BALANCE OF PAYMENTS DEVELOPMENTS
FIRST QUARTER 2004

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➢ Overall Position

BOP deficit in the first quarter of the year lower than year-ago level.

The balance of payments (BOP) in the first quarter of 2004 yielded a lower deficit of $379 million than the $510 million deficit incurred in the same quarter in 2003. The current account continued to perform strongly spurred by a robust global economic recovery (Table 1).

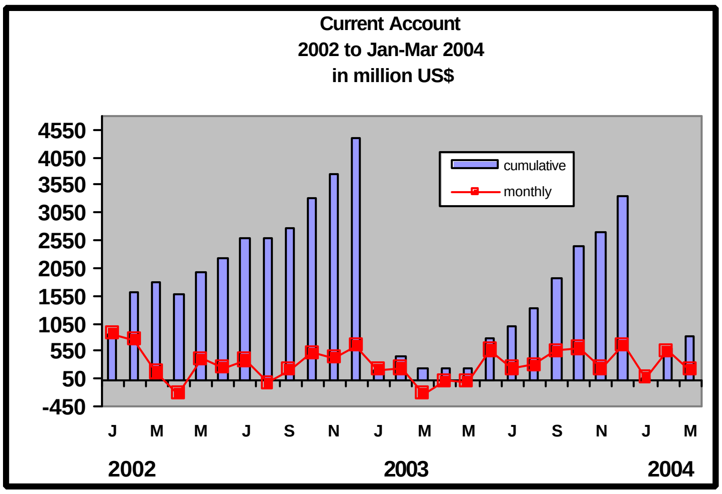
Balance of Payments (US$ m)					
		Q1		Growth Rate (%)	
		2004	2003	2004	2003
I.	Current Account	824	370	122.7	-79.2
II.	Capital & Fin'l Account	-476	-365	-30.4	-116.6
III.	Net Unclassified Items	-727	-515	-41.2	72.4
IV.	**Overall BOP**	**-379**	**-510**	**25.7**	**-124.1**

* Totals may not add up due to rounding.

➢ Current Account

The current account yields a higher surplus.

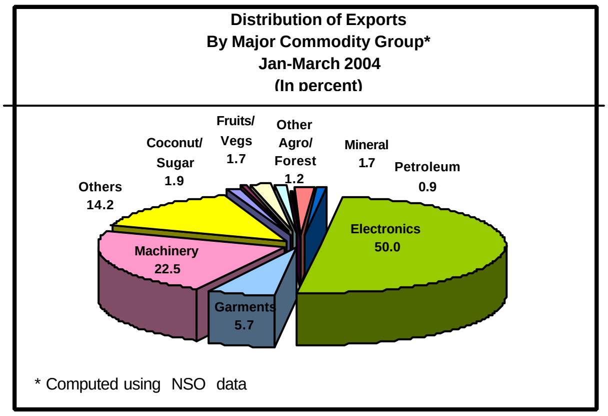
The current account continued to post a surplus at $824 million in the first quarter of 2004, significantly higher than the $370 million surplus in the same quarter in 2003. The more-than-twofold increase was due to the narrowing of the deficit in both the trade-in-goods and services accounts and the increase in net income flows.



▪ Trade-in-Goods

Trade-in-goods deficit declines as exports continue to regain lost ground.

The deficit in the trade-in-goods account declined to $378 million in the first quarter of 2004 with exports expanding faster than imports.[1] Exports of goods increased by 5.7 percent to reach US$8,930 million while imports of goods rose to US$9,308 million or a growth of 4.7 percent. The rise in exports of goods was attributed mainly to the continued recovery in shipments of electronics, and sustained strength in sales of machinery and transport equipment. Other export commodities, which contributed to the growth in exports, were non-metallic mineral manufactures, fruits and vegetables, sugar products and other agro-based products (Table 2.1).[1]



Exports of electronics post modest gains.

a) *Electronics*. Exports of electronics edged up by 3.1 percent, slower than expected due to the poor performance of semiconductors, even as the rest of electronics products, notably electronics circuits and microassemblies posted significant increases. Accounting for about 43 percent of total electronics exports, semiconductors declined by 13.2 percent mainly on account of softer price that completely negated the volume increase. More than half of semiconductor exports were shipped to Malaysia, the U.S., Hong Kong, Taiwan and China.

