditures and lower travel receipts.



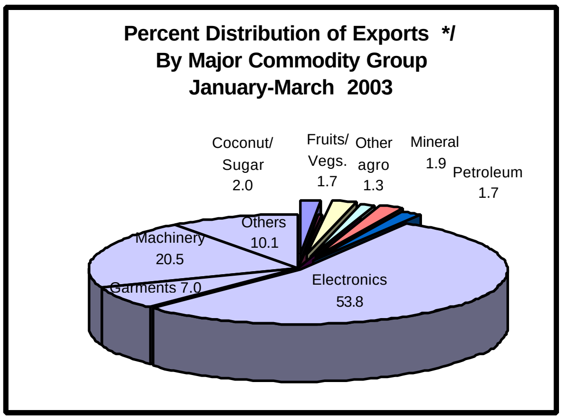
➢ Trade-in-Goods

Trade in goods balance reverts to a deficit as tension in Iraq precipitates rise in imports.

The trade-in-goods balance for the first three months of the year reversed to a deficit of $579 million from a surplus of $761 million in the same period last year. This developed on account of the continued increase in imports of goods, which accelerated by 24.4 percent to reach $8,881 million surpassing the 5.1 percent growth of exports at $8,302 million.[1] The surge in imports was attributed largely to inventory build-up of raw materials and oil products in anticipation of the possible supply disruption as a result of the rising tension in the Middle East.

Exports increase moderately.

The modest improvement in exports of goods reflected in part the gradual recovery in consumer confidence as external demand for electronics, machinery and transport equipment and garments, the country's major export performers, continued to pick up.



* Computed based on NSO data, net of special transactions

[1] Per BPM5

Electronics exports continue to recover.

a) *Electronics.* Export of electronic products continued to rebound in the first quarter of the year expanding by 1.6 percent, a reversal from the 9.9 percent contraction in the same period last year (Table 2.1). The recovery in electronics exports, however, was still tentative as the book-to-bill ratio in March slightly decline to 91 percent from 98 percent in February.[2] The steady rise in imported inputs, however, provides some degree of optimism on the industry outlook. Driving the electronics exports is the strong back-end semiconductors operations, assembly and test centers.[3]

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 1.1 percent to $1,673 million in the first three months of 2003. Major contributory factors were the increased exports of input/output peripheral units, other parts and accessories of motor vehicles, other vessels for transport of goods and passengers as well as other gear boxes of motor vehicles.

Rebound in exports of garments continues.

c) *Garments.* Garments sustained the recovery it posted since June last year. The year-on-year expansion rate of garment exports for the first quarter of 2003 was 17.6 percent to reach $568 million, reversing last year's contraction of 19.0 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.

Intra-Asia trading picks up the slack in demand from traditional partners.

The increasing intra-regional trade in Asia continued to pick up the slack in demand from traditional partners such as the U.S. and Japan. For January-March 2003, the combined market share of these Asian economies (Hong Kong, Taiwan, Singapore, Malaysia, South Korea, China, and Thailand) at 38.7 percent exceeded the combined share of the U.S. (21.0 percent) and Japan (15.5 percent). It was noted that the growth in intra-regional trade was anchored on semiconductor exports and the relocation to Asia of electronics companies which maintain an increasing level of integration with their Asian subsidiaries in terms of raw material procurement, production processes and marketing.

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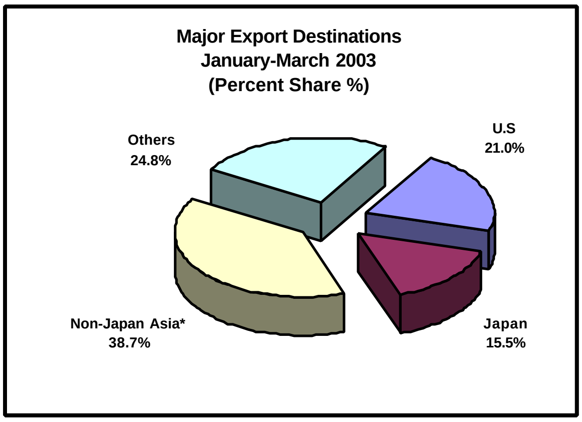
[2] The book-to bill ratio is the ratio of three-month moving average bookings (demand) to three-month moving average shipments (supply). A ratio of less than one indicates that demand is lower than supply. Conversely, a ratio of one or more indicates that demand exceeds supply.
[3] Back-end semiconductors operation refers to the initial cycle in semiconductors operations before it reaches the end-user. It involves the first two stages in the cycle which are designing and sourcing of raw materials.



