



**WEEK 12 OF 2002**

**Covering Events in the Philippines from 18 to 24 March, 2002**

The Philippines Weekly Report is designed to inform the foreign business community of recent events that may impact on their business operations in the Philippines. You are receiving this report because you have indicated you wish to subscribe to this service. Should you receive this report in error, please contact us at [ph\\_unsubscribe@virtual-asia.com](mailto:ph_unsubscribe@virtual-asia.com) and we will remove you from our mail list.

**This report is protected by copyright and may not be reproduced or further distributed outside of your own organization without written permission from MCA Limited.**

While every effort has been made to ensure the accuracy and reliability of the information provided, no responsibility can be taken should any of this information prove to be in error.

This report can be accessed directly from our [Philippines Home Page](#).

The Philippines Weekly Report is currently delivered to 736 desktops each week.

**In This Issue**

Who Is Scaring the People? .....	3
Expats Give Arroyo a High Score - Survey .....	4
Retail Law Lowers Threshold to US\$2.5 Million.....	5
Labor Productivity Declines One Percent in 2001 .....	6
January Import Hits a Three-Year Low .....	7
Tariff Commission Rules in Favor of Cement Importers .....	9
Hot Money On the Rise.....	9
Insurance Investments Fall 46 Percent in February.....	10
Budget Deficit Doubles in January, But on Target.....	11
Unusual Demand for Passports.....	11
Subscriber Resources .....	14

**Holy Week Vacation**

Maundy Thursday (March 28) and Good Friday (March 29) are regular holidays in the Christian-dominated Philippines. President Gloria Macapagal-Arroyo also issued Proclamation No. 164 declaring Black Saturday (March 30) as a special non-working holiday.

Palace Spokesman Rigoberto Tiglao said the president is "encouraging the private sector to also schedule their work shifts so that Holy Wednesday could be a holiday to them."

There will be no Philippines Weekly Report published next week in view of the holiday. Our next report (covering two weeks) will be issued on 8 April.

We will however be releasing our special report on the retailing industry over the holiday period.



Our photo coverage of this event can be accessed at <http://www.virtual-asia.com/ph/travelbag/photoalbum/>

## HEADLINE NEWS

Philippine authorities have discovered a series of "bombs" planted in crowded areas in Metro Manila and in the southern cities of Cebu, General Santos and Cotobato. These "bombs" however had no detonation devices and were meant to scare and not to inflict material harm. Security experts have described the series of incidents as a political ploy of an unknown group wanting to deliver a message to the government. Just what the message is, remains confused.

[See: Who Is Scaring the People?](#)

According to a survey by business risk consultant Peter Wallace, 75 percent of foreign executives in the country believe that President Gloria Macapagal-Arroyo has been performing well, despite the threats of destabilization plots against her government.

[See: Expats Give Arroyo a High Score - Survey](#)

Starting March 25 this year, foreign retailers with a minimum paid-up capital of US\$2.5 million can own up to 100 percent of a retail chain in the country. This follows the lapse of the two-year restriction under the Retail Trade Liberalization Act (Republic Act No. 8762).

[See: Retail Law Lowers Threshold to US\\$2.5 Million](#)

More people may have joined the labor force last year, but slower economic growth during the period resulted in a decline in labor productivity. The most recent economic data shows that the 3.4 percent gross domestic product (GDP) growth was accompanied by a 4.4 percent pickup in employment - implying a one percent drop in labor productivity.

[See: Labor Productivity Declines 1 Percent in 2001](#)

The country's monthly merchandise imports fell to a three year low in January this year, fuelling suggestions that the trade sector is not yet in the mood for full recovery in 2002. A significant decline in the import of capital goods and raw materials could translate into a further slowdown in exports in coming months.

[See: January Import Hits a Three-Year Low](#)

The Tariff Commission has recommended that the Department of Trade and Industry (DTI) abolish the provisional tariff of P20.6 on each bag of imported cement, after the commission ruled that the local cement industry is not suffering a significant impairment from the influx of cement from other countries.

[See: Tariff Commission Rules in Favor of Cement Importers](#)

The Central Bank reported that the net foreign portfolio investment inflow climbed by almost 360 percent to about US\$65.3 million as of February this year from only US\$14.1 million a year earlier.

[See: Hot Money On the Rise](#)

The Insurance Commission (IC) has reported that approved peso investments into the local insurance industry fell 46 percent to P641 million in February this year from P1.18 billion a year earlier while dollar-denominated funds climbed eight times to US\$8 million from only US\$1 million.

### Grace Period for Application of Alien Employment Permit Extended Up to April 10, 2002

The Department of Labor and Employment (DOLE) has extended until April 10 this year, the grace period for the filing of application for Alien Employment Permit (AEP).

In our previous issue, we reported that foreigners who are working in the Philippines without government approval will be subject to a fine of P5,000 (US\$98) or P10,000 (US\$196) following the lapse last March 10 of the grace period granted by the government for application of AEP.

Last week, DOLE announced that the grace period had been extended by one more month to encourage more applicants for AEP. This means that applicants would not have to pay any fine until the grace period lapses on April 10.

The Philippine government requires all foreign nationals who wish to work in the Philippines to obtain an AEP, or the equivalent document issued by the regional director of DOLE.

