

# BALANCE OF PAYMENTS DEVELOPMENTS

## FOURTH QUARTER 2003

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### ➤ Overall Position

*BOP surplus in the fourth quarter brings the full-year 2003 position to \$111 million surplus.*

Following improvement in the global economic outlook, the balance of payments (BOP) during the fourth quarter of 2003 ended with a surplus of \$886 million, a reversal from the \$89 million deficit in the same quarter in 2002. This brings the cumulative BOP position for 2003 to a surplus of \$111 million, albeit lower than the \$663 million in 2002. The BOP surplus in 2003 was due mainly to the continued strength in the current account (Table 1).

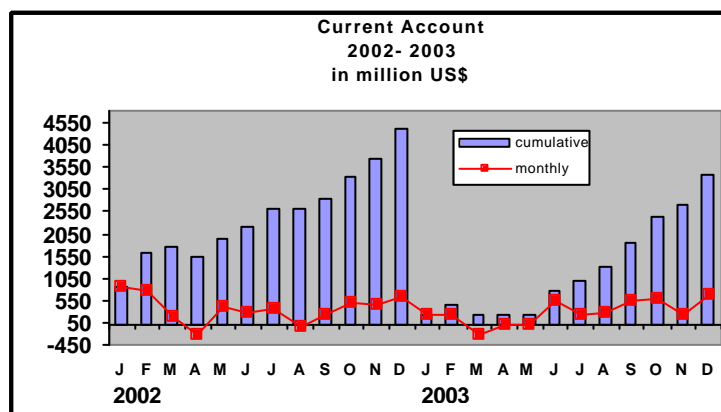
Balance of Payments (US\$ m)							
	Q4		Growth Rate (%)	Jan-Dec		Growth Rate (%)	
	2003	2002		2003	2002		
I. Current Account	1497	1597	-6.3	3347	4383	-23.6	
II. Capital & Fin'l Account	-1378	-1124	-22.6	-5319	-1644	-223.5	
III. Net Unclassified Items	767	-562	236.5	2083	-2076	200.3	
<b>IV. Overall BOP</b>	<b>886</b>	<b>-89</b>	<b>1095.5</b>	<b>111</b>	<b>663</b>	<b>-83.3</b>	

\* Totals may not add up due to rounding.

### ➤ Current Account

*The current account remains in surplus.*

The current account continued to post a surplus at \$1,497 million in the fourth quarter of 2003, although lower than the \$1,597 million in the same quarter in 2002. This developed as imports continued to rise, implying domestic economic recovery ahead, negated partly by the moderate increase in exports and the continued net inflows from the income account. Consequently, the cumulative current account surplus for 2003 ended lower at \$3,347 million relative to previous year's \$4,383 million.

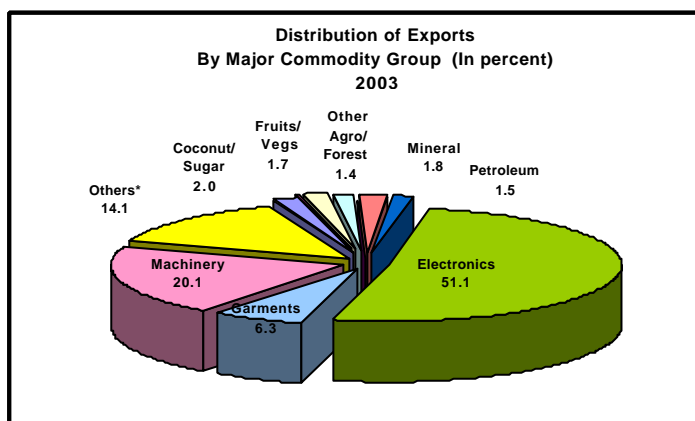




### ➤ Trade-in-Goods

*Trade-in-goods records surplus in the fourth quarter.* The trade-in-goods balance posted a lower surplus at \$121 million in the fourth quarter of 2003 as growth in imports outpaced that of exports. Overall, however, the trade-in-goods balance posted a deficit of \$1,253 million for 2003 from previous year's surplus of \$407 million largely on account of the sluggish performance of exports in the early part of the year to pull off only 1.4 percent annual growth as compared to the 6.3 percent growth in imports.<sup>1</sup>

