PHILIPPINES ECONOMIC WRAP-UP
MARCH 03-09, 2001

Summary

The performances of the Philippine peso and stock market were unremarkable this week, but interest rates did see some declines (helped along by the central bank). The central bank also closed its first sovereign loan under the new administration; the $740 million syndicated loan for carries a rate of 310 basis points over LIBOR. February inflation slowed to 6.7%, mostly on declines in food prices. The government gave teeth to calls for fiscal austerity as it issued two administrative orders freezing hiring and rationalizing the governments motor fleet (among other steps). The Securities and Exchange Commission has expanded its accusations of wrongdoing in the BW Resources scandal to 139 respondents; to date, the Philippine Department of Justice has filed charges against only three people. Investment plans approved by the Board of Investments and the Philippine Export Zone Authority have rebounded sharply in the first weeks of 2001 (over the low base of 2000 figures). Finally, we note that a 17-year old graft case against a former commissioner of the Bureau of Internal Revenue has resulted in a conviction; however, the decision is likely to be appealed.

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.

Contents

Administration Orders Fiscal Austerity
BW Resources Stock Manipulation Case
Investors Regain Interest In The Philippines
Former Tax Chief Convicted Of Graft

Market and Policy Developments

FOREX REPORT

While news that Supreme Court had unanimously reaffirmed the legitimacy of the Macapagal-Arroyo presidency cheered investors, the value of the Philippine peso was simultaneously battered by weakness in regional currencies. Many traders predict the peso will continue to trade against the US dollar in a narrow band around P48/US$ for the near future. The peso ended the week by closing at P48.065/US$ on March 9; its close on March 2 was P48.34/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
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
FEB 26	48.094	48.230	125.0
27	48.263	48.265	129.5
28	48.286	48.280	93.7
MAR 01	48.374	48.470	100.1
02	48.490	48.340	125.5
MAR 05	47.812	47.670	114.5
06	47.666	47.660	121.1
07	47.799	47.905	140.5
08	48.002	47.910	163.0
09	47.982	48.065	164.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

On the back of favorable February inflation figures (see below), and anticipating (accurately) cuts in central bank overnight rates, traders bid down interest rates at the weekly T-Bill auction on Monday. The interest rate on the 91-day bill fell 12.8 basis points to 10.328%, and the interest rate on the heavily bid 182-day bill shed 22.3 basis points to 11.560%. The interest rate on the 364-day day bill shed a more modest 4.4 basis points to 12.453%. More that P10 billion worth of bids were submitted for the P4 billion worth of bills offered (P1 billion of 91-day; and P1.5 billion of both 182- and 364-day bills). The regular Tuesday auction of T-bonds has been suspended; at the over-the-counter sale of 2- and 5-year bonds held on March 6, heavy demand of over P10 billion pulled down rates for the P2 billion worth of each tenor offered. The rates for the 5-year paper shed as much as 70 basis points with the Treasury accepting rates between 13.8% and 13.985% for the bonds (last auctioned in January). The rates for the 2-year paper fell between 12 and 25 basis points to between 13.375% and 13.5%.

As noted above, the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) announced on Thursday, March 8 that it would cut overnight lending and borrowing rates by 50 basis points (to 12.75% and 10.5%, respectively). While traders had expected a cut, the timing and size of the reduction was surprising. Most expected the BSP to hold off until the U.S. Federal Reserve made a similar move. BSP Governor Rafael Buenaventura, however, said the move and its timing was justified not only by stability in the foreign exchange markets and in price levels, but also by the need for some monetary easing in light of "external weakness posed by the slowing down of the U.S. economy and other major economies...". Traders said they expect the BSP to again cut rates if the Fed makes a similar move in the near future.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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
FEB 26	10.456	11.783	12.497
MAR 05	10.328	11.560	12.453

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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
MAR 01	14.5759	12.25 - 19.00

MAR 08	14.3913	12.00 – 19.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Trading volumes on the Philippine Stock Exchange (PSE) neared all time lows; the trading volume of P223 million on March 8 was the second lowest in the history of the Exchange. Two issues seem to be hurting investor interest; one is the continued poor outlook for corporate profits, which is also dragging down share prices. The other is uncertainty as to how markets will be affected by restructuring of the PSE board. The Revised Securities Code strictly separates broker and dealer accounts, which had dried up market liquidity considerably. The market did get a slight boost over the weekend by the unanimous decision of the Philippine Supreme Court reaffirming the legitimacy of the presidency of Gloria Macapagal-Arroyo. The 33-share Philippine Stock Index (PHISIX) climbed back over the 1600 level early in the week (from its March 2 close of 1596.97), but later slid to close at 1588.39 on March 9.

