PHILIPPINES ECONOMIC WRAP-UP
FEBRUARY 17-23, 2001

Summary

Financial markets weakened slightly as the Supreme Court deliberated the petition of former Philippine President Joseph Estrada questioning the legitimacy of the Presidency of Gloria Macapagal-Arroyo. The Philippine government continues to develop its plans to hold the line on its 2001 fiscal deficit through higher revenues and spending cuts. Weaker imports in 2000 helped the country push its trade surplus up 56%; Japan overtook the US as the number one supplier of Philippine imports. We also report on several developments in the banking industry, including the slight fall in non-performing loan ratios in December; the efforts of Equitable-PCI bank to find a new investor; and the failed sale of Urban Bank to Bank of Commerce.

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 February 2001 Economic Outlook, which is now available on our web site.

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Market and Policy Developments

FOREX REPORT

The Philippine peso softened steadily this week against the dollar. With the Philippine Supreme Court taking a deliberate pace in considering the petition of former President Estrada (questioning the legitimacy of the inauguration of President Macapagal-Arroyo), some investors are gravitating to the dollar as a safehaven, fearing renewed political instability. The peso also took hits from a statement by President Macapagal-Arroyo hinting that she preferred a weaker peso (to support Philippine exports), and declining Philippine interest rates. The peso ended the week at P48.16/US$, representing a 1.3% depreciation from its February 16 close of P47.55/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
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
JAN 22	48.207	49.300	188.3
23	49.750	49.200	122.2
24	48.473	48.350	150.0
25	48.638	48.840	116.0
26	49.321	49.720	124.3
JAN 29	49.676	49.480	126.0
30	49.412	49.600	110.6
31	49.221	48.975	99.4
FEB 01	49.150	49.160	168.0
02	49.215	49.120	118.0
FEB 05	49.161	49.110	62.5
06	48.857	48.610	161.0
07	48.706	48.580	139.1

08	48.284	48.250	187.5
09	48.052	48.200	120.6
FEB 12	48.140	47.820	167.5
13	47.674	47.630	131.1
14	47.583	47.955	131.0
15	47.889	47.490	267.5
16	47.550	47.550	125.6
FEB 19	47.672	47.850	90.4
20	47.801	47.630	153.1
21	47.925	48.120	138.0
22	48.234	48.350	222.1
23	48.323	48.160	170.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the February 19 auction of T-Bills, rates continued to ease. The interest rate on the 91-day T-bill gave up 8.2 basis points to end at 10.525%, and the 182-day bill rate was down only 1.3 basis points to 11.9%. The interest rate on the 364-day bill fell 13.2 basis points to 12.5%. Over P9 billion worth of bids were submitted for the bonds on offer; full awards of P1 billion for 91-day and P1.5 billion of 364-day bills were made. Only P1.09 billion worth of 182-day bills were awarded (of the P1.5 billion on offer); new Philippine Treasurer Sergio Edeza told reporters that bids for the 182-day bills were not priced in line with the yield curve. The spread between 91-day and 364-day bills has increased from 137.6 basis points on January 22 to 197.5 basis points at the February 19 auction.

Strong liquidity in the banking sector was credited with causing a 50 basis point drop in the interest rate on 5-year T-bonds at the T-Bond auction on February 20. P4.285 billion worth of bids were chasing the P3 billion worth of bonds offered.