[1] Based on BPM5 concept (i.e., excluding from the National Statistics Office (NSO) figures, those goods that did not involve change in ownwership).

Exports of machinery and transport equipment post significant growth.

b) *Machinery and Transport Equipment*. Exports of machinery and transport equipment, the second largest export earner, expanded by 18.7 percent in the first quarter of 2004, bolstered by double-digit growth in February and March. Improved exports in the first quarter of 2004 to $2,071 million was accounted for by increased demand for input/output of peripheral units of computers and automatic data processing units, as well as the markedly high growth in exports of automotive-related products. The automotive industry's inroad into the world market was boosted by the signing of Executive Order (E.O.) No. 224 in October 2003, which granted export credit incentives to participants in the Automotive Export Program. Under the E.O., export credit incentives will be given to manufacturers of completely-built-up vehicles (CBUs) starting 2004 until 2008. The program is meant to develop the automotive car assembly industry's competitiveness.

Exports of garments continue to decline.

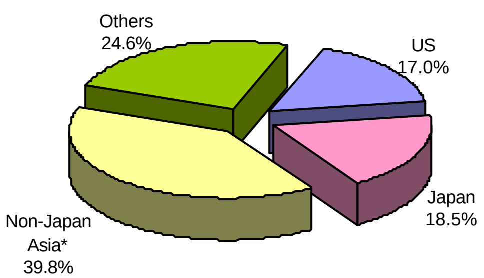
c) *Garments*. Garments exports remained sluggish, slackening by 7.9 percent in the first quarter of 2004, a reversal from the 17.5 percent growth in the same quarter last year. Facing stiff competition from China, Mexico, and other emerging economies, garments exports started to decline in successive months since July 2003, particularly those going to quota-importing countries, the biggest of which is the U.S.

In preparation for the abolition of quotas in 2005, the Confederation of Garments Exporters of the Philippines (CONGEP) is looking into the possibility of a free trade agreement with the U.S. to ensure continued market access of Philippine garments exports in the U.S. A study to be conducted by the Department of Trade and Industry (DTI) in coordination with the Philippine Institute for Development Studies (PIDS) is being proposed, in order to create a framework for negotiations with the U.S. authorities on a free trade agreement between the Philippines and the U.S. The research component of the study will commence in June 2004 and will last for six months. The entire study, including workshops and advocacy component, is expected to be completed within two years.

Non-Japan Asian economies continue to be the dominant destination market.

Export markets have continuously veered away from the U.S. to Asia, the most dynamic region that is home to more than half of the world's population. Intra-trade with non-Japan Asian countries such as China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan and Thailand has grown to about 39 percent share of the country's export destination from only 17.3 percent in 1990. In particular, electronics emerged as the well-traded commodity in the region as a result of a highly integrated production and marketing processes among business affiliates scattered throughout Asia. Among these Asian economies, the People's Republic of China, virtually the world's manufacturing center, provided the best opportunity for Philippine exports as evidenced by the 36.6 percent growth in shipments to the Mainland in the first quarter.

Major Export Destinations
Jan-March 2004
(Percent Share)



* Comprised of China, Hong Kong, South Korea, Singapore, Taiwan, Malaysia, Indonesia and Thailand
Source: NSO

Import growth decelerates.

Imports in the first quarter expanded by 4.7 percent, albeit slower compared to last year, to $9,308 million backed by the combined expansion in imports of capital goods and raw materials and intermediate goods.[2] The expansion posted by these two major commodity groups which accounted for about 82 percent of total imports, indicated the start of a more dynamic domestic economic environment in 2004 (Table 2.2).

Imports of raw materials and intermediate goods grew by 5.1 percent during the first three months of the year, propelled by the 6.9 percent increase in procurement of materials and accessories for the manufacture of electronic equipment as the industry gears for higher exports this year.

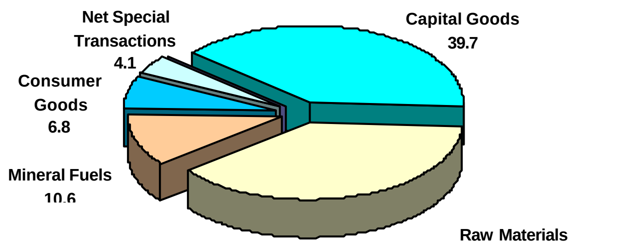
[2] Based on BPM5 concept.

