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Philippines
Strengthening Economic Resiliency

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CURRENCY EQUIVALENT

Currency Unit - Peso (₱)
US$ = ₱ 26.2
as of October 31, 1996

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BIR	-	Bureau of Internal Revenue
BOT	-	Build-operate-transfer
BSP	-	Bangko Sentral Ng Pilipinas
CPI	-	Consumer Price Index
CPSD	-	Consolidated Public Sector Deficit
DOF	-	Department of Finance
EDA	-	Export Development Act
EVAT	-	Expanded Value-Added Tax
FCDU	-	Foreign Currency Deposit Unit
FDI	-	Foreign Direct Investment
FRCD	-	Fixed Rate Certificate of Deposit
GOCC	-	Government-Owned Corporation
GOP	-	Government of Philippines
GRT	-	Gross Receipts Tax
IMF	-	International Monetary Fund
LGU	-	Local Government Unit
LIBOR	-	London Inter-Bank Offer Rate
MWSS	-	Manila Metropolitan Waterworks System
MBS	-	Mortgage Backed Securities
NG	-	National Government
NHMFC	-	National Home Mortgage Finance Corporation
NPC	-	National Power Corporation
NSCB	-	National Statistical Coordination Board
ODA	-	Official Development Assistance
Pag-IBIG	-	Home Development Mutual Fund
PHIC	-	Philippine Health Insurance Corporation
SIBOR	-	Singapore Inter-Bank Offered Rate
SMI	-	Secondary Mortgage Market Institution
SSA	-	Social Security Agency
UHLP	-	Unified Home Lending Program
WB	-	World Bank

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PHILIPPINES

ECONOMIC REPORT

STRENGTHENING ECONOMIC RESILIENCY

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This report was task-managed by Sanjay Dhar. Tom Glaessner contributed, Nam Pham provided research assistance and Hedwig Abbey assisted in document processing. We gratefully acknowledge the cooperation of government officials, particularly from the Department of Finance, National Economic Development Authority and Central Bank.

PHILIPPINES: STRENGTHENING ECONOMIC RESILIENCY

EXECUTIVE SUMMARY

(i) Since 1994, the Philippines has witnessed a significant economic recovery, the nature of which has raised expectations that rapid growth can finally be sustained on a more regular basis. Several factors account for this optimism. A decade of structural adjustment and increasing integration with the international economy—facilitated by trade and capital account liberalization—have reduced economic distortions and fostered greater competition in the domestic economy. In contrast to previous growth episodes, the current recovery has been driven not by fiscal stimulus but by strong export growth and rising levels of private foreign investment. Reflecting the changing pattern of growth, manufactured exports now dominate export composition, while the external debt service ratio fell to below 15 percent in 1995, with a further decline expected in 1996. The increased confidence of foreign investors appears to reflect improved perceptions of political stability in addition to improved economic management. Given the long hiatus of private capital flows prior to the current expansion, the ongoing adjustment in private portfolios could be sustained for an extended period, provided the economic and political environments remain favorable.

(ii) By most measures, economic performance has progressed favorably during the current recovery (Table 1 provides an overview): GNP growth has risen to 7.1 percent in the first half of 1996; inflation has fallen back into single digits; the fiscal stance remains restrained, with the consolidated public sector financial position close to balance in both 1995 and 1996; export growth has slowed sharply (from 29 percent in 1995 to 17 percent through July 1996), but this performance still compares favorably with most of the Philippines' wealthier neighbors; and the successful handling of speculative episodes during 1995 has given rise to a period of increased capital inflows in 1996, with sustained intervention by the central bank (BSP) resulting in a stable nominal exchange rate and rising foreign exchange reserves.

A. Macroeconomic Policy Challenges

(iii) Yet there remain two sets of macroeconomic policy challenges: (i) the sustainability of the fiscal deficit reduction; and (ii) the pace of credit expansion, which reached 55 percent in the year ending July 1996 and was accompanied by a trade deficit that grew to nearly 15 percent of GNP in the first half of 1996. Moreover, while the overall balance of payments position remains strong, the authorities need to be wary of a situation in which undue reliance is placed on surging remittances and capital inflows, particularly if it is accompanied by sustained appreciation of the real exchange rate and widening of the trade deficit.

(iv) ***Fiscal Concerns and Policy.*** It is clear that there are important unmet needs within the public sector ranging from alleviating infrastructure bottlenecks, addressing pressing rural and human development needs, and improving the attractiveness of civil service employment. At the same time, there is no room for relaxing the fiscal stance—indeed fiscal tightening is more appropriate—in view of the rising trade deficit and pace of credit expansion, the still high level of public debt, the prospect of increased costs of central bank sterilized intervention (which *are* incorporated into the fiscal accounts), and the significant contingent liabilities of the public sector (which are *not* fully incorporated).

(v) Hence needed increases in government expenditures will have to be financed through higher revenues. This points to the critical need to increase tax revenue, particularly since privatization revenue is projected by the Government to decline. Consequently, it is essential to pass and effectively implement the comprehensive tax reform program that has been submitted to Congress and debated for over a year. In addition, efforts to improve tax administration and enforcement need to be intensified, and incentives designed for local authorities to adjust property assessments to realistic levels coupled with the means to enforce collection.

(vi) An important additional element of fiscal sustainability is to manage and limit future claims on the budget. The Philippines has been at the forefront of efforts among developing countries to facilitate private investment in infrastructure, a process that will be vital to sustain rapid growth. In parallel, it will be important to reinforce recent progress on developing a framework for managing and accounting for contingent liabilities, in order to improve the incentives for both government agencies and private sponsors to such public-private interface. Strengthening the ability of the banking system to cope with rising capital flows and financial deepening will be essential. Finally, adjustments in the Government's role in social security provision and housing finance will be needed to improve fiscal sustainability, as briefly described below.

(vii) ***Restraining Credit Expansion.*** The financial deepening that has occurred in recent years fundamentally reflects the improving confidence of both residents and nonresidents in the Philippine economy and banking system. But the recent pace of credit expansion, which has been substantially faster than the growth of M3, also reflects the increased use by banks of foreign borrowing and foreign currency deposit units (FCDUs) as the source for credit expansion. Credit growth at its recent pace, if sustained over an extended period, would not be compatible with maintaining low inflation or a sustainable balance of payments position, and could undermine the ability of banks to adequately manage their loan portfolios.

(viii) If measures to dampen credit expansion are needed, the menu could include: tighter overall monetary policy; tighter guidelines for the use of FCDUs; possible taxation of foreign borrowing; and increased capital requirements for banks, which is also advisable from a prudential standpoint and is already under consideration. With respect to FCDUs, the policy options include: imposing a liquidity requirement in foreign exchange; limiting credit use to trade finance; and moving towards a more level playing field in terms of their tax treatment vis-à-vis peso intermediation. Such measures would also be advisable to contain currency substitution over the medium term and to limit foreign exchange risks and maturity mismatches arising from intermediation through FCDUs.

B. Structural Reform

(ix) The Philippine authorities have appropriately focused their structural reform efforts over the past decade on economic liberalization, privatization, and increasing competition. As the beneficial impact of these reforms bear fruit, the need to raise domestic savings to sustain rapid growth has become increasingly evident. In this context, reforms within social security and housing finance can play an important role in raising savings, improving the efficiency of its allocation, and developing the domestic capital market.

(x) ***Social Security Reform.*** Within social security, some combination of increased contribution rates, increased compliance, and improved investment strategies by the social security agencies (SSAs) is likely to be needed. These reforms would respond to concerns that current contribution rates may be insufficient to finance the prevailing structure of benefits and maintain the present partial funding level of the SSAs, and that below-market returns on subsidized housing or member loans cannot be compensated for indefinitely. Institutional reforms to provide benefits more efficiently would complement such reforms. Liberalizing existing constraints on the substantial long-term resources available to the SSAs for investment would also provide an important boost to the development of the domestic capital market.

(xi) ***Reform of Housing Finance.*** The costs and contingent liabilities associated with support for the housing sector are significant, involving both off-budget interest rate subsidies and potential stock losses via nonperforming loans. The response to recent institutional problems has been positive thus far. The challenge will now be to build on the Government's recent progress by developing an institutional framework that is grounded in its long-term viability. In such a framework: targeting of housing subsidies would be based on transparent criteria that preserve beneficiaries' and intermediaries' incentives; and a wide array of private financial institutions would play a greater role in financing housing at market rates of interest, even in the case of medium- to low-income clients. Finally, an active secondary market would be developed, which could play a key role in the development of the Philippine securities market.

PHILIPPINES: STRENGTHENING ECONOMIC RESILIENCY

I. INTRODUCTION

1. The Philippines in 1996 is well poised to record its fifth consecutive year of rising economic growth. From a period of declining real per capita income in 1991-92, the Government's target of at least 6.5 percent real GNP growth in 1996 appears attainable.

2. The current recovery, which began in earnest in 1994, was sparked by the resolution of the power crisis during 1992-93 through expedited use of private investment and the prospect of greater political stability with the incoming administration of President Ramos. In contrast to past growth episodes, this recovery has been marked by declining public sector deficits, strong export growth, and increased levels of private foreign capital. Following a decade of structural reforms that have reduced distortions and opened the economy to greater competition, expectations have been raised that rapid growth can finally become self-sustaining. Higher growth has also begun to reduce unemployment and poverty.

3. This report confirms the private sector's central role in generating the impetus for growth, and the important role of financial policies in bolstering confidence. At the same time, it assesses a number of emerging concerns that will need to be addressed to solidify growth prospects. In particular, the fiscal improvement that has occurred to some extent reflects increased revenue from privatization and maintenance of public investment at relatively low levels. With deficiencies in infrastructure still apt to constrain growth, the need to strengthen the tax revenue base remains. Notwithstanding the rapid export expansion, the trade deficit has widened and the real exchange rate has appreciated, reflecting surging worker remittances and private capital inflows. Finally, credit expansion to the private sector, while starting from a low base, has been very rapid. In a situation of modest domestic savings and potentially volatile capital flows, these factors imply the need for sustained vigilance over macroeconomic policy.

4. Section II reviews recent macroeconomic developments and elaborates on the above concerns. Section III discusses the policy implications of emerging macroeconomic trends, in particular the requirements for maintaining fiscal sustainability and options for restraining credit expansion. Furthermore, the objectives of raising domestic savings and improving the efficiency of their allocation are examined in the context of options to reform the Government's role in the provision of social security and housing. Finally, Section IV provides projections of official development assistance (ODA) requirements in the context of the Government's public investment program and places these within an overall balance of payments framework through 1998.

Table 1: Selected Economic Indicators, 1991-96

	1991	1992	1993	1994	1995	1996 /a
			(percentage change)			
Growth and Inflation						
Real GNP	0.5	1.6	2.1	5.3	5.5	7.1 (S I)
Real GDP	-0.6	0.3	2.1	4.4	4.8	5.0 (S I)
CPI (period average)	18.7	8.9	7.6	9.0	8.1	9.1 (Jan-Oct)
CPI (end period)	13.1	8.2	8.4	7.1	10.9	4.7 (Oct)
Unemployment Rate (percent)	10.5	9.8	9.3	9.5	9.5	8.9 (Jan-July)
			(in percent of GNP)			
Savings and Investment						
National Savings	18.2	19.4	18.1	19.0	19.0	19.3 (S I)
Gross Investment	20.1	21.0	23.6	23.5	21.6	23.5 (S I)
Public Sector						
National Government						
Tax Revenue	14.5	15.2	15.3	15.6	15.8	16.4 (T)
Investment	3.0	3.4	2.5	2.5	2.8	2.9 (T)
Balance /b	-2.1	-1.2	-1.5	0.9	0.5	0.8 (T)
Balance /c			-2.5	-0.5	-0.5	..
Monitored Corporations Balance	-0.6	-0.8	-1.7	-0.5	-0.2	-1.2 (T)
Consolidated Public Sector Balance	-2.0	-1.9	-1.7	-0.4	-0.2	0.0 (T)
Public Debt	111.5	118.6	125.6	107.6	101.0	..
National Government Debt	61.5	71.2	85.4	70.7	66.3	..
			(end-year percentage change)			
Money and Credit						
M3	15.5	11.0	24.6	26.5	25.3	21.4 (July)
Credit to Private Sector	7.8	24.6	38.0	27.9	43.5	54.5 (July)
Commercial Bank Credit	6.6	24.6	32.7	34.8	38.6	54.1 (July)
Balance of Payments						
			(end-year percentage change; $ value)			
Merchandise Exports	8.0	11.1	15.8	18.5	29.4	17.3 (Jan-July)
Merchandise Imports	-1.3	20.5	21.2	21.2	23.7	27.0 (Jan-July)
			(in percent of GNP)			
Trade Deficit	7.0	8.7	11.2	11.9	11.7	14.6 (S I)
Current Account Deficit	1.9	1.6	5.5	4.5	2.6	4.2 (S I)
International Reserves						
Gross Official Reserves ($ billion) /d	4.5	5.3	5.9	7.1	7.8	11.5 (Sept)
(in months of imports)	3.4	3.3	3.1	3.1	2.6	3.2 (Sept)
External Debt						
Total ($ billion)	30.0	30.9	34.3	37.1	37.8	..
In percent of GNP	65.6	57.4	62.0	56.4	49.4	..
Debt Service Ratio (percent) /e	35.1	32.9	23.5	20.2	14.5	12.8 (S I)
Exchange Rate (Pesos/$; period average)	27.5	25.5	27.1	26.4	25.7	26.2 (Jan-Sept)
Real Effective Exchange Rate (1990=100) /f	99.8	110.9	110.4	117.3	120.3	129.0 (S I)

Sources: GOP; IMF, WB staff estimates.

