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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CURRENT ECONOMIC POSITION  
AND PROSPECTS  
OF  
THE PHILIPPINES

June 2, 1965

### CURRENCY EQUIVALENTS

1 peso	U. S. \$0.256
1 U. S. dollar	₱ 3.90
1 million pesos	U.S. \$256,000
1 million U. S. dollars	₱ 3,900,000

The philippine exchange rate is a free market rate. This is generally applicable for foreign exchange transactions other than export receipts. The effective rate of exchange for most export earnings is 3.51 pesos to the dollar as 20% of the foreign exchange proceeds must be surrendered to the Central Bank at the rate of two pesos to the dollar.

TABLE OF CONTENTS

	<u>Page No.</u>
BASIC DATA .....	
SUMMARY AND CONCLUSIONS .....	i - ii
I. <u>Introduction</u> .....	1
II. <u>The Political and Administrative Background</u> .....	3
Political Developments .....	3
Administrative Changes .....	5
Conclusion .....	6
III. <u>Recent Economic Developments</u> .....	6
Overall Growth and the Use of Resources .....	6
Development in the Main Sectors .....	8
Agriculture .....	8
Export Agriculture .....	9
Domestic Agriculture .....	9
Fisheries .....	10
Mining .....	11
Construction .....	11
Manufacturing .....	11
The Public Sector .....	13
IV. <u>Recent Financial Developments</u> .....	16
Overall Review .....	16
The Internal Financial Situation .....	18
Money Supply .....	18
Credit to the Public Sector .....	19
Credit to the Private Sector .....	20
Short-term Outlook .....	22
The Balance of Payments .....	22
V. <u>The Economic and Financial Outlook</u> .....	24
The Outlook for Growth in 1965-1970 .....	24
The Financial Prospects .....	26
Creditworthiness .....	27
<u>STATISTICAL APPENDIX</u> .....	
<u>ANNEX</u> .....	
Recent Trends and Prospects in Agriculture .....	1
Export Agriculture .....	1
Domestic Agriculture .....	4

BASIC DATA

<u>Area:</u>	115,000 sq. miles	
<u>Population</u> (1964 estimate):	30.7 million	
Rate of growth (long-term):	3.1% p.a.	
Population density (per sq. mile):	267	
Population density (per sq. mile of arable land):	667	
<u>Gross National Product</u> (1964 est. at 1963 prices):	17,900 million pesos	
Rate of growth (long-term):	5-6% p.a.	
(1964)	5-6%	
Per capita (1964, U.S. \$)	150	
<u>Gross Domestic Product at Factor Cost</u> (1964):	16,600 million pesos	
of which, in percent:		
Agriculture	32	
Mining	2	
Manufacturing	19	
Construction	4	
<u>Percent of GDP at Market Prices:</u>	<u>1963</u>	<u>Long-term</u>
Gross investment	13.4	12.4
Gross savings	15.6	11.1
Balance of payments current account deficit (-)	2.2	- 1.3
Investment income payments (-)	- 1.1	- 1.1
Government current revenue	10.9	9.9
<u>Resources Gap as % of Investment</u>	--	10
<u>Money and Credit</u>		
Conversion:	1 peso = \$0.256	
	1 dollar = P3.90	
	<u>1964</u>	<u>Rate of Change</u>
	(million pesos)	1960-1964
Total Money Supply	2,874	11% p.a.
Time and Savings deposits	2,380	25% p.a.
Commercial bank credit to private sector	4,000	25% p.a.
Other lending to private sector	2,500	15% p.a.
Rate of change in prices	48%	5% p.a.

<u>Public Sector Operations</u>	<u>1963</u>	<u>Long-term Rate of Change</u>
Government current receipts	1,876	8.5%
Government current expenditures	1,691	8.5% p.a.
Surplus/Deficit	185	--
Government capital expenditures	310	n.a.
Public investment expenditures	n.a.	n.a.
Total external assistance to public sector	70	n.a.
<u>External Public Debt (in million U.S.\$)</u>		<u>1964</u>
Total debt (including undisbursed)		342
Total annual debt service		55
Debt service ratio		6.3%
<u>Balance of Payments (in million U.S.\$)</u>	<u>1963</u>	<u>Long-term Rate of Change</u>
Total exports	727	5.2%
Total imports	618	3.0%
Net invisibles	57	--
Net current account balance	166	--
	<u>Mid-Fifties</u>	<u>1964</u>
Commodity concentration of exports	73%	84%
Gross foreign exchange reserves	\$250 million (or 6 months' imports)	\$209 million (or 4 months' imports)
<u>External Financial Assistance</u> (in million U.S.\$)	<u>1963</u> <u>Commitments</u>	
<u>Total</u>	<u>44</u>	
Soft assistance	29	
Hard assistance	15	
<u>Major donors</u>		
IBRD	15	
U.S.	20	
Japan	9	

## Summary and Conclusions

1. The growth of the Philippine economy in the 1950's was impressive. Annual increases in real output exceeded 6%. Growth at this rate made it possible to raise average income per person substantially in the face of a rapid increase in population estimated at more than 3% annually. Such performance is matched by few of the poorer underdeveloped countries among which the Philippines belong with an average income of roughly \$150.
2. Practically all sectors of the economy contributed to this achievement. Increases in agricultural production, although somewhat below the average, played an important part in the expansion. Most of the gains in agriculture came, however, from extending the area under cultivation rather than from improvements in generally low yields. Manufacturing was the most dynamic source of growth, increasing output by almost 10% a year and raising its share in national product to about 20%, and a sizeable group of aggressive and able industrial entrepreneurs established itself.
3. It is difficult to identify all the factors that contributed to this rapid development of industry and industrial entrepreneurship. Very important among them certainly was access to foreign exchange at far less than its real cost in terms of local currency. In combination with an import program which restricted the import of finished goods and thus ensured a sheltered market, under valuation of exchange meant high profits for Philippine manufacturers.
4. However, as the 1950's came to a close, conditions changed. Growth slowed down, indicating that the incentives were wearing off as the easy and relatively inexpensive opportunities for creating import substitution industries were being exhausted. Stagnating productivity in domestic agriculture became a factor limiting the size of the local market. But most important of all, the system of exchange controls threatened to break down, as export earnings stagnated, evasion of controls and illicit capital outflow spread, and corruption discredited the system.
5. Beginning in 1960, successive steps were taken towards the establishment of a free exchange system. The program was concluded in early 1962 when the present Administration took office. The free exchange rate settled at P3.90 to the dollar, compared with roughly half that rate before the decontrol program was begun. Exchange reform drastically changed the distribution of income in favor of exports, to the detriment of manufacturing and, to some extent, savings available for domestic investment outside export agriculture and real estate.
6. The Government was aware that the incentives for growth which would result from the free working of the exchange system needed to be modified, particularly in favor of manufacturing and domestic agriculture. The framework for such policies was embodied in the 'Five-Year Integrated Socio-Economic Program' that was worked out in collaboration with a team from the Bank and became effective in early 1962.

7. Implementation of the Program ran into difficulties. These were primarily of a political nature as the Administration and the Congress were unable to cooperate effectively. As a result, new tax measures and legislation designed to establish a new framework for growth were not enacted. The Administration also encountered greater difficulties than anticipated in adapting the administrative apparatus to the enlarged task which the Program envisaged for the public sector to undertake in helping the economy to grow.

8. As a consequence of these various difficulties, economic growth was less than it might have been in view of the potential. Nevertheless, output grew by 5% - 6% in 1963-1964. This acceleration was primarily the result of fast growth in export earnings from agricultural commodities where remarkable increases in output were achieved in response to the higher exchange rate, favorable weather conditions and strong world markets. In 1964, there was also a large increase in manufacturing output, as the industry recovered from the initial adverse impact of the exchange reform and as rapid expansion of credit in 1963 made possible investment in new plant.

9. As for the future, it is unlikely that exports will continue as the source of dynamic growth. Some major commodities face the prospect of declining prices. Others are confronted by limited markets or supplies. Altogether, it is estimated that annual growth of export earnings is unlikely to exceed 3% in 1965-1970. Thus if national product is to expand significantly, other sectors of the economy, particularly manufacturing and domestic agriculture will have to accelerate their growth.

10. Such growth will have to continue to originate predominantly in the private sector. As past experience has shown, the private sector possesses the initiative and the ability to attain growth. But for these forces to become fully operative, the public sector will have to help, more than it has in the past, in the form of infrastructure investments, agricultural development schemes, and transfers of capital. Such transfers will be of particular importance to the manufacturing industry which is not now generating a surplus sufficient to finance out of their own funds investment of a size which the potential would warrant, and private long-term financing is scarce. At present, major obstacles - financial, organizational and administrative - stand in the way of the public sector undertaking a commensurate effort along these lines. Presidential and congressional elections are to be held in November 1965. Action on basic issues is unlikely during the campaign. And the pace at which improvements can be achieved subsequently will be determined in large measure by the ability of the next Administration and Congress to cooperate effectively.

11. As a consequence, growth of output is likely to be fairly slow over the next one or two years and the Philippines' net capital inflow requirements will be correspondingly small. To the extent that these have to be met by borrowing, they can be accommodated on conventional terms. However, if after 1965 conditions are conducive to a much larger investment effort, the need for external borrowing in the latter 1960's is likely to reach amounts which, if assumed on conventional terms, would leave little room for conventional borrowing in the 1970's.

## I. Introduction

1. The growth of the Philippine economy during the decade of the 1950's was impressive. Annual increases in real output exceeded 6%. Growth at this rate made it possible to raise average income per person substantially in the face of a rapid increase in population estimated at more than 3% annually. Such performance is matched by few of the poorer developing countries among which the Philippines belong with an average income of roughly \$150. Rapid growth in the 1950's was accompanied, and largely made possible, by a marked departure from traditional patterns of investment and, consequently, production. The share of agriculture in total output declined from 40% in 1950 to 33% by the end of the decade. Manufacturing industry raised its contribution from 10% to 20% and a sizeable group of aggressive and able industrial entrepreneurs established itself.

2. The growth of the 1950's occurred in response to a particular set of opportunities that were created by a combination of propitious circumstances and favorable Government policies. Among the latter, the most consequential act of the Government was the decision in 1949 to stop the rapid loss of exchange reserves by establishing exchange controls, while maintaining the pre-war rate of exchange. Granting access to foreign exchange at far less than its real cost in terms of local currency became the Government's most effective instrument in opening up opportunities for profitable investment in manufacturing production for the local market, while it discouraged the flow of capital into the traditional fields of activity, particularly export agriculture.

3. These opportunities were further enhanced by deliberate use of quantitative controls for protection of the domestic market against imports of finished manufactured products, by far-reaching exemption from taxation and by liberal credit policies. As few manufacturing establishments other than facilities for processing agricultural commodities existed in 1950, and as imports of finished manufactured products were large, there was a ready market for domestic manufacturing industries producing import substitutes.

4. Among the propitious circumstances that made such policies and the rapid growth that followed from them possible, the basic strength of the Philippines' balance of payments position was probably the most important factor. Over the larger part of the 1950's, the country did not experience protracted balance-of-payments difficulties. Export earnings, supported by the privileged position of major exports in the United States market and favored by fairly stable prices, rose by 45% during the decade. In the early 1950's, U.S. Government expenditures, including war-damage payments, still were high. Thereafter, private capital inflows and aid from official sources ran at a level around \$50-\$60 million in a year, or roughly 12% exchange earnings. Finally, the Philippines entered the 1950's with large exchange reserves, part of which could be used safely to supplement current receipts.

5. In addition, growth was of a kind that the net increase it generated in demand for foreign resources was small. Over the decade, imports increased at an average annual rate of only 3%. In other words, growth in real output was twice as fast as the increase in imports.

Furthermore, growth in real output exceeding 6% a year was sustained by a fairly low investment rate. Official data suggest an incremental capital: output ratio around 1.5. This remarkably low ratio undoubtedly gives too favorable a picture of the productivity of investment during this period. It is known that official statistics understate investment, and the undervaluation of exchange expressed itself in the undervaluation of imported capital goods. Nevertheless, investment during the 1950's probably was highly productive. Savings were not much short of investment so that, although comparatively low, they did not need to be supplemented by a large inflow of capital.

6. However, as the decade came to a close, conditions changed. Growth slowed down, indicating that the incentives were wearing off as the easy and relatively inexpensive opportunities for creating import substitution industries were being exhausted. Unbalanced growth which had left the productivity of domestic agriculture almost untouched, made itself felt as a factor limiting the absorptive capacity of the domestic market. But most important of all, the system of exchange controls threatened to break down. Export earnings stagnated. There was widespread evasion of controls and illicit capital outflow. An increasing portion of exchange earnings had to be earmarked for imports necessary to maintain the existing level of production. Corruption discredited the system. Rampant speculation further aggravated the situation and reserves dwindled.

7. Thus the framework of policies which had been so successful during most of the 1950's, proved inefficient and unworkable by 1959, and conviction grew that devaluation had become unavoidable. The decision taken in early 1960, however, provided not only for devaluation. It also envisaged that exchange controls should be dismantled and a free exchange system established. By successive steps, the effective rate of exchange was raised and payments liberalized in 1960 and 1961. Early in 1962, when the present Administration took office, the program was concluded by the introduction of a virtually free exchange system and a free exchange rate which settled at ₱3.90 to one dollar, as compared with the rate of two pesos to one dollar before the de-control program was begun. This was a radical change indeed, especially as it changed the distribution of income in favor of exports, i.e. principally commercial agriculture, to the detriment of manufacturing, and probably depressed savings available for domestic investment.

8. Liberalization of the exchange regime was regarded widely in the Philippines as a return of "free enterprise". However, the Government was aware that the incentives for growth which would result from the free working of the exchange system needed to be modified, particularly in favor of manufacturing and domestic agriculture, in order to accelerate growth. The framework for such policies was embodied in the "Five-Year Integrated Socio-Economic Program for the Philippines" that was worked out in collaboration with a team from the Bank and became effective in early 1962.

9. The objectives of the Program may be summarized as follows: It sought to increase gross domestic product by an average rate of 6% a year over the period 1963-1967, with annual growth rates rising from 5.5 to 7%.

For such growth to be accomplished, it was estimated that gross domestic investment would have to be raised to 16.1% of gross domestic product. It was believed that, with appropriate policies, domestic savings, including reinvested foreign earnings, could provide some 90% of the investment resources required. As a supplement, a gross foreign capital inflow, including donations, of \$1,292 million would be needed. Debt service, remittance of profits and additions to exchange reserves were to absorb \$715 million so that the net inflow required was estimated at \$577 million.

10. As a direct means of encouraging private investment, particularly in manufacturing, it was proposed that legislation be enacted concerning tariffs, investment incentives, and foreign investment. It was further envisaged that the Government would expand considerably its direct participation in the economy: a large program of public investment in infrastructure and agricultural development schemes was drawn up and legislation was proposed for raising revenue substantially above its traditional share of 9% - 10% of GNP. Finally, it was envisaged that the public sector, being through the Development Bank of the Philippines and the social security schemes the major source of long-term financing, should actively use its position for stimulating and directing private investment in preferred areas.

11. A new agency was created in the Government, the "Program Implementation Agency" (PIA). It was to be the focal point of all activity under the Program, its responsibilities ranging from the preparation of necessary legislation, through project analysis, to effecting the changes required in the institutional set-up and the procedures of the Government if it was to cope effectively with its greatly enlarged responsibilities and functions. Special arrangements were made to attract a group of competent and energetic people from both the private sector and Government agencies to PIA.

12. This report deals with developments since early 1962. It is primarily an analysis of the reasons why the high hopes, with which the Program was begun, were fulfilled only partially, and of the conclusions that can be drawn for the prospects of the economy. However, in evaluating the evidence and appraising the performance during the period under review, one should bear in mind that the institutional changes that were sought and that were necessary to fulfill the Program, clashed in many respects with the traditions of the country. They were therefore difficult to accomplish within the tenure of one Administration.

## II. The Political and Administrative Background

### Political Developments

13. Political tradition in the Philippines is anti-statist. It subscribes to the view that a government circumscribed in its activity and empowered to appropriate through taxation only a small part of national income best serves the causes of political freedom and economic advance. With the exception of the Hukbalahap movement - a revolt among the rural population of Central Luzon which began in the early post-war period and was not finally crushed until 1954 - this tradition has not yet been

seriously challenged. From time to time, agrarian unrest has broken out into violence, but these outbreaks were localized and directed towards redress of immediate grievances rather than basic institutional changes.

14. Thus political traditions in the Philippines do not favor strong government. This limitation on executive power is aggravated by the separation of the executive and legislative branches, by the electoral system which allows different parties to control the executive and the Congress, and by the nature of party organization. There are only two major political parties, the Liberals and Nacionalistas. Both are essentially conservative. Shifts of alliances within parties are frequent, and transfers of allegiance from one party to the other are not uncommon. There is therefore little basis for strict party discipline.

15. These basic obstacles aside, conditions in the last three years were not favorable for enactment of a strong legislative program. Macapagal, a Liberal, was elected President in late 1961 over the incumbent Nacionalista candidate. However, majorities of the Nacionalista party were returned to both Houses of Congress. President Macapagal managed, through defections from the opposition, to obtain control for his party in the House of Representatives. But control over the Senate eluded the Liberals. After an intensive campaign in 1963, the Liberal party had a majority in the Senate for a brief period, but defections to the opposition again reduced it to the minority position.

16. For various reasons, among which the party alignment in the Congress no doubt was one, the Administration and the Congress were not able to establish an effective working relationship. As a result, little progress was achieved in adapting the legal framework to the requirements of changed economic circumstances, particularly in the fields of investment incentives, foreign investment and tariffs. New revenue measures and increased borrowing authority for the Government - which were preconditions for the increase in capital expenditures that was planned - were not approved. The exception was legislation on land reform which, with the support of the opposition party, was enacted in late 1962 and which may in time bring about improvements in the tenure system.

17. It is not likely that the legislative deadlock will be resolved in 1965. Presidential elections will be held in November this year. The Liberal party has re-nominated President Macapagal, and the Nacionalistas have also chosen their candidate. The election campaign has already begun. In such an atmosphere it would be unrealistic to expect basic issues to be dealt with.

