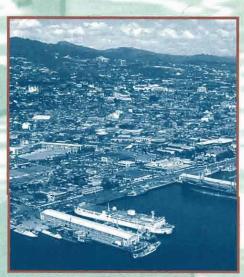
MANILA

A Special Sponsored Section in Institutional Investor

CEBU



DAVAO

Pillar of price stability conducive to a balanced and sustainable growth of the economy



The Bangko Sentral ng Pilipinas was established on July 3, 1993 under Republic Act No. 7653 as an independent central monetary authority charged with providing policy directions in the areas of money, banking, and credit. It also exercises supervisory and regulatory authority over the banking system including all non-bank financial institutions with banking functions.

The primary objective of the Bangko Sentral is to maintain price stabil-

ity and the convertibility of the peso that will pave the way for the sound and balanced growth of the economy. This objective is best achieved through dedicated pursuit of sound monetary and credit policies implemented in an economy made fully responsive to the efficient guiding hand of market forces. By ensuring financial stability and confidence in the financial system, the Bangko Sentral helps lay the solid foundation for a globally competitive Philippines.



Bangko Sentral ng Pilipinas

Committed to Philippines 2000

THE PHILIPPINES

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Reaffirming democracy: U.S. President Bill Clinton and Philippine President Fidel Ramos.

This is the first visit by a U.S. president to the Philippines in 19 years.

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The following special section was prepared by the Special Projects Department of Institutional Investor. It was independently written by Sam Passow.

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ECONOMY

POLITICAL FREEDOM SPURS STRONG GROWTH

emocracy may seem to have few backers in Asia, but the Philippines is out to prove that Americanstyle democracy — inherited from the U.S. at the end of World War II and restored in 1986, following the dictatorship of Ferdinand Marcos — is compatible with economic progress in that part of the world.

While economic growth of 5.1 percent for the Philippines last year may seem weak compared to China's 11.4 percent, Singapore's 10.2 percent, Malaysia's 8.9 percent, or even the 6.7 percent recorded by Indonesia, it is probably built on a more solid foundation. Democracy, contends Philippine President Fidel V. Ramos, "tends to make change slower, but I maintain that it also makes change more fundamentally sound, longer lasting, more transparent and better accepted."

Last September, Ramos traveled to Singapore to address a conference of 450 Asian and European businessmen. He used the occasion to answer the criticism that Singapore's senior minister had leveled at the Philippines two years earlier, when he told a similar meeting in Manila



The Philippines is one of the world's largest exporters of plywood.

that the Philippines needed more discipline and less democracy. He also derided the Philippine Long Distance Telephone Company monopoly with the oft-told joke that in the Philippines, "98 percent of the people are waiting for a telephone, and the other 2 percent are waiting for a dial tone."

Today, Ramos can counter that, ever since the telephone monopoly was broken up in 1992, companies from the United States, Japan and Singapore have entered the market, creating what may be the most competitive telecommunications sector in Asia.

"All over the world, authoritarian and personalistic systems are being dismantled," says Ramos. "Ordinary Filipinos

can never forget they were at the vanguard of this worldwide movement through their 'people-power' revolution in February 1986. We gain from democracy something that more tightly controlled countries cannot provide: orderly succession and stability of reforms."

When taking an analytical look at the Philippine economy today and the favorable foreign investment climate created over the

past two years, it is paramount to survey the statistical data in the context of the new political stability.

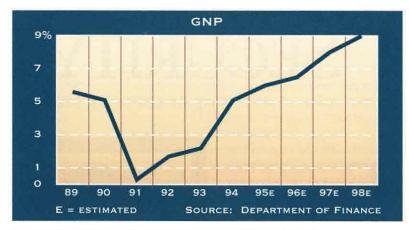
Last year was truly a watershed for the Philippines. Not only did GNP growth more than double while inflation remained in the single digits, but the government also posted its first budget surplus in 20 years. The country's debt service ratio, as measured in terms of export earnings, was down to 18 percent — better than that of many Latin American countries. At the same time, the Philippine stock market posted gains of 25.5 percent ahead of eight other Asian stock markets. Foreign equity investment came in at P61.7 billion (\$2.5 billion), 325 percent more than in 1993.

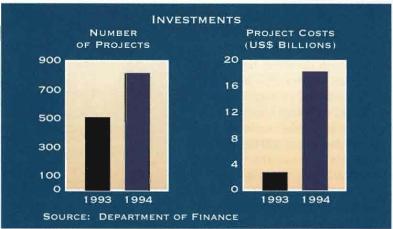
Total foreign direct investment in projects registered with the Board of Investments reached an all-time high of P454.8 billion (\$18.3 billion, based on the average exchange rate of the peso to the dollar in 1994), a fivefold increase over 1993, with a total of 816 new projects compared to 510 the previous year. Domestic-oriented projects absorbed P152.6 billion, export-oriented ventures got P60.7 billion, energyrelated activity took P118 billion, utilities accounted for P84.8 billion, and tourism, P8.3 billion.

According to Peter Wallace, president of the Economist Intelligence Unit (EIU) Philippines Inc., the Philippines was among the top 25 percent of countries in Asia in which international business is keen to invest. "Two years ago it wasn't even on the list," he adds.

Says Finance Secretary Roberto de Ocampo: "If you look realistically at our economic achievements, you have to view 1994 as Year One! Before that, there was no electricity and nothing worked, so naturally everything in 1994 shows a tremendous increase in percentage terms." Consequently, he says, the government's 1995 targets of 6.5 percent GNP growth, export growth of 17 to 25 percent, investment growth of about 12 percent, inflation near 6.5 percent, and interest rates around 11 percent, are not only realistic, but will demonstrate the sustainability of the government's economic policy.

President Ramos' 1995 budget outlines expenditures of





P334.8 billion and revenues of P350.2 billion, leaving a surplus of P15.4 billion — P3.2 billion more than in 1994. (While this represents a 6.4 percent increase over the 1994 budget in nominal terms, in real terms, there is no increase.) The 1995 fiscal plan hopes to limit the consolidated public sector deficit to P20 billion, or 1 percent of GNP; to allocate approximately 28 percent of the budget for debt service, compared with 35 percent in 1994; and to generate P12 billion in revenues from privatization. Another P12 billion is expected to come from an expanded value added tax, which is currently held up in

the courts although it has cleared the legislature.

Because all financial systems are held together with a glue called confidence, however, there is a fear throughout the Philippine government and business community that international investors will see a parallel between the rapidly emerging Philippine economy and that tarnished darling, Mexico. Both countries have a current trade deficit of 7 percent of GNP, the dollar reserves of both are pegged at between \$7 billion and \$8 billon, and both Philippine and Mexican pesos have appreciated against the U.S. dollar.

(continues on page 8)

SECURITY BANK

SECURITY BANK

THE BENCHMARK FOR SERVICE

he youngest and most highly trained management team in Philippine banking is charting a course that will steer the 43-year-old Security Bank in an entirely new direction.

As of April 1994, Security Bank, which currently has total resources of over P20 billion, began operating as a full universal bank, offering a complete range of products and services from its network of 100 branches around the country. "We intend to use our growing capital base of P2.5 billion to expand our market coverage

even further," says Peter B. Favila, president of Security Bank. "Our plans call for a broader presence in the provinces, covering the breadth and depth of the Philippine archipelago. Particular emphasis will not only be placed on identified regional growth centers in the countryside, but also on locations with unrealized potential for economic growth — in the expectation that the availability of financial services will act as a catalyst in promoting economic activity in these areas."

The backbone of Security Bank's customer base, considered to be one of its major competitive advantages, is made up of thousands of small businesses around the country and millions of overseas contract workers, whose remittances each year are the largest single source of foreign exchange earnings for the country.

According to Favila, the bank's new credo is to "provide products and services which set a global benchmark in quality, relevance and creativity." An example of this customer-driven attitude is the special loan assistance package that the bank offers to overseas contract workers



Peter B. Favila, President

bound for Taiwan. Known as LAKBAY— a Filipino acronym meaning "to travel," this pioneering product was launched in response to the difficulties overseas contract workers experienced in financing their predeparture expenses. Because of the success of this product, Security Bank plans to extend the loans to contract workers bound for Hong Kong, South Korea, and the ASEAN countries.

"This is the type of product which our people, who have made tremendous sacrifices for their families, have needed

for years but no other bank was willing to take the risk of lending money without imposing the burden of guarantee on the government or requiring the workers themselves to put up some type of collateral. We interpret our role as a universal bank as one of offering financial services to all the people — not just to those who can afford it, but more importantly, to those who really need it," says Favila.

Further evidence of Security Bank's wide reach can be seen in its core of international corporate clients, which includes Matsushita and Kawasaki of Japan, Siemens of Germany, Mobil of the U.S., and Chung Fu Industries of Taiwan, to name just a few. "We are very much a part of the multinational community without having to belong to any other major banking group or losing our Philippine identity," Favila declares.

Security Bank's emphasis on extending service to as wide a market as possible has allowed it to compete successfully in the industry and has accounted for the bank's expanding volume not only in deposits, but also in loans handled and

(continued from page 5)

Yet, according to Simon R. Paterno, vice president of J.P. Morgan, "while both economies may be running on parallel tracks, the Philippines is cruising on more solid ground than Mexico and fears of having a similar currency problem are more imagined than real. The Bangko Sentral ng Pilipinas [Central Bank] is doing the right thing in letting the peso seek its own level, because it will not lead to any undue pressure building up."

"The Mexican government made the same mistake the Filipinos did during the Marcos years - peg the currency and defend it at all costs," Paterno continues. "The Filipinos have proven, especially in the last two years, that they have learned their lessons well by adhering to a liberal foreign exchange regime." Most analysts expect the Mexican shock wave to dampen market sentiment in the Philippines in the short term, possibly delaying some of the 30 initial public offerings due to come to market this year and estimated to raise P156 billion (\$6.29 billion).

"While confidence has been shaken, attention will shift back to Asian markets where growth is more solid," says José Salceda, research director at Baring Securities. "It's our view that, because of strong domestic liquidity and favorable economic trends, the Philippine stock market will offer the best rewards among all emerging



Foreign investment in export products like these air conditioners was P60.7 billion (\$2.4 billion) in 1994.

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WARNING SIGNS

Mid-term Congressional and local elections in May could well determine the sustainability of the Philippine economic turnaround, as well as determine the future course of the country's democratic institutions.

When Ramos won the presidency in May 1992, he received only 23.5 percent of the popular vote. But because he was one of seven candidates, that was enough to put him over the top, but his Lakas (Christian-Democrat) party had only 37 of 200 seats in the House of Representatives and only two out of 24 seats in the Senate. Using his extraordinary powers of persuasion and diplomacy, he has cobbled together a coalition with the Laban (Liberal-Democrat) party to give him a working majority of 140 in the House and considerably more influence in the Senate. This has enabled him to pass such key legislative measures as an

amnesty for rebels, restoration of the death penalty, opening the banking sector to foreign competition, and ratifying the General Agreement on Trade and Tariffs (Gatt).

In order to perpetuate this arrangement, the two parties decided to combine forces and field only one slate of candidates between them for the 200 House seats and 12 Senate seats up for re-election. If the Lakas-

LDP compact holds together through the May elections, it will give Ramos a clear enough majority in both houses to push through more economic liberalization — especially the controversial tax reforms.