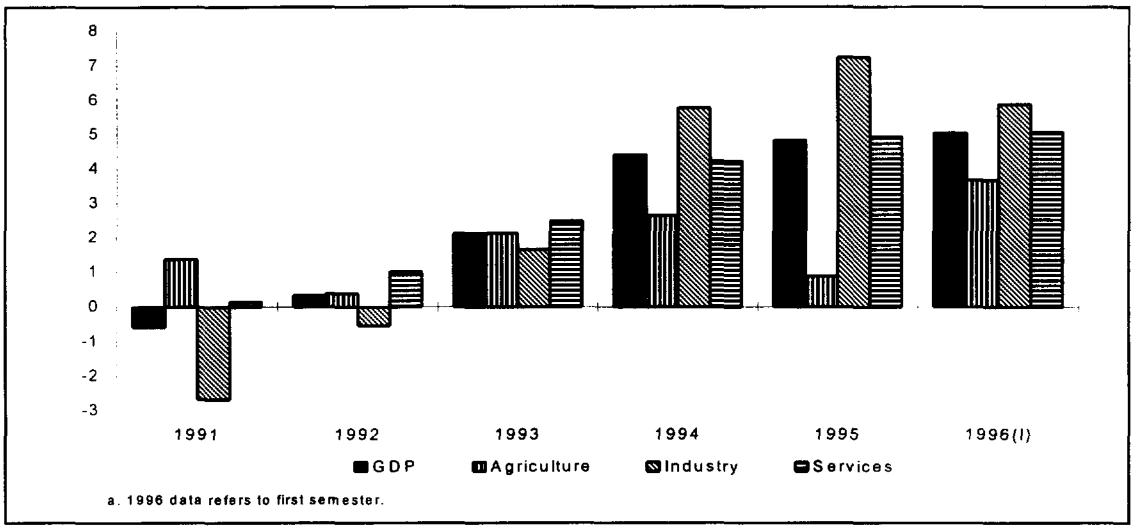
a. Latest period. S I and T refer to first semester and official target, respectively.
b. Excluding central bank restructuring.
c. Including central bank restructuring.
d. Including gold.
e. Before rescheduling, as a percentage of exports of goods and services.
f. Increase indicates appreciation.

II. MACROECONOMIC DEVELOPMENTS: EMERGING TRENDS AND CONCERNS

A. Output, Employment and Prices

5. ***Supply Factors.*** Through 1995, industrial expansion was the driving factor behind the current recovery from the supply side, whereas agricultural performance remained disappointing (Figure 1 and Appendix Table 4). Thus despite over 7 percent industrial growth in 1995, real GDP growth was limited to 4.8 percent as agricultural output stagnated due to a serious drought. Manufactured production expanded by nearly 7 percent, aided by rapid export growth within the electronics sector.

Figure 1: GDP Growth and Its Components, 1991-96
(percent, at 1985 prices)



6. In the first half of 1996, growth rates within manufacturing and overall industrial production slowed to 5.6 percent and 5.9 percent, respectively, reflecting slower export growth and the adverse impact of lower agricultural production in late 1995 on manufactured food production. However, a pick-up of investment in 1996 particularly for durable equipment and the greater buoyancy of the economy in general suggest that industrial growth rates could soon recover to 1995 levels. A strong agricultural recovery in the first half of 1996 and slightly higher growth in services helped to raise real GDP growth to 5 percent. Meanwhile, the differential between GDP and GNP growth rates continued to rise, as surging growth of net factor income from abroad of 77 percent in the first half of 1996[1] pushed GNP growth to 7.1 percent, up from 5.5 percent in 1995.

1 Discussed under Section IIB below.

7. ***Aggregate Demand.*** The precision with which demand trends can be estimated is affected to some extent by the significance of informal economic activity and past statistical discrepancies within the national accounts. The rapid growth of net factor income from abroad may also be contributing to measurement difficulties within the balance of payments, given the relative difficulty of tracking expenditures from this source.[2] Notwithstanding these caveats, export and import shares have clearly grown significantly in the 1990s. However, the share of investment in GNP fell appreciably in 1995, reflecting reductions in both public and private investment.[3] In particular, investment in durable equipment rose by only 2.2 percent in 1995. This slowdown was primarily due to the completion of major power projects by the National Power Corporation (NPC) in previous years, and the resumption of a more normal pattern of investment in transportation equipment following a jump in such investment in 1993-94 associated with the modernization of air and water transport. Investment in construction and real estate grew at a faster pace than durable equipment through 1995, although as noted durable equipment investment recovered strongly in the first half of 1996.

Table 2: Aggregate Demand, 1991-95
(in percent of GNP)

	1991	1992	1993	1994	1995
Consumption	82.9	83.6	84.8	83.0	82.6
Private	73.0	74.1	74.8	72.5	71.8
Public	9.9	9.5	9.9	10.5	10.9
Investment	20.1	21.0	23.6	23.5	21.6
Private	15.2	16.2	17.9	18.1	17.0
Public	4.9	4.8	5.7	5.3	4.6
Exports	29.4	28.6	30.8	33.0	35.1
Imports	32.4	33.5	39.1	39.1	42.7
Statistical Discrepancy	-0.6	-1.5	-1.7	-2.8	0.1
Net Factor Income	0.5	1.7	1.7	2.5	3.1
GNP	100.0	100.0	100.0	100.0	100.0
Memo Items:					
National Savings	18.2	19.4	18.1	19.0	19.0
Private	14.9	16.5	13.7	16.0	15.7
Public	3.3	2.9	4.4	3.0	3.3

Source: GOP.

2 Efforts are underway to address measurement difficulties; in particular, the central bank is refining its procedures to more accurately estimate items in the services account of the balance of payments.

3 Data in Table 1.2 are ratios of nominal variables; measured as real ratios, the decline in 1995 investment was less significant.

8. The national accounts data also indicate declines in the share of consumption since 1993—along with the virtual elimination of a significant statistical discrepancy in 1995 (Table 2). However, to the extent that at least some of the statistical discrepancy can be absorbed within the consumption data—in most countries, consumption tends to be the least accurate of demand data—the precise trend of the consumption share in GNP between 1994 and 1995 is not clear. Finally, national savings increased gradually through the current recovery (since 1993), although private savings fell slightly in 1995.

9. ***Employment.*** The Philippine labor market is characterized by an industrial sector that employs 16 percent of the labor force—a share that has remained relatively stable for 20 years—with agriculture and services accounting for the remainder in roughly equal proportions. While the economy generated nearly two million jobs during 1993-95, the unemployment rate did not decline significantly during this period and stood at 9.5 percent in 1995 (Appendix Table 13), although underemployment has fallen. Job creation in 1995 reflected sectoral trends. Industrial employment rose by nearly 5 percent (implying some increase in labor productivity within industry), whereas agricultural employment declined for the first time in the 1990s reflecting the severe drought. Employment in services expanded by nearly 600,000, comprising over 90 percent of the total employment growth.

10. The pace of job creation increased in 1996, however, aided by the strong recovery in agriculture: the average unemployment rate during January-July 1996 was 8.9 percent, down significantly from 9.9 percent for the same period in 1995, and was accompanied by an increase in the labor force participation rate. Labor productivity of existing workers has also increased in recent years as might be expected during the early phase of a recovery. A sustained period of robust growth might therefore be expected to have a more significant impact on employment and incomes.

11. ***Inflation***. Recent price trends have displayed considerable short-term volatility reflecting the volatility of food prices and their substantial share in the overall consumer price index; non-food price increases for most of the period since the beginning of 1995 have been much more stable, averaging about 6 percent. Through the second half of 1994 and early 1995, inflation[4] was on a declining trend reaching a low of 5 percent, aided by an appreciating nominal exchange rate and rising real money demand, and notwithstanding rapid growth in liquidity. The aftermath of the Mexican crisis temporarily reversed exchange rate and money demand trends, rendering the prevailing expansion in liquidity excessive—broad money (M3) growth peaked at 45 percent in April 1995. Monthly price increases rose sharply in mid-95 as rice prices doubled following seasonal shortages and other food prices also increased, notwithstanding a sharp decline in monetary growth to 25 percent by end-95. By September 1995, inflation had reached double digit levels and remained in the 10-12 percent range until May 1996[5]. Nevertheless, with monthly price increases moderating after February, inflation has fallen through most of 1996: the

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4 Unless noted otherwise, inflation refers to the widely-tracked year-on-year change in consumer price index.

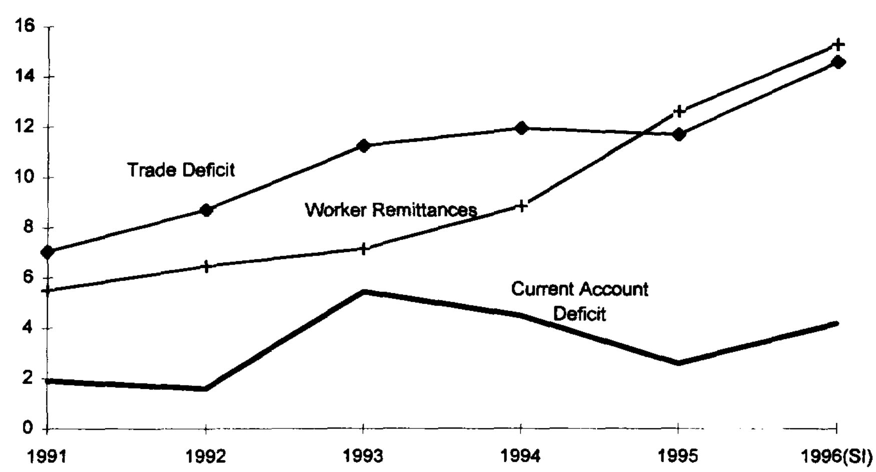
5 The persistence of this relatively high inflation reflects the fact that rice prices did not fall significantly after their initial increase in mid-95.

year-on-year CPI had dropped to only 4.7 percent by October, while average inflation during January-October 1996 had also fallen to 9.1 percent.

B. Balance of Payments

12. ***Overview.*** The pace of international integration has accelerated during the current recovery as trade, remittances, and private capital flows have each expanded rapidly. Within the context of rapid growth of both exports and imports, the trade deficit widened to nearly 12 percent of GNP in 1994-95, and increased further in the first half of 1996. The rising trade deficit was however accompanied by a declining current account deficit through 1995 that reflects a substantial surge in remittances and private transfers (Figure 2). The capital account has witnessed rapid increases in direct and portfolio flows, which on a net basis have exceeded use of medium and long-term loans since 1994. Surpluses in the overall balance of payments position have substantially increased gross reserves, which in late 1996 had increased to over three months of import coverage.

Figure 2: Trade, Current Account Deficits and Worker Remittances, 1991-96 [a]
(in percent of GNP)



a/ 1996 data refers to first semester.

13. ***Exports*** have formed a driving factor of the current recovery, aided by the liberalization of trade and foreign exchange regulations and increasing foreign direct investment (FDI), and notwithstanding the approximately 30 percent appreciation of the real effective exchange rate since 1990.[6] Merchandise exports in 1995 grew by 29 percent in dollar terms, driven by nearly 50 percent expansion of electronics goods exports, and accounted for 43 percent of exports for the year. Exports such as for semiconductor equipment have benefited from booming trade worldwide and large price increases and by their relatively high import content, which has

[6] The real exchange rate nevertheless remains somewhat below its earlier peak in the 1980s.

provided an effective buffer against real exchange rate movements, but by the same token has limited the beneficial impact of their expansion on the trade deficit. In 1996, however, weaker external demand and stabilizing prices for electronics components are expected to slow the growth of merchandise trade, in common with other countries in the region: through August, export growth had slowed to 17 percent.

14. Although some individual categories such as garments have not participated in the export boom, manufactured exports as a group have continued to increase their share in merchandise exports—from 70 percent in 1990 to nearly 80 percent by 1995—and grew by 23 percent through July 1996. Nevertheless, implementation of the Export Development Act (EDA) in 1996, which provides for certain tax and tariff exemptions on exports with relatively high local content, indicates official concern that profitability of such commodities may be eroding[7]. Although current plans envisage a modest use of tax and tariff exemptions, it should be noted that legislation such as the EDA is unlikely to be a cost effective means of ensuring export profitability, given its cost in terms of foregone tax revenue.

