



August 2004

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Special Focus:

The Successful Implementation of Economic Policy Imperatives-A Prerequisite to Sustaining Growth Momentum

The economy maintained its momentum expanding by a robust 6.35% in the first half of 2004 amidst external and domestic challenges including higher international oil prices, upward pressures on the domestic price environment and political uncertainties. Despite this difficult environment, services and industry performed at an increased pace in the second quarter offsetting the deceleration in the agriculture sector resulting from increasing input prices. The strong growth in industry and services was due to both robust domestic and external demand with the latter driven by the recovery in demand from major trading partners including Asian neighbors and US. Public construction spending and expansion of capacity of the telecommunications sector fueled investment demand.

Socio-Economic Secretary Romulo L. Neri stressed, "Sustaining the strong growth and achieving the 2004-2005 growth forecasts of 4.9-5.8% and 5.3-6.3%, respectively, is hinged on the successful implementation of the government's Economic Reform Packages".

Five Economic Reform Packages of the government were outlined by President Gloria Macapagal-Arroyo in her State of the Nation Address (SONA) in July: a. Job Creation and Economic Growth; b. Anti-Corruption through Good Government; c. Social Justice and Basic Needs; d. Education and Youth Opportunity; and e. Energy Independence and Savings. The Reform Packages were designed to support the attainment of the President's 10-point National Agenda to move the economy forward and thereby alleviate the country's pressing poverty concerns.

The IRO Newsletter has undergone changes in its format in line with delivering the latest economic developments and monitoring of major policy thrusts of the new administration of the Philippine Government. The new format features a cover story that will discuss emerging developments or emerging policy issues that will impact on the economy in the near term; highlights of key events in the month; a progress report of the major policy imperatives as outlined in our cover story for this month as well as updates on the implementation of the upcoming six-year economic blueprint or the Medium-Term Philippine Development Plan, 2005-2010; and lastly, a first glance on the health of the economy via pertinent graphs and tables.

Foremost in this economic reform series is the implementation of the Job Creation and Economic Growth Package as it focuses on three of the four economic policy imperatives that stress adherence to macroeconomic stability anchored on fiscal discipline; restructuring and reforming the financial sector; and increasing infrastructure, investments, exports and employment. In addition, the Energy Independence and Savings Package will focus on restructuring and reforming the power sector. Successful implementation of these measures will boost the country's competitiveness and improve investor confidence paving the way for a broader based, and faster economic growth in the future.

The first imperative of adherence to macroeconomic stability anchored on fiscal discipline was outlined earlier stressing the importance of regaining the country's fiscal health to sustain the recent economic growth momentum. Under this imperative, the government discussed a comprehensive set of revenue generation and prudent spending initiatives covering both legislation and administrative measures that will enable the government to consolidate its budget over the medium-term.

Month in Review

Financial Reforms Unveiled to Strengthen Philippine Banking System and Develop Local Capital Markets

The Bangko Sentral ng Pilipinas unveiled another set of reforms under the Job Creation and Economic Growth Package and one of the four economic imperatives of the Arroyo Administration. The Financial Sector Restructuring and Reform Agenda seeks to implement reform measures that will promote a stronger, more stable financial system and further develop the domestic capital markets.

To promote a stronger and more stable financial system, the Government aims to raise regulatory standards based on international best practices; enhance enforcement powers while providing sufficient legal protection to regulators; and facilitate the recovery of financially distressed enterprises. Several legislative measures are being shepherded to support the initiative, which include Amendments to the BSP Charter that will strengthen its supervisory power; a Credit Reporting Bill to permit information sharing to protect both investors and lenders; a Corporate Recovery Act to modernize and clarify rules for debt restructuring and recovery; a Pre-Need Bill to strengthen and enhance regulation of the pre-need sector to protect future investor and plan holders; and, Amendments to the Corporation Code to strengthen corporate governance regulations to protect minor shareholders and small investors.

To further develop the domestic capital market particularly improving access to credit of small- and medium-enterprises, reforms include increasing governance standards and establishing a credit information system to better assess creditworthiness. These will support the diversification of the sources of long-term financing and investment products to develop domestic savings and the creation of a more efficient infrastructure system for securities trading. Legislative support include the Revised Investment Company Act to ensure investor protection and the People's Equity Retirement Account to institutionalize a retirement account for public and private employees and self-employed individuals with tax incentives to generate more savings.

