PHILIPPINES ECONOMIC WRAP-UP

DECEMBER 23, 2000 - JANUARY 12, 2991

Summary

2000 closed with a series of bomb blasts rocking Manila; 2001 opened with markets diving to new lows as a result. While inflation continued to accelerate in December, the final numbers for 2000 as a whole (4.4%) were below government forecasts. Fiscal performance for 2000 was dismal, with estimates for the final deficit reaching to P140 billion. Equitable-PCI Bank proved that money laundering and bank secrecy are bad for business, as its alleged involvement in the scandals surrounding President Estrada saw deposits decline P3 billion. The Philippine trade surplus jumped nearly 50% in the first ten months of 2000 as imports dwindled. And the Philippines will continue to allow imports of Semi-Knocked Down (SKD) vehicles as an incentive for the continuing development of the automotive industry. End Summary.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site. The next edition of the Outlook will be available in early February.

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Market and Policy Developments

FOREX REPORT

Since our last report in December, the Philippine peso has depreciated to close at P51.59/US$ on January 12, 2001. A series of bomb explosions in Manila on December 30 combined with fears that the impeachment trial of Philippine Estrada will drag into February to dampen demand for the peso.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
DEC 04	49.471	49.475	130.8
05	49.565	49.585	84.7
06	49.832	50.050	70.0
07	50.273	50.210	122.6
08	50.108	50.050	92.0
DEC 11	49.949	49.945	68.4
12	49.856	49.850	37.5
13	49.930	49.978	52.5
14	50.071	50.085	114.1
15	50.050	50.030	86.6
DEC 18	50.072	50.120	48.8
19	50.140	50.075	123.5
20	50.075	50.058	108.9
21	50.077	50.045	88.5
22	50.024	49.900	75.9
DEC 25	Markets Closed		
26	49.443	49.420	134.5
27	49.372	49.910	88.0
28	49.998	49.870	154.6
29	49.986	50.010	65.5
JAN 01	Markets Closed		
02	51.294	51.000	84.0

03	51.025	51.040	128.5
04	50.953	50.970	126.2
05	51.092	51.000	145.5
JAN 08	50.939	50.940	93.0
09	50.902	50.935	77.0
10	51.064	51.150	112.0
11	51.325	51.325	149.5
12	51.460	51.590	99.6

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

The policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) continues to cut its key policy rates in line with local and international conditions. The BSP cut overnight lending and borrowing rates twice since our last report; on January 5 and on January 11. Overnight lending rates now stand at 14.75%, overnight borrowing rates are now 12.5%. The cuts reflect U.S. Federal Reserve moves to cut interest rates, as well as a more stable inflationary picture in the Philippines. The BSP continues to use a tiering system for overnight placements; the first P5 billion deposited overnight with the BSP earns 12.5%; 11% is paid on the next P5 billion; placement beyond P10 billion earn 9.5%. The tiering scheme was introduced several months ago to encourage banks to lend commercially rather than lock up deposits with the BSP.

Consistent with the BSP actions, interest rates at the weekly T-bill auctions have also fallen. The January 8 auction saw rates for the 91 day T-bill settle at 12.598%. Demand for the government paper was heavy, with more than P18 billion worth of bids made for the P4 billion worth of bills on offer. A full award was made on January 8, in contrast to the January 2 results where all bids for 182-day and 364-day bills were rejected. The Treasury Bureau said that bids on January 2 were "too high" reflecting market sentiments and reactions to the December 30 bombings in Manila.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
NOV 27	14.806	15.168	15.235
DEC 04	14.193	15.290	15.435
DEC 11	13.702	15.277	15.579
DEC 18	12.931	14.724	15.067
JAN 02	12.883	rejected	rejected
JAN 08	12.598	13.657	14.240

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
NOV 29	18.2152	14.50 – 21.00
DEC 07	17.5226	14.50 - 20.806
DEC 13	17.2705	14.50 – 20.097
DEC 21	17.4326	14.50 - 20.00
JAN 04	17.3220	14.50 – 20.00
JAN 11	17.1677	14.50 – 20.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