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

Date	PHISIX Close	Value (Million pesos)
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
FEB 24	1636.04	498
25	1632.30	344
26	1613.49	995
MAR 01	1570.20	735
02	1596.97	499
MAR 05	1616.54	614
06	1611.47	328
07	1612.81	312
08	1589.57	223
09	1588.39	613

Source: Philippine Stock Exchange

$740 MILLION SYNDICATED LOAN CLOSED

The Bangko Sentral ng Pilipinas (BSP, the central bank) announced the securing of a US$740 million syndicated loan this week. The three year loan, to be signed on March 15, carries an interest rate of 270 basis points over LIBOR (plus a 40 point spread for bank fees). BSP Governor Rafael Buenaventura, noting that this is the first sovereign loan concluded under the new administration of President Macapagal-Arroyo, said the proceeds will be used to finance some $870 million in maturing debt. The BSP originally had looked to borrow about $400 million, but response to the issue (booked by HSBC) was quite strong with the oversubscription rate reaching 1.85 times. The BSP Governor and local bankers have said the oversubscription rate represents renewed investor confidence in Philippine debt. The 19 banks participating in the loan include Citibank, Chase Manhattan, Equitable-PCI bank, Metrobank and Bank of the Philippine Islands, among others.

FEBRUARY YEAR-ON-YEAR INFLATION SLOWS TO 6.7%

The government's National Statistics Office (NSO) reported that February 2001's consumer price index (CPI) increased by 0.2% month-on-month, slowing from January's 0.8% increase. That deceleration reflected a 0.5% decline in the heavily-weighted food index which, constituting more than half of the CPI basket, partially offset larger price hikes registered by non-food indices. The NSO reported that crop and fish harvests benefited from favorable weather conditions, with a slowdown in post-holiday demand for meat products also contributing.

Except for clothing, all other non-food indices posted higher month-on-month inflation rates than in January: fuel, light, and water (1.7% from 0.4%); services (0.9% from 0.4%), housing and repairs (1.2% from 0.8%); and miscellaneous items (0.5% from 0.4%). Manufacturers had indicated over the past several months that they were finding it increasingly difficult to hold off more significant price adjustments, especially on newer inventories, due to cost-push pressures (i.e., from higher wages, financing costs, transport and utility rates, and a weaker peso). Government officials attributed the relatively pronounced month-on-month acceleration in the utilities index to upward adjustments in the price of liquefied petroleum gas (LPG, used for cooking in most Philippine households) and higher purchased power and currency exchange rate adjustments in electricity bills.

In year-on-year terms, consumer price inflation decelerated from 6.9% in January to 6.7% in February. Except for the food index (which decelerated from 5.2% to 4.3%), all other major indices posted higher year-on-year inflation rates during the month: clothing (3.8% from 3.7%); housing and repairs (6.4% from 5.6%); fuel, light, and water (13.7% from 12.5%); services (14.1% from 13.6%); and miscellaneous items (7.1% from 6.8%). Year-on-year inflation averaged 6.8% during the first two months of 2001. The government's goal for the full-year is for average year-on-year inflation in the 6% to 7% range.

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month
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-Feb	2.8	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Average		
Jan-Feb	6.8	

Source: National Statistics Office

ADMINISTRATION ORDERS FISCAL AUSTERITY

This week, the government issued two administrative orders estimated to generate about P7 billion in "savings". The orders were issued to give teeth to the Macapagal-Arroyo administration's urgent call for fiscal austerity -- reflecting the national government's goal to contain its 2001 fiscal deficit to P145 billion.

Administrative Order (AO) 4 directs government agencies (including government-controlled corporations and government financial institutions) to submit a comprehensive inventory of their vehicles to the Department of Budget and Management (DBM) by March 15. Based on the submissions, the order instructs the Executive Secretary and DBM to prepare a "vehicle rationalization program" within 30 days. Through this move, the government hopes to save on vehicle acquisition costs by transferring vehicles from one agency to another and to generate revenues by selling redundant and unnecessary vehicles in its fleet.

AO 5 directs government agencies and government-controlled corporations and financial institutions to generate at least 10% in savings on non-personnel expenditures based on their respective 2000 re-enacted (or corporate operating) budgets. A smaller 5% cut applies to agencies delivering social or tourism services. AO 5 specifically prohibits certain activities during the budget year, among them: new building or office construction; the creation of new agencies, offices, and positions; and personnel hiring, except for key positions (division chiefs and above) and positions in the education, health, information technology, and defense sectors. AO 5 also directs the National Economic and Development Authority (NEDA) to work with government agencies and departments in assessing and prioritizing government programs and projects.