*Exports recover in fourth quarter.* Exports of goods reached \$9,249 million on account of recovery in exports of manufactured goods, particularly electronics, machinery and transport equipment, chemicals and coconut oil. This was due in part to the increased demand from partner countries spurred by expectations of improving global economy. Meanwhile, lower exports of garments, fruits and vegetables and mineral products mitigated the gains realized by these major commodities. Hence, exports rose minimally by 1.4 percent in 2003 to \$34,842 million.<sup>1</sup>



\* Includes special transactions & re-exports

Source: NSO

*Exports of electronics recovers in the fourth quarter.* a) *Electronics.* Exports of electronics edged up slightly by 1.4 percent in the fourth quarter, though at a slower pace than previous year's 11.4 percent. This brought the cumulative exports of electronics in 2003 to \$18,255 million, a slight contraction of 1.8 percent from \$18,583 million in 2002, and a reversal from the 11.3 percent growth posted in 2002.<sup>2</sup> Industry

<sup>1</sup> Based on BPM5 concept (i.e., excluding from National Statistics Office (NSO) figures, those goods that did not involve change in ownership).

<sup>2</sup> In March 2003, the 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



players attributed this sluggish performance to the ‘uneven’ export performance among the electronics commodities, where low-end products were observed to have not caught up with the global upturn. In particular, exports of semiconductor devices, comprising 52.6 percent of total electronics exports declined by 6.7 percent in 2003 as the semiconductor book-to-bill ratio were generally below the unity mark during the year and only managed to reach unity level beginning in October 2003.<sup>3</sup> By contrast, shipments of digital monolithic and electronics microcircuits grew by 12.8 percent and 23.2 percent, respectively benefitting from the recovery in global technology demand. The major export destinations for these products were Hong Kong, U.S., Malaysia, Netherlands and Taiwan.

- Exports of machinery and transport equipment post significant fourth quarter gains.*
- b) *Machinery and Transport Equipment.* Exports of machinery and transport, the second largest export earner, expanded by 12.6 percent in the fourth quarter to make up for the contraction in the previous two quarters. These developments resulted in a cumulative growth of 1.7 percent for 2003. While demand for input/output of peripheral units of computers slackened, exports of automotive-related products remained robust. In support of the growing contribution of the automotive industry in exports and investments, Executive Order No. 224 which was issued in November 2003, granted export incentives to manufacturers of completely-built-up vehicles (CBUs) starting 2004 until 2008 thus expected to boost the industry’s competitiveness.
- Growth in garments exports decelerates.*
- c) *Garments.* Exports of garments continued to contract towards the end of the year with the 21.0 percent decline in the fourth quarter as exports of garments in quota countries, particularly the U.S., contracted offsetting the favorable first semester outturn. The U.S accounts for 75 percent of total exports of garments. The year ended with the 5.1 percent decline at \$2,269 million from \$2,391 million in 2002. Major markets for this commodity were the U.S., Germany, United Kingdom, Canada and the Netherlands.

With the lackluster performance of garments exports in 2003, the GTEB is forecasting a flat growth of this commodity in 2004. With the abolition of quota by end-2004, the garments industry is exploring new markets and improving

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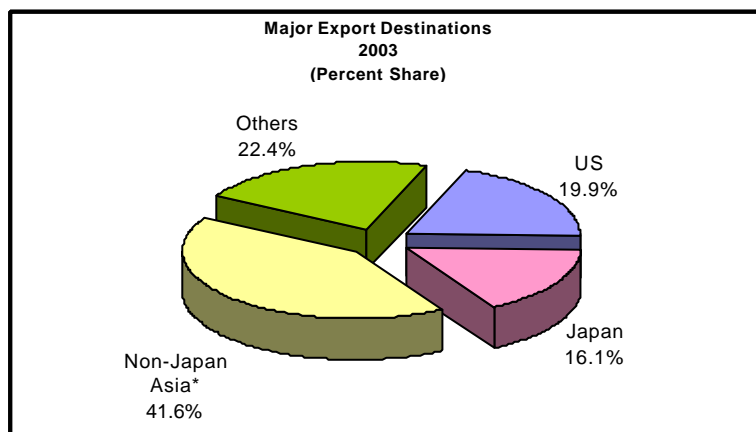
electronics. The BSP has not yet fully adopted said classification. As of date, however, the BSP series has continued to use the old electronics exports classification.

