

PHILIPPINES ECONOMIC WRAP-UP

JUNE 02 - 08, 2001

Summary

In this week's wrap-up, we report that year-on-year inflation slowed to 6.5% in May. Meanwhile, recently released government numbers for April showed that export revenues continued to slide. Before adjourning on June 7, the Eleventh Congress of the Philippines completed action on a long-awaited power sector restructuring bill and on the national government's request for a P10.9 billion supplemental budget. The week also saw an official reshuffling of some cabinet members among the executive secretary, finance, and energy posts.

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 June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

The Philippine peso opened weaker on Monday as news broke of the killing of two Palawan hostages and skirmishes between government troops and rebels in Basilan. After

some recovery up to midweek (partly on the back of a stronger baht), the peso weakened again to end the week at P50.910/US\$ (down 0.3% from its June 1 close of P50.75/US\$). Traders noted that limited new foreign exchange inflows combined with lingering political jitters and late-week downward pressure in regional currency markets to cap the peso's recovery. (See Section II for detailed forex data.)

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
APR 30	51.339	51.450	170.9
MAY 01	Markets Closed		
02	51.001	50.730	167.5
03	50.459	50.280	149.2
04	50.349	50.380	81.3
MAY 07	50.504	50.440	59.0
08	50.477	50.460	76.5
09	50.482	50.650	120.5
10	50.624	50.590	137.0
11	50.487	50.300	117.5
MAY 14	Markets Closed		
15	50.321	50.180	131.1
16	50.136	50.140	127.5
17	50.162	50.260	111.1
18	50.342	50.330	132.5
MAY 21	50.609	50.840	148.3
22	50.789	50.645	124.2
23	50.438	50.300	184.0
24	50.287	50.340	168.0
25	50.449	50.505	106.5
MAY 28	50.774	50.770	160.5
29	50.703	50.500	120.4
30	50.584	50.565	177.5
31	50.495	50.500	162.6
JUN 01	50.750	50.633	150.0

JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2
08	50.803	50.910	128.1

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Rates softened further at the government's June 5 T-bill auction as banks continued to park excess funds in short-term government securities. Expectations of a relatively stable inflation rate also provided some room for interest rates to fall. The average rate for the 91-day T-bills declined by 12.4 basis points to 8.913% (the lowest since late-August 2000). The 182-day bills shed 24.8 basis points week-on-week to settle at 9.839%; and the average rate for the 364-day bills declined by 51.5 basis points to 10.792%. (See Section II for detailed data on interest rates.)

Despite the lower May inflation figure released midweek, the policy-making Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central bank) decided to leave key policy rates unchanged. Many banks and traders had expected new cuts in the BSP's overnight borrowing and lending rates (9.0% and 11.25%, respectively), last lowered on May 18. However, senior BSP officials told reporters that the BSP had decided to give previous rate cuts more time to filter into the financial system, wait for more information on the inflation outlook, and monitor developments in U.S. rates before making a decision on further rate reductions.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
APR 30	10.102	11.324	11.725

MAY 07	no sales	no sales	no sales
MAY 15	9.513	10.915	11.350
MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
APR 23	13.3529	10.75 - 14.855
MAY 03	13.4683	11.25 - 15.102
MAY 10	13.4861	11.25 - 15.012
MAY 17	13.2171	10.75 - 14.513
MAY 24	13.1013	10.75 - 14.500
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 - 14.000

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Index (Phisix) closed consecutively weaker during the first three days of the trading week, despite positive news on slower inflation, declining domestic interest rates, and congressional action on a long-awaited bill restructuring the power sector. In the midst of already weak corporate earnings, news of a deeper slide in export receipts magnified worries over short-term economic growth and business prospects. Analysts said that anxieties over the peace and order situation -- following the killing of two of the Palawan hostages over the June 2-3 weekend and the renewed armed conflict between government forces and the rebel group Abu Sayyaf -- also dampened investor sentiment. The Phisix inched up later in the week on bargain hunting to end at 1410.50 on June 8, down 0.6% from the previous week's 1419.09 closing level. (See Section II for detailed stock market data.)