BW RESOURCES STOCK MANIPULATION CASE

In late February, the Securities and Exchange Commission (SEC) filed a report with the Department of Justice (DOJ) accusing 139 respondents of various acts of stock manipulation involving gaming firm Best World (BW) Resources. The report expands on two other SEC reports filed before the DOJ last year which listed 50 respondents. Last December, the DOJ –- citing lack of evidence –- had filed charges in court against only three of the 50. The charges filed by the DOJ were also more limited in scope and severity than the SEC had proposed. With its latest report, the SEC hopes to "revive" and bolster evidence for the charges which the DOJ dismissed. The latest SEC report also expands the list of alleged wrongdoers to include not only heads of brokerage houses, but also traders and employees who handled BW stocks.

The BW Resources scandal (which involves charges of stock manipulation against former President Estrada and many of his close associates) is the most significant in Philippine stock market history. It was big enough to have triggered the long-delayed passage by the Philippine Congress of a stronger securities law last year. This week, a DOJ prosecutor was quoted in the press as saying that the DOJ could not clearly determine "which respondents are charged with what complaints" based on the SEC's latest affidavit and 80-page report. DOJ officials also indicated that the DOJ probe could take some time because of the sheer number of respondents entitled to due process. For now, it remains to be seen how the SEC's latest report will fare before DOJ's prosecutors, and how far and quickly the cases will progress in the Philippine court system. A conviction for stock fraud or manipulation would be considered a "landmark", and will be key to restoring domestic and international confidence in Philippine equities markets.

INVESTORS REGAIN INTEREST IN THE PHILIPPINES

BOI Approvals Up 50% To P3.73 Billion In One Month Under President Gloria Macapagal Arroyo -- The Board of Investments (BOI), during the first month of President Gloria Macapagal-Arroyo (GMA) has approved applications for 20 projects valued at P3.73 billion (about $78 million). This was 50% higher than the year-ago level of P2.48 billion, Trade and Industry (DTI) secretary Mar Roxas told reporters. Of the total new approvals, foreign equity investments accounted for only 16% or P600 million ($12.5 million), of which 75% (P448 million) originated mostly from Japan. Of the 20 applications, seven are plans to establish regional headquarters and nine are in various IT activities, a growth area being pushed by the present administration. Proposed pioneer IT activities include: providing Internet services, electronic trading, software development, data and call centers, and content development. It should be noted that BOI approvals only represent an agreement that the terms of investment are acceptable to the government;

some BOI approved investments may be delayed for years or never take place at all.

Leading the pack of new IT investors is Philippine PhilWeb.Com, which plans to invest P2.3 billion in various IT services such as web development and hosting, on-line hotel reservation services and on-line college enrolment services. Attributing the marked increase in BOI investments to confidence in the new administration, DTI secretary Roxas sees more foreign investments coming in. Mr. Roxas projects the BOI could easily exceed the 2000 investment target of P40-P45 billion (the lowest in 12 years) set by the previous Estrada administration. Mr. Roxas declined to set new investment targets.

PEZA Approvals Quadrupled To P10.9 Billion Through Feb 15 -- Aside from BOI approvals, the Philippine Economic Zone Authority (PEZA) has also approved investment applications of P10.92 billion ($227 million) during the first 45 days of 2001. This value is nearly four times the P2.8 billion investments PEZA registered for the same period last year. A new P5.4 billion project by Japan's Epson Precision (Phils.), Inc., will manufacture quartz-based oscillators, chips and surface mounting devices for export to Japan. The Korean firm Philippine Samsung Electronics will spend P1.9 billion to expand its design and manufacture of electronic optical disk device products, their components and parts for sale to U.S., Europe and Asia. Another Japanese investor, Nidec Precision Philippines, will invest P923 million to expand manufacture of fluid dynamic pressure bearings for small precision motors. Most of these will also be exported to Asia, while some will be sold to other PEZA-administered enterprises. Secretary Roxas is optimistic that these and other new and larger investments will not only bring in capital but also provide long-term employment.

FORMER TAX CHIEF CONVICTED OF GRAFT

The anti-graft and corruption court (Sandiganbayan) convicted former Bureau of Internal Revenue (BIR) Commissioner Bienvenido Tan Jr. of illegally entering into a compromise agreement with the San Miguel Corporation (SMC) to settle a P303 million tax liability case. The court ruled that the agreement offered "unwarranted advantage, preference and benefit to a taxpayer" and therefore resulted in "undue injury" to the government. Tan's settlement with SMC reduced the liability to P10 million. The agreement was reached with SMC in December, 1988; the case against Tan was originally filed in 1993. Tan, who is now 70 years old, was the BIR commissioner during the term of former President Corazon Aquino.

Finance Secretary Alberto Romulo told reporters that he would instruct the BIR to immediately follow up on the court's orders to collect the P293 million allegedly "given away" by Tan. SMC, however, said that it had entered into the settlement with Tan in good faith and that it was considering filing a motion for reconsideration with the Sandiganbayan.