<sup>3</sup> 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.



competitiveness under the Garments Industry Transformation Plan (GITP) that would reduce cost, enhance productivity, develop new markets and products, facilitate trade and re-engineer the garments industry in preparation for a quota-free environment starting 2005. Moreover, the Confederation of Garments Exporters of the Philippines (CONGEP) is looking into the possibility of a free trade agreement with the US to ensure continued market access of Philippine garments exports in the US. To help the garments industry achieve its growth target, the government is also set to waive charges and fees starting 2004 to reduce the production costs, thereby enhancing the competitiveness of exported garments.<sup>4</sup>

*Non-Japan Asian economies take the lead in the rising intra-Asian trade.* The relocation to Asia of many manufacturing plants of multinational companies resulted in a marked shift of export markets in recent years away from the U.S. and on to the Asian region. China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand were the more active Asian trade partners, comprising 41.6 percent of total trade of the country in 2003 as these economies serve as hosts to a large number of the country's business affiliates particularly in electronics. The People's Republic of China, with a 6.0 percent share, has become an important market for Philippine exports, expanding by 58.0 percent in 2003.



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

*Imports growth higher in the fourth quarter.* Imports in the fourth quarter expanded by 9.0 percent to \$9,128 million, attributed to the 11.2 percent and 8.7 percent increase in imports of capital goods, and raw materials and intermediate goods, respectively, indicating a more robust domestic economic activity in 2004. This development, combined with the first quarter import surge,

<sup>4</sup> At present, the Garments and Textile Export Board (GTEB) charges ₱50.00 for quota application and charges export quota holders an assessment fee of five centavos per square meter equivalent of total shipments.



brought cumulative imports to \$36,095 million or a growth of 6.3 percent for 2003 (Table 2.2).<sup>5</sup>

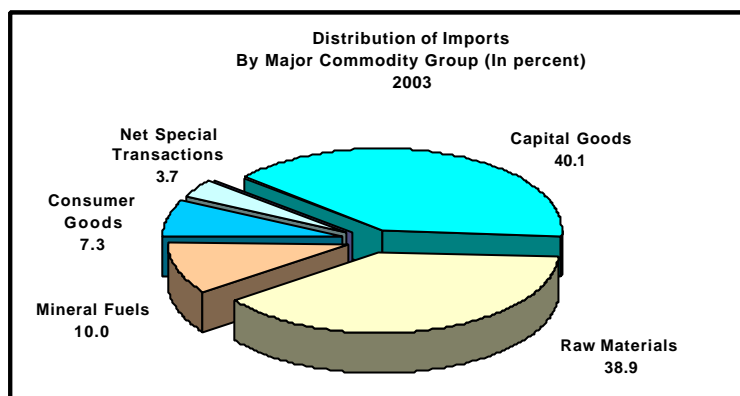
The growth in raw material imports was highly observed in materials and accessories for the manufacture of electronic equipment, which grew by 11.6 percent in the fourth quarter of 2004, confirming the industry's expectation of a surge in demand for this commodity in 2004. Cumulative contraction of imports of raw materials, which comprise about 40 percent of total imports of goods, decelerated from 4.5 percent in January-September 2003 to 1.5 percent in full year 2003, and slightly higher compared to 1.1 percent annual decline in 2002.

Likewise, imports of capital goods primarily by the telecommunication sector rose by 11.2 percent in the fourth quarter contributing to the 11.0 percent annual expansion in 2003. The steady growth in the telecommunication was attributed in turn to strong demand for wireless communication. Capital goods comprised about 43 percent of total imports of goods.