The Philippine Retirement Authority (PRA) has also advised that holders of Special Resident Retirees Visas (SRRV) are also required to obtain work permits from the Department of Labor & Employment prior to entering into work contracts in the Philippines.

[See: Insurance Investments Fall 46 Percent in February](#)

The Arroyo administration's attempt to pump-prime the economy in the first quarter of this year resulted in a P15-billion budget deficit in January, almost twice its level from a year earlier. This has raised fresh doubts about the government's ability to limit its budget gap target to P130 billion for the whole of 2002.

[See: Budget Deficit Doubles in January, But on Target](#)

According to the Department of Foreign Affairs (DFA), more Filipinos are now trying to leave the country. That at least was the excuse for the current shortage of new Filipino passports. Nobody it seems is buying this excuse and claims of mismanagement abound.

[See: Unusual Demand for Passports](#)

Plus: [News In Brief](#), [Investment News](#) as well as [Currency](#) and [Stock](#) information.

## MAIN STORIES

### Who Is Scaring the People?

Philippine authorities have recently discovered a number of "bombs" in crowded areas of Metro Manila including Makati as well as in the southern cities of Cebu, General Santos and Cotabato. However, according to reports these "bombs" lacked trigger devices and were incapable of exploding. According to some reports, the devices were planted by a hitherto unknown group that was wanting to divide the Philippines into a federation of Christian, Muslim and indigenous states was out to deliver a political message to the government. The idea of a three-way carve up of the country is not part of the agenda of any of the known dissident groups.

Ironically, the bomb scare plot took place only days after President Arroyo warned Muslim and communist insurgents that she would unleash the full might of her security forces if the rebels continue to undertake terrorist or criminal acts. It was also only a week after US Federal Bureau of Investigation (FBI) director Robert Mueller visited the country.

In Metro Manila, the explosive devices were discovered along a busy street within the Makati commercial business district, at two stations of the Metro Rail Transit (MRT), at the Bonifacio Monument Circle in Caloocan City (northern metropolis) and at a Manila street near a station of the Light Rail Transit (LRT). Over half a million Filipinos board the MRT and LRT trains daily.

Just who were responsible for the scare remains a mystery despite the discovery of letters attached with the bombs bearing the name of a group, which was not previously known. National Security Adviser Roilo Golez could only surmise that the motive of the group was political, rather than to sow terror.

The group identified itself as the "Indigenous Federal State Army," a name that authorities have never heard of before. The group was reportedly calling for the establishment of separate federal states for Christians, Muslims, and indigenous groups. The only local groups fighting for the same goal are the Moro Islamic Liberation Front (MILF) and Abu Sayyaf, both Muslim dissidents.

The perpetrators used M-203 warheads and 60-millimeter mortars in the homemade bombs, similar to devices used in bombs reportedly planted by MILF in the south in the past. Police, however, claimed that the latest devices had no detonators and were designed not to explode.

The MILF is not the only suspect though. There are at least four other major armed rebel groups in the country, namely: Abu Sayyaf and Pentagon groups, the New People's Army (NPA) of the communist group, and the loyal supporters of Moro leader Nur Misuari who is being detained at a police camp in Laguna province (just south of Metro Manila).

Since the motive of the group is believed to be political, government authorities are not discounting the possibility that the camp of deposed President Joseph Estrada is involved. Yet, rightist factions of the highly politicized military could also be the culprits. All these point to the fact that while

President Gloria Macapagal-Arroyo claims that political stability is now in place, the existence of hostile groups in the country suggests otherwise.

Another possible angle being explored is the involvement of international terrorists – though they would be rather more benign than the usual suspects. Last week, immigration authorities detained eight foreign nationals – four from Middle East countries, three Indonesians and a Japanese – for allegedly trying to leave the Philippines for Bangkok with explosive devices in their luggage. Last January, policemen arrested a 31-year-old Indonesian in connection with a series of bombings that rocked Metro Manila in December, 2000.

There is no doubt that the possibility of further violence in the capital is real. Peace talks with the MILF and the communist groups were suspended this month because of truce violations. A similar pattern of bombings has preceded the resumption of peace negotiations in the past. This time, the situation is more complicated, with the presence of American troops working alongside Filipino soldiers to defeat the Muslim extremist Abu Sayyaf group in Basilan province.

If it is any assurance, National Security Adviser Roilo Golez said that the group which planted the bombs last week had no intent to kill or hurt, since the explosive devices were designed not to explode. That is a lame assurance. It is obvious that the perpetrators were trying to show to the government that they could sow terror in any place at anytime, despite the government's security preparations. Predictably the national police have come in for fresh criticism for their failure to protect the public.

How the bombs reached the two MRT stations and past the security inspection of policemen and their sniffing dogs remains a question. A likely answer is that the bombs could have been planted at night when most policemen were asleep on the job. Maybe, last week's episode should serve as a wake up call.

The country's observance of Holy Week this week is expected to bring temporary relief. Maybe.

### **Expats Give Arroyo a High Score - Survey**

A survey conducted by business risk consultant Peter Wallace shows that 75 percent of foreign executives in the country believe that President Gloria Macapagal-Arroyo has been performing well, despite the threats of destabilization against her government.

Results of the survey, which were presented to the president at Malacanang Palace last week, were based on the responses of 250 respondents, mostly chief executive officers (CEOs) from 38 multinational companies operating in the country.

