



# Philippines in Perspective

## Special Focus:

### Reaching Out to Investors, Economic Team Advocates the Philippines' Economic Reform Agenda Around the World

The Philippine government has made significant headway in advocating its economic reform agenda to both domestic and foreign investors through its advocacy program, which includes investor briefings and roadshows in the Philippines and major financial markets around the world. These efforts are aimed at introducing the Administration's Five Economic Reform Packages, which are based on a set of economic imperatives developed by the Economic Team and that include: 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.

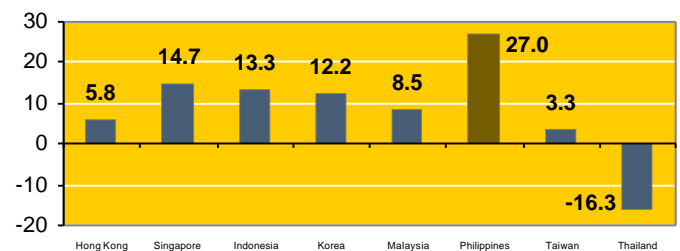
Most recently, members of the Economic Team and senior officials from the Bangko Sentral ng Pilipinas (BSP) held a series of non-deal international roadshows covering a number of countries in Asia, Europe and the U.S., including Hong Kong, Singapore, London, New York and Washington, D.C. The roadshow team presented to institutional, portfolio and equity investors the recent economic developments and policy directions in the medium-term that make up the Administration's four economic imperatives: macroeconomic stability anchored on fiscal discipline; restructuring and reforming the financial sector; restructuring and reforming the power sector; and increasing infrastructure, investments, exports and employment.

During the roadshow, Secretary Amaton also expressed confidence that some of the eight proposed tax legislation in the Economic Reform Package, designed to support the Government's revenue generation and spending reduction initiatives, will be passed by Congress by the end of this year, bringing the Government closer to its goal of balancing the budget by 2009.

Following successful meetings with members of the international financial community, the roadshow culminated with the team's attendance at the 2004 Annual Meeting of the Boards of Governors of the International Monetary Fund-World Bank Group in Washington, D.C. where a few more investor presentations were made.

Domestically, the Economic Team held a similar activity through the annual Mid-Year 2004 Economic Briefing to the country's business community and media, which was held on September 8 in Manila.

### Asian Stock Markets, Index Growth YTD 2004



Implemented by the Government in recent months, this advocacy program has increased investor confidence in the Philippines, thereby generating positive results for the local economy. These include a renewed interest in the local stock market, stable spreads of global bonds and increased investment registrations, particularly from foreign businesses. As of October 4, the Philippine Stock Exchange Index has grown by 27% year to date, making the Philippines the best performing market among the Southeast Asian countries. Risk premiums attached to the country's global bonds have also remained stable as investors recognize that the country's fiscal situation remains under control. Moreover, investment approvals of the two major investment promotion agencies for the first half of the year have increased by 591.2%, 90% of which are foreign direct investments.

### Global Bond Spreads

ROP Spreads over US Treasuries (basis points)	January - September	
	2004	2003
2008	323	426
2009	369	434
2010	417	450
2019	470	476
2025	467	476

## Month in Review

### Energy Independence Package Highlighted in Mid-Year 2004 Economic Briefing

During the Government's annual Mid-Year Economic Briefing with the Economic Team, the Energy Independence Package was introduced to the domestic business community and media. This reform package provides the blueprint for the complete privatization of the Philippine energy sector, particularly the government owned and controlled National Power Corporation. Other salient features of the Package include: a) rural electrification strategy; b) plans on additional power generation capacity; c) further development of renewable energy; and d) strengthening exploration of oil, gas, geothermal, and indigenous power resources.

### Government Successfully Raises US\$ 1 Billion on Re-Opening of Global Bonds

The Philippine Government successfully raised US\$ 1 billion from the re-opening of the 2015 (8.875%) and 2025 (10.625%) global bonds at the price of 98% and 106.25%, respectively. The proceeds of the bonds will be allocated towards the completion of the US\$ 1.5 billion 2004 financing requirements of the National Power Corporation (US\$ 750 million) and fulfilling the Government's budgetary requirements (US\$ 250 million). Credit Suisse First Boston, Deutsche Bank, and JP Morgan acted as the joint lead managers and joint bookrunners on this issue.