Likewise, imports of capital goods, which comprised about 42 percent of total imports of goods rose to $3,873 million. The 8.3 percent increment was attributed mainly to the growth in imports of telecommunication equipment (7.9 percent), office and EDP machines (18.4 percent) and power generating and specialized machines (11.1 percent). The sustained expansion of imports of the telecommunication sector could be traced largely to the rapid pace of innovation in information technology and wireless communication.

Imports of consumer goods also improved by 5.2 percent to reach $662 million as both non-durable goods (e.g., dairy products, rice and other food products) and durable goods (e.g., passenger cars & motorized cycles, home appliances) grew by 5.9 and 4.4 percent, respectively.

By contrast, mineral fuels and lubricants declined by 2.6 percent in the first quarter to $1,038 million, following the 32.9 percent decline in the volume of imported petroleum crude even as its average world price increased marginally by 1.8 percent from $29.90 per barrel during the first quarter last year to $30.40 per barrel in the first quarter of this year. The first quarter 2004 volume of petroleum crude imports declined to 16.1 million barrels from 24.0 million barrels in the same quarter last year when heavy build-up of oil inventory was made as a precautionary measure to the Iraq war.

Distribution of Imports
By Major Commodity Group *
Jan-March 2004
(In percent)



* Computed using NSO data

▪ Trade-in-Services

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

The deficit in the trade-in-services balance amounting to $143 million in the first quarter of 2004 compared favorably with $421 million deficit in the same period last year. This was mitigated by higher receipts from travel and communication services. Net inflows from travel started to rebound in the third quarter last year and continued to gain momentum to end the first quarter with a 123.5 percent growth. Visitor arrivals for the first three months rose by 17 percent with growth evident across all nationalities led by tourists from the U.S., Japan, Korea, Hong Kong, Taiwan, Australia, Canada, U.K., Singapore, and Germany. Despite travel advisories against the country, this feat was achieved following the aggressive tourist promotion by the Department of Tourism in the international media. [3] Further contributing to the improvement in net travel inflow was the 42.4 percent cutback in residents' travel expenses abroad due in part to the depreciation of the peso. Meanwhile, net inflows from communication services grew to $121 million in the first quarter of the year from only $33 million in the same period last year. The substantial growth was attributed to the entry of a new big player in call center operations servicing the telecommunications industry.

▪ Income

Higher OFW remittances keep the income account steadily flowing.

The net income account remained in surplus at $1,198 million in the first quarter primarily on account of higher remittances of OFWs, which rose by 4.2 percent to $1,917 million. These developments brought the cumulative net income flows to grow by 11.8 percent in contrast to a contraction of 6.0 percent posted a year ago as deployment of both land-based and sea-based workers increased in the first quarter by 23.8 percent and 3.0 percent, respectively.[4] This favorable outcome more than offset the rise in income payments, particularly interest expense on bonds and notes by the national government and private corporates (Table 4).

▪ Current Transfers

The current transfers account posts a lower surplus.

Net current transfers in the first quarter of 2004 at $147 million declined by 8.1 percent from year-ago level. The decline, which was a reversal from the 52.4 percent growth achieved last year, was due largely to lower net transfers from migrant workers and foreign governments (Table 5).

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[3] 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.

[4] Of the 281,526 Filipino workers deployed in Jan-March 2004 based on data from the Philippine Overseas Employment Administration (POEA) on rehire and newly hired OFWs, 224,433 (79.7 percent) were land-based workers and 57,093 (20.3 percent) were sea-based workers.

➢ Capital and Financial Account

First quarter capital and financial account deficit widens.

The net outflow in the capital and financial account at $476 million in the first quarter of 2004 was 30.4 percent higher than the net outflow of $365 million in the same period in 2003. Contributory factors were the significant declines in both direct and portfolio investment inflows, which were, however, tempered by lower outflows in other investments during the quarter.

▪ Capital Account

The capital account reverses to a net outflow.

The first quarter developments showed the capital account reversing to a net outflow of $4 million from a net inflow of $3 million due to the lower receipts from private capital transfers (Table 6).[5]

▪ Direct Investments

Direct investment flows sluggish.

