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## Special Focus:

### National Government Announces Lower than Program Deficit in 2004

Finance Secretary Juanita Amatong announced that the full-year deficit of the National Government (NG) for 2004 is P186.1 billion, significantly below the program target of P197.8 billion. The deficit represents -3.8 % of GDP compared with the target of -4.2 % of GDP, putting it nearly one year ahead of schedule under the NG fiscal consolidation plan. This would be the second consecutive year that the National Government outperformed its fiscal deficit goals, an affirmation of the steadfast resolve of the Administration to achieve fiscal consolidation as quickly as possible.

The commendable fiscal performance was the outcome of government's sustained vigilance in revenue raising with revenue collections increasing by 11.4% to P698.3 billion in 2004 from P626.6 billion in 2003. This level of revenue collections also surpassed the Government's target by P21.8 billion. Tax revenues grew by 11.2% while non-tax revenues improved by 12.6 % over the 2003 level of P537.4 billion and P89.3 billion, respectively.

Improved revenue collections allowed fiscal flexibility for increased government expenditures, which reached P884.4 billion, an increase of 7% from 2003 and of P10 billion from its ceiling set for the year.

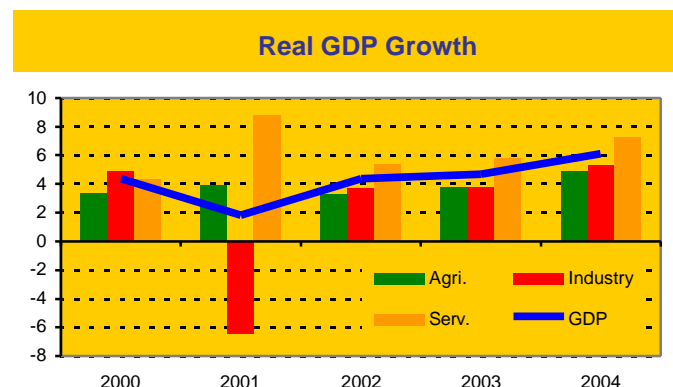
### Sound Economic Management Underpins Robust Economic Growth in 2004

The National Statistics Coordination Board announced that the Philippines' gross domestic product (GDP) grew by 6.1% in 2004, exceeding the Government's target of 4.9-5.8% for the year. This level also represents the strongest annual growth rate since 1996.

The robust growth was sustained and broad-based with growth coming from the agricultural, industry and services sectors. Agriculture, which rose by 4.9%, benefited not only from favorable weather conditions but also from the Government's infrastructure, financial and technical support programs such as the construction/ rehabilitation of irrigation/post harvest facilities and financial/credit programs through government institutions.

Industry and services grew by 5.3% and 7.3%, respectively, on the back of strong domestic and foreign demand. Domestic demand, supported by stable consumer spending and investments in fixed capital, rose 6.7% while exports of goods and services expanded by 14%. A strong growth in overseas remittances, which reached US\$7.7 billion, or 11% higher than in 2003, spurred consumer spending.

Secretary Romulo Neri said, "Moving into 2005, the Administration will work to ensure that such robust growth is sustainable in the long run by strengthening the fiscal position of the Government, thereby creating a stable macroeconomic environment, providing support to several pillars of our economy, namely the agricultural sector and micro, small and medium enterprises, encouraging investments in our country's infrastructure and energy sector and also by addressing the problem of corruption."



## Month in Review

### New Philippine Economic Team Formed

President Arroyo announced the appointment of three new Cabinet secretaries in a reshuffle of her Economic Team in the beginning of 2005. Trade Secretary Cesar Purisima was appointed Finance Secretary while Mr. Juan Santos, a government industrial adviser and former chief executive officer of Nestle Philippines, will take on the role of Secretary of Trade and Industry.

Lawyer Raphael Perpetuo Lotilla, who currently heads the Power Sector and Liabilities Management Corp. (PSALM), was named energy secretary, to take the place of Secretary Vincent Perez who will be stepping down at the end of March 2005.