After a very shaky start (the 33-share Philippine Stock Index (PHISIX) shed 3.08% on the first day of trading in 2001), the Philippine stock market has regained some normalcy, with trading remaining modest as investors hunt for bargains among the blue chips and watch the ongoing impeachment trial of President Estrada. The PHISIX closed on January 12 at 1541.65.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
DEC 04	1381.83	561
05	1381.23	551
06	1393.29	599
07	1390.67	504
08	1400.36	623
DEC 11	1393.71	754
12	1398.15	904
13	1395.20	286
14	1398.87	574
15	1403.39	396
DEC 18	1408.19	398
19	1413.99	2697
20	1447.65	2900
21	1426.05	954
22	1429.17	1175
DEC 25	Markets Closed	
26	1467.82	607
27	1464.21	1781
28	1486.46	677
29	1494.50	5400
JAN 01	Markets Closed	
02	1448.49	379
03	1450.96	216
04	1475.11	366
05	1469.08	302
JAN 08	1494.38	522
09	1531.82	682
10	1534.15	962
11	1515.89	609
12	1541.65	798

Source: Philippine Stock Exchange

DECEMBER YEAR-ON-YEAR INFLATION ACCELERATES TO 6.6%

The government's National Statistics Office (NSO) reported that December 2000's consumer price index (CPI) increased by 0.7% month-on-month, decelerating from November's 1.2% increase. That month-on-month slowdown reflected a slower increase in the heavily-weighted food index (up 0.5%) following November's typhoon-induced 1.4% hike. Month-on-month inflation also slowed for services and miscellaneous items, although the indices for housing and utilities logged higher rates than in November.

As expected, the CPI increased more markedly in year-on-year terms (reflecting the effect of a relatively lower 1999 base). The overall CPI jumped by 6.6% from December 1999 compared with November's 6% rate, with all major indices posting higher year-on-year increases. December 2000's inflation rate marked the highest year-on-year CPI increase posted since June 1999. The acceleration was within most expectations. Manufacturers had indicated in recent months that they were finding it increasingly difficult to hold off more significant price adjustments as cost-push pressures (i.e., from higher wages, interest rates, transport and utility rates, and a weaker peso) escalated. Nevertheless, the average year-on-year rate for 2000 (4.4%) was lower than expected, below the government's targeted 5-6% range as well as 1999's 6.7% performance. Cost-push pressures are expected to impact more heavily on inflation figures in 2001, compounded by the recurrence of another (albeit milder) dry spell which may push up food prices.

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month
Jan 1999	11.5	2.0
Feb	9.9	0.0
Mar	8.6	(0.3)
Apr	7.9	(0.1)
May	6.6	(0.1)
Jun	5.7	1.0
Jul	5.6	0.1
Aug	5.4	0.3
Sep	5.6	0.5

Oct	5.2	0.3
Nov	3.9	0.1
Dec	4.2	0.1
Average Jan-Dec 1999	6.7	
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average Jan-Dec 2000	4.4	

Source: National Statistics Office

FISCAL NEWS

Although the government has yet to release final estimates on its full-year 2000 fiscal performance, Department of Finance Secretary (DOF) Jose Pardo said this week that indications pointed to the deficit of the national government hitting as high as P140 billion. A P140 billion deficit level would equal about 4.1% of GNP, far exceeding the original P62.5 billion (2.2% of GNP) target envisioned for 2000. The actual deficit was last estimated at P114 billion as of November. According to government officials, debt servicing costs (resulting from higher-than-programmed borrowings, a weaker peso and rising domestic interest rates) pushed up expenditures, aggravating the impact of weak internal revenue collections and shortfalls in privatization receipts.

The government has accepted that the P85 billion deficit it envisioned for 2001 has been overtaken by events. The government has yet to agree on a final target but is reportedly mulling an upward revision to P120 billion. Because of 2001's dismal record, many fear that even that level may be exceeded because of continuing tax collection problems and the current unpredictability of political and economic prospects. The government's tax collection effort (i.e., the ratio of tax collections to GNP) remains among the poorest in the region, hitting no more than 16.3% over the last two decades and deteriorating to 13.8% in 1999. That performance is expected to have deteriorated further in 2000 despite what was supposed to have been a stronger, broader based economic recovery.