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

Imports continue to expand strongly.

Imports of goods for the first three months of 2003 continued to expand strongly growing by 24.4 percent to reach $8,881 million.[4] Largely contributing to the higher imports was the stockpiling of raw materials and oil products in anticipation of probable supply disruption for the duration of the war in Iraq. Increased demand for imported inputs required by local companies for the continued upgrading of their computer systems and telecommunications technologies also contributed in the remarkable growth of imports during the period (Table 2.2).

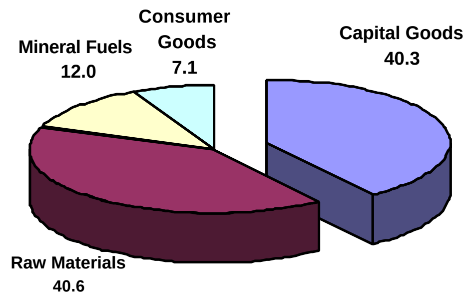
Imports of raw materials and intermediate goods—which comprised about 40.6 percent of total imports—grew by 13.7 percent to $3,595 million. This was a reversal of the 23.5 percent contraction last year. The upturn was due to increased demand for materials/accessories for the manufacture of electrical equipment, chemicals, specifically chemical compounds and artificial resins, iron and steel and textile yarn, fabrics and made-up articles.

Meanwhile, imports of capital goods during the quarter climbed by 24.4 percent (from only 2.9 percent last year) to reach $3,574 million. The expansion was due to higher imports of telecommunications equipment, office and EDP machines, and power generating and specialized machines by local companies.

Imports of mineral fuels and lubricants, comprising about 12.0 percent of total imports, soared by 67.5 percent to reach $1,062 million during the period in review, due to the combined effect of the increase in both volume and price of petroleum crude. The volume of petroleum crude imports grew by 30.0 percent to 24.0 million barrels in January-March 2003 from 18.46 million barrels in the comparable period last year as the government directed oil companies to maintain at least 30-day oil inventory to ensure continued domestic oil supply. Meanwhile, the average price of petroleum crude during the review period rose sharply to $29.85 per barrel from $19.63 per barrel during the same period last year following the hike in oil price in the world market amid the uncertainty caused by the escalating tension in the Middle East.

[4] Per BPM5 concept

Percent Distribution of Imports *
By Major Commodity Group
January-March 2003



* Computed based on NSO data, net of special transactions

➢ Trade In Services

The deficit in the trade-in-services account widens due to the decline in receipts and rise in payments.

The trade-in-services account for January-March 2003 posted a net outflow of $401 million, 63.0 percent higher compared to the level in the comparable period in 2002. The deterioration was due mainly to the combined effects of the decline in travel receipts and the rise in freight payments. There was a marked decline in the net inflow from travel to $162 million, from the year-ago level of $257 million. Both external and domestic factors such as the contraction in global income, the outbreak of severe acute respiratory syndrome (SARS) in the Asian region and security concerns have adversely affected tourist traffic in the country. Consequently, tourist arrivals in March contracted by 9.9 percent from last year's level, thus limiting the first quarter growth to only 2.6 percent. The number of tourist arrivals notably from Hong Kong, the U.S. and Taiwan declined by 25 percent, 3.8 percent, and 4.0 percent, respectively during the quarter in review. This, notwithstanding, the government continues to exert effort to boost the tourism industry through its aggressive promotion abroad of the "Visit Philippines 2003" and "Volunteer 12 Program", which are expected to revive both local and international interest on the country's tourists' destinations.[5]

Meanwhile, the increase in the net outflow of transportation services was accounted for by higher freight expenditures following the surge in imports of goods during the review quarter (Table 3).

