



# Profile of the Philippine Economy

The Government of the Republic of the Philippines

July 2004

## MONTHLY HIGHLIGHTS

The July 2004 issue of the Profile of the Philippine Economy will review:

- President Gloria Macapagal-Arroyo’s State of the Nation Address that outlined her top priorities for the next six-years as well as updates on the Government’s formulation of its medium-term development plans;
- Successful pre-funding of budgetary requirements through the re-opening of the 2010 Global Eurobonds;
- Signing into law of the amendments to the charter of the Philippine Deposit Insurance Corp. (PDIC) that will improve protection of deposit accounts;
- Formal establishment of the Financial Sector Forum that aims to institutionalize a single framework in the coordination and regulation of the Philippine financial system; and
- Updates on recent investment projects and implementation of development programs to alleviate poverty.

### President Arroyo Delivers State of the Nation Address to the 13<sup>th</sup> Congress; Outlines Priorities in the Next Six Years

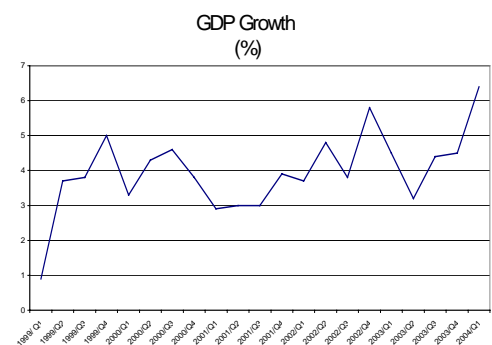
On July 26, President Gloria Macapagal-Arroyo delivered her State of the Nation Address to the 13<sup>th</sup> Congress of the Republic of the Philippines with renewed emphasis on her administration’s vision and priorities for the next six years.

President Arroyo said, “I want to create economic opportunities at home and abroad. I don’t want just one or the other, I want both. We have made great progress over the last three years. We must take bolder steps to move forward in the next six years.”

IN THIS ISSUE	
Monthly Highlights	1-3
Economic Performance	3-4
Update on the Philippine Economic Plan	4-6
Investing in the Future	6-7

In her address, she enumerated the Government’s five key reform areas that will support and sustain the growth momentum of the country’s economy. These include: 1) job creation and economic growth; 2) anti-corruption through good governance; 3) social justice and basic needs; 4) education and opportunity for the youth; and 5) energy independence and savings.

President Arroyo also encouraged Congress to provide meaningful change and to support the government’s legislative economic reform measures. She said in parting, “The time for change is well past due. This time, let me say, let’s just do it.”



## **Philippine Government Launches Economic Reform Agenda with the Job Creation and Economic Growth Package**

In a speech to the business community and media at the Makati Business Club on July 22, President Arroyo underscored the central focus on the economy for her new term with the introduction of the first in a series of economic reform packages - The Job Creation and Economic Growth Package.

"The economy is central to every aspiration we have for the Philippines and it is my first priority. The Job Creation and Economic Growth Package addresses one of our most formidable challenges, which is consolidating our Government budget," President Arroyo said.

The first Package comprises eight new tax measures that are designed to increase revenues by broadening the tax base and improving collection efficiency. These include:

- A two-step increase in the VAT;
- A tax on telecom services;
- A simplified tax system that aims to increase compliance;
- A tax amnesty; and
- Increasing tax revenues from sin products and petroleum products;
- Rationalization of fiscal incentives;
- The creation of a performance-driven system for revenue agencies.

To complement these tax measures, the administrative actions in the first Package are designed to improve efficiency in the management of the nation's resources by reducing costs and capturing more of the revenue potential of select government-owned and controlled corporations. These measures, taken together, are estimated to generate additional annual revenues of over Php 100 billion.

This Package also includes heightening promotional efforts for trade and investments, and developing infrastructure by fast tracking the implementation and approval of ongoing or pipeline infrastructure projects through a new Philippine Infrastructure Corporation.

In the coming weeks, other packages that will be introduced will focus on two other economic policy imperatives of the

Government: restructuring and reforming the power sector; and restructuring and reforming the financial sector.

## **Government Raises €350 Million Through the Reopening of Eurobonds Due 2010**

The Republic of the Philippines successfully priced a €350 million funding transaction through the re-opening of the €300 million Eurobonds due 22 February 2010, bringing the total outstanding amount to €650 million. Total book orders reached €700 million within a 24-hour marketing period and were sold at a re-offer price of 103.25 or a re-offer yield of 8.35%. Proceeds from the transaction will be used to refinance the Republic's €350 million Eurobonds due September 2004. Finance Undersecretary Eric Recto said, "We accepted a sensible refinancing solution for our maturing Eurobonds this coming September that is consistent with the government's debt management objectives of diversifying our funding sources and extending our maturity by 6 years."