National Treasurer Edeza also reported that the Treasury Bureau was reviewing the weekly borrowing scheme and the schedule for the sale of T-bonds. One report suggested that the Bureau would suspend the sale of 7-year and 10-year T-bonds, focusing instead on more short-term borrowings.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
JAN 15	12.365	13.657	14.237
JAN 22	11.760	12.556	13.136
JAN 29	11.165	12.181	12.699
FEB 05	10.863	12.174	12.694
FEB 12	10.607	11.913	12.632
FEB 19	10.525	11.900	12.500

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
JAN 17	17.1154	14.50 – 21.00
JAN 25	16.8757	13.50 – 20.00
FEB 01	16.4046	12.75 – 20.00
FEB 08	15.8376	12.50 - 19.00
FEB 15	15.2550	12.25 – 19.00
FEB 21	14.9393	12.25 – 19.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Several factors combined this week to weaken investor appetites for Philippine equities. News on the corporate earnings front continues to be discouraging. Perhaps more significantly, the Philippine Supreme Court statement that it would require 30 days to rule on a petition by former President Estrada questioning the legitimacy of the inauguration of Gloria Macapagal-Arroyo as President, caused some renewed worries over political stability in the country. From its February 16 close of 1689.91, the 33-share Philippine Stock Index (PHISIX) shed 2.54% to close on February 23 at 1647.00.

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

Date	PHISIX Close	Value (Million pesos)
JAN 15	1567.93	1910
16	1551.79	1359
17	1458.63	1876
18	1438.21	1114
19	1452.93	1204
JAN 22	1708.06	7161
23	1662.30	2724
24	1665.43	1153
25	1639.18	877
26	1708.18	6074
JAN 29	1686.28	1319
30	1668.43	728
31	1687.00	1159
FEB 01	1669.13	601
02	1669.58	616
FEB 05	1652.08	352
06	1664.23	652
07	1659.25	441
08	1683.44	764
09	1695.59	995
FEB 12	1712.06	734
13	1692.27	556
14	1687.74	622
15	1688.05	534
16	1689.91	950

FEB 19	1673.96	444
20	1659.08	369
21	1654.86	378
22	1641.05	485
23	1647.00	595

Source: Philippine Stock Exchange

THE FISCAL TIGHTROPE

According to Finance Department officials, the national government's revenue target has been set at P568.2 billion for 2001 -- 12.4% (P62.5 billion) higher in nominal terms than actual year 2000 inflows. All of that expansion is expected to come from a 15% (P67.7 billion) increase in tax collections (to offset a P5.2 billion reduction in non-tax receipts). Philippine Treasury officials told the Embassy that they expected lower earnings this year from investments and deposits (partly reflecting expectations of lower interest rates). Expected proceeds from privatization -– which the Estrada administration had earlier targeted at P19 billion for 2001 –- have been slashed to P7 billion (mostly "carryovers" from failed or delayed efforts in 2000 –- including the sale of government shares in electricity company Meralco, tollway operator Philippine National Construction Corporation, and some real estate properties).

Overall, between 65-70% of the targeted year-on-year expansion in tax revenues is tied to a 10% nominal increase in Philippine Gross Domestic Product (which assumes 3.8% real GDP growth and 6% average inflation, both at the lower end of current targets). The rest of the expansion hinges on improving tax collection efficiency, especially at the Bureau of Internal Revenue (BIR). After factoring out GDP growth, roughly 30-35% of the 15.3% envisioned hike in total BIR tax collections will depend on improving the agency's tax-to-GDP ratio from 10.7% in 2000 to 11.2% this year. Finance Department officials told the Embassy that the BIR has been directed to aggressively pursue previous initiatives to improve tax administration. These include increasing tax audits; strengthening the large taxpayers' unit; expanding the use of electronic machines to improve collection of documentary stamp taxes; and monitoring the prompt remittance of revenues collected to the national treasury.

To keep the fiscal deficit within the P145 billion ceiling envisioned for the year, the government will need to keep cash disbursements at P713.2 billion. The envisioned disbursement level represents an 11.1% (P71.4 billion) nominal expansion over 2000, equivalent to between 4-5% growth in real terms based on the government's 6-7% inflation target. Budget department officials told the Embassy that keeping disbursements within the targeted level will involve fiscal juggling. They estimate that more than half of the nominal increase will be eaten up by higher interest outlays, and another sizeable chunk by the settlement of accounts payable inherited from the previous administration. Budget officials told the Embassy that cuts to the re-enacted 2000 obligation budget would, in fact, be necessary to keep cash disbursements in check. They said that there would be an administrative order to that effect (reportedly mandating 5% in savings for social service, tourism, and agrarian reform agencies; and 10% for other agencies).