18. On the broader economic scene, sharply nationalistic voices made themselves heard recently. On several occasions, demonstrations took place for a revision of the present 'status-of-forces agreement' which would widen Philippine jurisdiction over American troops stationed in the Philippines. Certain sections of the business community demanded an early end to the parity rights now enjoyed by American business in establishing plants and exploiting the country's natural resources and due to expire under existing treaties only in 1974. Particularly in manufacturing - which was hurt by the abolition of exchange controls - influential

businessmen were urging that restrictions be imposed on new foreign investment. However, the meaning of these rumblings should not be exaggerated. After all, there has long been a nationalistic undercurrent against an overwhelming American presence. As regards foreign relations, especially with the United States, the ultimate outcome of these developments may mean simply that the Philippines will strengthen its ties with Asian countries and the less developed world so as to balance its present association with the United States. As regards foreign investment, new foreign enterprise may be excluded from certain areas of activity, but it seems unlikely that restrictions will be imposed that would seriously weaken the Philippines' attraction for foreign investment. No doubt the more extreme demands that are now being heard in this respect will subside as the pressures ease under which domestic manufacturing is presently laboring.

19. Nevertheless, there is a good deal of uncertainty with regard to the treatment of foreign investment and potential investors appear reluctant to commit themselves until present uncertainties are removed. Of particular relevance in this respect is the Retail Trade Nationalization Act which was enacted in 1954 but provided that it would be put into effect gradually over a 10-year period. When the Act became fully effective last June, two major questions of interpretation had remained unresolved: first, what constituted 'sales to final consumers' from which foreign businesses were to be barred henceforth; second, whether American enterprises had to be owned 100% by U.S. citizens in order to qualify for exemption from the Act under the parity privileges accorded by the Laurel-Langley Act. As the Act is presently interpreted, sales to final consumers would include sales by manufacturing companies to other manufacturers, wholesalers and the Government, and 100% U.S. ownership would be required of American businesses. Several suits challenging the legality of this interpretation are pending. Until they are decided, uncertainty will continue to prevail.

#### Administrative Changes

20. On the administrative side, some progress has been made in re-organizing the structure of government agencies and revising their procedures so as to adapt them more closely to the enlarged task of the public sector. Considering the enormous dimensions of the task in the context of a government apparatus that was to an unusual extent ill-prepared for the task of development because it is infested with inter- and intra-departmental rivalries, and where action is stifled by a multiplicity of rules and regulations and politicians have traditionally enjoyed considerable influence, the accomplishments are perhaps not quite as meager as they might seem in the abstract and as they might be regarded in relation to the hopes that were held out when the present Administration took office in 1962.

21. There is no doubt that PIA is still groping to find the most effective way in which to accomplish the purposes for which it was created. However, many of the short-comings that are so apparent now, would probably have been less obvious if funds had been available more nearly in line with the original plans. The availability of funds over and above those normally subject to political influence and encumbered by traditions of 'fair' regional

distribution would probably have acted as a strong stimulus on the existing departments. However, as it was, PIA had to impose increasingly severe economies with respect to Government outlays. And towards the end of 1964 they found themselves in the anomalous position of having to apportion and enforce cuts in expenditure for development purposes rather than increasing the absorptive capacity of government departments. This not only weakened the position of PIA vis-à-vis the departments, but also absorbed the greater part of their energies in the day-to-day task of managing the Government's finances.

22. Poor performance of the customs bureau needs to be singled out because, in the absence of exchange controls, its failure to enforce the effective application of tariffs and to keep smuggling in check, had serious consequences. It appears that smuggling and underdeclaration of imports for customs purposes are threatening some domestic industries, entail a considerable drain on foreign exchange and involve the loss of sizeable revenue to the Government. Efforts are now underway to attack this serious problem by enlisting the help of the Philippines' major trading partners in devising means which would reduce the scope for under-declaration.

### Conclusion

23. In conclusion, the last three years have not seen the increase in the Government's authority, ability and financial capacity to conduct the economic affairs of the country that would have been necessary to establish a new basis for sustained rapid economic growth. In 1963 and 1964 the Philippines were fortunate that the rapid expansion of export agriculture largely mitigated the effect of these shortcomings in Government performance so that overall growth was nevertheless sizeable. However, it is unlikely that export agriculture will continue to grow rapidly. Thus the basic problem still is to shift the source of dynamic growth to domestic production and, in facilitating this shift, the Government will have a major role to play. At the moment it is uncertain when significant progress in this direction will be achieved, but it is unlikely before the elections next November.

## III. Recent Economic Developments

### Overall Growth and the Use of Resources

24. In the last two years, growth in real output and income recovered somewhat from the slow pace to which it had receded in 1962 when the difficulties of adjustment to the new exchange regime were at their most acute and the construction boom collapsed under conditions of tight credit. National income statistics in the Philippines are not reliable indicators of actual developments and it does not seem useful to attempt assigning precise figures to the economy's performance. As a rough estimate, the growth in real output achieved in 1963 and 1964 appears to be in the range of 5% - 6% a year. This rate compares favorably with growth in the earlier 1960's and roughly matches performance in the latter 1950's.

25. There is no doubt that growth in 1963 and 1964 was considerably more rapid than it had been in the preceding two years. The largest contribution to growth originated in agricultural production for export which responded swiftly to the opportunities opened up by the higher exchange rate and strong demand in the world market. Boom conditions again prevailed in the construction industry. But perhaps the most remarkable achievement was the continuing expansion of manufacturing production which, considering the constraints under which this industry labored, attests to the resilience, ability and ingenuity of the Philippines' industrial entrepreneurs.

26. It appears that overall growth in real output and income did not fall short by much, if at all, of the targets set by the Five-Year Program. Thus overall, the resources available to the economy from domestic sources were close to expectations. However, the relative contributions by the various sectors differed significantly from the expectations -- and the design -- of the Program. Real output and income from export agriculture and construction increased much more rapidly than had been estimated, while domestic agriculture, manufacturing and the public sector grew more slowly. This deviation from the expected pattern had important consequences for the use of resources.

27. These consequences derive principally from three factors: first, the psychological and institutional barriers to a free flow of surplus funds from export agriculture to other sectors of the economy, except investment in real estate; second, the weakness of incentives for a voluntary movement of funds into other sectors, principally manufacturing and domestic agriculture, including large development schemes in live-stock and food crops, because the Government was frustrated in its efforts to enhance the attractiveness of investments in these fields; third, the weakness of the Government's redistributive machinery in overcoming these various impediments through compulsory action. i.e. taxation or similar means. For all these reasons, together with the serious weakness of effective customs administration, capital outflow and payments for unessential and unrecorded imports were substantial. They exerted considerable pressure on the balance of payments. In 1964, it reached such magnitude that it became imperative to subordinate to defense of the exchange rate and exchange reserves all other goals. As it was not feasible to abandon, even partially, the free exchange system and as the Government, even with strict economies in expenditures, needed to borrow increasingly from the banking system, this meant in effect that credit to the private sector had to be made very tight in 1964. Although it is difficult to see what alternative course of action could have been taken in the circumstances, such policy was tantamount to curbing growth in those sectors which have to rely on credit for financing expansion. Its effect will probably become apparent in 1965 and 1966, but its severity is difficult to predict as established firms no doubt sought to evade the credit squeeze by contracting suppliers' credits abroad.

28. For lack of adequate statistics it is impossible to be precise about the level of gross domestic savings and the amount and direction of investment. However, some general statements can be made with a reasonable degree of confidence. It appears that savings were not significantly less than the targets set by the Program, i.e. probably around 11% - 12% of GNP. However, gross domestic investment fell short by a considerable margin. This was so partly because the gross

inflow of private and official foreign capital (reflecting the uncertain position of foreign investment and the slow pace of project preparation in the public sector) was much less than expected. But the principal reason was a substantial outflow of capital, originating presumably in the export sector. Investment in infrastructure, manufacturing and domestic agriculture was considerably less than programmed, while it appears that investment in real estate and export agriculture (including stocks) was substantially higher.

29. It appears also that over the last few years a substantial deterioration occurred in the relative income position of wage earners. Available data, admittedly of limited reliability, suggest that since 1960 real wages of industrial workers have declined by more than one-tenth, thus continuing a trend that has been underway since the mid-fifties. No firm statistical basis exists for analyzing which income groups were favored by this shift to the detriment of wage earners. It may well have been to the benefit of the high income groups. If this were so, it presumably helped raise savings. Nevertheless, savings were not very high in relation to GNP. Looking ahead to the future, a reversal of decline in real wages may entail difficulties in maintaining a satisfactory level of savings. In fact, early in 1965 the minimum wage law was amended, raising the minimum wage in industry from four to six pesos. It is not yet certain whether this increase will be spread over a period of time and what effect it will have on other wages.

30. The conclusion to be drawn from the foregoing analysis of growth and the use of resources in the past three years appears to be that despite considerable growth the Philippines have not yet been able to establish a firm basis for sustained rapid growth in the future. This statement is not meant to detract from the accomplishments of this period. It is rather meant to focus attention on the fact that the prospects for continued rapid growth of export agriculture are not bright over the next several years and that overall growth will decline, unless growth in other parts of the economy can be accelerated.

#### Developments in the Main Sectors of the Economy

##### Agriculture

31. All through the 1950's, the share of agriculture in total national product declined rapidly as agricultural output grew much more slowly than the rest of the economy, particularly manufacturing. Since the new exchange regime took effect in 1962, this trend appears to have been halted and the contribution of agriculture stabilized at roughly one-third of the national product. During crop years 1962-1964, agricultural output is estimated to have risen by about 5% a year, on the average. It thus appears to have performed in a much more dynamic fashion than it had in the latter part of the 1950's when the annual rate of growth was around 3% - 3.5%. This acceleration was brought about entirely by rapidly expanding output in export agriculture which reached an annual rate of 7.5% - 8%. In contrast, available data suggest that growth of domestic agriculture slowed down to an annual rate below 3%.

### Export Agriculture

32. During the past few years, conditions were unusually favorable for expanding production of agricultural export commodities. Most important among them was the increase in the exchange rate in 1962 which boosted the peso income from exports by about 40% as compared with the period 1959-1961. Demand on the world markets was strong for all of the Philippines' major export commodities -- coconut products, sugar, logs and lumber, and abaca. In dollars, export prices in 1963-1964 were only slightly higher than in 1959-1961, but roughly 10% higher than in 1955-1957. Furthermore, climatic growing conditions were favorable. The result was that in 1963-1964 export earnings were about one-fourth higher than in 1959-1961, taking into account estimated unrecorded exports in the earlier period. In terms of pesos at current prices, the increase in income resulting from the growth of export earnings and the devaluation of the currency together was equivalent to roughly two-fifths of the total increase in GNP (at current prices) in 1962-1964. The magnitude of this contribution to growth of income -- about twice the traditional average share of export earnings in GNP -- again underscores the importance of export agriculture in recent growth. Implicitly, it also demonstrates the shift in income distribution towards exporters which has occurred since the new exchange regime was introduced.

33. There is some question, however, whether growth at this pace can be sustained. It appears that the high level of earnings attained in 1963 and 1964 was largely the result of an unusual combination of favorable factors that is not likely to persist as a stimulating force over the next several years. Thus the gains made in the recent past might be viewed as having anticipated in large measure a more uniform growth spread over a longer period. In the Annex to this report, recent trends in export agriculture and the prospects for growth are discussed in some detail.

34. In summary, as can now be foreseen the output of Philippine export agriculture can be expected to grow by about 3% a year, but the annual increase in earnings is likely to be only 1% - 2%, on the average, over the next five to six years. The consequences of this outlook are perhaps not so important for the foreign exchange situation, considering that the level of export earnings in 1964 was very high. They appear to be more significant for the growth of income because they imply that in order to sustain the rate of growth achieved in 1963-1964, output in the domestic sector of the economy would have to increase much more rapidly than it has in the recent past.

### Domestic Agriculture

35. Domestic agriculture has long been the sector in the economy where it has been most difficult to achieve sustained growth and raise production at a rate above population increases and more nearly in line with the considerable potential that exists in this sector. Nevertheless, the 1950's saw a fairly steady rise in agricultural production for the domestic market, brought about mostly by increasing the land area under cultivation, rather than by improving productivity where gains were insignificant. By 1960, it appeared that in normal crop years production would suffice to meet the

requirements of staple foods, although imports around \$80 - \$100 million were still needed in subsidiary foodstuffs, particularly dairy products, meat and fish. However, it seems now that this assessment no longer holds true. In the last few years, growth of output has slowed down below 3%, and substantial imports of staple foods, mainly rice, will again be required.

36. It is difficult to say to what extent causes other than unfavorable weather and some diversion of land to sugar were responsible for this poor performance. However, it seems safe to say that little has been accomplished during the last few years in removing any of the basic obstacles to more rapid growth in domestic agriculture, i.e. insufficient irrigation, lack of improved seeds which are responsive to fertilizer, the prevalence of share-tenancy over large parts of the rice-growing area in Luzon, the lack of co-ordination among a multiplicity of agencies engaged in extension and similar services, complicated procedures for the alienation of public lands for large-scale private development schemes, and insufficient attention to marketing and processing facilities. Some of these problems have been receiving increasing attention, but the progress that has been made has been too recent to have affected production. In any case, much more needs to be done in order to accelerate growth in the future.

37. Recent trends in output of major commodities and the outlook for the future are dealt with in the Annex to this report. In conclusion, there is considerable room for improvement in the performance of domestic agriculture. In some cases, it will undoubtedly take many years before basic problems are overcome. Production of rice, for instance, is unlikely to increase by much more than 3% a year for some time to come. However, there is a sufficient number of other lines of production, including particularly livestock, whose potential for growth can more readily be realized than it should be possible to raise total output of domestic agriculture by more than 4% a year. Whether this rate will be reached, depends largely on continuing progress in improving the Government's agricultural services and on the availability of sufficient Government funds to support an expanded development effort in this sector.

#### Fisheries

38. Fishing has so far been a relatively minor industry in the Philippines, contributing roughly 3% of GNP. Moreover, domestic production has remained insufficient to meet consumption requirements so that about 15% of total supply has come from imports. Statistics on fish production from sources other than commercial vessels are unreliable so that no accurate record of the growth of total production is available. However, production of fish from commercial vessels has increased very rapidly, by about 20% annually, in 1960-1963. This increase has been made possible by substantial investments in new vessels which expanded the size of the commercial fishing fleet by 45% during this period. This expansion is clearly a result of the industry's increased profitability after the new exchange rate raised the cost of competitive imports.

39. The prospects for further expansion of fish production are good. If consumer preference for imported varieties can be overcome, there appears to be considerable room for further import substitution. Moreover, per-capita consumption of fish products is still low. However, existing infrastructure facilities, i.e. ice plants, cold storage, canning plants and

port facilities, are fast becoming a bottleneck to the industry's further expansion. Construction of new facilities was long held up by inter-departmental rivalries. It appears now that the newly created Fisheries Commission will be able to proceed with the preparation of construction plans, although it is not yet certain that sufficient funds can be made available to finance the scheme.

#### Mining:

40. The Philippines have rich mineral deposits whose potential has so far not been tapped fully. Mineral production contributes about 1% - 2% of GNP. A wide range of ores is being mined, including precious and base metals. Exploration for oil has not yet been successful. Some coal is mined now, but there are no known commercial deposits of coal suitable for coking. Exploration is continuing in conjunction with plans for the establishment of a domestic steel industry.

41. Almost the entire mineral production is exported, earning roughly \$60 million annually. The increase in the exchange rate in 1962, therefore, brought a considerable boost in income to the industry but its response has been slow. Total output increased only by 2% - 2.5% a year between 1959-1961 and 1963-1964. However, growth in production accelerated in 1964 and considering the investment that has been made recently in opening up new mines, it seems likely that output, and export earnings, will rise by 4% - 5% annually over the next few years. Over the longer run, expansion could be considerably faster, particularly when exploitation begins of large deposits of high-grade nickel and iron ore in Mindanao for which bids have been invited.

#### Construction

42. The construction industry, contributing some 3% of GNP, has enjoyed a strong boom in the last two years after recovery from the slump in 1962. Boom conditions will probably continue into 1965. There is no reliable statistical information on the total value of, or value added by, construction in the Philippines as a whole. For the Manila area, it appears that the value of construction in 1963-1964 was at least one-third above the average level of 1959-1961. The main impetus behind this boom has been the construction of new, high-priced residential and commercial areas in suburban Manila, while much-needed low-cost housing continued to be neglected and plant construction did not show any marked increase.

#### Manufacturing

43. Manufacturing industry grew rapidly in the 1950's under heavy protection from quantitative import controls and with the support of undervalued foreign exchange and liberal credit expansion. By 1960, after a decade of an annual expansion of output by almost 10%, manufacturing contributed roughly 20% of GNP and employed some 12% of the active labor force. The larger manufacturing establishments accounted roughly for 80% of output and 25% of employment and it was here that most of the growth had taken place. The large number of small establishments and workshops did probably not expand output significantly and their relative

share in total manufacturing output declined, but they are far more important as a source of employment than the larger establishments. By 1960, a wide variety of non-durable consumer goods was being produced in the Philippines and some inroads had been made into the field of durable consumer goods. However, the industry remained heavily dependent on imports of raw materials and semi-finished goods, partly because at the going exchange rate there was little incentive for extending production into the earlier stages. Capital goods were also almost entirely imported.

44. With the introduction of the new exchange regime in 1962, the degree of protection enjoyed by manufacturing was reduced considerably. At the same time, the cost of imported raw materials and capital goods rose substantially, while generally tight credit in early 1962 and increased competition from imports did not permit prices to be raised so as to relieve the squeeze on profits. In the latter part of 1962 and in 1963 easier credit and the resultant increase in monetary purchasing power provided some relief. However, little was done to put into effect the various remedial measures that were originally intended to mitigate the adverse effects of the new exchange regime on manufacturing development. Though some tariffs were raised by executive order, a revision of the Tariff Code was not enacted. Moreover, due to inefficient customs administration, effective tariff protection was considerably less than official rates would suggest. Smuggling and underdeclaration of imports are causing difficulties in several major industries, particularly textile and cigarette manufacturing, and the range of goods affected appears to be widening. Some progress was made in co-ordinating the policies of the Government lending institutions, but the volume of lending for refinancing existing manufacturing enterprises and financing new ones has so far been small. Comprehensive legislation on investment incentives was not passed, except that extensive relief from taxes and duties was granted to the textile industry.

