

# PHILIPPINES ECONOMIC WRAP-UP

JANUARY 20-26, 2001

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Summary  
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With Gloria Macapagal-Arroyo being sworn in as President on January 20, financial markets reacted swiftly and strongly to the ending of the political turmoil that had gripped the Philippines for months. However, the new president will still have to grapple with the significant problem of a massive fiscal imbalance. We report on the status of the debate over the 2001 budget, moves for a merger or sale of Equitable-PCI Bank, and on business reactions to the new administration.

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 October Economic Outlook, which is also available on our web site. The next edition of the Outlook is quickly being revised to reflect recent political developments and should be available by mid-February.

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Market and Policy Developments  
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## FOREX REPORT

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In the aftermath of the end of the Estrada government and the installation of new President Gloria Macapagal-Arroyo, foreign exchange markets exulted. From a record low daily weighted average of P54.808/US\$ on January 17, the exchange rate rocketed to close at P47.50/US\$ on January 19. In moderate trading volumes this week (well over \$100 million/day) some of that volatility was taken out of the market as focus began shifting back to (some not very pretty) economic fundamentals. We do expect political developments to continue to play a role in forex rates for the foreseeable future. The peso traded in a band between P46.00/USD and P50.10/USD before closing the week at P49.72/USD on January 26.

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Exchange Rate Tables  
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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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DEC 18	50.072	50.120	48.8
19	50.140	50.075	123.5
20	50.075	50.058	108.9
21	50.077	50.045	88.5
22	50.024	49.900	75.9
DEC 25	Markets Closed		
26	49.443	49.420	134.5
27	49.372	49.910	88.0
28	49.998	49.870	154.6
29	49.986	50.010	65.5
JAN 01	Markets Closed		
02	51.294	51.000	84.0
03	51.025	51.040	128.5
04	50.953	50.970	126.2
05	51.092	51.000	145.5
JAN 08	50.939	50.940	93.0
09	50.902	50.935	77.0
10	51.064	51.150	112.0
11	51.325	51.325	149.5
12	51.460	51.590	99.6

JAN 15	51.978	52.400	134.1
16	52.649	52.780	158.0
17	54.808	54.625	70.0
18	55.013	54.790	118.5
19	53.357	47.500	101.6
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

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Source: Bankers Association of the Philippines

CREDIT MARKET REPORT  
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T-Bills: The T-Bill auction on Monday reacted just as favorably as other markets to the new President; for the P4 billion worth of bills offered over P28 billion in bids were received at the Treasury Bureau. Rates on the 91-day bills fell 60.5 basis points to 11.76%; interest rates on the 182-day and 364-day bills both fell 110.1 basis points to 12.256% and 12.136% respectively. One dealer suggested that the move was an overcorrection and that rates may come back up slightly next week.

T-Bonds: The results of the Monday T-Bill auction extended to the auction of 2-year T-Bonds on January 23; interest rates on the 2-year bonds recorded their biggest ever drop, falling 187.5 basis points to 14.125% on heavy demand. After the auction, Treasury officials told reporters that borrowing plans for 2001 would be the subject of a broad review by incoming Secretary of Finance Alberto Romulo.

Overnight rates: Governor Rafael Buenaventura and the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) were cheered enough about the improving situation to cut overnight rates on January 25 by 50 basis points (the rates now stand at 12% for borrowing and 14.25% for lending). In announcing the cut, the BSP noted that not only did this reflect the

removal of the "political risk" premium, but also better inflationary prospects (based on lower oil prices and expectations of better weather for 2001). Buenaventura noted that the improving conditions may provide further flexibility in monetary policy, particularly if the U.S. Federal Reserve moves to cut its rates.

