Philippine Economic *Outlook*

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Inside...

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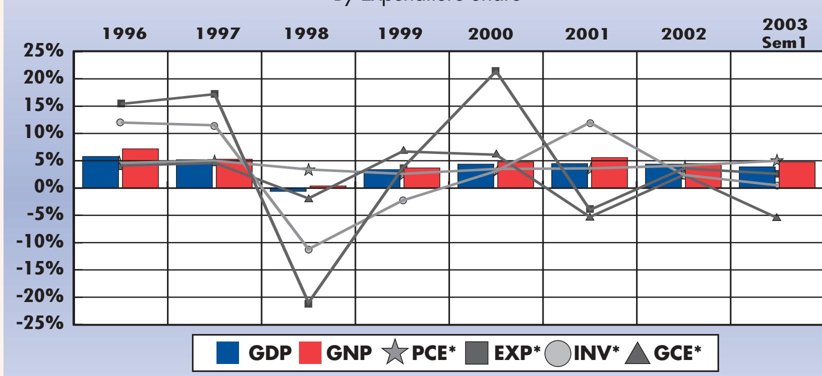
Introduction

The Philippine economy exhibited resilience during the first six months of 2003, notwithstanding serious external and domestic shocks. The first half-year Philippine Gross Domestic Product (GDP) grew by a respectable 3.9% from the first half of 2002, exceeding official and private sector projections. Inflation averaged 3% during the first eight months of the year, well below the Government's 4.5%-5.5% full year targeted range. Domestic interest rates inched up somewhat but, overall, have fallen significantly from the double-digit rates of previous years — helped by moderate inflation and a stable monetary policy. In the balance of payments, the continued strength of overseas workers' remittances helped keep the current account in surplus despite slower export growth (in part, a function of global economic trends) and sputtering travel and tourism receipts — partially offsetting sharp declines in direct and portfolio investment flows. The Government's quick action to contain the breakout of Severe Acute Respiratory Syndrome (SARS) and to peacefully resolve a July 27 military mutiny helped temper more damaging and far-reaching effects on the Philippine economy.

There have been positive developments on the fiscal front, long considered one of the government's weakest points and its biggest vulnerability. Based on its seven-month performance, the Government — which is projecting lower fiscal deficits starting 2003 — is on track to contain the budget gap within 2003's P202 billion ceiling (4.7% of GDP). This accomplishment reflected spending restraint and, more importantly, more vigorous and successful efforts by the tax collection agencies to improve administration, enforcement, and governance. The Macapagal-Arroyo Administration expects recent major victories in the Swiss and Philippine courts over control and ownership of an estimated $680 million worth of Marcos deposits to soon end more than a decade of legal wrangling over the disputed funds.

During this period, the Government enacted important economic legislation. In January 2003, President Macapagal-Arroyo signed the Special Purpose Vehicle Act (intended to spur the creation of asset management firms to help the financial system clean up non-per-

REAL YEAR-TO-YEAR GDP AND GNP GROWTH
By Expenditure Share



*PCE (Personal Consumption Exp.); GCE (Gov't Consumption Exp.);
INV (Fixed Capital Investments); EXP (Exports of goods and non-factor services)

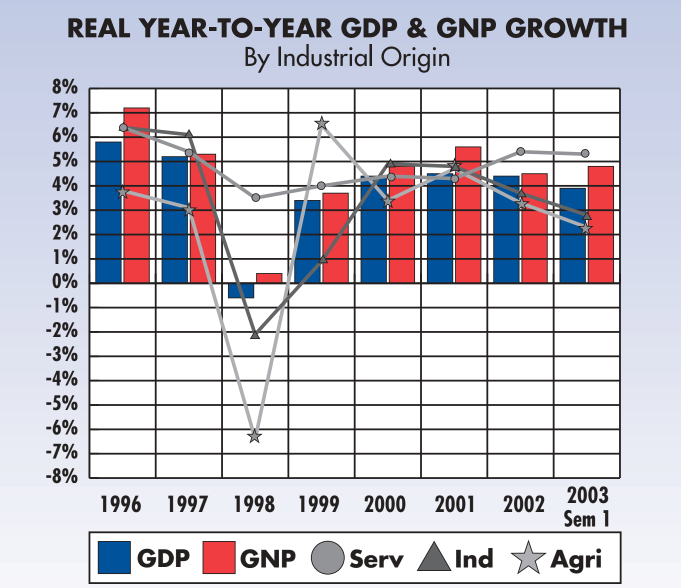
forming assets) and the Government Procurement Reform Act (promoting greater transparency in Government procurement). The Administration scored a major victory with the enactment of amendments to the Anti-Money Laundering Act, which addressed remaining legislative concerns by the Financial Action Task Force (FATF) and averted looming FATF sanctions — although the Philippines remains on the FATF list of non-cooperative countries and territories. In late August, President Macapagal-Arroyo also signed legislation rationalizing the excise tax system for motor vehicles, which shifts the basis from engine displacement to value, and plugs collection leakages resulting from exemptions based on seating capacity.

Despite stiff resistance, the Administration has taken some steps over the past few months to revive and accelerate its anti-corruption campaign through "lifestyle checks," starting with the Bureau of Customs and Bureau of Internal Revenue. The effort is consistent with pronouncements President Gloria Macapagal-Arroyo made in her first State of the Nation Address — to make these agencies the showcases of her Administration's fight against corruption.

Notwithstanding favorable developments, the country faces daunting challenges. In addition to the vulnerable fiscal situation and a worrisome contingent-liability problem, potential foreign investors, tourists, and others continue to be concerned about law and order, inadequate infrastructure, and corruption. The Philippines continues to struggle with an unpredictable legal and regulatory environment, as well as with low competitiveness and high corruption rankings. The country's domestic savings and investment rates (17.3% and 15.6%, respectively) rank among the lowest in Asia. A high population growth rate makes real economic progress all the more challenging. Political developments since July, including the escape of Al Qaeda-linked terrorists, a military mutiny, a court case against the Governor of the Central Bank, and allegations of corruption against the President's spouse have added to the air of uncertainty — overshadowing economic gains and accomplishments. In this context, however, U.S. and Japanese economic recovery, especially in the information technology sector, could provide a boost for the IT industry in the Philippines in the first half of 2004, paving the way for a more peaceful and orderly political transition.

Output and Inflation

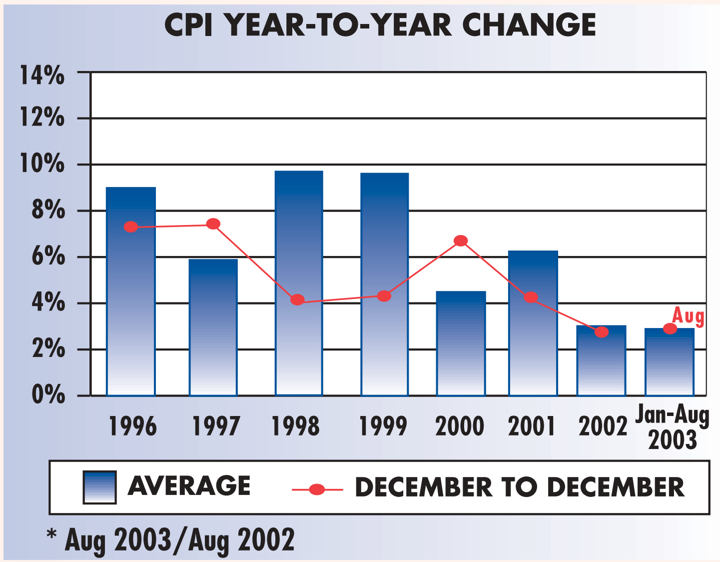
After a better-than expected first-quarter growth performance, jitters over external and domestic developments (including the Iraq War, SARS, uncertainties over global economic prospects, continuing effects of El Niño, and resurgent law-and-order worries) and determined Government efforts to rein in spending slowed the economy's second-quarter expansion. Measured as the year-on-year change of seasonally-unadjusted data, real Gross Domestic Product (GDP) slowed to 3.2% year-on-year growth during the second quarter of 2003 — from the increases posted during 2003's first quarter (4.5%) and 2002's second quarter (4.1%). Second-quarter Gross National Product (GNP) grew by 4.5% in real terms and outpaced the expansion in overall domestic output, boosted by overseas contract workers' (OCW) remittances (up 9.4% in real peso terms) and residents' smaller property-related outflows/expenses (down 11.5%). The economy's second-quarter GDP performance exceeded those of South Korea (up 1.9%), Taiwan (down 0.1%), and Singapore (down 4.2%), but lagged those of China (up 6.7%), Malaysia (up 4.4%), and Indonesia (3.8%).
In terms of demand, the economy's second-quarter growth performance would have been weaker if not for consumer spending — which benefited from stable prices and OCW incomes. Second-quarter consumer



demand expanded by 5.1%, its best growth since the second quarter of 1997. On the other hand, exports of goods and services (up 1.2% in real terms), private construction demand (up 5.2%), and investments in durable equipment (up 6.5%) slowed to their weakest year-on-year growth rates since the second quarter of 2002. April-June 2003 also saw draw downs from inventories after two consecutive quarters of strong increases that had been spurred in part by fears that mounting Middle East tensions could disrupt imports of petroleum products and raw materials. The public sector was in no position to contribute to economic expansion due to budgetary constraints and determined efforts to rein in spending — manifested by an 8.7% year-on-year contraction in public sector consumption and pronounced 22.3% drop in public sector construction investments.