The direct investment account posted a net outflow of $36 million, a reversal from the $37 million net inflow in the same quarter of 2003. This developed following the sell-off by a non-resident investor of its stakes in a large food manufacturing company to a resident firm. This overshadowed the 17.9 percent increase in new placements in equity capital, particularly in electronics and real estate, a greater portion of which came from the U.S. and Singapore. Direct investment flows are expected to improve further after the May presidential elections. Moreover, the approval in March 2004 of the Investments Priorities Plan for 2004 that provides a package of incentives is expected to enhance the country's investment climate (Table7).

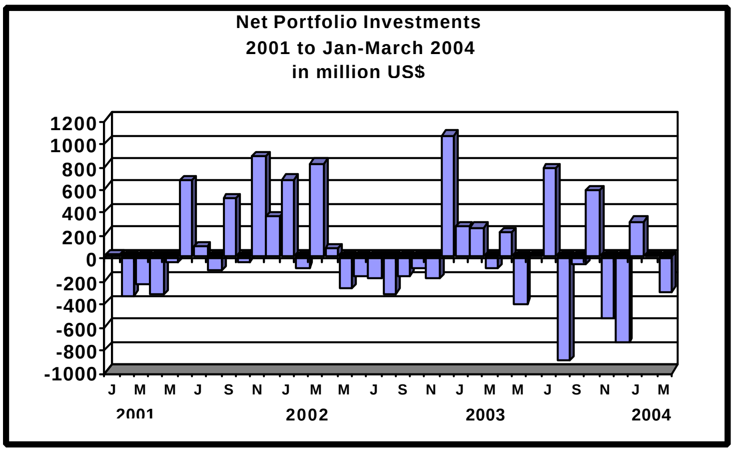
▪ Portfolio Investments

Net portfolio investment flows weaker.

Net inflow in the portfolio investment account narrowed to $7 million during the first three months of 2004 in contrast to the year-ago level of $417 million. This was largely on account of the bond repayments by private corporates, which negated the impact of increased non-resident investments in the equities market and issuances of the government and government-owned-and-controlled corporations (GOCCs). Moreover, risk aversion due to global and domestic developments (e.g., fear of

[5] 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.

terrorism - Madrid train bombing, continuing tension in Iraq, weak peso, and election-related concerns) likewise, dampened investor sentiment (Table 8).



▪ Other Investments

Bank and private sector borrowings reduce net outflow in the other investments account.

In the first quarter of 2004, the net outflow in the other investments account dropped to $443 million, more than half of the year-ago level of $822 million. This was due largely to the inflows from local banks' short-term foreign loans and inter-bank borrowings as well as the private sector's short-term loans to pay for their import bills (Table 9).

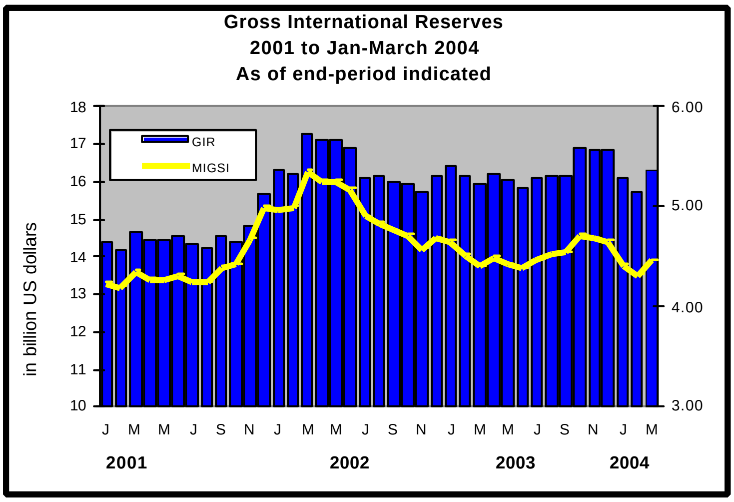
➢ Reserve Assets

International reserves remain comfortable.

The BSP's gross international reserves (GIR), including reserve position in the IMF, reached US$16.3 billion as of end-March 2004 (Table 11). This was 3.1 percent lower compared to the end-December 2003 level of US$16.9 billion. Notwithstanding, the end-March 2004 level of reserves remained comfortable, equivalent to 4.5 months' worth of imports of goods and payment of services and income (MIGSI). In terms of debt coverage, the reserve level was 2.7 times the amount of the country's short-term foreign liabilities based on original maturity and 1.5 times based on residual maturity.[6]

[6] 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.