Philippine Stock Exchange Index (PHISIX) and

Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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APR 30	1378.84	446
MAY 01	Markets Closed	
02	1435.88	765
03	1430.39	376
04	1442.46	405
MAY 07	1431.91	466
08	1427.28	567
09	1441.77	352
10	1443.85	643
11	1484.83	1134
MAY 14	Markets Closed	
15	1457.97	497
16	1461.79	311
17	1453.03	376
18	1448.62	397
MAY 21	1446.20	363
22	1451.20	6939 /a
23	1446.20	726
24	1434.68	472
25	1410.23	1068
MAY 28	1395.12	412
29	1385.43	511
30	1396.50	399
31	1402.29	568
JUN 01	1416.09	669
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490
07	1406.65	405
08	1410.50	650

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation

b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares

(reportedly on news of a debt restructuring plan forged with creditors by PLDT's struggling subsidiary Piltel)

Source: Philippine Stock Exchange

MERCHANDISE EXPORT REVENUES CONTINUE TO SLIDE

According to the National Statistics Office (NSO), April 2001 export receipts contracted by 15.8% year-on-year to \$2.2 billion after declining by single-digit rates in February (3.4%) and March (4.0%). Receipts from electronic equipment and parts also shrank year-on-year for a third month in a row, this time by a hefty 25.7%. Cumulatively, January to April export revenues dropped 4.1% from 2000's comparable four-month level, with receipts from electronics (55% of total export receipts) down 8.9%.

Given the current weakness in external markets, both private and Philippine government analysts continue to revise downward their estimates of Philippine GDP growth in 2001. Many analysts now view 3% GDP growth for the full-year as a "best-case" scenario. The Embassy's current forecast is for GDP growth in the 2.7-3.2% range (Note: The June 2001 edition of Embassy Manila's tri-annual "Philippine Economic Outlook" is now available on the Embassy web site at <http://usembassy.state.gov/manila>.) Government economic planning officials now rule out being able to achieve the higher end of the government's 3.8% to 4.3% targeted GDP growth range for the year, and they indicate that the target would be reviewed. Economic planning officials told the Embassy that the lower-end 3.8% GDP growth target assumed, among other things, that full-year merchandise exports (US\$ terms) would grow by at least 4%.

On the balance of payments (BOP) front, the current account is expected to remain in surplus for 2001, despite weak exports. The reason is that imports have also fallen (down 7.7% during the first quarter, Manila 2813). Still, the balance of payments (BOP) could end another year in the red (after 2000's \$512 million deficit) unless capital flows improve in coming months.

The Bangko Sentral estimated the BOP balance at a \$755 million deficit as of end-April 2001.

 PHILIPPINE MERCHANDISE EXPORTS
 (In US\$ Millions)

	January - April 2000	April 2001	Growth (%)
TOTAL EXPORTS	11,275.0	10,809.8	(4.1)
-----	-----	-----	-----
Agro-Based Products	542.9	519.7	(4.27)
Forest Products	7.7	6.9	(10.39)
Mineral Products	229.4	162.1	(29.34)
Petroleum Products	111.6	87.9	(21.24)
Manufactures	10,059.3	9,686.5	(3.71)
Electronics Equip. & Parts	6,549.8	5,967.4	(8.89)
Others (mainly re-exports)	324.1	346.8	7.00

 Source: National Statistics Office

MAY YEAR-ON-YEAR INFLATION AT 6.5%

The government's National Statistics Office (NSO) reported that May 2001's consumer price index (CPI) increased by 0.1% month-on-month, decelerating from April's 0.3% rate. That deceleration stemmed mainly from a 1.6% month-on-month decline in the fuel, light, and water group--reflecting lower prices for liquefied petroleum gas (used for cooking in most Philippine households) and lower "purchased power adjustments" in electricity bills (reflecting cost of energy generated under contracts with independent power producers, IPPs). Housing and repairs, miscellaneous items, and services--which increased at somewhat slower rates--also contributed to May's lower month-on-month inflation figure. These partially offset faster increases posted

by the heavily-weighted food index (up 0.3% from 0.1%), as well as clothing (0.3% from 0.2%). The government attributed the acceleration in food prices to, among others, weather related supply bottlenecks for fruits and vegetables; seasonally higher demand for poultry and meat products during the May festival month; and higher import costs of raw materials for dairy products.