The poll, however, still reflects the concern of the foreign business community about political instability in the country. Wallace, an Australian who has monitored Philippines events since 1982, said that 49 percent of the latest respondents believe that the Philippines is "politically stable" while 44 percent view things otherwise. The poll said 55 percent of the respondents believe that deposed President Joseph Estrada is capable of destabilization plots against the incumbent administration.

Wallace said that other concerns raised by the respondents are those of peace and order, low consumer income, declining margins, peso instability, competition from smuggled and fake goods, taxes and tariffs, labor costs, competition from imported products, regional competitiveness in manufacturing, cost of imported raw materials, and labor disruptions/relations.

A separate survey conducted recently by the Central Bank of the Philippines shows that businesses generally see brighter economic prospects for the country in the next quarter. The poll had 234 respondents drawn from the top 3,000 corporations in the country.

The Central Bank said that the "diffusion index," which gauges the respondents' business outlook, had climbed to 42.3 percent for the second quarter of the year, from 5.9 percent for the first quarter and -9.8 percent in the last quarter of 2001.

The improved economic outlook among businessmen was traced mainly to the expectation of a pickup in the US and Japanese economies by the second quarter and locally to falling interest rates in the country.

### **Retail Law Lowers Threshold to US\$2.5 Million**

Starting March 25 this year, foreign retailers with paid-up capital of only US\$2.5 million can own up to 100 percent of a retail chain in the country. This follows the lapse of the two-year restriction under the Retail Trade Liberalization Act (Republic Act No. 8762).

At the same time, the law now allows foreign retailers to purchase up to 100 percent of the equity of existing retail stores whose net worth is more than US\$2.5 million.

Among foreign investors, which have already established their presence in the country under Republic Act No. 8762, are S&R Price, Orkam, Watson's, McDonalds, and the Makro Group. New applicants are Wal-Mart, Casino Guichard Perrachon, and Carrefour.

The law provides that within the first two years of its implementation foreign investors, with investments amounting to at least US\$7.5 million could own up to 100 percent of an enterprise and those with investments amounting to US\$2.5 million or more but less than US\$7.5 million could own 60 percent of the enterprise. The new law was implemented in March 2000,

The two-year rule was designed to provide a breathing space for local retailers to prepare for a period of more intense competition. This breathing space ends on March 25. The law now lowers the capital threshold to US\$2.5 million for foreign retailers who intend to wholly own a retail enterprise in the Philippines.

Republic Act No. 8762 which repealed the Retail Trade Nationalization Law (Republic Act No. 1180) allows foreign investors to form and organize a retail enterprise (corporation, association or partnership) in the country subject to its laws and register it with the Securities and Exchange Commission (SEC) and Department of Trade and Industry (DTI).

Foreign investors are allowed to own a retail enterprise in the country provided that they have a paid-up capital of at least US\$2.5 million, that each store should represent an investment of not less than US\$830,000 and that the parent corporation must have a minimum of US\$200 million net worth.

The parent corporation must also maintain at least five retailing branches or franchises in operation anywhere around the world unless such retailer has at least one store capitalized at a minimum of US\$25 million. It must have a five-year track record in retailing and comes from a country, which also allows the entry of Filipino retailers.

Retail trade enterprises whose capital exceeds 80 percent of the equity must offer a minimum of 30 percent of their equity to the public through any stock exchange in the Philippines within eight years from the start of their operations. At least 30 percent of the aggregate cost of the stock inventory of foreign retailers falling under both categories must be produced in the Philippines. Foreign investors are also required to maintain in the Philippines the full amount of the prescribed minimum capital while operating in the country.

Foreign investors are allowed to own up to 100 percent of an enterprise specializing in high-end or luxury products with investments amounting to US\$250,000 for each store. At least 10 percent of the aggregate cost of the stock inventory of foreign retailers falling under this category must be produced in the Philippines.

Within this group, the parent corporation must have a minimum of US\$50 million net worth and maintain at least five retailing branches or franchises in operation anywhere around the world unless such retailer has at least one store capitalized at a minimum of US\$25 million. It must have a five-year track record in retailing and comes from a country, which also allows the entry of Filipino retailers.

The law defines high-end or luxury products as goods, which are not considered necessity for life maintenance and whose demand is generated in large part by higher income groups, such as

jewelry, clothing, footwear, wearing apparel, leisure and sporting goods, electronics, and other personal effects.

The law specifically prohibits foreign retailers from selling their products outside their stores through the use of mobile or rolling stores or carts, the use of sales representatives, door-to-door selling, restaurants and sari-sari stores and other similar retailing activities.

Our special report on retailing in the Philippines is due for release this week and can be downloaded from our website at <http://www.virtual-asia.com/ph/>.

### Labor Productivity Declines One Percent in 2001

<b>Labor Productivity in 2001 (In Pesos Per Worker)</b>			
<b>At Constant 1985 Prices</b>			
	2000	2001*	% Change
<b>Average</b>	30,132	29,834	-1.0%
<b>Agriculture, Fishery, Forestry</b>	18,594	17,996	-3.2%
<b>Services</b>	33,078	32,194	-2.7%
<b>Industry</b>	70,267	72,956	3.8%
Mining and Quarrying	90,746	88,435	-2.5%
Manufacturing	82,243	85,699	4.2%
Construction	30,999	31,875	2.8%
Electricity, Gas and Water	280,690	281,742	0.4%
* Figures Based on 2001 GDP and January 2002 Labor Force Survey			

More people may have joined the labor force last year, but the slower economic growth during the period resulted overall in a decline in labor productivity. Recent economic data shows that a 3.4 percent gross domestic product (GDP) growth when factored with the 4.4 percent pickup in employment implies a one percent drop in productivity.