➢ Income

OFW remittances continue to boost the income account

Net inflows in the income account for January-March 2003 grew by 8.4 percent to $1,152 million due mainly to higher OFW remittances which expanded by 10.0 percent to $1,839 million relative to the level in the same period last year.[6] This favorable development can be partly attributed to the 2.5 percent increase in the number of deployed new/rehired OFWs during the quarter in review to 237,531, particularly

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

account.

sea-based workers.[7] Major deployment destinations for these OFWs were the Americas, Middle East, Asia and Europe. Meanwhile, the bulk of OFW remittances, which comprised about 91 percent of gross income receipts, came from the U.S., Saudi Arabia, Japan, Hong Kong, U.K. and Singapore.[8]

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.[9] Looking forward, the prospects remain bright for increased employment of caregivers, health workers, teachers as well as IT personnel in countries such as Europe, Japan, the U.S. and Canada.

Meanwhile, the investment income account continued to post a net outflow of $687 million, 12.8 percent higher than the year-ago level. This was attributed largely to lower receipts derived from both direct and portfolio investment income as a result of the global decline in interest rates and high interest payments due in turn to higher external debt level (Table 4).

➢ Current Transfers

The surplus in current transfers increases.

Net current transfers for January-March 2003 amounted to $166 million, 58.1 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 reverses to a deficit.

The capital and financial account for the first quarter of the year reversed to a net outflow of $312 million from a net inflow of 2,027 million posted in the same period in 2002 as investors kept a more cautious stance following weak global economic outlook and uncertainties. During the quarter, the direct investment account reverted to a net outflow from a net inflow while the portfolio investment account posted a substantially lower net inflow.

[7] Sea-based workers numbering 55,221 increased by 6.6 percent from the level posted in the same period last year while land-based workers at 182,310 rose by 1.3 percent.
[8] 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.
[9] 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-March 2003 posted a higher net outflow of $7 million relative to a deficit of $4 million in the comparable period last year owing to the increase in the net outflow of migrant's transfers (Table 6).[10]

➢ Direct Investments

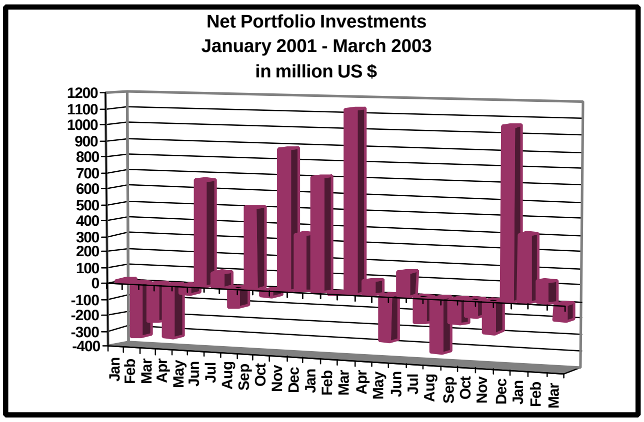
Direct investment account reverses to a net outflow following weak global economic outlook.

The direct investment account posted a net outflow of $51 million, a turnaround from last year's surplus of $803 million. The reversal mainly reflected the cautious investment climate due to geopolitical uncertainties that made the prospects for global recovery bleak. Non-residents' investments in equity capital in the first quarter of the year plummeted to $15 million compared to a high of $668 million in the same period last year. Newly infused capital during the quarter amounted to only $55 million, significantly below the $672 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 portfolio investments account in the first three months of the year registered a substantially lower net inflow of $443 million compared to the net inflow of $1,833 million last year. Non-residents investments in the first quarter of 2003 amounted $965 million, down by 52.2 percent from the previous year's level. Non-residents' investments in both equity and debt securities contracted reflecting investors' risk aversion following heightened global uncertainties. (Table 8).



[10] 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.

➢ Other Investments

The net outflow of other investments increases.

During the review period, the other investment account posted a net outflow of $697 million, 15.2 percent higher compared with the $605 million net outflow registered in the first quarter of last year. Largely accounting for the increase in net outflow was the higher net repayment of loans, particularly maturing borrowings and interbank placements (Table 9).