Other legislation being discussed includes a possible constitutional change that would transform the current system of an executive branch and two houses of Congress into a unicameral European-style parliamentary system, in which the leader of the majority party becomes prime minister. This prospect has already led to accusations by people like the influential Cardinal Jaime Sin, that Ramos might try to perpetuate his control as prime minister, since he is barred under the current constitution from seeking a second term as president.

Ramos contends that his two-party coalition has enabled him to depoliticize economic issues, facilitate consensus and avoid gridlock. All of this is true, but many of the same individuals and families who (continued from page 5)

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Ramos contends that his two-party coalition has enabled him to depoliticize economic issues, facilitate consensus and avoid gridlock. All of this is true, but many of the same individuals and families who thrived before and during the Marcos era, still dominate the new coalition. Sin, the spiritual leader of 85 percent of the population, warns that the coalition's "politics of convenience" may lead to the return of a one-party dictatorship.

Other red flags include a growing trade deficit, which at \$7.8 billion in 1994 was 25.4 percent above 1993 and 40 percent over 1992. While the bulk of the \$21.3 billion in imports — up 20.7 percent over the previous year — was mainly capital goods rather than consumer products, reflecting the country's growing industrial base, exports increased by only 18.1 percent to \$13.4 billion. In addition to the appreciating peso which hurt exporters, an appreciating yen hurt importers and made the Philippines' current account deficit with its largest trading partner, Japan, grow to \$286 million in 1994, compared to a trade surplus of \$159.9 million with the U.S., its second largest trading partner.

Perhaps the biggest challenge facing the Ramos government at present is tax collection. At the moment, only two million people, half of whom work in the public sector, pay taxes out of a total workforce of 26 million, and the underground economy is estimated at 40 percent of GNP. Unless the government can redress this imbalance over the long term and bring a majority of its paid workforce into the tax net, the goal of reducing



Housing demand is growing at a ratio of one new unit for every three new households per year.

poverty from its current level of 40 percent of the total population to less than 30 percent by the end of the decade will be a lost dream.

While President Ramos has launched a tax collection efficiency drive by the Bureau of Internal Revenue and plans to amend and simplify the tax code this year, he has yet to deliver on his promise to clamp down on the few extremely wealthy individuals in the country who have evaded taxes for years. The most prominent among them may be Lucio Tan, chairman of Philippine Airlines and owner of the largest cigarette company in the country, who is currently under indictment for allegedly owing more than \$1 billion in back taxes.

For the Ramos administration, this is more than a case of bringing one man to justice. It shows that the government is prepared to back up its assertion that the future growth of the Philippines is enshrined in law that applies equally to all — the hallmark

of a democracy.

Meanwhile, Tan remains a highly visible and major force in the business community. He is one of six Filipino-Chinese taipans who recently formed a consortium at Ramos' personal request to build a new international air terminal at Manila's Ninoy Aquino airport.

A recent survey by the EIU of 120 top foreign businessmen, whose firms operate in

the Philippines, revealed that "there's a belief that while the top level officials are as good as any in the world, lower-level bureaucrats seem to delight in delaying, rather than in assisting business." Other concerns relate to the legal system, which can create long delays; corruption which is perceived as rampant; and crime, which seems to be exacerbated by lax law enforcement.

In November 1996, the Philippines will be host to the Asia-Pacific Economic Cooperation forum, or APEC. The meetings will take place at the former U.S. naval base at Subic Bay, which has been transformed into a thriving international free-trade zone. Both the venue and the timing of the meeting, which will mark more than four years of President Ramos' six-year tenure, could well prove his view that the Philippines is in one of its strongest economic and political positions in more than a decade, and that democracy is truly the beacon for Asia's future growth.

INTERVIEW

WITH PRESIDENT FIDEL V. RAMOS

Q: What competitive advantages have the Philippines developed during your tenure? A: Not so long ago, compared to the rising economies of Asia, we were seen as a model of how a country can fritter away its opportunities and assets. Today, I think we are regarded as a model of how a country can achieve full modernization, not through authoritarianism, but through democracy. Yes, democracy tends to make changes slower, but I think it also makes changes more fundamentally sound, longer lasting, transparent and better accepted. And what we in the Philippines can gain from our democracy is something that more tightly controlled countries cannot provide to either their own people or to foreign investors: orderly succession and stability of reforms.

Q: What has your government learned from Mexico's crisis?

A: We have learned that the real investments of value in our economic future are long-term investments, not revolving-door capital. If the Philippine peso is strong vis-à-vis the U.S. dollar, it is not because we are propping it up, but because foreign currency is coming in from foreign investors and our workers abroad.



Fidel V. Ramos President of the Philippines

This is in no way comparable to the Mexican policy of supporting an overvalued peso.

Q: How would you characterize your relationship with Congress, and how might it be affected by the May elections?

A: There is certainly a good deal of collaboration for the mediumand long-term development goals of the country. This is shown by the support that came from Congress to help solve the power crisis in 1993, and in 1994 it was also evidenced by the reforms of our tax structure and our educational system, especially in the fields of science, technology and mathematics. Lastly, there is our implementation of the local government code to improve and accelerate development in the countryside. I feel that this sprit of collaboration

will continue beyond the elections.

Q: You've said that your legislative priority in the next Congress is a continuation of tax reform. What are the main elements of the plan?

A: We are now at a ratio of revenues to GNP of about 15 percent. The average ASEAN country is at 18 percent, so we can do better. The program has several components, and about 85 per-

cent of the needed legislation is now being discussed in Congress. First, we are pressing ahead with computerization of the system which was delayed for the past five years. Second is a simplified income tax system, and I myself am leading the way by submitting my own tax proposal under this new system. Next is a strong antifraud tax division. We have already filed about 10 major tax cases in court and hope to collect about P24 billion (US\$1 billion).

The other programs are part of the administrative reform of the Bureau of Internal Revenue and the Customs Department, and this means putting more inspectors in the field and increasing the number of revenue districts, while at the same time reducing the so-called discretionary powers of lower-ranked revenue officers.



"What's a Generator, Dad?"

There once was a time when thousands of these beasts roamed the land. Noisy, bulky, their very presence poisoned the air. They once filled every street corner, every office building. And merchants, both local and foreign, viewed them as omens of bad business.

But thanks to one company, their numbers are now dwindling rapidly. That's because the Philippine National Oil Company's various energy projects (geothermal) have gone a long way in eliminating our nation's power crisis.

Now, mostly silent, these beasts are being driven to the point of extinction. And a new-species will finally take their place in large numbers – bringing prosperity to the land.

Investors.



PHILIPPINE NATIONAL OIL COMPANY

4th Flr., BA-Lepanto Bldg., 8747 Paseo de Roxas, Makati, Philippines

EQUITY

On Solid Ground

n the heels of a 154 percent rise in 1993, the Philippine stock market was extremely volatile in 1994, with the index off 16 percent by year-end.

The corrections were essentially driven by negative global sentiment towards equities because of consecutive rises in the U.S. prime rate. However, a mid-year recovery, combined with a 13 percent currency appreciation, allowed the Philippines to maintain its top regional position in

• Good corporate earnings, particularly at Meralco and San Miguel; their stocks reestablished their 1993 highs with earnings growing by 140 percent and 40 percent, respectively.

1994. The recovery was driven

by several factors:

- Signs of economic acceleration from better than expected economic data and a sharp drop in interest rates.
- Major initial public offerings, by Universal Robina, SM Prime, and Petron, boosted market liquidity. The Petron offering, in particular, attracted 490,000 subscribers and added \$2.7 billion (P70 billion) to total market capitalization.
- Mandatory new equity allocations for domestic trust funds, the return of stability to regional



A model of the new Philippine Stock Exchange plaza.

and global markets after the series of U.S. rate hikes, and the reentry of foreign funds in the second and third quarters of 1994. Foreign brokers now account for about 50 percent of average daily trading volume.

Other notable developments last year included: higher prices for some issues due to speculation on bidding for major government projects including Fort Bonifacio, a military camp on prime property in Metro Manila; the successful performance of medium-sized issues such as Nenaco, Davo Union, Selecta, and Megaworld; and increased exposure of ASEAN conglomerates in listed companies such as Westmonth Group and Guoco Group of Malaysia.

There are currently 200 listed stocks on the Philippines Stock Exchange. Following the recent offerings of several large blue chips, 41 stocks now have market capitalizations of more than \$100 million. Their combined capitalization is \$45 billion, or 91 percent of total capitalization. Twenty-seven of these issues are capitalized at more than \$250 million and 13 are capitalized at more than \$1 billion.

STRONG EARNINGS GROWTH

At present, investor sentiment is positive, albeit cautious, thanks to an anticipated acceleration in economic growth over the next three years. The Philippine economy is on the threshold of becoming one of the new Southeast Asian tigers. Exports and foreign investments are driving economic growth of 6 percent to 7 percent a year, in contrast to the consumer- and government-driven growth of 1986-89. Exports grew 30 percent in December and now account for 40 percent of GDP. Projects registered with the Board of Investments soared 350 percent in 1994 to a record level of \$15 billion (P350 billion), while foreign equity investment rose 360 percent.

Low interest rates will go far toward supporting a healthy stock market, with the equity risk premium again at a historic low.

A AsianBank Corporation

ASIANBANK

CREATING NICHES THAT WORK

n its drive to become a major universal bank, by the end of 1995 AsianBank plans to increase its capital base from P1.5 billion (\$60 million) to P6 billion (\$240 million), more than twice the requirement set by the Central Bank.

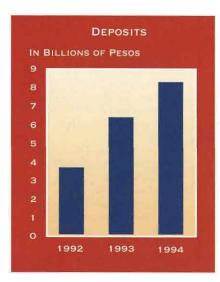
The bank is also negotiating with one of Southeast Asia's leading commercial banks to take a 30 percent strategic stake, thereby widening AsianBank's international capabilities in line with the country's growing export markets. AsianBank plans an ini-

tial public offering (IPO) of at least 10 percent of equity later this year.

Asianbank's current shareholders include the Andres Soriano Corporation (Anscor), the holding company of one of the country's oldest and largest industrial conglomerates; Philippine Investment Management Consultants (Phinma), a highly diversified conglomerate that accounts for nearly 50 percent of domestic cement production; and the Bermuda-based Philippines Long-Term Equity Fund.

According to Ramon Del Rosario Jr., chairman and CEO of the bank, and a former Finance Secretary who instituted many economic reforms in the Philippines, "The addition of a major international strategic partner will ensure that our organization will consistently operate in a culture that nurtures service, personal excellence, integrity, meritocracy, organizational synergy, innovation and technological efficiency."

Since it was founded in 1980, the AsianBank/AB Capital Group has become one of the fastest growing financial services firms in the Philippines. Deposits increased 500 percent to P8.2 billion between 1990 and 1994, while assets rose to P11.9 billion. In 1994, the group's loan portfolio grew 53



percent to just over P9 billion, and net profit was P250 million. "This rapid growth reflects our ability to exploit market niches and harness the full potential of our lean and talented organization," says Del Rosario. "We are focusing on the prime corporate market for loans, which has grown significantly with the economy. Our other area of expertise is investment banking."

