

PHILIPPINES ECONOMIC WRAP-UP

JULY 14 - 20, 2001

Summary

Increasing pressure triggered by the Argentine financial situation pushed down the peso to its lowest intra-day level since President Macapagal-Arroyo assumed the presidency. In the absence of positive external and domestic news, stock prices languished further and Treasury bill rates moved up across all maturities. Meanwhile, the latest statistics for the commercial banking system showed, among others, that banks' non-performing loan ratio had inched up to 16.8% as of May (a new high). We report as well on the most recent (May) import statistics -- which showed merchandise imports up year-on-year for a second consecutive month in US\$ terms. Several analysts, however, attributed this growth mainly to low inventories rather than to improved business confidence. As evidence of an economic slowdown grows, the latest fiscal numbers suggest that the government may find it increasingly difficult to offset widening tax collection shortfalls with expenditure cuts. End summary.

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

Escalating fears over a possible loan default by Argentina aggravated jitters in a market already suffering from a dearth of uplifting external and domestic developments. By July 18 (Wednesday), the peso had sunk to an intra-day low of P54.335/US\$ -- the lowest intra-day rate thus far since President Macapagal-Arroyo assumed the Philippine presidency on January 20. The local currency eventually closed that day at a stronger P53.700/US\$ and ended the week at P53.150/US\$ on July 20 (little changed from July 13's P53.170/US\$ rate).

Reports persisted that the Bangko Sentral ng Pilipinas (BSP, the central bank) had provided foreign exchange liquidity more aggressively through a number of foreign banks to temper the peso's slide. BSP officials would neither confirm nor deny the reports, except to say that the BSP's role was to provide liquidity as necessary. Dept. of Finance Secretary Jose Isidro "Lito" Camacho and BSP Governor Rafael "Paeng" Buenaventura also announced mid-week that they were coordinating closely -- upon President Macapagal-Arroyo's strong directive -- to ensure that fiscal and monetary policies were in sync and to draw up policies and other specific measures to counteract currency speculation. This "signal" to market players may have also helped the peso recover by encouraging profit-taking by foreign exchange holders.

Just before the week closed, BSP Governor Buenaventura announced that the Philippine Monetary Board (the BSP's highest policy making body) had agreed to expand the coverage of the BSP's "Currency Risk Protection Program" (CRPP, a non-deliverable forward hedging facility). He expressed hopes that the expanded coverage would encourage more active use of the facility and temper pressures on the spot market from advanced purchases of foreign exchange requirements. Although details have yet to be finalized, BSP officials told the Embassy that the current CRPP would be expanded to cover net importers; foreign currency bonds and longer-term foreign currency deposit unit loans; and OA/DA and other trade transactions besides that of oil companies.

Exchange Rate Tables

| Date | Weighted Average (Pesos/US\$) | Closing (Pesos/US\$) | Volume (Million US\$) |
|--------|-------------------------------------|-------------------------|--------------------------|
| | ----- | ----- | ----- |
| JUN 11 | 51.079 | 51.190 | 181.0 |
| 12 | Markets Closed | | |
| 13 | 51.326 | 51.310 | 191.0 |
| 14 | 51.309 | 51.360 | 105.6 |
| 15 | 51.479 | 51.590 | 122.4 |
| JUN 18 | 51.819 | 51.975 | 141.5 |
| 19 | 52.282 | 52.320 | 109.5 |
| 20 | 52.071 | 52.010 | 233.8 |
| 21 | 52.101 | 52.200 | 122.5 |
| 22 | 52.281 | 52.210 | 74.5 |
| JUN 25 | 52.252 | 52.265 | 54.9 |
| 26 | 52.307 | 52.270 | 91.5 |
| 27 | 52.308 | 52.295 | 55.3 |
| 28 | 52.366 | 52.370 | 101.5 |
| 29 | 52.428 | 52.395 | 96.0 |
| JUL 02 | 52.612 | 52.700 | 93.0 |
| 03 | 52.905 | 52.940 | 113.5 |
| 04 | 53.025 | 52.930 | 145.5 |
| 05 | 52.965 | 52.980 | 111.1 |
| 06 | 52.901 | 52.890 | 73.5 |
| JUL 09 | 52.863 | 52.835 | 71.6 |
| 10 | 52.910 | 52.950 | 68.0 |
| 11 | 53.023 | 53.065 | 76.7 |
| 12 | 53.246 | 53.080 | 119.0 |
| 13 | 53.186 | 53.170 | 46.0 |
| JUL 16 | 53.503 | 53.710 | 50.4 |
| 17 | 53.896 | 53.950 | 49.5 |
| 18 | 53.928 | 53.700 | 168.5 |
| 19 | 53.316 | 53.200 | 122.3 |
| 20 | 53.210 | 53.150 | 154.8 |