2000 ended without final budget approval for 2001. This means that the 2000 budget has temporarily gone into effect. The Lower House approved a P715 billion budget authorization for 2001 before adjourning on December 21 for a three-week break. That amount represented a P10 billion cut from the level requested by President Estrada in July. As this week drew to a close, the Senate finance committee had yet to finalize its committee report, but was reportedly discussing even larger cuts from the executive branch's proposed authorization. Regular congressional sessions resume on January 15.

IMPEACHMENT TRIAL AND EQUITABLE-PCI BANK
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During the first week of January, George Go -- former chairman of Equitable-PCI Bank (whose family holds an estimated 30% stake) -- told reporters that the bank had lost over P3 billion in deposits since becoming heavily embroiled in President Estrada's impeachment trial over the past few months. Messages and rumors sent via e-mail and text messaging also may have contributed. Mr. Go, stepped down as chairman last December to allay fears and perceptions that Equitable-PCI coddled illegal gambling money and ill-gotten wealth –- repercussions of his widely-known close association with the beleaguered Philippine president.

Bangko Sentral Governor Rafael Buenaventura has stressed that the bank (the country's third largest commercial bank asset-wise) has not requested, nor required, any emergency assistance to-date. BSP and Equitable-PCI officials noted that the bank continues to enjoy ample liquidity and cited that the P3 billion or so in withdrawn deposits equaled about 2% of the bank's total deposit base.

If so required, BSP Governor Buenaventura indicated his agency was ready to provide any emergency assistance within the limits prescribed by banking laws. For now, both government and private analysts agree the situation appears under control and the bank's fundamentals remain sound. The publicly listed bank's price share has been relatively stable since the beginning of the new year. Investment analysts nevertheless cautioned that banking remains essentially a "confidence game". They also noted that Equitable-PCI has resorted to paying substantially higher-than-average rates to retain depositors which, if prolonged, could eat into the bank's bottom line.

JAN-OCT TRADE SURPLUS UP NEARLY 50%

Largely due to declining imports, the Philippines' trade surplus in the first ten months of 2000 reached $4.8 billion, higher by a substantial 46% from a year-ago level of $3.3 billion, the National Statistics Office reported. Cumulative imports grew 3.0% year-on-year to $26.5 billion while cumulative exports posted also a slowed 7.7% growth to $31.3 billion. Import growth is clearly driven by mineral fuel, which posted a 71-percent growth year-on-year to $3.2 billion. An 83% rise in average crude prices for Jan-Oct was slightly offset by an 11% fall in import volume. One other major import group, capital goods led by telecommunication equipment, posted a 4.5% growth to $10.3 billion. In contrast, demand for raw materials and intermediate goods declined 4.4% to $10.2 billion as material inputs for the manufacture of electronic devices dropped 12% to $3.6 billion. Posting a similar decline of 4.6% to $2.1 billion was consumer goods, reflecting substantial reduction in purchases of food and milled rice, even as passenger cars logged a 27% growth to $328 million.

Slowed demand shows in reduced Jan-Oct purchases from the country's major suppliers: from the US by a significant 15% year-on-year to $4.6 billion, and from Japan by 3% to $5 billion. These two countries are leading sources of materials and accessories for electronic manufacture.

Some industry analysts see slowed trade as a signal of an economic slowdown. A foreign bank economist has commented "we are getting good numbers, but it's just because we are not importing as much for general consumption or for import-dependent exports." Industrialist Raul Concepcion has estimated that roughly half of the Federation of Philippine Industries (FPI) members (which he heads) have scaled down operations due to the weakening peso, rising interest rates, demand for higher wages and political uncertainly. Industry sources expect the US economy's "cooling down" to also weigh on Philippine companies' productivity, and hinder export growth to the US, the Philippines' largest export market.