On the supply side, all three major sectors (i.e., agriculture, industry, and services) logged lower year-on-year growth during the second quarter compared with their first-quarter 2003 and second-quarter 2002 performances. Affected by El Niño, April-June 2003 agricultural-sector output expanded by 1.6% year-on-year — slowing from the 2.9% and 1.9% increases posted during 2003's first quarter and 2002's second quarter, respectively. Industrial sector production (up 1.7%) sputtered to its weakest year-on-year growth performance since the third quarter of 2001. The manufacturing sub-sector mustered a 4.1% year-on-year increase, holding up better than expected; however, that expansion fell short of the previous quarter (5.3%) and 2002's comparable period (4.8%). Overall construction sub-sector output slid by 12.2% year-on-year, consistent with the slowed growth of private construction investments and slump in public construction demand. The unusually high rates of expansion posted by mining and quarrying during 2002 (reflecting the commencement of commercial operations of Shell and ChevronTexaco's Malampaya natural-gas project) tapered in 2003. The overall economic slowdown tempered the expansion of utilities sub-sector output to 2.8%, the lowest in five quarters. The expansion of the relatively resilient service sector slowed moderately from the 5.5% increase posted during both the second quarter of 2002 and first quarter of 2003. The continued robust demand for wireless communication and some acceleration in finance/insurance and real estate/leasing services partially offset weaknesses in travel and tourism.

The 4.5% and 3.2% GDP growth rates during the first and second quarters, respectively, yielded a cumulative first-semester GDP expansion of 3.9%. Real GDP must grow by 4.5% during the second half of the year to hit at least the lower end of the Government's 4.2%-5.2% targeted GDP growth range for 2003. Government economic planners have expressed confidence that the 4.2% GDP growth target remains achievable, banking mainly on second-semester improvements in export performance and agricultural sector output. We believe, however, that a number of downside risks remain. The weather (several typhoons have hit the Philippines in recent months) remains a wild card in the agricultural sector's anticipated recovery. Merchandise exports in nominal US$ terms may not accelerate from the first-semester's 2.1% expansion to the 7.6% rate needed during the second half to hit the Government's 5% export-growth target for 2003. Fiscal restraint will likely continue to dampen the public sector's ability to spur the economy's expansion.



Meanwhile, the investment climate has been clouded by a number of high-profile Government actions over the past year that have raised questions over the sanctity of contracts in the Philippines. These cases include a Government-initiated review and subsequent renegotiations of power-supply agreements with private Independent Power Producers (IPPs) to hold down power rates and Supreme Court decisions voiding allegedly tainted and disadvantageous Build-Operate-Transfer contracts (including a project involving German investments to build and operate a modern airport terminal in Manila). The high-profile military mutiny and other domestic events since July have added further to investment jitters — potentially keeping investors on the sidelines until the political dust settles.

Year-on-year consumer price inflation averaged 3% during the first eight months of 2002, well below the government's 4.5%-5.5% targeted range for the full year. Overall, generally stable food-supply conditions (helped by timely imports), under-utilized capacities, still high unemployment, and Government actions to temper electricity rate hikes moderated increases in general price levels. The adoption since January 2002 of an inflation-targeting framework has also enhanced price stability. Year-on-year inflation averaged 2.8% during the first five months of 2003 but averaged 3.3% during June-August. The acceleration in recent months reflected typhoon-induced pressures on the heavily-weighted food index (especially true in June), higher oil prices, and electricity-rate increases (which partly reflected the results of a rate-unbundling scheme and recent Energy Regulatory Commission rulings to help improve the financial viability of the country's largest power distributor). Prices since the second half also have been coming off a relatively lower 2002 base. Nevertheless, based on the numbers thus far, we do not expect average year-on-year inflation to end 2004 significantly higher than 2003's 3.1% average rate (the lowest registered since 1988).

Labor and Employment

For the first three quarterly 2003 surveys conducted by the Department of Labor and Employment (DOLE), the Philippine unemployment rate averaged 11.8 percent, the same as 2002. The unemployment rate declined year-on-year during the first two survey periods (January and April). However, in the latest survey conducted by the National Statistics Office (NSO), the Philippine unemployment rate increased by 1.5 percentage points, from 11.2% in July 2002 to 12.7% in July 2003. This recent increase in the jobless rate reflected an 8.6% year-on-year decline in the agricultural, fishery and forestry sector (equivalent to 760,000 jobs lost), which was hit by several typhoons in June and July. This demonstrates the historically disproportionate share of agricultural employment (35% to 40%) relative to the sector's contribution to GDP (20%).

The labor force participation rate increased to 67.4% from 67.1% for the same period last year. Employment gains in industry (up 5.5%, equivalent to 259,000 jobs) and services (up 1.8%, equivalent to 254,000 jobs) partially offset losses in agriculture. About 65% of those employed nationally were working full-time (i.e., at least 40 hours a week), while about 35% of those employed worked part-time. Over the year-long period, the number of persons in part-time work declined by 11.5%, while the number of persons with full-time work increased by 6%. This indicates that additional work hours were partly absorbed by the substantial pool of part-time workers rather than by new hires.

Underemployment is more severe in rural areas; 64% of Filipinos in the countryside are underemployed. About 50% of workers engaged in agriculture, fishery and forestry are underemployed. Overall, the underemployment rate (the share of full-time and part-time workers seeking additional employment) increased from 17.1% (July 2002) to 20.8% (July 2003).

Based on statistics from the National Conciliation and Mediation Board as of August 2003, notices of strikes/lockouts decreased by 21%, with a total of 403 notices involving 70,764 workers, compared to 507 last year involving 98,213 workers.

In other developments, DOLE implemented its "Country Program for the Informal Sector," a series of initiatives that seek to address the concerns of informal workers, who, according to some estimates, represent up to 70% of the total employment in the country.

Labor Secretary Patricia Sto. Tomas called on labor and management to fully support the government's campaign against substance and drug abuse in the workplace. DOLE created a Task Force headed by the Occupational Safety and Health Center to formulate policies and strategies to combat substance abuse in the workplace.

Financial Markets

The Philippine Monetary Board — the highest policy-making body of the Bangko Sentral ng Pilipinas (BSP, the central bank) — announced a number of foreign exchange and monetary-tightening moves in March 2003 to stem speculative pressure on the peso and inflationary risks (see section on Foreign Exchange Rate and International Reserves). In addition to reducing banks' overbought foreign exchange ceilings, subjecting foreign exchange transactions to close scrutiny, and tightening sanctions for foreign exchange violations, the BSP increased "liquidity reserve" requirements (i.e., mandatory reserves that earn market-based rates) by a percentage point from 7% to 8%. In March, the BSP also scrapped a tiered scheme for reverse repurchase (RRP) transactions that intended to encourage lending to productive sectors by making it less attractive to deposit a large amount of funds with the monetary authority.

Noting that inflation remained under control and speculative pressures on the currency had eased, the BSP restored the tiered scheme for RRP transactions in early June and, to support the economy's still fragile recovery, reduced the BSP's overnight policy rates by quarter-of-a-percentage point in early July. Current policy rates stand at 6.75% (borrowing) and 9% (lending) — the lowest since May 1992. The BSP last touched policy rates in March 2002 when rates were cut by 25 basis points.