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and securities dealers upped bid rates further during the Bureau of Treasury's weekly T-bill auction on July 16. The Treasury fully awarded the P1 billion worth of 91-day bills scheduled for sale at an average rate of 8.958%, 10.9 basis points higher week-on-week. The Treasury also fully awarded the P1.5 billion of 182-day bills on offer at an average rate of 10.489%, up 31.7 basis points. Reflecting the current preference for shorter-term maturities, the P1.5 billion offering of 364-day T-bills was undersubscribed (i.e., P1.3 billion in bids received) and the government awarded only P1 billion at an average rate of 11.768% (up 34.9 basis points). Meanwhile, the BSP kept its policy rates steady despite pressure from some quarters to take a more aggressive stance to prop up the peso. BSP Governor Buenaventura stressed that the peso's weakness was not an interest rate problem, but a response to global events and negative country risk perception.

Domestic Interest Rates (in percent)

Treasury Bills

| Auction Date | 91 days | 182 days | 364 days |
|--------------|---------|----------|----------|
| MAY 28 | 9.037 | 10.087 | 11.307 |
| JUN 04 | 8.913 | 9.839 | 10.792 |
| JUN 11 | 8.729 | 9.700 | 10.823 |
| JUN 18 | 8.653 | 9.780 | 10.965 |
| JUN 25 | 8.728 | no sales | 11.092 |
| JUL 02 | 8.770 | 9.942 | 11.221 |
| JUL 09 | 8.849 | 10.172 | 11.419 |
| JUL 16 | 8.958 | 10.489 | 11.768 |

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

| Date of Survey | Average | Range |
|----------------|---------|-------|
|----------------|---------|-------|

| | | |
|--------|---------|----------------|
| JUN 07 | 12.7849 | 10.00 - 14.000 |
| JUN 14 | 12.8122 | 10.00 - 14.000 |
| JUN 21 | 12.7828 | 10.00 - 14.000 |
| JUN 28 | 12.6328 | 10.00 - 13.728 |
| JUL 05 | 12.5638 | 10.00 - 13.770 |
| JUL 12 | 12.5837 | 10.00 - 13.849 |
| JUL 19 | 12.6249 | 10.00 - 13.958 |

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Price Index (Phisix) ended the first day of the trading week up somewhat from last weeks' closing level on selected bargain hunting and acquisition talks (particularly between listed Cosmos Bottling Corp., as seller, with either Coca Cola Bottlers or Pepsi). The Phisix subsequently faltered on profit-taking in the absence of any fresh encouraging news and in reaction to foreign exchange rate uncertainties. The Phisix closed at 1376.36 on July 20, down 1.4% from July 13's 1396.30 closing level.

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

| Date | PHISIX Close | Value (Million pesos) |
|--------|-----------------|--------------------------|
| ---- | ----- | ----- |
| JUN 11 | 1435.77 | 682 |
| 12 | Markets Closed | |
| 13 | 1462.66 | 943 |
| 14 | 1474.11 | 799 |
| 15 | 1479.30 | 749 |
| | | |
| JUN 18 | 1470.92 | 393 |
| 19 | 1448.73 | 474 |
| 20 | 1449.45 | 415 |
| 21 | 1444.17 | 547 |
| 22 | 1439.77 | 1,093 |

| | | |
|--------|---------|----------|
| JUN 25 | 1424.52 | 1,093 |
| 26 | 1423.44 | 521 |
| 27 | 1415.73 | 479 |
| 28 | 1414.79 | 436 |
| 29 | 1410.07 | 2,972 c/ |
| | | |
| JUL 02 | 1395.79 | 543 |
| 03 | 1392.07 | 464 |
| 04 | 1385.99 | 525 |
| 05 | 1402.23 | 464 |
| 06 | 1396.92 | 278 |
| | | |
| JUL 09 | 1405.39 | 346 |
| 10 | 1397.66 | 447 |
| 11 | 1390.10 | 284 |
| 12 | 1399.42 | 289 |
| 13 | 1396.30 | 208 |
| | | |
| JUL 16 | 1397.61 | 377 |
| 17 | 1384.01 | 798 |
| 18 | 1382.28 | 325 |
| 19 | 1381.87 | 625 |
| 20 | 1376.36 | 330 |