Imported mineral fuels and lubricants, comprising about 9 percent of total imports, declined minimally by 0.7 percent in the fourth quarter to \$840 million, after posting consecutive increases in the first three quarters. Consequently, imports of mineral fuels and lubricants in 2003 grew by 14.9 percent due mainly to price effect as volume of imported petroleum crude declined to 92 million barrels in 2003 from 93 million barrels the previous year. The average world price of petroleum crude increased from \$24.33 per barrel in 2002 to \$27.54 per barrel in 2003. The average price of crude oil was erratic reaching its peak in March at \$31.55 per barrel at the height of the turbulence in the Middle East.

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<sup>5</sup> Based on BPM5 concept.



Source: NSO

### ➤ Trade-in-Services

*The deficit in the trade-in-services account narrows in the fourth quarter.* The trade-in-services deficit in the fourth quarter narrowed to \$207 million from previous year's comparative deficit of \$260 million. This was largely attributed to higher receipts from travel and communication services. Net inflows from travel in the fourth quarter at \$258 million were 66.5 percent higher than the year-ago level, reflecting the diminished concerns on geopolitical uncertainties and fears over SARS epidemic, which adversely affected tourist traffic in the early part of 2003.<sup>6</sup> Tourists came mostly from U.S., Canada, Singapore, Japan, Korea, Australia, U. K., and Germany. Moreover, the drop in residents' travel expenditure abroad by 43.1 percent in the fourth quarter attributed in part to the peso's depreciation contributed to the higher travel net inflow. Notwithstanding, the fourth quarter improvement fell short of mitigating the full-year deficit which at \$1,227 million was 20.6 percent higher than the 2002 level.

### ➤ Income

*Higher OFW remittances and lower dividend payments support the higher surplus in the income account for the fourth quarter.* The income account balance posted a higher surplus of \$1,417 million in the fourth quarter primarily on account of higher remittances of OFWs which rose by 9.8 percent to \$1,977 million. OFW remittances continued to be a major source of foreign exchange earnings to end the year with a cumulative remittance of \$7,640 million, 6.3 percent higher than the 2002 level. These developments brought the cumulative net income balance to \$5,215 million, 16.1 percent higher than the year-ago level. The increased deployment of sea-based workers and higher-paid land-based OFWs (e.g., caregivers/caretakers, office managers, clerks and utility personnel)

<sup>6</sup> Data from the Department of Tourism on Visitor Arrivals showed year on year growth beginning September 2003 after consecutive declines observed in March-August 2003.



tempered the effect of the decline in the deployment of other land-based workers.<sup>7</sup> Also contributing to the improved performance of the income account was the lower payment of dividends and profits during the review quarter, due to the generally weak corporate performance.

#### ➤ Current Transfers

*The current transfers account posts a higher surplus.* Net current transfers in the fourth quarter of 2003 were 12.9 percent higher at \$166 million vis-à-vis the level in the same quarter in 2002. The growth was traced to increased transfer of income by the general government in the form of grants and donations. On a cumulative basis, net current transfers improved by 21.7 percent to \$612 million, slightly higher than the full year 2002 surplus of \$503 million. This developed due largely to the increased transfers from migrant workers and the general government (Table 5).

#### ➤ Capital and Financial Account

*The deficit in the capital and financial account widens in the last quarter in 2003.* The net outflow in the capital and financial account at \$1,378 million in the fourth quarter of the year was higher by 22.6 percent than the net outflow of \$1,124 million in the same period in 2002 following weaker portfolio and direct investment flows which overshadowed the improvement in the other investment account. This development brought the cumulative balance to a net outflow of \$5,319 million, more than three times the \$1,644 million deficit in 2002.

