

CER:PHI 2004-21



COUNTRY ECONOMIC REVIEW

PHILIPPINES

December 2004

CURRENCY EQUIVALENTS

(as of 7 December 2004)

Currency Unit – peso (₱)

₱1.00 = \$0.0179

\$1.00 = ₱56.00

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of South East Asian Nations
BSP	–	Bangko Sentral ng Pilipinas (central bank)
ERC	–	Energy Regulatory Commission
FDI	–	foreign direct investment
GDP	–	gross domestic product
GNP	–	gross national product
GOCC	–	government-owned and -controlled corporation
kWh	–	kilowatt hour
LGU	–	local government unit
MTPDP	–	Medium-Term Philippine Development Plan
NPC	–	National Power Corporation
NPL	–	Non-performing loan
OFW	–	overseas Filipino workers
PRC	–	Peoples Republic of China
US	–	United States
VAT	–	value-added tax

NOTE

In this report, "\$" refers to US dollars.

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Asian Development Bank-Philippines Development Partnership

As a long-term development partner, living and working in Manila, ADB understands the challenges and shares the aspirations of achieving a Philippines free of poverty. We are committed to continuing to work with all Filipinos to move more rapidly to this goal.

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EXECUTIVE SUMMARY

During the latter part of 2004, several developments buoyed the economic outlook for Philippines. Continuing to be surprisingly resilient, economic growth for the first 9 months was 6.5%, higher than expected and likely to result in full-year growth in excess of projections. The services sector contributes most on the supply side, while the demand-side is led by personal consumption expenditure, assisted by strong inflows of remittances from the almost one-in-ten Filipinos working abroad. In the power sector, National Power Corporation recorded its first major asset sale, while the Energy Regulatory Commission's decision to allow a provisional increase in the wholesale electricity price gives better cost-recovery. Land Bank's sale of a significant portion of its non-performing loans marks a possible break-through in achieving more rapid market-based resolution of the bad debt problem of commercial banks. The business community strongly welcomed the Supreme Court's December decision that confirmed the constitutionality of the Mining Act (1995), opening the way for investment revival in the sector.

However, the moderate growth of the past few years has been insufficient to provide enough jobs for the expanding workforce, and unemployment remains stubbornly high. Extensive and intensive poverty manifests in low incomes, and exclusion, including poor access to services. Stress has emerged in some hitherto benign areas, including inflation and domestic interest rates. An uncertain investment climate and weak financial intermediation contribute to declining private investment, while fiscal constraints limit public investment. The Philippines is vulnerable to higher international oil prices and interest rates.

The Government is likely to achieve its budget deficit target in 2004. However, the grave fiscal situation—caused mainly by weak revenue mobilization—dominates macroeconomic management and, if not urgently addressed, has the potential to cause economic instability. Inadequate domestic revenue mobilization has opened another front of vulnerability, as increasing debt to finance development spending makes the country susceptible to international interest rate increases and negative market sentiment. The fiscal imbalance affects: (i) the Government's capacity to implement public development projects and support public-private partnerships; (ii) the administration's medium-term strategy to move the economy to a higher, more sustainable growth path; (iii) planning and prioritizing development activities, and (iv) deciding on the most appropriate financing mechanisms. In turn, these impact materially on the relationship between the Government and domestic stakeholder constituencies (legislative and judicial branches, business, civil society, and non-government organizations), as well as that between the Philippines and development partners (multilateral and bilateral development agencies, international capital markets, commercial banks, investors, and credit rating agencies).

The core of the Government's fiscal consolidation effort is a raft of new tax measures, supplemented by improvement in collection efficiency for existing taxes, institutional strengthening of tax agencies, more effective public expenditure prioritization, enhanced transparency in public procurement, and reduced corruption. Restoring financial health in the public power sector is a necessary condition for fiscal consolidation. Also important are better cost-recovery and other reforms in all public corporations, and re-engineering the bureaucracy.

By reversing the trajectory of "revenue-less" economic growth since 1997, the Government can create fiscal space to unshackle itself from the compressed opportunities for discretionary spending in priority areas such as education, health, infrastructure, and asset

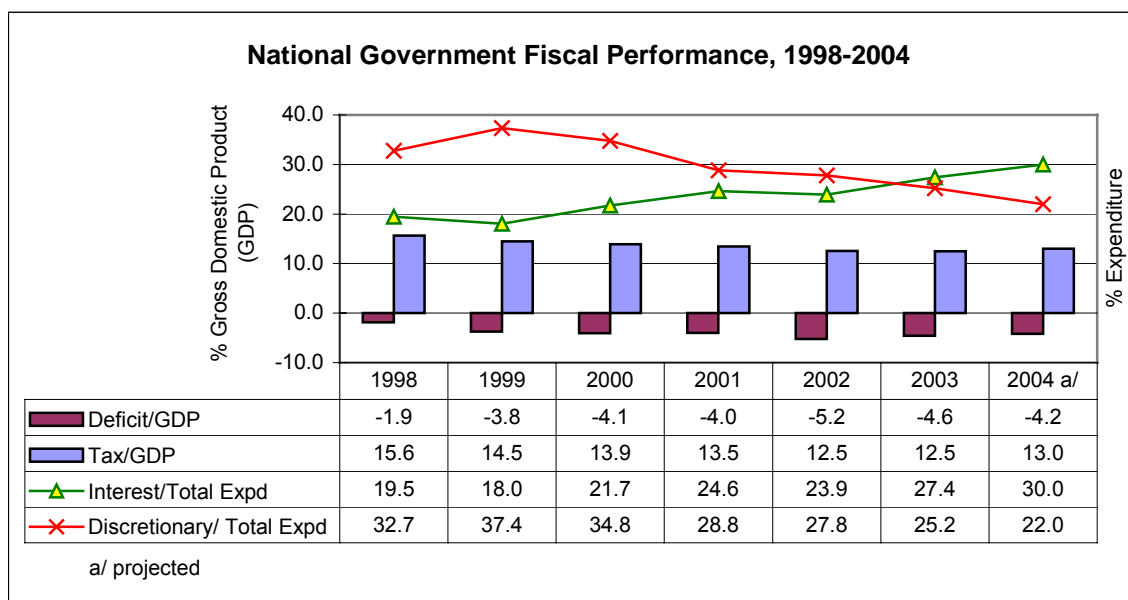
maintenance. Greater domestic revenue mobilization to finance public expenditure will reduce the debt burden, interest payments on which pre-empt one-third of budget expenditure.

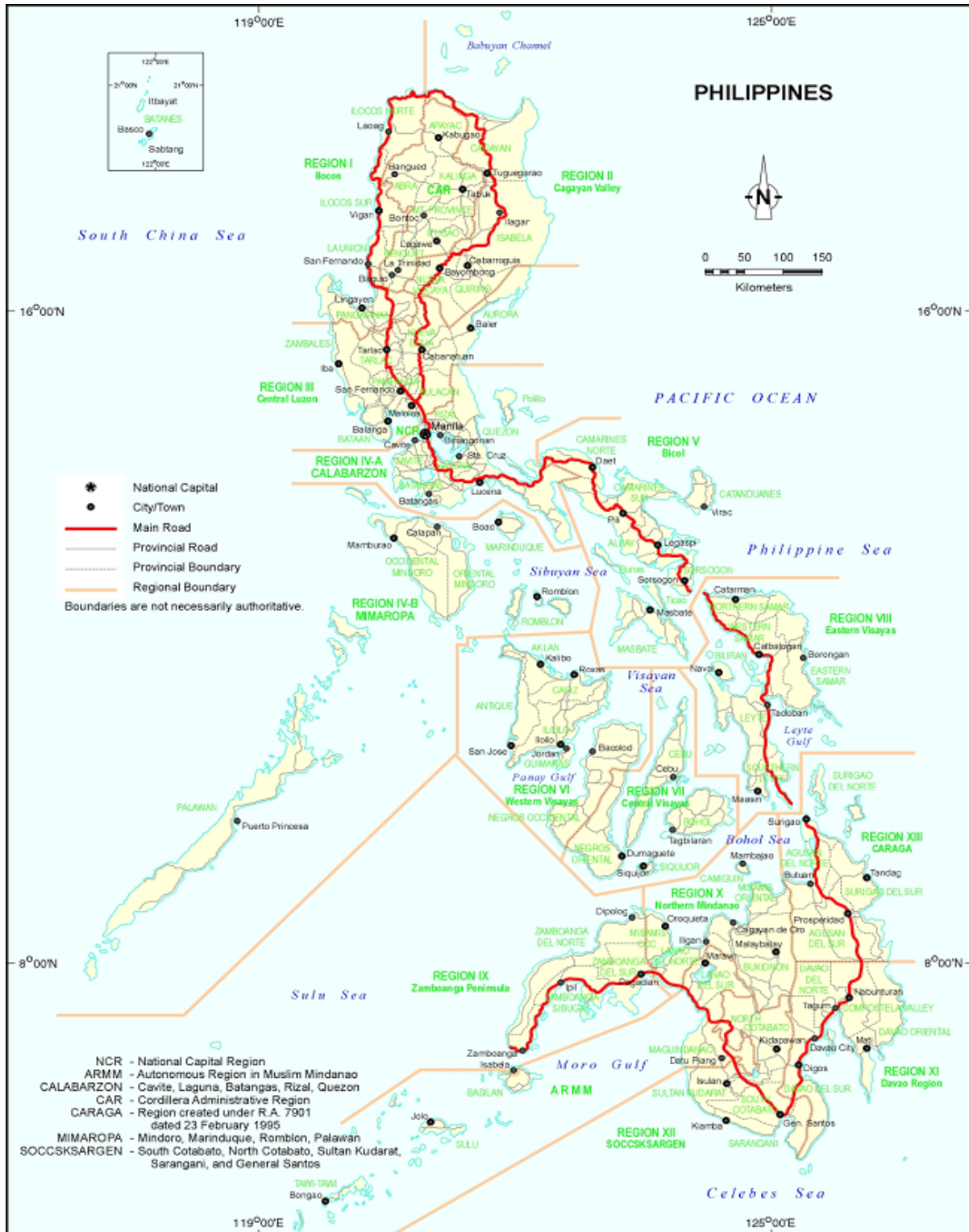
The implementation pace and quality of measures taken for fiscal adjustment will be used by private investors and financial markets to gauge the Government's willingness to address its profound challenge. This, in turn, will determine their willingness to participate in the economic revival—a critical component of any strategy for moving more rapidly to a higher, sustainable growth path. Vital to success is early consensus on the adjustment program's key elements. The longer the consensus-building period, the less likely the targets of the Government's new Medium-Term Philippine Development Plan 2005–2010 will be realized.

The immediacy of the fiscal challenge has not distracted the Government from other economic issues: higher, sustainable, and more inclusive growth; an improved investment climate; better infrastructure; enhanced governance; more effective decentralization; better financial intermediation; reduced vulnerability to external shocks; lower population growth. However, correcting this most important of economic imbalances is essential to establish the foundation, and building the capacity, to achieve the over-riding objective of a Philippines free of poverty. For this reason, the Review concentrates on the fiscal adjustment program.

The urgency for adjustment has spawned a vibrant debate in the Philippines among economic practitioners, academics, legislators, and civil society about the appropriateness of the Government's focus on new tax measures versus other remedies, including those considering the very important debt aspect of the imbalance. The debate canvasses a wide array of views and possible solutions, including arguments against the course chosen by the administration. The dialogue has the value of encouraging the economic management team to consider alternative paths to adjustment, and to validate its prescriptions against alternatives.

The administration is clear in its focus: fiscal consolidation is primary and urgent. The task is formidable, and demands high quality responses that will cause some economic pain. Concrete actions are needed immediately: delay is the enemy of success.





