PHILIPPINES ECONOMIC WRAP-UP
FEBRUARY 24 – MARCH 2, 2001

Summary

A delegation of thirty companies sponsored by the US-ASEAN Business Council visited Manila February 25-28, meeting with top officials and discussing many issues of interest to the business community. Action on Philippine financial markets was relatively muted this week; both the peso and the stock market were slightly weaker as interest rates eased modestly. The Treasury Bureau has suspended auctions of long-term bonds in favor of short-term borrowing for at least the near term. The Philippine Stock Exchange, accepting the inevitable, is in the throes of preparing itself for demutualization and a possible future public stock offering. In banking news, we report on a reprise of a joint sale of PNB shares held by Lucio Tan and the Philippine government; the growing interest in "e-banking"; and the latest news on Equitable-PCI bank. We also report the weak state of new car sales in January 2001 and on local opposition to SKP imports in the context of the Philippine Motor Vehicle Development Program. Finally we note that the government, digging around for revenues (and relieved that international oil prices have eased somewhat) has re-imposed a 3% tariff rate on petroleum and petroleum products.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site.

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FOREX REPORT

The Philippine peso continued to see its value vis-a-vis the U.S. dollar erode this week, as much on regional political uncertainties as on domestic ones. Concerns over a weaker Indonesian rupiah reinforced pressures on the peso caused by continuing deliberations by the Supreme Court of a constitutional challenge to the inauguration of President Macapagal-Arroyo by former President Estrada. Overall the peso depreciated from a close of P48.16/US$ on February 23 to P 48.34/US$ on March 2.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
JAN 22	48.207	49.300	188.3
23	49.750	49.200	122.2
24	48.473	48.350	150.0
25	48.638	48.840	116.0
26	49.321	49.720	124.3
JAN 29	49.676	49.480	126.0
30	49.412	49.600	110.6
31	49.221	48.975	99.4
FEB 01	49.150	49.160	168.0
02	49.215	49.120	118.0

FEB 05	49.161	49.110	62.5
06	48.857	48.610	161.0
07	48.706	48.580	139.1
08	48.284	48.250	187.5
09	48.052	48.200	120.6
FEB 12	48.140	47.820	167.5
13	47.674	47.630	131.1
14	47.583	47.955	131.0
15	47.889	47.490	267.5
16	47.550	47.550	125.6
FEB 19	47.672	47.850	90.4
20	47.801	47.630	153.1
21	47.925	48.120	138.0
22	48.234	48.350	222.1
23	48.323	48.160	170.5
FEB 26	48.094	48.230	125.0
27	48.263	48.265	129.5
28	48.286	48.280	93.7
MAR 01	48.374	48.470	100.1
02	48.490	48.340	125.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the February 26 auction of T-Bills, rates on the government papers eased only slightly, as traders await further cuts in overnight rates from the central bank. With full awards made for each tenor, the interest rate on the 91-day bill eased only 6.9 basis points to 10.456%. Rates on the 182-day bill saw the biggest decline (11.7 basis points to 11.783%); and the rate on the 364-day bill sank only 0.3 basis points to 12.497%.

In line with the Treasury Bureau review of government borrowing patterns, no auction for 5-year bonds was held this week. In fact, no bond auctions will be held at all in March, and 2-year and 5-year bonds will only be sold "over-the-counter" (OTC). This means that they are considered extensions of the last successful auctions of these instruments (on February 13 and 20, respectively) and will mature on the same dates as those sold at the auctions (so bids are evaluated according to the "yield-to-maturity" formula). P5 billion worth of 2-year bonds were offered OTC this week, and P3 billion worth of bids were accepted. The Treasury Bureau tells us that P2 billion worth of the 5-year bonds will be offered OTC next week. For 7- and 10-year bonds, weekly auctions are indefinitely suspended, nor will they be sold OTC.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
JAN 22	11.760	12.556	13.136
JAN 29	11.165	12.181	12.699
FEB 05	10.863	12.174	12.694
FEB 12	10.607	11.913	12.632
FEB 19	10.525	11.900	12.500
FEB 26	10.456	11.783	12.497

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
JAN 25	16.8757	13.50 – 20.00
FEB 01	16.4046	12.75 – 20.00
FEB 08	15.8376	12.50 - 19.00
FEB 15	15.2550	12.25 – 19.00
FEB 21	14.9393	12.25 – 19.00
MAR 01	14.5759	12.25 - 19.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The 33-share Philippine Stock Index (PHISIX) continued to decline this week as the political euphoria that saw the index surge over 250 points on January 22 (the first trading day after the inauguration of President Magapagal-Arroyo) continues to give way to economic realities such as weak corporate earnings reports. Of particular concern this week was news that telecommunications giant Philippine Long Distance Telephone (PLDT) saw its 2000 earnings halved from 1999 levels. Overall, the PHISIX dropped 3.04% from its February 23 close of 1647.00 to end the week at 1596.97.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