AB Capital and Investment Corporation is the leading investment bank in the country. It was issue manager and lead

underwriter for five major deals in 1994 for a total of P12 billion, namely the IPOs for Davao Union Cement; SM Prime Holdings and Cebu Holdings Inc. (real estate); Alaska Milk Corp., and the pioneering long-term convertible commercial paper issue of Ayala Land, Inc. It also ranks sixth out of 25 accredited government securities dealers. The group's equity trading arm, Anscor Hagedorn Securities, is one of the largest domestic brokerage firms with a total value traded of P19.2 billion in 1994, a 34 percent increase over 1993.

"Our innovative responses to the needs of our clients is shown by the performance of two foreign funds that specialize in Philippine securities, of which we are co-managers," notes Del Rosario. The Philippines Long-Term Equity Fund, with an initial capitalization of \$20 million, and the First Philippine Investment Trust, with an initial capitalization of \$35 million, are now worth more than \$172.6 million — an increase of 214 percent in combined net asset value.

For further information, please contact:

Alfredo S. Del Rosario, Jr., Senior Vice President Tel.: (63-2) 815-3714; Fax: (63-2) 813-6726

The market should also be helped by a dramatic improvement in the way that investors perceive the Philippines; a stable monetary and fiscal regime with inflation and budget deficit low despite accelerating growth; and rising foreign capital inflows. The positive outlook is also based on the major economic reforms implemented by President Ramos; increased political stability; more reliable power supply; pent-up consumer demand; expectations of stable costs of doing business (interest, forex, and inflation rates); and a more focused bureaucracy, particularly with the benefits of local autonomy now being felt in the overall economy. The global environment is also conducive to progress, with synchronized recoveries in Europe, Japan, and the U.S., declining costs of capital equipment, stable petroleum prices, and firmer prices for commodities like gold sugar, and coconut oil.

FEWER SURPRISES

From a long-term perspective, the four-year performance of the Philippine stock market, with the index rising from 650 in 1990 to a high of 3,330 in the first quarter of 1994, ironically represents its greatest vulnerability, particularly considering the 154 percent run-up in 1993 that pushed multiples above historical ranges. A further rise in U.S. interest rates may slow the flow of foreign investment, but it can be argued that it would take a dramatic rise in U.S. interest rates to outweigh the prospects for capital appreciation in emerging markets like the Philippines, where corporate earnings are expected to rise

	1995 IPOS					
Company	Estimated Offering Date	No. of shares (m)	Offer Price (P)			
Vitarich Corp.	Feb. 8, 1995	104.6	10.52			
Asian Terminal Inc.	1095	150.0	5.80			
Bankard Inc.	1Q95	118.4	4.60			
Empire East Land Holdings	1Q95	432.0	7.88			
LaTondena, Inc.	1Q95	40.2	36.00			
Phil. Global Comm'n Inc.	1Q95	321.1	18.80			
Central Azucarera Don Ped	ro 1H95	95.6	3.00			
C&P Homes, Inc.	1H95	566.5	10.50			
Fil-Estate	1H95		_			
Makilala Rubber Corp.	1H95	168.0	3.20			
Manila Hotel	1H95	7.6	33.30			
Philippine Wireless Inc.	1H95	37.6	21.50			
Piltel	1H95	200.0	22.00			
Puerto Azul Land Inc.	1H95	750.0	1.69			
Waterfront Philippines Inc.	1H95	112.5	1.00			
William Lines	1H95	235.7	10.65			
DM Consunji	2H95	_	_			
Equitable Banking Corp.	2H95					
First Metro Investment Corp	o. 2H95		_			
GMC	2H95		_			
Ionics Circuits Inc.	2H95	63.0	10.0			
JAKA Equities	2H95	221.7	4.0			
Manila Gas/NDC	2H95	6,564.0	0.01			
National Steel Corp.	2H95	372.5	10.0			
Reynolds Phils.	2H95					
Security Bank	2H95		-			
Sinophil	2H95	100,000.0	0.01			
Smart Communications	2H95	3.0	126.0			
Urbancorp. Land Inc.	2H95	351.0	1.80			
Source: Baring Securities, Philippines						

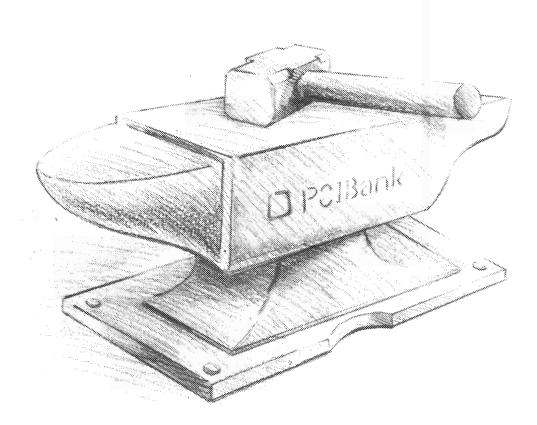
more than 25 percent in 1995.

Although the market started the year on a nervous note, thanks in large part, to the currency crisis in Mexico which made investors wary of emerging markets in general, the fallout from the Mexican crisis has produced outstanding value among Philippine equities. However, improving domestic liquidity, robust corporate cash flows and a healthy savings rate should permit a decent recovery. In fact, by the third quarter of this year, as investors begin to focus on 1996, the market may retest its

previous highs and some stocks could reach new highs, provided that overseas markets sustain their recoveries.

At a sustainable multiple of 16 against 1996 earnings, the Philippine stock market index could well hit 3,200 before the end of 1995 from its level of 2,610 at the end of February.

— José Clemente Sarte Salceda, research director of Baring Securities (Philippines), Inc., voted top Philippine analyst on Institutional Investor's 1994 All-Asia Research Team



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FOR INQUIRIES, PLEASE WRITE TO: Mr. Isidro C. Alcantara, Jr., Senior Vice-President, PCIBank or Mr. Roberto L. Panlilio, President, PCI Capital Corporation



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PROPERTY

DEMAND OUTPACES SUPPLY

n July 1994, Megaworld — a relatively new and small developer — announced its intention to put up a 28-story building, One Lafayette Square, in Manila. All space in the building was presold in less than 30 days. A month later, Ayala Land, Inc., the country's largest property developer, advertised plans for Asia Tower, a middle-high market residential condo-

minium. In just one week, the entire 26 floors of the building were spoken for, with an average of five buyers per unit on a waiting list. At the time these buildings were sold, they were



The construction site of the new stock exchange building in the heart of the Makati central business district.

simply holes in the ground.

The strong demand for real estate in the Philippines, especially in Metro Manila, is not confined to high-rise residential condominiums. New office

space is also being taken up aggressively. In fact, property activity is so bullish that all the high-rise office buildings launched in 1994 were totally presold even though they are currently only 20 percent to 60 percent complete. Prime retail and other commercial sites are so sought after that developers are enjoying the luxury of choosing their tenants from very

long lists of applicants, while demand for low-cost housing is so strong that developers cannot keep up with it.

These developments are not merely the result of specu-

lation; they are the result of fundamental changes in the market, such as declining mortgage rates, declining inflation, and growing liquidity among banks. Perhaps the most important factor is a dramatic change in consumer and business confidence. The improvement in the political and economic background has released a lot of pent-up demand which, if combined with natural growth, represents a huge market. For example, housing demand is now growing at a ratio of one

RELATIVE VALUATION OF PROPERTY STOCKS

	95 EPS	96 EPS	95 PER	96 PER	PREM (DISC)	
	GR(%)	GR(%)	(x)	(x)	TO NAV(%)	
Ayala Land, Inc.	+21.3	+43.3	35.1	24.5	39.3	
Belle Resources Inc.	+58.0	+29.0	10.4	8.1	19.3	
Cebu Holdings Inc.	+22.1	+13.1	16.6	14.6	29.7	
Filinvest Land Inc.	+41.9	+56.8	18.8	12.0	(50.9)	
Kuok Phil. Property Inc.	+103.5	+45.7	13.1	9.0	40.4	
Megaworld	+75.9	+36.0	16.1	11.8	(63.2)	
Philrealty	+86.1	-35.8	7.7	12.0	48.5	
Pryce Properties	+44.1	+48.3	11.7	7.9	11.3	
Robinson's Land	42.8	+34.4	15.5	11.5	44.2	
Shangri-La Properties	+109.8	+50.0	84.5	63.0	59.2	
SM Prime Holdings	+39.4	+25.1	35.0	28.0	22.0	
Average	+34.7	+36.2	29.0	21.1		
Source: Baring Securities (Philippines), Inc.						

MABUHAY!

THERE'S NO BETTER TIME TO INVEST IN THE PHILIPPINES THAN NOW!

The steadily improving Philippine economy in the 1990s provides a business climate that abounds in opportunities for investment. One sector that has unlimited growth potential is the steel industry. The government's Philippines 2000 plan, which envisions rapid industrialization before the year 2000, promises increased activity in the steel sector. The increased infrastructure, the development and modernization of the countryside, the projected boom in the construction sector, globalization, and highly skilled labor makes the Philippine steel industry a worthwhile investment.





new unit for every three new households per year. If housing demand and supply are allowed to grow naturally, a backlog of 3.7 million housing units will accumulate from 1993 to 1998.

As an investment, real estate in the Philippines offers very little risk since current prices are very close to the fair market value of the properties. For example, despite the sector's consolidation from 1990 to 1993, residential and commercial property prices rose by

an annual average of 6.5 percent. Currently, commercial, residential, and office space in the Makati central business district (CBD) is priced at P50,000 (\$2,000) per square meter.

Over the next three years, the property sector is expected to continue its uptrend, although a consolidation is possible by 1998 that would primarily affect the office, high-rise residential, and commercial markets. Demand for low-to mid-priced housing is likewise expected to remain

strong. The main reason for the potential consolidation is the expected increase in the number of new commercial and business sites that will become available with the development of Fort Bonifacio and Alabang, which between them will double the current market. Nevertheless, a 100 percent return on investment over the next three years is achievable on real property.

— Joven Babaan, property analyst, Baring Securities (Philippines), Inc.

NEW BUILDINGS IN METRO MANILA TOTAL RATE OF DATE OF SPACE COMPLETION PROPERTY PRICES COMPLETION (SQM) (%) DEVELOPER IN METRO MANILA OFFICE BUILDINGS 46 MAKATI CBD Ayala Tower One 1995 45,000 85.0 Ayala Land, Inc. (peso millions) Citibank Tower 1995 46,000 85.0 ALI, Citibank 60 Far East Bank Tower 1995 40,000 90.0 FEBTC 42 PLDT Tower 1996 38,000 N/A PLDT 50 22,000 The World Center 1996 25.0 Megaworld 38 Antel 2000 1997 25,000 Antel Realty N/A 40 Dev't Corp. Equitable Bank Tower 1997 10.0 30,000 Equitable Bank 34 PS Bank Center 30,000 20.0 1997 PS Bank KSA Tower 1997 80,000 10.0 Kuok, SMC, 30 **ANSCOR** 90 91 92 93 94 95 Jaka Tower 1997 50,000 N/A JAKA Group - RESIDENTIAL Petron-Mega Plaza 1997 50,000 5.0 Megaworld Megaworld Plaza 1996 40,000 N/A Megaworld COMMERCIAL TOTAL 496,000 40. MANILA CBD RESIDENTIAL BUILDINGS (peso millions) Prince Plaza 2 1995 45,000 80.0 ASB Realty Corp. 35 **BSA** Mansion 1995 80,000 50.0 ASB Realty Corp. Asia Tower 1996 16,000 18.0 Ayala Land, Inc. 30 Herrera Tower 1997 50,000 5.0 Cityland One Lafayette Sq. 1997 14,000 10.0 Megaworld 1997 14,000 Two Lafayette Square 5.0 Megaworld 25 Kingswood Heights 1997 28,000 5.0 Empire East TOTAL 743,000 Source: Baring Securities (Philippines), Inc. 90 91 92 93 94 95



METRO PACIFIC CORPORATION

METRO PACIFIC CORP.

