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**Special Focus:**

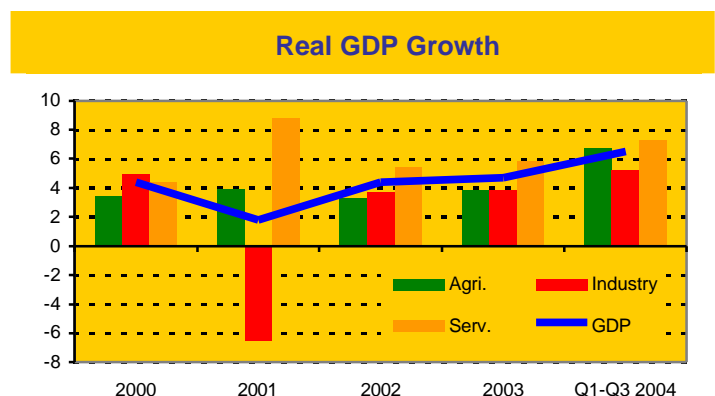
**Sound Economic Management Underpins Robust Economic Growth in the First Three Quarters of 2004**

The Philippine economy continued to expand by a robust pace of 6.5% in the first three quarters of 2004, outperforming the 4.6% growth in the same period last year. The expansion remained broad-based: services grew 7.1% (from 5.7% in 2003), industry by 4.5% (from 3.7% in 2003), and agriculture by a hefty 7.9% (from 4.7% in 2003) growth. For the third quarter alone, growth remained strong reaching 6.3%. The economy remained resilient, weathering the government’s fiscal deficit, higher world oil prices and higher consumer prices on account of government’s sound economic management. Economic Planning Secretary Romulo L. Neri said, “Underpinning our strong growth is sound macroeconomic management. On the macroeconomic front, our fiscal targets are on track with revenue collections outpacing last year’s performance. This allowed the government to have a modest increase in capital spending and to meet interest payments.”

Other factors that have growth include the neutral monetary policy stance of the Bangko Sentral ng Pilipinas (BSP) that prevented real interest rates from rising, thereby buoying growth in the construction and real estate sector. In addition, the national government, with the assistance of local governments, government financial institutions such as the LandBank, and official development assistance such as the Growth for Equity in Mindanao, has also been providing financial and technical support to the agriculture sector through programs such as the distribution of hybrid and certified seeds, dispersal of fish and fingerlings, and introduction of new techniques for seaweed cultivation. In industry, the government, through financial institutions such as the SB Corp, Quedancor, and Land Bank have been aggressively providing assistance to micro, small, and medium enterprises, with loan grants exceeding last year’s levels.

Aside from sound economic management, other factors that have contributed to the resilience of the economy include a rebound in exports and tourism brought about by the strong global economic growth; continued demand for overseas Filipino workers, especially higher paid professionals leading to increased inflow of remittances; favorable weather; an increase in minimum wages that have supported domestic demand; and the continued investments in the telecommunications and business process outsourcing sectors among others.

With these favorable developments, Secretary Neri announced that the Philippines’ full year economic growth for 2004 is likely to reach at least 6%. For 2005, growth will remain at a healthy albeit subdued rate due to a general slowdown of the global economy. To sustain the growth momentum, the government will continue to push vigorously for the passage of new revenue measures and continue to improve administrative efficiency to support medium-term fiscal consolidation as well as bolster investor confidence; implement plans to mitigate the adverse effects of the mild El Nino; and continue to work with government financial institutions and the local governments to implement programs in support of agriculture and micro, small, and medium enterprises. Furthermore, growth will be boosted by public construction with the implementation of critical infrastructure projects such as the Northrail, Subic-Clark- Tarlac toll road, Subic Port, Southrail and the South Luzon Expressway-Star highway.



## Month in Review

### President Arroyo Promotes Philippines in International Summits

In November, President Gloria Macapagal-Arroyo attended the three-day 10<sup>th</sup> regional summit of the Association of Southeast Asian Nations (ASEAN). ASEAN leaders met together with leaders of China, Japan, South Korea, India, Australia and New Zealand to expand the depth and scope of economic cooperation. The President continued to promote the Philippines with the objective of opening further job opportunities for Filipino workers, create more opportunities for the country's small-scale businesses, and seek ways to increase Philippine exports and boost the country's tourism industry.