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 Domestic Interest Rates (in percent)  
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Treasury Bills  
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Auction Date	91 days	182 days	364 days
DEC 11	13.702	15.277	15.579
DEC 18	12.931	14.724	15.067
JAN 02	12.883	rejected	rejected
JAN 08	12.598	13.657	14.240
JAN 15	12.365	13.657	14.237
JAN 22	11.760	12.556	13.136

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks  
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Date of Survey	Average	Range
DEC 13	17.2705	14.50 - 20.097
DEC 21	17.4326	14.50 - 20.00
JAN 04	17.3220	14.50 - 20.00
JAN 11	17.1677	14.50 - 20.00
JAN 17	17.1154	14.50 - 21.00
JAN 25	16.8757	13.50 - 20.00

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT  
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Also reacting to the installation of new President Macapagal-Arroyo, the Philippine stock market recorded its biggest one day gain ever on January 22, surging ahead 17.56% (255.13 points). In intraday trading at one point on Monday, the 33-share Philippine Stock Index

(PHISIX was actually up over 500 points (34.36%) before the exuberance faded. But the gains have held for the most part, with the market trading well above the 1600 level for the week in mixed trading. From its close of 1452.93 on January 19, the PHISIX ended the week up 17.6% at 1708.18.

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 Philippine Stock Exchange Index (PHISIX) and  
 Value of Shares Traded  
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Date	PHISIX Close	Value (Million pesos)
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DEC 18	1408.19	398
19	1413.99	2697
20	1447.65	2900
21	1426.05	954
22	1429.17	1175
DEC 25	Markets Closed	
26	1467.82	607
27	1464.21	1781
28	1486.46	677
29	1494.50	5400
JAN 01	Markets Closed	
02	1448.49	379
03	1450.96	216
04	1475.11	366
05	1469.08	302
JAN 08	1494.38	522
09	1531.82	682
10	1534.15	962
11	1515.89	609
12	1541.65	798
JAN 15	1567.93	1910
16	1551.79	1359
17	1458.63	1876
18	1438.21	1114
19	1452.93	1204
JAN 22	1708.06	7161

23	1662.30	2724
24	1665.43	1153
25	1639.18	877
26	1708.18	6074

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Source: Philippine Stock Exchange

UPDATE ON 2001 BUDGET  
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With barely two weeks left to debate and pass a 2001 budget before adjourning on February 8, senators raised the possibility that the 2000 budget (technically already in force because of the absence of a new congressionally-approved budget plan) may have to be "carried over". In press interviews, Senate finance committee chairman John Osmena said he had consulted Senate President Aquilino Pimentel and conferred with Macapagal-Arroyo administration officials on the matter, who reportedly were amenable. According to Senators Osmena and Pimentel, the deferred enactment of a new budget would also give the Macapagal-Arroyo administration the opportunity to review the government's fiscal situation and to make inputs to the 2001 budget proposal (originally prepared by the Estrada administration) until a new Congress convenes in July. The senators said they would consult the leadership of the Lower House. The latter had already passed a P715 billion budget for 2001 (P10 billion lower than requested by former President Estrada) before the Christmas holidays.

With prospects possibly headed towards a possible re-enactment of the 2000 budget plan, Senator John Osmena moved for approval of a separate bill providing the Commission on Election (Comelec) a P2.4 billion budget for May's congressional and local polls. Before Christmas, the Lower House had already passed a bill (separate from the 2001 budget bill) appropriating funds for the May elections. Staff from the Lower House's planning and budget office told the Embassy that the bill had been initiated and passed to avoid jeopardizing the upcoming elections in the event the Philippine Congress failed to pass a final 2001 budget authorization.

Commenting on the 2001 budget proposed by former President Estrada, new Finance Secretary Alberto Romulo told reporters on January 25 that the revised deficit target contained in the proposal was P121 billion. But he then claimed that the Estrada administration had left behind P70 billion in unpaid obligations, thereby already bloating the deficit to P191 billion. Romulo said that it would be a goal of the administration to balance the budget by 2004, but did not suggest that this was likely. Both he and President Macapagal-Arroyo suggested that the government will have to live on an "austere" budget until then. One of Romulo's earliest comments upon his appointment was that he would focus on increasing revenue collections; he expanded those comments to say on January 25 that he would specifically ask the Customs Bureau to raise its revenue targets and stop smuggling. The government has indicated it also plans to move forward with stalled and delayed privatizations of several assets with the goal of raising some P10 billion.

