



Special Focus:

Medium-Term Plan, An Economic Blueprint To Sustain and Accelerate Growth Leading to Significant Inroads in Alleviating Poverty

The Government recently unveiled its detailed six-year economic roadmap - the Medium-Term Philippine Development Plan (MTPDP), 2004-2010 - that is seen to significantly reduce the poverty in the country through sustained and increased economic growth and job creation. President Gloria Macapagal-Arroyo stressed, "The basic task of the MTPDP for the period 2004-2010 is to fight poverty and build prosperity for the greatest number of the Filipino people. We must open up economic opportunities, maintain socio-political stability, and promote good stewardship - all to ensure better quality of life for all our citizens. We will focus on strategic measures and activities that will spur economic growth and create jobs. This can only be done with a common purpose to put our economic house back in working order."

The MTPDP was tailored to support the achievement of the President's 10-point National Development Agenda and goals stated in her State of the Nation Address. The MTPDP is comprised of 5 major sections: **Economic Growth and Job Creation** - outlines the need to accelerate economic growth via increased productivity, incomes and job availability by maintaining sound macroeconomic fundamentals, strengthening the financial sector, support of micro, small, and medium enterprises and agribusiness, completion of priority transport infrastructure projects, and tourism development; **Energy Reforms** - discusses reforms and measures in the power sector to attain energy independence; **Social Justice and Basic Needs** - covers the poverty alleviation and basic needs program, national peace and

reconciliation, and enhancing the rule of law; **Education and Youth Opportunity** - discusses strategies and programs to increase access to and improve the quality of the country's education system; and **Anti-Corruption and Good Governance** - provides an overview of institutional reforms to enhance good governance and elimination of corruption.

The latest economic roadmap also highlights several milestones to achieve its development goals that include:

- Gross domestic product (GDP) growth accelerating to 7-8% by 2009 and 2010;
- Investment to GDP ratio nearing 28% by 2010;
- Exports exceeding US\$50 billion by 2006;
- Balanced budget by 2010;
- Annual job creation exceeding 1.7 million jobs by 2009; and
- Poverty incidence reduced to below 20% by 2009.

Macroeconomic Targets, 2004-2010							
	2004	2005	2006	2007	2008	2009	2010
GDP Growth (%)							
Low	4.9	5.3	6.3	6.5	6.8	7.0	7.0
High	5.8	6.3	7.3	7.5	7.8	8.0	8.0
Exports of Gds/Serv. (US\$ Bn)	43.1	47.4	52.3	58.2	65.4	74.3	84.3
Inflation (%)							
Low	4.0	4.0	4.0	3.0	3.0	3.0	3.0
High	5.0	5.0	5.0	4.0	4.0	4.0	4.0
Nat'l. Gov't. Deficit/GDP (%)	-4.2	-3.6	-2.9	-2.0	-1.1	-0.2	0.0
Jobs Generated (in '000)							
Low	1004	1090	1271	1305	1436	1651	1725
High	1028	1177	1320	1416	1568	1711	1790
Poverty Incidence (% of families)	25.69	24.35	22.93	21.61	20.31	19.04	17.88

Month in Review

President Arroyo Attends 5th ASEM in Vietnam

In October, President Gloria Macapagal-Arroyo attended the 5th Asia-Europe Meeting (ASEM) in Hanoi, Vietnam. Among the agreements reached in the meetings was the pursuit of closer economic ties between European and Asian nations through the improvement of trade, investment and financial relations.

The initiative for ASEM was proposed in September 1994 and subsequently endorsed by the Association of Southeast Asian Nations (ASEAN) in 1995 with the central objective of establishing a clear and open channel of dialogue between the European and Asian regions. This informal process of dialogue and cooperation includes the discussion of pertinent political, economic and cultural issues seen to facilitate stronger ties between the two regions.

World Bank Extends Grant to Strengthen Ombudsman's Anti-Corruption Initiatives

The Government of Philippines and the World Bank recently signed a grant worth US\$716,600 to further strengthen the capacity of the Office of the Ombudsman (OMB) in its anti-corruption activities. The grant entitled "Strengthening the Institution of the Office of the Ombudsman for Good Governance" is funded by the Asian Financial Crisis Response Fund of the Asia-Europe Meeting (ASEM) Trust Fund.

The grant is expected to improve the capacity of the OMB in its anti-corruption drive as well as enhance public sector governance through selected technical assistance and capacity building activities that include:

- Strengthening the knowledge and skills of field investigators through training and workshops for the successful preparation and prosecution of corruption cases;
- Providing technical assistance for the design and development of an electronic case monitoring and tracking system; and
- Establishing a data-banking system to facilitate the analysis of Statements of Assets, Liabilities and Net Worth of public officials and employees, and also the implementation of workshops, dialogues, and consultations related to strategic issues in the design and implementation of this database.

