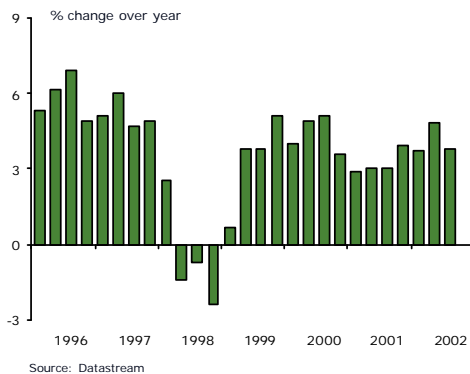
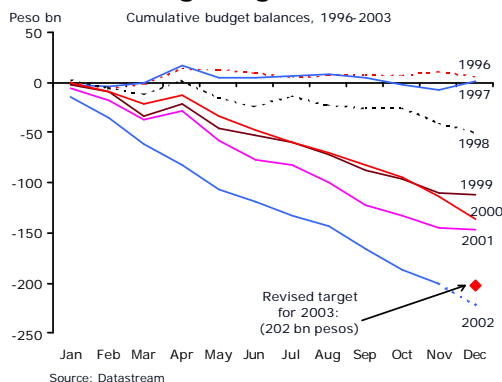


Country Update: Philippines

Growth has failed to build momentum



Markets concerned about rising budget deficit



- Growth has not really built momentum since the Asian crisis. Latest GDP data show growth of 3.8% over the year to the third quarter of 2002. The result would have been stronger were it not for the negative impact of dry weather on agriculture.
- Inflation has declined to just 2.5% over the year to November 2002. Interest rates, however, have risen since about April/May, reflecting market concerns about the budget deficit. The prime lending rate is currently about 9% - very high in real terms.
- Credit to the private sector has declined for two years, and at the end of November was 2% lower than a year earlier. High interest rates are likely to be an ongoing constraint on the economy.
- Authorities in the Philippines have consistently failed to meet budget targets in recent years. For 2002, the deficit was originally projected at P130 bn. The target was raised several times, and the deficit is now estimated at P223 bn, or 5.6% of GDP.
- Markets have penalised the Philippines for these overshoots. There is little doubt that the peso is weaker and interest rates higher than they would have been if targets had been met.
- For 2003, the deficit target has been raised from P120 bn to P202 bn. However, the medium term objective of a balanced budget in 2006 has been confirmed.

Economic data and debt statistics

Philippines	1997	1998	1999	2000	2001	2002e	2003f	2004f
Economic growth (%)	5.2	-0.6	3.4	4.4	3.2	3.8	3.5	3.8
Inflation (yr av, %)	5.7	9.7	6.7	4.3	6.1	3.1	2.6	3.0
Budget Balance (% of GDP)	0.1	-1.9	-3.8	-4.1	-4.0	-5.6	-3.3 ⁺	
Current Account (% of GDP)	-5.3	2.4	10.4	11.3	6.3	4.1	2.0	
External Debt (US\$ bn)	45.7	48.3	53.0	50.1	52.3	53.9	54.1	
Ext Debt/GDP Ratio (%)	55.6	73.7	69.6	66.9	73.2	71.0	67.6	
Ext Debt/Exports Ratio (%)	93.0	110.7	112.3	101.8	124.6	116.2	108.3	
Short term debt/Reserves (%)	162.3	77.9	43.4	45.6	44.7			
Debt Service Ratio (Paid) (%)	9.2	10.8	13.6	13.7	17.2			
Debt Service Ratio (Due) (%)	9.2	10.8	13.6	13.7	17.2	20.5	19.8	
Foreign Exchange Reserves (US\$ bn)	7.3	9.2	13.2	13.1	13.4	13.3*		
Import Cover (months)	2.1	3.3	4.9	4.9	5.6			

⁺ Official deficit target

* September 2002

Sources: IMF, Economist Intelligence Unit, ANZ Bank