An IMF team was in the country recently to call on President Macapagal-Arroyo and to discuss a post-monitoring program with government officials. The mission encouraged the government to lower its fiscal deficit from 2000's P136.1 billion level. Fiscal planners told the Embassy that the government was maintaining the P145 billion deficit target based on what it deemed as a realistic assessment of revenues and expenditures. The officials also noted that the deficit target -- while larger than the 2000 level in nominal terms -- represented 4% of GDP, about the same as 2000's 4.1% ratio. They said that the government would try to exert further efforts to lower the fiscal deficit to a "fighting target" of P130 billion, but did not sound optimistic. A supplemental budget to implement new, priority expenditure items (including foreign-assisted projects with committed funding) could further complicate the fiscal picture.

2000 TRADE SURPLUS SURGES 56% ON WEAK IMPORTS

The Philippines' merchandise trade surplus in 2000 surged 56% year-on-year to $6.7 billion (from the previous year's $4.3 billion), largely due to weak imports. Exports grew 8.7% to $38.1 billion while imports went up by only 2.1% to $31.4 billion. The comparable figures for 1999 were 18.8% export growth and 3.6% import growth. The import decline is starting to show up in export figures. Industry analysts have said manufacturers bought fewer raw materials as the uncertainty caused by the political crisis prompted companies to delay investments. Some bank economists attribute weak exports to a slowdown in demand from key markets like the U.S., which is seeing its economy slow.

Raw material imports fell 4.3% to $12.1 billion, with the exception of chemicals, which posted 4.5% growth to $2.6 billion. Posting a larger decline of 10.6% (or $500 million) were material inputs for local manufacture of the country's top export, electronics. Also posting an overall 4.5% decline were consumer goods, despite demand growth for dairy products and automotive parts averaging two-digit levels. In modest contrast, capital goods purchases were 2.8% higher at $12.2 billion, amid rising local demand for mobile phones, Internet services, and personal computers. In the case of mineral fuels, the 60% surge in oil bill was due mainly to an average 80% annual increase in crude prices, partly offset by a 7% drop in import volume.

Table I

PHILIPPINE FOREIGN TRADE PERFORMANCE
January - December 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
Dec	2,944	2,653	291
Jan-Dec	35,037	30,742	4,295
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	915
Jul	3,219	2,676	543
Aug	3,529	2,643	886
Sept	3,502	2,972	530
Oct	3,398	2,854	544
Nov	3,317	2,669	648
Dec	3,495	2,237	1,258
Jan-Dec	38,077	31,387	6,690

Source: National Statistics Office

Table II

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

	Jan-Dec 1999	Jan-Dec 2000	Pct Growth (Y/Y)
T O T A L	30,742	31,387	2.1
Capital Goods	11,829	12,161	2.8
Telecom Eqpmt. and Elect. Machinery	6,891	6,975	1.2
Power Generators and Specialized Mach.	2,396	2,469	3.0
Office & EDP machines	1,483	1,535	3.5
Other capital goods	1,059	1,182	11.6
Raw Materials and			

Intermediate Goods	12,595	12,055	(4.3)
Mat/Acc for Maftr of Electronic eqpmt.	4,706	4,205	(10.6)
Chemicals	2,504	2,617	4.5
Textiles/embroideries	1,177	1,115	(5.3)
Other material inputs	4,208	4,118	(2.1)
Mineral Fuel	2,420	3,876	60.2
Petroleum crude	1,998	3,050	52.6
Other products	422	826	95.7
Consumer Goods	2,644	2,525	(4.5)
Dairy products	309	390	26.2
Passenger Cars and Motorized cycles	305	370	21.3
Rice	218	123	(43.6)
Other Consumer Goods	1,812	1,642	(9.4)
Other Transactions	1,238	769	(37.9)