#### ➤ Capital Account

*The capital account reverses to a net inflow in the fourth quarter.* The fourth quarter level of the capital account reversed to a net inflow of \$5 million from a net outflow of \$7 million due to higher net capital transfers from other sectors. This contributed to the cumulative net inflow of \$21 million for 2003, a reversal of the \$19 million net outflow posted in 2002 (Table 6).<sup>8</sup>

#### ➤ Direct Investments

*Direct investment inflows weaken.* The direct investment account for the fourth quarter of 2003 weakened further to \$18 million, from the year-ago level of \$154 million, due mainly to the combined effect of the net withdrawal by non-residents of their investments in the equities market amounting to \$93 million (from net placement of \$107 million in the comparable period last

<sup>7</sup> Of the 867,969 Filipino workers deployed in 2003 based on data from the Philippine Overseas Employment Administration (POEA) on rehire and newly hired OFWs, 651,938 (75 percent) were land-based workers and 216,031 (25 percent) were sea-based workers.

<sup>8</sup> 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.



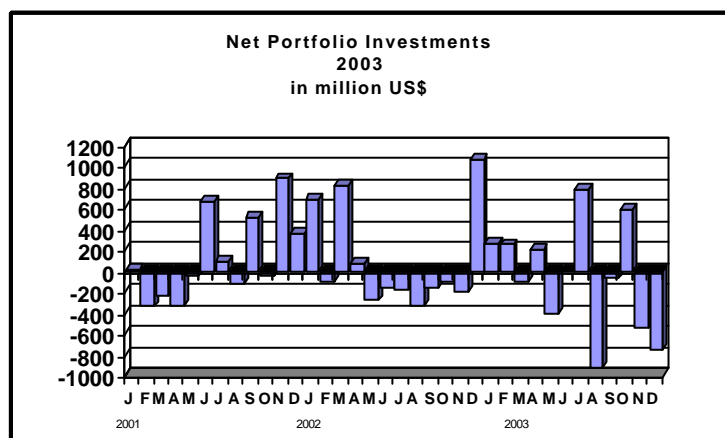


year) and increased equity participation by residents in foreign firms at \$19 million (from \$17 million). Inflows of equity into the country have declined as a number of big ticket approved investment were deferred, partly due to pending inter-company re-alignments and take-overs. Moreover, the sale by a foreign investor of its shares in a telecommunication company to its local partner company contributed to the further deterioration of the direct investments account. These developments led to the decline in net direct investments in 2003 to \$161 million from \$1,733 million in the comparable period in 2002 (Table7).

### ➤ Portfolio Investments

*The net outflow in the portfolio investments account increases in the fourth quarter.*

The fourth quarter 2003 net outflow in the portfolio investment account of \$714 million was a reversal from the \$766 million net inflow in the comparable period in 2002. This developed as bond repayment and residents' purchases of foreign-issued local debt papers in the secondary market more than offset the \$1,050 million proceeds of RP Global bonds, which were intended to pre-fund the National Government's (NG) 2004 requirements. Moreover, higher subscription by resident companies of foreign debt securities was noted during the fourth quarter. As a consequence, a cumulative net outflow of \$706 million for 2003 was realized, a turnaround from the net inflow of \$1,122 million in 2002. (Table 8).



### ➤ Other Investments

*Higher non-residents' investments in the fourth quarter reduce the net*

The net outflow in the other investment account was significantly lower at \$687 million in the fourth quarter of 2003 compared to \$2,037 million in the same quarter in 2002 traced largely to banks' issuance of unsecured subordinated debt which were eligible as Tier 2 capital. Notwithstanding, the positive development in the fourth



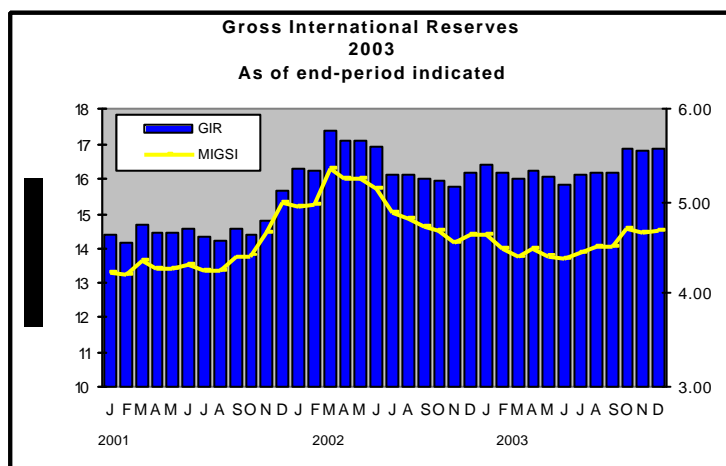


*outflow in the other investment account.* quarter failed to cushion the large net outflows in the previous quarters as the 2003 deficit reached \$4,795 million, 7.0 percent higher than the net outflow of \$4,480 million in 2002. The slight growth in the net outflow was driven by the net repayment of loans by banks, the National Government and private companies in 2003 (Table 9).