Presidential Spokesman Ignacio Bunye has also announced the appointment of Mr. Alberto Lina, head of the local Federal Express operator, as commissioner of the Bureau of Customs, replacing Commissioner George Jereos. New members of the economic team will continue to provide support in the Administration's efforts to achieve President Arroyo's 10-point agenda.

### Republic of the Philippines (RP) Launches US\$1.5-billion Global Bond Offer

The Philippine government launched a US\$1.5 billion global bond offer, marking the completion of the first tranche of its programmed US\$3-billion in commercial borrowings for 2005. The issuance is consistent with the Government's funding plan of launching new, larger and longer maturity bonds instead of reopening existing lines.

Proceeds of the bond offer are expected to support the Government's budget for 2005, part of which is directed towards refinancing maturing obligations this year.

Out of its US\$4-billion foreign borrowing requirement, the Government had planned to raise US\$3 billion from commercial loans of which US\$1.5 billion would be completed in the first semester of 2005.

Finance Undersecretary Eric Recto said, "Through this transaction, the Republic was able to capitalize on market conditions to successfully raise a notable portion of our 2005 funding requirements with a long maturity."

### CALPERS Retains the Philippines in its List of Permissible Countries

On January 31, Wilshire Associates, the consulting firm of the California Public Employees' Retirement System (CALPERS), awarded the Philippines with a passing score of 2.0 in its assessment of the country as an investment location, ensuring that the Philippines will be retained in CALPERS's list of permissible emerging markets.

In response to this positive development, Philippine Ambassador to the U.S. Albert del Rosario said, "This success can be attributed to many factors foremost of which is the resolve of the administration of President Gloria Macapagal-Arroyo to institute far-ranging reforms toward strengthening the country's economic and political foundations."

The score was calculated based on seven "country" and "market" factors including political stability, transparency, productive labor practices, liquidity, market volatility, market regulation/legal system/investor protection, capital market openness and settlement proficiency/transaction costs.

CALPERS, the largest pension fund in the U.S., has an estimated US\$85 million worth of portfolio investments in the Philippines.

## Progress on Philippine Dev't Imperatives

### Update on Revenue Impacting Tax Reform Measures

#### Sin Taxes on Cigarettes, Liquor

President Arroyo signed into law in December 2004 a measure raising taxes on tobacco and alcohol, the first of the Administration's eight tax reform measures to raise additional revenues for the Government.

The law aims to tax imported tobacco and alcohol, even those products destined for duty-free shops. Specifically, the law utilizes different levies for each class of alcohol which, will rise every two years starting in 2005 until 2011, and taxes on different kinds of cigarettes.

The legislation, which is expected to generate P15 billion for the Government, became effective as of January 1, 2005.

It also earmarks a certain portion of the revenues to go to government health agencies.

#### Lateral Attrition Act

The Lateral Attrition Act of 2005 is a reward and penalty system for employees and officials of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC). It links compensation and promotion more closely to the achievement of revenue collection targets, and fast-tracked dismissal from service of those who fail to meet revenue collection targets. It also supplements the existing, ongoing lifestyle checks of revenue collections officials.

The government expects to raise Php 10 billion from improved revenue collection performance as a result of the Lateral Attrition Act.

### Value Added Tax or House Bill No. 3555

Voting 126 in favor of and only 11 against, the House of Representatives approved the bill that would increase the value-added tax (VAT) rate to 12% from 10%. House Bill No. 3555 was approved on the second and third reading without the amendment that would have excluded "basic goods" from the VAT rate increase.

Aside from the increase in the VAT rate to 12%, the bill also provides that the input tax credit on capital goods for use in trade or business, on which VAT has been paid, will be equally distributed over five years. Any excess input tax credit after five years can still be utilized within a period not exceeding the depreciable life of these goods.

### BSP to Adopt IAS by Year 2005

On December 23, 2004, the Monetary Board approved the adoption of the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) for the financial industry. The new reporting standards are effective for all annual financial statements to be submitted for 2005. This change took place in view of the approval of the new set of Accounting Standards by the Accounting Standards Council (ASC) based on the revised IAS and new IFRS issued by the International Accounting Standards Board (IASB).