Earlier in the month during the 12<sup>th</sup> APEC (Asia-Pacific Economic Cooperation) Leaders Meeting in Santiago, Chile, President Arroyo discussed with other heads of states issues such as terrorism, the development of a regional free trade area, energy security, and trade and investment. The Philippine government pledged its support in further advocating the promotion of trade and investment liberalization, enhancement of human security, and the utilization of APEC to help people and societies benefit from globalization.

### Fitch Maintains Philippines' Sovereign Ratings, Revises Outlook

International ratings agency, Fitch Ratings, recently affirmed the Republic of the Philippines' Long-term foreign currency and Long-term local currency ratings of 'BB' and 'BB+' respectively, but revised the Outlook on both ratings to Negative from Stable.

Finance Secretary Juanita D. Amatong said, "The decision by Fitch to maintain our rating is recognition that we are moving forward with important economic reforms to strengthen our public finances. These include real improvements in tax revenue collection, increases in the electricity tariff and most recently, the sale of the Masinloc coal power plant, which sets firmly in place the reform of the power sector."

The Secretary further added, "Their decision is also a clear message that we must continue to push through with all of the reforms that we have started to make in order to transform our economy into a more vibrant one."

## Progress on Philippine Dev't Imperatives

### Supreme Court Favorably Rules on Mining Issue

Socioeconomic Planning Secretary Romulo L. Neri welcomed the Supreme Court's landmark decision to declare the Philippine Mining Act as constitutional, which he believes will "open the window of opportunity towards the ultimate revitalization of the local mining industry and the creation of thousands of new jobs for Filipinos." The court overturned its January 2004 decision that nullified the mining law (Republic Act 7942) as well as the Financial and Technical Assistance Agreement (FTAA) between the government and Western Mining Corporation Philippines, a wholly-owned subsidiary of Western Mining Corporation Holdings Limited of Australia. According to the Medium-Term Philippine Development Plan (MTPDP) 2004-2010, the mining industry has the potential to generate US\$4-6 billion of investments, US\$5-7 billion of annual foreign exchange and at least 240,000 jobs over the next six years.

Likewise, Trade and Industry Secretary Cesar V. Purisima expects the mining sector to infuse huge capital investments in the country's economy as well as spur the development of the countryside in the near term. "The long wait is over for mining firms and its 'wait and see' mode has shifted to a rush with mining companies/consortium moving ahead with their project plans. With world metal prices at its peak, the abandoned/inactive mines will again be attractive for operation," he said.

### OFW Remittances Sustain Double-Digit Growth

Remittances by overseas Filipino workers (OFWs) rose for the fourth consecutive month since June 2004 reaching US\$735 million, or a year-on-year growth of 22.6% in September. This brings the cumulative nine-month remittances to US\$6.2 billion, 9.4% higher over the US\$5.7 billion posted in the same period last year. Given the trend and the expected strength of OFW remittances during the last quarter of the year, the projected 6% growth for the whole of 2004 is likely to be exceeded. The sustained increase in remittances is expected to further support domestic demand, particularly in consumption and investments.

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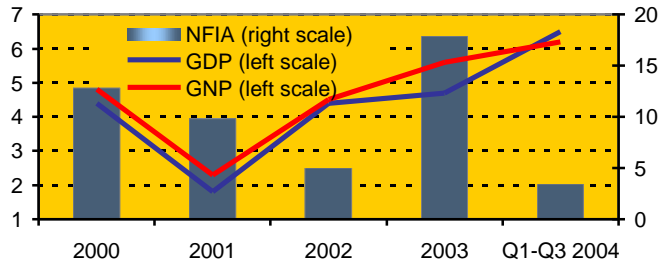
**Published by the Government of the  
Philippine Republic**

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# Economy at a Glance

## Real Sector and Employment

### GDP and GNP Growth

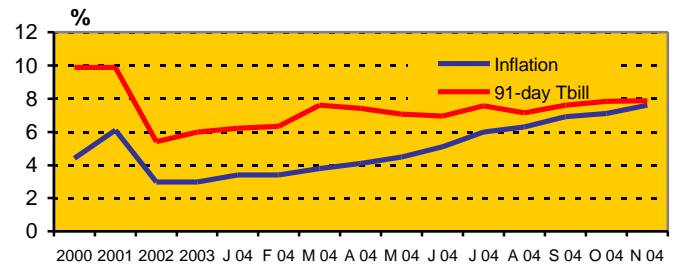


(1985=100)	2000	2001	2002	2003	Q1-Q3 2004
GNP, growth rate	7.0	2.3	4.2	5.6	6.2
GDP, growth rate	6.0	1.8	4.3	4.7	6.5
NFIA	26.8	9.8	3.9	17.9	3.4
<b>Supply</b>					
Agriculture	4.5	3.7	3.6	3.8	6.7
Industry	9.0	-2.5	3.6	3.8	5.2
Services	4.4	4.2	5.1	5.8	7.3
<b>Demand</b>					
Personal Consumption	3.5	3.6	4.1	5.3	5.9
Government Consumption	6.2	-5.4	-3.9	0.5	-1.9
Investments	24.2	-7.0	-4.8	0.1	11.1
Exports	9.2	3.2	3.6	4.4	14.3
Imports	4.8	3.8	4.8	10.2	5.6