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)

c/ includes P2.4 billion cross transaction in relation to Globe-Islacom merger

Source: Philippine Stock Exchange

BANKS' NONPERFORMING LOAN RATIO AT NEW HIGH

According to the latest BSP estimates, the commercial banking system's ratio of non-performing loans (NPLs) inched up from 16.76% in April (revised figure) to 16.81% in May (a new high). The nominal level of NPLs increased by 0.3% (P787 million) month-on-month while loan growth (inclusive of interbank credits) was flat. Aggregate loans were up 3.9% year-on-year including interbank

credits; and by 5.1% from the May 2000 level, if interbank transactions were excluded.

Restructured loans (without which NPL ratios would be higher) increased by 0.5% (P499 million) from the April 2001 level. As of end-May, restructured accounts equaled 6.4% of commercial banks' outstanding loans -- about the same as in April but up from May 2000's 5.3% ratio. Foreclosed assets -- up by 1.3% (P1.7 billion) month-on-month and by 26.6% year-on-year -- equaled 4.6% of commercial banking system assets as of end-May (up from April 2001's 4.5% and May 2000's 4% ratios). Non-performing assets (NPAs, the sum of NPLs and foreclosed assets/properties) expanded by 0.6% (P2.5 billion) month-on-month and 18.8% year-on-year to equal 13.4% of commercial banking resources (compared with the year-ago ratio of 12.1%). Banks beefed up loan loss reserves by 3.7% (P4.2 billion) during the month, pushing up the commercial banking systems' coverage ratio (i.e., the ratio of loan loss reserves to NPLs) to 44.2% (from April's 42.7% figure).

Bankers doubt that NPL ratios have peaked, noting that businesses are struggling with both weaker export and domestic markets. Loan growth also remains lethargic. Banks -- saddled with NPLs and foreclosed properties -- remain cautious lenders, while weaker economic growth prospects this year spell conservative credit demand.

 COMMERCIAL BANKS - SELECTED INDICATORS

| | 2 0 0 1 | | 2000 |
|--------------------------------|---------|----------|---------|
| | May | April r/ | May |
| | --- | ----- | --- |
| In Billion Pesos | | | |
| ----- | | | |
| Total Loan Portfolio (TLP) a/ | 1,576.1 | 1,575.9 | 1,516.3 |
| Non-Performing Loans (NPL) | 265.0 | 264.2 | 217.9 |
| Loan Loss Reserves (LLR) | 117.0 | 112.8 | 96.1 |
| Restructured Loans (RL) | 101.0 | 100.5 | 80.9 |
| Foreclosed Assets (FA) b/ | 137.5 | 135.7 | 108.6 |
| Non-Performing Assets (NPA) c/ | 402.4 | 399.9 | 326.5 |
| Total Assets (TA) | 2,999.5 | 3,006.2 | 2,703.6 |

Selected Ratios (%)

| | | | |
|---------|-------|-------|-------|
| NPL/TLP | 16.81 | 16.76 | 14.37 |
| LLR/NPL | 44.16 | 42.71 | 44.09 |
| LLR/TLP | 7.42 | 7.16 | 6.34 |
| RL/TLP | 6.41 | 6.38 | 5.34 |
| FA/TA | 4.58 | 4.52 | 4.02 |
| NPA/TA | 13.42 | 13.30 | 12.08 |

a/ Includes inter-bank credits

b/ Gross of allowance for probable losses

c/ Sum of NPLs and foreclosed assets

r/ Revised

Source: Bangko Sentral ng Pilipinas

MAY IMPORTS UP YEAR-ON-YEAR, TRADE BALANCE NARROWS

According to latest figures released by the government's National Statistics Office (NSO), May 2001's merchandise import bill (US\$ terms) increased by 10% year-on-year. That increase followed through the 6.5% expansion posted in April (which broke from the consecutive year-on-year declines posted since December 2000). Like April, May saw all major import categories (i.e., capital goods, intermediate/raw materials, mineral fuels/petroleum, and consumer goods) posting year-on-year increases. Given weak global and domestic economic prospects, several analysts commented that the import figures strongly suggest that inventories are running low -- rather than being a barometer of improved business sentiment. They further noted that April and May 2001 imports increased from a relatively low 2000 base (during which the import bill declined year-on-year). With exports down 11.3% year-on-year in May, the resulting trade balance was a \$81 million deficit for the month. Before the April and May 2001 trade deficits, the Philippines' balance-of-trade was last in the red in April 1999.