While the economic and employment growth figures were music to the ears of the Arroyo administration, the implications of the numbers appear to have been conveniently overlooked. Declining labor productivity is a major turnoff to foreign investors, who now compare Filipino workers to their counterparts in China and Vietnam.

Based on constant 1985 prices, the country's GDP expanded by 3.4 percent to P987.433 billion in 2001 from P954.962 billion in 2000. the government claims that this economic growth fuelled the creation of 1.6 million jobs with the number of employed Filipinos climbing to 29.705 million in January 2002 from 28.087 million a year earlier.

The results imply that those economic sectors which accommodated more workers last year saw their average labor productivity decline. Labor productivity, which reflects each worker's output annually, fell one percent to P29,834 in 2001 from P30,132 in 2000. At current prices, average labor productivity in the country was estimated at P122,633 (about US\$2,400).

There was overall a 3.9 percent growth in the agriculture, fishery and forestry sector while at the same time there was a much higher 7.4 percent pickup in employment. Therefore there was some 3.2 percent drop in productivity. At constant prices, average labor productivity in this sector dropped to P17,996 in 2001 from P18,594 in 2000.

The same is true with regard to the services sector where labor productivity fell 2.7 percent, following a 4.3 percent industry growth and a 7.2 surge in employment. Average labor productivity in this sector declined to P32,194 in 2001 from P33,078 in 2000. This is hardly an encouraging result.

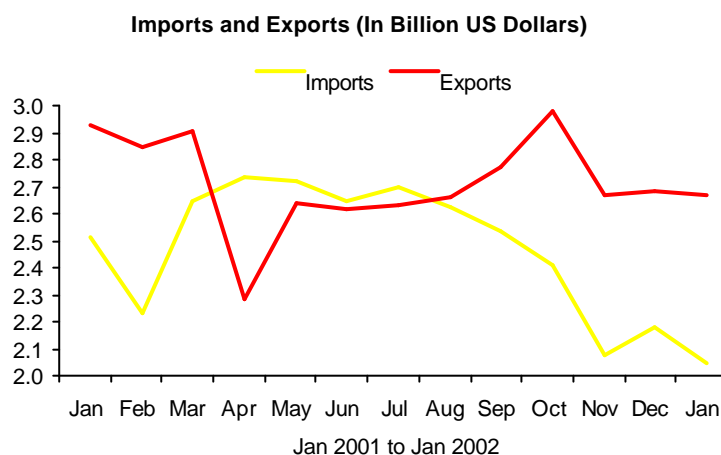
Standing in sharp contrast is the 3.8 percent labor productivity growth that occurred in the industry sector. This came about despite the sector's lower growth of 1.9 percent and a 1.8 percent drop in employment last year. Average labor productivity in the industry sector climbed to P72,956 in 2001 from P70,267 in 2000.

Some more figures relating to the sub sectors: Labor productivity in mining and quarrying fell 2.5 percent to P88,435 in 2001 from P90,746 in 2000 while productivity in manufacturing gained 4.2 percent to P85,699 from P82,243. Average labor productivity in construction moved up by 2.8 percent to P31,875 in 2001 from P30,999 in 2000 while productivity in electricity, gas and water barely grew by 0.4 percent to P281,742 from P280,690.

These comparisons of labor productivity in the various sectors of the economy show that productivity in agriculture, fishery and forestry sector is below the national average while productivity in the industry sector is almost twice the average. Productivity in the services sector stands a little higher than the national average.

To put it another way: A Filipino worker in the electricity, gas and water sub-sector produces an economic output equivalent to that of 15 workers in the agriculture, fishery and forestry sector.

### January Import Hit a Three-Year Low



The country's monthly merchandise imports fell to a three year low in January this year, fuelling suggestions that the trade sector is not yet in the mood for full recovery. A significant decline in the import of capital goods and raw materials could translate into a further slowdown in exports in coming months.

According to the National Statistics Office (NSO), the aggregate import bill slid by as much as 18.7 percent YoY to US\$2.010 billion in January this year from US\$2.143 billion in December and US\$2.472 billion in January 2001.

The NSO had earlier reported that the country's export decline slowed to 9 percent in January this year from an average of 15.6 percent last year. This brings the total foreign trade for the month to US\$4.641 billion, or 13.4 percent lower than the US\$5.361 billion of January 2001. The balance of trade amounted to a positive US\$621 million, or 48.9 percent higher than last year's US\$417 million.

With the 18.7 percent drop in January imports, the government may have to reconsider its export growth target of 1.5 percent in 2002 if these gloomy numbers persist. Imports normally gauge the country's mode of production in the following months. Analysts agree that the weak import figures in January may result in weak export figures for February or March.

For example, capital goods accounting for 38.9 percent of the aggregate import bill fell by 18.7 percent to US\$781.85 million in January this year from US\$961.25 million a year earlier. In

particular, purchase of telecommunication equipment and electrical machinery dropped 11.3 percent to US\$223.94 million from US\$252.34 million.