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Date	PHISIX Close	Value (Million pesos)
JAN 22	1708.06	7161
23	1662.30	2724
24	1665.43	1153
25	1639.18	877
26	1708.18	6074
JAN 29	1686.28	1319
30	1668.43	728
31	1687.00	1159
FEB 01	1669.13	601
02	1669.58	616
FEB 05	1652.08	352
06	1664.23	652
07	1659.25	441
08	1683.44	764
09	1695.59	995
FEB 12	1712.06	734
13	1692.27	556
14	1687.74	622
15	1688.05	534
16	1689.91	950
FEB 19	1673.96	444
20	1659.08	369
21	1654.86	378
22	1641.05	485

23	1647.00	595
FEB 24	1636.04	498
25	1632.30	344
26	1613.49	995
MAR 01	1570.20	735
02	1596.97	499

Source: Philippine Stock Exchange

US-ASEAN BUSINESS COUNCIL DELEGATION VISIT

A delegation representing thirty United States companies visited Manila February 25-28, sponsored by the US-ASEAN Business Council. Billed as the largest U.S. business delegation ever to visit the Philippines, the delegation received top level access from the new government here, meeting with President Gloria Macapagal Arroyo, Vice President/Foreign Secretary Teofisto Guingona, Senate President Aquilino Pimental, and Cabinet Secretaries Manuel Roxas (Trade and Industry), Dante Canlas (National Economic and Development Authority), Alberto Romulo (Finance) and Leonardo Montemayor (Agriculture), as well as Central Bank Governor Rafael Buenaventura. Delegation members also met with National Power Company President Jesus Alcordo, Customs Commissioner Titus Villanueva, Telecommunications and Communications Under Secretaries Augustin Bengson and Art Valdez, and Special Envoys Roberto Romulo, Roy Navarro, and Paul Dominguez.

During the visit, Administration officials stressed their commitment to transparency in governance and reliance on market forces, and said they welcomed increased foreign investment. Among many issues raised during the discussions, the officials stressed their commitment to pass a Power Bill (the bill to restructure and privatize the power industry) in the near future, prior to the beginning of the next Congress in July, and acknowledged the need to enforce more vigorously laws already on the books.

PSE GEARING UP FOR DEMUTUALIZATION

The Philippine Stock Exchange (PSE) is working to "demutualize" (i.e., convert itself from a non-stock entity to a stock corporation) as stipulated in the Securities Regulation Code of 2000 (SRC). The SRC gave the exchange one year -- until August 8, 2001 -- to convert to a stock enterprise. PSE officials told the Embassy that the bourse's internal goal was to convert to a stock corporation ahead of the August 8 deadline (they hinted, possibly in the next month or two). However, it remains to be seen how soon the exchange (currently dominated by member brokers) will be able to comply with an SRC provision limiting any one industry or business group (such as brokers) from owning more than 20% of the bourse's voting rights. PSE officials told the Embassy that compliance with that stipulation would depend on the ability to attract prospective investors (whether through private placements or a public listing) despite previous scandals and the absence of a track record as a profit-oriented stock entity.

The PSE is working to demutualize and restructure with technical assistance from the Australian government. PSE officials clarified that the SRC did not require a public offering of the bourse's shares. Nevertheless, the PSE plans a public listing, at a still indeterminate time. Some PSE officials indicated that it could take another year or two after demutualization to publicly list the corporation's shares to ensure that key structures, systems, and profit centers for a viable exchange (and successful public offering) were in place. Among the proposals being considered prior to listing -- patterned after the successful Australian model -- is one for the exchange to acquire existing securities clearing and depository agencies as major revenue generators. The PSE currently owns 51% of the Securities and Clearing Corp. of the Philippines (SCCP) and 32% of the Philippine Central Depository (PCD).

BANKING NOTES

Joint Sale of PNB in the Works?: Reports indicate that the government and Lucio Tan may again attempt a joint-sale of their shares in Philippine National Bank (PNB). An earlier effort in June 2000 ended in a failed bidding because only one party tendered an offer. In July, the government put up its shares under two options: an P85/share cash price or P100/share two-year installment price. Tan offered to purchase the government shares on installment, but subsequently refused to put up the required collateral. Tan then eventually managed to increase his stake in PNB (from 46% to about 70%) through a P60/share stock rights offering in September (in which his group emerged as the major subscriber). A number of analysts commented that Tan (a close associate of former President Estrada) is probably looking to liquidate his PNB holdings -- perhaps even at a loss -- rather than having to try to rehabilitate the troubled bank under a new government that may be less sympathetic to his interests. A number of BSP officials also commented that PNB's rehabilitation would probably proceed more smoothly under a new majority owner. PNB shares are currently trading at about P40/share at the Philippine Stock Exchange. The commercial bank, while the sixth largest in the country by assets, is saddled by a heavy non-performing loan (NPL) ratio -- reported at 39% as of December 2000 (versus the 15.1% industry average).