LEDAC Tackles Anti-Corruption Reform Initiative

The Legislative-Executive Development Advisory Council (LEDAC) recently tackled the Anti-Corruption through Good Government initiative -- one of President Arroyo's five Key reform Packages. The LEDAC is an advisory and consultative body to the Legislature that ensures consistency in the coordination of the executive and legislative development planning and budgeting. The President chairs the LEDAC with members composed of the leaders of the Senate and House of Representatives, government economic managers, and representatives from the private sector.

President Arroyo discussed three plans based on enforcement, systems and values to achieve and maintain good governance. Enforcement reforms center on the ongoing lifestyle checks of government officials to integrate attachment proceedings with the filing of lifestyle check cases in much the same manner as the US Rico Law is implemented. Another important initiative patterned after Hong Kong's Independent Commission Against Crime is the strengthening of the prosecuting arm of the Office of the Ombudsman by allowing for it to hire private prosecutors to litigate before government courts. For systems, reforms include improving frontline services, automation of elections, full implementation of the procurement law, pursuing judicial reform and government re-engineering while the values portion will focus on pursuing values education in schools and values seminars in institutions.

President Arroyo Submits Php 907.6 Billion National Budget for 2005

President Gloria Macapagal-Arroyo submitted in August the Php 907.6 billion national budget for 2005, a 5.3% increase from the 2004 budget. This translates to a budget on a cash basis of Php 943 billion (+7.9%). Anchored on her 10-point agenda, the 2005 budget focuses on job creation and fiscal discipline. President Arroyo said the proposed 2005 budget symbolizes her administration's commitment to reform and responsible development. The President stressed the need to focus on fiscal consolidation through fundamental revenue and expenditure reform. The Administration is proposing eight new revenue measures, legislation of the fiscal responsibility bill, implementation of rationalization and reorganization programs, reform of government pension and retirement benefits, improvement of corporate performance and expansion of public investment spending.

Business Optimism Soars in the Third and Fourth Quarters of 2004

Results of the third quarter 2004 Business Expectations Survey (BES) conducted from 1 July to 9 August showed that business confidence in the economy reached record highs as the overall business outlook diffusion indices (DI) were registered at 30.5% and 48.7%, for the third and fourth quarters of 2004. This indicates strong expectations of the business sector that economic growth will accelerate during the next half of the year.

Survey respondents cited various reasons for their bullish business outlook due to: a) relatively stable political environment; b) a generally stable peso; and c) increasing demand for Philippine products and services in both the domestic and external markets. In addition, better government support, technology and systems' improvements, good weather conditions and market demand seasonality also contributed to the more favorable business outlook. Expectations of accelerating growth in the economy were further confirmed as majority of the firms projected brisker volume of business in the third quarter and further more in the fourth quarter of 2004.

Progress on Philippine Development Imperatives

Key Tax Measures Filed in Congress to Support Economic Reform Imperatives

Legislators have heeded the President's calls for supporting legislation that will support the four economic reform imperatives under the Job Creation and Economic Growth Package initiative. Several key tax measures were filed at the House of Representatives that would broaden the tax revenue base bolstering the government's objective of fiscal consolidation in the medium-term and sustaining macroeconomic stability conducive to economic growth.

The tax measures filed in Congress include: Three bills on the Indexation to Inflation of Excise Taxes on and Reclassification of Sin Products (Alcohol and Tobacco) with House Bill (HB) Numbers 194, 1591 and 1558; one bill Adjustment of Excise Tax on Petroleum Products with HB No. 1323; two bills on the Rationalization of Fiscal Incentives with HB Nos. 271 and 302; Franchise Tax on Telecommunication Companies, HB Nos. 1469 and 1560; one bill on the Institutionalization of an

Attrition System with HB NO. 554; and one bill on Increasing the Rate of the Value-Added Tax with HB No. 1468. Meanwhile, legislation to establish an Independent Revenue Authority or the re-organization of the Bureau of Internal Revenue has also been filed under HB No. 276. Speaker Jose de Venecia of the House of Representatives led the filing of these priority tax bills.