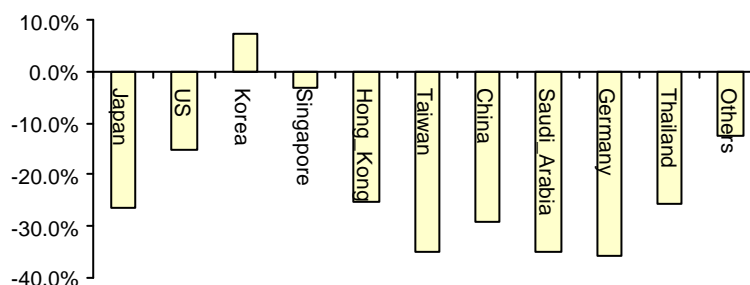
Importation of raw materials and intermediate goods, making up for 38.6 percent of the aggregate bill went down by 19.1 percent to US\$776.36 million in January this year from \$960.10 million a year earlier. Mineral fuel and lubricant imports fell 32.1 percent to US\$202.557 million while purchases of consumer goods actually improved by 6.7 percent to US\$185.264 billion.

Total receipts from imported vehicles soared 22.4 percent to US\$22.194 million in January this year from US\$18.130 million a year earlier while payments for appliances went down by 28.6 percent to US\$6.910 million from US\$9.676 million.

Food imports totaled US\$103.867 million in January this year, up by 9.7 percent from US\$94.662 million a year earlier. Importation of rice escalated by 258 percent to US\$5.746 million while payments for fruits and vegetables increased by 10 percent to US\$10.058 million. Dairy imports fell 23.5 percent to US\$28.256 million.

Philippine Imports (In Thousand US Dollars)			
	Jan-02	Jan-01	% Change
Capital Goods	781,849	961,248	-18.7%
Raw Materials	776,355	960,097	-19.1%
Mineral Fuel & Lubricant	202,557	298,351	-32.1%
Consumer Goods	185,264	173,651	6.7%
Vehicles	22,194	18,130	22.4%
Appliances	6,910	9,676	-28.6%
Food	103,867	94,662	9.7%
Dairy Products	28,256	36,956	-23.5%
Rice	5,746	1,602	258.7%
Fruits & Vegetables	10,058	9,144	10.0%
Special Transactions	63,996	78,369	-18.3%
<b>All</b>	<b>2,010,022</b>	<b>2,471,715</b>	<b>-18.7%</b>

Growth / Decline in Imports From Ten Countries  
(Jan 2002 vs Jan 2001)



Imports from most countries contracted during the month. Shipments from Japan, accounting for 18.3 percent of the import bill, dropped 26.6 US\$368.01 million in January this year from US\$501.2 million a year earlier while shipments from the US, accounting for 18 percent of the total amount, slowed 15.3 percent to US\$362.16 million from US\$427.63 million.

Among major import sources, only inbound shipments from South Korea registered positive growth of 7.3 percent to US\$167.84 million. Shipments from Singapore declined by 3.1 percent to US\$140.07 million; Hong Kong, 25.3 percent to US\$101.3 million; Taiwan, 34.9 percent to US\$87.51 million; China, 29.3 percent to US\$80.43 million; Saudi Arabia, 35.2 percent to US\$54.75 million; Germany, 36 percent to US\$53.81 million and Thailand, 25.7 percent to US\$53.73 million.

Shipments from other countries also fell by 12.4 percent to US\$540.4 million in January this year from US\$617.14 million a year earlier.

### **Tariff Commission Rules in Favor of Cement Importers**

Cement is back in the news.

The Tariff Commission has recommended that the Department of Trade and Industry (DTI) abolish the provisional tariff of P20.6 on each bag of imported cement, after the commission ruled that the local cement industry is not suffering a significant impairment from the influx of cement from other countries.

The ruling was in response to the petition of the Philippine Cement Manufacturers Corporation (Philcemcor), the group of local cement manufacturers, for tariff cover under the Safeguard Measures Act or Republic Act No. 8800.

Philcemcor argued that the influx of imported cement from Taiwan, China and Indonesia has hurt the local cement industry, leading to the displacement of hundreds of Filipino workers. While the Tariff Commission was evaluating the petition of Philcemcor, the DTI moved to impose a P20.60 provisional tariff on each bag of imported cement. Commentators have again pointed out that the association appears to want to ignore the fact that since foreign companies took over the local industry in the late 90s, the price of domestic cement has risen from around P45 a bag to more than P125 per bag. Critics claim that this price increase was due to the fact that the acquisition of the local industry was financed by US dollar loans from the parent corporations.

The Tariff Commission has ruled that the local cement industry has not suffered and is not suffering a significant impairment in its overall market position, production, sales, capacity utilization and profitability and that "the decline in production and total sales of local cement manufacturers during the period of import surge were not sharp enough nor significant enough relative to prior years to constitute serious impairment in the production and sales of the industry".

With the Tariff Commission's ruling, the Philippine Cement Importers Association (PCIA) called on the DTI to lift all quantitative restrictions and tariffs imposed on imported cement. The group said that they stopped importing cement since the DTI imposed a provisional tariff of P20.60 per bag in January this year.

Other groups that favor the Tariff Commission's decision are Consumers Union of the Philippines, Confederation of Homeowners Associations for Reform in Governance and Environment, Philippine Constructors Association, and Chamber of Real Estate Builders Association.