### ➤ Reserve Assets

*International reserves still comfortable.* The BSP's GIR, including reserve position in the IMF, rose to US\$16.9 billion as of end-December 2003 (Table 15). This was 4.3 percent or US\$695 million higher compared to the end-December 2002 level of US\$16.2 billion. The end-2003 level of reserves was equivalent to 4.7 months' worth of imports of goods and payment of services and income. In terms of debt coverage, the level of reserves is 2.9 times the amount of the country's short-term foreign liabilities based on original maturity and 1.5 times based on residual maturity.<sup>9</sup>

A large part of reserves was in the form of foreign investments (75.8 percent), with the balance in gold (20.2 percent), foreign exchange (3.2 percent) and combined SDRs and reserve position in the Fund (0.8 percent). By currency composition of reserves (excluding gold), 83.8 percent were in US dollars, 8.2 percent in Euro, 5.0 percent in Japanese yen, 1.8 percent in pound sterling and the balance of 1.2 percent in other foreign currencies.



<sup>9</sup> Residual maturity refers to outstanding short-term debt based on original maturity plus principal payments on medium- and long-term loans of the public and private sectors falling due in the next 12 months.



### ➤ Exchange Rate

*Weaker peso relative to the previous year's level.* The nominal peso-dollar exchange rate averaged ₱55.26/US\$1 in the fourth quarter of 2003, depreciating by 3.8 percent from last year's level of ₱53.25/US\$1. The movements in the peso could be traced to external and domestic factors (e.g., political noise, increased dollar demand by corporates to service year-end obligations and lower capital inflows). Other factors such as the conflict in the Middle East, weak global economic outlook, and fear of SARS conspired to exert pressure on the peso in the initial part of the year, bringing the average exchange rate to ₱54.20/US\$1 in 2003 from ₱51.60/US\$1 in 2002, or a depreciation of 4.8 percent. These developments overshadowed the strong economic fundamentals including the better-than-expected economic growth and the lower-than-targeted inflation rate in 2003.

*The peso is less volatile in the fourth quarter.* The peso was less volatile in the fourth quarter of 2003 as its standard deviation at ₱0.30 was lower than the fourth quarter 2002 level of ₱0.36. This stability was more pronounced on an annual basis with the standard deviation of ₱0.98 in 2003 lower compared with last year's level of ₱1.13 in 2002. The continued inflow of remittances from OFWs helped ease dollar liquidity in the foreign exchange market and allowed the peso to broadly stabilize towards year-end. The peso-dollar exchange rate ranged from ₱52.51/US\$1 to ₱55.45/US\$1.

*Higher nominal depreciation and relatively lower domestic inflation strengthen the peso's external competitiveness.* Compared to the previous year's level, the peso's average nominal effective exchange rate (NEER) index<sup>10</sup> in the fourth quarter of 2003 depreciated by 10.6 percent against the currency basket of the country's major trading partners, 7.2 percent against the currency basket of a broad group of competitor countries,<sup>11</sup> and by 8.8 percent against the currency basket of a narrow group of competitor countries.<sup>12</sup> This ensued following the larger depreciation of the peso vis-a-vis the U.S. dollar compared to that of the other currencies in these baskets. In terms of the real effective exchange rate (REER) index,<sup>13</sup> the peso gained external price competitiveness as the REER depreciated by 9.1 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 5.7 percent and 8.9 percent, respectively, due to the combined effect of higher nominal depreciation of the peso and the relatively lower domestic inflation vis-à-vis those of the

<sup>10</sup> 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.