Sources: NSCB, NEDA

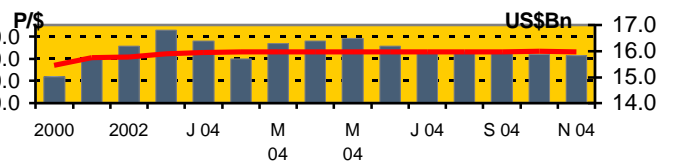
## Prices

### Inflation and Interest Rates



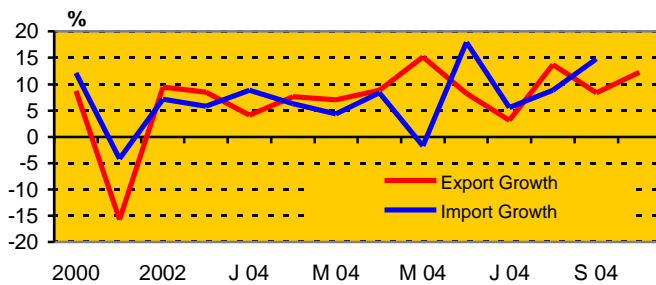
Sources: NSO, BTr

### Foreign Exchange Rate and GIR



Source: BSP

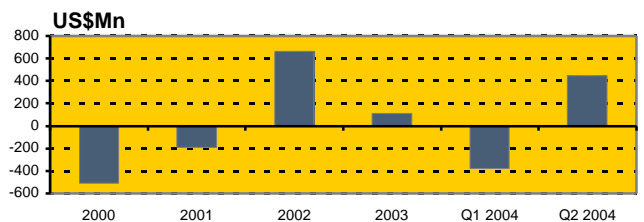
### Nominal Dollar Exports and Imports Growth