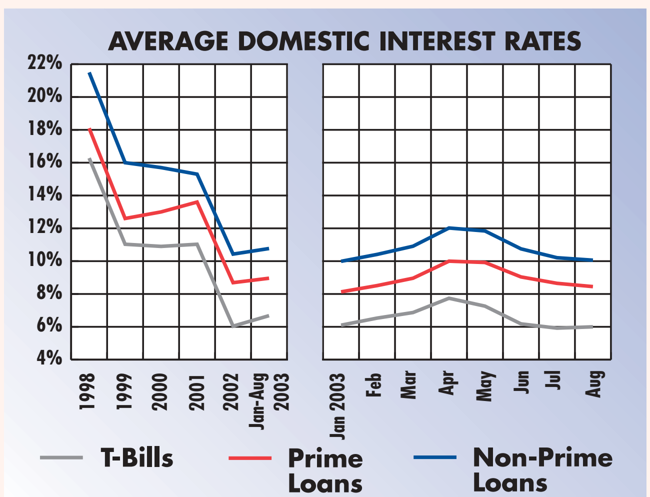
On August 28, the Monetary Board voted to keep policy rates steady but decided to scrap yet again the tiered scheme for RRP transactions in reaction to resurgent foreign exchange volatility triggered by a succession of negative domestic events. In July, three convicted terrorists escaped from police custody, triggering stricter travel advisories from embassies here. On July 27, disgruntled young officers of the Armed Forces of the Philippines staged a mutiny in Manila's premier financial district. While quickly and peacefully resolved, the incident has contributed to lingering perceptions of an unsettled political climate and coup rumors continue to circulate. In early August, the Court of Appeals ordered the suspension of the BSP's well-respected Governor Rafael Buenavantura and other ranking BSP officials for allegedly exceeding their authority in a three-year old case involving a bank closure. (Note: The Court decision is under appeal and the officials continue to discharge their duties.) Soon after, an opposition senator launched an exposé accusing the President's spouse of corruption and money laundering. The Monetary Board continues to monitor developments in the foreign exchange market.

Bid rates for Government securities inched up during the first four months of 2003 in reaction to foreign exchange volatility, fiscal concerns (arising from lackluster January-March internal revenue collections and credit rating downgrades), and BSP monetary-tightening measures. The loan-benchmark 91-day bills increased from an average rate of 5.2% in January to 7.3% in April (the highest recorded since February 2002) during the Government's primary-market auctions. Rates eased in May (6.6%), June (5.6%), and July (5.2%) as fiscal numbers improved and the BSP loosened its hold on money supply. With bank lending still struggling to recover, the rate declines also reflected a dearth of relatively risk-free investment alternatives. The Government — whose coffers received a boost in late June from the successful P74 billion (about $1.3 billion) sale of retail Treasury bonds (i.e., securities in smaller denominations intended mainly for individual investors) — kept borrowing costs at bay during August by rejecting bids it considered too high. The 91-day bills averaged 6.1% during the first eight months of the year, versus 6.5% during 2002's comparable eight-month period. However, all T-bill tenors combined (i.e., 91, 182, and 364-day paper) averaged 6.7% during January-August 2003 — higher than the 6.1% average during 2002's comparable eight-month period — suggesting a preference for shorter-term investments because of prevailing uncertainties. Nevertheless, the Government's domestic borrowing cost has come down significantly during the past two years.

Commercial bank lending rates increased through April but began moving down with T-bill rates in May. Average prime loan rates trended up from 8.1% to 10.0% between January and April 2003, respectively, and non-prime rates increased from 10.0% to 12.0% over that same period. Loan rates declined from May (9.9% prime, 11.8% non-prime)) to August (8.4% prime, 10.1% non-prime). Prime lending rates averaged 9% and non-prime lending rates 10.8% during January-August 2003, up from 8.0% and 10.6%, respectively, from the first eight months of 2002. Overall, however, the cost-of-financing has come down significantly — comparing favorably with 2001's double-digit, full-year averages of 13.7% (prime) and 15.3% (non-prime).

The overhang of non-performing assets (NPAs, the sum of non-performing loans and foreclosed assets) and the accompanying need to beef up loan-loss reserves have inhibited more aggressive credit growth thus far, constrained capital build-up, and exerted pressure on banks' bottom lines. As of June 2003, outstanding loans of the commercial banking system (excluding inter-bank credits) had expanded by a modest 3.7% year-on-year — a far cry from the robust double-digit growth rates before the Asian crisis.

As of end-June 2003, the commercial banking system's NPAs (P448.8 billion) had declined by 1.7% (P8 billion) year-on-year but exceeded the end-2002 level by 4.8% (P8 billion). The year-on-year NPA contraction partly reflected a redefinition of non-performing loan (NPL) portfolios starting September 2002 to exclude accounts classified as "loss" which are fully covered by loan-loss provisions. NPLs (P257.9 billion) declined by 10.7% year-on-year but grew 5.2% (P12.8 billion) from end-2002 to equal 15.2% of banks' aggregate loan portfolios (versus the June 2002 and end-2002 NPL ratios of 18.1% and 15%, respectively). However, asset foreclosures (P190.9 billion) continued to rise, increasing by 13.8% (P23.1 billion) from June 2002 and by 4.3% (P7.9 billion) from the end-2002 level. Restructured loans (P136 billion) — without which NPLs would be higher — also trended upward. They expanded by 17% (P19.7 billion) and 6.2% (P7.9 billion) from end-June 2002 and end-December 2002, respectively — rising to over 8% of outstanding commercial banking system credits (versus end-June 2002's 7.3% and end-2002's 7.8% ratios). As of the first semester, non-performing loans, foreclosed assets, and restructured loans stood at 4.4, 12.8, and 9.6 times their respective mid-1997 (i.e., pre-Asian crisis) levels.



Generally healthy capital-adequacy ratios and increases in loan-loss reserves have helped temper systemic risks. Computed according to the Basle Capital Accord formula, Philippine commercial banks' average capital-adequacy ratio has been estimated at 15% as of December 2002, better than the BSP's 10% statutory floor and the 8% internationally-accepted standard. Loan-loss reserves increased from 47.3% of NPLs as of end-June 2002 to 50.6% of NPLs as of end-June 2003. Still, it should be noted that significant troubles at any major commercial bank could lead to a swift reversal of depositor sentiment, and the resulting strain on the system to service withdrawals could be substantial. Some large banks are saddled with non-performing ratios exceeding the industry average and several banking institutions (6 commercial banks, 42 thrift banks, and 163 rural banks) remain short of BSP-prescribed minimum capitalization levels.

To help ease the burden of non-performing assets on the financial system, President Macapagal-Arroyo signed the Special Purpose Vehicle (SPV) Act into law in January 2003. The law provides a regulatory framework for the creation of privately-funded asset-management companies and hopes to spur their creation by extending time-bound fiscal and regulatory incentives. The impact of the new law remains to be seen. A Congressional Oversight Committee approved the SPV Act's Implementing Rules and Regulations (IRRs) in March 2003. The Securities and Exchange Commission (SEC) reported that two SPV companies had registered in July and August under the SPV Act. The Philippine Monetary Board issued even more detailed implementing regulations to govern banking system NPA transfers (including rules allowing the staggered booking of losses) in late August — which Government officials hope will attract more SPV entrants. Several banks are in various stages of negotiations to clean up their respective NPA portfolios, some with U.S. firms such as Lehman Brothers and Merrill Lynch. Bankers have commented that resolving pricing issues will also be a key factor to the SPV Act's success, noting that potential investors have been negotiating for steep discounts because of perceived legal and political risks. A proposed deal involving the NPLs of the Philippines' second largest commercial bank reportedly collapsed in September when the parties failed to agree on pricing.

The BSP continues to encourage consolidation in the banking system through time-bound incentives and a temporary moratorium (since September 1999) on the issuance of new bank licenses. From January-August 2003, there were four completed acquisitions/mergers involving a commercial bank, a thrift bank, and six rural banks. American Express Bank Ltd., which also operates an offshore banking unit in the Philippines, acquired an existing, local thrift bank in July 2003 and has opened three branches thus far in Metro Manila. The BSP has approved 49 acquisitions and/or mergers thus far since the Asian crisis (involving 29 commercial banks, 22 thrift banks, 22 rural banks, nine non-bank financial intermediaries, and an offshore banking unit) — 46 cases of which had been completed as of end-August 2003. The inability of a number of banking institutions to meet minimum capitalization levels suggest there is room for further consolidation. Another seven acquisition and/or merger proposals are pending BSP approval.