- NCR - National Capital Region
- ARMM - Autonomous Region in Muslim Mindanao
- CALABARZON - Cavite, Laguna, Batangas, Rizal, Quezon
- CAR - Cordillera Administrative Region
- CARAGA - Region created under R.A. 7901 dated 23 February 1995
- MIMAROPA - Mindoro, Marinduque, Romblon, Palawan
- SOCCSKSARGEN - South Cotabato, North Cotabato, Sultan Kudarat, Sarangani, and General Santos

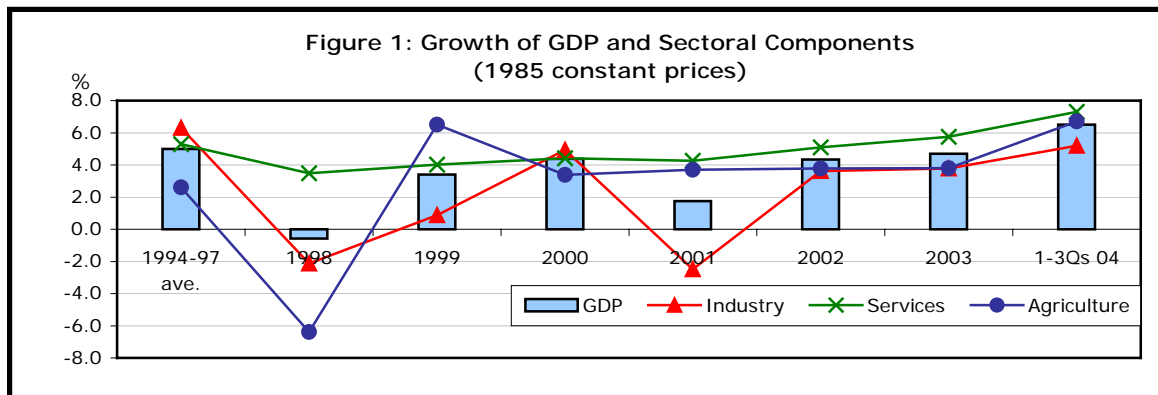
I. ECONOMIC DEVELOPMENTS

A. Growth, Employment, and Investment

1. Aggregate Growth and Sector Performance

1. Gross domestic product (GDP), although growing only modestly since 1997, shows considerable resilience to unfavorable external events (such as severe acute respiratory syndrome, subdued world growth, and poor weather) and domestic uncertainties (such as elections, civil unrest, and economic imbalances). The duality was evident in 2003 and the first nine months of 2004. Following GDP growth of 4.7% in 2003, the economy performed better than expected in the first three quarters of 2004, as GDP grew by 6.5% (Figure 1). Exogenous factors continued to be important determinants of domestic performance. For example, during the first three quarters of 2004 favorable weather contributed to strong agriculture performance. The gross national product (GNP) grew by 6.2%, lower than the GDP growth, due to increasing external debt services and slow growth of remittances. Per capita GNP reached \$1,051 in 2003, compared to \$1,029 in 2002.

2. While a large proportion of Filipinos rely on agriculture for their livelihood (it provides 40% of total employment), the sector has become relatively less important in terms of its contribution to Philippine output—its share of GDP is 20%, while industry and services contribute 33% and 47%, respectively. Agriculture growth was fairly steady during the past 3 years, averaging about 3.8%, with good weather boosting this to 6.7% in the first three quarters of 2004 (2.5% for the same period in 2003). Industry growth, which has shown the greatest variability (affected materially by the global downturn in demand for information technology in 2001), also rose strongly in the first three quarters of 2004 to 5.2% due to enhanced manufacturing and construction performance. Services, the fastest growing sector over the past decade, continued to lead with expansion of 7.3% in the first three quarters of 2004, with top contributors being trade, transportation, communication and storage, and finance due to thriving in exports and high demand in communication, especially in telecommunication. On the demand side, the main driver remained personal consumption (5.9% growth). Accounting for about two-thirds of aggregate demand during the first three quarters of 2004, personal spending was buoyed, in part, by low domestic inflation. Constrained by tight public expenditure controls, government consumption remained almost flat, declining by 1.9%. Gross capital formation, though subdued in recent years, grew by 11.1% in the first 9 months of 2004, while exports grew by 14.3% due to higher international demand.



Source: National Statistical Coordination Board.

2. Employment, Labor Market, and Population Growth

3. The economy's modest growth is insufficient to provide opportunities for all those looking for work. Since the regional financial crisis in 1997-1998, employment grew more slowly than the labor force (Table A.7). Consequently, the unemployment rate remained high at 11.4% in 2003, increasing to 12.1% in the first three quarters of 2004, the highest among countries in the Association of South East Asian Nations (ASEAN). At 17%, unemployment was more pronounced in Metro Manila in 2003 due to the migration of rural poor. The underemployment rate remained at 17% in 2003, increasing to 17.6% in July 2004.¹ An important safety valve is the overseas market for skilled Filipinos. Eight million Filipinos – about 10% of the population – work abroad in land and sea based jobs, remitting foreign currency equivalent to 8.8% of gross national product (GNP) in 2003. The demand for Filipino doctors, nurses and caregivers, for example, is especially strong from countries in North America and Europe with aging populations.

4. The population of the Philippines is growing at 2.36% per year, one of the fastest rates in ASEAN. The annual additional of 1.6 million people places heavy burdens on social and physical infrastructure. For example, there is an estimated shortage of 40,000 classrooms and insufficient teachers, causing many children to have either no access to education, or low quality access, as teachers struggle with unmanageably large classes, and lack of basic facilities. It also contributes to pervasive poverty²: not only income-related poverty, but also access poverty. Without corrective action to rebalance population growth against limited resources, prospects are complicated for moving out of poverty the 40% of Filipinos living on \$2 or less a day. In October 2004, a group of influential Philippine business leaders published an open letter, appealing for a more proactive stance on population management from the Government. The administration recently indicated it is targeting a population growth rate of 1.9% by 2010, although it confirmed the primary responsibility for population management to be with local government units (LGUs).

3. Investment and Savings

5. Investment and savings are both low by regional standards, impairing growth prospects. Gross capital formation at current prices increased by a sluggish 2.9% during 2003 resulting in the investment/GNP ratio dropping to 15.5%, its lowest ever (Table 1). The decline contributed to the Philippines having one of the lowest ratios of capital stock per worker in Southeast Asia, eroding worker productivity. The drop in investment since the Asian financial crisis is of special concern; it is due to a combination of the weak and uncertain investment climate for private activity, and to the constrained fiscal situation for public activity. For the private sector, the investment climate is adversely affected by complicated procedures, high transaction costs, infrastructure constraints, uncertain regulation, weak financial intermediation, and growing competition for foreign direct investment (FDI) from neighboring countries⁴. FDI dropped from

¹ Unemployment may be underestimated as the number of people engaged in unpaid family work and visibly underemployed (those working less than 40 hours a week) increases.

² See, for example, Luningning Achacoso-Sevilla (editor): *The Ties That Bind: Population and Development in the Philippines*, Asian Institute of Management, Philippines, 2004. Of special relevance is the chapter by Denis S. Mapa and Arsenio Balisacan: *Quantifying the Impact of Population on Economic Growth and Poverty: The Philippines in an East Asian Context*.

³ Quoted in Philippine Daily Inquirer, 26 October 2004, pA7.

⁴ See, for example, American Chamber of Commerce of the Philippines: *Roadmap II More Foreign Investment*, Makati, Philippines, June 2004.

\$1.8 billion in 2002 to \$310 million in 2003; it declined further to only \$6 million during the first six months of 2004, compared to \$139 million in the same period of 2003. In the public sector, investment spending as a proportion of budget expenditure declined from 16.8% in 1997 to 9.4% in 2003.

Table 1: Investment and Savings by Year
(% of GNP)

Item	1998	1999	2000	2001	2002	2003
Gross Domestic Investment	19.3	17.8	19.9	17.8	16.5	15.5
Public	4.4	4.2	3.7	2.8	3.0	2.3
Private	14.9	13.6	16.2	15.0	13.5	13.2
Gross Domestic Savings	21.6	27.0	31.1	19.5	21.8	19.4
Public	1.4	0.8	(0.6)	(1.4)	(2.1)	(2.6)
Private	20.2	26.2	31.8	20.9	23.9	22.0
Resource Surplus	2.3	9.2	11.2	1.7	5.4	3.9

Source: National Economic and Development Authority.

6. The Philippines' savings rate is one of the lowest in Southeast Asia.⁵ Its steep drop to 19.4% of GNP in 2003 reflects the weak public sector budget position and the current account surplus decline. Also, continued weakness in financial intermediation, especially for banks, and in the investment climate slows transfers from savings to investment.

B. Fiscal Developments

7. The consolidated public sector deficit⁷ increased sharply since 1998, reaching 5.1% of GNP in 2003 (Table 2). The National Government's deficit accounted for an average 89% of the consolidated deficit since 2000; the decline to 84% in 2003 reflects the rapid increase in the consolidated deficit of the 76 government-owned and controlled corporations (GOCCs), which was previously contained. The National Power Corporation (NPC) accounts for about 70% of the non-National Government component of the consolidated deficit.

8. The National Government's precarious fiscal situation is the most important macroeconomic imbalance, and is the primary focus of the administration's economic team. During 2003 the National Government broadly achieved its fiscal consolidation objective, reducing the budget deficit to P200 billion, 4.3% of GNP. The deficit for the first 9 months of 2004 of P141.9 billion (target: P143.3 billion) is on track to achieve the year's target of P197.8 billion (4.2% of GNP).

9. **National Government Revenues.** Low revenues are the major cause of the National Government's fiscal deficit. A 5-year slide in the revenue/GNP ratio was halted in 2003 (Table 3), with overall revenue collection rising 10.5%, due largely to enhanced tax collection efforts and measures adopted by the Government. Notwithstanding the efforts, tax revenue/GNP

⁵ Savings-GDP ratios for other major ASEAN countries are: Indonesia -21%; Malaysia -42%; PRC-39%; Thailand -32%; Singapore -45%.

⁶ The internal revenue allotment is the constitutionally mandated process by which 40% of revenue collected by the National Government is channeled to LGUs.

⁷ Consolidated public sector deficit is the combined deficits of National Government, LGUs, government corporations and financial institutions, and the Central Bank Board of Liquidators (the fund that pays debts of the former Central Bank of the Philippines).

efficiency continued to fall to 11.6% in 2003 was the lowest ever.⁸ The decline was caused by the chronic inability to collect sufficient revenues for various reasons: weak institutional capacity of tax authorities, complicated and irrational taxation systems, and corruption in revenue collections causing large tax evasions.

Table 2: Public Sector Deficit and Surplus by Year

Item	(% of GNP)					
	1998	1999	2000	2001	2002	2003
Consolidated Public Sector Deficit	(2.9)	(3.1)	(4.3)	(4.3)	(5.2)	(5.1)
of which:						
National Government	(1.8)	(3.6)	(3.8)	(3.8)	(5.0)	(4.3)
Central Bank	(0.9)	(0.7)	(0.5)	(0.6)	(0.4)	(0.3)
Government corporations	(1.4)	(0.1)	(0.5)	(0.6)	(1.1)	(1.4)
Others	1.0	1.3	0.7	0.5	1.2	0.9

Note: Figures may not add up to total due to rounding.

Source: Department of Budget and Management, Department of Finance.

10. **National Government Expenditures.** Congress did not pass the General Appropriations Act for 2004. Consequently, as provided by the Constitution, the 2003 budget was re-enacted. This implies the three heads of mandatory expenditure (debt service, personnel expenses, and internal revenue allotment⁹) for 2003 were protected and adjusted for requirements in 2004, while the President has the authority to reallocate line item amounts budgeted in 2003 for projects that are completed or for other reasons no longer require the funds in 2004. It is unlikely Congress will pass the 2005 budget before the end of 2004, with the potential for an unprecedented second consecutive re-enactment. Until the 2005 budget is passed, fund allocations will be made on the basis of the re-enacted 2003 budget.