15. ***Imports.*** Merchandise imports more than doubled in dollar terms during 1991-95 and have continued their rapid growth in 1996: in contrast to the export slowdown, import growth rose to 27 percent through July, reflecting the robust growth of the domestic economy. Capital and intermediate goods still form the bulk of imports; the share of consumer goods imports has grown in recent years but still comprises only 11 percent of total imports. Although the import of consumer goods rose by 50 percent in the first half of 1996, this primarily reflected replenishment of rice stocks—excluding rice, the growth of consumer imports was no more rapid than the average of all imports.

16. ***Workers' Remittances.*** The reduction of the current account deficit since 1993 is primarily the result of the substantial surge in personal income flows and peso conversions of foreign currency deposit units (FCDUs), which together grew by 66 percent in 1995 reaching nearly $10 billion; by the first half of 1996, services exports were exceeding merchandise exports. Interpreting this data accurately has however become more problematic since residents now hold about 90 percent of FCDUs, increasing the likelihood of misclassifying nonresident flows.[8] At the same time, the central bank since 1995 has increasingly required banks to provide more disaggregated information on a more frequent basis, for example on the sources and uses of foreign exchange, that can be used to support existing information on FCDU flows. One interpretation of the recent surge in remittances therefore is that it represents a progressively more accurate picture of the true extent of such flows; and to the extent that these flows are not yet fully captured, the current account deficit may in fact be overestimated. On the other hand, negative errors and omissions in 1995 and the first half of 1996 were larger than the estimated current account deficit during these periods (Table 3). Since these errors and omissions are

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[7] Similar exemptions by competing countries have also prompted these interventions.

[8] Remittances intermediated through FCDUs are recorded as a current account inflow only once they are converted into pesos. A remittance that is unconverted does not enter the balance of payments at all.

thought to originate in part from the services account (in addition to selected capital account items), the true current account deficit could also be underestimated.

17. Irrespective of measurement concerns is the issue of sustainability. If they accurately portray remittance inflows, recently observed growth rates of such inflows may reflect a portfolio shift among nonresidents in response to improved perceptions of the Philippine economy. Increased confidence in the banking system may also have resulted in greater use of banks in intermediating remittances. While such a shift could continue for several years, the pace of expansion over the medium term is unlikely to be sustained even if perceptions remain favorable (given the more stable stock of workers abroad), stressing the importance of monitoring the trade deficit as an important economic variable.

Table 3: Balance of Payments, 1991-96 /a
(in millions of US$)

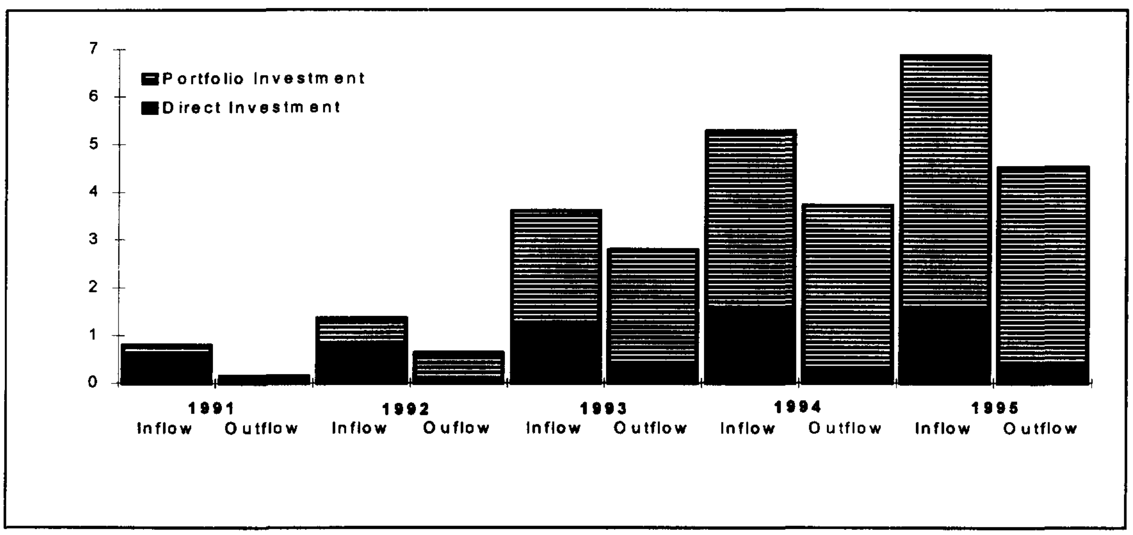
	1991	1992	1993	1994	1995	1996(I)
Trade balance	-3211	-4695	-6222	-7850	-8944	-5990
(% of GNP)	(7.0)	(8.7)	(11.2)	(11.9)	(11.7)	(14.6)
Exports (fob)	8840	9824	11375	13483	17447	9583
Imports (fob)	12051	14519	17597	21333	26391	15573
Services (net)	1515	3020	2507	3964	6084	3913
Receipts	5624	7443	7497	10550	15412	10994
o/w Remittances/Private transfers	2515	3485	3956	5824	9649	6288
Payments	4109	4423	4990	6586	9328	7081
o/w Interest	1993	1703	1513	1579	1875	927
Transfers (net)	827	817	699	936	880	351
Current Account Balance	-869	-858	-3016	-2950	-1980	-1726
(% of GNP)	(1.9)	(1.6)	(5.5)	(4.5)	(2.6)	(4.2)
Foreign investment (net)	654	737	812	1558	2326	1604
Direct Invesment	529	675	864	1289	1125	509
Portfolio Investment	125	62	-52	269	1201	1095
MLT borrowing (net)	922	666	2105	1313	1106	824
Inflows	3613	7436	4853	4369	3803	2484
Outflows	2691	6770	2748	3056	2697	1660
Short-term Capital (net)	349	660	-148	1002	-56	182
Change in Commercial Banks' NFA (- indicates increase)	-181	459	-547	465	1309	4149
Errors and Omissions	584	-360	84	160	-2155	-2624
Others /b	644	188	544	254	81	6
Changes in net reserves /c (- indicates increase)	-2103	-1492	166	-1802	-631	-2415

Sources: BSP; WB.

a. 1996 data refers to first semester.
b. Includes monetization of gold, revaluation adjustments and $469 million purchase of collateral in 1992.
c. Includes net credit of IMF.

18. ***Capital Flows.*** The past three years have witnessed rapid growth of foreign investment inflows and a parallel decline in the use of long-term borrowing, reflecting improving investor confidence in the Philippine economy and the reduced borrowing requirements of the public sector, hitherto the principal user of long-term foreign loans. Net foreign investment amounted to $2.3 billion in 1995, split about equally between direct and portfolio flows. This however masks considerably larger gross flows—inflows and outflows summed to $11.3 billion, dominated as expected by the more volatile portfolio flows (Figure 3). Data for the first half of 1996 indicate a continued increase in such flows. While firm data on the destination of portfolio flows are not available, anecdotal evidence indicates that the majority of such flows are directed towards equities. Foreign ownership of domestic stocks is still thought to be low relative to neighboring market economies given that the phenomenon of significant portfolio inflows is relatively recent. Nevertheless, foreign investors appear to be active market participants, making up a significant proportion of the daily turnover of the Philippine stock exchange.

Figure 3: Foreign Investment, 1991-95
(in billions of US$)



19. The favorable investor responses to two recent transactions—a Brady Exchange Program in September 1996 and the Philippines' first issue of Samurai bonds in 15 years in July 1996—signify the country's improving international creditworthiness. The Brady Exchange Program was only the second transaction of its kind to be executed (following Mexico in May). Under this program, the Philippines was able to retire 39 percent of its outstanding $1.6 billion of Brady bonds for uncollaterized 20-year fixed rate bonds at 225 basis points over the 30-year US Treasury bond rate, benefiting from the transaction through several channels. Financially, the transaction will make available $183 million in cash from the collateral released in the retirement of par bonds; the bond exchange component also reduced the debt stock by $84 million. More importantly, the transaction has created a 20-year borrowing benchmark for the Philippine capital market that should help private companies, government agencies, and infrastructure projects

better access international capital markets for maturities that match long payback periods. Similarly, the favorable terms received for a dual issue of five and a half and seven year yen bonds on the Samurai market enabled the Philippines to retire more expensive with cheaper debt and develop benchmarks for further borrowings in the Japanese market.

20. ***Reserve Accumulation***. The central bank has used the increase in capital inflows to build reserves. In 1995, the reserve accumulation was hampered by bouts of speculation, the most serious of which followed the Mexican peso crisis. Hence, while net BSP foreign exchange purchases reached nearly $2 billion in 1995, as a share of the rapidly rising import base, gross reserves fell to the equivalent of 2.6 months. Stronger net capital inflows in 1996 have permitted a more rapid accumulation of reserves: gross reserves stood at $11.4 billion in September, rising to about 3.2 months of imports, and exceeding the target for the year end. Import coverage of reserves is however modest by East Asian standards.

21. ***External Debt***. The factors discussed above—rapid growth of exports and remittances and the increased reliance on non-debt creating flows—have combined to reduce the Philippines'external debt burden, especially when measured in flow terms. As of December 1995, external debt stood at $37.8 billion, or 49 percent of GNP, and the debt service ratio was under 15 percent, down sharply from 27 percent in 1990. Short-term external debt stood at $5.3 billion, representing a sharp decline relative to the rapidly growing trade flows. These figures however do not include the foreign exchange liabilities of banks arising from their FCDU holdings, which amounted to $9.1 billion in 1995; loans from this source have accounted for a significant proportion of trade financing, thereby reducing the need for foreign borrowing for this purpose.

C. Monetary Policy

22. Monetary policy in recent years has been conducted against a background of rapid financial deepening accompanied by large increases in money demand and rising private capital inflows. Growth of M3 averaged 26 percent during 1994-95, decelerating slightly in the first half of 1996. Credit expansion to the private sector has been even more rapid, averaging 36 percent during 1994-95 and accelerating to about 55 percent by mid-96. As a share of GNP, broad money (M3) rose by 11 percentage points between 1991-95 while the share of private credit doubled to 38 percent (Figure 5 and Appendix Table 8).

23. The significantly faster growth of private credit relative to M3 primarily reflects the increased use by banks of foreign borrowing and FCDUs as the source for credit expansion (and the fact that credit figures include foreign currency transactions whereas M3 data do not). Foreign borrowing by banks rose by $2 billion in the first quarter of 1996 alone. FCDUs have grown as a share of total intermediation (Figure 6), while the loan to deposit ratio of FCDUs has also grown: as of March 1996, for example, while foreign currency deposits had grown by 27 percent over the past year, foreign exchange-denominated credit had expanded by 81 percent over the same period (both measured in dollars), and more than doubled through June 1996.

Figure 4: Inflation, Interest and Exchange Rates
July 1994-July 1996 (monthly averages)

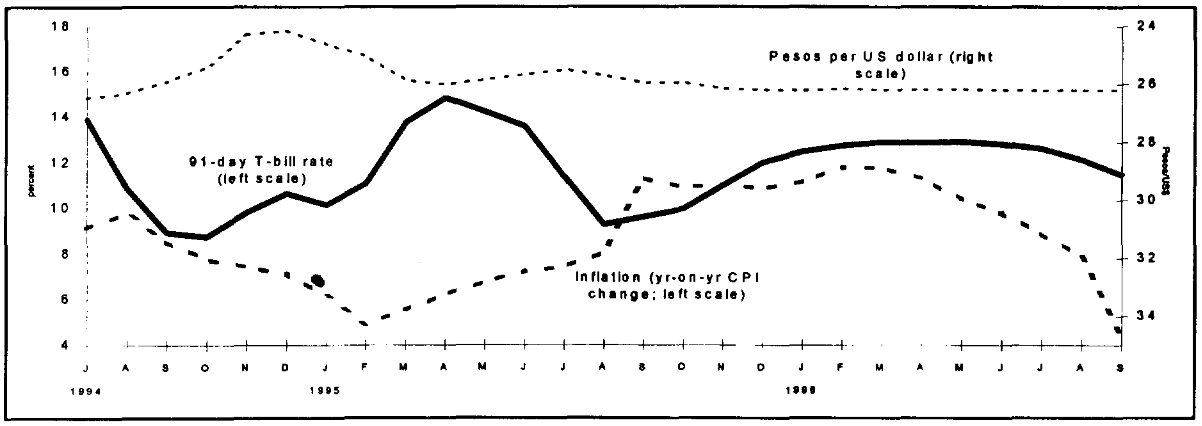


Figure 5: Money and Credit, 1990-95
(in percent of GNP)