Electronic Banking Catches On: Nineteen banks have already obtained the approval of the Bangko Sentral ng Pilipinas (BSP, the central bank) to engage in electronic banking ("e-banking") activities. Of the 19, 11 are commercial banks (a quarter of the commercial banks operating in the country). Another ten or so applications are pending the approval of the BSP. A circular issued in May 2000 (and amended in December) requires banks to seek the BSP's approval before providing e-banking services. Among the approval criteria are the bank's financial capability to support e-banking activities; compliance with BSP prudential regulations; and the adequacy of systems, policies, and procedures to manage attendant risks and to address security issues (including the authentication of transacting parties and confidentiality of information).

Equitable PCI Bank: During the week, business dailies reported that Equitable-PCI Bank (the country's third largest commercial bank by assets) had received up to P30 billion in BSP assistance between December and January. The reports noted that the amount was even larger than the P25 billion assistance provided to Philippine

National Bank (PNB) by the BSP and Philippine Deposit Insurance Corporation (PDIC) last October. Although some deposits reportedly have begun to return over the past month, Equitable-PCI had suffered from heavy withdrawals after becoming deeply embroiled in former President Estrada's impeachment trial.

Senior BSP officials maintain that, unlike PNB (which was also hit by heavy withdrawals last year) Equitable-PCI Bank has not required any emergency assistance or advances from the BSP. They clarified that the bank had tapped "normal" BSP liquidity facilities available to all banks -- mainly the repurchase and rediscounting windows.

VEHICLE SALES DOWN 17.4% IN JANUARY

The automotive assembly industry's recovery pace, which averaged 20 percent monthly through September 2000, went steadily downhill through January 2001. Dampened interest in the purchase of new cars and commercial vehicles is reflected in the overall 17.4% fall in industry sales, from 6,948 units in January 2000 to 5,736 units in January this year, the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) reported. Hardest hit was the passenger car segment whose sales dropped 32% to 1,613 units in January from 2,366 units a year ago. Commercial vehicle sales, which used to make up for previous poor sales performance by passenger cars, also slipped by 10% to 4,123 units in the first month of the year from 4,582 units a year ago. While CAMPI executives attribute the sales slowdown to the uncertainty brought about by the recent political crisis, some industry players admit that due to the economic slowdown, many car buyers have temporarily shifted preferences, from relatively expensive new locally manufactured cars to less costly imported used units.

LOCAL ASSEMBLERS OPPOSE SKD IMPORTS

Although CAMPI officials expect business prospects to turn brighter under the new administration, automotive assemblers wait to see how an economist President would "plug loopholes" in the current implementation of the Motor Vehicle Development Program (MVDP). MVDP participants used to be able to import 500 "semi-knocked-down" (SKD) vehicles every 18 months at a preferential tariff of 10%, the same rate as "completely knocked-down" (CKD) imports. However, in April 1998, the BOI discontinued granting SKD import licenses because some assemblers failed to move to CKD assembly after selling all their assembled SKDs. Since then, only an endorsement from the Office of the President (Malacanang) would allow the BOI to issue a certificate of authority to import SKDs. Without Malacanang approval, SKDs would be levied the current MFN tariff of 30%, the same rate as imported new cars.

In an open public letter to Malacanang, Philippine Automotive Federation Inc. president Vicente Mills, Jr. said vehicle assemblers were alarmed by, and concerned over the license granted by former Executive Secretary Ronaldo Zamora to DaimlerChrysler and local partner Norkis Automotive Resources Corp., to import 1,000 SKD units of Chrysler sport utility vehicles and pickups this year, with an option to bring in another 2,500 units in 2002 and 3,500 units in 2003. Mills also questioned the 18-month extension of DaimlerChrysler-Norkis' original SKD license to import 500 units, of which only 271 units have been brought in since 1998. Mills added that under MVDP rules, SKD imports could only be made for a maximum of 18 months. Aside from being unlawful, Mills argued that an SKD import license would be detrimental to the government's program to develop the local automotive parts manufacturing industry, because SKDs need only tires and batteries. Mills also cited in the letter that the government would lose a substantial amount of revenue because of the 20% tariff discount (30% less 10%) enjoyed by licensed SKD importers. The President's office has yet to respond to Mills' protest.

PHILIPPINES RESTORES 3% OIL IMPORT DUTIES

Despite appeals by industry representatives, the Government had restored the 3% tariff on imported crude and refined petroleum products on February 8, as provided in Executive Order 314 of November 2000. A separate proposal by the previous administration to cut applied excise taxes on petroleum products (10% on motor gasoline and fuel oil, and a higher 20% on kerosene and diesel) was not workable according to the Finance Department, and hence was never passed. The uniform 3% import duty, specified in the Philippine Tariff and Customs Code, has been restored on the following petroleum products:

HS Code	Petroleum Product	Import Duty	
		Nov 8 2000	Feb 8 2001
2709.00 00	Petroleum, crude	0%	3%
2710.00 30	Fuel Oils	0%	3%
2710.00 80	Gas oils including diesel, kerosene, jet fuel, motor gasoline and other heavy oils	0%	3%
2711.12 00	Liquefied propane	0%	3%
2711.13 00	Liquefied butane	0%	3%
2711.19 10	Mixture of liquefied propane and butane	0%	3%

Source: Tariff and Customs Code of the Philippines