45. Nevertheless, output continued to grow and excess capacities in some fields were absorbed so that by 1963, when credit was available, sizeable investments in new facilities were being undertaken. These were reflected in the rate of output growth accelerating from 5.7% in 1962 to 9.4% in 1964. Although production indices are unreliable and it is impossible to determine with some accuracy the level or growth of output, they are believed to reflect the general trend. This belief is substantiated by less comprehensive data from other sources on growth of output since 1961. In the cement industry, production has increased by 25%. Similar or even higher increases were attained in the textile, paper and chemical industries. Some manufacturers of durable goods, especially in the fields of metal fabricating and machinery, doubled their output. Local car assemblies, almost non-existent a few years ago, are now able to supply 80% of the local market.

46. Aggregate financial data on selected manufacturing enterprises, which probably are representative of the best-run companies, show some interesting developments. It appears that in the period 1959-1961 to 1963 the profit margin on sales fell drastically. However, by expanding sales (at current prices) by almost 100%, these companies were able to maintain their rate of profit on equity at about 18%. This seems to be a very healthy development towards lower profit margins on sales and

more efficient operation. However, improvements in these directions have entailed the need for greatly increased debt financing and aggravated the liquidity problems of many companies. These problems were probably manageable as long as credit was generally available, as it was during the latter half of 1962 and in 1963. However, since the beginning of 1964, the situation has changed. Credit has become very tight and is likely to remain so in 1965.

47. The credit outlook as well as the particular difficulties which manufacturing companies, whose debt-equity position is generally deteriorating, appear to experience in obtaining additional credit, do not augur well for a continuation of growth around 10% a year in the immediate future. In addition, it would appear that the prospects are not bright for early enactment of much-needed measures in support of future industrial expansion. Together, these difficulties are likely to act as a brake on the pace at which the considerable opportunities for further expansion are exploited. The opportunities appear to exist particularly in food processing (fruits and vegetables as well as fish and meat), textiles, building materials (including cement, prefabricated housing, sanitary ware), metal fabricating (particularly automotive and machinery parts), chemicals (fertilizer, soda ash, miscellaneous petrochemical products), electrical machinery and equipment, as well as iron and steel where two plants with a combined capacity of 500,000 tons are currently planned. With favorable Government policies, including in particular access to long-term funds for refinancing and financing new facilities, it should be possible to expand manufacturing output by 8% - 10% annually over the next five years, but over the next two years growth might be slower because it is not likely that such policies will become effective before 1966.

#### The Public Sector

48. Traditionally, Filipinos -- or at least those who carry political weight -- have looked with disfavor upon a large public sector playing an important role in the economy of the country. This attitude has effectively kept public expenditures at a relatively low level. Total expenditures of the national and local governments, although rising slightly in relation to GNP during the 1950's, stayed in the range of 13% - 14% of GNP. Revenues, heavily concentrated on indirect taxation, rose almost parallel to expenditures so that, with the exception of presidential election years in which expenditures tended to jump, the need for the Government to resort to borrowing from the banking system remained limited. However, as the decade of the 1950's drew to a close, pressure for increased expenditures, particularly for education, mounted and the growth of expenditures tended to outpace the rise in revenues so that overall deficits began to appear regularly. This tendency added appreciably to the difficulties of keeping monetary expansion under reasonable control.

49. When the present Administration took office in early 1962, it was its intention to break the limitations which existing sources of revenue had imposed on the scope of government expenditures. To this end, it placed before Congress new revenue proposals that were designed

to contribute about ₦ 1,500 million, or almost one-third of the amount of ₦ 4,800 million by which national government revenue in FY 1963-1967 was expected to exceed total collections in FY 1956-1960 (at estimated post-devaluation prices). For reasons discussed earlier, these measures were not acted upon. Nevertheless, through increases in the tax base and improved collection, including particularly the settlement of arrears, revenue increased by more than 50% in the period 1960-1961 to 1963-1964. Tax revenue went up even more rapidly, by 60%, and rose in relation to GNP from 7.5% to nearly 9%.

50. These increases represent a creditable achievement. Yet the rapid expansion of current expenditures absorbed almost entirely the increase in revenue which occurred during the period. Thus the National Government's current surplus rose only insignificantly in absolute amount, and declined in relation to total revenue. In relation to GNP it barely exceeded 1%. No doubt, the increase in current outlays involved a sizeable amount that went towards purposes of doubtful economic priority: subsidies, originally intended as a temporary cushion against the effect of devaluation on the prices of staple foods, tended to become a normal part of expenditures and rose to ₦ 100 million a year. An equal amount was spent in 1963-1964 on an emergency employment program of limited economic usefulness. Various corporations and enterprises required increased transfers to meet their losses. But, to a large extent, the increase in current expenditures went into economic and social services of high priority, including a much-needed raise in salaries.

51. Capital outlays, on the other hand, rose only marginally, from ₦ 330 to ₦ 360 million, between 1960-1961 and 1962-1964, and their share in total outlays declined from 24% to 18%. Thus only limited progress was achieved in improving the country's lagging infrastructure, particularly roads, and in pushing the development of domestic agriculture through public investment schemes in irrigation, flood control and opening up new land. Lack of funds, caused by both the failure to levy additional taxes and the sharp growth of current outlays which exceeded original expectations, was primarily responsible for the disappointing performance. But difficulties in effectively organizing the departments concerned with development outlays also played a role. Some progress appears to have been achieved in this field and some improvement in the allocation of capital funds has become noticeable. Such improvements would probably have been more apparent if more funds had been available above those unavoidably channelled into pork barrel projects.

52. Looking ahead, it would appear that any progress that may be made in overcoming existing organizational and administrative obstacles to larger capital expenditures would be frustrated by financial limitations. Although somewhat stricter control over current outlays would help, relief of this situation will have to come principally through additional taxation. This is clearly demonstrated in the current year's budget. Official estimates of tax revenue in 1964-1965 show an increase of only ₦ 100 million, or 6.5%, above the 1963-1964 level, and these estimates may be too high by ₦ 20 - ₦ 30 million. Altogether, taking into account some expected reduction in other revenue, total revenue this fiscal year is likely to

exceed that of the previous year by only ₱ 40 million, or 2%. This rather poor prospect is due principally to two factors. First, recent legislation which granted tax exemptions to the textile and certain chemical industries as well as diverted certain revenues to the support program for Virginia tobacco. Altogether, a loss in revenue of ₱ 125 million was involved. Second, the increasing share of National Government revenue that is transferred to local authorities, resulting from the provision made some time ago that, in addition to existing statutory transfers, 30% of the increase in income tax collections above the 1958/59 level be transferred.

53. The Government has this year again recommended to the Congress new revenue measures. These include increases in personal and corporate income taxes (present maximum rates are 60% and 30% on incomes exceeding ₱ 500,000 and ₱ 100,000, respectively) and in levies on gasoline and diesel fuels as well as a new export tax. Together, these measures are estimated to yield about ₱ 275 million. However, it does not seem likely that any of these measures will be approved this year. At the earliest, such legislation might be passed in 1966 after the coming elections. Against this background of a rather small prospective increase in revenue and the expectation that current expenditures are bound to rise further, any increase in capital outlays would raise the overall budget deficit. Financing such higher deficit would entail, in one way or another, increased recourse to borrowing by the Government.

54. One could perhaps argue that in the context of the financial situation of the public sector as a whole, financial considerations need not deter the National Government from increased borrowing to finance additional capital expenditures. Considering the existing non-financial obstacles, it is not likely that capital expenditures by the National Government and government corporations could exceed the Government's current surplus plus the corporations' internally generated funds and external borrowing by much more than perhaps ₱ 250 million. This amount would correspond roughly to the annual net generation of funds by the Government Service Insurance System (GSIS) and the Social Security System (SSS) which conceptually are part of the public sector. In other words, with capital expenditures stretched to the limits of absorptive capacity, the public sector as a whole would not need to claim part of private savings or resort to bank credit. However, in the Philippine case such approach would not seem desirable. One of the basic problems is the insufficiency of domestic savings, particularly their availability in the form of long-term funds to those sectors of the economy, such as manufacturing, which largely depend on borrowed funds to finance their investment. The government insurance schemes are major sources of such funds. Therefore any diversion of their surplus to financing Government capital expenditures would tend to reduce investment in sectors of the economy which have demonstrated their productivity. On balance and despite the urgent need to raise Government capital outlays, it would seem that such diversion of funds would adversely affect growth of income. In other words, growth of income through expanding activity in the private sector is dependent on transfers of capital from the public sector. In order to provide for these transfers and to finance increased public investment, public savings must be raised. It does not seem likely that this objective can be reached without substantial additional taxation.

#### IV. Recent Financial Developments and the Short-term Outlook

##### Overall Review

55. The exchange reform of early 1962 greatly increased the importance of internal financial, and particularly credit policies in determining the course of the economy. First, because exchange controls were eliminated, maintenance of internal financial stability became the single most important means of preserving the exchange rate and/or the level of exchange reserves. Secondly, the function of stimulating selectively growth in particular sectors of the economy was transferred from exchange controls to selective credit controls, encompassing the lending activities of the commercial banks and the major long-term lending institutions, in conjunction, of course, with the various instruments at the disposal of the Government.

56. Performance with regard to selective credit policies will be dealt with later. As regards internal financial stability, the Philippines has since 1962 gone through a full cycle of restraint, progressively rapid expansion culminating in the fall of 1963, and a re-institution of restrictive policies in early 1964. Exchange reserves have gone through a corresponding cycle as it has been the policy of the Central Bank to support the exchange rate at P 3.90 to the U.S. dollar.

57. Shortly after the Philippine authorities had begun in early 1964 to slow down the expansion of credit, the IMF insisted that as a condition for the renewal of the standby arrangements, which had been in existence since April 1962, the Government impose certain limitations on domestic credit. These took the form of a ceiling on the amount by which the net domestic assets of the Central Bank were permitted to rise during the twelve-month period beginning April 1964. Included was a specific limit on temporary borrowing from the Central Bank by the Government for budgetary purposes which was more restrictive than pertinent Philippine legislation. Altogether, the increase permitted in net domestic assets of the Central Bank amounted to P 130 million, or roughly 6% of the amount outstanding at the beginning of the period, with the provision that any new borrowing abroad by the two government-owned banks, the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP), be charged against the ceiling.

58. These were very restrictive provisions, indeed, because during the same period the Central Bank was expected to withdraw some P 270 million from circulation in the form of profits from the export retention scheme by which 20% of export proceeds have to be sold to the Central Bank at the rate of two pesos to the dollar, as against the free market rate at roughly twice that level. Thus, barring a large increase in exchange reserves or a reduction in commercial bank's reserve requirements, the program meant in effect that money supply would have to contract. Moreover, as it turned out the Government was unexpectedly successful in carrying out its program of withdrawing its deposits from the private commercial banks and transferring them to the PNB and the Central Bank. These transfers involved some P 200 - P 250 million in 1964, of which roughly P 150 million went to the Central Bank. Their effect was further

to restrict liquidity in the private commercial banking system. Towards the end of the year, when the Government's need for credit reached its seasonal peak, it was becoming apparent that money was very tight. Various devices had to be employed to prevent the Central Bank's net domestic assets from exceeding the ceiling set by the IMF and illiquidity threatened the Government's General Fund. Eventually, adjustments of the ceiling were agreed upon with the IMF. These revised the ceiling by ₱ 50 million, thus allowing net domestic assets of the Central Bank to increase by a total amount of ₱ 180 million during the 12-month period covered by the agreement. In addition and outside the ceiling, the Central Bank was permitted to advance up to ₱ 200 million to a government agency to finance rice imports.

59. There is no doubt that the Philippine authorities deserve a great deal of credit for the determination with which they corrected the financial imbalance that developed during 1963 and that, had it been allowed to continue, would no doubt have threatened seriously the maintenance of internal and external financial stability. From the point of view of their effect on economic growth, these restrictive policies may even have been too tight. Yet in the circumstances it is difficult to see what alternative course of action could have been taken, considering that all through 1964 the authorities had to cope with the ever-present threat of speculation against the exchange rate which under the existing free exchange system could not be remedied by direct means but only by the admittedly blunt instrument of general monetary restriction. There is, however, a certain irony in the situation because the speculative threats against the exchange position were only remotely related to the basic strength or weakness of the peso as determined by internal financial policies. They were rather largely the result of the uncertain legal status of the present arrangements whereby the free exchange rate is permitted to be about twice the official rate and the Central Bank continues the retention scheme. There are those who argue that these arrangements were legal only as long as the act authorizing the Central Bank to levy a margin fee on foreign exchange and providing for decontrol was in force.

60. Depending on its interpretation, this act expired in April or December 1964. Several suits challenging the legality of present arrangements are pending before the Supreme Court. Should the Court's decision go against the Central Bank, repercussions could be serious, particularly as some ₱ 270 million currently withdrawn annually from circulation under the retention scheme would be injected into the economy. Unless Congress voted new taxes, especially on exports, in compensating amounts, which it is unlikely to do this year, one course of action would be an even more restrictive credit policy in order to maintain internal financial stability. Such policy would depress growth. Alternatively, the exchange rate could be raised. Both these alternatives would clearly have undesirable consequences and it would be preferable if changes in the exchange regime could be deferred until Congress has approved new taxes, particularly on exports.

Internal Financial Developments

Money Supply

61. The following table summarizes internal financial developments as they were reflected in changes in the money supply:

<u>Factors Affecting Money Supply</u> (in million pesos)				
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>Increases in Gross Credit</u>	<u>1,175</u>	<u>506</u>	<u>1,160</u>	<u>740</u>
Public	536	3	222	164
Private	639	503	938	576
<u>Increases in Contractionary</u>				
<u>Items</u>	- <u>506</u>	- <u>300</u>	- <u>838</u>	- <u>646</u>
Non-Monetary Deposits, Misc.	- 559	- 319	- 568	- 378
Profits from Retention Scheme	53	19	- 270	- 268
<u>Increases in Net Dom. Credit</u>	<u>669</u>	<u>206</u>	<u>322</u>	<u>94</u>
<u>Increases in Exchange Reserves</u>	- <u>345</u>	<u>79</u>	<u>128</u>	- <u>175</u>
<u>Increases in Money Supply</u>	<u>324</u>	<u>285</u>	<u>450</u>	- <u>81</u>

62. The cycle through which Philippine monetary policy has gone during the past three years, is readily apparent from the preceding table. Since end-1961, money supply expanded by 30%, or at an annual rate of 9% which does not seem excessive, considering that during this period the currency was devalued and real output rose by approximately 5% a year on the average. However, there were very large variations from year to year in the rate of expansion. In 1961 and 1963 -- both election years which are customarily associated with substantial credit expansion -- money supply expanded by 17%. Both of them were followed by periods of tight credit. This was particularly so in 1964, when net domestic credit expanded by less than 4%. The year was also marked by two brief periods of speculation against the going exchange rate which lead to some reduction in net exchange reserves. The consequent withdrawal of money from circulation exceeded the expansion in net domestic credit so that overall money supply declined by nearly 3%.

63. Over a period of time Philippine authorities have quite obviously been able to maintain overall financial stability. However, the abrupt changes and reversals of policy, which have accompanied basic stability, are not conducive to smooth growth. One would hope that in the future a more consistent policy will be followed. For reasons explained below, there are good reasons to be hopeful that in 1965 the extremes of past election years will be avoided. In any case, the established capability of Philippine authorities to correct excessive monetary expansion quickly and effectively suggests that they may be expected to perform equally well in this respect in the future, if the need should arise.

64. Prices, as exemplified by the wholesale price index for locally produced commodities for domestic consumption which appears to be most representative of internally determined price movements, have risen by about 20% since the end of 1961. Almost half of this increase occurred in 1963 when rapid monetary expansion was translated into inflationary pressure on prices. In 1964, the increase in prices was less than 5%, and prices, except for foodstuffs, remained almost constant in the second half of the year, reflecting the restoration of financial stability. For price movements over the 1961-1964 period as a whole, the persistent rise of prices of agricultural commodities, particularly food, was the most important factor. This rise was probably largely unrelated to inflationary pressures, but rather reflected temporary shortages resulting from an inefficient distribution system and delays in imports. In contrast, prices of manufactured products rose very little.

#### Credit to the Public Sector

65. Net domestic credit, disregarding the contractionary effect of accumulating profits from the export retention scheme, expanded by P 1,140 million between the end of 1961 and end 1964. Of this increase, the public sector absorbed roughly 40%. Following the very considerable expansion of net credit to the public sector in 1961, a net contraction occurred in 1962. The large deficit of the National Government in the previous year was turned into an overall budgetary surplus in 1962, as the customary contraction occurred after an election year, revenues increased sharply and expenditures lagged while the new Administration was seeking to lay the foundation for its development program. For the same reasons, there was also a sharp curtailment of the credit needs of government-owned corporations and other government and semi-government entities.

66. This situation was sharply reversed in 1963 when the monetary effect of transactions in the public sector once again became expansionary in the amount of P 230 million, as compared with a net contractionary impact of P 70 million a year earlier. Final data for 1964 are not yet available. Preliminary information indicates that despite attempts on the part of the Government to economize on outlays, the net credit needs of the public sector exceeded those of 1963 by P 90 million. This expansion was in sharp contrast to the severe tightness which in 1964 was imposed on the private sector. These developments are indicative of the weakening financial situation of the Government which, as explained above, results principally from the fact that, in the absence of new tax legislation, voted and very largely justified expenditures have begun to outpace the increases in revenue.