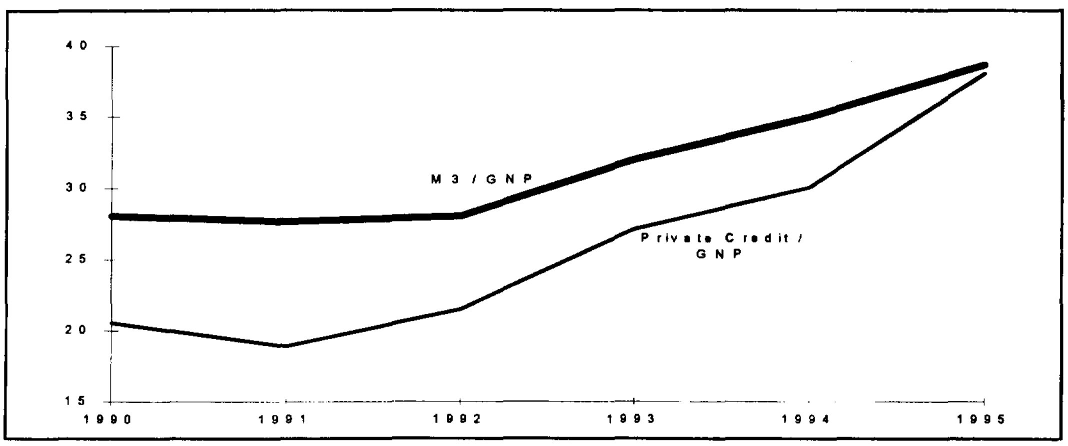
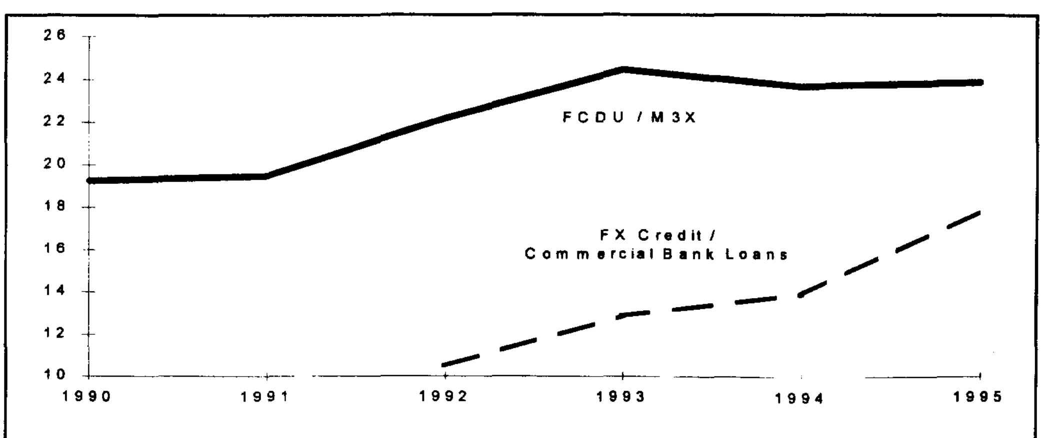


Figure 6: Foreign Currency Intermediation Shares, 1990-95 /a
(percent)



a/ M3X is defined as M3 plus FCDUs.

Appendix Table 14 indicates that commercial bank lending for consumer finance and real estate may have been among the leading sectors driving the credit expansion through mid-96.[9]

24. In addition to its primary focus on reducing inflation, BSP has tried to reconcile a number of other objectives, including those of building international reserves and stabilizing market-determined exchange rate movements. Against this background, BSP adopted in 1995 and has continued in 1996 a program whereby increased emphasis is placed on the ultimate objective of monetary policy (inflation) and relatively less to the intermediate targets. Hence while base money remains the key policy variable, greater flexibility has been built in to allow for stronger than anticipated capital inflows. Thus as long as inflation adheres to its projected monthly path (downward for the second half of 1996), base money limits are automatically raised by the excess of net international reserves of the central bank over the program targets. If inflation significantly exceeds projections, however, the original base money limits again become operative.

25. For most of the year prior to mid-1996, when capital inflows were strong but inflation was exceeding prior targets, BSP was routinely sterilizing its foreign exchange purchases to limit the impact on monetary expansion. This policy served to maintain relatively stable nominal exchange and interest rates (Figure 4 and Appendix Table 9), while at the same time build up official reserves. Decelerating monetary growth has facilitated inflation control while allowing the continued expansion of the real economy. The resulting improvement in investor sentiment has paradoxically posed new concerns. First, the cost to the central bank of sterilized intervention has risen with the increased use of sterilization amid the large interest rate differential between domestic and foreign interest rates: this cost for 1996 is estimated at close to 1/2 percent of GNP. Second, as noted, decelerating money growth has not prevented accelerating credit growth to the private sector. Finally, the real exchange rate has continued to appreciate, reducing profitability in certain non-electronics exporting sectors and likely accentuating the shift of investment into non-traded activities.

D. Public Finance

26. The consolidated public sector financial position has improved significantly in the 1990s—from a deficit of nearly 5 percent of GNP at the start of the decade to approximate balance in 1995 and the first half of 1996—stabilizing public debt levels, reducing real interest rates, and increasing confidence that private sector-led growth can become sustainable. The major single factor in this turnaround has been the improved financial position of the National Government (NG) by about 4 percent of GNP since 1990.[10] Privatization has also reduced the current and capital spending requirements of the government-owned corporations (GOCCs).

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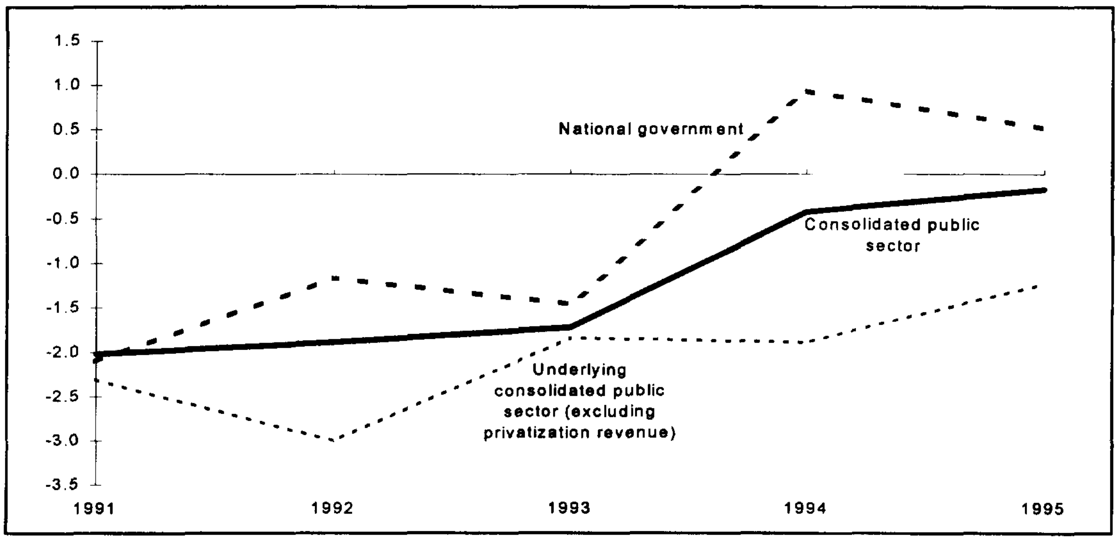
[9] Inasmuch as real estate lending is categorized with other categories, the precise growth of lending for real estate cannot be measured.

[10] Excluding the financing requirements associated with the central bank restructuring.

Figure 7: Public Sector Balances, 1991-95
(in percent of GNP)



27. The improved NG financial performance reflects increases in both tax and nontax revenue—the latter primarily due to sharply increased privatization proceeds, particularly in 1994-95—as well as expenditure adjustments. Tax revenue has increased significantly in real terms since the mid 1980s but the pace of increase slowed in 1995, and remains well below the tax efforts of neighboring countries. Overall NG revenues actually declined in real terms in 1995 (Apendix Table 11), due to a fall in privatization receipts. In 1996, total revenue is targeted to recover, aided in part by the implementation of the expanded value-added tax (EVAT) as of January and notwithstanding a further sharp reduction of expected privatization revenue.

28. Restrained government expenditure and the disciplined management of budgetary allocations in recent years, especially in the presence of increased revenue from privatization, has certainly facilitated the drive towards fiscal balance. However, with personnel, interest and allotments to local government units (LGUs) still accounting for nearly two-thirds of budgetary expenditures, the scope for expansion of more discretionary spending remains constrained. NG investment, for example, has averaged close to 2.5 percent of GNP in recent years, rising somewhat in 1995-96. This is very low by regional standards, although it is mitigated in part by the comparatively higher levels of private investment in the Philippines in education and health.

29. Investment by the public sector as a whole rose slightly between 1990 and 1993, but fell by about one percent of GNP from 1993 to 1995. At 4.6 percent of GNP in 1995, public investment had thus fallen to its lowest level of the 1990s. This decline reflects the fact that while the National Power Corporation (NPC) achieved its investment target in 1993 during the height of the power crisis, implementation of investment projects within a number of government-owned corporations (GOCCs) was delayed in subsequent years. Successes in attracting private investment within infrastructure through versions of the build-operate-transfer (BOT) model also reduced the demand for public investment. While government projections call

for a recovery of public investment during the next three years, this will be contingent on raising public savings by some 3 percent of GNP, consistent with the intention to avoid further deficits of the consolidated public sector.

30. Preliminary figures through September 1996 indicate that the NG budget was in surplus by about P7.5 billion as against a small programmed deficit for this period and a full year surplus of P17.5 billion. The better-than-expected overall performance was the result of almost P17 billion in lower expenditures; revenues through September were also lower than programmed by nearly P8 billion, primarily the result of lower privatization revenue but also reflecting a small shortfall in Bureau of Internal Revenue (BIR) collections. The consolidated public sector financial position through the first half of 1996 also displayed a small surplus, indicating that the balanced fiscal target for the end of the year was within reach.

31. ***Public Debt.*** The Philippines' heavy public debt—equivalent to about 100 percent of GNP in 1995[11], of which the National Government accounted for 57 percent—is primarily the result of persistent fiscal deficits that reached significant heights in the early 1980s[12] and the cost of rescuing failing public institutions, particularly banks, in the late 1980s. High real interest rates on domestic public debt have also added to deficits over the past decade, contributing to the debt accumulation and detracting from the public savings effort. In addition, the maturity profile of the NG's domestic debt is primarily short term, although its average maturity has risen during the 1990s—with the share of short-term debt declining from 83 percent in 1990 to 65 percent in 1995.

32. The sharp reduction in the CPSD in the 1990s has begun to impact the public debt/GNP ratio, which has declined significantly since 1993. Real interest rates have also declined, and over the past two years, the Government has been able to issue longer-term bonds, with the longest maturity now extended to a ten year issue in September 1996. A sustained period of fiscal discipline coupled with robust growth will be needed to further reduce the public debt/GNP ratio and permit a continued lengthening of the maturity structure of domestic debt.

11 Domestic and external public debt, including debts of government financial institutions, see Appendix Table 12.

12 The CPSD was 10 percent of GNP in 1983, of which nearly half was generated by the financial public sector including the central bank.

III. Policy Challenges

A. Fiscal Policy

33. The improving fiscal position must take much of the credit for maintaining investor confidence in economic management. This factor was vital in enabling monetary policy to limit the damage from the speculative attacks experienced in 1995, which in turn has ushered in a period of renewed investor confidence.

34. Looking ahead at the prospective environment of accelerating international integration in terms of trade, remittances and capital flows, *maintaining a sound fiscal stance will remain the single most important factor in sustaining investor confidence*. Particularly if the trade deficit continues to grow and sterilization of capital inflows results in larger quasi-fiscal costs, it would be advisable for the nonfinancial public sector to further reduce its borrowing requirements, and indeed begin to generate surpluses if feasible.

35. A conservative approach to fiscal management is especially needed since the fiscal framework does not incorporate a number of contingent liabilities facing the Government. These include the potentially large stock and flow losses associated with housing loans originated under the various public programs under the Unified Home Lending Program (UHLP) umbrella. In the case of social security, unfunded benefits and the coming demographic transition are expected to raise implicit pension debt in the absence of corrective measures to address the causes of decline in funding levels. The recently created Philippine Health Insurance Corporation (PHIC), which is mandated to provide health insurance to a large section of society, is presently unfunded with actuarial projections undisclosed. Finally, while GOCC spending commitments that complement private investment under BOT-type schemes are included in the projected fiscal position, the performance undertakings issued by the Government on such commitments are not covered by a corresponding funding reserve. This could become a significant burden in the event that demand projections turn out to be optimistic or performance undertakings cannot be met.

36. The need to maintain a sound fiscal policy is therefore clear, not least because privatization revenue is forecast to diminish. But how this occurs will be important for the pattern of growth that emerges and the ability of the Government to fulfill its intentions regarding infrastructure and the social reform agenda. In this context, official targets that call for fiscal balance in 1996 and small surpluses of the consolidated public sector financial position through the year 2000 are appropriate. *The critical element for the economy will be whether maintaining fiscal balance can be achieved in conjunction with increased public savings and investment, or whether public investment will remain constrained by the inability to increase tax revenue.*

37. Congressional passage of the tax reform bills currently being debated will therefore be essential to widen the tax base, close certain existing loopholes and improve compliance. At least as important as passage of these bills, however, will be to strengthen tax administration within the responsible government agencies and improve the credibility of government efforts to prosecute tax delinquents. For example, the revenue impact of *full* passage of the prevailing tax

reform proposals (which currently appears optimistic) has been estimated at P13.5 billion in 1997.[13] By comparison, total tax revenue is projected at P370 billion in 1996. These figures illustrate the more substantial potential for improvements in tax administration and enforcement, particularly if revenue currently foregone through tax evasion represents a large share of tax receipts.