### President Concludes State Visit to the People's Republic of China

President Arroyo recently concluded a successful three-day state visit to China in September, further strengthening the two countries' economic and diplomatic ties.

A number of key accords and contracts between the two Governments were signed during the visit, including a visa waiver for Chinese officials and diplomats traveling to the Philippines, the establishment of a corn research station that will utilize the development of Chinese hybrid corn, the development of fishery facilities in Palawan, a joint pre-exploration study on the potential for petroleum resources in the South China Sea, and business contracts worth around US\$ 1 billion.

Among the most notable investments are the US\$400 million Chinese government loan to fund Phase 1 of the North Rail Project that will eventually link Metro Manila and Clark Special Economic Zone, a joint venture agreement in the development of a US\$ 30 million iron ore plant that is expected to generate 2,000 jobs in the Philippines, and Hebei Jigniu's US\$312 million integrated glass manufacturing plant at the Subic Bay Freeport.

## Progress on Philippine Development Imperatives

### Robust Economy Generates 1.17 Million Jobs

The latest survey results of the Labor Force Survey show that the economy generated 1.17 million jobs in July this year, a significant increase from the 347,000 jobs generated in July 2003. This indicates that the domestic labor market is in line with and benefiting from the robust economic growth seen to date this year. The agriculture sector generated the highest number of jobs (613,000), followed by services (598,000), bringing the unemployment rate for July 2004 down to 11.4% from 12.6% in the same period last year.

### Two Tax-Related Bills in Advance Stage of Legislation

Two tax-related legislation have recently been passed by the House of Representatives and are currently being transmitted to the Senate for further deliberation and review before being approved by a bi-cameral committee and eventual passage into law. The two bills are the general tax amnesty to promote compliance before the introduction of the gross income taxation system and the implementation of a lateral attrition system that will ensure alignment between the performance of tax collection officials and their respective compensation and job security.

### Eight-Month 2004 Fiscal Deficit Lower Than Year Ago

The National Government posted a cumulative fiscal deficit of Php 111.1 billion for the first eight months of 2004, lower than the Php 113.6 billion posted in the same period of 2003, while revenues reached a total of Php 462.4 billion, or a growth of 13.2%. This outpaced the 9.8% growth of expenditures that reached Php 573.5 billion for the period. Revenue collections of the Bureau of Internal Revenue remained robust, reaching Php 311.2 billion, a year-on-year growth of 10.6% for the January-August 2004 period, on account of optimization of the bureau's information technology capabilities in detecting patterns of tax evasion. Other initiatives that have supported the Government's revenue collection in 2004 include the continuation of its Tax Compliance Verification Drive and other programs to enhance taxpayer compliance, such as payment of correct taxes.

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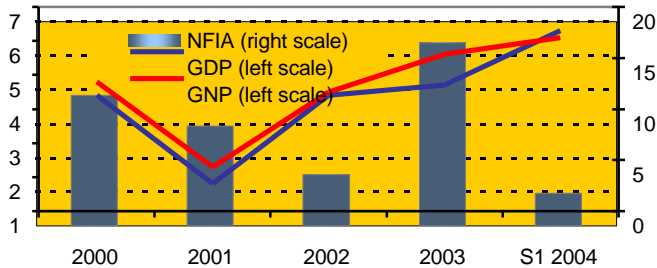
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# Economy at a Glance