DEVELOPING MANILA INTO THE CITY OF THE FUTURE

anila-based Metro Pacific Corporation (MPC) entered a new era on January 6. 1995 when it led a consortium of 19 firms in the winning bid of P38.9 billion (US\$1.6 billion) for a 55 percent stake in the redevelopment of Fort Bonifacio -214 hectares (528 acres) of prime real estate in the heart of the capital. When the futuristic city is completed, the consortium, of which MPC has a 29 percent stake, stands to realize an estimated P147 billion (\$5.9 billion) return on its investment.

The Bases Conversion Development Authority of the Philippine government, which has a 45 percent stake in the project, will work with the MPC-led consortium to develop the site in three stages over 20 years, at an estimated cost of P50 billion (\$2 billion). The Fort Bonifacio sale, the largest privatization to date in the Philippines, is equivalent to about 2.5 times the national government's projected budget surplus for 1994.

Metro Pacific Corporation is a publicly listed investment and management company and the flagship of Hong Kong-based First Pacific Group, which owns 40 percent of the Philippine company. MPC's current business interests include distribution, packaging, consumer products, property development, telecommunications, and banking. The Fort Bonifacio deal is therefore just one facet of a solid core of MPC subsidiaries that are now positioning themselves to take full advantage of the rapidly expanding Philippine economy.

"MPC's mandate is to make long-term investments where it has or can acquire core



Ricardo S. Pascua President and CEO

competencies that will make it a significant, if not dominant, and profitable competitor in the industries it serves," says Metro Pacific president and CEO Ricardo S. Pascua. "Our involvement in the Fort Bonifacio project reaffirms our confidence in President Ramos' management of the economy, and involves a long-term commitment to build a showcase city comparable to those of our ASEAN neighbors."

For the 1994 financial year, MPC had consolidated total assets of approximately P10.5 billion (\$420 million) com-

pared to P5.2 billion (\$208 million) for the year ending December 31, 1993. Consolidated revenues for FY1994 were approximately P8.8 billion (\$352 million), up from P5.9 billion (\$236 million) in FY1993, while net profit rose to approximately P235 million (\$9.4 million), a 28 percent rise over the FY1993 figure of P183 million (\$7.32 million).

Within weeks of MPC's property coup, it agreed to sell a 12 percent stake in Smart Communications Inc. — the Philippines' second largest cellular phone company — for P3 billion (\$123 million) in cash and bonds to Nippon Telegraph & Telephone (NTT) of Japan. With a 35 percent stake in Smart, MPC's market value is now \$820 million, or 15 times Smart's book value. The NTT cash will be used to fund an aggressive expansion program for Smart, which already has more than 40,000 subscribers.

Riding on the back of both the Fort Bonifacio and Smart Communications deals, MPC, working through Union Bank of

(continues on page 22)



METRO PACIFIC CORPORATION

ort Bonifacio is envisaged as the 21st century gateway to the Asia-Pacific region that will be not only more convenient and technologically advanced to operate from, but a more enjoyable environment to live in than either Singapore, Hong Kong or Tokyo.

Map of the Fort Bonifacio project

FORT BONIFACIO

Asia's 21st Century Business Center Unlike Manila's two current business districts, Makati and Ortigas, Ft. Bonifacio will be a 24-hour living environment, combining a central business district, shopping and entertainment complexes, a hotel and convention center, an 18-hole championship golf course,

and residential neighborhoods. Above all, the zoning calls for pedestrian-only areas and parks accounting for 35 percent of the total area.

The advantage this project has for its developers is that it will be a planned city right from the start, which will give the Filipinos an opportunity to learn from the lessons of Manila's present business districts which are plagued with perennial urban problems such as traffic congestion, water shortages and waste management, among others.

As Metro Pacific president, Ricardo S. Pascua explains, there will be two kinds of development that the consortium, newly named Bonifacio Land Company (BLC), would undertake in the area.

"The first is the horizontal development, wherein the consortium will put up the necessary infrastructure such as roads, power, sewage and communication facilities before the land could be sold to the public. A light-rail-transit link to the international airport will also be in place at the start of operations. We expect this to take five years to build.

"The second is the vertical development wherein BLC will be constructing office and residential development. This will be carried out simultaneously, so that the development is working in tandem at any given time, creating the overall environment we are seeking.

"We will constantly stay aware of the real estate values in the other business districts in the city, so while we will be working on a master plan, we will let market forces dictate the pace of development, so that we can be careful not to depress the market



METRO PACIFIC CORPORATION

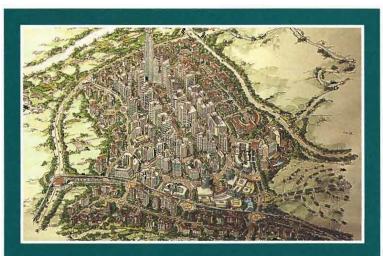
by creating an oversupply of space.

"What we are going to do is to create a city within a city. We're going to have a business district where property values are very high because everything is going to be state-of-the-art. It will be an 'intelligent city.' For example, in our plans, the office buildings will be connected by pedestrian walkways, just like Hong Kong, some of which will be partly elevated, others underground, which means people will be able to walk through the entire central business district without having to cope with car traffic," he says.

The master plan for Ft. Bonifacio was designed by RTKL Associates from the United States and Landco (Landco Asset Management Inc.) and Pros (The Planning Resources and Operations Systems Company)

from the Philippines.

RTKL, who is currently working on the Cincinnati 2000 development plan in the United States, have also developed highly successful mixed-use projects (business and residential) on Shan-Zee Island in Taiwan, and in Oberhausen, Germany.

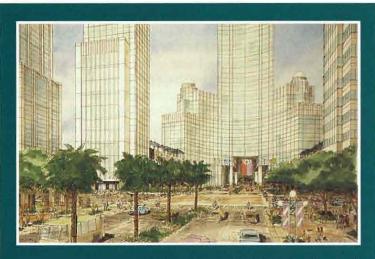


The new central business district will be pedestrian-friendly.

While the master plan covers a total area of 440 hectares (1,086 acres) only 214 hectares (528 acres) will be developed initially. The remaining area will be sold off at a later date by the government, possibly at another public auction. Whoever wins that bid, however, will have to comply with the current design and regulations set out in the overall master plan to ensure a continuity of development.

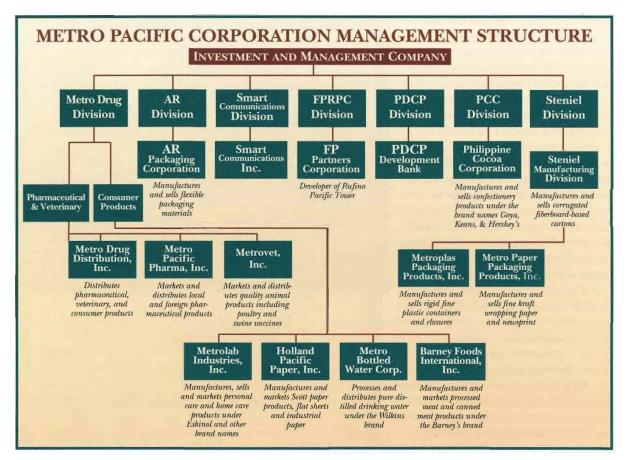
In addition to itself, the Metro Pacific consortium has for its members seven property developers (Philippine Realty and Holdings Corp., Kuok Philippine Properties, Inc., Filinvest Development Corp., Puerto Azul Land, Manuel Corp., Metro Pacific Land Holdings, Inc.) and the largest real estate developer in Thailand — Land and Houses Public Company Ltd.

The other members of the consortium are Urban Bank, Allied Bank, China Banking Corp., Government Services Insurance Systems, RFM Corporation, Landco Asset Management Co., Palawan Oil & Gas Exploration Co. and Ternate Development Corp.



The Fort Bonifacio development will be "clean and green."





(continued from page 19)

Switzerland and Bankers Trust, plans to issue up to \$75 million worth of convertible preference shares (CPS), represented by global depositary receipts (GDRs) outside the Philippines. Each GDR will represent one CPS.

MPC was originally incorporated in 1986 as Metro Drug Inc., starting off as a distributor of pharmaceutical and consumer products. Today, Metro Drug Distribution, Inc., serves more than 30 multinational and domestic manufacturers, distributing pharmaceutical, food, veterinary and consumer products through its 19 distribution centers throughout the Philippines.

After a major reorganization in 1993, the corporation's other major interests today include AR Packaging, the leading producer of flexible packaging in the Philippines, and Steniel, the market leader in corrugated (fiberboard) packaging. The combined output of

these two firms gives MPC a 39 percent share of the Philippine packaging market.

MPC entered the Philippine financial community via its acquisition in March 1994 of a 30 percent stake in PDCP Development Bank. With a capital base of P955 million (\$38.6 million), PDCP will become a commercial bank this year and plans to upgrade to a universal bank within four years. The bank recently joined Megalink, a consortium of banks, to enlarge its deposit base. In 1994, PDCP had a net profit of P80 million (\$3.2 million).

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Tel.: (63-2) 811-0053; Fax: (63-2) 811-0026

BOT PROJECTS

NEW SCHEMES TO BUILD A FUTURE

ith the press of a button from his presidential office, Fidel Ramos recently turned on a 330MW combined-cycle power plant at Barangay Kitang on Bataan, 145km west of Manila. Developed at a cost of \$40.3 million by a consortium involving ABB Power Generation Ltd, Kawasaki Heavy Industries Ltd, and the Marubeni Corporation, the project is further evi-

the project is further evidence of the government's determination to modernize its economy before the end of the century.

Since taking office nearly three years ago, Ramos has officiated at 19 such ceremonies for power projects worth a total of more than \$17 billion in foreign investment. The Philippine Infrastructure Privatization Program, better known as the build-operate-transfer (BOT) program, is one of the first multisectoral, integrated infrastructure privatization programs in the world.

Yet, despite being on the books since 1987, it was not until the power crisis of 1992-93 that BOT was fully utilized. With the Philippine economy losing an estimated \$3 billion a year in revenues due to persistent brownouts, Ramos, then newly elected to the presidency,



President Ramos does the honors in starting up a new 330MW power plant on Bataan.

used the tactical skills he acquired in his military career to revamp the existing legislation and launch a fast-track energy program that managed to bring 1,700MW of power online in less than 15 months. The success of that effort has now spurred his administration to see if it can use the same approach for other projects that have been languishing on the drawing boards for what seems like ages.