Source: National Statistics Office

TRADE SURPLUS WITH U.S. JUMPS 48% TO $6 BILLION

Slowed domestic demand in 2000 is reflected in falling purchases from the country's major suppliers. Imports from the US declined by 16% to $5.3 billion (from $6.4 billion in 1999), while imports from Japan fell 2% to $6 billion in 2000. Both countries are leading sources of raw materials and accessories for electronic manufacture, although Japan remains the major source of automotive parts. The U.S. remains the Philippines' largest export market, accounting for a somewhat stable 30% share of annual export receipts. But the U.S. share of Philippine imports has dropped from 21% ($6.4 billion) in 1999 to 17% ($5.3 billion) last year. That made Japan the top supplier to the Philippines after selling $6 billion (19%) worth of merchandise last year. As a result, the Philippines' trade surplus with the U.S. jumped 48% (relative to 15% in 1999) to $6 billion, largely due to growing exports and falling imports. Some industry analysts see slowed trade as a signal of an economic slowdown. Industrialist Raul Concepcion has expressed optimism that the new business confidence brought about by the change in administration will inspire the manufacturing sector to resume normal operations. In particular, the Federation of Philippine Industries, which Concepcion heads, has positively responded to the business sector leaders' call to help in the economy's "healing process."

Table III
Philippine Trade Balance with Major Trade Partners
January -December 2000
(FOB Value in Million $)

	Exports	Imports	BOT
Total	38,077	31,387	6,690
United States	11,358	5,320	6,038
Japan	5,607	6,027	(420)
Singapore	3,122	2,114	1,008
Taiwan	2,861	1,945	916
Korea	1,174	2,350	1,176
Other	13,955	13,631	324

Source: National Statistics Office

BANK NOTES

End-2000 Non-Performing Loans: The ratio of the commercial banking system's non-performing loans to total loans (inclusive of inter-bank credits) declined from a post-Asian Crisis peak of 16.3% in November 2000 to 15.1% in December. The lower NPL ratio reflected a 2.5% (P40.4 billion) month-on-month expansion in commercial bank's total loan portfolio, which combined with a 4.8% (12.4 billion) contraction in the aggregate NPL level. Net of inter-bank credits, the NPL ratio declined to 16.9% from nearly 18% in November. Year-on-year, outstanding loans of the commercial banking system, inclusive of inter-bank credits, grew by 2.9% from the end-1999 level; excluding inter-bank credits, outstanding loans grew by 6.8%. Bankers have expressed optimism over improved economic and business prospects under the Macapagal-Arroyo administration but, although hopeful, think it may be premature to conclude that NPL ratios have peaked.

Higher loan restructurings and foreclosures during the month contributed heavily to the lower nominal level of non-performing loans. In December, restructured loans expanded by 9.6% (P8.7 billion) month-on-month and foreclosed assets by 6.3% (7.6 billion). The ratio of non-performing assets (the sum of NPLs and foreclosed assets) to total assets improved somewhat from 12.9% as of November to 12.5% as of end-2000. The ratio of loan loss reserves to non-performing loans (i.e., “coverage ratio”) improved from 41% in November to 43.6% in December, largely because of the month-on-month decline in banks’ aggregate NPL level.