38. Another important area for revenue enhancement (primarily for local governments) is that of property taxes. Property assessments have not adequately kept pace with the rapid increase in real estate prices of recent years. Apart from the foregone revenue, this has the added effect of encouraging investment and credit flows towards real estate and away from less speculative activities. Hence it will be important to design incentives for local authorities to adjust property assessments to realistic levels coupled with the means to enforce collection. A start could be made by replacing the internal revenue allotment to the handful of the most prosperous urban municipalities (which in any case are running significant surpluses) with a revenue sharing scheme that grants NG revenue in proportion to the property tax collection effort.

B. Monetary Policy, Foreign Currency Deposits and Foreign Borrowing

39. The credibility of monetary policy has been enhanced by the containment and subsequent turnaround in inflation following the supply shocks of mid-95, maintenance of relatively stable interest and exchange rates, and build up of official reserves in 1996. Yet if the recent pace of credit growth, associated build up in property prices, and rising trade deficit were to persist, further policy adjustments would be called for. The mix of policy options includes: (i) tighter overall monetary policy; (ii) measures to at least partially level the playing field between intermediation in pesos versus FCDUs and foreign borrowing, in view of the rapidly rising share of the latter categories; and (iii) measures to improve the incentive structures within the banking system along with its prudential oversight. The third set of measures is being examined by the central bank. It should however be noted that their primary motivation is improving the resiliency of the banking system, and with the exception of raising capital adequacy requirements, they would be unlikely to have an immediate impact on credit expansion.

40. Tightening monetary policy further could facilitate maintaining inflation at the lower levels recently attained. However, with an increasingly open capital account the limitations of monetary policy become more evident. Particularly if the nominal exchange rate is to be maintained stable in the face of continued capital inflows, sterilized intervention of the higher capital inflows associated with monetary tightening would increase sterilization costs in the short run. These costs and limitations would have to be weighed against the feasibility and effectiveness of the alternative means for slowing credit expansion discussed below. *But it should be clear that the persistence of credit growth at recent levels would not be compatible with a sustained decline in inflation or a sustainable balance of payments position.*

41. ***Intermediation through FCDUs.*** FCDUs were originally introduced as a means to encourage remittances and reverse capital flight. Their rapid expansion in recent years—deposits

[13] The benefits in future years of full passage could be significantly higher.

amounted to nearly 35 percent of M3 as of March 1996, with some 90 percent now held by residents—is the result of foreign exchange liberalization which permitted exporters to retain their earnings in foreign currency, as well as the rapid growth of trade and investment flows, which motivates expansion in both the supply and demand for this instrument. Although banks are not permitted to extend peso credits from their foreign exchange deposits, the tax and regulatory structure may nevertheless have encouraged their growth relative to peso accounts: in contrast to the latter, foreign exchange deposits are not subject to reserve requirements, the 5 percent gross receipts tax (GRT), or the 20 percent withholding tax on interest earned by residents. Finally, it should be noted that the rising proportion of FCDU intermediation has occurred during a period of real exchange appreciation, when their attractiveness might be expected to diminish. If the real exchange rate were to depreciate, *cetirus paribus,* the share of FCDUs in M3 might be expected to increase.

42. The growth of FCDUs raises both monetary policy and prudential concerns. Regarding the former, the concern is that as the ratio of FCDU to peso deposits grows, the ability of the central bank to influence monetary policy and the pace of overall credit expansion in particular would diminish. Real exchange rate depreciation would further undermine this ability.

43. The prudential concerns relate to the possibility of indirect exchange rate risks and maturity mismatches facing individual banks, although it should be noted that for the banking system as a whole such risks are currently not substantial. As of March 1996, about 61 percent of loans intermediated through FCDUs were to exporters and an additional 21 percent were lent to public utilities and oil companies, also largely for trade related activity. While most FCDUs consist of short-term savings deposits, about 11 percent are in the form of fixed rate certificates of deposit (FRCDs) that generally have a maturity of 3-5 years. About 80 percent of foreign currency loans are also of short-term maturity. Nevertheless, since the ability of the central bank to assist banks facing foreign exchange liquidity concerns is constrained (relative to the case of peso liquidity concerns), reducing the likelihood of individual banks requiring such assistance would be advisable.

44. A number of policy options for alleviating these concerns may be considered:

- A liquidity requirement in foreign exchange could be imposed to ensure that individual banks maintain a healthy proportion of their foreign exchange deposits in highly liquid assets (such as LIBOR- or SIBOR-based deposits with their correspondents abroad). A number of the top tier banks already maintain this practice. Hence, it is only likely to be an added burden to those banks for whom it would be most prudent. Moreover, such a liquidity requirement could be applied only to new deposits, thereby minimizing disruptions to existing investments.

- Limiting credit extension (in foreign exchange from FCDU resources) strictly for trade financing to exporters would eliminate the indirect exchange risk that is inherent in lending for nontrade purposes. This option would only be feasible with improved capacity to monitor and enforce the use of FCDU resources.

- Finally, moving towards a more level playing field in terms of tax treatment of FCDUs would also be appropriate. Since it is the Government's intention to lower reserve requirements on peso deposits over the medium term (as inflation and credit conditions permit), the implementation of reserve requirements on FCDUs could be gradual and not exceed the medium-term goal for peso deposits. In principle, the GRT and interest withholding tax could apply equally to foreign exchange deposits.[14]

45. Needless to emphasize, any adjustment to the current policy stance would have to be carefully enacted and disseminated, though it should be noted that enacting such reforms would be easier in the current environment of buoyant investor confidence.

46. ***Foreign Borrowing***. The recent sharp increase in foreign borrowing reflects changes in both supply and demand conditions. The Philippines' improving international credit ratings has improved access of large banks and corporations to foreign credit while lowering the costs of such borrowing through reduced spreads. At the same time, the stable nominal exchange rate since mid-95 may have led potential borrowers to discount the foreign exchange risks attendant in such borrowing; absent such risks, foreign borrowing is clearly attractive relative to peso intermediation given existing taxation of the latter. If the pace of private external borrowing continues to increase and contributes to unsustainable credit expansion, the option of taxing such borrowing could be considered.

C. Structural Reform

47. Over the past decade, the Philippine authorities have appropriately focused their structural reform efforts on economic liberalization, privatization, and increasing competition. While the agenda is unfinished, much has been achieved. For example, the trade regime today is relatively unencumbered by quantitative restrictions, average tariffs have been sharply reduced, and a credible schedule for further tariff reductions and unification is in place. Most foreign investment restrictions have been eliminated and Congress is considering further opening the retail sector to foreign investors. Legislative authority for deregulating the oil sector is in place, with full deregulation expected by March 1997. The National Power Corporation's difficult financial position is due to be tackled by initiating a major restructuring program whereby the bulk of its generation facilities would be privatized. Privatization plans for Manila's Metropolitan Waterworks and Sewerage System (MWSS) have been initiated and privatization of selected water districts is being pursued. Finally, building upon the lessons learned from the power sector, the enabling environment to attract private investment in other infrastructure sectors has improved.

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[14] From the standpoint of efficiency, leveling the playing field between peso and foreign currency intermediation is better served by reducing taxation on the former rather than by raising it on the latter. To the extent that revenue objectives can be met through other means, lowering taxation on peso intermediation would therefore be the preferred means of leveling the playing field.

48. Raising domestic savings to sustain rapid growth has become an increasing priority for the Government[15]. The prospective trend of private savings will clearly be vital to the overall savings effort. Over the long term, changes in private savings are likely to be linked to confidence in economic management and the establishment of a sound record of growth. Yet as observed in the Philippines (and elsewhere in the region), liberalization of financial markets and the capital account can, at least in the short run, stimulate consumption to the detriment of private savings.

49. Raising public savings therefore becomes an essential policy objective over the medium term. In this context, enacting the comprehensive tax reform program coupled with improved tax collection and administration will be the key tools for boosting public savings, since the scope for cutting noninterest expenditures is limited. Interest payments by the public sector on the other hand can be expected to decline through further reductions in the real value of public debt, *provided fiscal discipline is maintained and extended to the management of contingent liabilities.*

50. Attention in the Philippines has thus far centered on infrastructure guarantees, and steps are being taken to rationalize their management. More work is still needed to develop a framework for managing and accounting for contingent liabilities in order to improve the incentives for both government agencies and private sponsors to such public-private interface. Moreover, other sectors also warrant close policy attention. In particular, implementing timely policies to contain fiscal liabilities in the areas of housing and social security can have substantial intertemporal payoffs.

51. As important as the *level* of domestic savings for growth prospects is the *efficiency* with which savings are allocated, a topic that has received less attention in the Philippine context. As summarized below, rationalizing resource use within social security and housing provision would significantly improve allocative efficiency and contain public liabilities. It would also support the Government's intent to develop the domestic capital market.

52. ***Social Security Reform.*** Several challenges have emerged that point to the need for structural reform of the contractual savings system. At a macroeconomic level: (i) a demographic transition has begun; (ii) current contribution rates are insufficient to finance the prevailing structure of benefits and maintain the present partial funding level of the social security agencies (SSAs); and (iii) exceptionally high investment returns that have helped to offset below-market returns on subsidized housing or member loans and insurance services cannot be relied upon to continue indefinitely. In addition, low compliance rates (for certain agencies) and the tendency to finance consumption and housing at below market interest rates by the SSAs distorts incentives and allocative efficiency. Preliminary work in this area indicates that the cost of delaying reform can be significant.

53. To address these problems, some combination of increased contribution rates, increased compliance, and improved investment strategies by the SSAs—the latter involving less mandated lending into areas such as housing, and more professionalized investment management possibly

[15] For example, a National Savings Commission was established in August 1996.

through a larger role for private fund managers—will be needed. Institutional reforms to provide benefits more efficiently would complement such reform. Such actions would contain future fiscal liabilities, i.e. restrain implicit pension debt from rising from its current manageable level. Liberalizing existing constraints on the substantial long-term resources available to the SSAs for investment would also provide an important boost to the development of the domestic capital market.

54. ***Reform of Housing Finance.*** The Government's direct and indirect obligations within the housing finance system amount to about 50 percent of all construction and real estate lending. The costs and contingent liabilites associated with support for the housing sector are significant, involving both off-budget interest rate subsidies and potential stock losses via nonperforming loans. Meanwhile, the National Home Mortgage Finance Corporation (NHMFC)—until recently the Government's largest housing lender—suffers from an unsustainable nonperforming loan portfolio and has been unable to honor its commitments to other government agencies and developers. Moreover, the continued use of the key social security agencies and specialized provident fund (Pag-IBIG) to resolve the difficulties at NHMFC could compromise their financial standing.

55. The response to these institutional problems has been positive thus far: new lending by NHMFC has been halted with the agency largely converted into a collection entity; and solutions to the funding problem for new housing are being sought that would gradually reorient the Government's role in the housing finance system away from direct mortgage originator to arrangements that involve a greater sharing of risks between the government and private sector. The challenge will now be to build on recent progress by developing a vision for the sector that is grounded in its long-term viability, and then devising a program of reform to achieve it.

56. A vision for reform of the sector would include:

- a clear separation of socialized housing subsidy mechanisms from transactions in the housing finance market;[16]
- efficient targeting of housing subsidies by analyzing actual borrower, property, and loan data; appropriate design of subsidy mechanisms to preserve beneficiaries' and intermediaries' incentives, and proper accounting for such programs in the budget;
- a wide array of private financial institutions playing a greater role in financing housing at market rates of interest, even in the case of medium- to low-income clients;
- an active and liquid secondary mortgage market, with investors such as insurance companies, private pension funds and the social security agencies purchasing mortgage-backed securities (MBS) from private banks or from a privately managed secondary mortgage market institution (SMI);
- a fundamentally redefined role for Government that focuses on reducing direct interventions, improving the targeting of housing subsidies, and putting in place a clear and simple legal,

[16] Socialized housing refers to a subset of low-income housing, requiring loans of P180,000 or less.

regulatory, supervisory, and fiscal framework. This should permit greater leverage and more efficient use of government resources, thereby increasing affordable housing solutions at lower fiscal cost.

57. Clearly there is no unique blueprint for achieving a viable reform of housing finance and social security provision. A sustainable reform package will have to recognize the linkages between these sectors, while at the same time bearing in mind the important justification for timely reform in both areas.

IV. OFFICIAL DEVELOPMENT ASSISTANCE (ODA) REQUIREMENTS

58. The prospect of sustained growth of 6 percent or more will be best served by maintaining the momentum of reforms in the context of sound macroeconomic and financial policies. The Philippines could then hope to retain and strengthen the confidence of private investors and creditors, so that private capital could continue to finance a substantial portion of external financing requirements, which are projected to average more than US$9 billion during 1997-98 (Table 4). Although the heavy reliance on private capital flows subjects financing prospects to more uncertainty, it should be noted that the current account deficit and particularly reserve accumulation can be expected to adjust significantly to the level of private capital flows actually realized.

