

PHILIPPINES ECONOMIC WRAP-UP -- JANUARY 13-19, 2001

Summary

An extremely fluid political situation, from the derailing of the Senate impeachment trial of Philippine President Joseph Estrada on Tuesday night, to massive defections from Estrada's administration on Friday afternoon, saw financial markets take a roller coaster ride. We also report on the government's dismal fiscal performance for 2000, and on the continued erosion of export growth.

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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FOREX REPORT

Political uncertainty drove the value of the Philippine peso to record lows this week. A Philippine Senate vote to reject a key piece of evidence in the impeachment trial of President Joseph Estrada on Tuesday night led to an opening trade on the Philippine Dealing System Wednesday morning at P55.50/US\$, 5% below the closing

trade the evening before. The peso traded as low as P55.75/US\$ that day before recovering slightly (but only slightly. One bank treasurer predicted that the peso would trend "sideways to upwards" until political events become more predictable. Rafael Buenaventura, Governor of the Bangko Sentral ng Pilipinas (BSP, the central bank) reiterated that the BSP did not intend to use interest rates to defend the currency, reiterating earlier comments that monetary policy will not be effective in addressing a political crisis. The BSP also denied that it had sold dollars to prop up the peso. On Friday, the peso swung wildly as political support for President Estrada seemed to erode; hope for a prompt resolution to the crisis saw the peso's value recover sharply to close at P47.50/US\$. (The weighted average for the day's trades was P53.357/US\$.)

It is interesting to note that the peso, which had closely tracked the value of the Thai baht for much of 2000 (with the peso trading about 3-4 units more per dollar than the baht), now stands more than 11 units away from the baht (i.e. the baht trades at about 43/\$; the peso at about 54/\$.) While Philippine authorities accurately pointed to broader weakness in Asian currencies for a substantial portion of the depreciation of the peso in 2000, it is clear that the current slide relates solely to domestic political uncertainty.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
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
JAN 15	51.978	52.400	134.1
16	52.649	52.780	158.0
17	54.808	54.625	70.0
18	55.013	54.790	118.5
19	53.357	47.500	101.6

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Deputy Treasurer Eduardo Mendiola told reporters he was "baffled" by the results of the regular weekly T-bill auction on January 15. The 50 basis point cut in overnight rates announced by the BSP last week was expected to have pulled down T-bill rates accordingly. Perhaps it was the release of data showing the Philippine budget deficit for 2000 was more than double the original target, combined with the weakening peso, that led to the mixed results. Rates on the 91-day bills sank 23.4 basis points to 12.365% on a full award of P1 billion. But the Treasury Bureau held rates on the 182-day bill steady at 13.657% by awarding only P750 million worth of bills offered; and was able to eke out a 0.3 basis point cut in the interest rates on 364-day bills by awarding only P925

million (The Treasury Bureau recently realigned the auction program; at the regular Monday auctions P1 billion worth of 91-day bills and P1.5 billion worth of both 182-day and 364-day bills are offered.) Similar results were seen at the January 16 auction of 10-year T-bonds; a partial award of P2.195 billion worth of the P3 billion of Bonds offered held rates at the 17.5% rate seen at their last auction in December.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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
JAN 15	12.365	13.657	14.237

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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
JAN 17	17.1154	14.50 - 21.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Equity markets also suffered from the political turmoil. After the impeachment trial derailed on Tuesday night, the 33-share Philippine Stock Index (PHISIX) sank over 93

points (6%) on January 17, the second largest single day drop in PHISIX history. After sliding further on Thursday, however, cherry picking and bargain hunting helped the market to recover slightly on Friday. Trading volumes were moderate. Stockbrokers even played a role in the political events, staging a walkout from the trading floor on Thursday and demanding the President's resignation (repeating a similar protest they had staged a few weeks ago). Overall, from its January 12 close of 1541.65, the PHISIX slid 5.8% to close on January 19 at 1452.93.

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

Date	PHISIX Close	Value (Million pesos)
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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

JAN 15	1567.93	1910
16	1551.79	1359
17	1458.63	1876
18	1438.21	1114
19	1452.93	1204

Source: Philippine Stock Exchange

FISCAL DEFICIT ENDS 2000 AT P136.1 BILLION

This week, the Department of Finance reported that the national government's fiscal deficit -- estimated at P114 billion as of November 2000 -- ended the full-year at P136 billion (about 4% of GNP). That level was more than double the government's originally envisioned ceiling of P62.5 billion. Revenues ended 2000 more than P60 billion short of the government's goal, reflecting dismal internal revenue collections (off by P44 billion) and lower-than-targeted privatization receipts (off by P17 billion). Meanwhile, disbursements exceeded the planned level by P12.4 billion as higher-than-intended borrowings to fund the bloated deficit pushed up interest payments.

Tax effort (the ratio of tax collections to GNP) --no more than 16.3% of GNP in over two decades -- is estimated to have deteriorated further from 13.8% in 1999 to less than 13.5% in 2000. This was a particularly worrisome development considering 2000's generally stronger, broader-based economic expansion. With the government's proposed P85 billion deficit for 2001 (presented to Congress in July 2000) since overtaken by events, budget planning officials indicated the government is now drawing up details for a higher P120-130 billion fiscal gap. Some fear, however, that even those levels could be breached as current economic and political uncertainties aggravated long-standing tax collection and administration problems.