This was the largest Euro-denominated transaction in Asia in 2004. Credit Suisse First Boston and Deutsche bank were appointed Joint Lead Managers and Bookrunners for the transaction.

## **Philippine Deposit Insurance Charter Amendments Signed Into Law**

In July, President Gloria-Macapagal Arroyo signed into law amendments to the Charter of the Philippine Deposit Insurance Corporation (PDIC)

or Republic Act 9302. This Act will provide greater protection to the 26 million deposit accounts nationwide through an increase in the maximum deposit insurance coverage, stiffer penalties to unsafe and unsound bank practices, and by reinstating the authority of the PDIC to examine banks with prior approval from the Monetary Board.

Under the law, deposit insurance protection will be raised 2.5 times more than the present insurance coverage of Php 100,000 to Php 250,000 which was last set in 1992. This would provide full protection to some 96% of deposit accounts compared to 91% under the previous ceiling. By reinstating PDIC's authority to examine banks, it would also complement and further strengthen the Bangko Sentral ng Pilipinas' (BSP) surveillance and examination of the financial system's health and safety nets. In addition, the law allows PDIC to set standards of deposit record maintenance that will facilitate insurance claims processing in the case of bank closure and minimize records tampering.

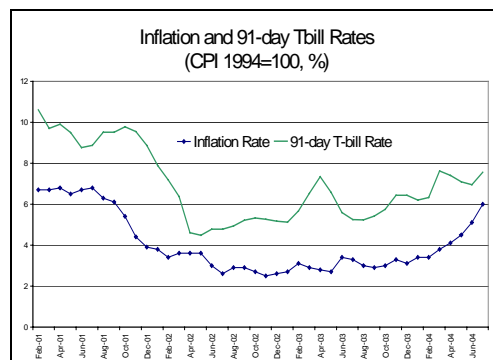
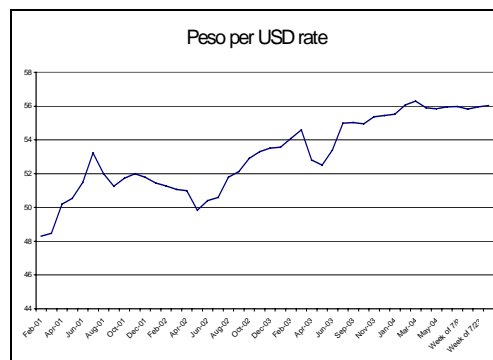
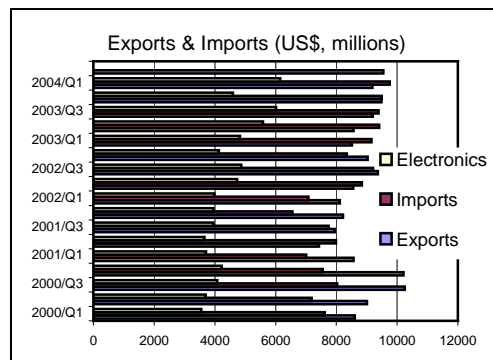
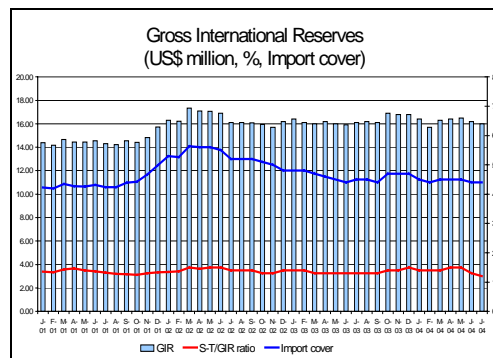
## ECONOMIC PERFORMANCE

### Summary

**GIR.** The country's gross international reserves (GIR) stood at US\$15.990 billion as of end-July 2004. This GIR level can adequately cover 4.4 months of imports of goods and payments of services and income. This level is 1.2 percent lower than the previous month's level of US\$16.719 billion on account of debt service requirements of the National Government (NG), although this was partly offset by inflows from the NG's deposit with the BSP of proceeds from the reopening of its Global Bond issue (US\$250 million).

Net international reserves as of end-July 2004, inclusive of revaluation of reserve assets and liabilities, declined to US\$13.789 billion from US\$13.882 billion a month ago.