The BOT program offers a number of ways for the private sector to invest in the Philippines through such formulas as build-own-operate (BOO), build-transfer (BT), build-transfer-operate (BTO), build-lease-transfer (BLT), rehabilitate-operate-transfer (ROT), rehabilitate-own-operate (ROO), develop-operate-

transfer (DOT) and contract-add-operate (CAO). Other variations in the areas of highways, ports, power plants, airports, railroads, transport systems, reclamation projects, industrial estates or townships, warehouses, sewerage, education and health facilities — even technology networks and database infrastructure — are permitted, pending presidential approval.

In addition, new regulations signed by President Ramos in May 1994 now allow foreign firms to make unsolicited proposals for ventures that involve new technological concepts worth over P1 billion (\$400 million). They will receive the same treatment as the government's 38 priority projects that are up for bidding over the next three years (see chart).

"We are committed to streamlining the approval process," says Dr. Alan T. Ortiz, executive director of the Coordinating Council for the Philippine Assistance Program (CCPAP), the development arm of the government that is attached directly to the Office of the President. "To put the investment climate we have created here in perspective, it took the United States five

1990	POWER 50MW Zamboanga Diesel 80MW Mt. Apo II Geother Small Hydro Bataan GT Conversion to 0 Malaya GT Conversion to 0 11MW Bohol Diesel Calaca I Coal ROT Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION LRT IV	625.20 CCGT 40.0 CCGT 30.0 11.0 Concept Concept Concept Concept Concept	1996 (cont'd)	North Expressway Manila-Cavite Circumferential Road WATER Bulacan Water Supply Cavite Water Supply INDUSTRIAL ESTATES Pavia RAIGC Bacnotan RAIGC Davao RAIGC	256.69 108.44 122.88 37.10 78.18 18.60 37.72 22.86
	80MW Mt. Apo II Geother Small Hydro Bataan GT Conversion to G Malaya GT Conversion to G 11MW Bohol Diesel Calaca I Coal ROT Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	mal 215.34 625.20 CCGT 40.0 CCGT 30.0 11.0 Concept Concept Concept Concept		Circumferential Road WATER Bulacan Water Supply Cavite Water Supply INDUSTRIAL ESTATES Pavia RAIGC Bacnotan RAIGC	122.88 37.10 78.18 18.60 37.72
	Small Hydro Bataan GT Conversion to G Malaya GT Conversion to G 11MW Bohol Diesel Calaca I Coal ROT Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	625.20 CCGT 40.0 CCGT 30.0 11.0 Concept Concept Concept Concept Concept	(cont'd)	WATER Bulacan Water Supply Cavite Water Supply INDUSTRIAL ESTATES Pavia RAIGC Bacnotan RAIGC	37.10 78.18 18.60 37.72
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	11MW Bohol Diesel Calaca I Coal ROT Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	Concept Concept Concept Concept Concept		Cavite Water Supply INDUSTRIAL ESTATES Pavia RAIGC Bacnotan RAIGC	78.18 18.60 37.72
	Calaca I Coal ROT Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	Concept Concept Concept Concept		INDUSTRIAL ESTATES Pavia RAIGC Bacnotan RAIGC	18.60 37.72
	Malaya Thermal ROT Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	Concept Concept Concept		Pavia RAIGC Bacnotan RAIGC	37.72
	Manila Thermal ROT Leyte-Cebu Connection TRANSPORTATION	Concept Concept		Bacnotan RAIGC	37.72
	Leyte-Cebu Connection TRANSPORTATION	Concept		The state of the s	
	TRANSPORTATION			Davao RAIGC	99.86
					44.00
	I DT III			RESORTS	
1		678.40	- 4. 0	Panglo Island	42.69
	Metro Manila Skyway	596.9		WASTE MANAGEMENT	
1	INDUSTRIAL ESTATES			Metro Manila Solid Waste	Concept
	PHIVIDEC Expansion	6.55		Management Program	> *1
	RESORTS				1,777.31
	Samal Island	44.74	1005		1,777.31
		OTAL 2,613.13	1997	POWER	11.0
	the state of the s	OTAL 2,013.13	2001	11MW Bohol Diesel	11.0 159.0
	POWER	~~~		Kalayaan Pumped-Storage 3 & 4 200MW Luzon Gas Turbine	200.0
	Tongonan Geothermal	550.0		Masinion I	O&M
	6MW Bohol Diesel	6.0			Oaw
	Small Hydro	136.51 17.68	The State of	TRANSPORTATION	
	Small Hydro	E 168 C		Mainline North Rehabilitation	76.80
	Leyte-Mindanao Connection	Concept	W. Island	INDUSTRIAL ESTATES	
				Zamboanga RAIGC	12.25
	TRANSPORTATION			Batangas RAIGC	83.49
	LRT V South Luzon Extension	279.84 69.72		TOTAL	342.54

years after the enabling legislation was enacted before the first privately owned power project was completed. We have been able to do that in just two years."

Dr. Ortiz contends that by streamlining the approval process, the amended BOT law reduces the time and costs associated with bidding for contracts. He describes CCPAP's role as one of "ensuring that if the private sector wants to invest in this country,

it will not be mired in the same bureaucracy that is associated with public projects."

Incentives for foreign investors who participate in the BOT program include four- to six-year tax holidays, tax credits for purchasing domestic capital equipment and hiring local labor, permission to employ foreign nationals, and a range of financial packages with state-owned banks in projects in which the government is a joint venture partner.

Since 1987, the Philippine government has sold or disposed of 76.3 percent of the assets in its portfolio as part of its ongoing privatization program, generating P98.3 billion (\$3.6 billion) in revenue. Much of this has been plowed back into priority infrastructure projects such as rural roads and agricultural irrigation projects, either in the form of joint ventures with the private sector or partly funded by international development agencies.

CONSOLIDATED ELECTRIC POWER ASIA

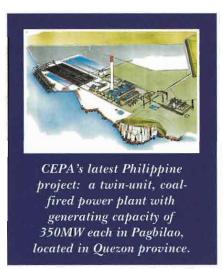
PIONEERING BOT PROJECTS IN THE PHILIPPINES

he build-operate-transfer (BOT) method of financing infrastructure development is one of the most imaginative concepts in the development of emerging economies. In the Philippines, this was clearly demonstrated five years ago, when the government of former president Corazon Aquino teamed up with Hopewell Holdings Ltd. in Hong Kong to help solve the country's growing power crisis.

Hopewell, now better known by the name of its publicly listed company, Consolidated Electric Power Asia Limited (CEPA), pioneered private power generation in the Philippines through the first foreign investment project to use the BOT scheme. To date, CEPA has invested more than \$2 billion in five such projects. "They believed in the Philippines when no one else did," notes Dr. Alan Ortiz, executive director of the Coordinating Council of the Philippine Assistance Program, part of the executive branch of government that oversees development. "Their investment in power has been one of the engines driving our economy."

CEPA's first project in the Philippines, which came on-line in early 1991, was a 200MW gas turbine power plant in Navotas, north of Manila. Navotas, the first BOT project in the Philippines, supplies approximately 10 percent of all electric power for Luzon, the country's largest island.

Following the implementation in 1992 of the government's fast-track program to resolve the persistent brownouts, CEPA installed a new Westinghouse 50 ID gas turbine on the Navotas site to provide an additional 100MW of power. The Navotas II project was completed two weeks ahead of schedule on a very tight nine-month construc-



tion contract, and has been fully operational since 1993.

That same year, CEPA helped the Philippine government expand the BOT concept to include rehabilitating poorly maintained power facilities owned by the National Power Corporation (NPC). CEPA agreed to repair and operate nine 30MW power barges for 10 years, thus creating the first rehabilitate-operate-transfer (ROT) contract. Four of these barges are now operating near

the Navotas plant; the rest are deployed in the Visayas region and Mindanao.

Following these projects, CEPA signed a contract with NPC to develop a 700MW coal-fired plant in Pagbilao, Quezon province. Commercial operation of the \$933 million plant is targeted for the end of this year. CEPA took a \$200 million equity stake in the Pagbilao project, and the International Finance Corporation (IFC), Asian Development Bank (ADB), and a U.K. bilateral development agency, the Commonwealth Development Corporation (CDC), each contributed an additional \$10 million. The Export-Import Banks of the U.S. and Japan also put in \$540 million in 10-year financing, while the balance of the long-term debt was funded by the IFC, ADB, CDC, and others.

The Pagbilao financing is the first non-recourse project financing completed by bilateral or export-import banks without explicit government guarantees.

CEPA's final project, due for completion in late 1998, is a coal-fired power station in Sual, Pangasian that will have two units with generating capacity of 660MW each. The plant is intended to support industries within the Pangasian, industrial zones, as well as to supply the Luzon grid.



NATIONAL POWER CORP.

TURNING POWER INTO PROFITS

thout question, the Philippine government's ability to resolve its longstanding power crisis in less than 18 months is the most dramatic example of the way the current administration has been able to turn the economy around. "Our resounding triumph over the power crisis, to a large extent, paved the way for the breakthroughs we have achieved in the economy that make 1994 the best year we have had in a long while," said President Fidel V. Ramos during the National Power Corporation's 58th anniversary celebration last November.

Such success could not have been achieved without the unwavering support of the private sector. The World Bank, the National Power Corporation's (NPC) leading multilateral creditor, hailed the Philippine experience "as one of the few successful exercises in the privatization of power generation throughout the developing world in recent years." The Philippines has become a leader in the Asia-Pacific region in instituting reform and revitalizing the power sector. Private investors now operate about a third of available generating capacity under schemes such as build-operate-transfer (BOT), build-transfer-operate (BTO), rehabilitateoperate-maintain (ROM), and rehabilitate-operatelease (ROL). As of January 1995, the system had a total generating capacity of 9,180MW, plus another 2,100MW in various stages of completion. The private sector's share will steadily increase to as much as 60 percent by 2005 with NPC's plan to convert its current arrangements into either direct sales or build-operate-own (BOO) schemes.



President Fidel V. Ramos (right) and NPC President Guido Alfredo A. Delgado (left) discussing the privatization program at the Malacanang Palace.

With the country's demand for power estimated to increase by 11 percent to 14 percent annually, another 15,000MW will have to be added between 1995 and 2005. About \$30 billion in investments would be needed, mostly in the form of private sector equity.

Now under the direction of its new president, Guido Alfredo A. Delgado, a 36-year-old former banker from Mindanao, NPC — once a virtual monopoly — is planning a five-year corporate restructuring and privatization program that will leave NPC in the business of power transmission instead of power generation. Delgado expects final gov-

ernment approval of NPC's plans by the middle of this year. Passage by the legislature of the privatization plan of the country's biggest corporation is seen as essential for reassuring foreign investors about the continuity of the program, whatever changes may occur in the political scene.

"It is the security of the legal system that gives us confidence in the Philippines," says Lim Chan Lok, chairman of the board of Salcon Power Corporation, the Singapore-led consortium which in May 1994 invested \$60 million to rehabilitate and manage the 203MW Naga power station in Cebu City. "In other Southeast Asian nations, the laws are not well defined and the authorities tend to bend the rules," Lim adds.

At the same time, NPC will also set up a holding company that will perform the functions of an investment management firm and would be entitled to the profits from its subsidiaries in proportion to its equity participation.