Table 4: External Financing Requirements and Sources, 1994-98
(in billions of US$)

	1994	1995	1996	1997	1998
	actual		projected		
Gross Financing Requirements	7.9	5.0	9.3	8.9	9.1
Current account deficit	3.0	2.0	2.8	3.3	3.3
Amortization	3.3	2.7	2.9	3.1	3.1
Increase in reserves /a	1.6	0.3	3.6	2.5	2.7
Financing Sources	7.9	5.0	9.3	8.9	9.1
Private capital	6.1	3.6	7.5	7.1	7.3
Net foreign investment	1.6	2.3	3.4	3.6	3.8
Net short-term capital	1.0	-0.1	0.8	0.8	0.8
Private MLT /b	3.6	1.4	3.3	2.7	2.7
Public MLT /c	1.8	1.4	1.8	1.8	1.8
From existing pipeline	1.8	1.4	1.8	1.5	1.1
From new commitments				0.3	0.7

Sources: GOP, WB

a. Of central bank only, not including net credit from IMF.

b. Includes private guaranteed and non-guaranteed, change in commercial bank's net foreign assets, monetization of gold and valuation adjust., errors and omissions, rescheduling and change in arrears.

59. Official capital requirements by contrast will be largely a function of public investment trends and the availability of government resources to finance them. Public investment is projected by the Government to rise from 4.6 percent of GNP in 1995 to nearly 6 percent by 1998. The bulk of this increase would originate from the NG and GOCCs—public investment/GNP shares for each are respectively targeted to increase from 2.8 and 1.2 percent in 1995 to nearly 3.5 and 2 percent by 1998, with investment by LGUs comprising the rest. These projected increases in public investment incorporate the realization that, notwithstanding projected increases in private finance, increased public investment will be required to upgrade essential physical infrastructure and for human resource and rural development. They are, however, contingent upon realizing the Government's targets of increased tax revenue and maintenance of approximate fiscal balance.

60. About 60 percent of the financing requirements for public investment in 1997-98 is expected to be covered from domestic resources (public revenue and domestic borrowing). ODA requirements for the remaining 40 percent average about US$2.3 billion per year in terms of disbursements (Table 4). This represents an increase relative to the recent past, reflecting in part the improved absorptive capacity of ODA due to the improved fiscal outlook. Based on a projected breakdown of disbursements from existing commitments, requirements of new commitments from official and multilateral sources of US$2.8 billion are projected on an annual basis. A larger proportion of this number is expected to be directed towards LGUs to support the ongoing decentralization effort.

STATISTICAL APPENDIX

Table 1: National Accounts, 1985-95

(in millions of pesos)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	571883	608887	682764	799182	925444	1077237	1248011	1351559	1474457	1693278	1906430
Net Indirect Taxes	40856	43488	59625	56736	20625	87885	114227	133532	150419	180561	206400
Indirect taxes	41793	45778	61913	59454	82705	101185	122473	138202	156187	187500	210000
Subsidies	937	2290	2288	2718	62080	13300	8246	4670	5768	6939	3600
GDP at factor cost	531027	565399	623139	742446	904819	989352	1133784	1218027	1324038	1512717	1700030
Agriculture	140554	145807	163927	183515	210009	235956	261868	294922	318546	372853	412965
Industry	200548	210528	235094	280957	322964	371347	424504	443813	481900	550709	612540
Mining and quarrying	11893	14144	14354	15275	15446	16659	17504	16263	16621	16509	18244
Manufacturing	143851	149958	169627	204784	230163	267485	315938	326839	349595	393810	438247
Services	230781	252552	283743	334710	392471	469934	561639	612824	674011	769716	880925
Imports of GNFS	125205	136235	179030	215292	280118	358548	406698	459911	586935	679439	839497
Exports of GNFS	137341	160309	181903	226910	260161	296415	369377	393706	462384	572646	691585
Total Consumption	464352	492960	539663	630948	737462	875904	1040269	1149733	1271585	1441526	1625778
Public	43520	48431	57333	72183	88186	108843	123885	130524	149057	182776	213874
Private	420832	444529	482330	558765	649276	767061	916384	1019209	1122528	1258750	1411904
Statistical discrepancy	13348	-924	20752	7423	8029	3301	-7264	-20370	-26172	-48822	2783
Gross domestic investment	82047	92777	119476	149193	199910	260165	252327	288401	353595	407367	425781
GDFI	94168	97710	112663	142226	192665	248954	250219	282783	350543	400139	425344
Nonfinancial Pub. Sector	21268	17294	19285	22998	32854	45468	51582	66618	73957	83381	88190
National Government	8796	11683	12913	15234	20861	29155	37607	46125	37800	42492	50000
Public Enterprises	12472	5611	6372	7764	11993	16313	13975	20493	36157	40889	38190
Private Sector	72900	80416	93378	119228	159811	203486	198565	216165	284444	316758	337154
Changes in stocks	-12121	-4933	6813	6967	7245	11211	2108	5618	3052	7228	437
Net factor income	-15809	-12611	-11938	-7170	-13417	-5804	6551	23279	25830	43450	61313
Gross national product	556074	596276	670826	792012	912027	1071433	1254562	1374838	1500287	1736728	1967743
Memo Items:											
Exchange Rate (period average)	18.607	20.386	20.568	21.095	21.737	24.311	27.479	25.512	27.120	26.417	25.714
GDP at mp (millions of US$)	30735	29868	33195	37885	42575	44311	45417	52977	54368	64098	74140

Sources: NSCB, IMF

Table 2: National Accounts, 1985-95

(at 1985 prices; in millions of pesos)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	571883	591423	616923	658581	699448	720690	716522	718941	734156	766450	803450
Net Indirect Taxes	49350	50810	63530	52636	59376	61160	67366	71380	74883	79718	86986
GDP at factor cost	522533	540613	553393	605945	640072	659530	649156	647561	659273	686732	716464
Agriculture	140554	145725	150414	155292	159964	160734	162937	163571	167053	171472	172999
Industry	200548	205184	213389	232052	249175	255548	248718	247384	251459	265972	285219
Mining and quarrying	11893	12313	11232	11704	11389	11091	10770	11495	11571	10763	11396
Manufacturing	143851	146453	154604	169316	179152	183925	183111	179947	181289	190374	203271
Services	230781	240514	253120	271237	290309	304408	304867	307986	315644	329006	345232
Imports of GNFS	125205	138021	177532	212357	244590	269148	266139	289273	322548	369325	430511
Exports of GNFS	137341	160571	171531	196458	213888	217865	231515	241431	256451	307205	343694
Total consumption	464352	478484	498178	530505	558053	588814	599614	616846	637335	662449	687564
Public	43520	43669	45792	49943	53434	57042	55826	55337	58746	62343	64579
Private	420832	434815	452386	480562	504619	531772	543788	561509	578589	600106	622985
Statistical discrepancy	13348	88	16661	20015	22787	10208	8485	-4315	-3479	-14676	15603
Gross domestic investment	82047	90301	108085	123960	149310	172951	143047	154252	166397	180797	187100
GDFI	94168	95083	101627	118252	143804	165364	141903	150974	164125	176388	185616
Nonfinancial Pub. Sector	21268	16829	17396	19122	24522	30205	29261	35566	34903	36756	38526
National Government	8796	11369	11648	12666	15571	19368	21334	24626	17839	18731	21843
Public Enterprises	12472	5460	5748	6456	8952	10837	7928	10941	17064	18025	16683
Private	72900	78254	84231	99130	119282	135179	112642	115408	134241	139632	148685
Changes in stocks	-12121	-4782	6458	5708	5506	7587	1144	3278	2272	4409	1484
Net factor income	-15809	-12287	-11059	-6011	-10239	-3765	3695	12454	12765	19768	26036
Gross national product	556074	579136	605864	652570	689209	716925	720217	731395	746921	786218	829486

Source: NSCB

Table 3: National Accounts, 1985-95

(as percentage of GNP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	102.8	102.1	101.8	100.9	101.5	100.5	99.5	98.3	98.3	97.5	96.9
Net Indirect Taxes	7.3	7.3	8.9	7.2	2.3	8.2	9.1	9.7	10.0	10.4	10.5
Indirect taxes	7.5	7.7	9.2	7.5	9.1	9.4	9.8	10.1	10.4	10.8	10.7
Subsidies	0.2	0.4	0.3	0.3	6.8	1.2	0.7	0.3	0.4	0.4	0.2
GDP at factor cost	95.5	94.8	92.9	93.7	99.2	92.3	90.4	88.6	88.3	87.1	86.4
Agriculture	25.3	24.5	24.4	23.2	23.0	22.0	20.9	21.5	21.2	21.5	21.0
Industry	36.1	35.3	35.0	35.5	35.4	34.7	33.8	32.3	32.1	31.7	31.1
Mining and quarrying	2.1	2.4	2.1	1.9	1.7	1.6	1.4	1.2	1.1	1.0	0.9
Manufacturing	25.9	25.1	25.3	25.9	25.2	25.0	25.2	23.8	23.3	22.7	22.3
Services	41.5	42.4	42.3	42.3	43.0	43.9	44.8	44.6	44.9	44.3	44.8
Imports of GNFS	22.5	22.8	26.7	27.2	30.7	33.5	32.4	33.5	39.1	39.1	42.7
Exports of GNFS	24.7	26.9	27.1	28.6	28.5	27.7	29.4	28.6	30.8	33.0	35.1
Total Consumption	83.5	82.7	80.4	79.7	80.9	81.8	82.9	83.6	84.8	83.0	82.6
Public	7.8	8.1	8.5	9.1	9.7	10.2	9.9	9.5	9.9	10.5	10.9
Private	75.7	74.6	71.9	70.6	71.2	71.6	73.0	74.1	74.8	72.5	71.8
Statistical discrepancy	2.4	-0.2	3.1	0.9	0.9	0.3	-0.6	-1.5	-1.7	-2.8	0.1
Gross domestic investment	14.8	15.6	17.8	18.8	21.9	24.3	20.1	21.0	23.6	23.5	21.6
GDFI	16.9	16.4	16.8	18.0	21.1	23.2	19.9	20.6	23.4	23.0	21.6
Nonfinancial Pub. Sector	3.8	2.9	2.9	2.9	3.6	4.2	4.1	4.8	4.9	4.8	4.5
National Government	1.6	2.0	1.9	1.9	2.3	2.7	3.0	3.4	2.5	2.4	2.5
Public Enterprises	2.2	0.9	0.9	1.0	1.3	1.5	1.1	1.5	2.4	2.4	1.9
Private Sector	13.1	13.5	13.9	15.1	17.5	19.0	15.8	15.7	19.0	18.2	17.1
Changes in stocks	-2.2	-0.8	1.0	0.9	0.8	1.0	0.2	0.4	0.2	0.4	0.0
Net factor income	-2.8	-2.1	-1.8	-0.9	-1.5	-0.5	0.5	1.7	1.7	2.5	3.1
Gross national product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSCB

Table 4: National Accounts, 1986-95

(growth rates)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market prices	3.4	4.3	6.8	6.2	3.0	-0.6	0.3	2.1	4.4	4.8
Net Indirect Taxes	3.0	25.0	-17.1	12.8	3.0	10.1	6.0	4.9	6.5	9.1
GDP at factor cost	3.5	2.4	9.5	5.6	3.0	-1.6	-0.2	1.8	4.2	4.3
Agriculture	3.7	3.2	3.2	3.0	0.5	1.4	0.4	2.1	2.6	0.9
Industry	2.3	4.0	8.7	7.4	2.6	-2.7	-0.5	1.6	5.8	7.2
Mining and quarrying	3.5	-8.8	4.2	-2.7	-2.6	-2.9	6.7	0.7	-7.0	5.9
Manufacturing	1.8	5.6	9.5	5.8	2.7	-0.4	-1.7	0.7	5.0	6.8
Services	4.2	5.2	7.2	7.0	4.9	0.2	1.0	2.5	4.2	4.9
Imports of GNFS	10.2	28.6	19.6	15.2	10.0	-1.1	8.7	11.5	14.5	16.6
Exports of GNFS	16.9	6.8	14.5	8.9	1.9	6.3	4.3	6.2	19.8	11.9
Total consumption	3.0	4.1	6.5	5.2	5.5	1.8	2.9	3.3	3.9	3.8
Public	0.3	4.9	9.1	7.0	6.8	-2.1	-0.9	6.2	6.1	3.6
Private	3.3	4.0	6.2	5.0	5.4	2.3	3.3	3.0	3.7	3.8
Gross domestic investment	10.1	19.7	14.7	20.5	15.8	-17.3	7.8	7.9	8.7	3.5
GDFI	1.0	6.9	16.4	21.6	15.0	-14.2	6.4	8.7	7.5	5.2
Nonfinancial Pub. Sector	-20.9	3.4	9.9	28.2	23.2	-3.1	21.5	-1.9	5.3	4.8
National Government	29.3	2.5	8.7	22.9	24.4	10.1	15.4	-27.6	5.0	16.6
Public Enterprises	-56.2	5.3	12.3	38.7	21.1	-26.8	38.0	56.0	5.6	-7.4
Private	7.3	7.6	17.7	20.3	13.3	-16.7	2.5	16.3	4.0	6.5
Gross national product	4.1	4.6	7.7	5.6	4.0	0.5	1.6	2.1	5.3	5.5