Table 3. National Government Public Finance Ratios

	(in % by year)					
	1998	1999	2000	2001	2002	2003
Deficit/GNP	(1.8)	(3.6)	(3.8)	(3.8)	(4.9)	(4.3)
Total Revenue/GNP	16.5	15.3	14.4	14.4	13.4	13.6
Tax Revenue/GNP	14.9	13.8	12.9	12.5	11.8	11.6
Total Expenditure/GNP	18.3	18.8	18.2	18.1	18.4	17.9
% of Total Expenditure						
Interest Payments	19.5	18.0	21.7	24.6	23.9	27.4
Domestic	14.3	12.7	14.4	15.8	15.4	17.9
Foreign	5.1	5.3	7.3	8.8	8.5	9.5
LGU Transfer/Expenditures	11.1	13.3	12.4	13.0	14.1	14.0
Personnel/Expenditures	38.7	34.3	34.7	33.6	34.2	33.4
Capital Outlays/Expenditures	17.1	19.6	16.9	14.8	16.0	13.5

Source: Department of Finance; Department of Budget and Management

11. National Government expenditures were P826.5 billion in 2003, 5.1% above target. However, the expenditure–GNP ratio further declined to 17.9%, indicating the continued tightening caused by limited revenues. The progressive compression of discretionary expenditures (mainly for new investments, operation and maintenance) results from the

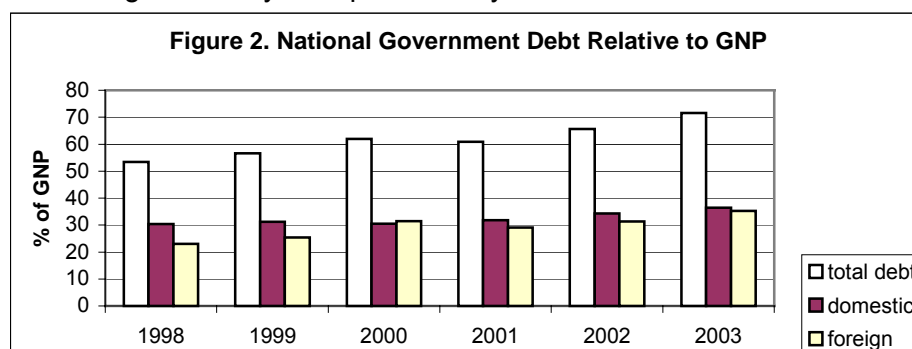
⁸ Tax–GDP ratios in 2003 for other ASEAN countries are: Indonesia–19.4%; Malaysia–28.7%; Thailand–18.2%.

⁹ The internal revenue allotment is the constitutionally mandated process by which 40% of revenue collected by the National Government is channeled to LGUs.

increasing share of total mandatory spending for debt service, tax revenue transfers to LGUs (the internal revenue allotment), and personnel (Table 3). The increase in debt service is especially steep, reflecting weak domestic revenue mobilization and rising domestic and international interest rates.

12. **Public Debt.** The rapid build-up of debt is the counterpart of the decline in National Government revenues and weak financial performance of GOCCs. During the first half of 2004, foreign public borrowing was 41% of total public borrowing (P233.3 billion), breaching the Government's intention to reduce foreign exposure under its guideline to borrow 84% from domestic sources. To help finance power sector needs, the Government raised \$1 billion in September 2004 from re-opening long-term international bonds; with a rating two notches below investment grade, the spreads were almost 500 basis points over equivalent United States (US) treasury issues, much higher than other Asian sovereign issues.¹⁰ Other than Japan, the Philippines is the most active Asian sovereign borrower from international markets. This borrowing, together with the sharp depreciation of the peso against the US dollar, resulted in the National Government's debt reaching P4,063.6 billion, 88% of GNP, by 31 December 2003. Excluding contingent liabilities of P708.5 billion, the National Government's debt increased by 19% in 2003, the biggest annual increase in 5 years, reaching P3,355.1 billion, 72.6% of GNP. Greater vulnerability to international market sentiment is associated with the increase in the National Government's foreign debt as a proportion of total debt, from 43% in 1998, to 49% in 2003.

13. Besides explicit debt obligations, the Government is exposed to a large amount of contingent liabilities associated with guarantees provided for GOCC borrowings, contracts related to electricity generated by private independent power producers, deposit insurance of banks, and the public pension system. By mid 2004, accumulative contingent liabilities were in excess of P1.7 trillion, 50% of explicit debt obligations. The National Power Corporation (NPC)'s liabilities constituted over 75% of the contingent liabilities of the National Government and 49% of NPC's debt was directly owned by the National Government. Also, in 2005 at least P200 billion of NPC's debt will be transferred to the National Government, converting a significant amount of current contingent liability to explicit liability.



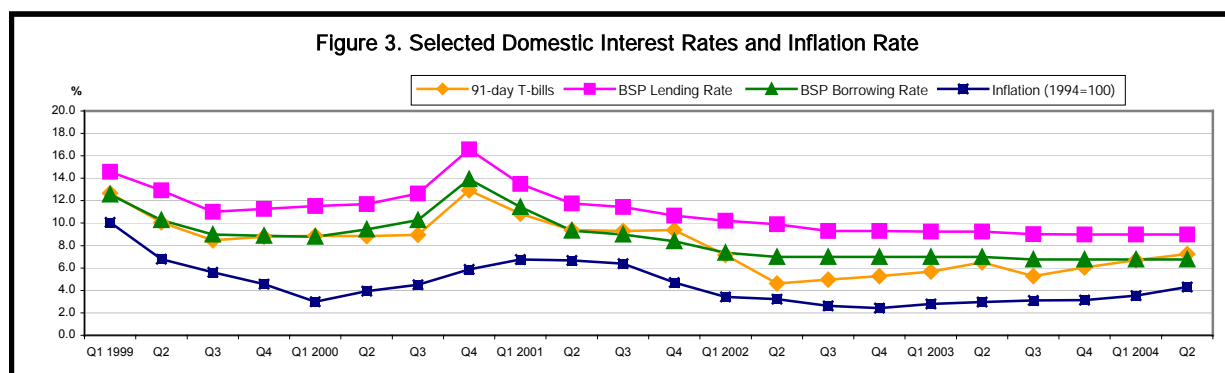
Source: Bureau of Treasury

¹⁰ Current Philippine spreads are around 420 basis points. In comparison, Indonesian spreads have fallen sharply since June 2004 to slightly over 100 basis points; despite Indonesia having a lower sovereign credit rating than Philippines, it has a significantly lower spread. Malaysia's and Thailand's spreads have also fallen, but less dramatically, and are around 50-70 basis points over US Treasuries.

C. Monetary Sector, Inflation, and the Exchange Rate

14. In 2003 the central bank, Bangko Sentral ng Pilipinas (BSP), adopted a monetary policy to stabilize peso depreciation and control inflation with interest rate adjustments. Domestic liquidity (M3) expanded by only 3.3% in 2003 (9.5% in 2002). In the first nine months of 2004, domestic liquidity growth accelerated to 5.3%. The high level of non-performing loans (NPL) — 14.05% in 2003¹¹— impedes banks' capacity to extend new loans. Since the Asian financial crisis in 1997, weakness in the banking sector has slowed lending and meant little economic stimulus from the monetary side. Public sector credit growth decelerated to 11% in 2003 (after a 12.8% rise in 2002). As of end-September 2004, public sector credit growth decelerated further to 5.3%. It has squeezed new credit to private companies for investment and expansion. BSP set a deadline of 8 April 2004 for banks to sell non-performing assets, or risk losing incentives to clean up their portfolios, including exemptions from some taxes on asset transfers (documentary stamp tax, value-added tax (VAT), and capital gains tax).¹²

15. Since July 2003, BSP has kept its two key policy interest rates unchanged at 6.75% for overnight borrowing and 9% for overnight lending; they are at their lowest since May 1992. However, there has been upward pressure on market rates, with the benchmark 91-day Treasury-bill rate increasing from an average 5.4% in 2002, to 6% in 2003, and 7.8% in October 2004. To contain the rise, in the first quarter of 2004 at Treasury-bill auctions Bureau of Treasury frequently rejected bids with yields considered too high. Inflation pressures have come from price shocks, especially steep rises in international oil prices. BSP considers interest rate increases will not be effective in moderating inflation in this circumstance, but instead will aggravate growth prospects. In February 2004, BSP increased commercial banks' liquidity reserve requirement by two percentage points to 10% (increasing total reserve requirements to 19%) in a bid to curb the peso's weakness against the dollar by reducing excess liquidity used for currency speculation.



Source: Bangko Sentral ng Pilipinas

16. Inflation, measured by the consumer price index, in 2003 was a moderate 3.1% (the same as 2002), within BSP's inflation forecast of 4-5%. However, inflation accelerated in late

¹¹ From September 2002, BSP adopted a revised classification of NPL, resulting in lower levels than previously.

¹² In November 2004, Government-owned Land Bank earned about P4 billion in the largest sale to date of NPLs. The sale, reducing Land Bank's NPL ratio from 14% to 8% of total assets, represented about 30% of book value, effectively breaking a long-standing impasse between prospective buyers and banks, who have shown high reluctance to sell at such large discount. This is the type of demonstrational transaction needed to accelerate resolution of the bad debt overhang. BSP estimates non-performing assets (NPLs plus real and other properties owned and acquired) of commercial banks at P449.3 billion in August 2004, P100 billion of which it hopes to be sold by the end of 2004.

2003 and the trend continued in 2004. In October 2004, the year-on-year change in the consumer price index rose sharply to 7.1%, the highest in 43 months, and the 10-month average was 5.1%. The October acceleration reflected mainly the 7.2% increase in the food, beverages and tobacco group, which accounts for 55% of the regimen weight. Full-year results could exceed the Government's targeted range of 4-5%. The increase reflects higher prices for basic services, as the fiscal consolidation program includes fuller cost-recovery for public services; prices rose also for food, fuel products, construction materials and transport fares.

17. Due to political uncertainties, civil disturbances, and the weak investment climate, the peso-US dollar rate continued to depreciate, averaging P54.2 in 2003 (P51.6 in 2002). The peso-US dollar real effective exchange rate averaged P56.94 in 2003, indicating peso depreciation was larger after adjusting for inflation differentials.¹³ In the first ten months of 2004, the peso-dollar rate averaged P56.01, a loss of 3.3% from the 2003 average of P54.2. Relative to other ASEAN countries, the movement could help facilitate Philippine exports.

D. External Sector

18. The balance of payments surplus for 2003 was \$111 million, a substantial drop from \$663 million in 2002. The 2003 current account balance, while remaining in surplus, fell to \$3.35 billion (23.6% less than in 2002), as goods imports surpassed exports (Table 4). Most significant was the lower growth of electronic products exports (the largest export earner, bringing in about 52% of total trade earnings), due to sluggish and "uneven" performance among electronics commodities, where low-end products did not match the global upturn. Import growth came from merchandise imports and non-factor services, with much of the rise occurring in the fourth quarter of 2003 and concentrated on capital goods and consumer sectors. Trade with People's Republic of China continued to grow rapidly, with exports and imports each expanding by about 58% and 43%, respectively.¹⁴ Remittances from OFWs, a crucial part of foreign exchange earnings, grew 6.3% in 2003 to \$7.64 billion, equivalent to about 9% of GNP. Despite the continuing conflict in Iraq, total OFW remittances have continued to rise. During January-September 2004, remittances rose by 9.4%, reaching \$6.2 billion. The current and capital and financial accounts performed strongly following the steady signs of recovery of the world economy and the renewed strength in global demand for information technology products. This improved the overall balance of payments for the first half of 2004 to a \$68 million surplus from a deficit of \$609 million last year.