67. If the Government's present expenditure program for 1964/1965 is carried out, this tendency towards increased overall deficits will increase in 1965. In brief, the financial position (cash basis) of the public sector has changed as follows during the past few years:

Consolidated Fiscal Operations  
(in million pesos)

Fiscal Years	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	(Rev. Est.) <u>1964/65</u>
<u>National Government</u>					
Revenues	1,263	1,424	1,778	1,931	1,968
Expenditures	-1,386	-1,408	-1,781	-1,992	-2,146
Lags (+), leads (-) in net expenditures	+ 132	- 90	- 71	- 51	- 174
Cash Surplus/Deficit	+ 9	- 74	- 74	- 112	- 352
<u>Net Borrowing by Gov't Corporations</u>					
Total Surplus/Deficit	- 122	- 415	- 141	- 242	- 431
<u>Financing:</u>					
Net borrowing abroad	2	34	-83	43	166
Net dom. borrowing from non-bank sources	14	92	75	106	40
Net dom. borrowing from banks and use of cash	106	289	149	93	225
Total	122	415	141	242	431

68. The preceding table shows the sharp increase which has occurred in the overall deficit since 1960/1961, with the exception of 1961/1962 in which exceptionally large internal borrowing by the Development Bank of the Philippines produced a deficit approaching that expected in 1964/1965. Compared with 1963/1964, the deficit in the current year will be nearly ₱ 190 million larger. It seems somewhat doubtful whether external financing of ₱ 166 million will be reached, although this amount includes the proceeds of a \$15 million issue in New York which was successfully sold. However, any shortfall in financing from this source would probably entail corresponding cuts in expenditure so that it would not raise the deficit to be financed internally. According to the revised estimates for 1964/1965, ₱ 225 million would have to come from increased net credit from the banking system, as compared with ₱ 93 million in the previous year. It is not yet known what the borrowing needs in 1965/1966 will be. However, taking into account semi-government entities not covered by the table above, it would appear that the total requirements for net bank credit, including a drawdown of cash balances, of the public sector in 1965 may well be around ₱ 300 million, or roughly of the same magnitude as in 1964.

Credit to the Private Sector

69. Credit to the private sector accounted for 60% of the total expansion in net domestic credit that occurred between end 1961 and end 1964. However, the annual rate of private credit expansion varied

sharply. The period 1962-1964 can be divided into two distinct phases. During the first two years, net credit rose at an annual rate of nearly 25%. Beginning late in 1963, tight credit policies brought about a sharp reversal of this trend so that net credit contracted in the first half of 1964. Some expansion occurred later in the year, but altogether net credit rose by only 2% in 1964.

70. Fluctuations in the expansion of gross credit to the private sector were not nearly as wide as in net credit. All through the period 1961-1964, savings and time deposits as well as net miscellaneous accounts, particularly capital accounts, of private commercial banks rose substantially. These increases made it possible to maintain in 1964 an expansion of gross credit by nearly 15%. At this rate, expansion was still very much less than in 1963 when it had reached 30%, and towards the end of the year the business community began to complain strongly about the tightness of credit. It is probably true that during 1964 tight credit developed into a brake on economic growth. To some extent, the overall expansion of credit to the private sector seems to have been too small, bearing in mind that those sectors of the economy that are capable of rapid growth, i.e. particularly manufacturing, have to rely largely on outside financing for their investment and that bank credit is still the most important means of channelling funds from surplus sectors into those having a deficit.

71. However, even more important than some shortage of total additional credit available were probably deficiencies in the allocation of credit. It would appear that tight credit in 1964 hit particularly hard those sectors of the economy whose continuing growth would have required support through increased credit, while at the same time financing of trade, commercial agriculture, real estate and consumption absorbed an excessively large part of the total additional credit available. But it is a difficult matter to judge whether in the existing circumstances and with the instruments at the disposal of the authorities these deficiencies could have been avoided. Selective credit controls are difficult to administer in the best of circumstances. Conditions are perhaps particularly unfavorable in the Philippines where banking institutions have a long tradition of commercial financing and close ties with the trading and export agricultural communities, both as clients and shareholders. Besides, throughout 1964 commercial banks were in a difficult liquidity position and therefore were reluctant to increase their financial engagement in sectors of the economy such as manufacturing whose needs are essentially for long-term funds.

72. The lending activities of the long-term lending institutions, particularly the government-owned institutions such as the DBP as well as the Government Service Insurance System and the Social Security System, which altogether provided some 25% of the total increase in credit to the private sector in the period 1961-1964, modified somewhat the allocation of credit in favor of manufacturing. Nevertheless, almost one-half of total credit expansion went into trade, real estate and consumption. Agriculture received about 20%, of which the largest part was obtained by export agriculture. The share of industry was about 30% on the average for the period as a whole, but it declined to about 25% in the past two years.

### The Short-term Outlook

73. During the present year, strong pressures will undoubtedly develop for a relaxation of the restrictive monetary policies pursued in 1964. In fact, some relaxation should be possible without creating inflationary pressures in the economy and on exchange reserves, barring the possibility of an unfavorable decision by the Supreme Court on the retention scheme. At the same time, it is unlikely that relaxation of restrictions will be excessive as, under the terms of stand-by agreement with the IMF which was renewed in April 1965, authorities will have to consult with the IMF on monetary matters. If one were to assume that money supply would be permitted to increase by 5% - 6% in 1965, that exchange reserves would remain stable, and that accruals under the exchange retention scheme and increases in private non-monetary deposits and miscellaneous accounts would be the same as in 1964, additional gross credit may be available in the order of P 900 - P 950 million in 1965. Of this amount, the public sector, as calculated above, may require about P 300 million. The remainder, P 600 - P 650 million would be available to the **private** sector, compared with P 575 million in 1965. Thus there would seem to be some room for a more liberal credit policy towards the private sector, but if the needs of the public sector materialize as estimated above, relaxation of private credit cannot be much.

### The Balance of Payments

74. Since the introduction of the new exchange regime, the annual volume of recorded exchange transactions has nearly doubled and now stands at nearly \$2,800 million. This was the result of sharp and roughly parallel increases in both receipts and payments. Recorded export receipts rose from \$419 million in 1955-1957 and \$500 million in 1961 to a level above \$700 million in 1963-1964. This was a very encouraging development. Import payments expanded on a much smaller scale, except for 1964 when imports rose by 16%. However, there were at the same time steep increases in certain invisible payments particularly for travel abroad and miscellaneous purposes, and especially in unidentifiable payments that showed up in very large negative errors and omissions, reaching \$135 million, or 10% of total payments, in 1963. It seems likely that this item will be even larger in 1964.

75. To some extent, the sharp increase in errors and omissions probably reflects the difficulties which the authorities have encountered in collecting statistical information since payments were liberalized. However, the principal cause appears to be in smuggling activity, including underdeclaration of imports, and perhaps also some unrecorded capital outflow. An analysis of the trade statistics of the Philippines' major trading partners would suggest that Philippine data understate imports in 1963 and 1964 by more than \$ 100 million a year, or about 16%. Judging by the same source, understatement of exports is not an important problem, involving perhaps \$20 - \$30 million a year. These figures would seem to substantiate the conclusion that the large errors and omissions item, which has appeared in the balance of payments since 1963, is almost entirely due to unrecorded imports, while unrecorded capital outflows

may be in the order of \$20 - \$30 million. Such explanation would underscore the weakness of the administrative apparatus, particularly the customs, which has so far failed to provide the support which a free exchange system needs to ensure a reasonably efficient use of the country's exchange resources, and for which restrictive monetary policy can be but a blunt substitute of limited effectiveness.

76. The behavior of export earnings has been one of the bright spots in the Philippines' economic performance since early 1962. Making reasonable allowance for unrecorded exports in 1961, exports in 1963-1964 were 30% higher than in the last year before full decontrol. Somewhat higher export prices contributed to this remarkable achievement. But mainly it was attained by higher export volumes in practically all the Philippines' major export products, including in particular coconut products and logs and lumber.

77. In view of the apparently large amount of smuggling, an analysis of imports, as officially recorded, is only of limited usefulness. As already mentioned, the level of recorded imports remained practically unchanged at roughly \$600 million between 1961 and 1963 so that the balance of trade moved from a deficit of about \$100 million to a surplus of equal size. In 1964, however, imports were probably around \$700 million, the increase probably reflecting with some lag the inflationary pressures that developed towards the end of 1963. The largest absolute increase occurred in imports of industrial raw materials, reflecting the increased manufacturing activity last year. Overall, however, the composition of imports by end-use has remained practically unchanged over the last five years: roughly 15% of imports consist of finished consumer goods, raw materials and supplies account for 68%, and capital goods make up the remaining 17%.

78. From the beginning of 1962 until mid-1964, the Philippines had a cumulative current account surplus of \$200 million. During the same period recorded capital flow showed a surplus of \$15 million. This surplus was the result of gross inflows, including reparations from Japan, official grants and loans and private financing, of \$188 million and repayments as well as other outflows of \$173 million. In fact, inflows may have been larger, particularly in the form of suppliers' credits arranged by the private sector. However, altogether it does not seem that over the last few years the Philippines' total medium- and long term external indebtedness has increased by a substantial amount. Such debt disbursed and outstanding at the end of 1964 is estimated at \$400 million. Of this amount, \$176 million is public debt. Including the undisbursed portion of loans contracted, external public debt amounted to \$342 million at the end of 1964, requiring maximum service payments of about \$55 million a year. In relation to current exchange earnings, these payments do not constitute a heavy burden, requiring only 6% of earnings.

79. The recorded flows of exchange receipts and payments show a surplus of \$215 million in the period 1962-mid-1964. Of this amount, errors and omissions constituted \$177 million. The remainder, \$38 million, went towards building up exchange reserves. In the second

half of 1964, net exchange reserves continued to rise and reached \$100 million, thus exceeding by \$54 million the level of December 1961. This is a sizeable improvement, but in relation to the Philippines' current payments, some \$800-\$900 million, exchange reserves are still low and require a further build-up.

80. Barring the possibility of a Supreme Court decision against continuance of the present exchange regime, it does not seem likely that the next year or so will bring major changes in the Philippines' foreign exchange position. The immediate outlook for export earnings is favorable. A temporary shortage of edible oil in the world market is expected to hold the price of coconut products at least at the high 1964 level and may well raise it. Other major exports should also do well. Minor exports may respond favorably to the exemption granted them last December from the 20% retention. Considering the Government's plans to import about 600,000 tons of rice in 1965 to counteract a poor domestic crop and the possibility of some relaxation of credit policy, imports in 1965 may well exceed the high level of 1964. However, if speculation against the exchange rate resulting from the uncertain legal status of the present exchange regime can be kept within reasonable bounds, there appears to be no reason for concern about the short-run outlook. Over the longer run, the exchange situation may be more difficult, and this is discussed in the following chapter.

#### V. The Economic and Financial Outlook

81. The Philippines possesses an impressive potential for diversified growth in all the major sectors of the economy except traditional export agriculture, where prospective market conditions do not favor a continuing rapid increase in output and income. Very substantial increases in supplies for the domestic market are possible through increased production along established patterns, through pushing further in import substitution, and developing new lines of production. Over the longer run, these possibilities for growth could be bolstered by accelerating the sale abroad of diverse products, including those of manufacturing industries.

#### The Outlook for Growth in 1965-1970

82. In the immediate future, strong obstacles stand in the way of translating the Philippines' economic potential into actual growth of output and income. As discussed earlier, removal of these obstacles is tantamount to establishing a new framework for economic growth in the 1960's. It encompasses financial and organizational reforms designed to enable the public sector to provide more active support to the expansion of productive activities by the private sector. It also requires action along various fronts with the aim of channelling private initiative and investment into those fields where their contribution to the growth of the economy is likely to be optimal. Such reforms are difficult to achieve in the best of circumstances. In the Philippines, these inherent difficulties have been aggravated by the divergent forces of party politics. Any attempt to forecast economic growth over the next five to six years requires some assumption about the political circumstances after the elections of

November 1965. In the following forecast it has been assumed quite arbitrarily that beginning in 1966 the next Administration and the Congress will be able to agree on the desirable program of action and cooperate in instituting the necessary legislation. This assumption implies, of course, that no basic changes will take place in 1965 and that the impulses emerging from a reactivated body politic and a revitalized public sector will begin to make themselves felt significantly only in 1967.

83. Agriculture as a whole may increase output by 4.5% a year on the average, as compared with 5.5% in 1961-1964. Commercial agriculture, producing mainly for export, will probably contribute less to growth of output than in the recent past, because the market prospects for the main commodities, coconut products and sugar, are not favorable. Food crops are unlikely to increase much in the early years of the period as more rapid expansion is contingent upon expanded irrigation facilities, better extension services, improved seeds that are responsive to fertilizer (particularly rice and corn), progress in land reform and a consistent land policy of the Government. Livestock production has been assumed to grow at an accelerating rate, going up from 5% to 9%. There has been growing interest by the private sector in this field, and the Government is currently considering various schemes which may lead to a considerable expansion. Fishing is likely to grow at a fairly rapid rate, averaging perhaps 6% a year. Commercial fishing has attracted considerable amounts of private investment in recent years and this will probably continue. The growth of forestry output may slow down considerably if, as seems desirable in the interest of resource conservation, logging is restricted.

84. It seems possible that, with new mines coming into operation over the next few years, the growth of output will accelerate markedly over the recent rate of 4% - 4.5% p.a. and may reach 7% over the period 1965-1970 as a whole. Output in manufacturing will probably increase more slowly over the next two years than in 1964, considering that tight credit will probably further complicate the unresolved difficulties of the industry in establishing a new base for rapid growth. However, as these difficulties are overcome, annual growth is likely to accelerate markedly, reaching an annual level exceeding 10% in the latter 1960's. Growth of value added by construction has been assumed to slow down considerably, reflecting a substantial reduction in speculative construction of luxury housing and commercial building. Services have been assumed to grow somewhat more slowly than the directly productive sectors of the economy, particularly trade which would be affected by the slower rate of export growth.

85. On the basis of these sectoral projections, national product is estimated to grow at an average rate of nearly 5% a year during the period 1965-1970. Because of expected declines in export prices, real national income would rise somewhat more slowly. Annual growth rates would accelerate from about 4% in 1965-1966 to approximately 5.5% in 1969-1970. These rates of growth are somewhat below those held feasible by the Government's current Five-Year Program and by the Bank mission

which made independent estimates in connection with that program in 1961. However, it should be borne in mind that these earlier estimates assumed that it would be possible quickly to accomplish those improvements in the general conditions for growth in the public and private sectors which in fact turned out to be much more difficult to attain. Moreover, the assumption made here that progress in these areas will be held up by the coming elections and will then begin to influence growth only by late 1966 or early 1967, is reflected in fairly low growth rates for 1965 and 1966 which depress the average rate of growth projected for the period 1965-1970 as a whole.

### The Financial Prospects

86. Realization of the growth prospects discussed in the preceding section will require a substantial increase in investment over the level recently attained. Such increases will not only be necessary in order to support accelerating growth. It seems also likely that the investment required to achieve a given increase in output will rise as investment in infrastructure and agricultural development schemes becomes relatively more important and as manufacturing expands into more capital-intensive fields. Scarcity of reliable data on the level and pattern of investment in the past and uncertainty about the prospective pattern of growth make any estimates of future investment hazardous. Nevertheless, an attempt was made to work out the relationship between overall growth of output and total investment by means of an aggregate capital: output ratio. In the latter 1950's, this ratio was around 2.5, using post-devaluation prices. For the purpose of estimating investment requirements in the period 1965-1970, an average ratio of 2.9 was used, rising from 2.8 in the early part of the period to 3.0 in 1969-1970. This assumption would imply that on the average 15% of GNP would have to be devoted to investment, but that this share would rise from about 12% - 13% in 1965-1966 to over 17% in 1970.

87. On these assumptions, total gross domestic investment would amount to P 18.7 billion, equivalent to US\$ 4.8 billion, over the six-year period. As this estimate was derived from certain general economic relationships, it is not possible at this stage to allocate it by economic sectors. However, investment by the public sector, considering investment requirements in the various fields and the pace at which the technical and administrative capacity of government departments and agencies may be expected to expand, may absorb some P 4 - P 4.5 billion. This would include, in order of magnitude, investments in agriculture (including irrigation and flood control), roads and highways, power, water and the railroad as major fields of investment. Private investment would account for about three-fourths of the total.

88. On the assumption that a major effort in taxation will be made in order to increase public savings, gross national savings over the 1965-1970 period as a whole are estimated at about P 16 billion, or 12.7% on the average of gross national income. While the average savings rate would be rising from 11.9% in 1964 to 13.9% in 1970, the marginal savings

rate, supported initially by higher public savings and later by increased private, particularly corporate savings, would increase from 15% in 1965 to 25% in 1970. These estimates are fairly optimistic, particularly for public savings but they should be attainable with a determined effort.

89. The resource gap which emerges approximates ₱ 3.0 billion, roughly equivalent to US\$740 million, or 15% of total investment outlays over the period as a whole. A gap of this magnitude would not seem to be unmanageably large, particularly if a marginal savings rate of 25% were reached by 1970 so that one might expect that in the 1970's the Philippines would be able to finance an increasing portion of their investment outlays from domestic resources.

90. Export earnings are expected to grow, on the average, by just less than 3% a year in 1965-1970. Invisible earnings together with private donations will probably remain constant. Allowing for some small increase in invisible payments which implies somewhat stricter control over exchange payments than has existed since 1962, projected exchange earnings and net capital inflow as derived from the savings-investment gap would permit imports of goods to rise by 5% a year, or somewhat faster than GNP. This would imply a ratio of imported goods and services to final demand (consumption, investment and exports) of 16.9 in 1965-1970, as compared with 16.2 in 1961-1964. This ratio would seem to be rather high, although one might expect the projected fast growth of investment, which has a higher import content than the other components of final demand, to raise somewhat the Philippines' dependence on imports. The conclusion to be drawn is that over the next few years the savings-investment gap exceeds the balance-of-payments gap. This underscores again the need for the Government to give urgent attention to means of raising the savings rate.