Source: NSCB

Table 5: Balance of Payments, 1985-95

(in millions of US$)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports of GNFS	6864	7702	8065	9487	10674	11106	12088	14244	15875	20044	26515
Merchandise (FOB)	4629	4842	5720	7074	7821	8186	8840	9824	11375	13483	17447
Non-factor service	2235	2860	2345	2413	2853	2920	3248	4420	4500	6561	9068
Imports of GNFS	5961	5868	7861	9440	11845	13832	13698	16698	20537	25712	32762
Merchandise (FOB)	5111	5044	6737	8159	10419	12206	12051	14519	17597	21333	26391
Non-factor service	850	824	1124	1281	1426	1626	1647	2179	2940	4379	6471
Resource balance	903	1834	204	47	-1171	-2726	-1610	-2454	-4662	-5668	-6247
Factor income (net)	-1317	-1321	-1221	-1212	-1332	-634	-142	714	947	1782	3487
Factor receipts	1053	931	1109	1179	1516	1843	2320	2953	2997	3989	6344
Factor payments	2370	2252	2330	2391	2848	2477	2462	2239	2050	2207	2857
Total interest /a	1758	1546	1913	2051	2411	2026	1993	1703	1518	1579	1875
Current transfers (net)	379	441	573	775	1045	793	883	882	699	936	880
Current Account Balance	-35	954	-444	-390	-1458	-2567	-869	-858	-3016	-2950	-1980
LT Capital Inflows	-380	974	238	887	1445	1965	2275	1871	2914	3590	4822
Foreign investment (net)	12	127	307	936	563	480	654	737	812	1558	2326
MLT borrowing (net) /a	2787	815	242	40	381	406	922	666	2105	1313	1106
Disbursements	3962	2545	2437	1248	2797	4321	3613	7436	4853	4369	3803
Repayments	1175	1730	2195	1208	2416	3915	2691	6770	2748	3056	2697
Other LT Inflows (net)	-3179	32	-311	-89	501	1079	699	468	-3	719	1390
Short-term capital (net)	708	-824	80	-303	-89	20	349	660	-148	1002	-56
Errors and omissions	539	34	68	479	402	490	348	-181	84	160	-2155
Changes in net reserves	-832	-1138	58	-674	-300	93	-2103	-1492	166	-1802	-631
Net credit from IMF	190	25	-153	-70	128	-343	183	58	111	-220	-110
Reserve changes	-1022	-1162	211	-604	-428	436	-2286	-1550	55	-1582	-521
Memo Items:											
Gross Reserves (excl. gold)	615	1728	968	1003	1417	924	3246	4403	4676	6017	6372
Gross Reserves (incl. gold)	1098	2611	2312	2169	2398	2036	4436	5338	5921	7121	7775

Sources: BSP, IMF, WB

a. Before rescheduling.

Table 6: Exports and Imports by Major Commodity Group, 1990-95
(in millions of US$)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Coconut Products	459	470	561	582	541	503	447	643	532	639	989
Sugar and Products	185	103	71	74	113	133	136	110	129	77	74
Fruits and Vegetables	135	137	150	306	317	326	393	371	439	429	458
Other Agro-Based Products	551	602	585	480	454	431	503	432	476	530	575
Forest Products	199	201	243	261	197	95	73	57	45	26	38
Mineral Products	243	267	224	764	829	723	581	633	686	780	893
Petroleum Products	39	63	88	162	95	155	175	150	136	132	171
Manufactures	2765	2879	3642	4338	5192	5706	6432	7293	8720	10615	13868
Elect. & Elect. Equipments	1056	919	1119	1476	1751	1964	2293	2753	3551	4984	7413
Garments	623	751	1098	1317	1575	1776	1861	2140	2272	2375	2570
Others	53	120	156	107	83	114	100	135	212	255	381
Total Exports	4629	4842	5720	7074	7821	8186	8840	9824	11375	13483	17447

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Capital Goods	788	864	1210	1637	2424	3122	2952	4023	5610	6868	8029
Raw Materials & Intermediate	2198	2671	3426	4415	5388	5808	5851	6769	7855	9606	12174
Unprocessed Raw Materials	163	242	303	672	807	862	841	947	961	1278	1562
Semi-Processed Raw Mater	2035	2429	3123	3743	4581	4946	5010	5812	6874	8328	10612
Manufactures	508	654	957	1238	1787	1794	1714	2139	2590	2893	3572
Embroideries	196	253	334	377	437	426	514	502	468	411	472
Materials for Elect. Equip	585	640	767	910	885	1106	1208	1401	1808	2711	3772
Mineral Fuels and Lubricants	1452	869	1249	1096	1397	1842	1784	2050	2016	2040	2461
Consumer Goods	441	389	547	597	899	1061	990	1241	1687	2109	2784
Durable	121	118	179	218	365	392	478	620	842	1124	1459
Non-durable	320	271	368	379	492	669	512	624	745	985	1325
Others	232	251	305	414	311	373	474	436	529	710	943
Total Imports	5111	5044	6737	8159	10419	12206	12051	14519	17697	21333	26391

Source: BSP

Table 7: External Debt, 1990-95 /a

(in millions of US$)

	1990			1991			1992			1993			1994			1995		
	Medium- and long Term	Short-Term	TOTAL	Medium- and long Term	Short-Term	TOTAL	Medium- and long Term	Short-Term	TOTAL	Medium- and long Term	Short-Term	TOTAL	Medium- and long Term	Short-Term	TOTAL	Medium- and long Term	Short-Term	TOTAL
By Type of Debt	24173	4376	28549	25129	4827	29956	25678	5256	30934	29247	5035	34282	31882	5197	37079	32499	5279	37778
Nonmonetary	18399	2345	20744	19746	2745	22491	23381	3339	26720	28435	3444	31879	30767	..	..	31217	2374	33591
Public	16444	514	16958	18138	315	18453	21410	335	21745	26194	389	26583	27002	..	..	26270	70	26340
Private	1955	1831	3786	1608	2430	4038	1971	3004	4975	2241	3055	5296	3765	..	..	4947	2304	7251
Banking System	5774	2031	7805	5383	2082	7465	2297	1917	4214	812	1591	2403	1115	..	..	1282	2905	4187
Central Bank	4786	695	5481	4431	894	5325	1808	495	2303	80	1208	1288	99	..	..	727	1460	2187
Comm. Banks	988	1336	2324	952	1188	2140	489	1422	1911	732	383	1115	1016	..	..	555	1445	2000
By Creditor	24173	4376	28549	25129	4827	29956	25678	5256	30934	29247	5035	34282	31882	5197	37079	32499	5279	37778
Comm. Banks	7928	3055	10983	7445	3006	10451	5884	3199	9083	2984	2698	5682	2666	2855	5521	..	..	6345
Other Finan. Inst.	455	54	509	463	93	556	224	100	324	201	102	303	..	..	..	..	..	..
Suppliers' Credits	1045	1267	2312	1074	1728	2802	1006	1957	2963	950	2235	3185	1134	2415	3549	..	..	2587
Multilateral	6005	0	6005	6499	0	6499	7168	0	7168	7830	0	7830	8215	9	8224	..	..	8028
o/w IBRD	3067	0	3067	3130	0	3130	3473	0	3473	3936	0	3936	3985	0	3985	..	..	4095
ADB	1686	0	1686	1889	0	1889	2113	0	2113	2300	0	2300	2558	0	2558	..	..	814
IMF	997	0	997	1165	0	1165	1183	0	1183	1312	0	1312	1139	0	1139	..	..	2643
Export Credits	3689	0	3689	3659	0	3659	3351	0	3351	3997	0	3997	..	..	..	..	..	..
o/w Japan	1116	0	1116	1553	0	1553	1773	0	1773	2544	0	2544	..	..	..	..	..	..
US	860	0	860	870	0	870	952	0	952	854	0	854	..	..	..	..	..	..
Bilateral	4857	0	4857	5913	0	5913	7977	0	7977	9372	0	9372	15033	0	15033	..	..	14393
o/w Japan	3560	0	3560	4378	0	4378	6176	0	6176	7577	0	7577	..	..	..	..	..	..
US	712	0	712	733	0	733	702	0	702	684	0	684	..	..	..	..	..	..
Other	194	0	194	76	0	76	68	0	68	3913	0	3913	..	..	..	..	..	..
Memo Items:																		
Debt service (before rescheduling)			6359			5059			5660			4429			4844			4766
Debt service (after rescheduling)			3547			2828			2942			3229			4188			4766
Debt service/Exports (%; before resche.)			49.1			35.1			32.9			23.5			20.2			14.5
Debt service/Exports (%; after resche.)			27.4			19.6			17.1			17.1			17.4			14.5
Total external debt / GNP (%)			64.8			65.6			57.4			62.0			56.4			49.4
Total external debt / Exports (%)			220.5			207.9			179.9			181.7			154.3			115.0

Sources: IMF, WB

a. Excludes foreign exchange revaluations on multi-currency loans from the World Bank and Asian Development Bank.

Table 8: Monetary Survey, 1989-95

	1989	1990	1991	1992	1993	1994	1995
				(in billions of pesos)			
Total Liquidity	260.1	316.9	361.0	401.1	499.4	630.8	786.4
Broad Money	253.9	300.6	347.1	385.4	480.3	607.6	761.4
Other Liabilities	6.2	16.3	13.9	15.7	19.1	23.2	25.0
Net Foreign Assets	-114.5	-157.6	-92.8	-18.0	-31.5	-35.2	-88.8
o/w Central Bank		1.9	58.7	91.5	99.6	129.3	155.5
Deposit Money Banks		-9.2	-27.4	-53.9	-75.9	-108.0	-189.7
Net Domestic Assets	374.6	474.5	453.8	419.1	398.7	507.1	668.5
Net Domestic Credit	203.8	267.5	269.0	277.1	682.1	821.5	1084.0
Public Sector	31.9	47.4	31.7	-18.6	274.1	299.8	335.3
Private Sector	171.9	220.1	237.3	295.7	408.0	521.7	748.7
FCDs, residents					-132.3	-158.8	-206.7
Other Items (net)	170.8	207.0	184.8	142.0	-151.1	-155.6	-208.8
				(percentage change; end of period)			
Broad Money		18.4	15.5	11.0	24.6	26.5	25.3
Net Domestic Assets		31.3	0.6	3.0	146.2	20.4	32.0
Private Sector Credit		28.0	7.8	24.6	38.0	27.9	43.5
				(in percent of GNP)			
Broad Money	27.8	28.1	27.7	28.0	32.0	35.0	38.7
Net Foreign Assets	-12.6	-14.7	-7.4	-1.3	-2.1	-2.0	-4.5
Net Domestic Assets	41.1	44.3	36.2	30.5	26.6	29.2	34.0
Private Sector Credit	18.8	20.5	18.9	21.5	27.2	30.0	38.0

Sources: BSP, IMF

Table 9: Exchange Rates, Inflation and Selected Interest Rates, 1991-96

	1991	1992	1993	1994	1995	1996		
						March	June	Sept.
<u>Exchange Rates:</u>								
Period Average (Pesos/$)	27.5	25.5	27.1	26.4	25.7	26.2	26.2	26.2
End of Period (Pesos/$)	26.7	25.1	27.7	24.4	26.2	26.2	26.2	26.2
Real Effective (1990=100)	99.8	110.9	110.4	117.3	120.3	128.3	130.9	..
<u>Inflation:</u>								
CPI (1990=100)	118.7	129.3	139.1	151.7	164.0	175.7	178.1	179.6
Year change (%)	18.7	8.9	7.6	9.1	8.1	11.8	9.8	4.4
<u>Interest Rates:</u>								
				(end of period)				
Manila Reference Rates:								
MRR60	19.2	13.8	14.8	9.8	11.4	12.3	12.2	11.9
MRR90	17.2	14.1	15.0	8.8	10.3	11.2	11.3	11.4
MRR180	17.1	11.9	14.1	9.1	10.4	10.6	10.9	10.4
All Maturities	18.7	13.7	14.7	9.6	11.1	11.9	12.0	11.7
Bank Lending Rate	23.0	18.2	16.4	13.4	14.6	15.1	14.7	15.1 (Aug.)
Time Deposits:								
Short-Term (< 1 yr)	18.9	12.9	14.1	8.3	11.4	11.6	12.2	11.7 (Aug.)
Long-term (> 1 yr)	18.0	13.0	13.0	10.8	9.6	7.1	11.2	8.7 (Aug.)
91-day Treasury Bill Rate	21.1	14.5	15.9	10.7	12.0	13.0	12.8	11.5
Reserse RP (term) Rate	15.5	N.T.	N.T.	14.0	13.4	12.7	12.6	11.5
Interbank Call Loan Rate	14.9	23.2	24.1	12.0	14.1	14.0	14.4	11.7