The subsidiaries to be formed this year are



Mindanao Power Corporation; Tiwi/Makban Power Corporation; Small Power Utilities Group; Caliraya-Botocan-Kalayaan Power Corporation; NPC Properties, Inc., Engineering Technologies Services Corporation; and NPC Aviation, Inc.

The actual implementation of the privatization program will be coordinated by a newly formed unit called the Privatization and Restructuring External Office. NPC will also use a set of private consultants, collectively called the Privatization and Restructuring Advisors. Finally, a group of Privatization and Restructuring Implementators (PRI), to be led by a

major international investment bank, will guide the program through to its final stages. All three groups will report directly to Delgado.

NPC's restructuring is being implemented in conjunction with the Department of Energy's (DOE) restructuring of the entire electricity industry. Last year, DOE and NPC spearheaded the drafting of a proposed bill that would repeal a presidential decree of the early 1970s that established NPC's monopoly in power generation and transmission.

In the distribution sector, immediate concerns, such as distorted pricing, expiring contracts, retirement of plants, subsidies and service contract administration are being addressed, and utilities will be consolidated to make them more technically and financially viable.

Planning will be decentralized and utilities will be allowed to source from independent power producers to foster a competitive environment. Retail wheeling will be expanded and the regulatory framework will be permanently established.

"Our initial experience has been encouraging," says Delgado. He cites Salcon's own experience in

		Actual			Estimate	
	1990	1991	1992	1993	1994	
Energy Sales, GWh	22,915	23,598	23,958	24,805	28,905	
Installed Capacity, MW	6,037	6,481	6,914	7,974	9,180	
Oil-Based	2,612	3,056	3,263	4,296	5,427	
Hydro	2,132	2,132	2,213	2,219	2,259	
Geothermal	888	888	888	1,018	1,053	
Coal	405	405	550	441	441	
(In Millions of Pesos)					- '65	
Peso sales	25,779	32,364	37,645	40,490	50,503	
Production Cost	21,660	29,786	30,567	33,825	39,297	
Interest Expense	4,648	5,435	5,209	4,795	6,977	
Other Income (Expense)	464	(73)	2,249	(506)	2,818	
Net Income	(65)	(2,930)	4,118	1,365	7,047	
Net Utility Plant	78,144	86,476	104,725	135,161	169,332	
Total Assets	160,460	170,634	203,155	245,375	288,755	
Total Liabilities	127,548	133,537	135,394	173,185	185,017	
Net Worth	32,912	37,097	67,760	72,191	103,738	
Return on Equity	(0.20)	(7.90)	6.08	1.89	6.79	
Ave. P/\$ rate	24.2775	28.1120	26.3568	27.2433	26,4565	

which productivity improved by as much as 40 percent after privatization. NPC hopes to replicate Salcon's experience with the Malaya thermal plant in Luzon, for which a ROM contract is now being negotiated with the Korea Electric Power Corporation, which submitted the best offer among five bidders.

"Throughout the entire privatization process, management must not lose sight of the basics," says Delgado. "Corporatization of the subsidiaries must include not only the systems and procedures, but a defined corporate culture as well. A reliable and adequate supply of electricity cannot be taken for granted if we are to achieve the social and economic goals of Philippines 2000 — that is, to bring the country to the threshold of newly-industrializing country status before this century is over."

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INTERVIEW

WITH FINANCE SECRETARY ROBERTO F. DE OCAMPO

Q: Are investors correct in drawing parallels between the Philippines and Mexico?

A: While there may be certain similarities — we are both aspiring Third World economies that are moving towards "entigerment" — there are also significant differences. In 1994, for example, the Philippines' trade deficit was only 4 percent of GNP compared to 8 percent

compared to 8 percent for Mexico, and the bulk of our deficit consisted of capital goods rather than consumer goods. We had a budget surplus last year, while Mexico had a budget deficit. Most importantly, although we both use the same name for our currency, we have a floating exchange rate with the value of our peso determined by free market forces, whereas the Mexican peso was pegged even before its devaluation.

International investors should also note that Mexico is unlike other emerging countries, such as the Philippines, in its heavy use of short-term debt. In 1994, more than 40 percent of Mexico's external debt was composed of short-term paper; in the Philippines, only 14 percent of our external debt was funded in that manner.



Finance Secretary Roberto F. de Ocampo

Q: What are the main lessons that the Philippines has learned from the world reaction to the Mexican crisis?

A: That we need to continue our fiscal reforms at the same time as we liberalize our economy. While the rosy 1994 actuals make us optimistic that our 1995 targets can be attained, we should not be lulled into complacency and overconfidence. Fiscal instability and its adverse effect on the trade balance and investor confidence, as clearly shown in Mexico's case, could reappear at any moment and adversely affect our country's economic outlook.

Q: You have been working with the World Bank over the last year to try to develop a US\$1 billion private sector infrastructure development

fund in the Philippines. Can you give us some details of the plan?

A: The fund is expected to be financed by the World Bank, the Asian Development Bank, the International Finance Corporation, the Japanese Overseas Economic Cooperation Fund, and the Export-Import Banks of both the United States and Japan to stimulate private sector investments

in infrastructure, specifically, build-own-operate schemes. The loans will cover a 10- to 15-year period at U.S. dollar market interest rates and carry a World Bank guarantee.

We hope to get the fund started by the middle of this year. But having worked at the World Bank myself, I am aware of the standard operating procedure, which requires about nine months between a project's identification and its appraisal. I am hoping that, because this fund has been talked about for some time, the World Bank could help get it started in a small way now, rather than to try to make everything perfect from the start.

I think the World Bank may have been slow to realize that build-operate-transfer (BOT) schemes were going to be a very attractive investment, not only for the Philippines, but for many other countries. I believe that, like others, they were adopting a wait-and-see attitude about the transition between the Aquino and Ramos administrations. But because that democratic process worked so smoothly, I think they are now more aggressive in taking initiatives to formulate this type of fund.

Q: With a growth rate of 5.1 percent in 1994 compared to 2.6 percent in 1993, do you think the government needs to pump-prime the economy as you did when you took office?

A: No, pump-priming is no longer needed. We are shifting the emphasis of our budget away from personnel services and debt service to infrastructure. The private sector has now taken the lead in investment and should continue to do so. The government will complement private sector initiatives, particularly for infrastructure improvement in areas · where needs cannot be fully met through BOT schemes and the like, such as farm-to-market roads, irrigation facilities, railways, ports and bridges, and mass transit systems in major cities.

Q: If the new Congress passes the government's tax reform measures, how much revenue will this add to the annual budget over the next five years? A: As in other developing countries in the region, roughly 50 percent of potential revenue from major taxes (i.e., income tax, VAT and



international trade taxes) is not collected. The goal is to cut the leakage in half by the time the computerization program is completed in 2004. Over the next five years, an average improvement of 25 percent in collection efficiency would be equivalent to 1.25 percent of GNP or, using 1993 GNP levels, about P20 billion annually.

Q: Will the appreciating peso hinder the country's economic performance?

A: No, its positive impacts outweigh the negatives. An appreciating peso amid lower inflation and low interest rates is an encouraging sign that there is more room for growth. It indicates that there are resources available which could be invested to hasten growth. As investments increase, so will our exports and our imports of capital goods and raw materials.

Q: How can you ensure that the peso will stay competitive? A: The best way is to improve the investment climate through lower interest rates and lower inflation. The government is now generating a

fiscal surplus, and we have taken steps to increase demand for foreign exchange by postponing government bond flotations in the international market; prepaying expensive foreign debts; not availing ourselves of the Paris Club debt restructuring program; purchasing international bonds of Philippine issuers (Brady Bonds); removing the forex risk premium for oil imports and liberalizing capital outflow restrictions.

Q: Inflation averaged 9 percent in 1994, compared to a target of 6.3 percent set in the government's medium-term plan two years ago. What happened?

A: Inflation is now down to 7.8 percent and will fall further. The main reason for the delay in achieving the targeted inflation rate was production problems last year due to the power crisis that was not resolved until December 1993. This was also the time we were able to complete the Central Bank restructuring. Thus the Central Bank was not yet ready to manage liquidity effectively in the last quarter of 1993.

Development Bank of the Philippines

DBP

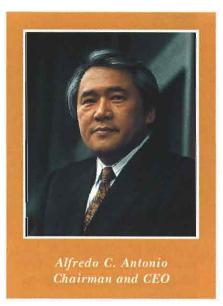
SUSTAINING GROWTH THROUGH VALUES

he Development Bank of the Philippines (DBP) has adopted a seven-point approach to expand its role in the country's economic development in 1995 and beyond.

According to DBP chairman and CEO, Alfredo C. Antonio, the bank hopes to seek a universal bank license by the middle of this year to help achieve its aims of strengthening the development of entrepreneurship in the country, attracting more direct foreign investment and increasing overall export market performance.

DBP's net income in 1994 was P1.73 billion — 30 percent above the previous year. The bank's loan portfolio reached a total of P33 billion, of which P20 billion was wholesale lending and P13 billion was carried out by its retail operations. Of the retail loan portfolio, 45 percent represented industrial borrowing by small and medium-size enterprises (SMEs), 25 percent was dedicated to agricultural loans, and the balance went to services, real estate, utilities, trade finance and other sectors. Under the bank's new seven-point program, DBP will aim to privatize at least 51 percent of its operations by 1997 — its 50th year of operation.

"This is a sentimental timetable, but my intuition tells me that the combination of a rapidly developing economy and competition from foreign commercial banks coming into the country makes 1997 an opportune time for a development financial institution to privatize, as we will be competing more and more with the private sector," says chairman Antonio. "We have already set up a stock brokerage firm with Daiwa, and once we get



our expanded banking license, we would like to set up an investment bank, a real estate company, and a consumer finance company; those are the companies we will privatize. By breaking up the bank, we think the activities of each of those companies will be more sharply focused and therefore more attractive to the private sector.

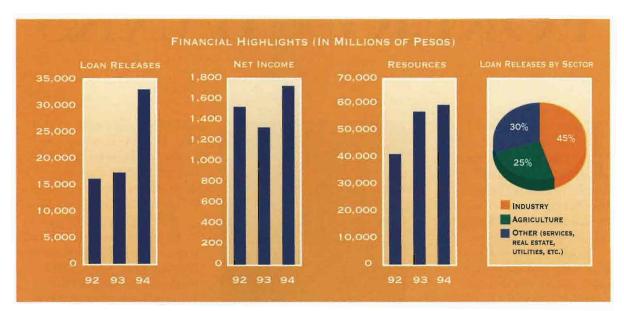
"We intend to sell off parts of the bank and maintain the wholesale operation as a separate entity. This would allow us to continue to meet the needs of our people through our Window-III program which

funds economically viable projects with distinct developmental impact. That would give us the best of both worlds by privatizing our commercial operations and allowing our wholesale bank to remain intact and work in partnership with the private sector distributing credit as efficiently as the system will allow," Antonio concludes. He notes that he has already had preliminary discussions with a number of foreign investment firms and banks who have expressed interest in taking a strategic stake in the revamped bank.