An official at the Senate finance committee told the Embassy that they hoped to file a committee report on the 2001 budget by next week. The official declined to give further details but hinted that the committee was eyeing a larger cut to the government's P725 billion budget request than the P10 billion earlier slashed by the Lower House.

NATIONAL GOVERNMENT FISCAL PERFORMANCE
 (January - December 2000)

	(In Billion Pesos)		
	Prog.	Actual	Diff.
	-----	-----	-----
Revenues	567.0	505.7	(61.2)
Internal Revenue	397.8	354.0	(43.8)
Customs	91.9	93.7	1.9
Treasury	21.8	29.2	7.4
Other Offices	55.5	28.8	(26.7)
Privatization	22.0	4.9	(17.1)
 Expenditures	 629.5	 641.8	 12.4
Interest Payments	127.0	140.9	13.8
 Surplus/(Deficit)	 (62.5)	 (136.1)	 (73.6)

 Source: Department of Finance

MERCHANDISE TRADE SLOWS FURTHER

The Philippines' trade surplus in Jan-Nov 2000 widened to \$5.4 billion from \$4.0 billion a year earlier, as cumulative exports posted a slow 7.8% growth to \$34.6 billion while aggregate imports logged a modest 3.4% increase to \$29.1 billion. However, month-on-month, both exports and imports have steadily slackened since September 2000 largely due to the continued slow performance of the country's most important (but import-dependent) export - electronics. Accounting for nearly 60% of total exports, shipments of electronic equipment and semiconductor devices went up by a modest 3% to \$20.4 billion. Reflecting a slowdown in manufacturing

operations, demand for material inputs and components for assembly into finished electronic products declined 8.7% to \$3.9 billion.

Import growth is virtually driven by a 74% increase in the oil bill, fueled by surging crude prices in the world market (average prices were up 83% in Jan-Oct year-on-year). A slight uptick in imports of telecommunications equipment (up 3.2% to \$6.4 billion) was attributed to strong competition among major telephone service providers. Demand for consumer goods dropped 4.6% to \$2.3 billion in the Jan-Nov period. Industrialist Raul Concepcion sees some work stoppages as the heightened ongoing political uncertainty continues to push down the value of the peso, while monetary authorities find reason to raise interest rates. Some business sector sources see an economic slowdown, given an economic "cooling down" in the U.S., the Philippines' principal trade partner.

Table I

PHILIPPINE FOREIGN TRADE PERFORMANCE			
January - November 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
Nov	3,075	2,352	723
Jan-Nov	32,093	28,089	4,004
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	2,495	916
Jul	3,219	2,676	544
Aug	3,529	2,643	886
Sept	3,502	2,972	530
Oct	3,398	2,854	544
Nov	3,317	2,668	649
Jan-Nov	34,582	29,149	5,433

Source: National Statistics Office

Table II
Leading Philippine Exports
January - November 2000

	1999	2000	Growth Rate
	(Value in Mill US\$)		(in pct)
TOTAL EXPORTS	32,093	34,582	7.8
Manufactures	29,079	31,205	7.3
Electronic Eqpmt & parts	19,828	20,414	3.0
Mach. & Transport Eqpmt	4,519	5,468	21.0
Garments & Textiles	2,250	2,527	12.3
Other Manufactures	2,482	2,796	12.6
Agro-based Products	1,337	1,489	11.4
Coconut Products	415	496	19.5
Fruits & Vegetables	414	491	18.6
Shrimps and Prawns	261	302	15.7
Other agro-based	247	200	(19.0)
Mineral Products	558	577	3.4
Other Traditional Exports	228	441	93.4
Other Transactions	891	870	(2.3)

Source: National Statistics Office

Table III
Leading Philippine Imports
January -November 2000

	1999	2000	Growth Rate
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	(Value in Mill US\$)		(in pct)
T O T A L	28,089	29,149	3.4
Capital Goods	10,792	11,239	4.1
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Telecom Eqpmt. and Elect. Machinery	6,244	6,447	3.2
Power Generators and Specialized Mach.	2,217	2,299	3.7
Office & EDP machines	1,361	1,396	2.6
Other capital goods	970	1,097	13.1
Raw Materials and Intermediate Goods	11,572	11,217	3.1
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Mat/Acc for Maftr of Electronic eqpmt.	4,302	3,929	(8.7)
Chemicals	2,295	2,421	5.5
Textiles/embroideries	1,094	1,029	(5.9)
Other material inputs	3,881	3,838	(1.1)
Mineral Fuel	2,087	3,636	74.2
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Petroleum crude	1,702	2,855	67.7
Other products	385	781	102.8
Consumer Goods	2,450	2,336	(4.6)
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Food and live animals chiefly for food	1,330	1,215	(8.6)
Passenger Cars and Motorized cycles	285	350	22.8
Rice	218	115	(47.2)
Other Consumer Goods	617	656	6.3
Other Transactions	1,170	721	38.4
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Source: National Statistics Office