➢ Reserve Assets

GIR remain adequate at $16 billion.

The BSP's gross international reserves (GIR) reached $16.0 billion as of end-March 2003. This was slightly lower than the end-December 2002 level of $16.2 billion.

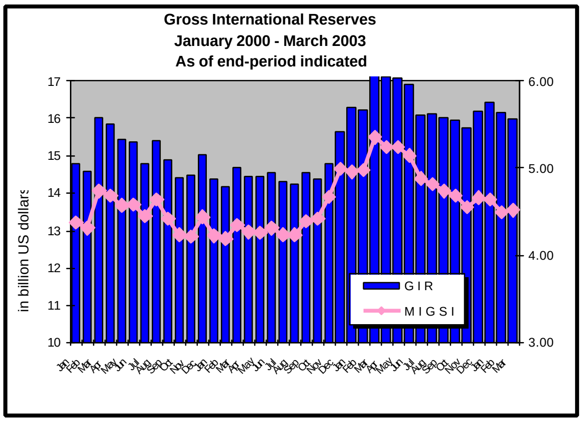
The decrease in GIR during the period was due to higher outflows to meet the debt service requirements of the BSP and the National Government that partly offset the foreign exchange inflows in the form of net deposits by the Treasurer of the Philippines.[11]

The BSP's GIR were adequate to cover 4.4 months' worth of imports of goods and payment of 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, 1.3 times the amount of short-term external debt based on residual maturity.[12]

During the quarter in review, the bulk of reserves consisted of foreign investments (76.5 percent), while the balance was in the form of gold (18.5 percent), foreign exchange (4.2 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, 7.7 percent in Euros, 3.9 percent in Japanese yen, 1.8 percent in pound sterling and the balance of 1.1 percent in other foreign currencies.

[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.

[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.



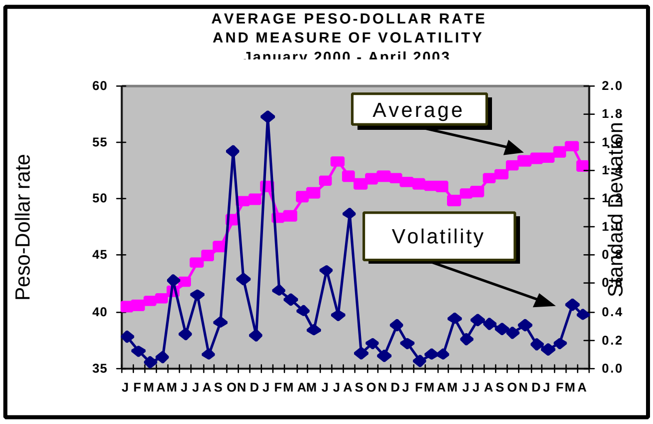
➢ Exchange Rate

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

The nominal peso-dollar exchange rate averaged ₱54.08:US$1 in January-March 2003, depreciating by 5.5 percent from the ₱51.25:US$1 average exchange rate in January-March 2002. The depreciation of the peso was caused largely by increased corporate demand to settle the rising import bill during the period. Other factors such as concerns over the widening fiscal deficit, fear of FATF sanctions due to failure to amend the anti-money laundering law in time for the FATF-set deadline and the mounting tension brought about by the commencement of the war in Iraq, weighed heavily on the peso.

The peso is more volatile.

The peso was more volatile in the first quarter of 2003, as indicated by the standard deviation of ₱0.52 compared with the year-ago deviation of only ₱0.19. The peso-dollar exchange rate ranged from ₱53.254 to ₱55.075 during the period.



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 the first quarter of 2003 depreciated by 13.4 percent against the currency basket of the country's major trading partners, 11.6 percent against the currency basket of a broad group of competitor countries,[14] and by 13.4 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 12.6 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 10.9 percent and 14.9 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	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-Mar**	**14.98**	**33.88**	**67.87**	**66.57**	**114.83**	**173.13**
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/
	Mar	12.84	29.84	58.31	57.60 e/	101.46 e/	145.68 e/
Ave.	**Jan-Mar**	**12.97**	**29.94**	**58.79**	**58.19**	**102.28**	**147.35**

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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