On a cumulative five-month basis, the import bill contracted by 1.5% year-on-year. However, January-May 2001 export revenues dropped by a larger 5.6%. The cumulative trade surplus (\$764 million) narrowed sharply

(i.e., by 44%) from 2000's comparable five-month period (\$1.4 billion).

 PHILIPPINE FOREIGN TRADE PERFORMANCE
 (FOB Value in Million US\$)

| | Exports | Imports | BOT |
|---------------------------------------|---------|---------|--------|
| | ----- | ----- | --- |
| Jan 2000 | 2,717 | 2,651 | 65 |
| Feb | 2,902 | 2,483 | 419 |
| Mar | 2,989 | 2,742 | 247 |
| Apr | 2,668 | 2,528 | 139 |
| May | 2,931 | 2,437 | 494 |
| Jan-May 2000 | 14,206 | 12,841 | 1,364 |
| Jan 2001 | 2,889 | 2,472 | 417 |
| Feb | 2,805 | 2,193 | 612 |
| Mar | 2,870 | 2,607 | 262 |
| Apr | 2,246 | 2,693 | (447) |
| May | 2,600 | 2,681 | (81) |
| Jan-May 2001 | 13,410 | 12,646 | 764 |
| Cumulative Year-to-Year Growth (%) | (5.6) | (1.5) | (44.0) |

 Source: National Statistics Office

FISCAL UPDATE: TAX COLLECTION SHORTFALL WIDENS

The national government deficit widened from P58.3 billion as of May to P79.6 billion as of June -- not far below the P80.6 billion deficit ceiling programmed for the first half of the 2001 fiscal (also calendar) year. The government kept a tight lid on expenditures and disbursed P11 billion less than the six-month program, making up for the P9.9 billion shortfall in revenue collections.

The combined shortfall in targeted customs and internal revenue collections totaled P16.7 billion as of end-June. Especially worrisome, however, was the P14.9 billion shortfall in Bureau of Internal Revenue (BIR) collections for the first half of the year. The BIR's collection

shortfall widened dramatically during the months of May and June from the P6.5 billion collection shortfall posted from January-April. Government budget officials cited weaker-than-expected economic growth and tax collection problems, but also noted that the BIR's collection performance had worsened markedly since May over a much-resisted personnel revamp/reshuffle initiated at the BIR.

In a recent meeting with Embassy officials, government budget officials confirmed that the inter-agency Development Budget Coordinating Committee (DBCC) had recently agreed to slash the BIR's full-year collection target by P20 billion. Nevertheless, the government was sticking to its P145 billion deficit ceiling for now. While conceding that the government had little room to cut expenditures further, the government intends to "preserve" the expenditure cuts already made through June. They also noted that non-tax revenues (such as Treasury earnings and gains from hikes in government fees and charges) were doing much better-than-expected and that the government was benefiting from lower-than-expected domestic financing costs. Many observers doubt the government will be able to stay within the envisioned ceiling (unless expenditures are squeezed to the increasing detriment of economic and social development goals). In separate media reports, Dept. of Finance Secretary Jose Isidro "Lito" Camacho was quoted as saying that, at worst, the budget gap may exceed the government's P145 billion ceiling by P10 billion.

National Government Fiscal Performance
(Amounts in Billion Pesos)

| | 2001 | | January - June Actual | Diff. |
|---------------|---------------------|-------|--------------------------|--------|
| | Full Yr. Program | Prog. | | |
| | ----- | ----- | ----- | ----- |
| REVENUES | 568.2 | 276.6 | 266.7 | (9.9) |
| BIR | 408.1 | 205.9 | 191.1 | (14.8) |
| Customs | 105.1 | 47.8 | 45.9 | (1.9) |
| Treasury | 20.0 | 8.7 | 14.5 | 5.8 |
| Other Offices | 35.1 | 14.2 | 15.2 | 1.0 |

| | | | | |
|-------------------|---------|--------|--------|-------|
| Privatization | 7.0 | 0.0 | 0.5 | 0.5 |
| Fees and Charges | 21.2 | 10.8 | 11.1 | 0.3 |
| EXPENDITURES | 713.2 | 357.2 | 346.2 | 11.0) |
| Interest Payments | 182.6 | 86.7 | 84.8 | (1.9) |
| SURPLUS/(DEFICIT) | (145.0) | (80.6) | (79.6) | 1.0 |

Source: Bureau of Treasury