In terms of number, smaller-capitalized thrift and rural banks (which constitute less than 10% of overall banking system assets) have been more severely affected by the shakeout. Four more rural banks closed during January-August 2003 — for a total of 137 bank closures since mid-1997 (involving two commercial, 15 thrift, and 120 rural banks). The Bangko Sentral ng Pilipinas continues to work to fully implement the General Banking Law of 2000, which is geared towards strengthening transparency, bank management, and bank supervision. The BSP is working to widen the application of Basle-prescribed, risk-based capital adequacy standards and to enhance risk-based management and supervision systems. Nevertheless, the circumstances surrounding bank closures highlight remaining impediments to more effective bank supervision and timely intervention — including stringent bank secrecy laws and other obstacles preventing bank regulators from examining banks at will.

On the anti-money laundering front, the Philippines avoided sanctions by the Paris-based Financial Action Task Force (FATF) by enacting amendments in March 2003 to the Anti-Money Laundering Act (AMLA). The amendments addressed remaining FATF concerns including the high $80,000 threshold for covered transactions and the BSP's lack of authority under the original law to monitor compliance. The Joint Congressional Committee overseeing the implementation of the law approved amended Implementing Rules and Regulations (IRRs) in August, which went into effect on September 7, 2003. Effective implementation will be the key to the Philippines' possible removal from the FATF's list of "non-cooperative countries." The Anti-Money Laundering Council expects to submit an implementation plan before the October 2003 FATF plenary meeting. The U.S. Government has been providing training and technical support to assist the Philippines in implementing the Anti-Money Laundering Act, a commitment made during President Macapagal-Arroyo's first working visit to Washington in November 2001.

Hit by a slew of external and domestic uncertainties, the sputtering Philippine Stock Price Index (Phisix) had closed below the 1000 mark (999.46) in mid-March 2003, testing the 1000 level for the first time since December 19, 2002 (997.78). The Phisix inched up in succeeding weeks on bargain-hunting and began a steadier and stronger recovery from June to the first week of July, buoyed in part by stronger net foreign purchases of Philippine stocks, to close at 1302.22 on July 8 (the highest since June 2002). However, the Phisix has since fallen from that level, affected by a succession of unsettling domestic developments, ending August at 1192.83 (still 17.1% higher, however, than the 1018.41 close at the end of 2002).

Although the stock market remains weak, the Philippine SEC continues to implement important initiatives introduced during 2002 to improve longer-term market stability and confidence. These reforms include the Corporate Governance Code and stricter and clearer rules on the accreditation and reportorial requirements for external auditors of publicly-listed firms. Since 1997, the Philippines — spearheaded by the SEC — also has been working gradually to adopt internationally harmonized financial reporting standards prescribed by the International Accounting Standards (IAS) Board. As of August 2003, the Philippines had adopted 27 of the 34 standards under the IAS framework.

President Macapagal-Arroyo has certified as urgent legislation to help in the development of the Philippine capital market. These include a proposed Securitization Act which seeks to establish a framework for the issuance of asset-backed securities (i.e., securities issued against future revenue streams). Another initiative seeks to rationalize documentary stamp taxes (DSTs), including the removal of DSTs on secondary-market financial transactions, to help spur more active trading of financial instruments. The House of Representatives had passed its versions of a Securitization bill and DST bill in May and October 2002, respectively. When this issue of the *Philippine Economic Outlook* went to print, bills on Securitization and DST rationalization were pending on second reading (period of interpellations) in the Philippine Senate.

Fiscal Performance

Concerned about rapid debt accumulation and a rising debt service burden, the National Government has expressed determination to reduce fiscal deficits starting in 2003 leading to a balanced budget by 2010 (having abandoned an earlier target of 2006). The Government is on track thus far to reducing 2003's budget gap to P202 billion (4.7% of GDP) from 2002's record-high P210.7 billion (5.3% of GDP). The fiscal deficit stood at P113.6 billion as of August 2003, below the programmed eight-month ceiling by 10.9% (P13.9 billion). Revenues (P408.4 billion) increased by 12.4% (P45 billion) year-on-year and surpassed the Government's eight-month goal by 6.5% (P24.9 billion). After a shaky first quarter, the Bureau of Internal Revenue (BIR) — which contributes about 80% to tax collections — has met monthly targets since April. Eight-month expenditures (P522.9 billion) exceeded the targeted level somewhat (i.e., by 2.3% or P1.2 billion), reflecting larger releases for accounts payable during August. Contrasting with 2002's "front loading" strategy, the Government has kept a tight rein on disbursements, which increased by a modest 3% year-on-year. However, contractors and suppliers have complained of payment delays, which the Government hopes to address as revenues continue to improve.

The Government aims to further narrow the deficit to P198 billion (4.2% of GDP) in 2004. On August 6, President Gloria Macapagal-Arroyo submitted a P864.8 billion budget (obligation basis) for congressional approval. The budget plan represents a modest 6.6% nominal increase from 2003. It translates to little growth (1.5%-2.5%) after factoring in the Government's 4%-5% inflation forecast and to zero growth in real per capita terms based on an annual 2.36% population growth rate.

A more detailed breakdown indicates that the 2004 proposed expenditure plan is even more austere than it appears. Non-discretionary items — i.e., the sum of personnel costs, legally mandated transfers to local government units, and debt service payments — will take up about 80% of the budget pie. Debt service is expected to expand by 17.7% and to increase from a 28.4% (2003) to 31.3% (2004) share — the consequence of widening deficits and the impact of the peso's depreciation on foreign-loan obligations. Personnel costs (33% of the budget) will increase by 3.8% year-on-year, mainly to improve salaries and benefits for the grossly underpaid military and police and to fill in the need for more teachers.

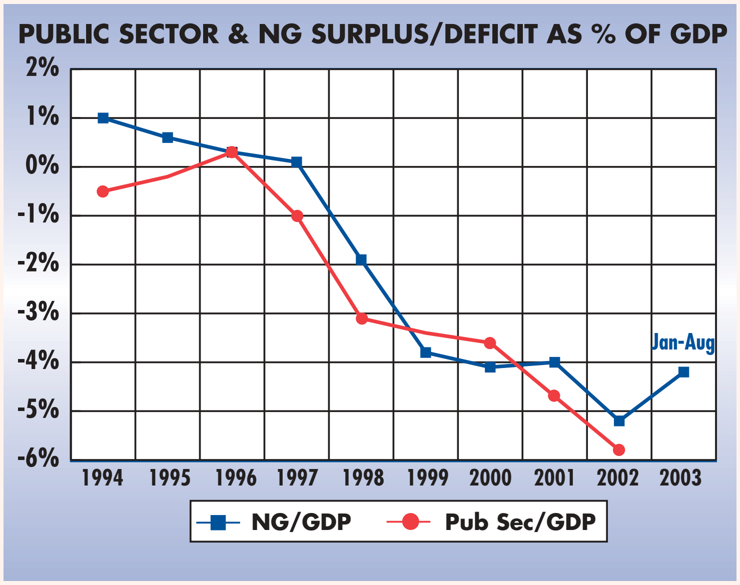
As in the past, the large chunk of non-discretionary expenditures will leave little for "non-mandatory" but essential items. The 2004 obligation budget allots P54.6 billion for infrastructure investments — down 12.6% year-on-year and equivalent to just 1.3% of Philippine GDP. Foreign and domestic investors have long cited inadequate and poorly maintained infrastructure as a major obstacle to doing business here, and the proposed budget will not alleviate this continuing concern. Other figures also illustrate the challenge of juggling limited resources among competing needs. There will be more resources available during 2004 for social services, defense, and debt service but less for economic services (mainly reflecting budget cuts for communications, roads, and transport). Within the social services sector, the 2004 budget proposal allots larger sums for items such as education, housing, and social security but provides no increase in health-service delivery for the Philippines' 82 million people (34% of who live below the poverty line). The budget squeeze could worsen if the Philippine Congress fails to pass P13.3 billion in tax-reform measures that have been factored into the 2004 revenue plan and/or economic expansion falls below Government forecasts (i.e., at least 4.9% GDP growth).