Newspapers are reaping a new bonanza as both sides take paid advertising to press their rival claims. Meanwhile a brisk trade is reportedly developing in cement quotas. Rather than pay P120 ~ P140 per bag which is now the prevailing commercial rate, some construction companies are buying at only P100 per bag. How do they do it? Well, government agencies pay only P55 a bag under an allocation arrangement. Much of this government cement is being diverted into private hands for a bounty of P45 a bag.

### **Hot Money On the Rise**

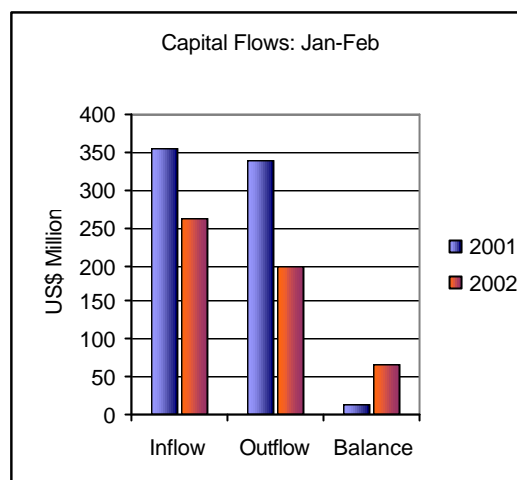
The Central Bank has reported that the net foreign portfolio investment inflows in the country climbed by almost 360 percent to about US\$65.3 million as of February this year from only US\$14.1 million a year earlier.

Central Bank Governor Rafael Buenaventura said that with the improving business sentiments in the country, many investors chose to park their funds longer in the stock market, which has been on a recovery path since December.

About US\$262.9 million in so-called "hot money" was invested in the country in the first two months of the year, and only US\$197.6 million was pulled out. Total inflows were actually higher in the first two months of 2001 but they were offset by equally large outflows.

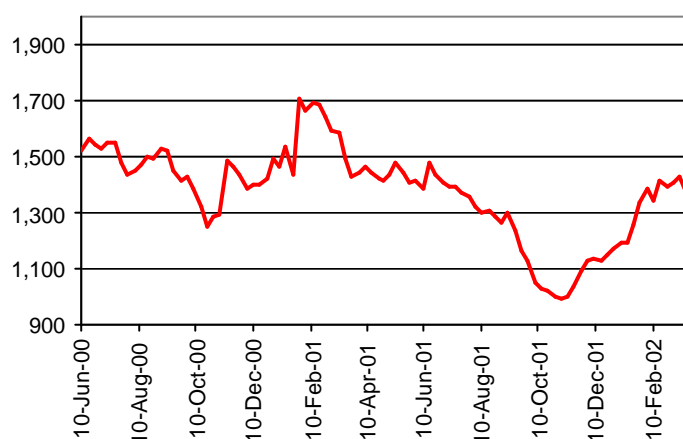
Looking back to last year - total inflows in January and February 2001 amounted to US\$354.3 million while outflows hit US\$340.2 million.

The Central Bank expects that more portfolio investment funds will come in the following months, given the resurgence in stock and currency markets. Portfolio investments are funds invested in the stock market, government securities, or local money market.



Data on portfolio investments are based on figures submitted by the country's five largest securities custodian banks -- Citibank N.A., Standard Chartered Bank, Deutsche Bank, HSBC, and ING Bank.

MANILA STOCK INDEX - Recent Performance



### Insurance Investments Fall 46 Percent in February

The Insurance Commission (IC) reported that approved peso investments in the local insurance industry fell 46 percent to P641 million in February this year from P1.18 billion a year earlier while dollar-denominated investment funds climbed eight times to US\$8 million from only US\$1 million.

If it is any consolation, the February figure is almost three times of P214 million invested in January. The hike in dollar investments was attributed to the Central Bank's recent sale of Eurobonds.

The largest peso investors in February were Philippine American Life and General Insurance Co. (Philamlife), with P400 million; Insular Life Assurance Co., Ltd., P150 million; Great Pacific Life Assurance Corp. (Grepalife), P50 million; The Solid Guaranty, Inc., P36 million; New York Life Insurance (Phils.), Inc., P3.3 million; People's General Insurance Corp., P1 million; and Northwest Insurance and Surety Co., Inc., P360,000.

Dollar investors include Newcomer New York Life Philippines, US\$3 million; Grepalife, US\$2.2 million; Cilebes Insurance Corp., US\$1 million; Tokio Marine Malayan Insurance Co. Inc., US\$1 million; and National Reinsurance Corp. of the Philippines, US\$500,000.

### **Budget Deficit Doubles in January, But on Target**

The Arroyo administration's attempt to pump-prime the economy in the first quarter of the year resulted in a P15-billion budget deficit in January or almost twice the level of a year earlier. This has raised fresh doubts about the government's ability to limit its target for the budget gap to P130 billion for the whole of 2002.

The national government incurred a budget deficit of only P6.4 billion in January last year and ended up with a total shortage of P147 billion in 2001. Finance Secretary Jose Isidro Camacho, however, insisted that the January budget deficit this year is in line with the government's goal of P53 billion in the first quarter.