**Exports.** For the month of June 2004, export revenues accelerated by 8.3% to reach US\$3.313 billion, the seventh consecutive month of positive growth, supported by the upturn in global demand for electronics. Growth was led by electronics and machinery and transport equipment, which grew by 17.7% and 19.9%, respectively, bringing export growth for the first five months of the year to 8.5%. By country, exports to Asian neighbors remained strong with double-digit growth for Japan (34.0%), China (25.9%), Singapore (18.9%), Taiwan (13.6%), and Hongkong (5.0%).



### Philippine Exports January-June 2004

	2004			
	June		January-June	
	Growth Rate	% Share	Growth Rate	% Share
Total Exports	8.3	100.0	8.5	100.0
Agro-based Products	-5.6	4.2	5.9	4.9
Forest Products	-16.4	0.1	49.0	0.1
Mineral Products	4.5	1.6	19.2	2.0
Petroleum Products	-54.5	0.8	-47.3	0.8
Manufactures	12.3	90.4	9.2	88.8
Of w/c:				
Electronic Products	17.7	68.7	9.8	67.0
Garments	-15.9	6.0	-7.4	5.5
Machinery and Transport Equipment	19.9	4.0	19.5	3.9

Source: National Statistics Office

**Imports.** Expenditures on imported goods declined by 1.6% in May. On a per-country basis, imports from Japan and the U.S. accounted for approximately 40% of total imports. On a cumulative basis, the Philippines also imported higher volumes from markets in Asia, including Taiwan (48.4%), China (43.5%), Malaysia (35.1%), Singapore (27.0%), and Thailand (16.2%). Imports for the period January to May amounted to US\$ 16.479 billion, a 5.1 % growth from the US \$15.679 billion recorded last year.

The resulting balance of trade in goods (BOT-G) deficit for the Philippines from January to May reached US\$ 1.058 billion, lower than the US\$ 1.476 billion deficit recorded in the same period last year.

**M3.** Preliminary data on domestic liquidity (M3) indicated that the demand for money increased by 5.7% year-on-year, reaching Php 1.74 trillion as of end-June. This was a slight deceleration from the 6.1% year-on-year growth in the previous month. Data also showed that growth in M3 after seasonal adjustment was 0.3% month-on-month for June, likewise a deceleration from the 1.4% rise in May.

The net foreign assets of the monetary system rose by 2.8 % in June owing mainly to the increase in BSP's gross international reserves and a decline in its net foreign liabilities. Meanwhile, domestic credit activity continued to be fueled by borrowings of the public sector, which rose by 21.6% in June. Credits to the private sector grew steadily at 3.0% in April.

**KB Loans.** Loans outstanding of commercial banks (KBs) registered a 1.7 % year-on-year growth, reaching almost Php 1.5 trillion as of

end-May, an improvement from the 0.9% contraction recorded in the previous month.

KB loans to the agriculture, fisheries and forestry sector continued its strong growth from the previous month, rising by 12.5% year-on-year in May, while loans to the manufacturing sector posted a moderate 2% growth.

**NPLs.** The industry's non-performing loans (NPL) ratio at end-May improved slightly to 13.55% from 13.58% in April and was significantly lower than the 15.41% recorded in the same period last year.

The non-performing assets (NPA) ratio improved to 12.25% from 12.39% in April and from 13.66% a year ago.

The NPL coverage ratio strengthened by 0.33 percentage points to 53.49% while the NPA coverage ratio grew to 32.70% from 32.54% in the previous month.

## UPDATE ON THE PHILIPPINE ECONOMIC PLAN

### Government Issues Guidelines on the Formulation of Six-Year Development Plan

The Philippine government's central planning agency, the National Economic and Development Authority (NEDA), recently issued guidelines in the formulation of the country's six-year economic development plan. The Medium-Term Philippine Development Plan (MTPDP) and the Medium-Term Public Investment

Program (MTPIP) will serve as the country's economic blueprints for 2004-2010 and will be based on five central themes: a) macroeconomic stability anchored on fiscal and financial strength; b) job creation through global competitiveness; c) social development and direct anti-poverty measures; d) decentralized development; and e) good governance and national harmony. The five themes support the President's 10-point National Development Agenda that was enumerated in her inaugural address in June 2004.

The formulation of regional development plans (RDPs) was likewise aligned to the 10-point agenda and MTPDP to ensure that efforts of both national and local governments are focused. Regions are expected to concentrate on: a) minimum desirable levels of welfare for each region; b) physical and economic integration of regions; c) regional growth based on comparative advantages; d) role of local government units in development; and e) peace and development.