A number of studies here estimate that, overall, as much as half of potential taxes escape collection, confirming an undeniably pressing need for significant improvement in administration and governance at the collection agencies. The Macapagal-Arroyo Administration's reform-minded fiscal team deserves credit for progress made over the past several months to step up tax administration and enforcement — efforts that have already begun to bear fruit. The combined 11.7% year-on-year growth of BIR and Customs collections during the first eight months of 2003 represents a notable improvement from the 1% expansion posted during 2002 (a performance which did not even manage to keep pace with inflation). Still, the fiscal situation remains worrisome following steady declines in the tax-to-GDP ratio from 17% in 1997 to 12.2% in 2002 (a fourteen-year low) and an increasing debt service burden — forcing the Government to make difficult decisions about competing needs.

Reflecting recent legal victories in the Philippine and Swiss courts after more than a decade of legal wrangling, the Government is working to finally gain control over an estimated $680 million (P37.4 billion) of Marcos-family wealth. The Government has already factored P17.5 billion of that amount into the 2004 budget. However, like the much hailed privatization program of the mid-1980s to early 1990s, one-time windfalls will not ensure long-term fiscal viability. The Government will need to make sustained, aggressive efforts to improve tax administration, correct structural deficiencies in the tax system, and combat corruption. These will be crucial for a viable deficit-reduction plan conducive to sustainable long-term growth, global competitiveness, and poverty alleviation.

In July 2003, Department of Finance Secretary Camacho outlined a "roadmap to fiscal deliverance." He stressed that administrative improvements would help arrest fiscal decline but not, by themselves, reverse the trend unless accompanied by policy changes and structural reform. He strongly urged legislative action on the unfinished tax-reform agenda (i.e., indexing excise taxes on cigarettes and liquor to inflation, rationalizing documentary stamp taxes and fiscal incentives, and transforming the BIR into a performance-based National Revenue Authority — NRA) and staying committed to streamlining the government bureaucracy. Several of these reforms continue to meet with strong resistance and their fate remains uncertain this close to an election year. In her State of the Nation Address in July, President Macapagal-Arroyo reaffirmed her commitment to fundamental reform, including passage of NRA legislation. Reform measures that have been passed in 2003, in addition to the Special Purpose Vehicle Act, include the Government Procurement Reform Act and An Act Rationalizing the Excise Tax on Automobiles.

The deficit of the consolidated public sector (which includes government-controlled firms, social security agencies, local government units, and the Bangko Sentral ng Pilipinas) rose to P234.3 billion (5.8% of GDP) in 2002 because of the National Government's wider-than-programmed budget deficit (P210.7 billion vs. P130 billion). For 2003, fiscal planners forecast larger deficits of government firms — especially of the financially-strapped National Power Corporation (Napocor) — to more than offset the National Government's smaller budget gap, further bloating the consolidated deficit to P280 billion (6.5% of GDP). This large consolidated deficit demonstrates the urgency of moving forward aggressively with the restructuring of the electric sector and the privatization of Napocor under the provisions of the Electric Power Industry Reform Act. Legislation (the Transco bill) that would automatically assign the franchise for Napocor's transmission assets to a successful bid-



der (which, otherwise, would still have to muster congressional approval) remains pending in the Philippine Senate, delaying the privatization process. The government faces another important challenge in addressing threats to the long-term viability of state-run pension funds arising from imbalances between contributions received and benefits paid.

Contingent liabilities (i.e., government-guaranteed loans and performance undertakings under Build-Operate-Transfer and similar arrangements) are a growing concern. Problems have already begun to emerge in this area, in some cases because the Government has bowed to public pressure against service-fee adjustments, aggravating the National Government's already substantial fiscal burden. The Government is working with foreign donors to inventory Build-Operate-Transfer Projects, quantify potential risks arising from Government commitments, and develop an early-warning mechanism to detect problem areas. The Government is also considering possible contingent-debt management measures, including a budget ceiling for new contingent obligations and a buffer fund to meet contingent liabilities.

Major international credit-rating agencies downgraded the Philippines' sovereign credit ratings in 2003 (Standard & Poors in April and Fitch in June). Moody's, which has downgraded its ratings outlook for local and foreign currency obligations from "stable to negative," may be close to taking similar action. The ratings agencies noted that the National Government's high debt-to-revenue ratio (5:1), the substantial share of foreign loans (about 50%), and emerging risks posed by contingent obligations had increased the Philippines' vulnerability to fluctuations in economic growth, interest rates, and the foreign exchange rate.

Foreign Debt and Debt Service

The National Government's original borrowing program for 2003 originally targeted $3.5 billion from external sources (48% of total domestic and foreign financing needs), down from the $3.9 billion level raised from overseas markets during 2002 (representing 46% of total National Government borrowings). Of the $3.5 billion target, the Government envisioned raising $2.4 billion from voluntary capital markets (lower than the $2.7 billion last year) and the remaining $1.1 billion balance from official development assistance (ODA) loans. The Government reduced its $2.4 billion commercial borrowing target to $1.9 billion following the successful issuance in June of P74 billion worth of peso-denominated retail Treasury bonds.

As of August 2003, the National Government had raised nearly $1.7 billion, 89% of its full-year commercial borrowing needs, and $450 million (41% of its ODA financing target). It also raised $750 million from voluntary capital markets in July on behalf of the cash-strapped National Power Corporation to obtain cheaper rates (after Napocor withdrew its own flotation due to high risk premiums demanded by overseas investors). While there have been improvements, ODA implementation bottlenecks have been a longstanding concern of foreign donors, with funds held up for various reasons (including legislative roadblocks, lack of counterpart financing, right-of-way problems, and bureaucratic delays). In mid-2003, the Government, in consultation with foreign donors, concluded a comprehensive multi-year review of more than 100 ODA projects and programs to determine which should proceed as scheduled, be accelerated, deferred, reduced in scope and/or cancelled. By taking a more focused, priority-based approach, the portfolio "cleanup" hopes to improve loan utilization rates and save the cash-strapped Government on commitment fees.

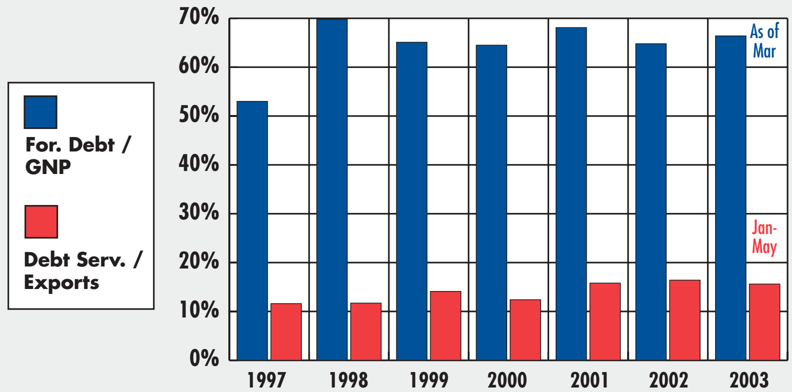
For 2004, the National Government plans to further reduce foreign borrowings to $2.3 billion. That amount represents 30% of the Government's total domestic and foreign borrowing plan, down from the more than 40% share in 2002. Of that amount, the Government intends to raise almost $1.9 billion from overseas bond markets and the residual ($443 million) from bilateral and multilateral lenders.

According to the most recent quarterly estimates, the Philippines' recorded external debt (based on public and private-sector foreign credits approved and/or registered with the Bangko Sentral ng Pilipinas) stood at $55.8 billion as of end-March 2003. That level represented a 4.4% ($2.4 billion) increase year-on-year and a 3.6% (P1.9 billion) expansion from the end of 2002. Medium and long-term loans (with a weighted average maturity of 16.5 years) comprised 88.5% of the foreign debt stock.