Revenues collected amounted to P47.3 billion while expenditures totaled P62 billion during the month. Camacho said government collections in January represent 34.9 percent of the target for the first quarter while expenditures accounted for 33 percent. The January deficit represents 28.3 percent of the first quarter ceiling.

Camacho said the government would spend the bulk of its budget in the first semester for payment of outstanding obligations and debt interests.

Meanwhile, the International Monetary Fund (IMF) has recommended that the Philippine government raise its value added tax (VAT) rate from the present 10 percent to 12 percent in order to collect P20 billion in additional revenues and improve the country's fiscal position.

Total VAT collections amount to less than P100 billion annually but a 1998 study shows that the government should be getting at least P150 billion from the implementation of VAT.

The IMF noted that the country's tax collection deteriorated to 12.7 percent of the gross domestic product (GDP) last year from around 16 percent in 1996. It said that the ideal tax collection rate is at least 17 percent of the GDP.

### **Unusual Demand for Passports**

According to the Department of Foreign Affairs (DFA), more Filipinos are now trying to leave the country. That at least was the excuse for the current shortage of new Filipino passports. Nobody it seems is buying this excuse and claims of mismanagement abound.

The DFA said the demand for new passports almost doubled this year from only 9,000 a day last year. Such unusual upsurge in the demand for passports resulted in a shortage of passports not only in Manila but also in the country's embassies abroad.

"The unusual upsurge in the number of applicants was way beyond our expectation. Many people wanted to get out of the country," said DFA spokesperson Victoriano Lecaros.

The Central Bank, which is the main agency tasked to print passports, said it was able to deliver the number of booklets that the DFA had asked for. But the DFA said their three-month buffer stock has already been distributed. Of the 1.2 million booklets ordered by the DFA, some 800,000 had already been issued by the Central Bank.

The Department of Labor and Employment (DOLE) had estimated that some 2,500 Filipino overseas workers leave the country every day. The number does not include illegal workers who try to sneak out of the country by posing as tourists. There are between five to eight million Filipinos living abroad.

With new machine readable passports about to be introduced, the fee for issuing passports overseas is to drop from US\$60 to US\$50. This may be a vote winner for the president in 2004 but

will not be good news for foreigners. The DFA is to make up the shortfall by increasing visa fees for foreigners.

## NEWS IN BRIEF

As part of its enforcement of the **Anti-Money Laundering Law**, the Central Bank said travelers arriving and leaving the Philippines should declare in writing foreign currency in excess of US\$10,000 that they intend to carry with them. Travelers should also identify the source and purpose of the money. This requirement applies to banknotes and coins used as legal tender in a foreign country or territory other than the Philippine currency. The Central Bank noted that the US, China, South Korea and Malaysia require similar customs procedures in the transport of foreign currency.

The government's **91-day Treasury bill** rate fell to a new historic low of 5.488 percent last week from 6.714 percent two weeks ago, following a series of Central Bank's interest rate cuts. The 91-day Tbill rate, which serves as reference in pricing loans, has already dropped 2.8 percentage points from 8.297 percent at the start of the year.

Local oil companies have raised by a range of 30 to 35 centavos per liter the **retail prices of gasoline**, diesel and kerosene. This was the first time the oil firms increased their prices this year, following 12 rounds of oil price cuts last year. Under a deregulated downstream oil industry, the oil companies can automatically increase their prices based on the price movement in the world market. The Department of Energy (DoE) noted that the price of Dubai crude rose to US\$22.47 per barrel in March from US\$19.01 per barrel in February.

The Bureau of Fisheries and Aquatic Resources (BFAR) said that it is expecting the **fishing industry** to post an impressive 10 percent growth this year. Such growth would surpass last year's 5.5 percent growth. Total fish production for 2001 reached 3.1 million metric tons, thanks to a 10.6 percent growth in the aquaculture sector. Tuna production alone generated exports earnings of about US\$153 million.

State firm Philippine National Oil Co. (PNOC) has described as commercially unviable a **gas field** discovered in Victoria town in Tarlac province, about 100 kilometers north of Manila. The oil firm said that while the gas in the field had flowed at a rate of 1 million standard cubic feet daily since February, the gas was immersed in water. It added that efforts to separate the gas from the water had so far been futile.

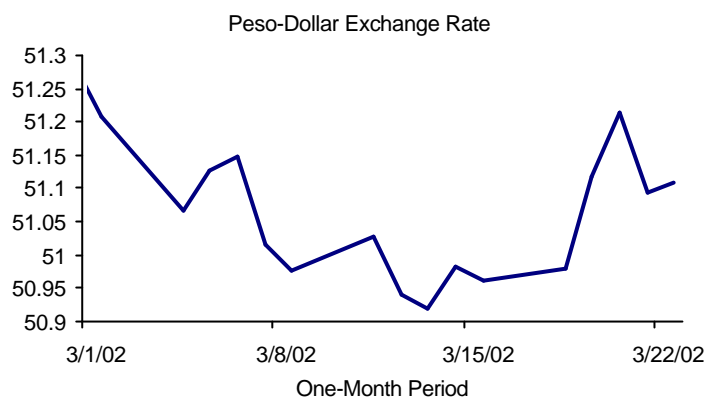
## INVESTMENT NEWS

The Board of Investments (BOI) has granted pioneer status to a P1.7-billion solid-waste converter project in Malabon town (northern Metro Manila), which was proposed by **Hi-tech Bioenergy Inc.**, a joint venture between Filipino and Taiwanese investors. Hi-Tech Bioenergy will use the technology of Austrian firm **Entec Umwelttechnik GmbH** (ENTE) in building the project under a build-operate-and-transfer (BOT) scheme. The project involves excavation and cleaning up of a waste dump in Malabon and building a waste-sorting and composting plant that will have a daily capacity of 500 tons of waste. A fermentation plant will also be built for treating organic residues and recovering energy resources. The plant is expected to be operational by next year.