SELECTED INDICATORS FOR COMMERCIAL BANKING SYSTEM

	Dec. 2000	Nov. 2000	Dec. 1999
Amounts (P Billions)			
Total Loan Portfolio (TLP) a/	1,628.3	1,587.9	1,582.9
Non-Performing Loans (NPL)	245.8	258.2	195.4
Loan Loss Reserves (LLR)	107.2	105.8	91.0
Restructured Loans (RL)	99.2	90.5	74.6
Foreclosed Assets (FA)	128.2	120.6	98.4
Non-Performing Assets (NPA)	274.0	378.8	293.7
Total Assets (TA)	2,996.5	2,935.2	2,757.6
Ratios (In %)			
NPL/TLP (NPL Ratio)	15.10	16.26	12.34
RL/TLP	6.09	5.70	4.71
LLR/NPL	43.61	40.98	46.59
LLR/TLP	6.58	6.66	5.75
FA/TA	4.28	4.11	3.57
NPA/TA	12.48	12.91	10.65

a/ Includes interbank loans

Source: Bangko Sentral ng Pilipinas

Takers for Equitable-PCI?: In an official statement mid-week, Equitable-PCI Bank announced that its board of directors "has set in motion its intention to pursue strategic initiatives to further strenghten the bank's third rank position in the industry." The statement said that its investment advisers (JP Morgan and ING Barings) had short-listed 7 potential strategic investors in the bank. The board has appointed a committee (headed by Equitable-PCI's president and CEO George Go) to evaluate the proposals in detail. Besides saying that the list was composed mostly of foreign institutions and one local commercial bank, the statement said that Equitable-PCI could not as yet disclose the identities of the potential investors because of confidentiality agreements. Industry sources said the list included Rizal Commercial Banking Corp. (RCBC, currently the eighth largest commercial bank in the Philippines by assets), the Taiwanese Fubon Group, and U.S.-based venture capital firm Newbridge Capital.

Senior Equitable-PCI Bank officials indicated that the concept being studied is for the winning strategic investor to invest in a 20-35% block of the bank's total equity. Depending on the mutual preferences of the investor and the bank, that block could be acquired by, among others, purchasing shares from existing shareholders or through the issuance of new shares.

News that Equitable-PCI Bank was urgently on the lookout for a merger deal or strategic partner surfaced early this year. The bank suffered from heavy withdrawals after becoming embroiled in former President Estrada's impeachment trial as an alleged depository of 'ill-gotten wealth' and illegal gambling payoffs. Senior bank officials say that depositor confidence is returning under the Macapagal-Arroyo administration and that the bank has not needed assistance from the Bangko Sentral ng Pilipinas (BSP, the central bank), a fact BSP officials confirm). The bank's major shareholders are the Go family (30%) and the two government-run social security agencies (the Social Security System or SSS - 27%; and Government Service Insurance System or GSIS – 11%).

BoC Backs Out of Merger/Rehab Deal: The Bank of Commerce (BoC) formally announced on February 22 that the bank had decided to "step aside" from its merger and rehabilitation deal with Urban Bank (a medium-sized commercial bank which closed in April 2000). BoC cited the complicated legal issues on the closure of Urban Bank and its investment house subsidiary. Urban Bank issued the statement shortly after a meeting called by the Philippine Deposit Insurance Corporation (PDIC) with BoC and the receivers and creditors of the bank and its investment house subsidiary.

On top of the escalating legal tussle between the Bangko Sentral and former Urban Bank officers, allegations over the last few weeks linked Urban Bank to Estrada accounts. BSP Governor Rafael Buenaventura was also drawn into the fray for having allegedly used his advance knowledge of Urban Bank's closure for the unfair advantage of certain parties (including Estrada and the BSP Provident Fund).

Before this development, BSP, PDIC, and BoC officials had expected Urban Bank (under BoC management) to reopen within the quarter, after having obtained the approval of the rehab plan from more than 90% of Urban Bank's creditors and depositors. PDIC President Norberto Nazareno stated that one option was to convert depositors' and creditors' claims into equity for a joint rehabilitation. An easier option would be for a "white knight" to step into the shoes of BoC and follow the rehabilitation proposal already crafted. In the Thursday meeting, Urban Bank's major depositors –- large corporations which, under the BoC rehabilitation scheme, basically had agreed to convert their deposits into equity -– reportedly expressed their commitment to Urban Bank's rehabilitation.