By type of creditor, 45.1% of external obligations as of March 2003 were owed to official lenders (defined as multilateral financial institutions, and foreign governments and their export credit agencies) at generally more concessional terms. Bondholders accounted for 28.7%, banks and financial institutions for 21.2%, and other creditors (mainly suppliers) for 5% of the external debt stock. The share of debt owed to official lenders has been declining over the years, from 52.7% as of end-1996 (just before the Asian crisis) to 45.1% as of end-March 2003. Conversely, the cumulative share of other creditors to the foreign debt stock has risen, from 47.3% to 54.9% over that same period. Outstanding commercial credits increased much more rapidly (54.7%) than official loans (13.9%) between end-1996 and end-March 2003, with debt raised from overseas bond markets increasing at an especially robust rate (83.7%). Looking forward, an increasing reliance on commercial credit increases the Philippines' vulnerability to contagion when emerging-market debt is under pressure. Accessing commercial borrowings at affordable rates in potentially more competitive global financial markets will depend on maintaining macroeconomic stability and stable sovereign credit ratings.

The ratio of foreign debt to GDP has risen to more than 70% from just over 50% in the mid-1990s as debt accumulation outpaced the expansion in nominal economic output. The foreign debt service burden — measured as the ratio of debt service payments to export, services, and

FOREIGN DEBT RATIOS



	1997	1998	1999	2000	2001	2002	2003
FOREIGN DEBT/GNP (%)	53.0	69.8	65.1	64.5	68.1	64.8	66.4*
DEBT SERVICE/ EXPORTS (%)	11.6	11.7	14.1	12.4	15.8	16.4	15.6

*Ratio estimated using annual 2003 GNP.

income receipts — remains manageable, reflecting the bias for medium- to long-term loans and the substantial share of official borrowings. Nevertheless, the debt service ratio has risen substantially in recent years, increasing from 12.4% in 2000 to 16.4% in 2002 — the highest recorded since the mid-1990s — as higher payments combined with weaker merchandise export and service receipts. More recent estimates placed the foreign debt service burden from January-May 2003 at 15.7%. These developments suggest vulnerabilities to unexpected reversals in export markets, highlighting the importance of addressing the weak state of government revenues and attracting more sustainable, non-debt sources of balance of payments financing.

Merchandise Trade and Balance of Payments

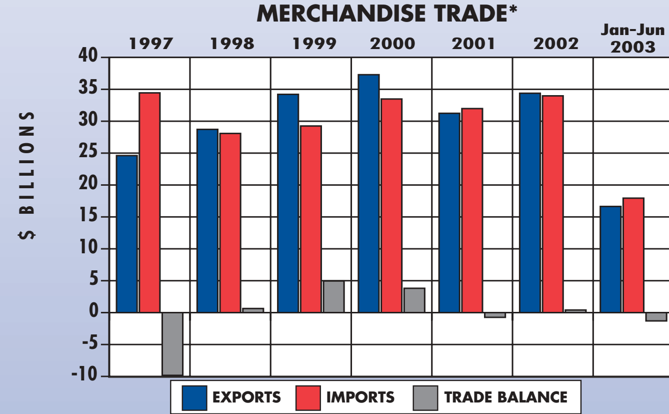
Unsettling external and domestic events and developments took their toll on the balance of payments. Reflecting a much smaller current account surplus and a net outflow in the capital and financial account, detailed BOP statistics through May 2003 showed the Philippines' BOP position $534 million in the red — a reversal from January-May 2002's $1.9 billion surplus. The five-month current account surplus shrank from $1.9 billion to $330 million, while the capital and financial account reversed from a surplus of $1.8 billion to a deficit of $1.6 billion.

The trade-in-goods balance deteriorated from a $154 million surplus to a $1.5 billion deficit during the first five months of the year. Merchandise export receipts slowed markedly during the first quarter, declined year-on-year in April and May, and ended the January-May 2003 period up by just 1.9% ($253 million) from 2002's comparable level. Revenues from shipments of manufactured goods barely expanded, reflecting a 2.2% decline from exports of electronics and telecom equipment (which contribute more than half to the country's annual export earnings). Meanwhile, the country's five-month merchandise import bill increased by 14.2% ($1.9 billion) as declining inventories and uncertainties over the Iraq conflict prompted stockpiling of raw materials and petroleum products during the first quarter of the year. A larger trade-in-services deficit (which widened from $449 million to $722 million) also contributed to the weaker current account, largely because a 26% slump in travel receipts and higher freight payments for imported commodities. The Department of Tourism estimated that January-May 2003 visitor arrivals fell by 10.1% from 2002's comparable figure, with June data showing an even larger year-on-year decline (11.5%) during the first semester. A bigger income account surplus, generated mainly by $3.3 billion in remittances from overseas contract workers (OCWs), prevented the current account from slipping into a deficit. OCW remittances grew by 10% ($292 million) year-on-year despite some deployment disruptions caused by tensions in the Middle East and SARS-related fears. Although overall deployment figures declined somewhat, Government labor officials noted this could have been offset by stronger demand overseas for higher-paid professionals.

In the capital and financial account, net foreign direct investments slipped to a $58 million deficit after recording a $828 million surplus during the first five months of 2003. From a five-month $1.6 billion surplus in 2002, net portfolio investment inflows dropped to $114 million, with lower foreign participation in the domestic market combining with higher investments abroad by Philippine residents. Net repayment of foreign loans and withdrawals by non-residents of foreign currency deposits banks also contributed to the capital account deficit.

More recent indicators suggest that the BOP deficit may have narrowed as of July, receiving a boost during that month from the $750 million loan for the National Power Corporation. Based on preliminary June data, some improvement in the merchandise trade balance also played a role as exports logged a modest expansion while imports slowed from the unusually high levels of earlier months. Still, uncertainties remain over the subsequent direction of the merchandise trade account and capital flows, with preliminary numbers suggesting a year-on-year decline in July 2003 merchandise export receipts. Unless the Government or the BSP decides to incur more loans (to pre-finance the 2004 budget or intentionally prop up international reserves), the substantial boost provided by borrowings in July will be eroded as the year progresses. Already struggling, the aftershocks of the July 27 military mutiny, overall election-related uncertainties, and intermittent political disturbances and surprises in the run-up to the 2004 polls (which have already begun to emerge) will continue to put a damper on the prospects for foreign investment.

Beyond short-term prospects, longer-term BOP vulnerabilities remain. The Philippines historically has posted trade and current account surpluses during periods of economic weakness, with risks of reversing to deficits as economic expansion accelerates. Although improving, the country's major export products (electronics and garments) rely heavily on imported inputs. While trade liberalization presents vast opportunities, intensifying global competition and the emergence of low-wage export economies also pose challenges. Longer-term BOP stability likewise will hinge heavily on the Philippines' ability to compete for non-debt sources of foreign exchange as the Government works to avert potential risks from the rapid debt build-up of previous years.



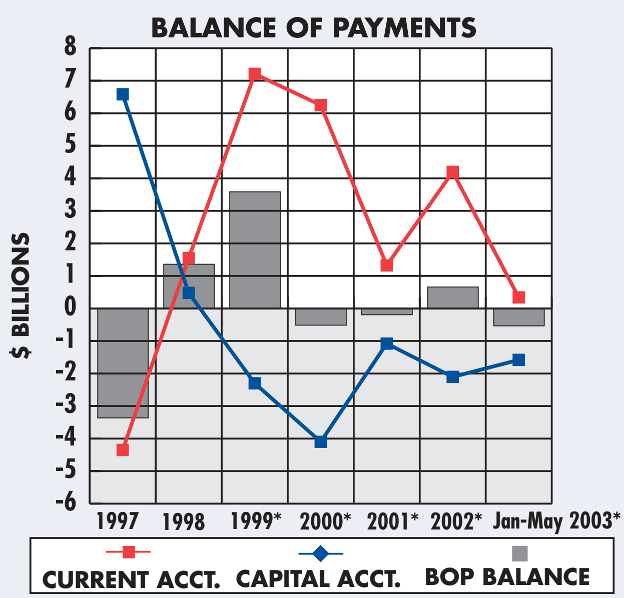
	1997	1998	1999	2000	2001	2002	Jan-Jun 2003
EXPORTS	24.609	28.726	34.211	37.295	31.243	34.383	16.640
IMPORTS	34.439	28.082	29.252	33.481	31.985	33.975	17.949
TRADE SURP/DEFICIT	-9.830	0.644	4.959	3.814	-0.742	0.408	-1.309

*Reflects improved reporting system for duty-free imports into export processing and free port zones.