Philippine Government Welcomes Publication of IMF's Staff Report

The Philippine Government welcomed the publication of the International Monetary Fund's (IMF) Staff Report on the country's Post-Program Monitoring Discussions conducted in July 2004 along with the regular Public Information Notice (PIN). This marks the first time that the IMF's Staff Report on the Philippines will be published. The Staff Report provides an independent and comprehensive assessment by the IMF Post-Program Monitoring mission on the country's macroeconomic developments and policies following intensive discussions with various Philippine authorities. Meanwhile, the PIN is a regular publication that contains a summary of the IMF's assessment and policy discussions in its Executive Board.

The publication of these pertinent documents reflect the efforts of both the Government and the IMF to promote greater transparency on independent assessments of the country's macroeconomic developments, policy reform initiatives and recent trends and performance of the various sectors in the Philippine economy. Moreover, this clearly demonstrates the Government's confidence in the underlying economic fundamentals of the country and also conveys its strong commitment to pursue various reforms that would result in a more sustainable growth path of the economy over the medium-term.

Progress on Philippine Development Imperatives

Lower House Approves Tax Hike on Tobacco and Alcohol Products

In October, the House of Representatives of the Philippine Congress unanimously approved a bill that will raise excise taxes on tobacco and alcohol products and support the government's fiscal consolidation goal in the medium-term.

Speaker Jose de Venecia said, "The passage of House Bill 3174 sends a strong signal to the international community that the Philippines is serious in putting its financial house in order."

HB 3174 is one of the eight priority legislation that the government is supporting as these are expected to ensure the government's fiscal health in the coming periods. The bill mandates the increase in excise tax rates on distilled spirits, wines, fermented liquor, tobacco products, cigars and cigarettes by 20%, and further increasing these rates by 3% on

the second and third years of implementation. This bill is expected to generate an additional Php 7 billion in revenues for the Government in the first year and a further Php 8 billion in the second year.

The approved bill is currently being discussed in the Senate and will then be forwarded to a bicameral conference committee before being signed into law by the President. This revenue bill is expected to be approved before year-end.

Government Still on Track with its 2004 Fiscal Deficit Program

The Department of Finance reported that the National Government remained within the nine-month 2004 deficit target with the deficit for the period at Php 141.9 billion, significantly below its ceiling of Php 143.3 billion. Revenues continued to grow for the first nine months, increasing by 13.1% to Php 516.4 billion from the same period in 2003. The Government stayed focused on implementing reform measures aimed at strengthening the enforcement of tax laws and compliance, and raising revenue collection efficiency through the increased use of information technology. This is ahead of the programmed revenues of Php 501 billion. Meanwhile, government spending remained cautious and was aligned with revenue inflows. Expenditures amounted to Php 658.3 billion, or 9.8% higher than the Php 599.3 billion posted in the same period last year.

Finance Secretary Juanita D. Amatong said, "We have made significant efficiency gains in revenue collections with annual growth posting double-digit figures. This proves that the reform measures that we are implementing are working. However, these initiatives have to be further supported with legislative measures, particularly those identified by government, so that we can attain our main objective of fiscal consolidation by 2009."

Based on these latest developments, the government continues to be optimistic on its outlook for the remainder of 2004 and its ability to keep the full year fiscal deficit at or under 4.2% of GDP, or Php 197.8 billion.

Overseas Remittances Posts Double Digit Growth in August

Remittances by overseas Filipino workers (OFWs) posted a strong 45.9% annual growth in August 2004, reaching US\$791 million. This marks the fastest growth since 1999 and brings the cumulative remittance level for the first eight months of 2004 to US\$5.5 billion, a growth of 9.4% compared to the

same period in 2003. The surge in the level of remittances in August was attributed mainly to an increase in the number of OFWs as well as deployment of higher paid workers. Another factor contributing to higher remittances was the aggressive promotion campaign and wider service coverage offered by commercial banks to attract more OFWs to use formal channels of remittances. Commercial banks have improved the efficiency of remittance system, expanded the number of remittance centers, and increased tie-ups with foreign financial institutions.

Monetary Authorities Approve Plan to Adopt Basel 2 Standards by 2007

The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved in October a schedule that would adopt the revised framework of the International Convergence of Capital Measurement and Capital Standards, or more popularly known as Basel 2 Accord, in the Philippines. The Basel 2 standards were formulated by the Bank for International Settlements, considered as the central bank of all central banks. Basel 2 is a revision of the original 1988 Basel Capital Accord (Basel 1) and features a 3-pillar approach that sets new standards for: a) establishing minimum capital requirements for banking organizations worldwide (Pillar 1); b) supervisory review process (Pillar 2); and c) disclosure practices (Pillar 3). The BSP intends to fully adopt the standardized approaches of Basel 2 by 2007.