Sources: BSP, IMF

Table 10: Consolidated Public Sector Financial Position, 1991-95

(in billion pesos)	1991	1992	1993	1994	1995
National Government	-26.3	-16.0	-21.9	16.3	10.2
Monitored GOCCs	-7.4	-10.7	-25.6	-8.7	-4.2
Central Bank Restructuring	0.0	0.0	-15.1	-24.3	-19.7
Oil Price Stabilization Fund (OPSF) [a]	10.5	4.4	-7.9	2.6	-9.2
Adjustment to GOCCs [b]	7.1	2.5	11.9	7.6	2.8
Other Adjustments [c]	0.0	-0.6	2.8	0.0	0.0
Public Sector Borrowing Requirement (PSBR)	-16.1	-20.4	-55.8	-6.5	-20.2
SSS/GSIS	8.2	8.6	11.7	-12.0	0.5
Bangko Sentral ng Pilipinas	-21.2	-21.8	-1.0	5.2	5.9
Government Financial Institutions	2.4	3.8	6.1	3.1	5.0
Local Government Units	1.3	0.8	5.9	5.0	1.9
Time Adj. of Interest Payments to BSP	0	3.5	7.0	-2.3	3.0
Other Adjustments	0.1	-0.4	0.3	0.1	0.6
Consolidated Public Sector (CPS)	-25.3	-25.9	-25.8	-7.4	-3.4

(in percent of GNP)	1991	1992	1993	1994	1995
National Government	-2.1	-1.2	-1.5	0.9	0.5
Monitored GOCCs	-0.6	-0.8	-1.7	-0.5	-0.2
Central Bank Restructuring	0.0	0.0	-1.0	-1.4	-1.0
Oil Price Stabilization Fund (OPSF) [a]	0.8	0.3	-0.5	0.1	-0.5
Adjustment to GOCCs [b]	0.6	0.2	0.8	0.4	0.1
Other Adjustments [c]	0.0	0.0	0.2	0.0	0.0
Public Sector Borrowing Requirement (PSBR)	-1.3	-1.5	-3.7	-0.4	-1.0
SSS/GSIS	0.7	0.6	0.8	-0.7	0.0
Bangko Sentral ng Pilipinas	-1.7	-1.6	-0.1	0.3	0.3
Government Financial Institutions	0.2	0.3	0.4	0.2	0.3
Local Government Units	0.1	0.1	0.4	0.3	0.1
Time Adj. of Interest Payments to BSP	0.0	0.3	0.5	-0.1	0.2
Other Adjustments	0.0	0.0	0.0	0.0	0.0
Consolidated Public Sector (CPS)	-2.0	-1.9	-1.7	-0.4	-0.2

Sources: DOF, IMF

a. Includes OPSF balance, transfers between NG and OPSF, and adjustments for PNOC share of OPSF balance.

b. Includes NG transfers to monitored corporations, NPC transfers to NG, NG transfers to PNOC and PNB transfers to NG.

c. Includes adjustments for net lending for debt buyback, reconciliation of cash accounts with bank data and other adjustments.

Table 11: National Government Financial Position, 1985-95 [a]

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
					(in billions of pesos)						
Total Current Revenue	69.0	79.2	103.2	112.9	152.4	180.9	220.8	242.7	260.3	349.0	373.7
Direct Taxes	18.7	19.1	21.8	27.4	37.6	49.4	61.1	70.1	74.5	91.9	99.8
Indirect Taxes	42.6	46.3	64.1	62.9	84.9	102.3	121.2	138.6	155.6	179.4	210.0
Nontax Receipts	7.7	13.8	17.3	22.5	29.9	29.2	38.5	34.0	30.2	77.7	63.9
Total Current Expenditures	55.3	66.9	94.0	112.2	142.8	178.0	196.5	214.9	241.6	295.5	315.0
Consumption	36.1	40.0	51.4	60.3	78.2	92.4	108.6	108.0	113.3	130.1	139.5
Interest Payments	14.7	21.0	36.9	45.9	54.7	71.1	74.9	79.6	76.5	116.2	106.3
External Debt	4.2	5.8	12.6	13.7	13.7	17.5	18.6	16.5	20.3	19.2	21.3
Domestic Debt	10.5	15.2	24.3	32.2	41.0	53.7	56.4	63.1	56.2	97.0	85.0
Subsidies	1.0	1.7	1.8	2.0	5.6	3.0	4.3	3.5	5.1	7.0	3.6
Other Current Transfers	3.5	4.2	3.9	3.9	4.3	11.4	8.7	23.8	46.7	42.2	65.7
Budgetary Savings	13.7	12.3	9.2	0.7	9.6	2.9	24.3	27.8	18.7	53.6	58.7
Total Capital Expenditures	24.8	43.6	25.9	23.9	29.2	40.0	50.6	43.7	55.6	61.5	68.1
Investment	8.8	11.7	12.9	15.2	20.9	29.1	37.6	46.1	37.8	43.0	50.0
Capital Transfers	16.0	31.9	13.0	8.7	8.3	10.9	13.0	-2.4	17.8	18.5	18.1
Total Deficit Financing	11.1	31.3	16.7	23.2	19.6	37.2	26.3	16.0	36.9	8.0	9.4
External Borrowing (net)	-0.3	3.6	6.8	4.2	8.2	4.1	6.9	14.4	13.0	-11.6	-12.9
Domestic Borrowing (net)	11.5	27.7	9.9	19.0	11.4	33.1	19.4	1.6	23.9	19.6	22.3
<u>Memo Items:</u>											
					(as percentage of GNP)						
Total Current Revenue	12.4	13.3	15.4	14.2	16.7	16.9	17.6	17.7	17.4	20.1	19.0
Tax Revenue	11.0	11.0	12.8	11.4	13.4	14.2	14.5	15.2	15.3	15.6	15.7
Current Expenditures	9.9	11.2	14.0	14.2	15.7	16.6	15.7	15.6	16.1	17.0	16.0
Capital Expenditures	4.5	7.3	3.9	3.0	3.2	3.7	4.0	3.2	3.7	3.5	3.5
Balance (deficit -)	-2.0	-5.2	-2.5	-2.9	-2.1	-3.5	-2.1	-1.2	-2.5	-0.5	-0.5

Source: GOP

a. Including central bank restructuring.

Table 12: Outstanding Public Sector Debt, 1991-95
(year end, in billions of pesos)

	1991	1992	1993	1994	1995
Total Public Sector /a	1399.2	1630.0	1883.8	1867.9	1986.7
Domestic	750.4	1082.7	1157.7	1229.2	1329.0
External	648.8	547.3	726.1	638.7	657.7
(US$ billion)	24.3	21.6	26.2	26.9	25.1
Total Public Sector /b	920.5	1062.0	1380.3	1294.1	1374.1
Domestic	420.5	587.6	763.9	745.9	801.5
External	500.0	474.4	616.4	548.2	572.6
(US$ billion)	18.8	18.7	22.3	22.5	21.8
National Government /c	771.9	979.4	1281.0	1227.5	1304.8
National Government /d	676.0	873.8	1138.1	1065.2	1114.6
Domestic /c	339.5	502.9	682.1	673.6	730.3
External /d	432.4	476.5	598.9	663.0	724.0
(US$ billion)	16.2	18.8	21.6	22.0	20.3
14 Monitored GOCCs /e	244.1	188.2	242.2	228.9	259.5
Domestic	85.5	89.7	87.0	77.9	77.5
External	158.6	98.5	155.2	151.0	182.0
(US$ billion)	6.0	3.9	5.6	6.2	6.9
Central Bank/CB-BOL /f	353.8	409.8	59.6	81.1	82.6
Domestic	211.9	351.5	14.9	40.4	42.1
External	141.9	58.3	44.7	40.7	40.5
(US$ billion)	5.3	2.3	1.6	1.7	1.5
Bangko Sentral /g			209.3	261.6	322.9
Domestic			173.6	240.7	304.2
External			35.7	20.9	18.7
(US$ billion)			1.3	0.9	0.7
Government Financial Institutions	124.9	158.2	234.6	231.1	207.1
Domestic	118.0	143.6	205.3	202.2	181.2
External	6.9	14.6	29.3	28.9	25.9
(US$ billion)	0.3	0.6	1.1	1.2	1.0
Memo Items:					
Public Sector Debt Stock/GNP /a	111.5	118.6	125.6	107.6	101.0
Domestic	59.8	78.8	77.2	70.8	67.5
External	51.7	39.8	48.4	36.8	33.4
Public Sector Debt Stock/GNP /b	73.4	77.2	92.0	74.5	69.8
Domestic	33.5	42.7	50.9	42.9	40.7
External	39.9	34.5	41.1	31.6	29.1
National Government Debt Stock/GNP /c	61.5	71.2	85.4	70.7	66.3
National Government Debt Stock/GNP /d	53.9	63.6	75.9	61.3	56.6
Domestic /c	27.1	36.6	45.5	38.8	37.1
External	34.5	34.7	39.9	38.2	36.8

Source: DOF

a. Includes National Government, 14 Monitored GOCCs, CB/CB-BOL/BSp and GFIs.
b. Same as (a) except for CB/CB-BOL/BSP and GFIs.
c. Includes direct, assumed and contingent liabilities.
d. Excludes direct, assumed and contingent liabilities.
e. Includes direct, guaranteed and assumed liabilities.
f. Includes net lending from NG, borrowings relent/guaranteed by National Government.
g. Liabilities less currency issue and intergovernment accounts.

Table 13: Labor Market Developments, 1990-95

	1990	1991	1992	1993	1994	1995
	(in thousands of persons)					
Population	61480	62868	64339	65650	67040	68420
Total Labor Force	24244	25631	26290	26879	27654	28384
Unemployed	2032	2716	2594	2497	2622	2704
Unemployment Rate (%)	8.4	10.5	9.8	9.3	9.5	9.5
Total Employed	22212	22914	23695	24383	25033	25678
Agriculture	9981	10290	10726	11139	11286	11147
Industry	3422	3631	3823	3804	3948	4139
Mining and quarrying	129	140	147	135	111	..
Manufacturing	2236	2374	2523	2457	2538	2617
Construction	968	1018	1062	1110	1187	..
Utilities	89	99	91	102	112	..
Services	8809	8993	9146	9440	9799	10392
Transportation & Communications	1096	1142	1204	1291	1393	..
Trade	3156	3218	3276	3389	3520	..
Finance	435	465	444	503	490	..
Government Services	4107	4158	4203	4244	4386	..
Other	15	10	19	13	10	..
	(as percentage of total employed)					
Total Employed	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	44.9	44.9	45.3	45.7	45.1	43.4
Industry	15.4	15.8	16.1	15.6	15.8	16.1
Mining and quarrying	0.6	0.6	0.6	0.6	0.4	..
Manufacturing	10.1	10.4	10.6	10.1	10.1	10.2
Construction	4.4	4.4	4.5	4.6	4.7	..
Utilities	0.4	0.4	0.4	0.4	0.4	..
Services	39.7	39.2	38.6	38.7	39.1	40.5
Transportation & Communications	4.9	5.0	5.1	5.3	5.6	..
Trade	14.2	14.0	13.8	13.9	14.1	..
Finance	2.0	2.0	1.9	2.1	2.0	..
Government Services	18.5	18.1	17.7	17.4	17.5	..
Other	0.1	0.0	0.1	0.1	0.0	..

Sources: GOP, IMF

Table 14: Loans Outstanding of Commercial Banks, 1990-96

	1990	1991	1992	1993	1994	1995	Jun-96
ECONOMIC ACTIVITY							
Growth rates (% on year earlier)							
Agriculture, fisheries, & forestry		30.6	10.1	19.1	8.1	19.6	33.3
Mining and quarrying		-10.5	23.2	56.9	-48.1	55.9	40.2
Manufacturing		-3.0	25.6	26.9	32.5	33.9	42.0
Electricity, gas & water		10.6	15.4	159.5	25.7	24.7	94.1
Construction		8.7	18.5	65.3	32.3	37.4	70.9
Wholesale & retail trade		27.7	19.9	27.8	39.8	37.3	50.6
Transportation, storage & communication		0.5	21.9	52.8	53.8	72.0	73.6
Fin. inst., real estate & business services		19.2	36.1	10.1	37.4	24.8	88.6
Community, Social & Personal services		3.4	25.4	92.1	-10.4	61.8	106.0
TOTAL		9.9	24.0	32.2	25.4	35.8	60.2
Share of Total Loans (%)							
Agriculture, fisheries, & forestry	11.2	13.3	11.8	10.6	9.2	8.1	7.3
Mining and quarrying	2.6	2.1	2.1	2.5	1.0	1.2	1.1
Manufacturing	38.5	34.0	34.4	33.0	34.9	34.4	31.3
Electricity, gas & water	1.3	1.3	1.2	2.4	2.4	2.2	3.0
Construction	2.7	2.6	2.5	3.1	3.3	3.4	4.0
Wholesale & retail trade	14.5	16.8	16.3	15.7	17.5	17.7	16.7
Transportation, storage & communication	3.8	3.4	3.4	3.9	4.8	6.1	5.9
Fin. inst., real estate & business services	16.9	18.3	20.1	16.7	18.3	16.8	18.5
Community, Social & Personal services	8.6	8.1	8.2	11.9	8.5	10.2	12.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
TOTAL (in billion pesos)	**240.3**	**264.1**	**327.4**	**432.8**	**542.8**	**737.3**	**937.5**

Source: BSP

IMAGING

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