The MTPDP and MTPIP will be completed and approved by the President in October 2004 and the RDPs in November 2004.

## Tourist Arrivals in the Philippines Posts 42.2% Growth in June

Visitors to the Philippines reached a total of 186,044 in June, representing a sizeable year-on-year growth of 42.2% compared to the 130,874 tourists in June 2003. This is the tenth consecutive month of positive growth as tourists arrivals were curtailed last year on account of the SARS scare and geo-political tensions. Visitors from the U.S., Japan and Korea accounted for the bulk of tourist arrivals to the Philippines, representing 53.7% of the total visitors for the month. This brings the cumulative visitors for the first semester of 2004 to 1.14 million, a robust growth of 32.4% from 861,643 in 2003.

The robust growth in tourist arrivals in the Philippines has also been mirrored in other Southeast Asian countries, with the exception of Thailand, with the absence of SARS and improved security in the region. Based on latest data for 2004, Malaysia continues to draw the biggest number of tourists with 6.5 million followed by Thailand (4.3 million) and Singapore (3.9 million).

The Philippine government remains committed in further developing the tourism sector given its huge potential for job and income generation. In line with the 10-point National Development Agenda that includes job generation, President Gloria Macapagal-Arroyo announced recently that it plans to further liberalize the airlines industry and build more access infrastructure such as airports and roads to spur the growth in tourism. This will greatly enhance access to the country's top eight destinations namely; Cebu-Bohol-Siargao complex, Northern Palawan, Boracay, Davao, Ilocos, the Cordilleras, Clark-Subic complex and Metro Manila.

## Government Formally Establishes Financial Sector Forum

The Financial Sector Forum (FSF) was formally established by the heads of four government agencies including BSP, Securities and Exchange Commission (SEC), Insurance Commission (IC) and Philippine Deposit Insurance Corporation (PDIC), to provide an institutionalized framework in coordinating the supervision and regulation of the

South East Asian Tourist Arrivals (In millions)

	2000	2001	2002	2003	2004
<b>Philippines</b>	1.992	1.796	1.932	1.907	1.140 (Jan-Jun)
<b>(g.r., %)</b>	-8.2	-9.8	7.6	-1.3	32.4
<b>Indonesia</b>	4.151	4.192	4.091	3.691	2.133 (Jan-Jun)
<b>(g.r., %)</b>	5.9	1.0	-2.4	-9.8	34.6
<b>Malaysia</b>	10.222	12.775	13.292	10.577	6.507 (Jan-May)
<b>(g.r., %)</b>	29.3	25.0	4.0	-20.4	41.6
<b>Singapore</b>	7.686	7.521	7.564	6.122	3.866 (Jan-Jun)
<b>(g.r., %)</b>	10.5	-2.1	0.6	-19.1	54.0
<b>Thailand</b>	10.595	11.625	13.085	13.335	4.283 (Jan-Mar)
<b>(g.r., %)</b>	18.2	9.7	12.6	1.9	-21.6

Source: Department of Tourism, Bloomberg

different areas of Philippine financial system. The FSF will also be a venue for the agencies to provide latest developments and concerns in their respective industries that may have systemic repercussions. In addition, the enhanced coordination arrangements will improve the supervision of the activities of financial conglomerates and also provide better coverage of entities that are outside of the current regulatory environment of the financial system.

The work of the FSF will focus on three broad areas:

- Harmonizing and coordinating supervisory and regulatory methods and policies;
- Alignment of regulatory reports, and enhancing information exchange and dissemination through the creation of database linkages between agencies; and
- Undertake initiatives to improve consumer protection and education to curb the unlawful and unethical business practices as well as various financial scams.

## **Overseas Remittances Posts US\$3.3 Billion Level in First Five Months; Forecasted Growth of 6% FY 2004**

Remittances from overseas Filipino workers (OFWs) totaled US\$3.3 billion in the first five months of 2004. The U.S., United Arab Emirates, Saudi Arabia, Italy, Hong Kong and Japan remained the major sources of OFW remittances.

The Bangko Sentral ng Pilipinas projects that OFW remittances will continue to grow by 6% for the full year of 2004, which is at par with the 2003 growth of 6.3%. Total deployment of overseas workers for the first five months of the year rose by 11.3% year-on-year, the highest since 1999.

## **First Half 2004 Fiscal Performance on Track**

The government announced in July that sustained improvements in revenue collections and controlled spending enabled the National Government to post a first-half 2004 fiscal deficit of Php 80.1 billion, which is just Php 0.5 billion or 0.7% higher than the target of Php 79.6 billion for the period. For the month of June, the deficit stood at Php 2.8 billion, 34.4% lower than last year's level of Php 4.2 billion.