The adoption of these Standards by the ASC will make IAS the Generally Accepted Accounting Principles (GAAP) in the country. Financial institutions that do not comply with the provisions of the new set of Accounting Standards for the annual financial statements will only receive a qualified opinion from their external auditors on their financial reports.

### OFW Remittances in November Sustains Double-Digit Growth

Remittances by overseas Filipino workers (OFWs) in November rose 27.7% year-on-year to US\$740 million. This brings the cumulative eleven-month remittances to US\$7.7 billion, 11.5% higher than the US\$6.9 billion posted in the same period in 2003. The continued rise in OFW remittances is attributed to the growing demand for Filipino workers abroad, successful marketing campaigns abroad by commercial banks promoting the remittance system and seasonal transfers for the holidays in December.

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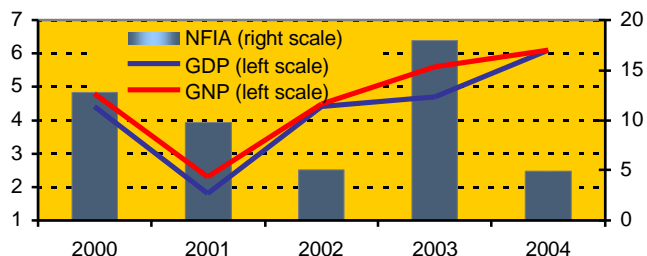
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website: <http://www.iro.ph/>

## Economy at a Glance

### Real Sector and Employment

#### GDP and GNP Growth

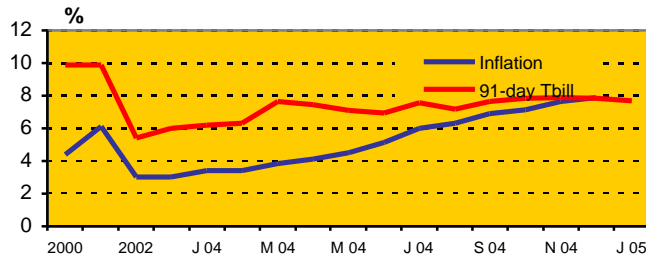


(1985=100)	20c	20c	20c	20c	20c
GNP, growth rate	7.0	2.3	4.2	5.6	6.1
GDP, growth rate	6.0	1.8	4.3	4.7	6.1
NFIA	26.8	9.8	3.9	17.9	4.9
<b>Supply</b>					
Agriculture	4.5	3.7	3.6	3.8	4.9
Industry	9.0	-2.5	3.6	3.8	5.3
Services	4.4	4.2	5.1	5.8	7.3
<b>Demand</b>					
Personal	3.5	3.6	4.1	5.3	5.8
Consumption					
Government	6.2	-5.4	-3.9	0.5	-0.8
Consumption					
Investments	24.2	-7.0	-4.8	0.1	12.7
Exports	9.2	3.2	3.6	4.4	14.0
Imports	4.8	3.8	4.8	10.2	6.3