19. In the capital account, outflows continued to surpass inflows in 2003. Net foreign direct investment (FDI) was lower compared to a year ago as Philippine residents' overseas investments rose while non-residents' equity inflows declined as a number of big ticket approved investments were deferred, partly due to pending inter-company realignments and takeovers. The sale by a foreign investor of its share in a telecommunication company to its local partner company also contributed to the decline in the net foreign direct investments (para 5). The Philippines' low levels of FDI contrast to the improving levels in neighboring countries, where investor activity has been rebounding after the 1997 regional financial crisis.¹⁵

¹³ BSP's average nominal and real effective exchange rate indices depreciated (i.e., the peso became more competitive) with respect to a currency basket of the country's competitors in the region. This was mostly due to the larger nominal peso-US dollar depreciation.

¹⁴ While the shares of Philippine exports going to its three largest markets (Europe, Japan, US) each fell during 1990-2002, the share of People's Republic of China increased from 0.8% to 3.9%. (ADB: *Asian Development Outlook 2004*, Table A11.)

¹⁵ See, for example, UNCTAD. 2004. *World Investment Report 2004*, UNCTAD.

20. BSP aims to maintain gross international reserves at about \$14-16 billion. At the end of 2003 reserves of \$16.9 billion provided about 4.7 months coverage of imports of goods and services. There was a decline of reserves to \$15.9 billion in the first 10 months of 2004, mainly due to debt service requirements of the National Government and BSP. Foreign exchange reserves (derived from FDI, export earnings, remittances from OFWs, and borrowings by BSP) have been maintained at adequate levels to provide protection against transitory shocks and to prevent abrupt movements in the exchange rate. Uncommitted reserves are about 1.4 times the short-term debt.

Table 4: Trade and Current Account Balance by Year
(\$ billion)

Item	1998	1999	2000	2001	2002	2003
Merchandise Exports	29.5	34.2	37.3	31.2	34.4	34.8
Annual Growth (%)	17.1	15.9	9.1	(16.2)	10.0	1.4
Merchandise Imports	29.5	29.3	33.5	32.0	34.0	36.1
Annual Growth (%)	(19.0)	(0.7)	14.3	(4.5)	6.2	6.3
Trade Balance	(0.03)	5.0	3.8	(0.7)	0.4	(1.3)
Services	1.1	(2.7)	(2.4)	(2.1)	(1.0)	(1.2)
Annual Growth (%)	(80.7)	(345.5)	11.1	15.6	50.4	(20.6)
Income	0	4.5	4.4	3.7	4.5	5.2
Current Account Balance	1.5	7.2	6.3	1.3	4.4	3.3
as % of Gross National Product	2.3	9.0	7.9	1.7	5.4	3.9

Source: Bangko Sentral ng Pilipinas.

II. POLICY ISSUES AND ECONOMIC PROSPECTS

A. Medium-Term Philippine Development Plan, 2005-2010

21. The Medium-Term Philippine Development Plan (MTPDP) is the administration's strategic framework for achieving economic and social development goals. Its orientation for reducing poverty and meeting the Millennium Development Goals is anchored in President Arroyo's Ten Point Agenda, captured in the inspirational mnemonic *beat the odds* – **b**alanced budget, **e**lectric power and water to all barangays; **a**utomated elections; **t**ransport and digital infrastructure to link the country; **t**erminate hostilities in Mindanao; **h**eal the wounds of EDSA; **e**ducation for all; **o**pportunities for employment; **d**econgest Metro Manila; **d**evelop **S**ubic-Clark as a development hub. Mobilizing adequate financial resources to implement the MTPDP is a major challenge.

22. The MTPDP's targets are ambitious when benchmarked against recent outcomes (Table 5). For example, GDP growth is targeted at 7%–8% by 2009, a level last achieved in the 1970s¹⁶, but necessary to make serious inroads in reducing poverty. Regaining the investment ratio achieved during 1990-1997 (23.3%) from the more recent low performance needs substantial improvement in investor perceptions and the climate for risk taking. Reduction of the consolidated public sector deficit by an annual average of almost one percentage point of GDP

¹⁶ The best recent decade for GDP growth was the 1970s with an average 6.3%, and 2 years in excess of 8%. See for example Hill, Hal and Arsenio Balisacan: *The Philippine Economy – Development, Policies, and Challenges*, Ateneo de Manila University Press, 2003.

over the next six years will be a reversal of the increases during 1998-2003, and relies heavily on new taxes and increased power rates. This indicates the magnitude of the challenge, and emphasizes the need for immediate and concrete actions. As the targets are interdependent, any early slippage in one or more will severely jeopardize chances for overall success. Implementability of the MTPDP will become clearer once the Government prioritizes projects, prepares the associated Medium-Term Philippine Investment Plan, and links this to a multi-year budget.

Table 5: Medium-Term Targets Relative to Recent Performance

	Average 2002-2003	2004	2005	2006	2007	2008	2009	2010
GDP growth (%)	4.5	4.9-5.8	5.3-6.3	6.3-7.3	6.5-7.5	6.8-7.8	7.0-8.0	7.0-8.0
Poverty (% families) a/	27.4	25.69-	24.35-	22.93-	21.61-	20.31-	19.04-	17.88-
	(latest '04)	26.04	26.04	23.95	22.89	21.84	20.78	19.81
Exports (\$ billion)	39.2	43.1	47.5	52.3	58.2	65.4	74.3	84.3
- % increase	10.5	10	10	10	11	12	14	13
Investment-GDP (%)	19.9	20.2	20.3	21.4	22.5	24.1	25.8	27.7
Inflation (%)	3.0	4-5	4-5	4-5	3-4	3-4	3-4	3-4
91-day T-bill rate (%)	5.7	7.5-8.5	7.5-8.5	7.5-8.5	6.5-7.5	6.5-7.5	6.5-7.5	6.5-7.5
NG Deficit-GDP (%)	4.9	4.2	3.6	2.9	2.0	1.1	0.2	0.0
- % point reduction	0.3	0.4	0.6	0.7	0.9	0.9	0.9	0.2
CPSD-GDP (%)	5.5	6.7	6.0	5.3	4.6	3.9	3.0	1.0
- % point reduction	0.5	1.2	0.7	0.7	0.7	0.7	0.9	2.0
Tax revenue-GDP (%)								
- without new taxes	12.5	12.8	13.2	13.6	13.9	14.2	14.6	14.9
- with new taxes	12.5	12.8	14.6	15.2	15.5	16.4	16.9	17.2
New jobs ('000) a/	741	1234	1029-	1263-	1380-	1502-	1594-	1695-
			1256	1527	1669	1821	1945	2081
Memo: Dubai crude (\$/bbl)	32.93 b/	33.44	32.96	29.17	28.61	28.04	28.04	28.04

NG – national Government, CPSD – consolidated public sector deficit.

a/Mid point of range given in MTPDP; b/ Average for January-September 2004.

Source: Department of Finance; National Economic and Development Agency.

B. Medium-Term Economic Adjustment Program

23. The Philippines' budget deficit is attributable to a serious erosion of revenues rather than excessive spending. Despite the growing economy, there has been a systemic inability to mobilize revenues whether through taxes, tariffs, user-fees and charges, dividends from GOCCs and Government financial institutions (GFIs), and of weaknesses in local government revenue generation. The Philippines had fiscal surpluses in only four of the past 14 years (1994-1997); however, it now constitutes the most significant imbalance in the economy. The decline in tax revenue/GNP ratio (from 16.3% in 1997 to 11.6% in 2003) flows from a combination of factors¹⁷: (i) policy measures that reduced trade taxes in accordance with international agreements¹⁸, and reduced effective income tax rates; (ii) weak administration and corruption, causing tax leakages; and (iii) growth in sectors that are more lightly taxed (such as agriculture,

¹⁷ Eduardo H. Yap: *A Tax-less Economic Growth*, from *Understanding the Fiscal Crisis*, Manila, October 2004.

¹⁸ For example, the ASEAN Free Trade Agreement (AFTA), established in 1992, seeks to foster regional cooperation and complementarity by eliminating almost all tariffs by 2010 for the original six ASEAN members (including the Philippines). By 2003, average tariffs were 3%, and nearly 50% of products have a zero tariff.

or information technology-related activities) and the use of fiscal incentives to encourage investment (e.g., export processing zones). A broad indication of the relative contributions of the three causes of tax revenue erosion is that the first two account equally for most of it.¹⁹

24. Fiscal consolidation is the cornerstone of the Government's adjustment program, and for the next few years it will dominate economic management and prospects. It is necessary to create the fiscal space for poverty-reducing and growth-enhancing public investments, to relieve pressure caused by rapidly growing debt, and to restore the confidence of investors and financial markets in the Government's commitment and capacity to deliver on its broader program. Urgent actions are needed if the imbalance is not to lead to economic instability. The Government plans to achieve a balance budget by a combination of improved tax administration, new taxes, reforms and restructuring of GOCCs (especially in the power sector), a rationalized bureaucracy, and improved public expenditure management.

25. **Improving Tax Collection Efficiency and Administration.** Inefficiency within the principal tax-collecting agencies (Bureau of Internal Revenue and Bureau of Customs) is a major cause of the anemic tax revenue/GDP ratio since 1997. Systemic issues are weak institutional capacity (under-trained staff, difficulty in dismissing underperforming staff, low level of technology); taxpayers under-declaring incomes (possible because of tax agencies' weak data bases, and encouraged by complex reporting procedures); and corruption. Efforts to address some of the issues include operations of the "large taxpayer unit" (that has a focus on tax compliance of individuals and companies with large tax liabilities); industry audits to benchmark expected income levels and associated tax; improved automation to reduce contact between officials and taxpayers; and publication of results-against-targets for regional tax offices. However, more fundamental reforms are required, including passage of the National Revenue Authority bill (now before Congress) to transform the Bureau of Internal Revenue into an autonomous, more accountable, institution.

26. **New Tax Proposals.** The Government hopes to consolidate fiscal efforts through a raft of tax proposals (Table 6) to redress revenue-less GDP growth of recent years and to strengthen tax GDP efficiency. The credibility of the medium-term adjustment program will be assessed largely on its capacity to deliver quickly on the tax reforms. Any delay in beginning the program will jeopardize its successful outcome. President Arroyo has certified as "urgent" three of the measures: inflation indexing of excise taxes on alcohol, cigarettes, and tobacco products (the "sin tax"), rationalizing tax incentives for investment, and amnesty for delinquent taxpayers. Once the legislation is passed, implementing rules and regulations must be prepared before the initiatives become effective.

27. The initial proposals projected incremental tax revenue of about P83 billion in 2005; with the delay in processing necessary legislation, this target will not be met. An indication of the relative contributions of the tax measures is provided by the latest Government estimates, indicating total incremental revenue in a full tax year if all measures are effective in the range of P73-P117 billion, equivalent to 1.7%-2.7% of 2003 GDP (the year Government is using as the benchmark). Achieving the projected incremental tax revenue targets will be a large challenge.

¹⁹ For the income tax component, one estimate suggests the erosion of BIR's revenue can be apportioned as: 46% to changes in tax policy (reduction in income tax rates and non-indexation of excise taxes); 46% to increased tax evasion; and 7% to changes in economic structure. See Rosario G. Manasan: *Fiscal Reform Agenda: Getting Ready for the Bumpy Ride Ahead*, Philippine Institute of Development Studies, August 2004. Delayed implementation of tax-enhancing components of the 1997 Comprehensive Tax Reform Program, designed to be tax-neutral, added to the difficulties. Erosion of revenue from Bureau of Customs relates to pervasive smuggling.