EQUITABLE-PCI BANK: TO SELL OR NOT TO SELL?  
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Senior officials of Equitable-PCI Bank told reporters this week that pressure to make way for a strategic investor or to merge with another banking institution in a bid to restore depositor confidence has eased. Before "EDSA People Power 2" toppled Joseph Estrada from the Philippine presidency over the weekend, Equitable-PCI (the country's third largest commercial bank by assets) had been suffering from a rash of withdrawals since November after becoming more deeply embroiled in the impeachment drama during the last few months of 2000. Initially hounded by bad publicity as a depository of Estrada's alleged ill-gotten wealth and illegal gambling payoffs, Equitable-PCI subsequently produced the trial's "star" prosecution witness. However, fear of retaliation by the Estrada administration and lingering issues surrounding bank secrecy laws reportedly continued to keep depositors at bay. The previous week, in response to the Philippine Stock Exchange's queries on a number of press reports, the publicly-listed bank disclosed that it was in preliminary talks with a number of potential local and foreign investors.

Following the unexpected and rapid turn of events over the January 20-21 weekend, senior Equitable-PCI Bank officials commented that the situation appeared to be stabilizing and that deposits had begun to return. The bank's shares closed at P58.50/share on January 26, up 8.3% week-on-week. The bank has also embarked on an aggressive campaign to help stem deposit withdrawals. This week, major newspapers carried a full-page appeal by Equitable-PCI SVP (and prosecution witness) Clarissa Ocampo for the public to support the bank for its active cooperation in the impeachment trial. Interviewed early this week, Chairman Ricardo Romulo said developments over the next few weeks would be a crucial indicator of whether depositors' confidence was back and hinted of a change-of-heart in the bank's search for a strategic partner.

Although maintaining that the bank remains liquid and fundamentally sound and has not required BSP assistance, the BSP had urged Equitable-PCI management to conclude a buy-in and/or merger deal within the month in the wake of the heavy withdrawals. Senior BSP officials told the Embassy that the monetary authority continues to urge Equitable-PCI Bank's management to pursue the buy-in/merger route despite the optimism generated by recent political events. BSP officials said that, as of Tuesday (January 23), Equitable-PCI officials had indicated that the bank had not junked buy-in/merger options, but wanted to be able to bide its time to obtain a better price. The bank had recently engaged the services of ING Barings as financial advisor to evaluate acquisition/merger proposals. Late this week, however, press reports suggested that the Go family (which holds a 30% stake) no longer seemed inclined to let go of their shares. In addition to the Go family, Equitable-PCI's majority owners are the two state pension funds (i.e., the Social Security System and Government Service Insurance System -- with combined holdings of over 35%).

BUSINESS GROUPS PROMISE NO LAYOFFS, PLEDGE SUPPORT  
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In the euphoria immediately following President Macapagal-Arroyo's oath-taking, local businesses (adversely affected by the recent political crisis) rushed to assert that the ascendancy of Ms. Macapagal-

Arroyo as President ended the "leadership crisis." Reflecting the optimism that has surged through the business community, eleven business organizations led by the Philippine Chamber of Commerce and Industry (PCCI), the Federation of Philippine Industries (FPI), the Makati Business Club (MBC) and the Employers Confederation of the Philippines (ECOP), pledged their support for the new administration, particularly in its campaign against poverty. "The least the member corporations could do initially is hold layoffs at least in the first quarter of this year," industrialist and FPI president Raul Concepcion has said. FPI's Concepcion sees a brighter economic outlook for the first quarter of the year, and MBC's Guillermo "Bill" Luz expects loan demand to improve over the next six months. Mr. Luz has commented that the government is way behind in instituting reforms for global competitiveness, and called on the new leader to exercise transparency and accountability in the government.

In a separate development, however, Luz and others who had aired these original optimistic pronouncements aired concerns later in the week over cabinet and other appointments, saying: "We believe that the choices have mostly been political concessions and not based on the prospects capability to handle their posts." The president has yet to finalize the full cabinet; the posts of Secretary of Trade and Industry and Secretary of Energy, among others, remain open.