<sup>11</sup> The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Thailand, Indonesia and Hong Kong.

<sup>12</sup> The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.

<sup>13</sup> The REER index is derived from the NEER index by adjusting for inflation differentials.



countries whose currencies are included in the broad and narrow baskets.

For the whole year 2003, the peso's average nominal effective exchange rate (NEER) index depreciated by 11.3 percent against the currency basket of the country's major trading partners, 8.5 percent against the currency basket of a broad group of competitor countries, and by 10.1 percent against the currency basket of a narrow group of competitor countries. Similarly, in terms of the real effective exchange rate (REER) index, the peso gained external price competitiveness as the REER depreciated by 10.2 percent against the currency basket of the country's major trading partners, by 7.2 percent and 10.8 percent, respectively, relative to the countries in both broad and narrow baskets.



EFFECTIVE EXCHANGE RATE INDICES OF THE PESO							
For periods indicated							
		NEER			REER		
		MIC <sup>1/</sup>	CC		MIC <sup>1/</sup>	CC	
			Broad <sup>2/</sup>	Narrow <sup>3/</sup>		Broad <sup>2/</sup>	Broad <sup>3/</sup>
<b>2002</b>	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
	<b>Qtr 1</b>	<b>14.82</b>	<b>32.85</b>	<b>65.26</b>	<b>66.06</b>	<b>111.14</b>	<b>171.16</b>
	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
	<b>Qtr 2</b>	<b>14.71</b>	<b>31.82</b>	<b>61.66</b>	<b>65.32</b>	<b>107.89</b>	<b>162.76</b>
	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
	<b>Qtr 3</b>	<b>13.88</b>	<b>30.45</b>	<b>59.43</b>	<b>62.10</b>	<b>105.02</b>	<b>159.18</b>
	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
<b>Ave.</b>	<b>Q4</b>	<b>13.43</b>	<b>29.85</b>	<b>58.19</b>	<b>60.14</b>	<b>101.87</b>	<b>152.53</b>
<b>Ave.</b>	<b>Jan-Dec</b>	<b>14.21</b>	<b>31.24</b>	<b>61.13</b>	<b>63.41</b>	<b>106.48</b>	<b>161.41</b>
<b>2003</b>	Jan	13.02	29.24	57.14	58.35	100.72	147.64
	Feb	12.87	29.05	56.61	57.92	98.84	146.17
	Mar	12.74	29.03	56.18	57.07	98.62	145.53
	<b>Qtr 1</b>	<b>12.88</b>	<b>29.10</b>	<b>56.64</b>	<b>57.78</b>	<b>99.39</b>	<b>146.45</b>
	Apr	13.17	29.94	57.68	59.09	101.78	148.36
	May	12.95	29.42	56.27	58.14	100.72	147.23
	Jun	12.71	28.65	54.36	57.62	100.04	144.84
	<b>Qtr 2</b>	<b>12.94</b>	<b>29.34</b>	<b>56.10</b>	<b>58.28</b>	<b>100.84</b>	<b>146.81</b>
	Jul	12.74	28.56	54.52	57.91	100.99	145.85
	Aug	12.52	28.06	53.96	56.83	99.00	144.24
	Sep	12.42	27.82	53.46	56.23	97.05	141.76
	<b>Qtr 3</b>	<b>12.56</b>	<b>28.15</b>	<b>53.98</b>	<b>56.99</b>	<b>99.01</b>	<b>143.95</b>
	Oct	12.14	27.73	53.23	55.09	95.66	139.95
	Nov	12.05	27.70	53.09	54.93	96.72	138.89
	Dec	11.83	27.64	52.92	54.03	95.76	138.11
	<b>Qtr 4</b>	<b>12.01</b>	<b>27.69</b>	<b>53.08</b>	<b>54.68</b>	<b>96.05</b>	<b>138.99</b>
<b>Ave.</b>	<b>Jan-Dec</b>	<b>12.60</b>	<b>28.57</b>	<b>54.95</b>	<b>56.93</b>	<b>98.82</b>	<b>144.05</b>

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.