BALANCE OF PAYMENTS DEVELOPMENTS
FIRST QUARTER 2005

6/23/2005 3:40 PM

✍ Overall Position

The BOP position reverses to a surplus due to strong current and capital and financial accounts.

The balance of payments (BOP) position in the first quarter of 2005 yielded a surplus of US$783 million, a reversal from the US$378 million deficit posted in the same quarter last year. Behind this favorable outcome was the significant improvement in the current account and the reversal of the capital and financial account to a net inflow in the first quarter of this year (Table 1).

Balance of Payments (US$ m)

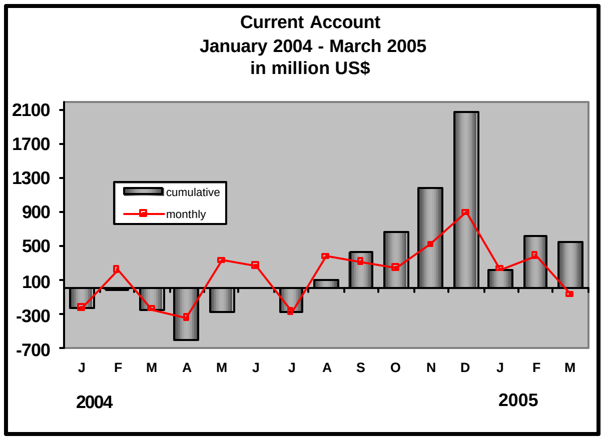
		Q1		Growth
		2005	**2004**	**Rate (%)**
I.	Current Account	546	109	400.9
II.	Capital & Fin'l Account	636	-518	222.8
III.	Net Unclassified Items	-399	31	-1387.1
IV.	**Overall BOP**	**783**	**-378**	**307.1**

* Totals may not add up due to rounding.

✍ Current Account

The current account yields a higher surplus as inflows from OFW remittances continue to rise.

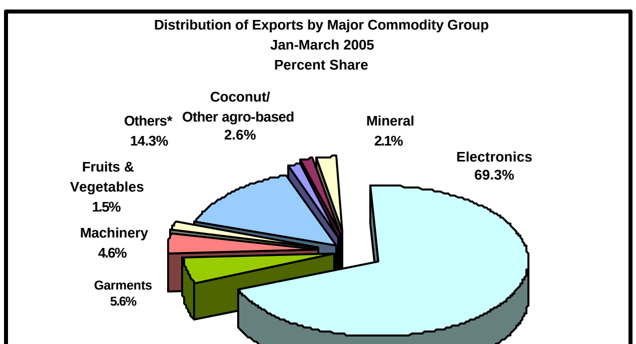
The current account posted a higher surplus of US$546 million in the first quarter of 2005, equivalent to 2.5 percent of GDP, compared to a surplus of US$109 million (0.6 percent of GDP) registered in the same quarter a year-ago. The factors that lent support to the strong gains posted by the current account were the lower deficits in the trade-in-goods, services and income accounts, coupled with the higher surplus in current transfers, specifically remittances from overseas Filipino workers (OFWs).



Trade-in-Goods

The trade-in-goods account posts a slightly lower deficit as growth in exports exceeded the rise in imports.

First quarter 2005 developments showed the trade-in-goods account yielding a deficit of US$1.735 billion, slightly lower than the US$1.746 billion deficit posted in the same quarter last year. This developed as the expansion in goods export at 4.3 percent surpassed that of goods import at 3.5 percent. Shipments of electronics, garments and machinery and transport equipment on aggregate, comprised almost 80 percent of total exports, and remained the prime movers of the export sector. Total export earnings during the quarter amounted to US$9.320 billion while the total import bill reached US$11.055 billion (Table 2.1).[1]



Source: National Statistics Office (NSO)
* Net of re-exports

[1] Based on BPM5 concept (i.e., excluding fom the National Statistics Office (NSO) figures, those goods that did not involve change in ownership). Moreover, data on goods import for the first quarter of 2005 were adjusted to reflect the correct valuation of consigned raw materials for electronics based on the methodology agreed upon by the members of the Inter-Agency Committee on Trade Statistics (IACTS) to make the 2005 goods import data comparable with the revised 2004 data.