Foreign Exchange Rate and International Reserves

Geopolitical tensions rattled the foreign exchange market during most of 2003's first quarter, combining with domestic concerns (including credit-rating downgrades, threats of FATF sanctions, and bombing incidents in the Southern Philippines). By mid-February 2003, the local currency — which had closed 2002 at P53.30/$ — was breaching the P54.00/$ mark and, before mid-March, had hit an intra-day trading low of P55.16/$. The peso then began to recover on BSP monetary and foreign exchange tightening moves, an intensified campaign against foreign exchange violations, easing Iraq war jitters, the passage of amendments to the Philippines' anti-money laundering law, and emerging improvements in the Government's fiscal performance — tempering uncertainties arising from the SARS scare. Combining with seasonally heavy April/May inflows from overseas contract workers before the opening of the school season, the peso managed to strengthen to as much as P52.05/US$ on May 12.

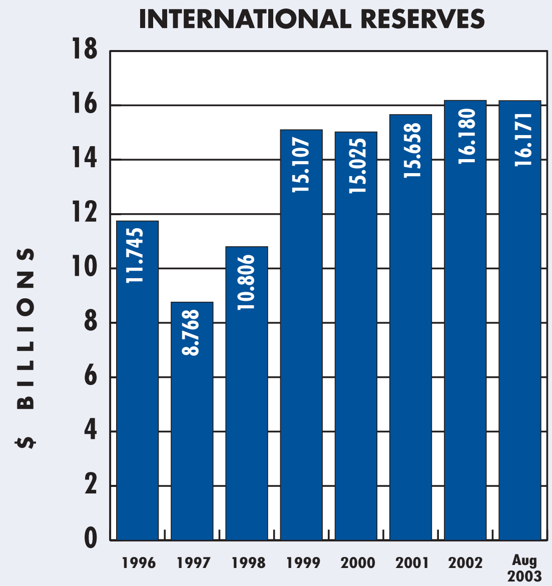
The peso changed course with the onset of the seasonally heavy third-quarter import season, combining with uncertainties over balance of payments prospects. The local currency closed May at P53.24/$ and June at P53.46/$. Non-economic factors weighed down more heavily on the Philippine peso in subsequent months (see section on *Financial Markets*). The peso ended July at P54.72/$. By late August, the local currency had sputtered to an intra-day trading low of P55.60/US$ — approximating the all-time P55.75/US$ intra-day low recorded at the height of the movement which toppled former President Joseph Estrada from power. The peso regained some lost ground by month's end on signals of more active BSP intervention and closed August at P55.02/$, down 3.2% from the end of 2002. Overall, the peso averaged P53.71/$ during January-August 2003, 5.5% weaker in nominal terms than 2001's comparable eight-month rate (P50.92/$). Assuming no major additional shocks, BSP officials expressed optimism that the peso could begin a steadier recovery during the fourth quarter as import-related foreign exchange demand eased and OCWs began remitting foreign exchange for the Christmas holidays.



*Statistics since 1999 reflect recommendations of IMF technical mission and improved reporting system for duty-free imports into export processing and free port zones.

Helped by proceeds from foreign bond issues, the BSP's gross international reserves (GIR) increased by 1.5% ($246 million) between the end of 2002 and the end of January 2003, ending that month at $16.4 billion (a seven-month high). However, that level declined in subsequent months, reflecting net repayments of public sector obligations and weak balance of payments flows, to end June 2003 at $15.8 billion (a seven-month low). Loan proceeds for Napocor and $175 million from the issuance of zero-coupon Treasury bills pushed up the BSP's international reserve cushion close to $16.2 billion by end-August (approximating the end-2002 level). That cushion was equivalent to 4.4 months worth of import cover (down somewhat from the 4.7 months of cover as of end-2002).

The BSP's end-August 2003 GIR cushion equaled 133.4% of public and private sector debt due in the next twelve months (down from 144.9%% as of August 2002 and 139.7% as of December 2002). Unless propped up by additional foreign credits, the GIR position could decline further in the wake of weak balance of payments prospects and, potentially, increasing pressure for the monetary authority to intervene more actively in the foreign exchange market. Considered as "secondary reserves", the BSP estimated that banks' foreign currency deposit units (FCDUs) had more than $13 billion in deposits as of July 2003, almost 97% of which represented deposits of Philippine residents.



Special Feature:
U.S.-Philippines Bilateral Economic Relationship

Bilateral Trade and Investment

According to official U.S. statistics, bilateral two-way trade between the United States and the Philippines totaled $18.3 billion in 2002. The Philippines' trade surplus with the U.S. was $3.7 billion in 2002, an increase of $50 million from 2001. U.S. goods exports in 2002 were $7.3 billion, down 5.1% from the previous year. Corresponding U.S. imports from the Philippines were $11.0 billion, down 3.0%. The Philippines is currently the 19th largest export market for U.S. goods and the 20th largest supplier of U.S. imports.

Leading U.S. exports to the Philippines include semiconductors, wheat and animal feeds, electric apparatus, computer accessories, and telecommunications equipment. The Philippines is the top ASEAN purchaser of U.S. agricultural, forestry and fisheries products, amounting to $801 million in calendar year 2002. The Philippines exported $625 million worth of agricultural, forestry and fisheries products to the United States in 2002, primarily processed fruits and vegetables, tropical oils, and seafood. Leading Philippine exports to the U.S. include semiconductors, computer accessories, and apparel.

U.S. exports of private commercial services (i.e., excluding military and government) to the Philippines were $1.6 billion in 2001 (latest data available), and U.S. imports were $1.4 billion. Sales of services in the Philippines by majority U.S.-owned affiliates were $888 million in 2000 (latest data available), while sales of services in the United States by majority Philippine-owned firms were $20 million.

According to the U.S. Bureau of Economic Analysis, the stock of U.S. foreign direct investment (FDI) in the Philippines at the end of 2002 was $4.1 billion, up from $3.3 in 2001. U.S. FDI in the Philippines is concentrated largely in the manufacturing, finance and banking sectors.

U.S.-R.P. Trade and Investment Council

The U.S.-Philippines Trade and Investment Council (TIC) has been meeting with regular frequency since 2002, when it was revived after a decade of dormancy. The U.S.-R.P. TIC was created under the 1989 US-Philippines Trade and Investment Framework Agreement, which was the first such agreement in the region to establish a working forum to address bilateral trade and investment concerns. More recently, the United States has signed other similar agreements throughout the region, based on the Philippine model, to foster bilateral trade and investment discussions. Held roughly every six months, the TIC most recently met in Washington in September 2003 during which the main issues for discussion were telecommunications and trade facilitation. Other topics discussed included intellectual property rights protection, the generalized system of preferences, and agricultural issues. Previously, the TIC met in May 2003 via videoconference, November 2002 at the Cabinet level, and April 2002 in Manila when it was relaunched.

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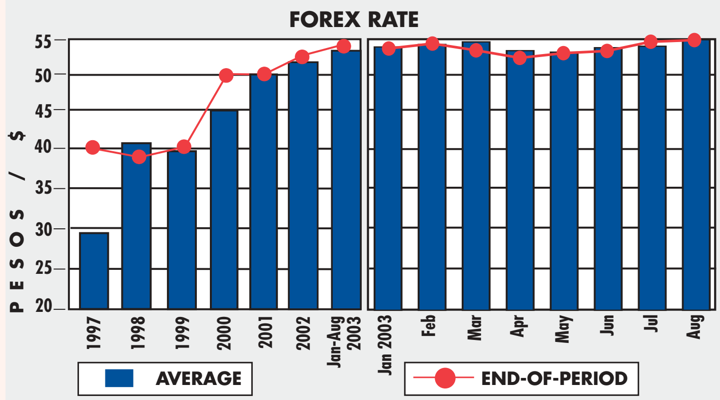
Challenges and Prospects

Since her inauguration in January 2001, President Macapagal-Arroyo has spoken of economic reforms aimed at encouraging private enterprise, and reducing corruption and poverty. Although she appears to have arrested a worrisome fiscal trend and has attained some other successes, her Administration has not made sufficient progress to break the pattern of low per-capita growth. To be sure, she has faced extenuating circumstances: lack of an electoral mandate, a global economic slowdown and weakening exports, continuing law-and-order problems, and a high population growth rate. However, her Administration has also sent contradictory signals that detracted from the thrust of its overall reform goals.