A large part of the reserves was in the form of foreign investments (75.9 percent), with the balance in gold (20.3 percent), foreign exchange (3.0 percent) and combined SDRs and reserve position in the Fund (0.8 percent). By currency composition of reserves (excluding gold), 81.4 percent was in US dollars, 11.4 percent in Euros, 3.8 percent in Japanese yen, 2.0 percent in pound sterling and the balance of 1.4 percent in other foreign currencies.



➢ Exchange Rate

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

The nominal peso-dollar exchange rate averaged ₱55.97/US$1 in the first quarter of 2004, depreciating by 3.4 percent from last year's level of ₱54.08/US$1. Transactions in the exchange rate market were influenced by both economic and non-economic factors including increased corporate demand for U.S. dollars, particularly by oil companies; seasonal post-holiday decline in OFW remittances; the downgrade by the Moody's Investors' Service of the country's currency debt ratings; and political developments in the run-up to the May 2004 elections. These pressures on the peso led the peso-dollar exchange rate to breach the ₱56/US$1 mark in the early part of the year.

The peso is less volatile.

Notwithstanding, the peso was less volatile in the first quarter of 2004 as its standard deviation at ₱0.37 was lower than the year-ago level of ₱0.52. The peso's stability was realized with the steady inflow of remittances from OFWs that helped ease dollar liquidity in the foreign exchange market. The peso-dollar exchange rate ranged from ₱55.14/US$1– ₱56.43/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 in the first quarter of 2004 depreciated by 9.8 percent against the currency basket of the country's major trading partners,[7] 6.6 percent against the currency basket of a broad group of competitor countries,[8] and by 7.8 percent against the currency basket of a narrow group of competitor countries.[9] This was attributed to 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,[10] the peso gained external price competitiveness as the REER depreciated by 7.8 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 4.8 percent and 7.5 percent, respectively, due to the combined effects of higher nominal depreciation of the peso and the relatively lower domestic inflation, particularly vis-à-vis those of the countries whose currencies are included in the broad and narrow baskets.

[7] 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.

[8] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Thailand, Indonesia and Hong Kong.

[9] The narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand.

[10] 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		
			CC			CC	
		MIC[1/]	Broad[2/]	Narrow[3/]	MIC[1/]	Broad[2/]	Broad[3/]
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
	Qtr 1	**14.82**	**32.85**	**65.26**	**66.06**	**111.14**	**171.16**
	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
	Qtr 2	**14.71**	**31.82**	**61.66**	**65.32**	**107.89**	**162.76**
	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
	Qtr 3	**13.88**	**30.45**	**59.43**	**62.10**	**105.02**	**159.18**
	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.	**Q4**	**13.43**	**29.85**	**58.19**	**60.14**	**101.87**	**152.53**
Ave.	**Jan-Dec**	**14.21**	**31.24**	**61.13**	**63.41**	**106.48**	**161.41**
2003	Jan	13.02	29.24	57.14	58.67	100.72	147.64
	Feb	12.87	29.05	56.61	57.86	98.84	146.17
	Mar	12.74	29.03	56.18	57.02	98.62	145.53
	Qtr 1	**12.88**	**29.10**	**56.64**	**57.85**	**99.39**	**146.45**
	Apr	13.17	29.94	57.68	59.03	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
	Qtr 2	**12.94**	**29.34**	**56.10**	**58.26**	**100.84**	**146.45**
	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
	Qtr 3	**12.56**	**28.15**	**53.98**	**56.99**	**99.01**	**143.95**
	Oct	12.14	27.73	53.23	55.09	95.66	139.95
	Nov	12.05	27.70	53.09	54.87	96.72	138.89
	Dec	11.83	27.64	52.92	54.03	95.76	138.11
	Qtr 4	**12.01**	**27.69**	**53.08**	**54.67**	**96.05**	**138.99**
Ave.	**Jan-Dec**	**12.60**	**28.57**	**54.95**	**56.94**	**98.82**	**144.05**
2004	Jan	11.67	27.38	52.31	53.61 e/	96.05 e/	135.44 e/
	Feb	11.54	27.04	52.00	52.99 e/	93.68 e/	134.60 e/
	Mar	11.63	27.12	52.39	53.33 e/	94.19 e/	136.52 e/
	Qtr 1	**11.62**	**27.18**	**52.23**	**53.31**	**94.64**	**135.52**

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.