Earlier this year, DBP set up a joint venture securities firm with Daiwa Securities of Japan and Pan Malayan Management and Investment Corporation (PMMIC) of the Philippines, to be known as DBP-Daiwa Securities Philippines, Inc. (DDSPI). Daiwa will be the majority stockholder with a 60 percent stake, DBP will control 35 percent, and PMMIC will hold 5 percent. DDSPI will have P400 million in authorized capital and paid-up capital of P170 million.

"Because of the capital we are putting into this company, DDSPI will be the largest brokerage

Development Bank of the Philippines



firm in the country," says Antonio. "With Daiwa's expertise, we will be able to provide an exhaustive analytical and research capability, which I believe our country needs to attract investors."

Underwriting initial public offerings will be an important function of DDSPI. "To us, equity investment is a form of lending," Antonio explains. "Rather than extending loans exclusively, we provide capital to a venture through a combination of loans and equity investments since many new ventures are unable to absorb market interest rates during their initial phases. We will be able to make this type of combined investment with more flexibility once we have our universal license."

Besides privatization and underwriting, the other five points of DBP's program aim to:

- Increase its participation in capital market development by investing P25 million in the Philippine Central Depository, Inc. to establish custodial services for government securities, thus creating the first central securities depository in the country.
- Promote export market development by offering export factoring services or trade financing to the export sector.
- Stimulate the reawakening of the Filipino entrepreneurial spirit through the bank's Window-III lending program and an Omnibus Financing Program for new entrepreneurs, as well as a P6 billion Industrial Support Services and Expansion Program and a P4 billion

Domestic Shipping Modernization Program. DBP will no longer limit its Window-III program to 30 percent of the bank's net income, but will leverage it through other sources of capital such as loans, foreign grants and assistance.

- Set up, in cooperation with multilateral financial institutions, an infrastructure-lending facility for the private sector to be called the Private Sector Infrastructure Development Fund and establish a Guarantee Corporation for Local Government Units.
- Promote housing projects and expand the bank's involvement in home mortgages by converting its foreclosed and nonperforming real estate assets into housing projects and condominiums.

"We think of ourselves as not just a development finance institution, but more of an actual development institution. We go beyond providing medium- and long-term funds to ensure that we lay a firm foundation for human resource development and a sustainable Philippine economy," says Antonio. "By sustainable, we mean sharing and helping each other. This country will only have a prosperous future if we have the right values."

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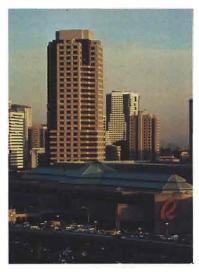
FOREIGN BANKS

THE MAGIC TEN

n its bid to become a major international financial center as well as expand its trade horizons, in February Bangko Sentral ng Pilipinas (Central Bank) agreed to let 10 foreign banks set up full commercial banking services.

In all, 21 banks from around the world applied for the licenses; the winners were: ANZ Bank (Australia), ING Bank (Netherlands), Deutsche Bank (Germany), Chemical Bank (U.S.), Fuji Bank (Japan), Bank of Tokyo, Korean Exchange Bank, Development Bank of Singapore, Bangkok Bank (Thailand), and the International Commercial Bank of China (Taiwan). They join Citibank, Bank of America, Standard Chartered, and Hongkong Bank, which have had full banking licenses since before the Second World War. Together they account for only 9 percent of total assets in the country's banking system, which comprises of 28 locally owned banks, three of which are state controlled.

According to Central Bank Governor, Gabriel C. Singson, "these 10 banks were chosen for their potential to bring in foreign investment from their home countries, and provide capital funds and trade finance for their trade flow." Under the Philippines' new banking



Manila's changing skyline

regulations that went into effect in July 1994, the 11 foreign banks which were not among the "Magic 10" can enter the local market by acquiring up to 60 percent of the voting stock of a domestic bank, or 60 percent of the voting stock of a new banking subsidiary.

The move by the government to open up the banking sector was motivated by more than a desire to attract trade: it was also an excellent way to raise funds. Each of the "Magic 10" banks is required to bring in at least P210 million (\$8.4 million) in capitalization, with an additional P35 million (\$1.4 million) for every branch they hope to set up. This will initially bump up the government's foreign reserves by

P2.1 billion (\$84 million) this year. If all the licensees take up their options for the three branch outlets allowed to them, the government will earn another P1 billion (\$42 million).

Will the "Magic 10" pose a threat to the domestic banking community? No, says Rafael B. Buenaventura, CEO of PCI Bank and president of the Bankers Association of the Philippines. "Competition intense, even cut-throat competition — is not alien to our local banks," he states. "I consider their entry an advantage, because it has geared us up for future competition with the foreign banks. We expect the fight to be fiercest, however, only in the market for corporate accounts. Because of their solid financial standing, the top 500 corporations will be prime targets of the foreign banks, and I would say that they will enjoy the boon of increased attention."

Nevertheless, Buenaventura says it is imperative for the Central Bank to monitor the new foreign banking community vigilantly to ensure that it lives up to its mandate to attract inward flows of capital. "As the Philippine economy moves forward," he stresses, "it is critical for us to maintain momentum by adopting a 'can-do' attitude rather than our usual 'will-do' one."

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TAX REFORM

RETHINKING THE PHILIPPINE TAX SYSTEM

he Philippines is now in a period of sweeping change to both its system and its administration of taxation. The more significant changes in recent years include streamlining and computerizing the Bureau of Internal Revenue; adopting a 10 percent valueadded tax (VAT) to replace an abundance of business and excise taxes; expanding of VAT coverage; a creditable withholding tax on residents; and implementing the Simplified Net Income Tax Scheme (SNITS) for professionals and the self-employed.

In the area of capital market development, the capital gains tax (in lieu of ordinary income tax) on shares traded on the stock exchange was raised from .025 percent to a still reasonable 0.275 percent of the selling price. The stamp tax of 1 percent of the face value of bonds was eliminated.

In response to the recent ratification of Gatt, with its lower tariffs, and the shift to a more uniform system of customs evaluation, which will affect the government's ability to raise revenue, President Ramos set up a Presidential Task Force on Tax and Tariff Reforms to restructure the income tax system to



Recent tax reforms will affect the way business is conducted throughout Metro Manila.

enhance productivity, broaden the tax base, and considerably narrow the discretionary powers of both taxpayers and tax collectors in order to check evasion and corruption.

The task force has proposed an income tax reform package that is expected to bring in an additional P8.19 billion (\$328 million) a year. Instead of imposing new taxes, the proposal plans to increase revenue through greater efficiency, stressing that an improved tax administration is the best way to increase tax revenue. As to corporate income taxation, the task force recommended: reducing the number of industries that receive tax incentives (five to ten industries by 1996 from the current 60); broadening the tax base by taxing corporations on a modified net income base or

using the so-called corporate SNITS (i.e., eliminating certain easily abused deductions like entertainment, travel, unconventional types of advertising, donations, and charitable contributions), while reducing the corporate income tax rate to 30 percent; adopting a 1 percent to 2 percent minimum corporate income tax (MCIT) based on gross assets; and allowing all new firms, whether engaged in a preferred

area of investment or not, to use a net operating loss carryover (NOLCO) for up to three years, as well as accelerated depreciation. The taxation of passive income, such as dividends, interests and royalties, would be unchanged.

Lower corporate taxes will be welcomed by the business community, but the trade-off should not be a corporate SNITS. While SNITS is commendable in that it limits the discretion of taxpayers and examiners, a corporate SNITS will not necessarily simplify tax administration or eliminate tax evasion. It will not, for example, do anything to solve understating sales or manipulating the cost of sales.

NOLCO will be equally welcome and will put the Philippines on a par with the rest of the region (India, Indonesia, Malaysia, Pakistan, China, South Korea, Taiwan, Thailand and Vietnam). Nevertheless, NOLCO should not be restricted to new firms but should be allowed as a normal business expense as it recognizes the cyclical nature of business.

A tempest may, however, be brewing with respect to the most significant tax reform proposal of all: imposition of a 1 percent MCIT. This tax can be deducted against the regular corporate income tax of 35 percent and excess MCIT can be carried forward for a limited period.

MCIT is based on gross assets, which means that a business pays tax regardless of its profitability. Some countries, like the U.S., normally do not allow a foreign tax credit for taxes based on gross assets. If, as seems likely, a 1 percent MCIT reduces the corporate income tax paid in the Philippines, it would lower the allowable foreign tax credit for U.S. companies, even though those companies, in effect, paid the full 35 percent income tax rate. This could be a strong disincentive for U.S. investors.

The American Chamber of Commerce and other foreign business groups have also argued that adoption of a gross asset tax might erode certain tax treaty commitments by the Philippines. As these organizations point out, the 35 percent income tax should, if anything, be credited against the 1 percent tax so as to preserve the full income tax credit abroad.

A gross asset tax system might also act as a strong disincentive to entering or expanding capital-intensive and essential industries, especially those like

COMPARISON OF CORPORATE TAX SYSTEMS IN CERTAIN COUNTRIES IN ASIA

	Max. Corporate Income Tax	TAX ON GROSS ASSETS	LOSS CARRY- FORWARD (NOLCO)	ACCELERATED DEPRECIATION
China	30% (+3% local tax)	None	5 Years	None
Indonesia	35%	None	5 Years	Yes
Malaysia	30%	None	No Limit	None
Philippines	35%	None	None	None
Singapore	27%	None	None	Yes
Thailand	30%	None	5 Years	None
Vietnam	25%	None	5 Years	None

Source: Deutsche Investitions-und-Entwicklungsgesellschaft (DEG) and SGV & Co., Comparative Investment Incentives (1994), and CCH Asia Limited, Doing Business in Asia (1994).

mining, power, refineries, and telecommunications, in which prices are controlled or regulated by the government.

The task force's main premise is that taxation should not interfere with economic choices or investment direction. Thus, for example, incentives and allowable deductions are being reduced, if not eliminated. While an investment-neutral tax system may be theoretically appealing under a perfect market scenario, the market is far from perfect! The realities of limited global capital and regional competition for funds may not have been properly factored into the equation.

This is especially critical since most foreign equity investment in the Philippines in the past five years has come from the U.S., Taiwan, and Japan, all of which have a tax system based on net income. The same is true for most countries in the Asia-Pacific region. Furthermore,

Singapore, Malaysia and Thailand, which have received the lion's share of investment flowing into Asia in the past five years, are offering generous incentive packages. By imposing a minimum gross asset tax, the Philippines might be on the cutting edge of the new wave of tax reform in developing countries, but one wonders if it is not sending a mixed (if not wrong) signal to foreign investors at a time when foreign equity has just started to flow into the country. Has the Philippines counted the cost of deviation? Is it willing to pay the price? The Ramos administration cannot afford to overhaul the country's tax system in a vacuum, while striving to create a niche for Philippine products and services in competition with its neighbors.

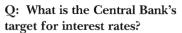
— Cornelio C. Gison, partner and head of the tax division, and Helen G. Tiu, tax partner, at SGV & Co., a member of the Arthur Andersen worldwide organization.

INTERVIEW

WITH CENTRAL BANK GOVERNOR GABRIEL C. SINGSON

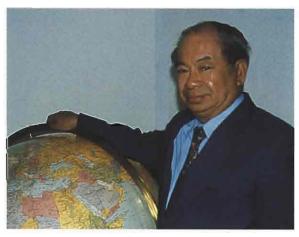
Q: Do you feel the Philippine peso is currently overvalued?