Besides an uncertain timetable for passing the full schedule of measures, there are signs that legislative consensus will be at the expense of diluting some of the administration's proposals.²⁰

Table 6: Government's New Tax Proposals

Revenue Measure	Features and Status	Additional Revenue (₱ Billion) a/
Indexation of excise tax on "sin" products (tobacco and alcohol) – certified "urgent" by President Arroyo	Restores the real value of the tax rate (after indexation was discontinued in 2000); indexes future annual increases to inflation. Proposes to re-introduce an ad valorem tax, which was replaced by a specific tax in 1997. Higher taxes might discourage use of the products, thus generating health benefits. Regarded as the most palatable tax, and the easiest to obtain legislative consent.	6.6 (0.15% of gross domestic product [GDP])
Tax amnesty – certified "urgent" by President Arroyo	Amnesty for delinquent taxpayers; tax liability to be assessed on net worth at 3% for residents and 2% for non-residents levied; accompanied by declaration of the statement of assets, liabilities and net worth (SALN) by all taxpayers to establish a reliable database for benchmarking future tax assessments – this is what differentiates the proposal from the history of frequent tax amnesties (15 in the past 17 years). The House Bill does not include the provision for SALN, substantially reducing the value of the Government's proposal.	16.9-52.7 (0.39-1.23%GDP)
Rationalization of fiscal incentives – certified "urgent" by President Arroyo	Streamlines the fiscal incentives system as an efficient and effective tool for investment promotion; phases out fiscal incentives that are inefficient or inconsistent with World Trade Organization rules; adoption of a single fiscal incentives law for extending incentives only to a few and focused positive list of industries. Better-targeted incentives will mitigate negative effects on industrial competitiveness. Department of Finance estimates exemptions in 2003 were valued at P175 billion.	18-27 (0.42-0.63%GDP)
Two-step increase in value added tax (VAT) rate	Pending a review of the entire VAT system, increases the VAT rate from 10% to 12%, with a further increase to 14% if performance is inadequate. The measure needs to be complemented with a broader VAT base, to include professional groups now exempt (e.g., doctors, lawyers). The larger base will mitigate the needed VAT increase.	30 (0.70%GDP)
Tax on telecommunications	Re-imposes the franchise tax on telecom companies. Additional revenues to be earmarked for important social services (health and education).	9.1 (0.21%GDP)
Excise tax on petroleum products	Increases the specific excise tax rates on petroleum products, except liquefied petroleum gas, by a range of P0.5 to P2.45. Since 1997, the ratio of excise taxes vis-a-vis prices of petroleum has decreased by almost 50%. There is a need to adjust the excise taxes back to their previous levels to maintain their real value.	29 (0.67%GDP)
Institutionalization of attrition system	Institutionalizes a system of staff lateral attrition (transfer, or demotion) and an incentive system for staff of revenue and fee-generating agencies that exceed targets (focus on Bureau of Internal Revenue, Bureau of Customs, and Land Transport Office). The initial House bill recommends allocating 2%-10% of the excess over target.	No estimate
	Projected total additional revenues annually	73-117 (1.7-2.7%GDP)

a/ Values in parenthesis are incremental tax as a percentage of 2003 nominal GDP, the year Government is using to benchmark the program. Note: In October 2004, the Government withdrew its eighth proposal to replace the existing net income assessment system with a gross income system. Source: Department of Finance.

²⁰ For example, the administration's "sin tax" proposal is for an initial 30% increase as a "catch up", followed by annual inflation-indexed increases from 2006. However, the draft bill adopted by the House of Representatives in October 2004 (and submitted to the Senate for consideration) is for a "catch up" 20% increase, followed by only two annual increases of 3% each, without future automatic inflation indexing.

28. **Power Sector Reforms.** Restoring financial health to the power sector is prerequisite to a sustainable budget deficit. Over the next few years, the Government expects sales of state-owned power assets to generate \$4–5 billion (equivalent to 5.5% of projected 2004 GDP and 1.3 times the projected budget deficit). This illustrates the complementarity of power sector reforms and the Government's economic program: well-priced asset sales will depend on investor perceptions, which will be conditioned in part by implementation of the economic adjustment program; while implementation of the power sector reforms, is essential for a successful Government fiscal consolidation program. The public power sector's weak financial position causes an unsustainable drain on Government finances. NPC's financial position has suffered dramatic reversal: from surplus in 1997 to a loss of P117 billion in 2003 (more than half the National Government budget deficit). This forces the Government to borrow, on NPC's behalf, at relatively high cost in international capital markets. In September 2004, the Government raised \$750 million under re-opened bonds, priced at almost 500 basis points over US Treasuries. In December 2003, NPC's liabilities totaled almost P1.3 trillion, including P757 billion resulting from obligations to independent power producers, and P475 billion about 11% of GDP) from foreign loans and bond issuances. Additional loans (\$1.5 billion) obtained in 2004 raised NPC's indebtedness to P559 billion.

29. Despite initial progress, some key elements of the sector reform program stalled over the past 24 months, with private bidding for operating the transmission grid failing twice during 2003. Recent positive developments include President Arroyo's reconfirmation of Government's intention to privatize public sector generation and transmission assets. Although slower than expected, sales have been made of some of NPC's 41 generation plants (five mini-hydro generation plants were sold by December 2004), and the first major asset was privatized in December 2004 with the successful bidding for the 600 MW Masinloc coal-fired plant.²¹ ERC has unbundled the rates for 132 utilities (including Meralco, the largest power distributor), removed inter-grid cross-subsidies in 2002, and has taken steps toward removing intra-grid and inter-class cross-subsidies (especially from industrial users to residential users). In August 2004, ERC removed the politically-determined cap on NPC's cost-recovery of purchased power,²² and approved a provisional tariff increase of P0.98/kWh,²³ which is expected to generate additional revenue of P34 billion in 2005 and reduce NPC's future losses by about 30%. In addition, an executive order signed in October 2004 confirms transfer of P200 billion of NPC's debt to the Government, a necessary move prior to privatization. The way in which the debt transfer is made (converting a contingent liability to an actual liability) will not affect the consolidated public deficit, but will have significant bearing on the National Government's budget, increasing interest payments by about \$320 million in 2005.

30. **Rationalizing the Bureaucracy.** Besides improving revenues, opportunities need to be taken to improve expenditure efficiency. The public service employs about 1.4 million staff in line departments, GOCCs, and government financial institutions; the wage bill accounts for about 30% of total budget expenditure. Service delivery is often expensive and inefficient, and in

²¹ Government plans to bid out 70% of NPC's eligible generation capacity by December 2005, and to award the concession for the transmission grid by July 2005.

²² In May 2002 the automatic power purchase adjustment (PPA) was capped at P0.40/kWh, limiting NPC's capacity to pass on costs related to fuel and IPP purchases. This resulted in a P0.85/kWh reduction (about 18%) in NPC's average tariff.

²³ To reach financial break-even point, NPC's submission to ERC sought an increase of P1.87/kWh, equivalent to about 21% rise in average price (base charge plus generation rate adjustment for fuel, foreign exchange, and IPP purchases). To mitigate the impact on industrial competitiveness, the submission proposed introducing time-of-use pricing for large consumers; tariff restructuring to remove cross-subsidy among consumer groups will provide further relief for industry. More targeted life-line tariffs are proposed to mitigate the impact on poor domestic consumers.

some cases duplicative and not associated with the agencies' core business. By Executive Order 366,²⁴ President Arroyo mandated a strategic review of the operations of the executive branch to improve public service delivery and create a results-oriented bureaucracy. The strategic review focuses on identifying core services, and on improving efficiency and quality of service delivery, by eliminating duplication and rationalizing each agency's organization structure and staffing. Each department secretary will prepare a rationalization plan, to be submitted to the Department of Budget and Management, which is tasked with coordinating the initiative, including setting a schedule for its processing and implementation.

31. **Improved Public Expenditure Management.** Supplementing the tax and cost-recovery initiatives, important initiatives should be taken to improve the transparency and efficiency of public expenditure including implementation of the Public Procurement Act, e-procurement, and standardized bidding documents, for public purchases of goods and services. Proposals are being considered for revising the discretionary funds allocation system for Congressmen for projects in the constituencies of elected representatives.²⁵ Other initiatives being considered are improved alignment of the planning-budget-expenditure process through sector efficiency reviews, strengthened accountability, and a shift towards performance-based budgeting; and a revised budget system to improve fiscal responsibility, by which new expenditure items will be funded only if incremental revenue is generated.

C. Debt Management

32. The rapidly rising National Government debt—which grew at an average 20% per year during 1997-2003²⁶—and associated servicing commitments are the converse of inadequate revenue mobilization to finance recurrent and development expenditures; at the same time the deficit is a product, in part, of the interest payments. Until measures to raise revenue gain traction, the Government will pay close attention to its management of debt and contingent liabilities, with a focus on three pillars: bond exchange to lengthen debt maturities; more extensive use of official development assistance financing to displace shorter-term and higher-priced incremental commercial borrowings; and limiting growth in contingent liabilities by being more selective in providing National Government guarantees to GOCCs.

33. Comparisons have inevitably been made between the Philippines and Argentina's recent problems, including current default on some debt. However, the situation in the Philippines is not as dire as that of Argentina. Notwithstanding the buildup of debt, the Philippines manages its debt well, with a good level of serviceability. The debt portfolio is characterized by a low proportion (about 11%) of short-term debt, concessional official development assistance accounting for a high proportion (about 17%) of debt, current average debt maturity of about 19 years, and avoidance of severe bunching of maturities. Table 7 compares key indicators for the Philippines with benchmarks adopted by the International Monetary Fund and World Bank for heavily indebted countries. The Philippines has more favorable ratios for 3 of the 5 indicators. However, there is clear weakness on the domestic revenue indicators relative to benchmark

²⁴ Executive Order 366: Directing a strategic review of the operations and organizations of the Executive Branch and providing options and incentives for Government employees who may be affected by the rationalization of the functions of the Executive Branch, signed by President Arroyo on 4 October 2004.

²⁵ The Priority Development Fund (the "pork barrel") allocates annually about P20 billion, almost 0.5%GDP, and 2.2% of budget expenditure. There are issues on the consistency of projects funded in this way with regional and national priorities, as well as the effectiveness of such projects.

²⁶ The bulk of the increase in debt during 1997–2003 is accounted for by (i) National Government deficits (43%), and Peso depreciation (19%); and (ii) non-budgetary accounts (16%), and assumed liabilities and lending to GOCCs (21%). See Emmanuel S. de Dios et al: *The Deepening Crisis – the Real Score on Deficits and the Public Debt*, University of the Philippines School of Economics, August 2004.

levels, which is being addressed under the fiscal consolidation program. Also there is need to push for higher economic growth for the current debt level. Nevertheless, as about 50% of the debt portfolio is denominated in foreign currency, receptive international financial markets are necessary for the economic health of the Philippines.

Table 7: Benchmark Indicators for External Debt Sustainability

Indicator Ratios (%)	Philippines, 2003		Benchmark
Present value of debt-gross domestic product	51.8	×	50
Debt service-exports	17	√	20–25
Present value of debt-budget revenue	327	×	280
Present value of debt-exports	110	√	150
Exports-gross domestic product	47	√	30

Source: World Bank and International Monetary Fund. 2004. *The HIPC Debt Initiative*; and Asian Development Bank estimates.

D. Prospects

34. The unexpectedly high growth recorded in the first nine months of 2004 is expected to result in full-year growth in excess of the 5.5% ADB projected in September 2004.²⁷ Growth in 2005 is expected to be about 5.5%. Services will continue as the lead sector with growth of 5.5%–6.3%. The strong growth trajectory of call centers is expected to continue. Industry sources project that by 2009 there will be an additional 250,000 jobs created²⁸; however, performance might be constrained by limited supply of adequately trained operating staff. Conditional on favorable weather, agriculture is expected to grow by 4.7%–5.7%, and industry by 4%–4.5%. In line with past experience, and taking account of recent robust trends in OFW remittances, GNP is expected to rise by 5.4%–6%. In 2005, if the Government continues to make efforts in enhancing revenues, the budget deficit should be below 4% of GDP.