Sources: NSCB, NEDA

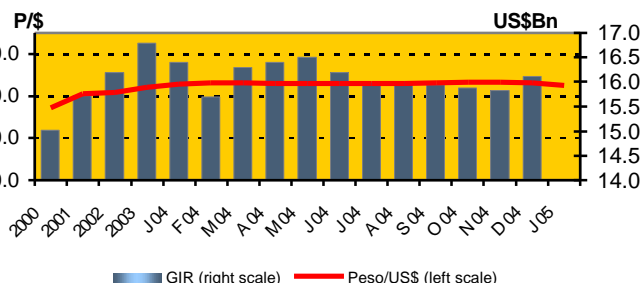
### Prices

#### Inflation and Interest Rates



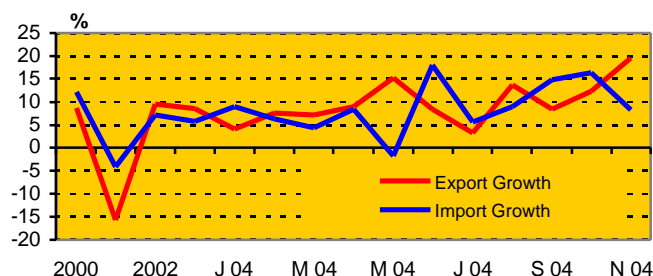
Sources: NSO, BTr

### Foreign Exchange Rate and GIR



Source: BSP

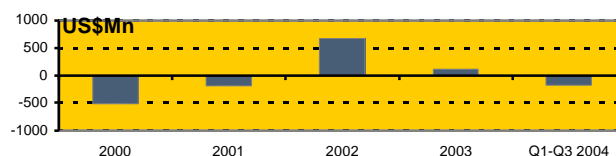
### Nominal Dollar Exports and Imports Growth