Table I

PHILIPPINE FOREIGN TRADE PERFORMANCE
January - October 2000
(FOB Value in Million $)

	Exports	Imports	BOT
Jan 1999	2,581	2,400	181
Feb	2,569	2,257	312
Mar	2,702	2,656	46
Apr	2,346	2,599	(253)
May	2,747	2,533	214
Jun	2,857	2,671	186
Jul	2,851	2,792	59
Aug	3,212	2,661	551
Sept	3,693	2,555	1,138
Oct	3,460	2,613	847
Jan-Oct	29,018	25,737	3,281
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,988	2,742	247
Apr	2,668	2,528	140
May	2,931	2,437	494
Jun	3,410	2,494	916
Jul	3,219	2,675	544
Aug	3,529	2,643	886
Sept	3,502	2,972	530
Oct	3,398	2,854	544
Jan-Oct	31,265	26,481	4,784

Source: National Statistics Office

Table II

Philippine Imports by Major Groups
January -October 2000
(FOB Value in Million $)

	Jan-Oct 1999	Jan-Oct 2000	Pct Growth (Y/Y)
T O T A L	25,737	26,481	2.9
Capital Goods	9,835	10,275	4.5
Telecom Eqpmt. and Elect. Machinery	5,652	5,927	4.9
Power Generators and Specialized Mach.	2,034	2,075	2.0
Office & EDP machines	1,263	1,274	0.9
Other capital goods	886	999	12.7
Raw Materials and Intermediate Goods	10,662	10,194	(4.4)
Mat/Acc for Maftr of Electronic eqpmt.	4,032	3,561	(11.7)
Chemicals	2,078	2,199	5.8
Textiles/embroideries	1,005	943	(6.2)
Other material inputs	3,547	3,491	(1.6)
Mineral Fuel	1,880	3,218	71.2
Petroleum crude	1,530	2,499	63.3
Other products	350	719	105.4
Consumer Goods	2,233	2,131	(4.6)
Food and live animals chiefly for food	1,230	1,104	(10.2)
Passenger Cars and Motorized cycles	258	328	27.1
Rice	217	114	(47.5)
Other Consumer Goods	528	585	10.8
Other Transactions	1,127	664	(41.1)

Source: National Statistics Office

MALACANANG ALLOWS SKD IMPORTS AT PREFERENTIAL DUTY RATE

Late in 2000, Executive Secretary Ronaldo Zamora directed the Board of Investments (BOI) to allow Daimler-Chrysler and its local partner Norkis Automotive Resources to bring in 1,000 semi-knocked down (SKD) units of Chrysler sport utility vehicles and pickups this year, at a preferential tariff of 10%. This is the same rate as completely knocked down (CKD) units; without Malacanang approval, SKDs would be slapped the current MFN tariff of 30%, the same as completely built-up units (CBUs). The directive includes an option to import another 2,500 units in 2002 and 3,500 units in 2003. This is by far the longest shipment period (three years) and the biggest importation of SKDs the government has approved under its Motor Vehicle Development Program (MVDP). SKDs are virtually CBUs without batteries and tires, but they are charged a preferential tariff of 10% to encourage new entrants to go into assembly operations instead of merely importing CBUs.

In granting Malacanang's endorsement to the importation, Zamora said that the President took note of Norkis' P380 million investments in the Cebu assembly plant. Additionally, the plant would require only P5 million to adjust the lines to accommodate a CKD assembly for both Chrysler and a bantam variety (Matiz), which Norkis distributes locally. According to Mr. Zamora, Norkis-Chrysler has committed to move to full automotive assembly using CKDs within 18 months; put up a guarantee for its committed net foreign exchange earnings; and provide a bond to cover for the discounts it would get through preferred duties. Daimler-Chrysler, one of the world's biggest car makers, would be the one to make a pledge to back up these commitments, Zamora asserted. Daimler-Chrysler had also committed to continue to buy locally manufactured automotive parts that would be worth more than the cost of their SKD imports.

MVDP participants used to be able to import within 18 months a limited number (500 units) of vehicles in SKD forms at the same rate as CKDs. However, in April 1998, the BOI discontinued granting SKD import licenses because some assemblers failed to move to CKD assembly after selling all their SKDs. Since then, the BOI may issue a certificate of authority to import SKDs only with an endorsement from Malacanang. The office of the President had earlier approved requests by two assemblers, benefiting a firm importing Chrysler/Jeeps and another company importing Range/Land Rovers. Ford applied for a similar privilege in 1998, but Malacanang has not acted on Ford's application.