35. Following acceleration in prices to September 2004, inflation is expected to be in the range 5.2–5.9% for the full year. This takes into account the impact of higher oil prices, and the expected pass-through to transport and some wages. Pressure on consumer prices will come from implementation of the fiscal adjustment program, through higher taxes and enhanced cost recovery for public services, especially electricity. After a lengthy period of maintaining benchmark interest rates, monetary policy could be tightened in 2005, as BSP might signal it will not accommodate secondary effects of the oil price increases. Market forces are expected to keep Treasury-bill rates under pressure, as inflation will remain higher than observed in recent years, and government demand for funding the deficit from domestic sources will be strong.

36. Trade and current account balances should remain in surplus in 2004 as export growth outpaces import growth. The falling value of the US dollar against other major currencies is a two-edged sword for Philippine exports: demand from the US, which accounts for about 25% of exports, might slow (although any drop could be moderated by the weakness of the peso); while high-technology companies in countries like Japan will be more aggressive in developing their low-cost production assembly centers in Philippines. Removal of global garment quotas at the beginning of 2005 under World Trade Organization arrangements could adversely affect the

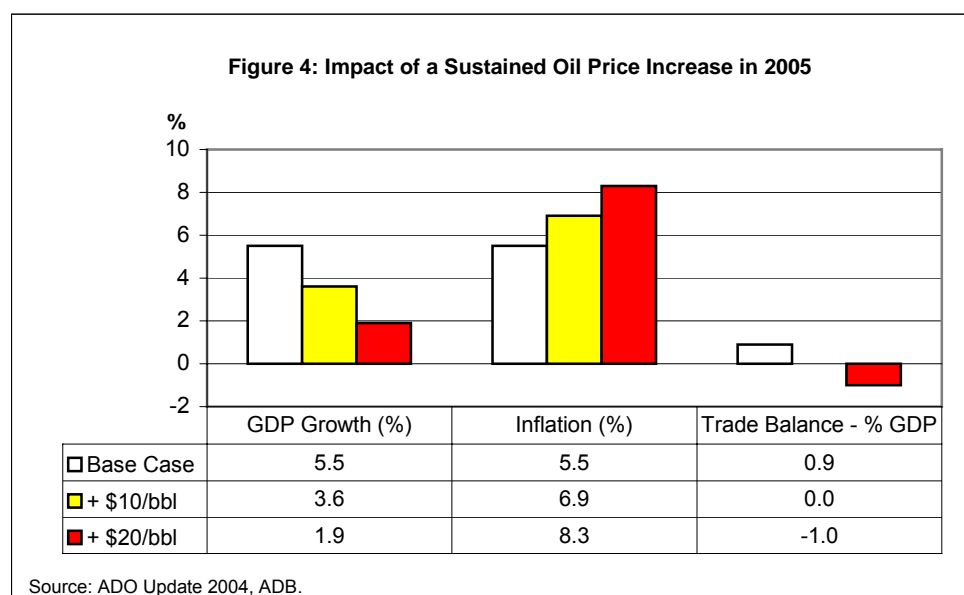
²⁷ ADB. 2004. *Asian Development Outlook Update 2004*.

²⁸ Benedict C. Hernandez, Vice President of eTelecare International Inc, quoted in Philippine Daily Inquirer, 28 October 2004, p. B1.

Philippines' world market share; after electronic products, garments are the second largest merchandise export earner, accounting for about 8% of the total.

37. Two factors important for economic prospects in 2004 and 2005 are: (i) the pace and quality of the Government's fiscal adjustment program; and (ii) international oil prices and interest rates. The more aggressively the Government proceeds with its fiscal adjustment program, the more likely that confidence in the economy will rise, markets will respond positively, and conditions favorable for sustaining the success will emerge. The willingness of investors and financial markets to participate in the economic revival will be conditioned by their assessment of the commitment and capacity of the Government to deliver on its vision.

38. Movements in international interest rates and oil prices will have important bearing on whether the economy performs as well as expected, given the country's exposure to foreign debt and high dependency on imported oil.²⁹ Although the Philippines is making progress in reducing oil imports by developing indigenous alternatives (e.g., the Malampaya gas field), ADB considers that it is vulnerable to higher oil prices³⁰. As the Government does not subsidize petroleum product prices, this potential source of added budget pressure is absent. However, Figure 4 illustrates how growth, inflation, and the trade balance could be affected under two scenarios of sustained price increases in 2005 of \$10 and \$20 per barrel (bbl) above the baseline price of \$36/bbl. For example, with a sustained \$20/bbl increase, GDP growth in 2005 drops to 1.9%, inflation accelerates to 8.3%, and the trade balance moves from surplus to deficit. A sustained increase of \$10/bbl would wipe out the current account surplus, and reduce the Philippines' capacity to withstand other event risks.



²⁹ In 2003, the Philippines imported an average 312,000 barrels of oil a day; every \$1/bbl price rise increases the annual import bill by \$408 million.

³⁰ Asian Development Outlook Update 2004, Part 3: *Higher Global Oil Prices: Implications for Developing Asia in 2005* Asian Development Bank, June 2004 (available at www.adb.org/publications)

TABLE A.1: KEY ECONOMIC INDICATORS

Item	1998	1999	2000	2001	2002	2003
A. Income and Growth						
1. GNP per Capita (\$, current)	912	1,045	1,050	970	1,020	1,038
2. GDP Growth (%) (in constant prices)	(0.6)	3.4	4.4	3.0	4.3	4.7
a. Agriculture	(6.4)	6.5	3.4	3.7	3.8	3.8
b. Industry	(2.1)	0.9	4.9	0.9	3.6	3.8
c. Services	3.5	4.0	4.4	4.3	5.1	5.8
3. GNP Growth (%) (in constant prices)	0.4	3.7	4.8	3.5	4.3	5.6
B. Savings and Investment						
(Percent of GNP)						
(at current market prices)						
1. Gross Domestic Savings	21.6	27.0	31.1	19.5	21.8	19.4
2. Gross Domestic Investment	19.3	17.8	19.9	17.8	16.5	15.5
C. Money and Inflation						
1. Inflation in Consumer Prices (1994=100)	9.7	6.6	4.4	6.1	3.0	3.0
2. Broad Money Growth (M3) (%)	7.4	19.3	4.6	6.8	9.5	3.3
D. Government Finance						
(Percent of GNP)						
1. Revenue	16.5	15.3	14.4	14.4	13.4	13.6
2. Expenditure	18.3	18.8	18.2	18.1	18.4	17.9
3. Overall Surplus/Deficit	(1.8)	(3.6)	(3.8)	(3.8)	(5.0)	(4.3)
E. Balance of Payments						
1. Merchandise Trade Balance (% of GNP)	0.0	6.2	4.8	(1.0)	0.5	(1.5)
2. Current Account Balance (% of GNP)	2.3	9.0	7.9	1.7	5.4	3.9
3. Export (\$) Growth (annual percentage change)	17.1	16.0	9.0	(16.2)	10.0	1.4
4. Import (\$) Growth (annual percentage change)	(18.9)	(0.9)	14.5	(4.5)	6.2	6.3
F. External Payments Indicators						
1. Gross International Reserves (\$ billion)	10.8	15.1	15.0	15.7	16.2	16.9
2. External Debt Service (% of exports of goods and services)	11.7	14.1	12.4	15.8	16.4	17.2
3. External Debt (% of GNP)	67.3	63.6	64.7	68.3	65.5	67.4
Memorandum Items:						
GDP (current prices, P billion)	2,672.4	2,985.1	3,316.4	3,631.5	3,959.6	4,299.9
GNP (current prices, P billion)	2,977.8	3,163.6	3,527.4	3,876.6	4,223.3	4,618.3
Population (million)	73.1	74.7	76.8	78.6	80.4	82.2

GDP = gross domestic product, GNP = gross national product.

^a NSCB released new series for 2000-2002 last September 2003. This series is still not yet linked to historical figures. To compute growth rate for 2000, 1999 was compared to old 2000 series. To get 2001 growth rate, 2001 was compared to the new 2000 series.

^b Data are projections based on the 1980 and 1990 Census of Population and Housing and are consistent with population figures used in the latest national accounts from NSCB. Census data for 2000 is 76.5 million.

1995-2003: 1995 Census based using Medium Assumption in the 2003 Philippine Statistical Yearbook, October 2003.

Sources: National Statistical Coordination Board, Bangko Sentral ng Pilipinas, National Economic and Development Authority.

Table A.2: National Income Accounts by Sector of Origin

(in constant 1985 prices)

Sector	1998	1999	2000	2001	2002	2003
A. In P billion						
Agriculture, Fishery, Forestry	173.2	184.5	172.6	199.6	207.2	215.0
Grains (rice and corn)	32.0	42.4	43.9	45.4	45.8	47.1
Livestock and Poultry	42.2	43.5	45.3	47.7	50.2	51.4
Industry	313.9	316.7	345.0	336.5	348.7	361.8
Mining and Quarrying	10.6	9.7	10.8	10.1	15.3	17.9
Manufacturing	221.2	224.7	237.3	244.1	252.6	263.3
Construction	51.8	51.0	64.4	49.5	46.7	45.5
Elect., Gas, and Water	30.3	31.3	32.6	32.8	34.2	35.3
Services	400.9	417.0	435.5	454.0	477.1	504.6
Trans., Comm., and Storage	58.6	61.7	68.2	74.2	80.8	87.7
Trade	138.6	145.4	152.9	161.5	170.8	180.5
Finance and Housing	93.5	94.7	95.1	95.4	97.9	103.3
Other Services	110.1	115.3	119.3	122.9	127.7	133.1
Gross Domestic Product	888.0	918.2	973.0	990.0	1033.0	1081.5
Net Factor Income from Abroad	46.5	51.2	64.7	71.2	74.0	87.3
Gross National Product	934.5	969.3	1037.9	1061.3	1107.0	1168.8
B. Annual Changes (%)						
Agriculture, Fishery, Forestry	(6.4)	6.5	4.3	3.7	3.8	3.8
Grains (rice and corn)	(20.9)	32.7	3.4	3.5	0.8	2.9
Livestock and Poultry	1.8	2.9	4.1	5.1	5.2	2.4
Industry	(2.1)	0.9	9.0	(2.5)	3.6	3.8
Mining and Quarrying	2.8	(8.4)	11.3	(6.5)	51.0	16.8
Manufacturing	(1.1)	1.6	5.6	2.9	3.5	4.2
Construction	(9.6)	(1.6)	26.3	(23.1)	(5.7)	(2.6)
Elect., Gas, and Water	3.3	3.1	4.2	0.7	4.3	3.2
Services	3.5	4.0	4.4	4.3	5.1	5.8
Trans., Comm., & Storage	6.5	5.3	10.4	8.8	8.9	8.6
Trade	2.4	4.9	5.2	5.6	5.8	5.7
Finance and Housing	3	1.2	0.4	0.4	2.6	5.5
Other Services	3.6	4.7	3.5	2.7	3.5	4.0
Gross Domestic Product	(0.6)	3.4	4.4	1.8	4.3	4.7
Net Factor Income from Abroad	23.9	10.1	12.8	9.8	3.9	17.9
Gross National Product	0.4	3.7	4.8	2.4	4.3	5.6

Source: National Statistical Coordination Board.