Source: NSO

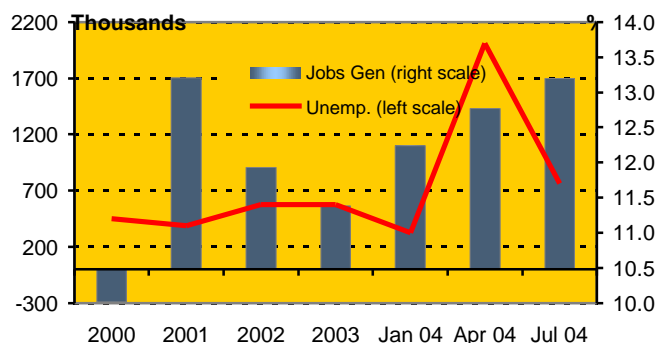
## Monetary and Banking

### Balance of Payments



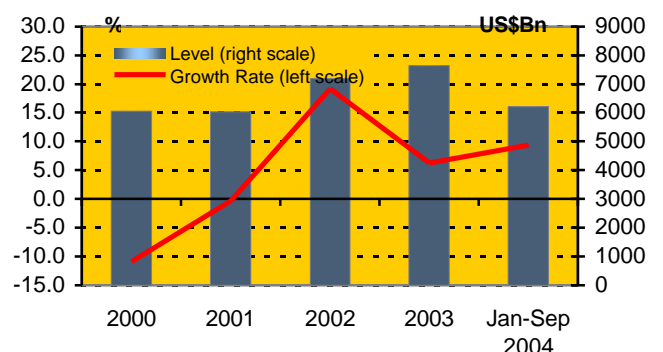
Source: BSP

### Employment Indicators



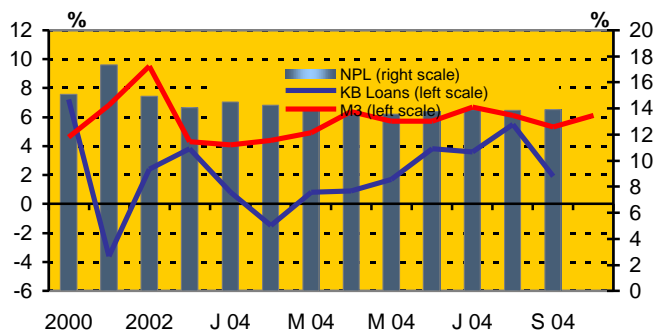
Source: NSO

### OFW Remittances



Source: BSP

**M3 Growth, KB Loan Growth and NPLs**



Source: BSP

**Investments**

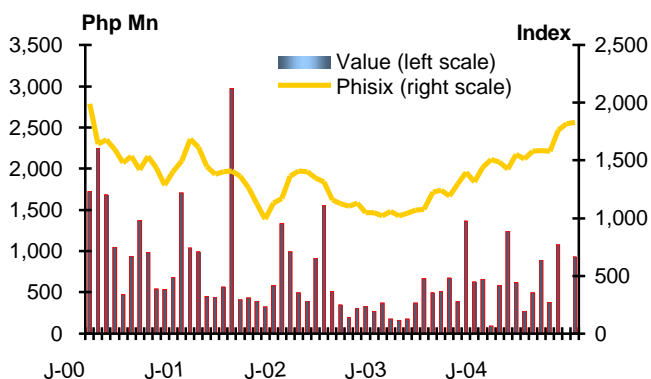
**Total Approved Foreign Direct Investments By Promotion Agencies (in million US\$)**

	2000	2001	2002	2003	Q1 2004	Q2 2004
<b>BOI</b>	382.1	561.4	170.0	153.2	1,738.4	7.2
<b>PEZA</b>	1,503.0	638.6	443.4	458.2	316.8	85.2
<b>SBMA</b>	48.9	5.6	14.4	6.8	0.3	22.4
<b>CDC</b>	43.5	14.2	271.5	7.1	6.8	28.3
<b>Total</b>	1,977.4	1,219.7	899.3	625.1	2,062.3	143.1

\*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 Nine Months**

COMPANIES	Q1-Q3 2004 (Php)	Q1-Q3 2003 (Php)	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)**

	2000	2001	2002	2003	S1 2004
<b>By Borrower</b>					
Public	34,136	33,396	35,535	39,498	37,086
Private	17,070	18,504	18,110	17,897	19,245
<b>By Creditor Type</b>					
Multilateral	9,665	9,553	8,970	9,031	8,454
Bilateral	15,336	14,531	15,621	16,895	16,524
Banks and other FI's	10,411	11,621	11,790	10,681	11,948
Others	894	748	433	440	529
<b>By Currency</b>					
US Dollar	27,539	29,596	29,190	30,919	29,358
Japanese	14,028	12,725	14,525	15,904	15,725
Yen					
Others	1,531	2,103	2,510	3,090	4,283

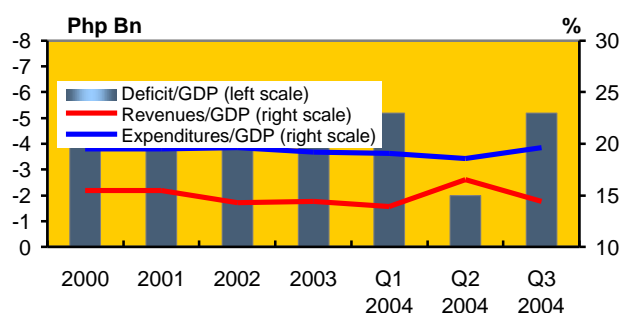
**Average Maturity For Medium-To Long Term Debts (As of End-Jun 2004)**

Level	US\$ 56.331 Bn
Average Maturity (years)	17.0
Public	19.3
Private	11.1

Source: BSP

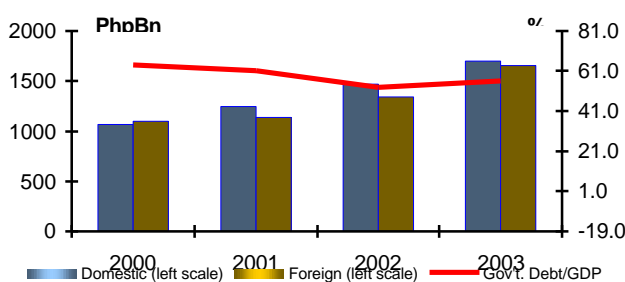
**Public Finance**

**Fiscal Performance to GDP**



Sources: BTr, DOF

**Total Outstanding NG Debt**



Source: DOF