Php 2.32 Billion Australian Aid Welcomed for Human Resource Development

The National Economic and Development Authority (NEDA) welcomed the Php 2.32 billion (A \$59.6 million) aid from Australia for education and training support of selected government and private institutions in the next five years. "In implementing this program, we should pay attention to building a critical mass of well-educated and better-equipped public servants and private sector representatives in institutions that play strategic roles in meeting our development objectives," said Socio-economic Planning Secretary Romulo L. Neri during the signing ceremony.

The Secretary noted that the aid facility's themes on governance and policy reform, rural development, and conflict resolution falls squarely within the thrusts of the Arroyo Administration.

ICC Approves Php 1.6 billion Water Supply Project for Cebu

The Investment Coordination Committee-Cabinet Committee (ICC-CC) recently gave its first pass approval to the Carmen Bulk Water Supply Project for Metro Cebu Water District (MCWD) to provide additional potable water to the areas served by MCWD. The initial approval covered negotiating conditions that focused on the project's internal rate of return to equity (IRR_e), technical and economic regulation aspects and government support for changes in law for the project. The project cost is expected to reach Php 1.6 billion and significantly enhance Cebu's competitiveness, as it remains to be the dominant local economy in the central island regions of the Philippines.

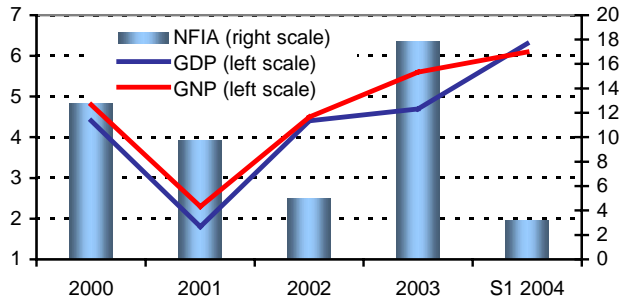
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Economy at a Glance

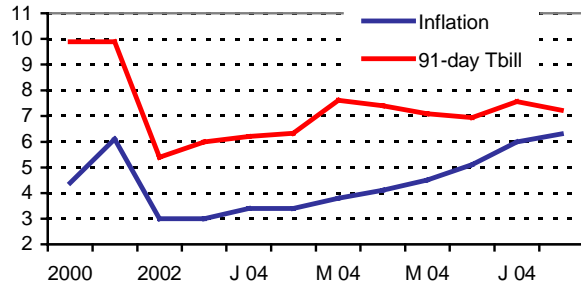
Real Sector and Employment

GDP, GNP and NFIA Growth (%)



Prices

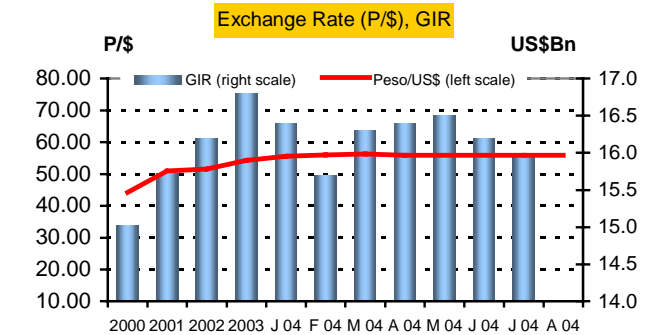
Inflation and Interest Rates (%)



Sources: NSO, BTr

GDP and GNP					
(1985=100)	2000	2001	2002	2003	S1 2004
GNP, growth rate	7.0	2.3	4.2	5.6	6.1
GDP, growth rate	6.0	1.8	4.3	4.7	6.3
NFIA	26.8	9.8	3.9	17.9	3.2
Supply					
Agriculture	4.5	3.7	3.6	3.8	6.3
Industry	9.0	-2.5	3.6	3.8	5.6
Services	4.4	4.2	5.1	5.8	6.9
Demand					
Personal	3.5	3.6	4.1	5.3	5.9
Consumption					
Government	6.2	-5.4	-3.9	0.5	0.5
Consumption					
Investments	24.2	-7.0	-4.8	0.1	9.4
Exports	9.2	3.2	3.6	4.4	13.0
Imports	4.8	3.8	4.8	10.2	5.7