A: The Philippine peso is neither overvalued nor undervalued. It is market-valued. As you know, our basic policy is that the exchange rate of the peso to the dollar shall not be administratively fixed but shall be left to market forces in day-to-day transactions. The Central Bank shall intervene only for the purpose of compensating for excessive fluctuations in the exchange rate, but not to



change the trend.

A: We would expect to sustain the interest rate for the 91-day bill at 9.5 to 10 percent. Why? Because the government is running a fiscal surplus for the first time in 20 years. Previously, they had to borrow heavily in the market, and this competition for funds drove up interest rates. Secondly, we have lowered the reserve requirement from 20 percent to 17 percent and we will continue reviewing this requirement with a view to lowering it even more. Finally, as to our increase in the base money supply, we will have a ceiling agreed upon with the IMF to



Central Bank Governor Gabriel C. Singson

help keep us on track vis-à-vis our inflation target of 6.5 percent in 1995.

Q: Some local bankers speculate that \$20-25 billion of flight capital, which left the country during the Marcos' years, is now trying to find its way back. Do you agree?

A: Yes, it's possible, although the amount would be an educated guess at best. A substantial amount left the country in 1982-83 and again in 1986, but this is starting to come back. That is why our commercial banks now have foreign currency deposit units or a dollar deposit system that more and more people are using. Besides adding up to a record year for foreign investment in the Philippines, this helps account for the large increases in foreign currency

which came into the country and not only drove up the value of the peso, but also increased liquidity in the stock market.

Q: Standard & Poor's recently revised the outlook on its current BBB rating of the Republic's long-term debt from stable to positive. Will this translate into an investment-grade rating for the Philippines?

A: Yes; we talked with S&P at the IMF meetings in Madrid and they said they intend to send a team here soon to take another look at the Philippines. This rating was made in the second quarter of 1992, following our first bond issue in the first quarter of 1992, after almost 10 years of being out of the voluntary market. It was a very modest \$150 million three-year bond and was very successful. It was followed that year by even more successful issues by both the government and the private sector. Also, although we agreed with the Paris Club about restructuring our maturities that fall due from August 1, 1994 through the end of 1995, we recently told them we will pay off the debts that are falling due even though we have already agreed on a restructuring program.



Australia and New Zealand Banking Group Limited

BRANCH LICENCE PHILIPPINES

ANZ, Australia and New Zealand's international bank, is proud to announce that it is one of 10 international banks to receive the approval of the Monetary Board of Bangko Sentral ng Pilipinas on 13 February 1995 to establish branches with full banking authority in the Philippines.

ANZ expects to open its first branch in Manila in the final quarter of 1995.

ANZ operates in 42 countries around the world, and offers a comprehensive range of commercial banking services including corporate and personal/private banking, treasury risk management and cross-border services such as structured and trade finance and money remittances.

March 1995

ADB LOANS

TARGETING INFRASTRUCTURE AND RURAL DEVELOPMENT

he Asian Development Bank (ADB) signed four new loans this year totaling \$136 million in support of the Philippines' Medium-Term Development Plan. Projects include road improvements, women's health and prenatal clinics, rural infrastructure, and airport development.

The \$17.5 million Fourth Road Improvement Project, for example, will improve and expand the national road network in order to increase accessibility and reduce overall transport costs. The project also includes preparation of detailed designs for 710 kilometers of new rural roads. A supplementary loan of \$23.5 million will go to improve bridges in Mindanao, Cebu, Negros and Luzon and to maintain certain national roads in Batangas and Bohol. Another loan, for \$54 million, will set up a referral system and maternal care centers in 40 provinces.

A \$17.5 million loan for the Rural Infrastructure Development Project will attempt to remove constraints on increased production and improve rice and corn productivity at small farms in seven municipalities. It will also provide complementary infrastructure facilities and agricultural support services.



The Fourth Road Improvement Project includes plans for 710 kilometers of new rural roads.

"This supports the Philippine government's new key production area strategy in agricultural development," says ADB president Mitsui Sato. "It also serves as a pilot project to test whether harmonization of a national sector strategy with local development programs is possible under the Local Development Code."

To enhance the economic prospects of the southern Philippines and the development of the East Asia Growth Area, the Airport Development Project will use a \$41 million loan to address operational and safety shortfalls at Davao Airport, the main international airport on the island of Mindanao. In addition, technical assistance to strengthen the civil aviation sector has been agreed by the government and the bank.

In addition, the ADB is pro-

viding an advisory technical assistance grant of \$592,000 for sectoral restructuring, policy reforms and human resource development.

Meanwhile, the Department of Finance reports that disbursements for ongoing projects financed by the ADB grew by 4.6 percent in 1994 to \$302.2 billion. The projects that received the most loan disbursements were the \$29.48 million Fifth Road

Improvement Project, the \$19.06 million Small Farmers Credit Scheme by Landbank, the \$11.4 million Secondary Educational Development Project, a \$9.21 million project by the Development Bank of the Philippines, and the National Power Corporation's 14th Power Sector Project.

"Closer coordination last year between project - implementing agencies and control - policy bodies managed to speed up the process," says Dr. Alan T. Ortiz, executive director of the Coordinating Council of the Philippine Assistance Program (CCPAP). He adds that CCPAP's target monitoring process is also focusing on the Metro Cebu Water Supply Project and rehabilitation of the southern commuter rail line funded by Japan's Overseas Economic Cooperation Fund.



LANDBANK

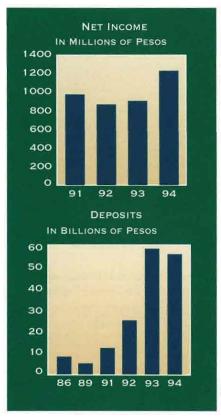
DEVELOPING THE COUNTRYSIDE

rom its creation 31 years ago, Landbank has been the only Philippine governmentowned universal bank with a social mandate: to spur countryside development. It does this by extending affordable credit and other support services to farmers' and fishermen's cooperatives under its Countryside Credit Delivery Program (CCDP). It works closely with the World Bank, Asian Development Bank and Overseas Economic Cooperation Fund of Japan to fund many vital industrial and agricultural projects.

Since 1986, when Corazon Aquino was elected and a large-scale agrarian reform program was instituted by her administration, Landbank has delivered a total of P32 billion (\$1 billion)

in short- and long-term credit for agricultural production; fixed assets (warehousing, post-harvest facilities, trucking and hauling facilities); aquaculture development (marine and other fishing and cold storage); and irrigation facilities. The bank accounts for 20 percent of all credit given to agricultural households, which translates into helping over five million Filipinos.

To complement its financial packages for this sector, over 3,000 Landbank employees, just under half of the total workforce, are part of the bank's Agrarian Sector, which provides technical support to agriculture through such programs as project identification and development, training and management assistance for small farmers and fishermen's cooperatives. "We want farmers to start



thinking and acting like entrepreneurs instead of depending on government assistance," says Landbank president and CEO Jesli A. Lapus. "For this to happen, they must be educated in such things as market rates and competition. I doubt you will find this dedication to development at any other commercial bank in this country." Of a total loan portfolio of P42 billion in 1994, development loans made up 66 percent.

The Landbank network has over 160 branches, and over 120 field offices nationwide; its ATM network is linked to Expressnet of the Bank of the Philippine Islands. In addition, Landbank is a creditor to more than 400 rural financial institutions and over 8,000 cooperatives, giving it an exposure to over 90 percent of the nation's rural community.

"Because we are a commercial bank, our broad client base allows us to marry different commercial activities within the farming community such as contract growers and food processing firms. This guarantees prices for the farmers and supplies for the processors," says Lapus. "We have contributed to the awareness that cooperatives play a vital role in economic development, as demonstrated by the the success of Japan, Korea and Taiwan."

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CLARK AIR BASE

THE PERILS OF PATRONAGE?

espite the advances by the Ramos administration in creating a stable and efficient environment for foreign investors, some major infrastructure projects remain caught in the political labyrinth which hampered the country's development in the past. Take the current bidding for Clark Air Base.

The former U.S. air base, 50 miles north of Manila, was handed back to the Philippines in November 1992. To generate revenue, the government designated Clark a special development zone and claimed to need a second gateway to Manila because international air passenger traffic passing through that city is due to grow from six million a year to 11 million by 2003. This, despite warnings from major airlines and foreign aviation authorities that residual ash from the still active Mt. Pinatubo volcano could prevent commercial aircraft from using Clark airport.

In 1992 Clark was placed under the administration of the Bases Conversion Development Authority (BCDA) headed by Victor Lim, a close friend of Ramos. A year later, Clark Development Corporation,



Master plan of Clark Air Base development site

under Antonio Henson, was formed as a subsidiary of BCDA to oversee construction and management of the site. The government then signed three conflicting memoranda of understanding (MOU) for the project's development.

This January, with the blessing of Ramos, Italian-Thai Development Public Co. Ltd, a major industrial conglomerate based in Thailand, submitted a formal US\$3 billion BOT proposal to construct a world-class international airport by mid-1997, and the off-site infrastructure, including a rapid transit rail system and a highway connecting the airport to Manila, a year later.

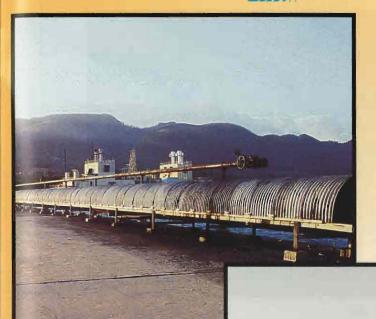
At the same time, a consortium comprising Japan's Mitsui & Co., British Airports Authority (BAA), U.S.-based Schal-Bovis, and Spain's Construcciones &

Auxiliar Ferrocarriles submitted their own BOT proposal worth US\$2.5 billion. Their project completion date — June 1999 — was in time for the nation's centennial celebration.

Since then, Lim and Henson have been arguing rather publicly over who has the authority to accept bids under the Base Conversion Act of 1992. Legal experts tend to side with Lim.

Meanwhile, President Ramos asked six of the most influential Filipino-Chinese business leaders to form their own infrastructure development firm called Asia's Emerging Dragon's Corporation, which together with BAA, signed a MOU in February for an unsolicited "two-airport" BOT project at US\$300 million. The plans call for a new terminal at the present Ninoy Aquino International Airport in Manila that will handle 10 million people a year by the end of 1998, and a small domestic terminal at Clark by mid-1996 for up to three million passengers. All three bids are still awaiting final approval, leaving foreign investors bewildered. "If the government is not careful," warns an international banker who has spent months working on this deal, "the value of a MOU could sink faster than the Mexican peso."



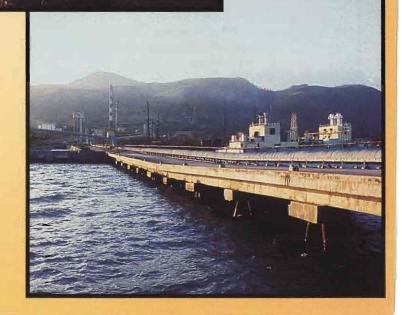


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