Table A.3: Agricultural Production

Item	1998	1999	2000	2001	2002	2003
Area Harvested ('000 ha)						
Rice	3,170.0	3,999.8	4,038.1	4,065.4	4,046.3	4,006.0
Corn	2,354.2	2,642.2	2,510.3	2,554.8	2,395.5	2,409.0
Banana	353.7	372.1	382.5	386.7	398.1	409.8
Coconut	3,115.8	3,118.8	3,119.7	3,119.7	4,090.5	3,214.2
Sugarcane	343.6	390.3	394.9	387.4	374.6	389.2
Abaca	106.3	111.4	106.8	107.1	106.7	122.0
Rubber	93.1	91.5	81.0	78.1	81.3	80.1
Coffee	148.4	151.3	137.0	137.0	147.7	131.8
Production ('000 ton)						
Rice	8,554.8	11,786.6	12,389.4	12,954.9	13,270.7	13,499.9
Corn	3,823.2	4,584.6	4,511.1	4,626.6	4,319.3	4,615.6
Banana	4,106.7	4,570.6	4,155.7	5,059.4	5,274.8	5,369.0
Coconut	12,806.4	12,504.0	12,994.7	13,207.8	13,895.1	14,059.0
Sugarcane	17,333.4	23,777.8	24,491.0	24,541.4	21,417.3	24,746.3
Abaca	71.2	73.1	77.2	72.0	71.9	78.6
Rubber	222.8	214.6	216.3	259.4	267.7	268.3
Coffee	122.2	117.4	126.3	130.7	106.3	104.6
Yield (ton/ha)						
Rice	2.7	2.9	3.1	3.2	3.3	3.4
Corn	1.6	1.7	1.8	1.8	1.8	1.9
Banana	10.7	12.3	11.9	13.1	13.3	13.1
Coconut	3.7	4.0	4.2	4.2	3.4	4.4
Sugarcane	50.4	60.9	62.0	64.5	57.2	63.6
Abaca	0.7	0.7	0.7	0.7	0.7	0.6
Rubber	2.4	2.3	2.7	2.8	3.3	3.3
Coffee	0.8	0.8	0.9	1.0	0.7	0.8

ha=hectare, na=not available.

Note: Yield data are calculated.

Source: Bureau of Agricultural Statistics.

Table A.4: National Accounts by Expenditure Shares

(P billion, in constant 1985 prices)

Item	1998	1999	2000	2001	2002	2003
Personal Consumption						
Expenditure	707.9	726.6	752.1	779.0	810.8	853.6
Government Consumption	70.3	75.0	79.6	75.4	72.6	73.0
Capital Formation	196.8	192.9	289.1	221.6	210.5	210.6
Fixed Capital	204.8	200.2	240.1	208.8	211.7	217.9
Construction	98.8	98.6	125.3	97.0	94.7	92.0
Public Construction	42.9	49.5	52.7	48.1	41.3	34.9
Private Construction	55.9	49.1	48.4	48.9	53.5	57.1
Durable Equipment	91.8	87.3	99.1	95.9	100.6	109.1
Breeding Stocks and Orchard Development	14.2	14.3	15.6	15.8	16.3	16.7
Changes in Stocks	(8.0)	(7.3)	(1.0)	12.8	(1.2)	(7.2)
Exports	367.4	380.8	445.7	430.3	445.8	465.3
Imports	484.2	470.7	490.8	508.0	532.0	586.2
Trade Balance	(116.8)	(89.9)	(45.1)	(77.7)	(86.3)	(120.9)
Statistical Discrepancy	29.8	13.6	(52.7)	(8.3)	25.4	65.2
Gross Domestic Product	887.9	918.2	973.0	990.0	1033.0	1081.5
Net Factor Income from Abroad	46.5	51.2	64.9	71.2	74.0	87.3
Gross National Product	934.5	969.3	1037.9	1061.3	1107.0	1168.8

Source: National Statistical Coordination Board.

Table A.5: National Accounts by Expenditure Shares
(growth rates as a percentage, in constant 1985 prices)

Item	1998	1999	2000	2001	2002	2003
Personal Consumption						
Expenditure	3.4	2.6	3.5	3.6	4.1	5.3
Government Consumption	(1.9)	6.7	6.1	(5.3)	(3.7)	0.5
Capital Formation	(16.3)	(2.0)	5.5	3.2	(5.0)	0.1
Fixed Capital	(11.2)	(2.3)	3.1	(13.0)	1.4	2.9
Construction	(5.3)	(0.3)	2.6	(22.6)	(2.3)	(2.9)
Public Construction	6.4	15.3	6.6	(8.7)	(14.3)	(15.5)
Private Construction	8	(12.2)	(1.5)	1.0	9.4	6.8
Durable Equipment	(18.1)	(5.0)	3.6	(3.2)	4.8	8.5
Breeding Stocks and Orchard Development	0.3	1.2	8.8	1.5	3.3	2.4
Exports	(21.0)	3.6	17.7	(3.4)	3.6	4.4
Imports	(14.7)	-2.8	4.0	3.5	4.7	10.2
Trade Balance	(14.1)	23.0	53.9	(208.2)	(11.0)	(40.2)
Gross Domestic Product	(0.6)	3.4	4.4	1.8	4.3	4.7
Gross National Product	0.4	3.7	4.8	2.3	4.3	5.6

Source: National Statistical Coordination Board.

Table A.6: National Accounts by Expenditure Shares
(percentage distribution, in constant 1985 prices)

Item	1998	1999	2000	2001	2002	2003
Personal Consumption						
Expenditure	75.8	75.0	72.5	73.4	73.2	73.0
Government Consumption	7.5	7.7	7.7	7.1	6.6	6.2
Capital Formation	21.1	19.9	20.9	20.9	19.0	18.0
Fixed Capital	21.9	20.7	17.7	19.7	19.1	18.6
Construction	10.6	10.2	12.1	9.1	8.6	7.9
Public Construction	4.6	5.1	5.2	4.5	3.7	3.0
Private Construction	6.0	5.1	4.8	4.6	4.8	4.9
Durable Equipment	9.8	9.0	9.5	9.0	9.1	9.3
Breeding Stocks and Orchard Development	1.5	1.5	1.5	1.5	1.5	1.4
Changes in Stocks	(0.9)	(0.8)	(0.3)	1.2	(0.1)	(0.6)
Exports	39.3	39.3	42.9	40.5	40.3	39.8
Imports	51.8	48.6	47.3	47.9	48.1	50.2
Trade Balance	(12.5)	(9.3)	(4.1)	(7.3)	(7.8)	(10.3)
Statistical Discrepancy	3.2	1.4	(5.1)	(0.8)	2.3	5.6
Gross Domestic Product	95.0	94.7	93.8	93.3	93.3	92.5
Net Factor Income from Abroad	5.0	5.3	6.3	6.7	6.7	7.5
Gross National Product	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Statistical Coordination Board.

Table A.7: Trends in Labor Force and Employment ^a

Item	1998	1999	2000	2001	2002	2003
Working Age Population ('000) ^b	44,995	46,321	47,640	48,929	50,344	51,791
% Growth	-1.7	2.9	2.8	2.7	2.9	2.9
Labor Force ('000) ^c	29,674	30,759	30,911	32,809	33,936	34,571
% Growth	(2.2)	3.7	0.5	6.1	3.4	1.8
Labor Force Participation Rate (%)	65.9	66.4	64.9	67.1	67.4	66.8
Employment ('000)	26,631	27,742	27,453	29,155	30,062	30,636
% Growth	(3.9)	4.2	(1.0)	6.2	3.1	1.9
of which:						
Agriculture ('000)	10,091	10,774	10,181	10,850	11,122	11,219
% Growth	(10.8)	6.8	(5.5)	6.6	2.5	0.8
Industry ('000)	4,542	4,515	4,454	4,713	4,695	4,840
% Growth	(1.9)	(0.6)	(1.4)	5.8	(0.4)	3.1
Services ('000)	11,999	12,453	12,817	13,593	14,246	14,577
% Growth	1.9	3.8	2.9	6.1	4.8	2.3
Unemployment Rate (%)	10.3	9.8	11.2	11.1	11.4	11.4
Underemployment Rate (%)	21.6	22.1	21.7	17.2	17.0	17.0

^a Based on the average of data from the Labor Force Surveys in January, April, July, and October.

^b Refers to population 15 years old and over.

^c In calendar year. Data are projections based on the 1980 and 1990 Census of Population and Housing and are consistent with population figures used in the national accounts. Census data for 2000 is 76.5 million. 1995-2003: 1995 Census based using Medium Assumption; 1985-1989 was estimated using the average annual decennial growth rate for 1980-1990 at 2.3275%; 1990-1994 was estimated using the average annual decennial growth rate for 1990-2000 at 2.3128%

Sources: Labor Force Surveys, January to October rounds, various years, National Statistics Office; Philippine Statistical Yearbook 2003, National Statistical Coordination Board.

Table A.8: National Government Expenditures and Revenues
(P million)

Item	1998	1999	2000	2001	2002	2003
Total Disbursements	512496	590160	648974	710755	777882	826498
Current Operating Expenditures	424947	470610	536567	601726	650663	708989
Personal Services	198476	202696	225176	238944	265969	276134
Maintenance and Other Operating Expenses	64359	70758	80009	88024	83413	78541
Allotment to LGUs	56921	78733	80142	92154	109835	115735
Interest Payments	99792	106290	140894	174834	185861	226408
Subsidies	5238	6565	6759	7768	5584	12171
Tax Expenditures	161	5568	3586	0	0	0
Capital Outlays	87219	115708	107488	100721	122593	109183
Infrastructure/Other Capital Outlays	71335	96508	87258	75771	93327	77569
Corporate Equity	769	1532	536	484	1486	2623
Capital Transfers to LGUs	15115	17668	19674	24466	27780	28991
CARP Land Acquisition and Credit	2000	0	2315	4367	2000	2706
Net Lending	329	3193	2634	3944	2626	5620
Revenues	462515	478502	514762	563732	567141	626630
Tax Revenues	416585	431686	460034	489859	496372	537683
Bureau of Internal Revenue	337175	341319	360802	388679	394549	425352
Bureau of Customs	76005	86497	95007	96232	96250	106092
Other Offices	3405	3870	4226	4948	5573	5917
Nontax Revenues	45534	46524	53352	71882	69717	89269
Bureau of Treasury Income	22535	26180	30764	46413	47194	56657
Fees and Other Charges	21046	16021	17936	24296	21932	30847
Sale of Assets	1717	4183	4646	1173	591	567
Others	236	140	6	0	0	1198
Grants	396	292	1376	1991	1052	1198
Overall Surplus (Deficit)	(49981)	(111658)	(134212)	(147023)	(210741)	(199868)
Financing	(49981)	(111658)	(134212)	(147023)	(210741)	(199868)
Change in Cash	(17089)	38984	3810	(22229)	(1117)	25767

CARP=Comprehensive Agrarian Reform Program, LGU=local government unit.

Source: Bureau of Treasury, Department of Finance, Department of Budget and Management.

Table A.9.1: Domestic Public Debt Outstanding

Item	1998	1999	2000	2001	2002	2003
A. Public Domestic Debt (P billion)						
National Government	859.6	986.7	1,080.7	1,270.9	1,492.3	1,726.4
Local Government	na	na	na	na	na	na
Government Corporations	419.1	644.8	810.6	744.9	895.7	272.5
Monetary Institutions	451.2	420.9	663.2	373.3	435.7	468.6
Total	1,730.7	2,052.4	2,554.6	2,389.4	2,823.7	2,467.5
B. As Percent of GNP						
National Government	30.7	31.5	30.3	32.8	35.3	37.4
Local Government	na	na	na	na	na	na
Government Corporations	15.0	20.6	22.7	19.2	21.2	6.0
Monetary Institutions	16.1	13.4	18.6	9.6	10.3	10.1
Total	61.8	65.4	71.6	61.6	66.9	53.4

GNP= gross national product; na = not available.

^a Includes direct, assumed, and contingent liabilities.

^b Includes 14 monitored government owned and controlled organizations, the Government Service Insurance System, Social Security System, and the Philippine Health Insurance Corporation (Philhealth).

^c Includes government financial institutions, CB-BOL, and the BSP. [spell out abbreviations in this footnote.]

Source: Department of Finance.