Australian mining firm **Lafayette Inc.** has received the approval of the Albay provincial board for a US\$45-million polymetallic mining project in Legazpi City in southern Luzon. Lafayette Philippines president Rod Watt said the company is trying to secure some US\$35 million in financing from Standard Bank of London Ltd. The amount would be used to develop the mine, construct the processing plant, and build support infrastructure, including a pier that would be capable of handling 8,000 deadweight-ton ships, an accommodation village for the contractors, and a six-megawatt power plant.

## CURRENCY MOVEMENTS

The Philippine peso again breached the 51-to-a-dollar level last week, as it tracked the movement of the weakening Japanese Yen during the period. The peso was trading at 51.1 against the US dollar in the afternoon of March 22, down from the previous week's (March 15) close of 50.955 against the greenback.



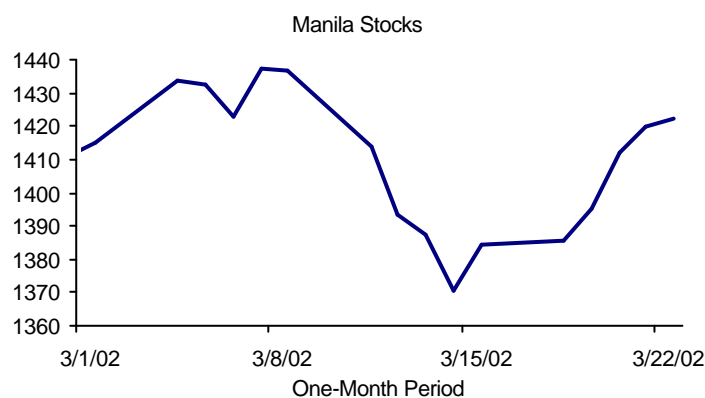
**LATEST: 51.282/US\$** (Ave. Feb 2002)

**HIGH: P26.1588/US\$** (Ave. Feb 1996)

**LOW: P53.224/US\$** (Ave. July 2001)

## STOCK MOVEMENTS

The Phisix, the main barometer of the 30-company Philippine Stock Exchange (PSE), gained 38 points over the five-day market trading last week, even as the rift in the local bourse's leadership remains to be settled. The Phisix climbed above the 1400 support level to end at 1417 points on March 22, up from the previous week's (March 15) close of 1379 points.



**LATEST: 1361.94** (Ave. Jan 2002)

**HIGH: 2,621.67** (Ave. Jul 1999)

**LOW: 996.14** (Ave. Oct 2001)

## ONLINE RESOURCES

MCA Limited has prepared this background report as a general reference document. Subscribers may download this and previous documents (HTML, or PDF) from the Weekly Archive Section of the Virtual Philippines website. To access, click on the hyperlink below.

<http://www.virtual-asia.com/ph/weekly/downloads.htm>

### Subscriber Resources

Subscribers to this service have available a range of additional resources available from our website.

To read this report online go to:

<http://www.virtual-asia.com/ph/weekly/phil.htm>

To read our special reports and articles visit:

<http://www.virtual-asia.com/ph/bizpak/reports/>

To obtain our political and economic outlook overviews for the Philippines as well as a table of key economic indicators go to:

<http://www.virtual-asia.com/ph/bizpak/bizbriefs/index.html>

For our Philippine statistical reference library, a comprehensive resource of monthly as well as annual statistical series in chart and spreadsheet form, go to:

<http://www.virtual-asia.com/ph/bizpak/statistics/statistics.htm>

Comparative regional statistics are available at:

<http://www.virtual-asia.com/statistics/statistics.htm>

To read our online Business Survival Guide go to:

<http://www.virtual-asia.com/ph/bizpak/bizguides/>

## FURTHER INFORMATION

MCA Limited has prepared this background report as a general reference document. Subscribers may download this and previous documents (PDF) from the Weekly Archive Section of our website.

MCA specializes in:

- Primary Market Research
- Editorial & Publishing
- Information Processing & Data Management
- Online Business Information Systems
- Corporate Communications, Web Design and Hosting

For further information about our services please contact us at:

MCA Limited

☎ Tel: + (63 2) 893 6514

☎ Fax: + (63 2) 893 6516

Or e-mail: [inquiry@virtual-asia.com](mailto:inquiry@virtual-asia.com)

### ***PRIVACY POLICY***

This report is made available to subscribers by e-mail (default) or fax in advance of the edition that is posted on the Virtual Taiwan/Philippines websites. In addition to receiving the Weekly Report, subscribers may receive other MCA reports from time to time, including our Quarterly Review and certain special reports. Our mailing list is held confidentially. It is not made available to third parties nor do we mail on behalf of third parties. We support a zero spam policy on the Internet.

### ***DISCLAIMER***

The information contained in this report was obtained from sources that we believe to be reliable. MCA Ltd. furnishes the information without warranty of any kind.