#### Creditworthiness

91. At present, it is not at all certain that a development effort as embodied in the preceding calculations will occur. As pointed out earlier, the political and, as far as the public sector is concerned, the organizational basis for such an effort still has to be laid. Thus the foregoing estimates cannot give more than a rough indication of the economy's need for capital imports. As calculated above, the resource gap for the period 1965-1970 amounts to \$740 million. To this amount, about \$100 million has to be added to allow for building up the level of exchange reserves to a more reasonable level, i.e. around \$200 million net. In addition, some capital outflow will probably continue, and \$75 million has been allowed for this purpose. Furthermore, allowance has to be made for repayment of existing and new debt. It has been assumed that all new debt from official sources will be incurred on conventional terms and that suppliers' credits, perhaps \$35 million a year, will carry an 8-year maturity. On these assumptions, a total amount of \$460 million has to be provided for repayment. Altogether, then, a gross inflow of \$1,375 million would be required during the period 1965-1970.

92. Of this amount, reparations from Japan and grants may provide about \$170 million. Reinvested earnings of foreign companies, some inflow of new private foreign capital and some repatriation of Filipino

capital may contribute another \$325-\$350 million, provided the current uncertainties over the future role of foreign enterprise in the Philippines are resolved satisfactorily. Of the remainder, roughly \$850-\$880 million, suppliers' credits and similar private financing arrangements may account for some \$200-\$250 million. This would leave roughly \$600-\$675 million to be provided by official sources, or about \$100-\$110 million a year. Borrowing such amounts on conventional terms would raise total debt service on both private and public debt to 13% - 14% of exchange earnings as projected for 1970. Debt service of such magnitude does not seem excessively large if the Philippines manage their financial affairs reasonably well. It probably would, however, leave a fairly small margin for further conventional borrowing in the 1970's.

STATISTICAL APPENDIX

Table No.

I.	External Public Debt Outstanding
II.	National Income Aggregates
III.	Output of Main Agricultural Products
IV.	Agricultural Land Utilization
V.	Production of Minerals
VI.	Indices of Manufacturing Output
VII.	National Government Revenue
VIII.	National Government Expenditure
IX.	Consolidated Fiscal Operations
X.	Holdings of Government Securities
XI.	Factors Affecting Money Supply
XII.	Uses and Sources of Funds of the Commercial Banking System
XIII.	Total Loans and Investments of Financial Institutions
XIV.	Composition of Credit Outstanding to the Private Sector
XV.	Price Indices
XVI.	Wage Indices
XVII.	Balance of Payments
XVIII.	Foreign Exchange Receipts and Disbursements
XIX.	Indices of Quantity, Price and Terms of Foreign Trade
XX.	Origin and Distribution of Foreign Trade
XXI.	Value of Exports

(Continued on following page)

Statistical Appendix (Continued)

Table No.

XXII.	Volume and Unit Values of Principal Exports
XXIII.	Value of Imports
XXIV.	Imports Classified by Use of Goods
XXV.	Foreign Exchange Reserves

TABLE I: PHILIPPINES - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1964 WITH MAJOR REPORTED ADDITIONS JANUARY 1-JANUARY 31, 1965

Debt Repayable in Foreign Currency

(in thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1964		Major reported additions January 1 - January 31, 1965
	Net of undisbursed	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	<u>176,284</u>	<u>342,498</u>	<u>15,000</u>
Publicly-issued bonds	<u>1,077</u> /1	<u>1,077</u> /1	<u>15,000</u>
Privately-placed debt	<u>107,542</u>	<u>129,677</u>	-
Suppliers' credits	<u>20,401</u>	<u>27,120</u>	-
Other	<u>87,141</u>	<u>102,557</u>	-
IBRD loans	<u>41,463</u>	<u>103,031</u>	-
U.S. Government loans	<u>26,202</u>	<u>98,713</u>	-
Export-Import Bank	<u>25,182</u>	<u>97,584</u>	-
AID /2	<u>1,020</u>	<u>1,129</u>	-
Loan from German Government	<u>-</u>	<u>10,000</u>	-

/1 These are Philippines Govt. bonds held by non-residents and repayable in U.S. dollars at the prevailing free market rate of exchange. The interest on these bonds is 4% with maturities from 1964 to 1976. Amount outstanding as of December 1964 is P 4,210,000; IFS free rate P 3.91 = US\$1.00.

/2 Provision of foreign exchange, but not repayment, is guaranteed by the Philippines for the following AID loans:

- a) \$5,300,000 to Batton Pulp and Paper Mill.
- b) \$3,700,000 to Mindanao Portland Cement Co.
- c) \$100,000 to Batton Pulp and Paper Mill.

Statistics Division  
IBRD - Economics Department  
April 12, 1965

Table Ia: PHILIPPINES - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1964 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - JANUARY 31, 1965 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollar equivalents)

Year	Debt Outstanding (Beginning of Period) Including Undisbursed	GRAND TOTAL		
		Amortization	Interest	Total
1965	342,498	46,258	8,489	54,747
1966	311,240	37,972	15,295	53,267
1967	273,268	31,420	14,250	45,670
1968	241,848	24,325	12,936	37,261
1969	217,523	20,294	11,676	31,970
1970	197,228	15,907	10,559	26,466
1971	181,321	16,420	9,677	26,098
1972	164,900	15,707	8,775	24,483
1973	149,193	15,170	7,922	23,092
1974	134,023	14,488	7,110	21,597
1975	119,536	14,203	6,321	20,523
1976	105,333	14,100	5,548	19,648
1977	91,233	13,133	4,807	17,940
1978	78,100	12,409	4,105	16,515
1979	65,691	10,460	3,443	13,903

/1 Includes service on all debt listed in Table 1 prepared April 12, 1965.

Table II

National Income Aggregates <sup>1/</sup>  
(in million pesos at 1963 prices)

	<u>Actual</u>			<u>Estimate</u>
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
GNP at market prices	15,473	16,152	17,013	17,917
Private consumption	12,198	12,479	12,870	13,977
<u>Public consumption</u>	<u>1,419</u>	<u>1,544</u>	<u>1,642</u>	<u>1,700</u>
Total consumption	13,617	14,023	14,512	15,677
Private capital formation	1,894	1,640	1,868	1,915
<u>Public capital formation</u>	<u>340</u>	<u>430</u>	<u>430</u>	<u>450</u>
Total capital formation	2,234	2,070	2,298	2,365
Exports	2,129	2,219	2,835	2,730
<u>Imports</u>	<u>2,500</u>	<u>2,289</u>	<u>2,738</u>	<u>2,921</u>
Merchandise balance	- 371	- 70	97	- 191
<u>Balance on current invisibles</u>	<u>- 7</u>	<u>129</u>	<u>106</u>	<u>66</u>
Current Foreign balances	- 378	59	203	- 125
Investment rate	14.4	12.8	13.5	13.2
Savings rate: average	12.0	13.1	14.7	12.5
Marginal	-	40.2	43.2	-
Ratio of imported goods and services to final demand	16.2	15.5	16.3	16.7

<sup>1/</sup> The figures presented above are very rough estimates, based on official data which are not believed to be reliable indicators.

Source: Central Bank of the Philippines, Annual Report.

Table III

Output of Main Agricultural Products  
(in 1,000 MT)

<u>Crop Years</u> <sup>1/</sup>	<u>Average</u> <u>1955-1957</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> <sup>2/</sup>
<u>Export Crops</u>						
Copra	1,187	1,339 <sup>3/</sup>	1,398 <sup>3/</sup>	1,445 <sup>3/</sup>	1,495 <sup>3/</sup>	1,585
Desiccated coconut	45	42	59	63	67	71
Sugar (centrifugal and muscovado)	1,190	1,439	1,354	1,506	1,600	1,796
Abaca	118	95	115	116	128	142
Tobacco	40	64	60	70	68	66
Ramie	2	2	2	4	5	9
Rubber	2	3	4	5	5	6
<u>Food Crops</u>						
Rice (rough)	3,274	3,740	3,705	3,910	3,967	3,823
Corn (shelled)	857	1,165	1,210	1,266	1,273	1,266
Fruits and nuts	616	675	701	934	1,006	1,211
Citrus	33	43	54	62	62	67
Root crops	1,251	1,412	1,445	1,334	1,360	1,345
Onions	11	17	18	20	15	14
Potatoes	8	7	10	11	15	15
Beans and peas	42	42	33	33	31	30
Other vegetables	166	162	147	167	152	155
Coffee	7	26	32	43	33	33
Cacao	2	3	4	3	3	3
Peanuts (unshelled)	18	15	13	11	11	10
<u>Fish</u> <sup>4/</sup>						
Commercial	381	445	455	484	547	610
Municipal fisheries	124	120	126	150	209	n.a.
Fish ponds	219	265	268	273	276	n.a.
	38	60	61	61	62	n.a.

Table III (Continued)

<u>Crop Years</u> <sup>1/</sup>	Average <u>1955-1957</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>Meat and Poultry Products</u>	215 <sup>5/</sup>	242	223	229	235	247
<u>Forestry Products (incl. board feet)</u>						
Logs	1,775	2,677	2,797	2,871	3,324	4,123
Lumber	411	384	441	396	526	718
Index of Agricultural Production (1955 = 100)	105.4	120.8	120.6	129.8	134.8	142.3

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<sup>1/</sup> July-June

<sup>2/</sup> Preliminary

<sup>3/</sup> Including estimated quantities of unrecorded exports as follows: 1960:264; 1961:327; 1962:89; 1963: 6.

<sup>4/</sup> Calendar years.

<sup>5/</sup> Estimated.

Source: Department of Agriculture and Natural Resources; Central Bank of the Philippines, Statistical Bulletin; information provided to mission.

Table IV

Agricultural Land Utilization<sup>1/</sup>  
(in 1,000 hectares)

Crop Years <sup>2/</sup>	<u>Average</u> 1955-1957	1960	1961	1962	1963	1964
<u>Export Crops</u>	<u>1,547</u>	<u>1,588</u>	<u>1,716</u>	<u>1,845</u>	<u>1,957</u>	<u>2,088</u>
Coconut	992	1,059	1,200	1,284	1,392	1,500
Sugar cane	248	242	232	255	259	273
Abaca	221	175	175	183	182	186
Tobacco	69	96	91	100	97	95
Ramie	3	2	2	3	3	4
Rubber	5	5	10	14	18	24
Others	9	9	6	6	6	6
<u>Food Crops</u>	<u>5,205</u>	<u>6,008</u>	<u>6,118</u>	<u>6,073</u>	<u>5,977</u>	<u>5,934</u>
Rice	2,722	3,307	3,198	3,179	3,161	3,130
Corn	1,617	1,845	2,045	2,016	1,950	1,942
Fruits and nuts	336	320	359	367	366	367
Citrus	21	23	28	29	29	30
Root crops	282	289	282	261	264	256
Onions	4	7	6	6	5	5
Potatoes	3	2	2	2	2	2
Beans and peas	71	78	63	67	69	69
Other vegetables	92	72	54	56	48	48
Coffee	20	31	39	50	42	43
Cacao	6	6	9	9	10	10
Peanuts	29	24	22	20	19	20
Others	2	4	11	11	12	12
Total	6,752	7,596	7,834	7,913	7,934	8,022

<sup>1/</sup> Crop area harvested.

<sup>2/</sup> July-June.

Source: Department of Agriculture and Natural Resources; information provided to the mission.

Table V  
Production of Minerals  
(in 1,000 MT, unless otherwise indicated)

	Average <u>1955-1957</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u> <sup>1/</sup>
Gold (in 1,000 ounces)	402	411	424	423	376	211
Silver (in 1,000 ounces)	507	1,133	813	676	767	398
<u>Base Metals</u>						
Iron ore	1,406	1,139	1,171	1,387	1,385	796
Chromite	678	734	640	531	459	246
Copper (metal)	28	44	52	55	64	31
Manganese ore	15	17	19	12	8	-
Zinc (metal)	-	5	3	4	4	1
Quicksilver (metal - 1,000 lbs)	178	231	241	210	201	105
<u>Non-Metallics</u>						
Coal	158	148	152	163	157	66
Rock asphalt	2	18	7	7	5	-
<u>Index of Mineral Production</u> (1955 = 100)	111.5	126.7	134.3	136.6	138.6	153.2 <sup>2/</sup>

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<sup>1/</sup> January-June, Index for October-December 1964  
<sup>2/</sup> Preliminary

Source: Bureau of Mines; Central Bank of the Philippines, Statistical Bulletin:  
information provided to mission.

Table VI  
Indices of Manufacturing Output <sup>1/</sup>  
(1955 = 100)

	1960	1961	1962	1963	Jan.-June 1964	July-Sept. 1964
<u>Total Manufacturing</u>	<u>150.5</u>	<u>160.5</u>	<u>169.7</u>	<u>180.7</u>	<u>197.3</u>	<u>192.8</u>
<u>Non-durables</u>	<u>152.0</u>	<u>156.4</u>	<u>165.6</u>	<u>175.3</u>	<u>188.8</u>	<u>181.8</u>
Food processing	148.3	157.9	171.4	179.0	187.5	
Beverages	152.5	157.5	169.6	205.0	222.6	
Tobacco products	119.1	117.8	123.6	120.9	147.9	
Textiles	278.3	282.4	304.2	321.7	351.6	
Footwear, wearing apparel	52.6	47.1	52.0	51.0	50.4	
Paper products	172.4	183.4	223.5	252.3	247.6	
Printing, publishing	127.9	116.6	103.2	83.4	76.9	
Leather goods	162.1	158.7	158.9	158.9	150.4	
Rubber products	255.6	254.1	229.7	238.8	279.8	
Chemicals (incl. fertilizer)	135.7	144.3	154.7	167.2	172.1	
Petroleum	182.3	184.8	185.9	173.0	179.4	
Miscellaneous	120.1	129.1	137.6	75.6	105.1	
<u>Durables</u>	<u>143.2</u>	<u>179.8</u>	<u>189.3</u>	<u>206.5</u>	<u>238.0</u>	<u>245.6</u>
Wood, cork	133.1	114.6	132.9	167.9	133.9	
Furniture, fixtures	85.3	115.7	120.8	130.9	158.6	
Non-metallic mineral products (of which cement)	171.8 (184.7)	199.7 (214.3)	198.5 (203.3)	210.0 (214.8)	229.9 n.a.	
Metal products	166.9	253.9	277.3	269.9	315.4	
Machinery	67.8	123.6	130.6	121.8	120.9	
Electrical machinery, appliances	196.4	278.8	259.5	307.4	327.7	
Transport equipment	80.8	82.4	96.8	143.0	212.2	
Miscellaneous	119.1	126.0	117.2	87.2	63.2	

<sup>1/</sup> Based on data furnished by co-operating firms whose number varied from year to year.

Source: Central Bank of the Philippines, Statistical Bulletin; information provided to the mission.

Table VII

National Government Revenue 1/  
(in million pesos)

<u>Fiscal Years (July-June)</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u> <sup>2/</sup>	<u>Adj. Budget 3/</u> <u>1964/65</u>
<u>Tax Revenue</u>	<u>908</u>	<u>978</u>	<u>1,102</u>	<u>1,364</u>	<u>1,561</u>	<u>1,665</u>
Income Taxes	236	278	304	382	424	516
Excise taxes	269	268	267	303	372	306
Licenses, business taxes	197	244	295	365	440	521
Import duties	240	249	300	390	419	450
Other	54	55	68	84	95	115
Transfer to local gov'ts.	- 88	-116	-132	-160	-189	-243
<u>Other Revenue</u>	<u>269</u>	<u>285</u>	<u>322</u>	<u>414</u>	<u>371</u>	<u>303</u>
Margin fee	65	16	89	83	19	-
Operating and service income	127	145	151	176	191	204
Income from gov't enterprises	8	11	16	25	24	-
Miscellaneous income	51	39	47	114	118	55
Repayment of advances	11	13	12	8	18	22
Reparations	5	6	4	7	-	-
Interest on special fund deposits	-	-	-	-	-	19
Other	2	55 <sup>4/</sup>	3	1	1	3
<u>Total Revenue</u>	<u>1,177</u>	<u>1,263</u>	<u>1,424</u>	<u>1,778</u>	<u>1,932</u>	<u>1,968</u>

1/ Includes General, Special, Fiduciary and Reparations Funds.

2/ Preliminary.

3/ Adjusted for reduction in estimated revenues resulting from various tax relief measures.

4/ Includes ₱ 47.7 m. proceeds of the claims of the Philippine Government against the U.S. Government on account of the devaluation of the US dollar in 1934.

Source: Budget Messages; information provided to the mission by the Program Implementation Agency.

Table VIII

National Government Expenditures <sup>1/</sup>  
(in million pesos)

<u>Fiscal Years (July-June)</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<sup>2/</sup> Revised Estimates	
					<u>1963/64</u>	<u>1964/65</u>
1. <u>Economic Development</u>	<u>392</u>	<u>511</u>	<u>424</u>	<u>626</u>	<u>656</u>	<u>729</u>
Agriculture, natural resources	112	128	105	242	212	194
Commerce and industry	31	53	54	55	65	61
Transportation, communications	222	276	230	282	325	412
Others	27	54	35	47	54	62
2. <u>Social Development</u>	<u>416</u>	<u>520</u>	<u>568</u>	<u>645</u>	<u>733</u>	<u>783</u>
Education	321	377	433	480	582	591
Public health	76	106	110	123	116	173
Labor, welfare	19	37	25	42	35	19
3. National Defense	153	156	160	209	230	207
4. Justice, Police	52	60	68	90	102	96
5. General Government (incl. pensions)	115	111	144	162	209	260
6. Interest on Public Debt	26	28	44	49	62	71
Total Expenditure	<u>1,154</u>	<u>1,386</u>	<u>1,408</u>	<u>1,781</u>	<u>1,992</u>	<u>2,146</u>
<u>By Economic Functions:</u>						
a) Current exp. on goods, services			1,009	1,224	1,449	1,482
b) Subsidies			30	117	102	51
c) Transfers (current and capital)			169	209	227	229
d) Gross capital formation			200	231	214	384

<sup>1/</sup> Includes General, Special, Fiduciary, Bond and Reparations Funds.

<sup>2/</sup> Preliminary.

Source: Information provided to the mission by the Program Implementation Agency.