Revenues for the first half of the year stood at Php 343 billion, 3.1% higher than the programmed level of Php 332.8 and 12.4% higher than last year's level of Php 305.5 billion. Collections for June alone increased by 11.7% to Php 54.5 billion as the

Government continued implementing reform measures aimed at strengthening the enforcement of tax laws and increasing collection efficiency.

Meanwhile, government expenditures tracked and matched the revenue levels for the first half of the year to reach Php 423.4 billion, an annual growth of 10% from Php 385.1 billion. Government spending for June grew by only 8.1% to Php 57.3 billion.

---

## **INVESTING IN THE FUTURE**

### **Investment Approvals in May Directed to Mining, IT and Manufacturing Sectors**

Trade and Industry Secretary Cesar V. Purisima reported that the country's major investment promotion agencies, Board of Investments (BOI) and Philippine Economic Zone Authority (PEZA), approved investments for May 2004 bulk of which were directed towards the following sectors: a) mining and quarrying, contributed 43% of total investments, at Php 1.3 billion; b) IT services at, Php 1.1 billion; and c) manufacturing, at Php 450 million. The 32 projects approved for the month are expected to create 3,729 additional jobs. Among the big projects approved were Philex Mining Corporation's Php 1.3 billion copper mining project, Clientlogic Phil., Inc.'s Php 311.8 million call center operations and Hocheng Phil. Corp.'s Php 177 million sanitary wares production.

For the first five months of 2004, investments in manufacturing and

services increased significantly by 110% to Php 25.9 billion from Php 12.3 billion in the same period in 2003. Meanwhile, expansion of existing IT projects and the entry of new players brought total IT investments to Php 4.0 billion for the period, or 77% higher than the Php 2.3 billion recorded last year. Counterpart foreign investments grew substantially by 1,005%, to Php 120.1 billion from Php 10.9 billion last year. Top foreign investors were from Nauru, Japan, Britain and the U.S. The total projects approved for the period numbered 177 and are expected to generate 32,056 jobs.

## **Poverty Alleviation Projects to Focus on Ecotourism and Capacity Building of Local Governments**

The Governments of the Philippines and New Zealand recently signed an agreement to implement two programs worth Php 75 million to address poverty in the country. Socioeconomic Planning Secretary Romulo L. Neri said the Local Government Unit Management Training Program and the second phase of the Philippine National Ecotourism Program are expected to further improve the social and economic development aspects of the country, particularly by alleviating poverty through better livelihood opportunities and improving the capacity of local governments to deliver public services.

The Philippine National Ecotourism Program will continue to build on and extend the coordination of key partners in the implementation of the National Ecotourism Strategy. Mainstreaming ecotourism into community-based resource management is expected to improve livelihood and manage natural and cultural resources into a more sustainable manner. On the other hand, the Local Government Unit Management Training Program is expected to enhance and build the capabilities of local institutions through technical and managerial training in order to deliver public services more effectively and efficiently.

## **Philippines to Promote Healthcare Services to Overseas Patients**

Trade and Industry Secretary Cesar V. Purisima said the Philippines has the potential to develop the health services sector into a US\$1 billion industry.

"The country's medical professionals are world class, capable of performing and delivering complicated medical treatment,"

Secretary Purisima said. "By supporting the development of the industry, the country can offer cheaper but world-class medical services to overseas patients from the US, Europe and Japan."

Rising health care costs and the ageing population have put a heavy burden on the public health system in many developed countries. Secretary Purisima said that these factors are driving people from developed countries to look for cheaper sources of medical care, such as those found in the Philippines.

The health care market is segmented into the following services: short-stay medical procedures; spa and wellness centers; long-term care for the sick and elderly; and healthy retirees but attracted to excellent medical support.

In order to make the industry viable, medical institutions need to upgrade their facilities to meet world-class standards. "Philippine hospitals also have to be accredited with public health care system in the US, Europe and Japan and with private sector health insurance providers," the Secretary said.

---

***Published by the Government of the Republic of the Philippines.***

Questions or comment/suggestions should be directed to

**Ms. Cora Guidote,**

Executive Director of Investor Relations,  
Manila, Republic of the Philippines

Tel: (632) 523-7792 / Fax: (632) 524-6695

e-mail: [cguidote@bsp.gov.ph](mailto:cguidote@bsp.gov.ph)

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

Issue date: 08-10-04