Source: NSO

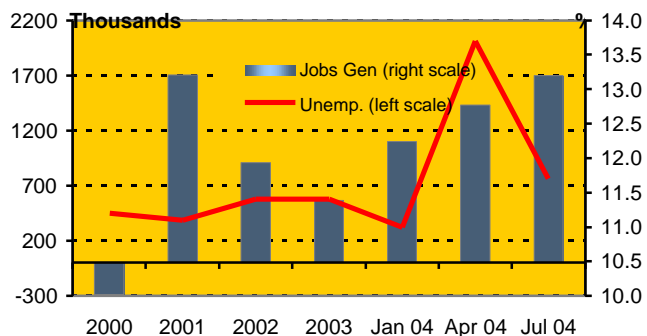
### Monetary and Banking

#### Balance of Payments



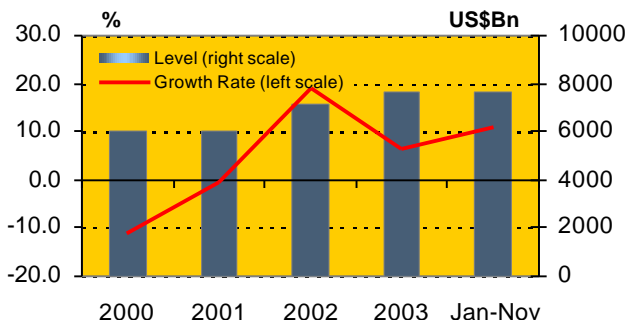
Source: BSP

### Employment Indicators



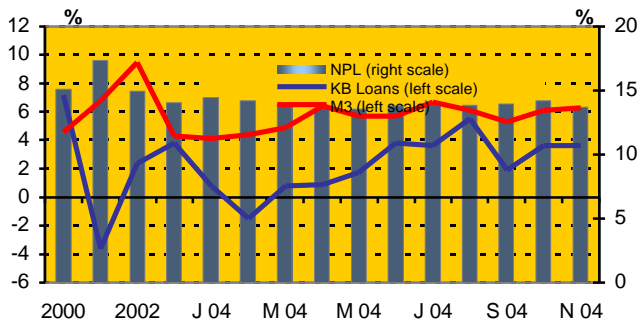
Source: NSO

### OFW Remittances



Source: BSP

### M3 Growth, KB Loan Growth and NPLs



Source: BSP

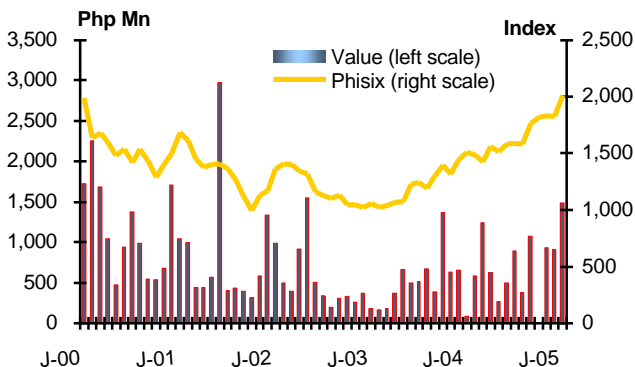
### Investments

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

	2003	Q1 2004	Q2 2004	Q3 2004	Jan-Sep 2004	Jan-Sep 2003
<b>BOI</b>	8,348.5	97,293.1	401.0	4,237.6	5,370.9	101,931.7
<b>PEZA</b>	24,922.8	17,729.7	4,762.1	2,655.4	13,780.7	25,147.1
<b>SBMA</b>	365.3	17.2	1,254.5	261.1	336.3	1,532.8
<b>CDC</b>	373.8	379.9	1,581.3	79.4	373.8	2,040.6
<b>Total</b>	<b>34,010.3</b>	<b>115,419.8</b>	<b>7,998.9</b>	<b>7,233.4</b>	<b>19,861.7</b>	<b>130,652.2</b>

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

### PSE Composite Index



Source: Bloomberg

### Corporate Earnings First Nine Months

COMPANIES	Q1-C 2003 (Ph)	Q1-C 2004 (Ph)	Growth Rate (%)
PLDT (Php Bn)	20.0	2.8	614.3
BPI (Php Bn)	5.28	4.22	106.0
Ayala Corporation (Php Bn)	3.6	2.2	63.0
Bayantel (Php Bn)	4.02	3.70	32.0
Equitable PCI Bank (Php Bn)	1.20	980.0	22.0
Petron Corp. (Php Bn)	2.36	2.01	17.0
Security Bank Corp. (Php Mn)	634.0	549.0	15.5
San Miguel Corp. (Php Bn)	5.57	4.84	15.0
GMA Network Inc. (Php Bn)	1.1	.976	13.0
Phil. Savings Bank (Php Mn)	313	302	12.0
JG Summit Holdings Corp.	1.8	1.77	1.7

Sources: Bloomberg, Company websites

### External Debt

#### Total Philippine External Debt (in US\$ Mn)

	2003	2003	2003	2003	Sep 2004
<b>By Borrower</b>					
Public	34,136	33,396	35,535	39,498	37,338
Private	17,070	18,504	18,110	17,897	18,272
<b>By Creditor Type</b>					
Multilateral	9,665	9,553	8,970	9,031	8,136
Bilateral	15,336	14,531	15,621	16,895	15,951
Banks and other FI's	10,411	11,621	11,790	10,681	11,831
Others	894	748	433	440	532
<b>By Currency</b>					
US Dollar	27,539	29,596	29,190	30,919	29,432
Japanese	14,028	12,725	14,525	15,904	15,192
Yen					
Others	1,531	2,103	2,510	3,090	4,302

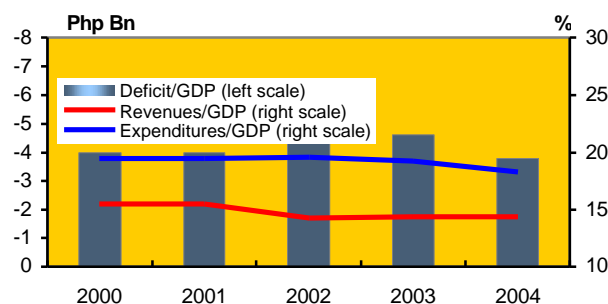
#### Average Maturity For Medium-To Long Term Debts (As of End-Sep 2004)

Level	US\$ 55.61 Bn
Average Maturity (years)	17.1
Public	19.3
Private	11.2

Source: BSP

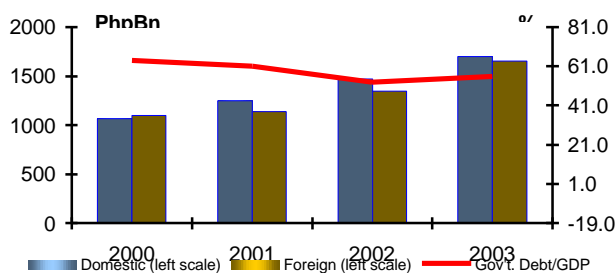
### Public Finance

#### Fiscal Performance to GDP



Sources: BTr, DOF

#### Total Outstanding NG Debt



Source: DOF