## Real Sector and Employment

### GDP and GNP Growth

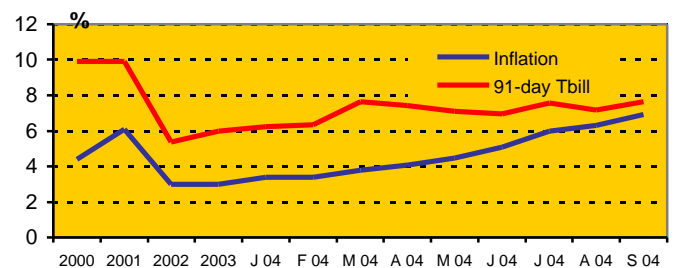


(1985=100)	2000	2001	2002	2003	S1 2004
GNP, growth rate	7.0	2.3	4.2	5.6	6.1
GDP, growth rate	6.0	1.8	4.3	4.7	6.3
NFIA	26.8	9.8	3.9	17.9	3.2
<b>Supply</b>					
Agriculture	4.5	3.7	3.6	3.8	6.3
Industry	9.0	-2.5	3.6	3.8	5.6
Services	4.4	4.2	5.1	5.8	6.9
<b>Demand</b>					
Personal	3.5	3.6	4.1	5.3	5.9
Consumption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

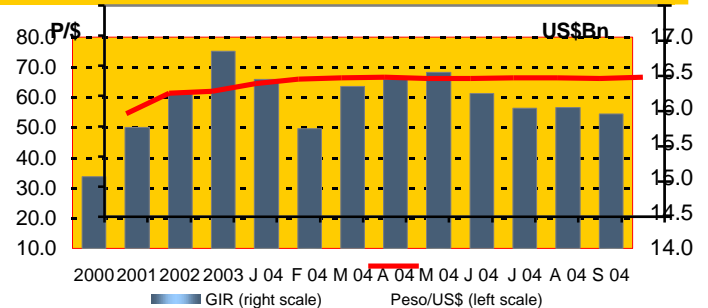
## Prices

### Inflation and Interest Rates



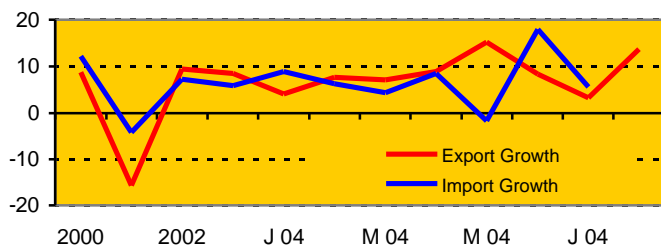
Sources: NSO, BTr

## Foreign Exchange Rate and GIR



Source: BSP

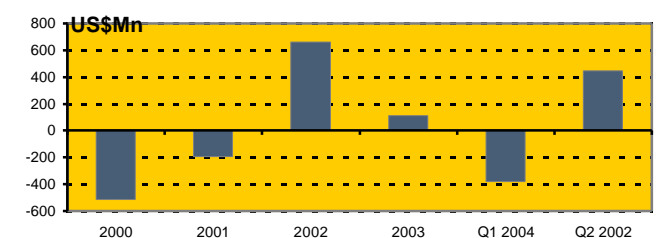
## Nominal Dollar Exports and Imports Growth