Electronics exports sustain growth despite the softening in global IT demand.

a) *Electronics*. Despite the weakness in global IT demand, exports of electronics (including electronic equipment and parts) managed to post a modest growth of 3.2 percent in the first quarter of 2005 to reach US$6.596 billion. The slower pace of expansion in electronics exports reflected in part the softening in global IT demand noted in the latter part of 2004. The leading product lines which contributed to the sustained growth in total electronics exports were diodes, parts and accessories of data processing machines, input/output peripheral units and digital monolithic. Exports of semiconductor devices, though 1.8 percent lower than last year, remained at the top, accounting for 20.4 percent of total exports during the quarter. Semiconductor devices were shipped mainly to China, Malaysia, Hong Kong, Singapore and the U.S. as increased demand from these markets continued, due in part to the swift innovation of IT-related products particularly information/communications and consumer electronics, consisting largely of mobile handsets.

Exports of machinery and transport equipment continue to post gains amid higher demand for electrical wiring harness and motor vehicle parts and accessories.

b) *Machinery and Transport Equipment.* Exports of machinery and transport equipment remained one of the leading export earners in the first quarter of 2005 with shipments amounting to US$436 million, or a growth of 19.6 percent. Behind the double-digit improvement was the increased demand for electrical wiring harness, motor vehicle parts and accessories, motor vehicle gear boxes and servo brakes as the industry harnesses its product outsourcing potential. Cognizant of the industry's prospects as one of the growth engines of the economy, the government continued its commitment to enhance the industry's global competitiveness. Policies and programs aimed at promoting efficient operations and reducing transaction costs were implemented through the issuance of Executive Order (EO) Nos. 244 and 312 in October 2003 and May 2004, respectively, which provided for the grant of export credit incentives to participants in the Automotive Export Program from 2004 until 2008. Moreover, E.O. No. 313 allows zero percent duty to BOI-registered export-oriented enterprises on their importation of machinery and equipment, spare parts and accessories.

Exports of garments rebound in the first quarter of the year despite the removal of the quota system.

c) *Garments*. Exports of garments sustained its rebound which began in the last quarter of 2004 and managed to post a moderate growth of 1.5 percent in the first quarter of the year. This was a reversal from the 7.9 percent contraction in the same period in 2004. Even before the termination of the quota system in 2004, the garments industry experienced stiff competition from other markets such as China, Mexico, and other emerging economies that resulted in the declining share of garments to total exports beginning July 2003. With the phase-out of quotas in January 2005, the performance of the garments industry is expected to be challenged.

To help the industry cope with the constraints in a quota-free environment, the government has initiated the implementation of the Industry Transformation Plan which contained development assistance programs designed to alleviate the plight of the garments exporters aimed to enhance productivity through technology and skills upgrading, develop and promote diversified markets and products, and provide access to financing. Also included were the elimination of all quota fees starting January this year to help exporters compete with other low-cost countries and the grant of quota incentives to encourage exporters to undertake productivity and growth-enhancing activities that are essential to achieving greater competitiveness.

Complementing these government efforts were private sector initiatives, specifically:

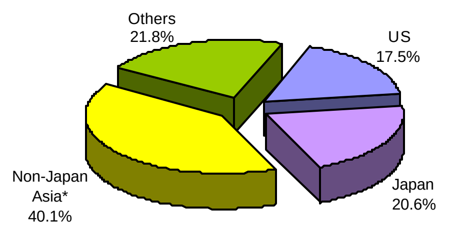
a) the conduct of a study on the possibility of a free trade agreement with the US to ensure continued access of Philippine garments exports in the US market. Participating in this initiative was the Confederation of Garments Exporters of the Philippines (CONGEP) in coordination with the Department of Trade and Industry (DTI) and the private sector; and

b) the participation of the country's garments exporters in the Istanbul Declaration of garments federations in 37 nations that have petitioned the World Trade Organization (WTO) to postpone the phase-out of the export quotas;

Non- Japan Asian countries remain the leading market for Philippine exports.

Non-Japan Asian economies have been the dominant export markets with a combined market share of 40.1 percent in the first three months of 2005, a remarkable increase from only 17.3 percent in 1990. Mainland China remained the most dynamic market posting an annual average growth of about 37.6 percent in the last five years with the surge in growth at 71.0 percent and 58.2 percent in 2002 and 2003, respectively. In the first quarter of 2005, export shipments to China grew by 68.1 percent, representing about 8.8 percent of total exports.

Major Export Destinations
Jan-March 2005
(Percent Share)



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

Source: NSO

Higher purchases of mineral fuels and lubricants as well as consumers goods keep total imports in the growth path.