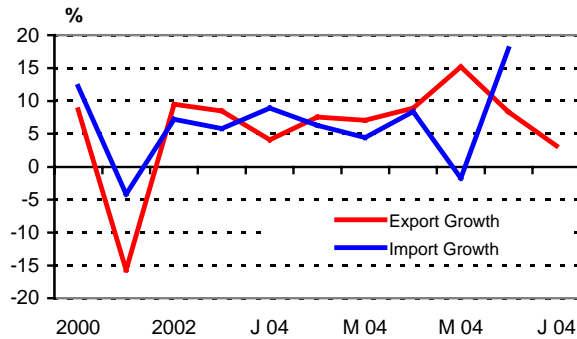
Sources: NSCB, NEDA



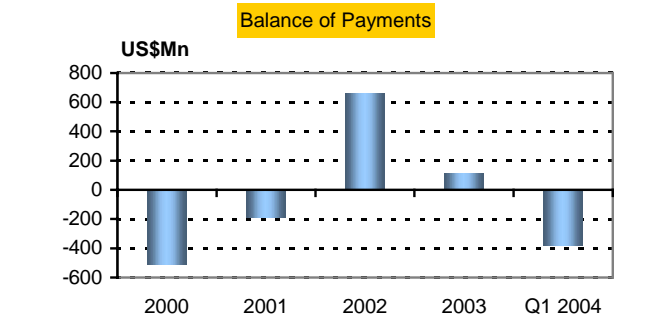
Source: BSP

Monetary and Banking

Export and Import Growth (%)

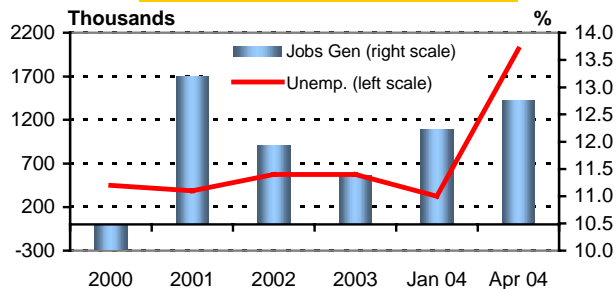


Source: NSO

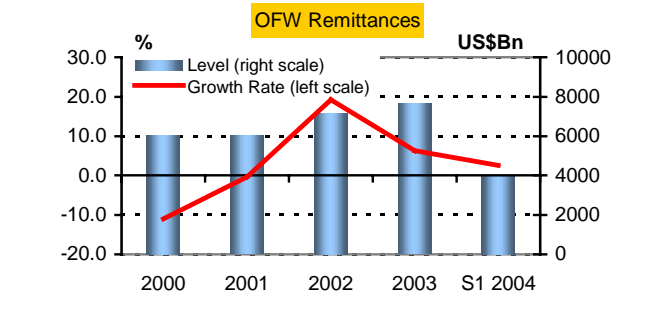


Source: BSP

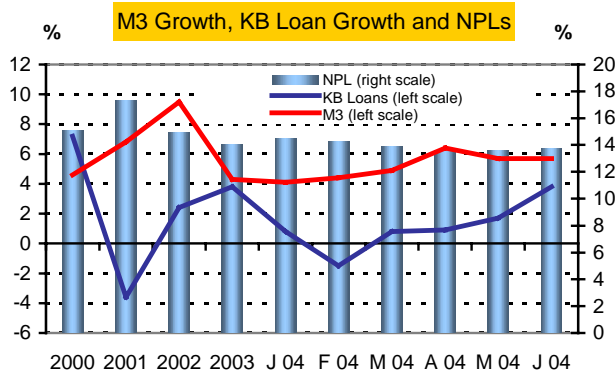
Unemployment Rate and Jobs Generated



Source: NSO



Source: BSP



Source: BSP

Investments

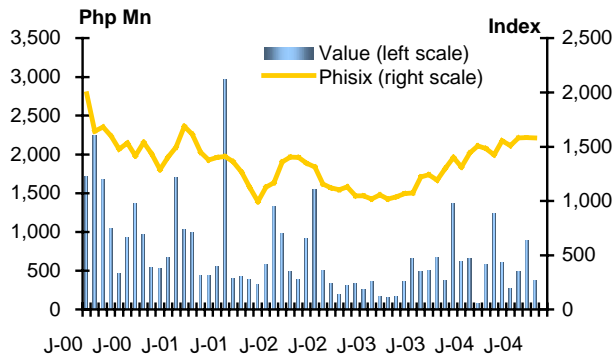
Total Approved Foreign Direct Investments
By Promotion Agencies (in million US\$)