Source: NSO

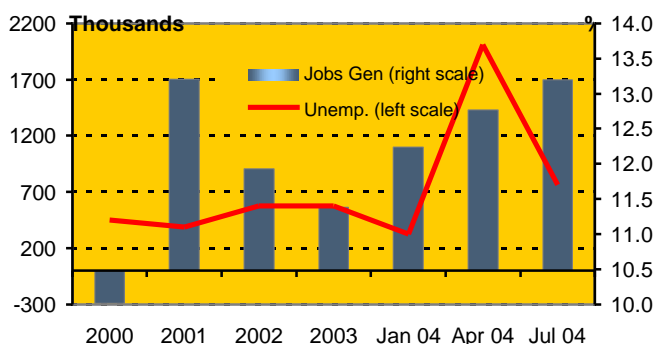
## Monetary and Banking

### Balance of Payments



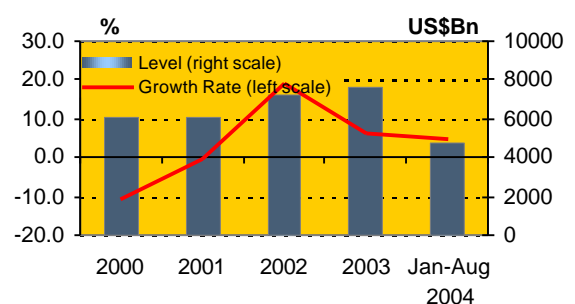
Source: BSP

## Employment Indicators



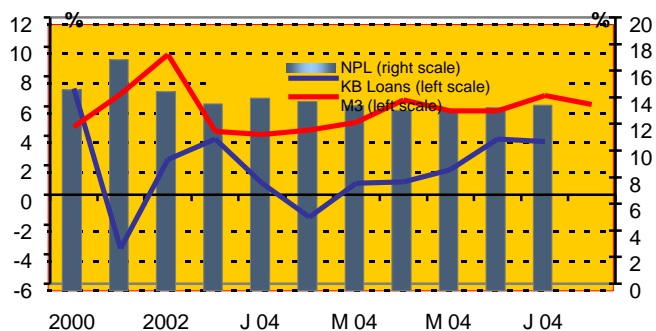
Source: NSO

## OFW Remittances



Source: BSP

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



Source: BSP

**Investments**

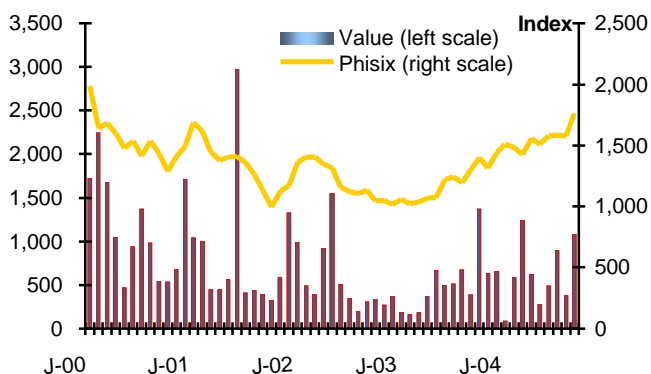
**Total Approved Foreign Direct Investments By Promotion Agencies (in million US\$)**

	2000	2001	2002	2003	Q1 2004	Q2 2004
<b>BOI</b>	382.1	561.4	170.0	153.2	1,738.4	2,033.9
<b>PEZA</b>	1,503.0	638.6	443.4	458.2	316.8	487.2
<b>SBMA</b>	48.9	5.6	14.4	6.8	0.3	To be released
<b>CDC</b>	43.5	14.2	271.5	7.1	6.8	released
<b>Total</b>	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

**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

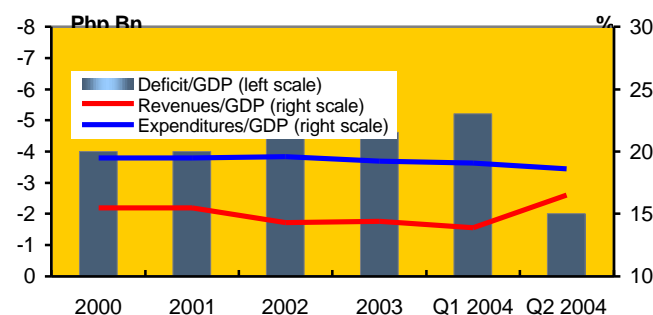
**Average Maturity For Medium-To Long Term Debts (As of End-Jun 2004)**

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

Source: BSP

**Public Finance**

**Fiscal Performance to GDP**



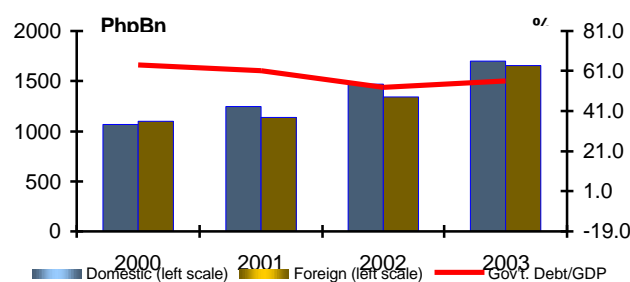
Sources: BTr, DOF

**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