Imports of goods in the first quarter of 2005 aggregated US$11.055 billion, 3.5 percent higher than the level in the comparable quarter a year ago. The increase was traced to higher purchases of mineral fuels and lubricants and consumer goods which more than offset the decline in imports of capital and raw materials and intermediate goods (Table 2.2).[2]

Capital goods imports contract.

Imports of capital goods declined by 13.1 percent to US$1.931 billion in the frst quarter of 2005. The contraction was largely traceable to lower procurement of office and EDP machines, telecommunications equipment and power generating and specialized machines.

[2] Based on BPM5 concept.

Imports of raw materials and intermediate goods contract following reduced purchases of raw material inputs for the manufacture of electronics.

Meanwhile, imports of raw materials and intermediate goods reached US$5.147 billion in the first quarter of 2005, down by 21.4 percent from last year's level due largely to the decline in purchases of materials and accessories for the manufacture of electronics exports, followed by artificial resins and manufactured goods such as textile yarn, fabrics & made-up articles and non-ferrous metals. The 10.2 percent contraction in raw material inputs was a reversal of the 36.5 percent growth registered in the same quarter last year. This development, however, could be temporary as demand for raw material inputs particularly for electronics are expected to go up once the inventory correction is completed.[3] Going-forward, the projected expansion in investments in export-related industries is expected to lead to a rebound in purchases of raw material requirements for export production.

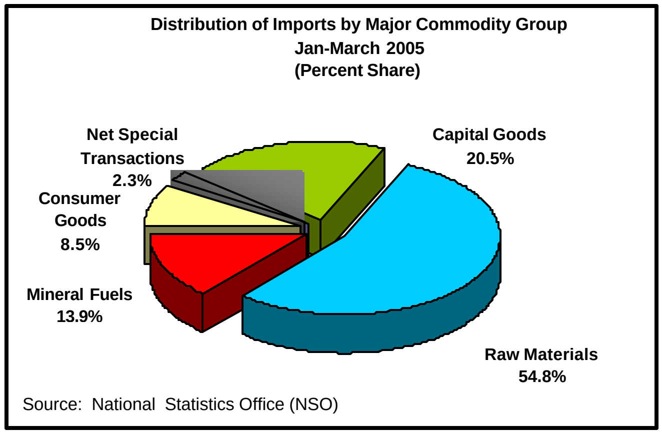
Consumer goods imports rise as procurement of both durable and non-durable goods increases.

By contrast, imports of consumer goods reached US$797 million in the first quarter of the year triggered by the rise in purchases of both durable and non-durable goods. The 21.1 percent growth was traced largely to higher imports of rice in the light of the expected supply shortage from the impact of the El Niño this year. There were also notable increases in imports of passenger cars and motorized cycle as well as other food products such as dairy products and fish and fish preparation.

Mineral fuels and lubricants imports increase in the wake of the continuing hike in the world prices of oil.

Triggered by the continuing increase in global oil prices, imports of mineral fuels and lubricants grew by 26.1 percent to US$1.309 billion in the first quarter of 2005, attributed largely to the increase in import volume and price of petroleum crude. Imports of petroleum crude rose by 45.7 percent to US$714 million as the average price registered at US$37.09 per barrel from US$30.41 per barrel while import volume increased from 16.11 million barrels to 19.25 million barrels. Imports of other petroleum products likewise increased to US$563 million on account of the 49.4 percent hike in average price to US$54.94 per barrel from US$36.78 per barrel a year ago. Other petroleum products comprised mainly of gas and fuel oils, motor gasoline, propane and butane and kerosene.

[3] Monthly imports of raw materials and intermedate goods in 2004 posted year-on-year growths from January-November before posting a contraction in December 2004. Double-digit growths were recorded during the period January-February and June-October 2004. Moreover, results of NSO's Monthly Integrated Survey of Selected Industries (MISSI) showed that average capacity utilization particularly for electrical machinery during the period Q4 2004 and Q1 2005 has been steady at around 251.8 -251.9 even as imports of consigned raw materials used for electronics exports for Q1 2005 were lower compared to same period in 2004.



✍ Trade-in-Services

The trade-in-services account posts a lower deficit.