Table IX

Consolidated Fiscal Operations  
(in million pesos)

<u>Fiscal Years (July - June)</u>						Rev. Estimates
	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>
<u>I. National Government</u>						
Revenues	1,177	1,263	1,424	1,778	1,931	1,968
Expenditures	-1,154	-1,386	-1,408	-1,781	-1,992	-2,146
Lags (+) and leads (-) in net.exp.	- 99	+ 132	- 90	- 71	- 51	- 174
Cash Surplus/Deficit	- 76	+ 9	- 74	- 74	- 112	- 352
<u>II. Expenditures (-) of Gov't Corp.</u>						
<u>financed from borrowing outside Gov't.</u>	- 90	+ 131	- 341 <sup>1/</sup>	- 67	- 130	- 79
<u>III. Total Deficit (-)</u>	- 166	- 122	- 415	- 141	- 242	- 431
<u>IV. Financing</u>						
1. Net borrowing abroad	1	2	34	- 83	43	166
2. <u>Net domestic borrowing</u>	<u>231</u>	<u>241</u>	<u>397</u>	<u>238</u>	<u>200</u>	<u>237</u>
Banking system	190	228	305	163	96	197
Non-bank sources	41	14	92	75	104	40
3. Use of cash balances	- 66	- 121	- 16	- 14	- 1	28
4. Total financing	166	122	415	141	242	431

1/ Includes borrowing by the Development Bank of the Philippines of P275 million.

Source: Information provided to the mission by the Program Implementation Agency.

Table X  
 Holders of Government Securities <sup>1/</sup>  
(in million pesos)

<u>End of Period</u>	June 1960	June 1961	June 1962	June 1963	June 1964 <sup>2/</sup>	Oct. 1964 <sup>2/</sup>
1. <u>Banking System</u>	1,221.3	1,361.9	1,464.4	1,415.5	1,405.1	1,439.6
a) Central Bank	n.a.	n.a.	1,194.2	965.7	1,010.9	1,026.5
b) Commercial Banks			270.2	449.8	394.2	413.1
2. <u>Gov't Financial Institutions</u>	141.0	140.1	169.0	185.9	252.0	256.1
a) GSIS, SSS	n.a.	n.a.	134.4	144.4	213.8	208.8
b) Others			34.6	41.5	38.2	47.3
3. <u>Gov't Trust Funds</u>	152.1	191.0	228.6	265.9	311.9	314.1
4. <u>Private Sector</u>	21.9	27.4	27.3	40.2	39.8	41.3
Total	1,536.3	1,720.4	1,889.3	1,907.5	2,008.8	2,051.1

<sup>1/</sup> Includes bond issues of the Development Bank of the Philippines (DBP).

<sup>2/</sup> DBP bonds as of September 1964.

Source: Central Bank of the Philippines, Statistical Bulletin;  
information provided to the mission.

Table XI

Factors Affecting Money Supply  
(in million pesos)

	<u>Dec.</u> <u>1960</u>	<u>Dec.</u> <u>1961</u>	<u>Dec.</u> <u>1962</u>	<u>June</u> <u>1963</u>	<u>Dec.</u> <u>1963</u>	<u>June</u> <u>1964</u>	<u>Sept.</u> <u>1964</u>	<u>Dec.</u> <sup>3/</sup> <u>1964</u>
<b>A. PUBLIC SECTOR</b>								
<b>1. <u>Bank Credit to the Nat'l Gov't.</u></b>								
a) Gross Credit								
(i) Central Bank	735.8	767.2	826.4	700.1	811.4	803.4	708.0	
(ii) Commercial Banks	113.5	395.6	325.8	478.3	422.5	398.0	422.3	
(iii) Total	849.3	1,162.8	1,152.2	1,178.4	1,233.9	1,201.4	1,202.3	
b) Cash Balances	- 288.2	- 433.4	- 519.5	- 576.2	- 550.7	- 594.3	- 571.2	
c) Net Credit	561.1	729.4	632.7	602.2	683.2	607.1	631.1	
<b>2. <u>Bank Credit to Local Gov't and Semi-Gov't Entities</u></b>								
a) Gross Credit								
(i) Central Bank	487.0	658.5	702.2	724.9	749.8	756.5	758.0	
(ii) Commercial Banks	73.7	124.8	94.3	124.8	187.0	206.9	286.1	
(iii) Total	560.7	783.3	796.5	849.7	936.8	963.4	1,044.1	
b) Time and Savings Deposits	- 170.0	- 289.0	- 352.5	- 379.6	- 390.3	- 366.3	- 360.5	
c) Net Credit	390.7	494.3	444.0	470.1	546.5	597.1	683.6	
<b>3. <u>Offsets</u></b>								
a) Counterpart Bal., Trust Funds in CB	42.3	46.8	108.4	120.0	43.2	32.0	45.3	
b) CB Dep. of Gov't Financial Investment	-	40.5	-	-	-	-	-	
c) Net Misc. Acc. of CB, PNB	350.8	314.5	219.6	103.6	207.0	267.2	235.4	
d) Total	393.1	401.8	328.0	223.6	250.2	299.2	280.7	
4. Net Credit to the Public Sector	558.7	821.9	748.7	848.7	979.5	905.0	1,034.0	1,300

Cont'd.

Table XI (Cont'd)

	Dec. 1960	Dec. 1961	Dec. 1962	June 1963	Dec. 1963	June 1964	Sept. 1964	Dec. <sup>3/</sup> 1964
<b>B. PRIVATE SECTOR</b>								
5. <u>Gross Bank Credit</u>								
a) Loans, Discounts, Overdrafts	1,863.0	2,501.6	3,003.3	3,413.2	3,937.5	4,212.3	4,325.7	
b) Corporate Securities	2.2	2.2	3.8	3.6	7.2	3.6	2.9	
c) Total	<u>1,865.2</u>	<u>2,503.8</u>	<u>3,007.1</u>	<u>3,416.8</u>	<u>3,944.7</u>	<u>4,215.9</u>	<u>4,328.6</u>	<u>4,521</u>
6. <u>Offsets</u>								
a) Time and Savings Deposits	860.9	1,107.5	1,367.1	1,557.0	1,770.2	1,851.2	1,922.7	2,000
b) Net Misc. Accts. of Private Commercial Banks	<u>149.4</u>	<u>188.5</u>	<u>171.6</u>	<u>276.6</u>	<u>344.9<sup>1/</sup></u>	<u>547.3<sup>1/</sup></u>	<u>563.0<sup>1/</sup></u>	<u>650</u>
c) Total	<u>1,010.3</u>	<u>1,296.0</u>	<u>1,538.7</u>	<u>1,833.6</u>	<u>2,115.1</u>	<u>2,398.5</u>	<u>2,485.7</u>	<u>2,650</u>
7. Net Credit to the Private Sector	854.9	1,207.8	1,468.4	1,583.2	1,829.6	1,817.4	1,842.9	1,871
8. Net Domestic Credit	1,413.6	2,029.7	2,217.1	2,431.9	2,809.1	2,722.4	2,876.9	3,171
<b>C. EXTERNAL SECTOR</b>								
9. <u>Foreign Assets</u>								
a) Central Bank	322.0	159.0	184.3	227.6	328.3 <sup>1/</sup>	287.8 <sup>1/</sup>	376.3 <sup>1/</sup>	434.3
b) Commercial Banks (net)	<u>150.3</u>	<u>133.0</u>	<u>234.0</u>	<u>220.0</u>	<u>93.4<sup>1/</sup></u>	<u>90.1<sup>1/</sup></u>	<u>-24.8<sup>1/</sup></u>	<u>-109.5</u>
c) Total	<u>472.3</u>	<u>292.0</u>	<u>418.3</u>	<u>447.6</u>	<u>421.7</u>	<u>377.9</u>	<u>351.5</u>	<u>324.8</u>
10. <u>Offsets</u>								
a) CB Foreign Liabilities	--	165.0	212.0	138.2	87.8	154.1	154.1	165.8 est.
b) Revaluation of Foreign Assets (-Loss)	<u>- 9.9</u>	<u>- 62.6</u>	<u>- 81.3</u>	<u>36.5</u>	<u>188.7</u>	<u>308.2</u>	<u>368.9</u>	<u>456.3</u>
c) Total	<u>- 9.9</u>	<u>102.4</u>	<u>130.7</u>	<u>174.7</u>	<u>276.5</u>	<u>462.3</u>	<u>523.0</u>	<u>622.1</u>
11. Net External Sector	482.2	189.6	287.6	272.9	145.2	- 84.4	- 171.5	-297.3
<b>D. MONEY SUPPLY</b>								
Change Between Periods	1,895.8	2,219.3	2,504.7	2,704.8	2,954.3	2,638.0	2,705.4	2,873.8
		323.5	285.4	200.1	249.5	- 316.3	67.4	168.4

Footnotes on next page

Table XI (Cont'd)

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1/ Excludes borrowing abroad by the commercial banks.

2/ Includes, as a liability, borrowing abroad by the commercial banks.

3/ Tentative estimate

Source: Information provided by the Central Bank of the Philippines.

Table XII

Uses and Sources of Funds of the Commercial Banking System <sup>1/</sup>  
(in million pesos)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	Jan.-Sept. <sup>2/</sup> <u>1964</u>
<u>I. Uses of Funds</u>				
1. <u>Increase in Earning Assets</u>	922.5	498.5	1,073.0	492.9
a) Domestic securities	305.8	- 62.1	107.1	3.9
b) Loans, discounts, overdrafts	616.7	560.6	965.9	489.0
2. <u>Increase in Cash and Deposits</u>	36.8	137.5	65.2	-185.0
a) Cash, checks	19.1	76.4	53.9	- 59.1
b) Deposits with Central Bank	17.7	61.1	11.3	-125.9
3. <u>Increase in Other Domestic Assets</u> <sup>3/</sup>	139.6	- 70.3	131.6	92.9
4. <u>Increase in Foreign Assets</u> <sup>4/</sup>	- 16.1	154.9	46.7	- 13.7
Total Uses of Funds	1,082.8	720.6	1,316.5	387.1
<u>II. Sources of Funds</u>				
1. <u>Increase in Net Worth</u>	96.7	109.5	167.7	118.2
2. <u>Increase in Deposit Liabilities</u>	609.3	677.4	681.3	-122.7
a) Private demand deposits	75.7	104.8	165.5	- 96.2
b) Private time, savings deposits	246.6	259.6	403.1	152.5
Sub total	322.3	364.4	568.6	56.3
c) Deposits of public funds <sup>5/</sup>	287.0	313.0	112.7	-179.0
3. <u>Increase in Other Domestic Liabilities</u>	128.1	43.7	281.8	172.5
a) Bills payable <sup>6/</sup>	- 26.1	27.4	168.7	213.8
b) Other <sup>7/</sup>	154.2	16.3	113.1	- 41.3

Continued

Table XII (Cont'd.)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	Jan.-Sept. <sup>2/</sup> <u>1964</u>
4. <u>Borrowing from the Central Bank</u>	247.0	-140.9	30.4	160.6
5. <u>Increase in Foreign Liabilities</u> <sup>4/</sup>	1.7	30.9	155.3	58.5
Total Sources of Funds	1,082.8	720.6	1,316.5	387.1

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- <sup>1/</sup> Consists of commercial banks, rural banks and savings banks.  
<sup>2/</sup> Comprises only commercial banks and partially rural banks.  
<sup>3/</sup> Includes deposits with other domestic banks and other assets.  
<sup>4/</sup> Partially estimated.  
<sup>5/</sup> Comprises the national government, local government and government-owned corporations.  
<sup>6/</sup> Includes bills payable, officers' checks and dividends payable.  
<sup>7/</sup> Includes amounts due to domestic banks and other liabilities.

Source: Central Bank of the Philippines, Annual Reports and Statistical Bulletin;  
 Central Bank News Digest; information provided to the mission.

Table XIII

Total Loans and Investments of Financial Institutions<sup>1/</sup>  
(in million pesos)

<u>End of Period</u>	1960	1961	Change 1960-1961	1962	Change 1961-1962	1963	Change 1962-1963	Sep. 30 1964	Change 1963-1964
<b>I. BANKS</b>									
1. <u>Central Bank</u> <sup>2/</sup>	1,031.1	1,109.0	77.9	1,202.4	93.4	1,195.1	- 7.3	1,151.9	- 43.2
Public	1,031.1	1,109.0	77.9	1,202.4	93.4	1,195.1	- 7.3	1,151.9	- 43.2
Private	-	-	-	-	-	-	-	-	-
2. <u>Commercial Banks</u>	1,844.6	2,757.7	913.1	3,211.6	453.9	4,229.7	1,018.1	4,690.8	461.1
Public	182.0	515.2	333.2	414.9	- 100.3	604.3	189.4	703.2	98.9
Private	1,662.6	2,242.5	579.9	2,796.7	554.2	3,625.4	828.7	3,987.6	362.2
3. <u>Development Banks</u> <sup>3/</sup>	568.2	795.5	227.3	903.4	107.9	998.0	94.6	1,101.6	103.6
Public	64.6	113.2	48.6	93.5	- 19.7	92.0	- 1.5	99.1	7.1
Private	503.6	682.3	178.7	809.9	127.6	906.0	96.1	1,002.5	96.5
4. <u>Rural Banks</u>	63.5	87.3	23.8	116.0	28.7	153.8	37.8	192.4 <sup>5/</sup>	38.6
Public	-	-	-	-	-	-	-	-	-
Private	63.5	87.3	23.8	116.0	28.7	153.8	37.8	192.4	38.6
5. <u>Savings Banks</u> <sup>4/</sup>	56.9	42.5	- 14.4	58.4	15.9	75.5	17.1	85.0	9.5
Public	-	-	-	-	-	-	-	-	-
Private	56.9	42.5	- 14.4	58.4	15.9	75.5	17.1	85.0	9.5
6. <u>All Banks</u>	3,564.3	4,792.0	1,227.7	5,491.8	699.8	6,652.1	1,160.3	7,221.7	569.6
Public	1,277.7	1,737.4	459.7	1,710.8	- 26.6	1,891.4	180.6	1,954.2	62.8
Private	2,286.6	3,054.6	768.0	3,781.0	726.4	4,760.7	979.7	5,267.5	506.8

Continued

Table XIII (Cont'd.)

<u>End of Period</u>	1960	1961	Change 1960-1961	1962	Change 1961-1962	1963	Change 1962-1963	Sep.30 1964	Change 1963-1964
<b>II. NON-BANK INSTITUTIONS</b>									
1. <u>Agricultural Credit Administration</u>	78.5	79.2	0.7	77.8	- 1.4	79.1	1.3	77.9	- 1.2
Public	-	-	-	-	-	-	-	-	-
Private	78.5	79.2	0.7	77.8	- 1.4	79.1	1.3	77.9	- 1.2
2. <u>Social Security System</u>	85.0	90.3	5.3	85.3	- 5.0	152.7	67.4	195.1 <sup>6/</sup>	42.4
Public	19.7	20.1	0.4	20.1	-	44.1	24.0	44.1	-
Private	65.3	70.2	4.9	65.2	- 5.0	108.6	43.4	151.0	42.4
3. <u>Gov't Service Insurance System</u>	391.0	467.6	76.6	542.5	74.9	625.0	82.5	735.0 <sup>6/</sup>	110.0
Public	57.5	46.3	- 11.2	58.3	12.0	87.3	29.0	86.1	- 1.2
Private	333.5	421.3	87.8	484.2	62.9	537.7	53.5	648.9	111.2
4. <u>Private Institutions</u> <sup>7/</sup>	264.3	296.7	32.4	328.4	31.7	337.7	9.3	348.0 <sup>6/</sup>	10.3
Public	7.1	11.1	4.0	19.1	8.0	17.9	- 1.2	17.9	-
Private	257.2	285.6	28.4	309.3	23.7	319.8	10.5	330.1	10.3
5. <u>All Non-Bank Institutions</u>	818.8	933.8	115.0	1,034.0	100.2	1,194.5	160.5	1,356.0	161.5
Public	84.3	77.5	- 6.8	97.5	20.0	149.3	51.8	148.1	- 1.2
Private	734.5	856.3	121.8	936.5	80.2	1,045.2	108.7	1,207.9	162.7
<b>III. All Financial Institutions</b>									
Public	4,383.1	5,725.8	1,342.7	6,525.8	800.0	7,846.6	1,320.8	8,577.7	731.1
Private	1,362.0	1,814.9	452.9	1,808.3	- 6.6	2,040.7	232.4	2,102.3	61.6
Total	3,021.1	3,910.9	889.8	4,717.5	806.6	5,805.9	1,553.2	6,475.4	669.5

Footnotes on next page

Table XIII (Cont'd.)

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- 1/ Excludes lending to financial institutions, except for credits granted by the Central Bank to the Agricultural Credit Administration. The public sector is defined to comprise the National Government, Local Governments, and Government-owned enterprises and corporations.
  - 2/ Excludes ₱30 m. Central Bank advances to the Government which cover the original subscription to the IMF.
  - 3/ Includes the Development Bank of the Philippines (inclusive of Trust Funds) and private development banks.
  - 4/ Excludes the Postal Savings Bank which makes all its loanable funds available to the DBP.
  - 5/ As of August 31, 1964.
  - 6/ Estimated.
  - 7/ Consists of private insurance companies, pawnshops and mutual building and loan associations.

Source: Central Bank of the Philippines, Statistical Bulletin; Central Bank News Digest; Annual Reports of the Government Service Insurance System and the Social Security System; information provided to the mission.