In year-on-year terms, the consumer price index rose by 6.5% from the May 2000 level, slowing from 6.9% in January and the 6.7% increase posted for the months of February, March, and April. Vis-a-vis April, May's lower year-on-year inflation rate reflected slower increases for food commodities (3.8% from 4.2%); housing and repairs (6.6% from 6.8%); fuel, light and water (12.2% from 13.8%); and miscellaneous items (7.5% from 7.6%).

Year-on-year inflation averaged 6.7% during the first five months of 2001. The government's goal for the full-year is for average year-on-year inflation in the 6% to 7% range. Government officials expect the year-on-year rate to slow in the second half (and especially towards the fourth quarter)--reflecting 2000's relatively higher second-semester base and assuming that improved prospects for less volatile world oil prices hold.

 PHILIPPINE CONSUMER PRICE INFLATION
 (IN %)

	Year-on-Year -----	Month-on-Month -----
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		

Jan-May	3.4	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Average		
Jan-May	6.7	

Source: National Statistics Office

POWER BILL & SUPPLEMENTAL BUDGET PASSED, SIGNED INTO LAW

The Eleventh Congress of the Philippines -- which reconvened after the May 14 elections for a May 28-31 special session (mainly to tackle power sector reform bill) and its final regular session (June 4-7) -- permanently adjourned this week. In those sessions, both chambers finally completed congressional action (i.e., bicameral conference committee reconciliation and ratification) on controversial and long-pending legislation providing for the restructuring of the electricity sector and the privatization of the government's financially-strapped and debt-saddled power generation company (National Power Corporation, Napocor). The Lower House ratified the bicameral bill in a marathon session that lasted until the early morning of June 1, and the Senate in the evening of June 4. In a press conference shortly after Senate ratification, President Macapagal Arroyo described the legislation as the product of seven years of work spanning three administrations and two congresses. The president signed the "Electric Power Industry Reform Act" into law on June 8 in ceremonies at Malacanang. The law goes into effect 15 days after publication in at least two national papers of general circulation.

The most immediate effect of the act will be a mandated P0.30/kilowatt-hour reduction in electric power rates for residential users. Under the recently signed law, the Department of Energy should complete work on implementing rules and regulations within six months, in consultation

with relevant government agencies, industry participants, nongovernment organizations (NGOs), and end users. The new law--which provides the framework for a more open, competitive and sustainable market for power generation and supply--also had taken on additional significance as a symbol of the Macapagal Arroyo administration's commitment to reforms.

Over the past two weeks, the Eleventh Congress of the Philippines also completed work on a P10.9 billion supplemental budget request that the national government submitted for approval in late March. The Lower House passed the supplemental budget bill on May 31, which the Senate then approved without amendments on June 6. The President signed the bill into law on June 8 (together with the power reform legislation). The bulk (i.e., nearly P10 billion) of the supplemental budget is earmarked for personnel-related outlays (mainly to meet retirement and social security benefit payments, and partly to fund a 5% salary increase for government employees effective July 2001). The remaining P1 billion will allow the government the flexibility to implement new, priority foreign-assisted projects during the year.

TRADE & INDUSTRY UNDERSECRETARY APPOINTED TO ENERGY POST

On June 8, President Macapagal-Arroyo officially swore in Department of Energy (DOE) Secretary Jose Isidro "Lito" Camacho and Department of Finance (DOF) Secretary Alberto Romulo to their new posts. Romulo takes over as Executive Secretary (filling up the vacancy left by Renato de Villa for health reasons). Camacho (a well-respected investment banker before his appointment to the DOE) takes over at the DOF from Romulo.

On June 7, Palace officials also announced that President Macapagal-Arroyo had appointed a new DOE secretary to fill Camacho's shoes--Vicente Perez, Department of Trade and Industry (DTI) undersecretary for industry and investments. Perez--an investment banker with over 20 years of experience in the financial centers of New York, London and Singapore before joining the DTI in March 2001--had the distinction of being Lazard, Freres & Co.'s first Asian partner and the first Filipino partner on

Wall Street. Among several awards, he was named in 1994 as one of Global Finance magazines' "Top 100 Emerging Market Superstars." Mr. Perez (who is in his early 40s), holds an MBA from the Wharton Business School. His immediate, major task will be to implement the recently signed power restructuring law.