The deficit in the trade-in-services account during the first quarter of 2005 narrowed to US$161 million due to higher net inflows of passenger transport, finance, construction, computer and information and miscellaneous business, professional and technical services, coupled with the lower net outlays for government and other business services dealing with operational leasing. Meanwhile, other services such as travel and communication services remained in surplus but at lower levels compared to last year. Net receipts from travel declined by 10.9 percent to US$196 million in the first quarter following the increase in travel imports. It must be noted, however, that travel imports include the expenses abroad by resident OFWs such as sea-based workers and performing artists which grew by 27.9 percent in January to March 2005 from US$148,353 million to US$189,728 million. Meanwhile, travel exports grew by 4.5 percent owing to the 11.0 percent rise in number of tourists visiting the country during the quarter in review.[4] The government through the Department of Tourism (DOT) has intensified its market promotion drive to help boost the country's tourism industry. In particular, an outreach program urges Filipino-American groups to support tourism marketing efforts to further boost the number of visitor arrivals originating from the U.S., the top source country. Aside from the U.S., majority of the tourists came from Korea, Japan, Hong Kong, Taiwan, Australia, Canada, China, U.K., Singapore and Germany.

[4] It should be noted that both exports and imports of travel include OFW-related expenses. Travel exports include expenses in the Philippines of non-resident OFWs during their home visits while travel imports include expenses of resident OFW in the host economies. Refer to footnote 4 for further explanation on residency of OFWs.

✍ Income

Higher compensation income of resident OFWs lowers the income account deficit.

The income account in the first quarter of 2005 yielded a lower deficit of US$106 million compared to a deficit of US$145 million in the same quarter in 2004. The narrowing of the deficit was due mainly to the 17.9 percent increase in compensation income of resident OFWs, which climbed to US$725 million during the review quarter. This was due, in turn, to higher deployment of sea-based workers by 6.7 percent to reach 61,389.[5] On the other hand, the net investment income turned in a higher deficit of US$831 million due mainly to the higher net outflow in the portfolio investment income account. In particular, interest expense on debt more than doubled to reach US$325 million following higher interest outlays by the NG and the private sector (Table 4).

✍ Current Transfers

The surplus in the current transfers account improves on account of higher non-resident OFW remittances.

Net current transfers in the first quarter of 2005 rose to US$2.548 billion from the year-ago level of US$2.243 billion as net transfers from both foreign governments and other sectors improved. Current transfers from other sectors comprised largely of workers' remittances, particularly from the other land-based overseas Filipino workers (e.g., professionals, medical-and-health-related personnel, service workers). The continued deployment of these higher-paid professional OFWs and the intensified marketing efforts by commercial banks through the expansion of their remittance services abroad contributed in part to the 14.7 percent rise in total workers' remittances to US$2.341 billion during the review quarter (Table 5).[6]

[5] Under the BPM5, the residency of seasonal workers such as OFWs is classified according to the length of their stay in the host economy. OFWs who are working for less than one year are classified as resident OFWs and their remittances reflected under the Income Account. Meanwhile, OFWs who are working for one year or more are classified as non-residents OFWs and their remittances are reflected under the Current Transfers Account. Remittances of performing artists and sea-based workers, who generally enter into a contract of less than one year are reflected under the Income Account. Meanwhile, remittances of all land-based workers, except performing artists, are included under the Current Transfers Account.

[6] Based on the National Statistics Office's Survey on Overseas Filipinos (NSO-SOF) in 2004, 81 percent of the total inflows of OFW remittances passed through the banking system, which was higher compared to 73 percent in 2003. The NSO-SOF is a nationwide survey that gathers information on overseas workers who left abroad during the last five years using the past six months reference period. The SOF is a rider survey to the October round of Labor Force Survey every year.

✍ Capital and Financial Account

The capital and financial account reverses to a surplus on the strength of the investment accounts .

The capital and financial account recovered to post a surplus of US$636 million in the first quarter of 2005 from a deficit of US$518 million in the same quarter of 2004. Behind the reversal was the significant improvement in all investment accounts, except for financial derivatives, as business and investment sentiments improved.

✍ Capital Account

The capital account posts a slightly higher deficit.

The capital account deficit slightly widened to US$5 million in the first quarter of 2005 from the year ago deficit of US$4 million following the higher net outflow in the net capital transfers to the private sector, particularly migrants' transfers (Table 6).[7]

✍ Direct Investments

Direct investment reverses to a surplus as non-residents' placements in equity capital rise.