	2000	2001	2002	2003	Q1 2004	Q2 2004
BOI	382.1	561.4	170.0	153.2	1,738.4	2,033.9
PEZA	1,503.0	638.6	443.4	458.2	316.8	487.2
SBMA	48.9	5.6	14.4	6.8	0.3	To be released
CDC	43.5	14.2	271.5	7.1	6.8	released
Total	1,977.4	1,219.7	899.3	625.1	2,062.3	2,521.1

*BOI and PEZA Q2 2004 converted using Php 55.911/\$

Sources: NSCB, DTI, BOI, PEZA, CDC, SBMA

PSE Composite Index



Source: Bloomberg

Corporate Earnings First Semester

COMPANIES	S1 2004 (Php)	S1 2003 (Php)	Growth Rate (%)
PLDT (Php Bn)	12.0	1.8	573.0
AYALA CORP. (Php Bn)	2.6	1.4	90.0
GLOBE TELECOM (Php Bn)	6.9	4.4	58.0
JOLLIBEE (Php Mn)	468.5	342.6	37.0
BPI (Php Bn)	3.5	2.7	32.0
SAN MIGUEL CORP. (Php Bn)	4.0	3.1	29.0
BANCO DE ORO (Php Mn)	831.0	663.2	25.0
SUN LIFE PHILS. (US\$ Mn)	804.0	709.0	13.4
ABS-CBN (Php Mn)	560.0	507.0	10.0
SM PRIME (Php Bn)	2.2	2.0	9.0
AYALA LAND (Php Bn)	1.2	1.1	4.0

Sources: Bloomberg, Company websites

External Debt

Total Philippine External Debt (in US\$ Mn)

	2000	2001	2002	2003	Q1 2004
By Borrower					
Public	34,136	33,396	35,535	39,498	37,969
Private	17,070	18,504	18,110	17,897	18,749
By Creditor Type					
Multilateral	9,665	9,553	8,970	9,031	8,645
Bilateral	15,336	14,531	15,621	16,895	17,000
Banks and other FI's	10,411	11,621	11,790	10,681	11,434
Others	894	748	433	440	475
By Currency					
US Dollar	27,539	29,596	29,190	30,919	29,040
Japanese	14,028	12,725	14,525	15,904	16,225
Yen					
Others	1,531	2,103	2,510	3,090	4,305

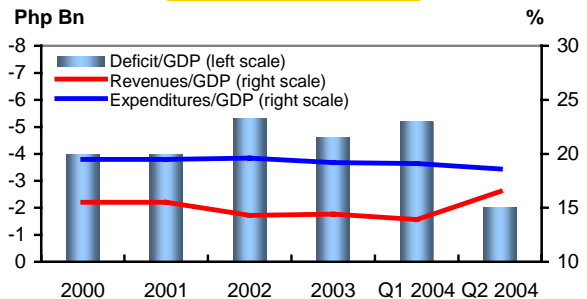
Average Maturity For Medium-To Long Term Debts (As of End-Mar 2004)

Level	US\$ 56.718
Average Maturity (years)	17.3
Public	19.5
Private	11.2

Source: BSP

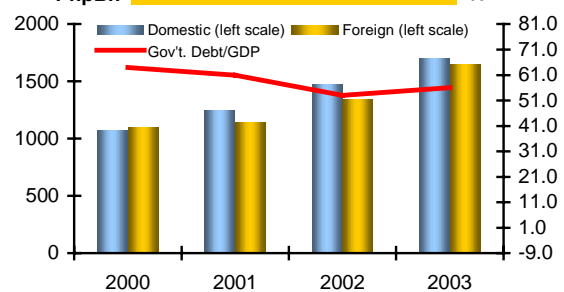
Public Finance

Fiscal Performance to GDP



Sources: BTr, DOF

Total Outstanding NG Debt



Source: DOF