Even prior to 2007, certain provisions of Basel 2 will be gradually incorporated by the BSP into the current framework, such as the lower risk weighting for highly-rated corporate entities, the higher risk weighting for past due claims, and the standardized approach for securitization exposures. Draft implementation guidelines on all other Basel 2 provisions, including a new set of disclosure requirements, will be issued to the banking industry for comment in the first quarter of 2005. The final implementation guidelines will be issued by end-2005, to take effect in 2007.

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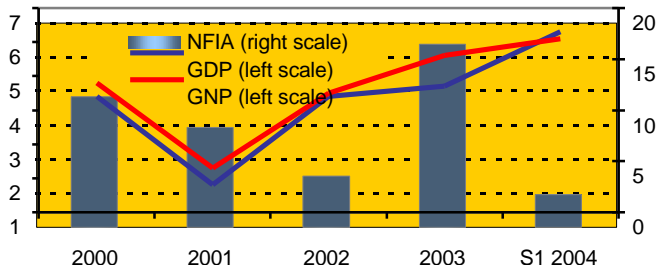
e-mail: cguidote@bsp.gov.ph

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Economy at a Glance

Real Sector and Employment

GDP and GNP Growth

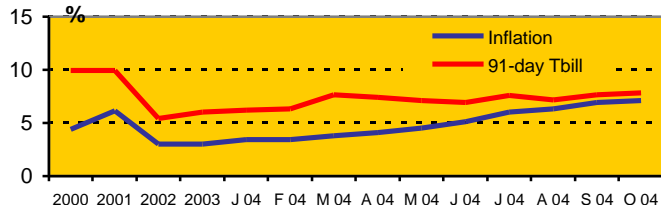


(1985=100)	2000	2001	2002	2003	S1 2004
GNP, growth rate	7.0	2.3	4.2	5.6	6.1
GDP, growth rate	6.0	1.8	4.3	4.7	6.3
NFIA	26.8	9.8	3.9	17.9	3.2
Supply					
Agriculture	4.5	3.7	3.6	3.8	6.3
Industry	9.0	-2.5	3.6	3.8	5.6
Services	4.4	4.2	5.1	5.8	6.9
Demand					
Personal Consumption	3.5	3.6	4.1	5.3	5.9
Government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

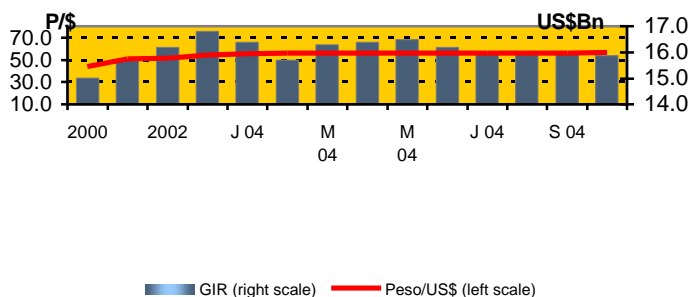
Prices

Inflation and Interest Rates



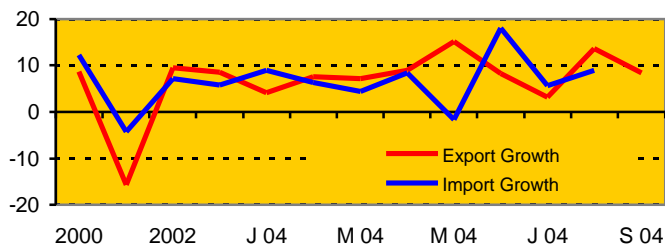
Sources: NSO, BTr

Foreign Exchange Rate and GIR



Source: BSP

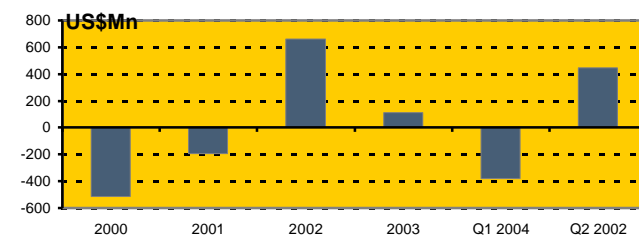
Nominal Dollar Exports and Imports Growth