The direct investment inflows reversed to post a surplus of US$262 million in the first quarter of 2005 from a deficit of US$180 million in the comparable quarter a year-ago. The surge in net direct investment flows was largely on account of increased non-resident equity capital placements and the substantial reduction in the net outflows of other capital, combined with the decline in equity capital placements abroad by residents. During the review quarter, non-residents' investments in equity capital reached US$284 million from only US$39 million last year, as gross new foreign investments were 85.2 percent higher at US$363 million over the US$196 million recorded in the comparable quarter in 2004. Equity inflows from non-residents coming largely from the U.S., Hong Kong, Japan, and Malaysia, were directed mainly to the manufacturing (components for automobile parts), services (design/software development, technology services, business process outsourcing), real estate and financial sectors (Table7).

[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 counterparties and are linked to the acquisition and disposition of fixed assets. By contrast, current transfers involve transactions that affect the level of disposable income and influence consumption of goods and services.

✍ Portfolio Investments

Positive economic and non-economic factors boost the portfolio investment account.

The portfolio investment account posted a surplus of US$648 million in the first quarter of the year, a turnaround from the deficit of US$9 million registered in the same quarter of 2004. The reversal was due to the substantial increase in non-residents' investments in both equity and debt securities, which strongly indicate improved business and investment sentiments. Net placements in equity securities surged to US$1.024 billion from only US$70 million while the increased subscription to the bond/notes issuances by the NG and local commercial banks led to the more than eightfold expansion in non-residents' investments in debt securities.

The renewed investor confidence was reinforced by positive economic and non-economic developments such as the: 1) Supreme Court's decision in December 2004 allowing 100 percent ownership by foreign investors in mining ventures; 2) country's removal from the list of non-cooperative countries and territories (NCCTs) of the Financial Action Task Force (FATF); 3) lower-than-programmed fiscal deficit of the National Government (NG) in the first three months of 2005 as a result of more vigorous efforts in revenue collection; 4) positive first quarter corporate earnings results; 5) continued growth in exports; 6) the 6.1 percent expansion of gross domestic product in 2004, the highest growth achieved since 1996; 7) comfortable external liquidity position; and 8) appreciation of the peso. The issuance of initial public offerings (IPOs) mainly by SM Investment Corporation (SMIC) and Manila Water Company also lent support to the level of portfolio investments during the period.

✍ Financial Derivatives

Financial derivatives balance posts a higher deficit.

Net losses in financial derivatives widened to US$46 million during the first quarter from US$2 million in the same period a year-ago. Gains realized by domestic commerical banks from forwards and swaps rose to US$14 million from US$13 million last year. However, losers in financial derivatives transactions outweighed gainers with settlements at US$60 million, a further dip from US$15 million in the comparative quarter a year ago.

✍ Other Investments

The other investment account registers a lower net outflow due to lower residents' investments abroad.

The deficit in the other investment account narrowed to US$223 million in the first three months of 2005 compared to the US$323 million net outflow in the same quarter in 2004. The 31.0 percent improvement was due to higher currency and deposits which reversed to a net inflow of US$208 million from a net outflow of US$624 milllion. This more than offset the net repayments in trade credits and loans (Table 10).

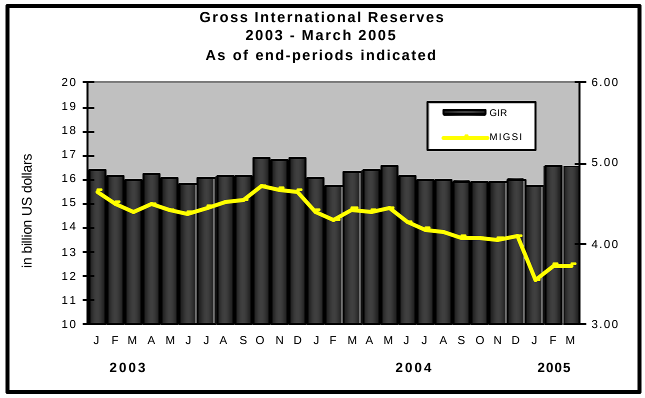
✍ Reserve Assets

Gross international reserves remain comfortable.