The President placed privatization of the electric power sector front and center on the Administration's agenda soon after her inauguration. She secured the passage of the Electric Power Industry Reform Act (EPIRA) in June 2001, a signature accomplishment that had eluded previous administrations over a number of years. However, implementation has bogged down, due in part to the Government's review of contracts with private power companies and to Congressional insistence that it should continue to play a strong role in carrying out the EPIRA. To its credit, in 2003 the Government substantially resolved the contract review process and also moved on its own to dispose of the transmission assets of the National Power Corporation, pending later ratification by the Congress. After a slow start, the Energy Regulatory Commission, a new independent regulatory agency, approved a rate increase that helped Meralco, the country's largest electric distribution company, avoid insolvency. Nevertheless, these persistent problems served to diminish investor interest in the power sector, and no doubt to reduce the price of power assets, if and when eventually sold.

Similarly, the Administration scored early but limited victories against corruption. Former President Estrada was arrested on corruption charges and remains incarcerated, as the prosecution continues to present its case. In 2001, the Philippines enacted an Anti-Money Laundering law aimed at eroding bank secrecy practices that could conceal corruption as well as terrorist activities. In 2003, under pressure from the Financial Action Task Force, the Congress amended the Act to meet international FATF standards — but the Philippines remains on the list of non-cooperative countries pending effective implementation.



*End-of-period data refers to average foreign exchange rate on last trading day of indicated period.

The Philippines' historically-low revenue collections are the cause of many economic problems, including the inadequate infrastructure, the worrisome debt level, and the overburdened educational system now eroding English language skills. The Administration has consistently pressed for reforms in collections, particularly at the Bureau of Internal Revenue. Although improvements in administration and enforcement have raised revenue collections in 2003, significant reform has proved elusive. In her State of the Nation Address in July 2003, the President renewed her commitment to fundamental reform of the BIR and declared as urgent bills in the Congress seeking to set up a more independent and less corrupt revenue agency, the National Revenue Authority (NRA).

Prospects for markedly higher economic growth over the next year are not bright. However, with continued macroeconomic stability, passage of key legislation and a reinvigorated anti-corruption campaign, the Philippines can make a solid start towards attaining the growth needed not just to muddle along but to make genuine improvements that will benefit the Philippines' rapidly growing population.

PROJECTIONS FOR 2001: SELECTED INDICATORS

	2001	2002	2003	2004
	Actual	Actual	Forecast *a/*	
GDP Growth (Year-on-Year, %)	3.0	4.4	3.5-4.0	4.2-4.7
GNP Growth (Year-on-Year, %)	3.5	4.5	4.0-5.0	4.7-5.3
Average Year-on-Year Inflation (1994=100, in %)	6.1	3.1	3.2-3.5	4.0-5.0
Average 91-day T-bill Rate (%)	9.87	5.43	5.9-6.3	7.0-8.0
Average Forex Rate (Pesos/US$)	50.99	51.06	54.00-54.30	53.75-55.00
Exports ($Billions)	31.2	34.4	35.3-35.8	38.5-39.5
Growth (Year-on-Year, %)	(16.2)	10.1	2.5-4.0	9.0-10.0
Imports ($Billions) *r/*	32.0	34.0	36.2-36.7	39.9-41.1
Growth (Year-on-Year, %)	(4.5)	6.2	6.5-8.0	9.0-11.0
Trade Balance ($Billions) *r/*	(0.8)	0.4	(0.9)	(1.4)-(1.6)

a/ Embassy projections as of September 2003

r/ Revised to reflect improved reporting system that captures duty-free imports bound for export processing and free port zones.

Sources: National Economic and Development Authority, Bureau of Treasury, Bangko Sentral ng Pilipinas.

PHILIPPINES: KEY ECONOMIC INDICATORS

(In Million USD, unless otherwise noted)

	2001	2002	2003	
Domestic Economy				
Population (millions)	78.3	80.1	82.0	
Population growth (%)	2.36	2.36	2.36	
GDP (current) ***a/***	72,047	77,959	38,075	Jan-Jun
GNP (current) ***a/***	76,852	83,143	40,883	Jan-Jun
Per Capita GDP, current dollars ***a/***	920	973	464	Jan-Jun
Real Per Capital GDP (% change, yr.-on-yr.)	0.5	2.1	1.4	Jan-Jun
Real GDP (% change, yr.-on-yr.)	3.0	4.4	3.9	Jan-Jun
Real GNP (% change, yr.-on-yr.)	3.5	4.5	4.8	Jan-Jun
Consumer Price Index (ave. % change, yr.-on-yr. 1994=100)	6.1	3.1	3.0	Jan-Aug
Production, Employment, Fiscal Accounts				
Unemployment rate (%) ***b/***	11.1	11.4	11.8	Jan/Apr/Jul
Industrial prod. (1985=100), % change yr.-on-yr.	0.9	3.7	2.8	Jan-Jun
Nat'l gov't budget surplus/(deficit) ***a/***	(2,883)	(4,084)	(2,114)	Jan-Aug
as % of GDP	(4.0)	(5.2)	(4.2)	Jan-Aug
Consolidated public sector surplus/(deficit) ***a/***	(3,321)	(4,541)	--	
as % of GDP	(4.6)	(5.8)	--	
Interest Rates (%)				
Weighted average T-bill rate (all maturities)	11.1	6.0	6.7	Jan-Aug
Average prime loan rate	13.7	8.7	9.0	Jan-Aug
Balance of Payments				
Exports (FOB)	31,243	34,383	16,640	Jan-Jun
Growth (%, yr.-on-yr.)	(16.2)	10.1	2.1	Jan-Jun
Imports (FOB) *r/*	31,985	33,975	17,949	Jan-Jun
Growth (%, yr.-on-yr.) ***r/***	(4.5)	6.2	10.9	Jan-Jun
Trade balance *r/*	(742)	408	(1,309)	Jan-Jun
Current account surplus (deficit) ***r/***	1,323	4,197	330	Jan-May
as % of GNP	1.7	5.0	1.0	Jan-May
BOP surplus/(deficit)	(192)	660	(534)	Jan-May
Foreign Debt, as of end of period *c/*	52,355	53,874	55,806	March
Debt service paid	6,564	7,445	2,876	Jan-May
Debt service (% of exports of goods and services)	15.8	16.4	15.7	Jan-May
BSP International Reserves, as of end of period	15,658	16,180	16,171	Aug
Exchange Rate (pesos/$)				
Average exchange rate	50.99	51.60	53.71	Jan-Aug
Closing ave. exchange rate ***d/***	51.69	53.25	54.95	Aug
Foreign Direct Investment (BSP registrations) *e/*				
Total (cumulative, since 1973)	13,668	15,099	15,347	as of Jun
U.S. (cumulative, since 1973)	3,245	3,300	3,386	as of Jun
U.S. share (%)	23.7	21.9	22.1	as of Jun
U.S.-Philippine Trade (Phil. Data) *r/*				
Philippine exports to U.S., FOB ***f/***	8,979	8,683	3,579	Jan-Jun
Growth (%, yr.-on-yr.)	(21.0)	(3.3)	(14.6)	Jan-Jun
Philippine imports from U.S., FOB ***f/***	6,411	7,286	3,796	Jan-Jun
Growth (%, yr.-on-yr.)	0.0	13.6	5.3	Jan-Jun
Philippine trade balance with U.S. ***f/***	2,568	1,397	(217)	Jan-Jun
U.S. share of Philippine imports (%)	20.0	21.4	21.1	Jan-Jun

a/ originally peso values, converted to USD; ***b/*** annual figures computed as average of quarterly surveys (Jan/Apr/Jul/Oct); ***c/*** excludes "net due to" accounts of foreign commercial banks and private sector loans not approved and/or registered by/with the BSP; ***d/*** average on last trading day of indicated period; ***e/*** principally exercised to enable foreign exchange purchases from the banking system for capital repatriation and profit remittances; ***f/*** differs from USG statistics (which estimated the Philippines' trade balance with the U.S. at $3.6 billion in 2001, $3.7 billion in 2002, and $1 billion during the first half of 2003; ***r/*** revised to reflect improved reporting system to capture duty-free imports bound for export processing and free port zones.

Sources: National Economic and Development Authority; Department of Finance; Bangko Sentral ng Pilipinas