Table XIV

Composition of Credit Outstanding to the Private Sector<sup>1/</sup>  
(in million pesos)

<u>End of Period</u>	<u>1960</u>	<u>1961</u>	<u>Change</u> <u>1960-1961</u>	<u>1962</u>	<u>Change</u> <u>1961-1962</u>	<u>1963</u>	<u>Change</u> <u>1962-1963</u>	<u>June 30</u> <u>1964</u>	<u>Change</u> <u>1963-1964</u>
Agriculture, Forestry, Fisheries	732.8	851.4	118.6	968.1	116.7	1,194.2	226.1	1,290.5	96.3
Industry <sup>2/</sup>	813.9	1,368.6	454.7	1,634.3	265.7	1,925.5	291.2	2,076.5	151.0
Commerce	<u>460.2</u>	<u>638.6</u>	<u>178.4</u>	<u>829.5</u>	<u>190.9</u>	<u>1,251.5</u>	<u>422.0</u>	<u>1,376.3</u>	<u>124.8</u>
Foreign Trade	283.3	368.6	85.3	485.3	116.7	735.3	250.0	783.4	48.1
Domestic Trade	134.9	201.8	66.9	269.2	67.4	388.9	119.7	432.2	43.3
Others	42.0	68.2	26.2	75.0	6.8	127.3	52.3	160.7	33.4
Public Utilities	40.6	61.4	20.8	74.7	13.3	97.2	22.5	110.8	13.6
Services	36.7	43.4	6.7	57.4	14.0	74.0	16.6	78.1	4.1
Real Estate	460.8	506.9	46.1	558.5	51.6	627.0	68.5	687.6	60.6
Consumption	281.5	332.7	51.2	363.0	30.3	405.3	42.3	436.3	31.0
Total	2,926.5	3,803.0	876.5	4,485.5	682.5	5,574.7	1,089.2	6,056.1	481.4

<sup>1/</sup> The data in this table differ somewhat from those of the preceding table because they do not include investments by commercial banks and private non-bank financial institutions for which no breakdown by industry is available. There is also a slight difference in the definition of commercial bank credit.

<sup>2/</sup> Includes manufacturing, mining and construction.

Source: Central Bank of the Philippines, Statistical Bulletin; Central Bank News Digest; Annual Reports of the Government Service Insurance System and the Social Security System, information provided to the mission.

Table XV

Price Indices  
(1955 = 100)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>Dec.</u> <u>1962</u>	<u>June</u> <u>1963</u>	<u>Dec.</u> <u>1963</u>	<u>June</u> <u>1964</u>	<u>Dec.</u> <u>1964</u>	<u>Feb.</u> <u>1965</u>
<u>Wholesale</u>	<u>117.4</u>	<u>123.2</u>	<u>129.4</u>	<u>134.5</u>	<u>140.7</u>	<u>148.1</u>	<u>148.6</u>	<u>150.9</u>	<u>151.3</u>
Export	133.0	138.1	167.1	178.9	198.7	216.0	195.6	196.1	199.3
Domestically produced and consumed	111.8	117.4	119.6	123.6	128.9	135.7	139.1	142.2	142.2
Imported	137.4	144.5	158.2	164.3	166.5	170.4	169.3	168.4	169.2
<u>Retail</u> <sup>1/</sup>	<u>117.8</u>	<u>119.7</u>	<u>128.3</u>	<u>132.2</u>	<u>135.1</u>	<u>142.6</u>	<u>144.4</u>	<u>153.9</u>	<u>149.7</u>
<u>Consumer</u> <sup>1/</sup>	<u>111.5</u>	<u>113.2</u>	<u>119.8</u>	<u>123.1</u>	<u>125.1</u>	<u>132.8</u>	<u>133.5</u>	<u>144.5</u>	<u>140.2</u>
Foodstuffs	116.0	118.9	127.9	134.3	137.2	153.4	153.0	172.1	162.6
Clothing	128.4	128.7	138.9	140.1	140.2	140.3	140.7	144.1	144.1
Rent	102.6	104.3	107.0	108.7	109.9	110.5	112.0	112.6	114.8
Miscellaneous <sup>2/</sup>	103.5	104.0	107.5	107.7	109.0	108.9	110.6	113.4	113.4
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<sup>1/</sup> The retail and consumer price indices are based on the same data, but their weighting patterns differ.

<sup>2/</sup> Comprises mostly services.

Source: Central Bank of the Philippines, Statistical Bulletin; information provided to mission.

Table XVI

Wage Indices <sup>1/</sup>  
(1955 = 100)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>Dec.</u> <u>1962</u>	<u>June</u> <u>1963</u>	<u>Dec.</u> <u>1963</u>	<u>March.</u> <u>1964</u>	<u>Sept.</u> <u>1964</u>
<u>Money Wages</u>								
Skilled labor	105.1	104.8	106.1	109.4	108.7	109.9	110.9	110.9
Unskilled labor	101.9	104.4	107.5	110.4	112.7	115.1	114.9	113.1
<u>Real Wages</u>								
Skilled labor	94.2	92.3	88.5	88.8	86.7	82.3	82.8	n.a.
Unskilled labor	91.3	92.0	89.7	89.6	89.9	86.2	85.8	n.a.

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<sup>1/</sup> Applies to laborers in industrial establishments in Manila and suburbs.

Source: Central Bank of the Philippines, Statistical Bulletin.

Table XVII

Balance of Payments  
(in million US\$)

	Average 1955-1957	1960	1961	1962	1963	First Half 1964 <sup>1/</sup>
<b>I. Receipts</b>						
Merchandise exports	419	560	500	556	727	357
Non-monetary gold	14	14	15	15	13	8
US Government payments	117	82	86	78	77	44 <sup>2/</sup>
Other invisibles	<u>49</u>	<u>47</u>	<u>68</u>	<u>113</u>	<u>117</u>	<u>66</u>
Total Goods and Services	599	703	669	762	934	475
Private donations	<u>10</u>	<u>22</u>	<u>21</u>	<u>37</u>	<u>27</u>	<u>16 <sup>2/</sup></u>
Total	609	725	690	799	961	491
<b>II. Payments</b>						
Merchandise imports	559	604	611	587	618	378
Freight	63	54	52	54	52	34
Investment remittances <sup>3/</sup>	20	53	38	26	26	16
Insurance	8	8	10	5	3	2
Tourism	16	14	21	42	33	15
Others	<u>30</u>	<u>27</u>	<u>42</u>	<u>65</u>	<u>58</u>	<u>25</u>
Total Goods and Services	696	760	774	779	790	470
Private donations	<u>3</u>	<u>1</u>	<u>1</u>	<u>5</u>	<u>5</u>	<u>2</u>
Total	699	761	775	784	795	472
<b>III. Net Current Account</b>	-90	-36	-85	15	166	19
<b>IV. Capital Accounts</b>						
US aid program (incl. PL480)	28	19	8	4	3	2
Reparations	9	39	10	8	10	7
Other grants	-	1	2	2	2	2
Long-term borrowing	8	51	101 <sup>4/</sup>	20	58	28 <sup>5/</sup>
Loan repayments	- 7	-12	-55	-34	-87	-17 <sup>5/</sup>
New private direct investment <sup>3/</sup>	3	1	-56 <sup>4/</sup>	- 3	- 4	- 3

Table XVII (Cont'd.)

	Average 1955-1957	1960	1961	1962	1963	First Half <sup>1/</sup> 1964
IV. <u>Capital Accounts</u> (Cont'd.)						
Other recorded capital <sup>6/</sup>	<u>2</u>	<u>-1</u>	<u>-35</u>	<u>-25</u>	<u>28</u>	<u>14</u>
Total capital	43	98	-25	-28	10	33
Use of net reserves	<u>63</u>	<u>-27</u>	<u>140</u>	<u>-31</u>	<u>-42</u>	<u>35</u>
Total reported financing	106	71	115	-59	-32	68
V. Errors and Omissions	16	-35	-30	44	-134	-87

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<sup>1/</sup> Preliminary.

<sup>2/</sup> Estimate.

<sup>3/</sup> Excludes reinvested earnings of foreign companies. These are estimated as follows (in US\$ million):  
1955-1957: 51; 1960: 28. No estimates are available for 1961-1964.

<sup>4/</sup> Of the decrease in foreign investments, \$46.9 m. represents the full purchase price of the Manila Electric Co. to be paid by the Philippines to the company's former foreign owners. The unpaid balance of \$41.7 m. was entered as long-term borrowing.

<sup>5/</sup> These figures are not fully comparable to those of earlier years, because some entries are net.

<sup>6/</sup> Includes short-term borrowing and repayment of such borrowing by the private sector.

Source: Central Bank of the Philippines: IMF Balance of Payments Yearbook.

Table XVIII

Foreign Exchange Receipts and Disbursements  
(in million US \$)

	Average <u>1955-1957</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	Jan.-Nov <u>1964</u>	Jan.-Feb. <u>1965</u>
<u>Receipts</u>	<u>630.5</u>	<u>692.1</u>	<u>713.2</u>	<u>966.7</u>	<u>1,156.5</u>	<u>1,391.9</u>	<u>215.2</u>
Merchandise exports	428.7	504.3	446.6	544.1	698.8	699.1	92.9
Gold	6.0	12.2	12.3	13.3	12.7	14.8	2.9
US Gov't. expenditures	117.9	82.0	87.0	63.9	75.2	114.0	20.2
Miscellaneous invisibles	77.9	93.5	167.2	345.4	369.8	564.0	99.2
 <u>Disbursements</u>	 <u>673.3</u>	 <u>660.3</u>	 <u>802.4</u>	 <u>926.6</u>	 <u>1,148.5</u>	 <u>1,406.0</u>	 <u>199.1</u>
Merchandise imports	588.6	508.4	591.1	504.9	576.3	668.7	95.0
Philippine Gov't. expenditures	13.8	10.7	10.4	9.3	13.3	18.2	3.0
Miscellaneous invisibles	70.9	141.2	200.9	412.4	558.9	719.1	101.1
 <u>Net Receipts</u>	 - 42.8	 31.8	 - 89.2	 40.1	 8.0	 - 14.1	 16.1

Source: Central Bank of the Philippines, Statistical Bulletin:  
information provided to mission.

Table XIX

Indices of Quantity, Price and Terms of Foreign Trade  
(1955 = 100)

	<u>Quantum Index</u>		<u>Price Index</u>		<u>Terms of Trade</u>
	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	
1955 - 1957 (Average)	100.4	105.4	102.0	101.4	99.4
1960	86.5	123.2	111.5	114.1	102.3
1961	99.0	119.2	113.2	105.0	92.6
1962	93.7	130.6	115.4	106.2	92.6
1963	92.1	162.3	123.0	111.8	91.0
1963 (Jan. - Nov.)	91.4	162.5	122.8	112.6	91.6
1964 (Jan. - Nov.)	111.8	168.3	124.1	111.3	89.2

Source: Central Bank of the Philippines, Statistical Bulletin;  
information provided to the mission.

Table XX

Origin and Distribution of Foreign Trade

	<u>Values (in million US\$)</u>					<u>Percentages</u>				
	<u>Total</u>	<u>U.S.</u>	<u>Japan</u>	<u>NW Europe</u>	<u>Others</u>	<u>Total</u>	<u>U.S.</u>	<u>Japan</u>	<u>NW Europe</u>	<u>Others</u>
<b>I. Exports</b>										
1955-1957 (Average)	428	236	73	80	39	100	56	17	18	9
1960	560	284	132	100	44	100	51	23	18	8
1961	500	269	125	72	34	100	54	25	14	7
1962	554	280	136	90	48	100	50	25	16	9
1963	727	331	198	152	46	100	46	27	21	6
1964 (Jan.-Aug.)	497	245	126	91	35	100	49	26	18	7
<b>II. Imports</b>										
1955-1957 (Average)	556	331	56	65	104	100	60	10	11	19
1960	604	255	159	75	115	100	42	26	13	19
1961	611	289	108	92	122	100	47	18	15	20
1962	587	253	106	103	125	100	43	18	18	21
1963	618	254	105	102	157	100	41	17	17	25
1964 (Jan.-Aug.)	513	203	102	86	122	100	40	20	16	24

Source: Central Bank of the Philippines, Statistical Bulletin; information provided to the mission.

Table XXI

Value of Exports  
(in million US\$)

	Average 1955-1957	1960	1961	1962	1963	Jan.-Aug. 1963	Jan.-Aug. 1964
<u>Coconut Products</u> <sup>1/</sup>	<u>167</u>	<u>179</u>	<u>122</u>	<u>168</u>	<u>244</u>	<u>148</u>	<u>150</u>
Copra	128	139	88	113	168	101	92
Coconut oil	21	16	16	31	41	29	39
Desiccated coconut	13	19	14	15	18	11	12
Copra cake or meal	5	5	4	9	11	7	7
<u>Sugar</u>	<u>102</u>	<u>143</u>	<u>144</u>	<u>132</u>	<u>160</u>	<u>121</u>	<u>129</u>
Centifugal	97	133	135	122	147	115	108
Molasses	4	5	4	5	8	6	10
Other	1	5	5	5	5	-	11
<u>Abaca and Manufactures</u>	<u>36</u>	<u>45</u>	<u>32</u>	<u>28</u>	<u>38</u>	<u>22</u>	<u>23</u>
Unmanufactured	34	42	29	25	32	21	21
Abaca rope <sup>2/</sup>	2	3	3	3	6	1	2
<u>Forest Products</u>	<u>48</u>	<u>102</u>	<u>105</u>	<u>128</u>	<u>179</u>	<u>111</u>	<u>119</u>
Logs	38	85	85	107	146	92	91
Lumber	7	7	7	5	7	4	5
Plywood	2	6	8	11	16	9	15
Others	1	4	5	5	10	6	8
<u>Mineral Products</u>	<u>51</u>	<u>60</u>	<u>57</u>	<u>52</u>	<u>66</u>	<u>41</u>	<u>41</u>
Copper concentrates	10	18	18	19	32	18	19
Mixed concentrates <sup>3/</sup>	11	11	9	10	10	8	5
Iron ore	11	9	8	9	11	6	7
Chromite ore	13	17	17	9	9	5	5
Manganese ore	-	-	-	1	-	-	-
Others	6	5	4	4	4	4	5

Continued

Table XXI (Cont'd)

	Average 1955-1957	1960	1961	1962	1963	Jan.-Aug. 1963	Jan.-Aug. 1964
<u>Fruits and vegetables</u> <sup>4/</sup>	<u>9</u>	<u>10</u>	<u>14</u>	<u>14</u>	<u>11</u>	<u>8</u>	<u>10</u>
Pineapple (canned)	5	7	10	11	7	6	7
Pineapple (juice)	3	1	2	2	3	2	2
Other	1	2	2	1	1	-	1
<u>Tobacco</u>	<u>5</u>	<u>7</u>	<u>9</u>	<u>12</u>	<u>12</u>	<u>10</u>	<u>10</u>
Raw	4	7	8	11	12	9	9
Cigars and others	1	-	1	1	-	1	1
<u>All Other Exports</u> <sup>5/</sup>	10	14	16	21	16	16	15
Total Exports	428	560	499	555	727	477	497

<sup>1/</sup> Exports of coconut products are known to be understated in the period prior to 1963. For an estimate of the understatement see Table III.

<sup>2/</sup> Includes mats and other minor abaca products.

<sup>3/</sup> Includes non-monetary gold in mixed concentrates.

<sup>4/</sup> Excluding coconut products.

<sup>5/</sup> Differs from exports in the Balance of Payments principally by the amount of non-monetary gold exported.

Source: Central Bank of the Philippines.

Table XXII

Volume and Unit Values of Principal Exports

	Average					Jan.-Aug.	Jan.-Aug.
	1955-1957	1960	1961	1962	1963	1963	1964
I. <u>Volume</u> (1,000 MT)							
Copra <u>1/</u>	905	804	627	778	1,033	634	535
Coconut Oil	94	60	74	146	195	124	150
Desiccated Coconut	51	59	59	63	70	45	45
Copra cake or meal	98	81	88	142	162	101	123
Sugar, centrifugal	843	1,090	1,071	961	1,027	814	762
Abaca, unmanufactured	117	101	84	92	113	75	72
Logs <u>2/</u>	758	1,455	1,543	1,760	2,309	1,438	1,557
Lumber <u>2/</u>	60	60	80	44	54	29	43
Copper concentrates	71	165	162	158	285	156	168
Mixed concentrates	51	-	46	48	46	31	27
Iron ore	1,351	1,008	960	1,009	1,333	763	965
Chromite ore	705	746	613	364	480	251	235
Pineapple, canned	26	45	43	40	32	25	29
Pineapple, juice <u>3/</u>	31	12	24	22	28	20	22
Tobacco, raw	10	8	18	23	24	18	20
II. <u>Value</u> (US\$ per MT)							
Copra	142	173	141	145	163	159	172
Coconut Oil	221	267	216	213	239	231	263
Desiccated coconut	269	322	246	240	262	256	279
Copra Cake or meal	49	62	48	63	70	70	57
Sugar, centrifugal	115	122	126	127	142	141	141
Abaca, unmanufactured	291	416	345	267	280	279	295
Logs <u>4/</u>	50	58	55	61	70	64	59
Lumber <u>4/</u>	117	117	87	116	123	140	127
Copper concentrates	156	109	111	117	111	118	113
Mixed concentrates	211	-	196	209	225	225	193
Iron ore	8	9	9	9	8	9	8
Chromite ore	19	23	28	20	19	19	20

Continued

Table XXII (Cont'd)

	Average					Jan.-Aug.	Jan.-Aug.
	1955-1957	1960	1961	1962	1963	1963	1964
Pineapple, canned	146	156	233	288	219	225	229
Pineapple, juice <u>5/</u>	99	110	83	97	100	105	97
Tobacco, raw	447	500	444	493	500	509	482

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1/ Excludes substantial amounts of unrecorded exports prior to 1962.

2/ In million board feet.

3/ In million liters.

4/ Per thousand board feet.

5/ Per thousand liters.

Source: Central Bank of the Philippines.

Table XXIII

Value of Imports <sup>1/</sup>  
(in million US\$)

	Average 1955-1957	1960	1961	1962	1963	Jan.-Aug. 1963	Jan.-Aug. 1964
<u>Food</u>	<u>99</u>	<u>85</u>	<u>102</u>	<u>87</u>	<u>105</u>	<u>62</u>	<u>80</u>
Cereals	34	25	49	28	59	31	
Coffee, tea etc.	5	3	3	2	2	2	
Dairy products	30	24	24	31	19	13	
Meat and fish	21	28	20	18	16	11	
Others	9	5	7	8	9	5	
Tobacco	7	1	-	1	1	1	-
Raw rubber	1	6	6	3	3	1	3
Rubber products	13	3	4	4	4	3	3
Textile fibres	6	20	23	29	26	16	15
Textile yarns, fabrics and made-up articles	74	31	23	26	21	14	13
Clothing and footwear	2	1	-	1	2	1	3
Crude oil, petroleum products	55	60	49	58	62	41	48
Paper, paper products	19	17	22	16	16	10	15
Medical, pharm. products	12	10	11	6	8	5	6
Manufactured fertilizer	7	7	9	14	4	2	8
Other chemicals	27	38	42	41	42	31	33
Base metals	49	57	59	50	53	31	50
Manufactures. of metals	18	14	16	16	16	9	13
Non-electric machinery	71	87	120	105	113	70	93
Electric machinery, appliances	22	21	26	21	29	20	23

Continued

Table XXIII(Cont'd.)