The BSP's gross international reserves (GIR), including reserve position in the IMF, reached US$16.5 billion as of end-March 2005 (Table 12). This was 1.8 percent higher compared to the end-December 2004 level of US$16.2 billion. At this level, reserves remained comfortable and is equivalent to 3.7 months' worth of imports of goods and payment of services and income (MIGSI). In terms of debt coverage, the reserve level was 3.5 times the amount of the country's short-term foreign liabilities based on original maturity and 1.7 times based on residual maturity.[8]

A large part of the reserves was in the form of foreign investments (80.6 percent), with the balance in gold (16.3 percent), foreign exchange (2.2 percent) and combined SDRs and reserve position in the Fund (0.9 percent). By currency composition of reserves (excluding gold), 81.9 percent of reserves were in US dollars, 10.4 percent in Euros, 4.4 percent in Japanese yen, 2.0 percent in pound sterling and the balance of 1.3 in other foreign currencies.

[8] 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

Peso appreciates in the first quarter.

The nominal peso-dollar exchange rate averaged ₱55.01/US$1 in the first quarter of 2005, marginally appreciating by 1.7 percent from last year's level of ₱55.97/US$1. Sustained dollar inflows from OFW remittances and portfolio investments due, in turn, to series of positive news such as the lower-than-programmed fiscal deficit, the country's delisting from non-cooperative countries and territories (NCCTs) of the Financial Action Task Force (FATF), good corporate income, and the issuance of initial public offerings (IPOs), boosted the local currency.

Peso shows more volatility in the first quarter.

However, the peso was more volatile in the first quarter of 2005 as its standard deviation at ₱0.64 was higher than the year-ago level of P0.37. The peso-dollar exchange rate ranged from ₱53.91/US$1 to ₱56.341/US$1.

Peso external competitiveness weakens with appreciation larger than trading partners'.

Relative to last year's level, the peso's average nominal effective exchange rate (NEER) index in the first quarter of 2005 was almost unchaged against the currency basket of the country's major trading partners,[9] but appreciated by 1.3 percent and 7.3 percent against the currency baskets of the broad and narrow groups of competitor countries, respectively.[10] This was attributed to the larger appreciation of the peso vis-a-vis the U.S. dollar compared to those of the other currencies in these baskets. In terms of the real effective

[9] 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.

[10] The broad basket is composed of the currencies of Singapore, South Korea, Taiwan, Thailand, Indonesia and Hong Kong while the narrow basket is composed of the currencies of Indonesia, Malaysia and Thailand

exchange rate (REER) index,[11] the peso lost external price competitiveness as the REER appreciated by 6.2 percent against the currency basket of the country's major trading partners. Moreover, in comparison to the countries in both the broad and narrow baskets, the peso's external competitiveness weakened as the REER appreciated by 6.9 percent and 10.8 percent, respectively, due to the country's strong currency and higher inflation vis-à-vis those in 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/	Narrow 3/
2004	Jan	11.67	27.38	52.31	53.61	96.10	136.09
	Feb	11.54	27.04	52.00	52.95	93.67	134.74
	Mar	11.63	27.12	52.39	53.33	94.17	136.39
	Qtr 1	**11.61**	**27.18**	**52.23**	**53.30**	**94.65**	**135.74**
	Apr	11.77	27.24	52.91	54.03	94.32	136.05
	May	11.88	27.89	54.61	54.63	97.40	143.26
	Jun	11.75	28.15	56.05	54.70	100.65	149.92
	Qtr 2	**11.80**	**27.76**	**54.52**	**54.45**	**97.46**	**143.08**
	Jul	11.72	27.86	54.82	55.27	101.03	148.16
	Aug	11.79	28.16	55.76	55.80	102.35	151.75
	Sep	11.71	27.84	55.21	55.65	100.76	149.87
	Qtr 3	**11.74**	**27.95**	**55.26**	**55.57**	**101.38**	**149.93**
	Oct	11.59	27.63	54.75	55.00	99.17	147.24
	Nov	11.38	27.15	54.25	54.36	99.38	146.21
	Dec	11.28	27.11	54.81	54.29	98.83	147.87
	Qtr 4	**11.42**	**27.30**	**54.60**	**54.55**	**99.13**	**147.11**
Ave	**Jan-Dec**	**11.64**	**27.55**	**54.16**	**54.47**	**98.15**	**143.96**
2005	Jan	11.42	27.21	55.15	55.71	101.17	148.38
	Feb	11.68	27.59	56.06	57.00	100.88 e/	150.57
	Mar	11.71	27.77	56.96	57.02	101.59 e/	152.22
	Qtr 1	**11.60**	**27.52**	**56.06**	**56.58**	**101.21**	**150.39**

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.

[11] The REER index is derived from the NEER index by adjusting for inflation differentials.