Table A.9.2: National Government Outstanding Debt

Item	(P billion)					
	1998	1999	2000	2001	2002	2003
Outstanding Debt	1,496.2	1,775.6	2,166.7	2,384.9	2,815.5	3,355.1
Internal	850.9	978.4	1,068.2	1,247.7	1,471.2	1,703.8
Foreign	645.3	797.0	1,098.5	1,137.2	1,344.3	1,651.3
Contingent Liabilities	304.2	366.9	483.1	495.8	591.8	708.5
Internal	8.7	8.3	13.5	23.2	21.1	22.6
Foreign	295.5	358.5	469.6	472.6	570.7	685.9
Total Debt	1,800.4	2,142.4	2,649.8	2,880.7	3,407.2	4,063.6
As Percent of GNP						
Total Outstanding Debt	53.4	56.6	60.8	60.9	66.7	72.6
Internal Debt	30.4	31.2	30.0	31.8	34.8	36.9
Foreign Debt	23.0	25.4	30.8	29.0	31.8	35.8

GNP =gross national product.

Source: Bureau of Treasury.

Table A.10: Domestic Liquidity and Components of Money Supply

(P billion)

Item	1998	1999	2000	2001	2002	2003	2004 ^a
Assets	1,679.3	1,937.7	2,079.4	2,164.8	2,350.7	2,474.4	2,526.9.3
Net Foreign Assets	140.5	329.0	342.7	405.3	541.4	662.5	681.8
Net Domestic Assets	1,538.8	1,608.7	1,736.7	1,759.5	1,809.3	1,812.0	1845.1
Of which:							
Public Sector Credits	459.7	528.9	581.0	644.5	727.4	807.1	836.0
Private Sector Credits	1,410.7	1,394.4	1,506.8	1,461.9	1,480.1	1,506.6	1524.3
Other Items ^b	(331.6)	(314.6)	(351.0)	(346.9)	(398.2)	(501.8)	(515.2)
Liabilities	1,679.3	1,937.3	2,079.4	2,164.8	2,350.7	2,474.4	2,526.9
Domestic Liquidity (M4)	1,622.5	1,886.8	2,013.4	2,111.1	2,298.1	2,401.5	2463.3
(% growth)	8.2	16.3	6.7	4.9	8.9	4.5	6.7
Domestic Liquidity (M3)	1,144.6	1,365.1	1,427.4	1,525.0	1,669.7	1,725.0	1728.3
(% growth)	7.4	19.3	4.6	6.8	9.5	3.3	5.3
Narrow Money	281.5	394.1	387.0	388.0	470.1	510.3	489.2
(% growth)	9.0	40.0	-1.8	0.3	21.2	8.6	9.8
Quasi-Money	856.9	963.8	1,036.2	1,133.1	1,196.2	1,211.2	1235.5
(% growth)	7.7	12.5	7.5	9.3	5.6	1.3	3.9
Deposit Substitutes	6.1	7.2	4.2	4.0	3.4	3.5	3.6
(% growth)	(49.3)	17.6	(41.5)	(5.5)	(15.3)	2.9	(30.9)
Other Liabilities ^b	56.8	50.9	66.0	53.7	52.6	73.0	63.6
Ratio of M3/GNP (%)	40.8	43.5	40.8	39.3	39.5	37.4	na

GNP= gross national product.

^a2004 data is as of end of September 2004.^bRevised to reclassify accounts of residents from foreign accounts to domestic.

Source: Bangko Sentral ng Pilipinas.

Table A.11: Exchange Rates

Year	Nominal ^a (P/\$)	Nominal Effective Index ^b	Real Effective Index ^b
1981	7.9	101.2	106.8
1982	8.5	100.9	110.0
1983	11.1	78.5	86.4
1984	16.7	53.4	82.9
1985	18.6	48.2	89.3
1986	20.4	38.9	70.0
1987	20.6	35.6	64.3
1988	21.1	33.2	65.6
1989	21.7	32.8	70.1
1990	24.3	28.8	66.2
1991	27.5	25.1	66.0
1992	25.5	26.5	73.2
1993	27.1	25.0	72.2
1994	26.4	24.9	76.5
1995	25.7	24.7	80.3
1996	26.2	24.9	87.0
1997	29.5	23.5	84.2
1998	40.9	17.5	67.2
1999	39.1	18.2	73.3
2000	44.2	16.6	68.7
2001	51.0	14.7	64.1
2002	51.6	14.2	63.4
2003	54.2	12.6	56.9

^aPeriod average.

^bDecember 1980 = 100. Against major trading partners (United States, Japan, European Monetary Union, and United Kingdom). [Please check: is it appropriate to say EMU in this context? Not EU?]

Source: Bangko Sentral ng Pilipinas.

Table A.12: External Sector Balances of Trade and Capital Flows ^a
(\$ billion)

Item	1998	1999	2000	2001	2002	2003
A. Current Transactions						
Merchandise Trade						
Exports	29.50	34.21	37.30	31.24	34.38	34.84
Imports	29.52	29.25	33.48	31.99	33.97	36.10
Balance	-0.02	4.96	3.82	-0.74	0.41	-1.25
Nonmerchandise Trade						
Inflows	13.92	4.80	3.97	3.15	3.06	2.97
Outflows	12.78	7.52	6.40	5.20	4.07	4.20
Balance	1.14	-2.71	-2.43	-2.05	-1.02	-1.23
Income	0.00	4.46	4.44	3.67	4.49	5.22
Transfers						
Inflows	0.76	0.61	0.55	0.52	0.59	0.61
Outflows	0.32	0.10	0.12	0.07	0.09	0.68
Balance	0.44	0.51	0.44	0.45	0.50	-0.07
Current Account Balance	1.55	7.22	6.26	1.32	4.38	3.35
B. Capital and Financial Account						
Medium- and Long-Term Loans ^b						
Availment [Is this a real word?]	6.03	-	-	-	-	-
Repayment	3.29	-	-	-	-	-
Balance	2.74	-	-	-	-	-
Trading of Bonds in the Sec. Market ^b	-1.08	-	-	-	-	-
Resale of Bonds	3.31	-	-	-	-	-
Purchase of Bonds	4.39	-	-	-	-	-
Net Foreign Investments						
Nonresident Investments in Country	2.02	17.09	11.86	13.78	12.05	9.71
Resident Investments Abroad ^d	0.34	19.42	16.02	14.33	13.67	15.05
Total (Net)	1.67	-2.33	(4.16)	(1.25)	(1.63)	(5.34)
Short-Term Capital, Net ^b	(1.52)	-	-	-	-	-
Change in NFA of Commercial Banks ^c	4.35	(2.46)	0.88	(0.78)	(0.21)	(0.70)
Purchase of Collateral	0.00	0.00	0.00	0.00	0.00	0.00
Capital and Financial Account, Net	0.19	(2.33)	(4.12)	(1.26)	(1.64)	(5.32)
C. Others	0.10	-	-	-	-	-
Monetization of Gold ^b	0.12	-	-	-	-	-
Revaluation and Other Adjustments ^b	(0.02)	-	-	-	-	-
D. Net Unclassified Items	(0.47)	(1.30)	(2.65)	(0.27)	(2.08)	2.08
Overall Surplus/Deficit (-)	1.36	3.59	(0.51)	(0.19)	0.66	0.11
(as percent of GNP)	1.98	4.47	(0.64)	(0.25)	0.80	0.13

GNP= gross national product, NFA= net foreign assets.

^a BSP has adopted the new framework for BOP compilation and reporting, or the 5th edition of BOP Manual of IMF (BPM5) starting within the comparative 1999–2000 BOP Report.

^b Not indicated in the new BOP format.

^c This is shown as a memo item in the BPM5 format.

^d These are resident investments in foreign countries.

[Spell out all abbreviations within all the footnotes. Convert footnote a into a “Note:” to appear before the footnotes.

Then relabel other footnotes, beginning with a.]Source: Bangko Sentral ng Pilipinas

Table A.13: External Trade Details
(\$ million)

Item	1998	1999	2000	2001	2002	2003
Exports						
Coconut Products	831	466	577	532	484	640
Sugar and Products	100	71	57	32	47	70
Fruits and Vegetables	446	455	528	552	544	602
Other Agro or Forest Products	466	476	486	427	453	470
of which, Fish, Fresh or Preserved	306	287	321	287	298	291
Mineral Products	592	646	650	537	519	637
Manufactured Products	25843	31309	33988	28340	31181	31182
of which, Electrical Parts and Equipment	17137	21166	22179	16699	18583	18255
of which, Garments	2356	2267	2563	2403	2391	2269
Imports						
Capital Goods	12051	11828	12162	11438	13533	15023
of which, Power Generating	2568	2396	2471	1972	1784	1882
Raw Materials	11586	12600	15163	14953	14792	14568
Semi-Processed Materials	10415	11083	13825	13585	13376	13234
of which:						
Textile Yarn, Fabrics, Made-Up Articles	789	844	804	800	811	725
Embroideries	346	332	310	284	296	290
Electrical Parts and Equipment	4634	4708	7309	7291	6943	6364
Mineral Fuels	2020	2433	3877	3372	3273	3761
Consumer Goods	2624	2644	2523	2483	2580	2720

Source: Bangko Sentral ng Pilipinas.

Table A.14: External Debt and Gross International Reserves

(\$ billion)

Item	1998	1999	2000	2001	2002	2003	June- a2004
A. Total External Debt	46.1	51.0	51.2	51.9	53.6	57.4	56.3
1. By Type of Debt							
Medium- and Long-Term	40.3	46.0	45.7	45.9	48.1	51.2	49.7
Short-Term	5.9	4.9	5.5	6.0	5.6	6.2	6.6
2. By Borrower	46.1	51.0	51.2	51.9	53.6	57.4	56.3
Public Entity	22.8	27.0	26.3	25.0	27.9	32.1	30.3
Private Entity	11.4	12.6	13.6	15.3	14.7	14.1	14.2
Central Bank	4.8	4.7	4.8	5.7	4.6	4.4	3.6
Government Banks	2.4	2.7	3.0	2.7	2.9	3.0	3.1
Private Banks	4.8	4.0	3.4	3.2	3.4	3.8	5.1
3. By Creditor	46.1	51.0	51.2	51.9	53.6	57.4	56.3
Banks and Financial Ins.	8.0	9.1	10.4	11.6	11.8	10.7	12.0
Suppliers	1.6	1.7	1.6	1.9	2.1	3.2	3.8
Multilateral Institutions	10.1	10.2	9.7	9.6	9.0	9.0	8.4
Bilateral Debt	14.9	16.4	15.3	14.5	15.6	16.9	16.5
Other Creditors	11.6	13.5	14.2	14.3	15.2	17.6	15.6
B. Gross International Reserves	10.8	15.0	15.0	15.6	16.2	16.9	15.9 ^a
Net International Reserves	8.0	11.9	11.3	11.4	12.8	13.9	14.2 ^a
	(Percentage Distribution)						
C. Total External Debt (Percentage)	100.0	100.0	100.0	100.0	100.0	100.0	100
1. By Type of Debt							
Medium- and Long-Term	87.3	90.3	89.3	88.4	89.6	89.2	88.2
Short-Term	12.7	9.7	10.7	11.6	10.4	10.8	11.8
2. By Borrower	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public Entity	49.3	52.9	51.4	48.1	52.1	55.9	54.0
Private Entity	24.7	24.8	26.6	29.5	27.5	24.5	25.2
Central Bank	10.4	9.1	9.4	11.1	8.7	7.7	6.4
Government Banks	5.1	5.4	5.8	5.1	5.5	5.3	5.5
Private Banks	10.5	7.8	6.7	6.2	6.3	6.6	9.0
3. By Creditor	100.0	100.0	100.0	100.0	100.0	100.0	
Banks & Financial Ins.	14.4	18.0	20.3	22.4	22.0	18.6	21.3
Suppliers	3.4	3.3	3.1	3.6	3.9	5.6	6.7
Multilateral Institutions	21.8	20.1	18.9	18.4	16.7	15.7	14.9
Bilateral Debt	32.3	32.2	29.9	28.0	29.1	29.4	29.3
Other Creditors	25.1	26.4	27.8	27.6	28.3	30.6	27.3

Source: Bangko Sentral ng Pilipinas. ^aAs of End-October 2004.