	Average 1955-1957	1960	1961	1962	1963	Jan.-Aug. 1963	Jan.-Aug. 1964
Transport equipment	31	110	59	63	67	41	66
All other imports	42	36	40	46	46	25	41
Total Imports	555	604	611	587	618	383	513

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1/These data are based on customs returns. It is believed that they understate by a considerable amount the imports coming into the Philippines.

Source: Central Bank of the Philippines.

Table XXIV

## Imports Classified by Use of Goods

	Value (f.o.b. - in million US\$) Jan.-Nov.					Percentage				
	1960	1961	1962	1963	1964	1960	1961	1962	1963	1964
<u>I. Producer Goods</u>										
1. Machinery, equipment	152	112	94	101	119	25	18	16	16	17
2. Unprocessed raw materials	60	73	101	105	110	10	12	17	17	16
3. Semi-processed raw materials	252	287	265	289	328	42	47	45	47	47
4. Supplies	<u>56</u>	<u>43</u>	<u>44</u>	<u>29</u>	<u>37</u>	<u>9</u>	<u>7</u>	<u>8</u>	<u>5</u>	<u>6</u>
Total	520	515	504	524	594	86	84	86	85	86
<u>II. Consumer Goods</u>										
1. Durables	5	5	5	5	7	1	1	1	1	1
2. Non-durables	<u>79</u>	<u>91</u>	<u>78</u>	<u>89</u>	<u>92</u>	<u>13</u>	<u>15</u>	<u>13</u>	<u>14</u>	<u>13</u>
Total	84	96	83	94	99	14	16	14	15	14
<u>III. Grand Total</u>	604	611	587	618	693	100	100	100	100	

Source: Central Bank of the Philippines, Annual Reports ;  
information provided to the mission.

Table XXV

Foreign Exchange Reserves  
(in million US\$)

<u>End of Period</u>	<u>1955</u>	<u>1957</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>Aug.</u> <u>1963</u>	<u>Dec.</u> <u>1963</u>	<u>April</u> <u>1964</u>	<u>Sept.</u> <u>1964</u>	<u>Dec.</u> <u>1964</u>	<u>Feb.</u> <u>1965</u>
<u>I. Commercial Banks</u>											
1. Gross assets	68.7	79.4	76.0	63.7	76.3	81.3	88.3	78.2	90.4	n.a.	n.a.
2. Liabilities	<u>14.4</u>	<u>10.2</u>	<u>4.0</u>	<u>4.5</u>	<u>10.5</u>	<u>18.2</u>	<u>50.3</u>	<u>66.9</u>	<u>65.3</u>	<u>n.a.</u>	<u>n.a.</u>
Net Assets	54.3	69.2	72.0	59.2	65.8	63.1	38.0	11.3	25.1	12.5	10.4
<u>II. Central Bank Gross Assets</u>	154.9	70.8	120.1	44.1	75.0	99.1	109.5	92.4	114.3	123.3	141.2
<u>III. International Reserves</u>	<u>209.2</u>	<u>140.0</u>	<u>192.1</u>	<u>103.3</u>	<u>140.8</u>	<u>162.2</u>	<u>147.5</u>	<u>103.7</u>	<u>139.4</u>	<u>135.8</u>	<u>151.6</u>
<u>IV. Central Bank Liabilities</u>											
1. Net IMF debt position <u>1/</u>	6.0	11.0	-7.0	-9.6	15.8	15.8	15.8	13.8	9.5	9.5	
2. Notes and advances payable <u>2/</u>	-	<u>40.0</u>	<u>13.0</u>	<u>66.5</u>	<u>47.1</u>	<u>4.5</u>	<u>12.5</u>	<u>26.3</u>	<u>26.8</u>	<u>26.8</u>	<u>3/</u>
Total	6.0	51.0	6.0	56.9	62.9	20.3	28.3	40.1	36.3	36.3	
<u>V. Net Foreign Exchange Reserves</u>	203.2	89.0	186.1	46.4	77.9	141.9	119.2	63.6	103.1	99.5	<u>4/</u>

1/ Drawings on the IMF less paid-in gold subscription.

2/ Consists of amounts payable to US Commercial banks and the Ex-Im Bank.  
Excludes forward contracts for the sale of foreign exchange.

3/ Estimated.

4/ Forward contracts for the sale of foreign exchange to the Development Bank of the Philippines and Philippine commercial banks amounted to about \$19m.

Source: Central Bank of the Philippines, Statistical Bulletin;  
IMF International Financial Statistics; information provided to the mission.

## Annex

### Recent Trends and Prospects in Agriculture

#### Export Agriculture

1. Coconut products contribute about one-third of total Philippine export earnings, earning around \$210 million annually in the last three years, as compared with about \$190 million in 1959-1961 and \$167 million in 1955-1957. The long-run trend of output indicates an average annual rate of growth around 3% a year, coming from new plantings which outweigh the depressing effect on output of the Cadang-Cadang disease which still has not been conquered. However, there are large annual variations around the trend, caused by changing weather conditions. Growth of output between 1955-1957 and 1959-1961 was below the trend, at less than 2% a year. In contrast, output expanded at an annual rate of 6% between 1959-1961 and 1962-1964. It appears that favorable weather was the most important factor behind this acceleration in growth, although the application of larger amounts of fertilizer and the coming into bearing of higher-yielding trees probably raised the trend line somewhat. Since 1960, about 440,000 ha were newly planted to coconut trees, expanding the total area under this crop by roughly 40%. As these trees come into bearing, output should rise more quickly than the long-run average of 3% a year would indicate. Output in 1965 will be affected by the destruction of coconut groves through typhoons in late 1964, but over the 1965-1970 period as a whole it is estimated that output will grow by about 4.5% a year, as compared with the average annual output in 1960-1964.

2. During the past three years, the behavior of export prices also deviated favorably from the traditional pattern. Since Philippine exports account for about two-thirds of world trade in coconut products, short-run variations in Philippine export volume have usually been accompanied by inverse fluctuations in price. As a result, total Philippine earnings from exports of coconut products have been generally much more stable than export volume. This was not the case in 1962-1964, because there were reductions in supply from other sources -- the coconut crops in Ceylon and Indonesia were below normal, the break of relations with Malaysia caused a lower portion of Indonesian output to reach the world market, and the United States bought more coconut products to compensate for the low supply of fish oil from Peru in 1963. For the most part, the impact of these factors is bound to be temporary. It is presently estimated that the price of coconut products in the world market will fall after 1965 and by 1970 reach a level more than 20% below the 1963-1964 level. Thus taking together the outlook for increases in volume and the prospect for prices, it appears that export earnings in 1970 will be roughly the same as in 1963-1964.

3. The annual output of sugar, until recently the second largest source of export earnings, used to be fairly stable around 1.4 million metric tons (commercial weight), disregarding shortfalls in years of bad crops. In contrast, the last three years have seen a considerable expansion. Stimulated by the higher exchange rate and strong demand abroad, sugar output increased by 8.5% a year on the average, as the area under sugarcane was extended and, principally, yields were raised by the use of better strains,

application of more fertilizer and extension of irrigation. Total output reached 1.8 million tons in 1963-1964. Despite increases in output, export volume in 1962-1964 hardly exceeded that of the preceding three-year period, because of two major reasons: total withdrawal of sugar during the earlier period had exceeded production so that stocks had been depleted; sugar shipments were being withheld in the early part of 1964 as a hedge against an increase in the exchange rate and it proved difficult later in the year to obtain sufficient shipping space.

4. Philippine sugar exports are shipped almost exclusively to the United States where shipments under the quota enjoy the domestic support price which generally has been about twice the world market price. Including the Philippines' share in the reallocation of Cuba's former quota, the basic quota of the Philippines in the U.S. market is now 925,000 metric tons (commercial weight). In addition, there have from year to year been supplementary quotas which gave the Philippines a total quota of roughly 1.1 million tons in 1963-1964. Because the Philippines have for long enjoyed a privileged position in the United States market, they did not benefit as much from the exceptionally high level of world market prices in 1963 and 1964 as they would have if they had normally sold in the world market. Also, for speculative reasons, a substantial quantity of export sugar was withheld in 1964 and only sold after the market had broken. Thus, average dollar receipts per unit of sugar exports in 1963 - 1964 were only 12% higher than in the preceding three-year period.

5. The U.S. Sugar Act Amendments of 1962 for domestic suppliers and the Philippines will remain in force until the end of 1966. It is not possible now to anticipate what quota the Philippines will be granted under the new regulations covering the period after 1966. However, it is possible that the total quota, including supplementary allocations, will be somewhat below the present one. At the same time, it is not likely that the Philippines will be able to sell in the world market more than the quantity by which its sales in the United States may fall short of the present quota. This would mean that exports of centrifugal sugar would remain approximately unchanged at 1.1 million tons over the next several years. Allowing for exports of molasses worth some \$10 - \$15 million, and assuming the price of sugar to be 5.5 U.S. ¢ per lb. in the U.S. market and 4.0 U.S. ¢ per lb. elsewhere, total export earnings from sugar are likely to be around \$150 million in the latter 1960's, or roughly the same as in 1963 - 1964. It is evident from these projections of exports that there will be room for the expansion of output only to the extent that domestic consumption - now some 475,000 metric tons - grows. Taking into account the Philippines' rapid increase in population and the expectation of increasing per-capita consumption of sugar, output may have to grow by roughly 2% a year in order to meet domestic and export requirements in the latter 1960's. The outlook beyond 1969-1970 is uncertain because the present U.S.-Philippine Trade Agreement provides that, with its expiration in 1974, the Philippines will lose its privileged position in the United States market. It is, of course, possible that more favorable arrangements can be secured. Sugar planters are now making efforts to reduce their cost per unit so as to strengthen their competitive position. However, there are also those who believe sugar production is over-extended and some land now under sugarcane should be directed to other crops.

6. Other agricultural export crops -- mainly abaca, tobacco and pineapples -- are of less importance, total earnings from them being around \$50 - \$60 million. The largest among them is abaca which enjoyed a strong market in 1963-1964 because jute was in short supply. However, because of growing competition from synthetic fibers, the outlook for abaca exports is not favorable. It is estimated that earnings will stabilize at the level of 1963-1964, around \$30 - \$35 million. Exports of raw tobacco and cigars, now \$12 million a year, are almost entirely to the United States where they have found good reception as a substitute for imports from Cuba. There appear to be good possibilities for expanding these exports, to perhaps \$18-\$20 million in five years' time. Exports of pineapple products have risen to \$12-\$14 million a year, mainly because of higher prices. A foreign investor has now completed preparations for establishing another large pineapple plantation which in time may be expected to double present earnings. Investigations have shown the feasibility of growing bananas commercially, mainly for export to Japan. Negotiations were held with a foreign company but broken off because of unfavorable political repercussions. It is uncertain now whether or when bananas will become a export product of the Philippines.

7. Forest products have now become the Philippines' second largest source of export earnings. Since the middle of the 1950's, there has been an uninterrupted and steep rise in output. Between 1959-1961 and 1962-1964, production of logs increased annually by almost 10%. More than four-fifths of this increase has gone into exports for which Japan is the largest market. Export earnings from logs and lumber have gone up annually by 16% between 1959-1961 and 1962-1964 and now stand at \$150 million. However, concern, long voiced by forestry experts, is now growing in the Government that the steep increase in logging and the non-selective methods employed are in conflict with prudent use of the country's forestry and land resources. It remains to be seen what action the Government will take but it is unlikely that a drastic reduction in logging will result. Over the longer run, of course, the supply of logs will be run down and will compel a cut-back in output, but this problem is not likely to arise over the next few years. Assuming some Government action, the increase in log output may slow down perhaps to 5% a year. At the same time, it should be possible to compensate for this reduction in growth by increased sales abroad of domestically produced plywood and veneer. Consideration is now being given to various schemes, including abolition of a sales tax of 7% on domestic sales of logs to independent domestic producers of plywood and veneer which would boost output in these fields.

8. Altogether, earnings from the export of agricultural commodities may be projected as follows (in million U.S. \$):

	<u>Average</u> <u>1963-1964</u>	<u>1970</u>
Coconut products	235	225 - 240
Sugar, centrifugal and other	150	145
Logs and lumber	152	180
Abaca	37	35
Tobacco, cigars	12	20
Fruits and vegetables	<u>14</u>	<u>25 - 30</u>
Total	600	630 - 650

It is, however, expected that earnings from non-agricultural products -- minerals and manufactured goods, particularly plywood and veneer -- will rise from their 1963-1964 level of U.S. \$110 million to about U.S. \$200 million in 1970. As a consequence, total export earnings are expected to increase by roughly 3% annually, while earnings from agricultural commodities are projected to go up by only 1% - 1.5% a year.

### Domestic Agriculture

9. In irrigation, the shortage of Government funds and lagging technical preparation kept spending to small amounts. However, some progress is now being made in rehabilitating existing irrigation systems and completing schemes left unfinished in the past. A new agency has been created for the construction and management of irrigation schemes which promises to be more effective. Some small schemes are now under preparation and it is expected that large schemes will follow as the results of a river-basin study by the U.S. Bureau of Reclamation become available.

10. Under the Land Reform Act of 1963, share-tenancy will be abolished by converting it, as a first step, into leasehold at a maximum rent of one-quarter of crop value. It is intended that all leaseholds will eventually become freeholds as areas are declared land-reform districts, the land acquired by the newly created Land Bank, and title transferred to the present tenant. Progress in carrying out the land reform has been very slow and the area where preparatory investigations are being conducted amounts only to a few thousand hectares. The problems of organizing land reform on a large scale are still far from being solved. In addition, the shortage of Government funds has made it impossible so far to provide more than minimum starting funds to the Land Bank, while the Agricultural Credit Administration (the reorganized ACCFA) has lingered on without an infusion of new funds.

11. In conjunction with land reform, a major reorganization of the Government's agricultural services has taken place, providing for a degree of coordination hitherto unknown. This was a major step forward. However, its effectiveness in practice is tied to the pace of land reform. As this has proved to be much slower than originally expected and probably will continue to be fairly slow, it may take a long time before the re-organization of agricultural service will benefit a sizeable area. The Government recognized this and in 1964 created the Rice and Corn Authority, with coordinating powers similar to those of the Land Reform Council, which would be responsible for accelerating the growth of output on staple foods in areas not covered by land reform proceedings. Legislation giving broad powers to this new agency was held up in the Congress for some time, but passage of the bill is now expected before the end of the current session. This new agency could well become an effective instrument to promoting the growth of domestic agriculture, provided that it exercises determined leadership in coordinating the various branches of the government agricultural services and sufficient funds are made available to support its activities, particularly by investments in irrigation and roads.

12. In the short run, improvements will probably be most difficult to accomplish in the production of rice, the most important crop which covers half the area under domestic crops and contributes roughly 10%

of total national product. At present, less than one-fourth of this paddy area is irrigated and sufficient water for double cropping is available for only 6% of the land. The fact that rice production is heavily dependent on natural rainfall and that a considerable part of the land now under paddy consists of upland areas which are quite unproductive, is reflected in yields which, on the average, are almost the lowest in the Far East. It would appear that the key to increasing rice production lies in improving the productivity of land well suited to paddy cultivation. Realization of the potential that exists, will require large investments in irrigation and ancillary facilities. Moreover, new strains would have to be developed that are responsive to fertilizer. These basic improvements will take time. However, it should be possible over the next few years to achieve some acceleration of growth above the recent rate of less than 2% a year with some improvements in existing irrigation facilities, wider distribution of improved seeds and fertilizer and better use of extension services.

13. Chances appear to be much better in the medium term for increasing at a faster pace the output of corn, the second largest food crop. In the second half of the 1950's, this had been the most dynamic crop, its production expanding by 7% a year. More recently, growth of output slowed down to 5% as marketing difficulties developed and the growth in demand for feed corn declined when the rapid expansion of poultry and pig production ceased. Here, too, are basic problems to be overcome, especially the development of suitable hybrid seeds and of effective remedies to insect and pest infestation which is particularly dangerous in Mindanao where most of the land suitable for growing corn commercially is located. However, even without this solution fairly rapid expansion of output seems possible provided the demand exists to justify it. This is largely a matter of developments in the field of poultry and livestock production where the prospects are favorable as will be seen below.

14. Apart from the staple foods there is a larger variety of vegetables and fruits that are grown in the Philippines now and whose production could be expanded significantly. Among them are soybeans whose cultivation was begun only recently with promising results. Production of beans and peas could be increased substantially by growing them in rotation with rice and corn. More extensive cultivation of arabica coffee could make the Philippines self-sufficient in coffee. There are good possibilities for expanding the production of fruits both for domestic consumption and for export, including citrus fruits, mangoes etc. In practically all these fields successful initial efforts were made in the past. All too often they ran into difficulties because inadequate provision had been made for marketing and processing. If these shortcomings could be corrected, subsidiary crops could make a substantial contribution to total agricultural output for the domestic market.

15. This is also true of livestock for which climatic conditions are very favorable in parts of Luzon and Mindanao. Yet the cattle population at present is still only a fraction of the size it had been before the war and is totally insufficient for meeting the country's requirements of dairy products and meat. The Government is now actively investigating

schemes through which it could help expand the dairy and livestock industry. Interest in the private sector is also growing and the Economic Development Foundation, a new consultant organization sponsored jointly by the Government and U.S.A.I.D., is working on proposals for an integrated feed-cattle-meat-packing industry. Sugar planters are also beginning to acquire cattle, using sugar-cane tops as basic feed. A large-scale meat-packing company has recently been established in Manila which will generate considerable demand for hogs and cattle.