Source: NSO

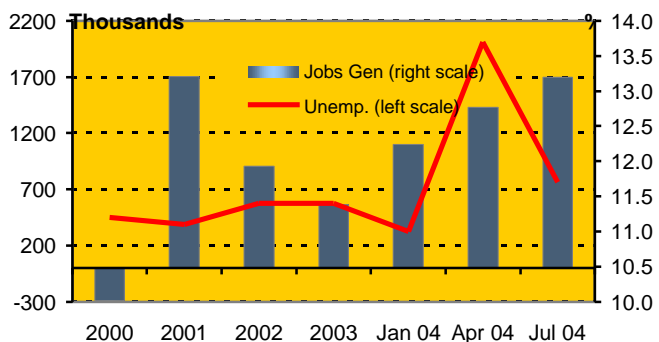
Monetary and Banking

Balance of Payments



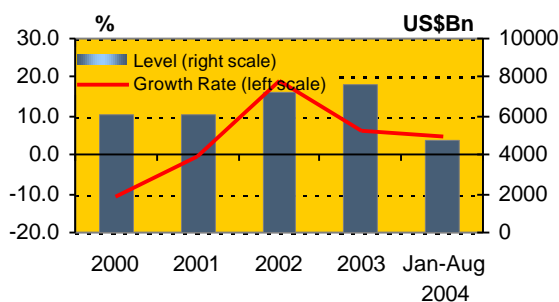
Source: BSP

Employment Indicators



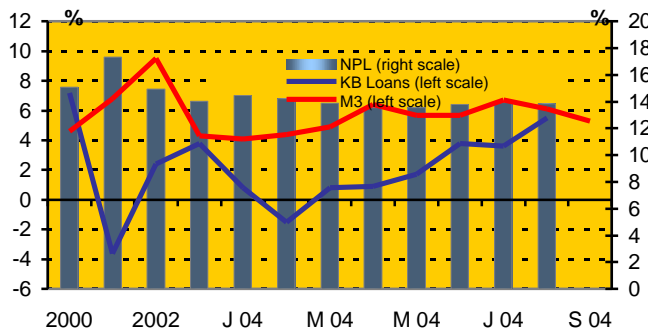
Source: NSO

OFW Remittances



Source: BSP

M3 Growth, KB Loan Growth and NPLs



Source: BSP

Investments

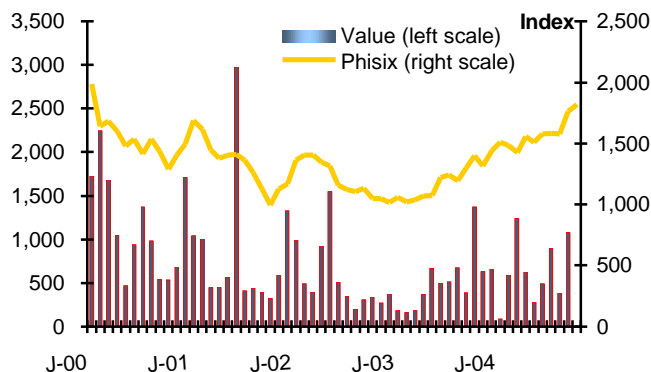
Total Approved Foreign Direct Investments By Promotion Agencies (in million US\$)

	2000	2001	2002	2003	Q1 2004	Q2 2004
BOI	382.1	561.4	170.0	153.2	1,738.4	7.2
PEZA	1,503.0	638.6	443.4	458.2	316.8	85.2
SBMA	48.9	5.6	14.4	6.8	0.3	22.4
CDC	43.5	14.2	271.5	7.1	6.8	28.3
Total	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

External Debt

Total Philippine External Debt (in US\$ Mn)

	2000	2001	2002	2003	S1 2004
By Borrower					
Public	34,136	33,396	35,535	39,498	37,086
Private	17,070	18,504	18,110	17,897	19,245
By Creditor Type					
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
By Currency					
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

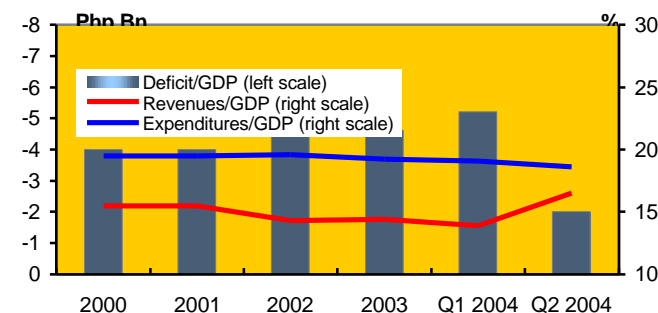
Average Maturity For Medium-To Long Term Debts (As of End-Jun 2004)

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

Source: BSP

Public Finance

Fiscal Performance to GDP



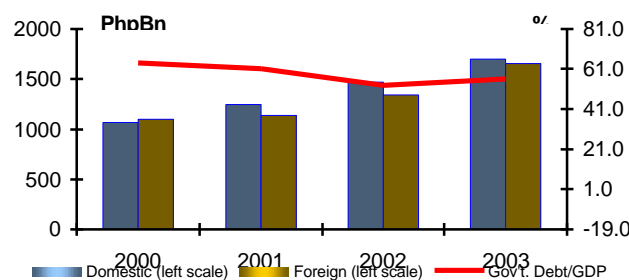
Sources: BTr, DOF

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

Total Outstanding NG Debt



Source: DOF