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Working Paper Nontrade Financial Inflows to the Philippines: Recent Trends and Policy Responses

PIDS Discussion Paper Series, No. 1997-08

Provided in Cooperation with: Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Cororaton, Caesar B. (1997) : Nontrade Financial Inflows to the Philippines: Recent Trends and Policy Responses, PIDS Discussion Paper Series, No. 1997-08, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at: https://hdl.handle.net/10419/187327

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Caesar B. Cororaton

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February 1997

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Non-Trade Financial Inflows to the Philippines: Recent Trends and Policy Responses *(Revised Report)*

Caesar B. Cororaton

January 1997

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Revised Draft

Non-Trade Financial Inflows to the Philippines: Recent Trends and Policy Responses¹

Caesar B. Cororaton²

I. Introduction

The paper will look into the patterns and movements of non-trade financial (NTF) inflows to the Philippines. NTF inflows in the paper refer to the following items in the balance of payments (BOP) accounts: (1) remittances of personal income; (2) peso conversion of foreign currency deposits; (3) net foreign investments; (4) net short-term capital flows; (5) net medium and long term capital flows; (6) net changes of commercial banks' net foreign assets, which is a new item in the revised BOP accounts; and (7) errors and omissions. The first two are major non-merchandise trade inflows in the current account of the BOP, while the others are the major items in the capital account.

Figure 1 shows the NTF inflows since 1980. The last three years, including the first six months of 1996, saw massive inflows of NTF. These inflows can have positive as well as negative effects on the economy. They can ease up significantly the financial constraints usually faced by developing countries and can therefore help finance growth, especially if domestic savings mobilization is lagging behind. However, if the absorptive capacity of the economy is limited, such surges could have tremendous negative effects on the economy. This is because they are often associated with inflationary pressures, real exchange appreciation, and deterioration in the current account deficit. In addition, there is ample evidence that massive NTF inflows (capital inflows in particular) may also contribute to the stock market bubbles and lead to an excessive expansion in domestic credit. All this could jeopardize the stability of the financial system.

The objectives of the paper are: (i) to document and examine the patterns of NTF inflows, especially during the last 5 to 6 year period which saw inflow surges; (ii) to analyze the factors behind the surge; (iii) to analyze the impact of the inflows on the economy, in particular on macroeconomic management, prices (inflation rate, interest rate, and exchange rate), exports, and output growth; (iv) to document the policy responses of the authorities and to analyze the effectiveness of such responses; and (v) to analyze the implications of the inflow on the sequencing of economic reforms implemented in recent years.

¹A paper prepared for the Asian Development Outlook 1997 and 1998.

²Research Fellow, Philippine Institute for Development Studies. Research Assistance was provided by Consolacion Chua.

II. Non-trade Financial Flows

IIa. Balance of Payments

To put the discussion on NTF inflows in perspective, we first assess the overall BOP position of the economy, especially in recent years. The discussion is based on the revised BOP accounts of the government, which are shown in complete form in Statistical Appendix A.

Table 1A presents the BOP performance from 1980 to the first semester of 1996, highlighting the major flow items, while Table 1B shows the ratio of these items to the gross national product (GNP). The balance of trade (BOT) deficit has deteriorated sharply in the 1990s from -6.1 percent of GNP in 1989 to -14.1 percent in the first half of 1996. However, the deficit in BOT is offset by the huge surpluses generated in the non-merchandise trade (NMT). In 1989, NMT surplus was 0.7 percent of GNP. In the first semester of 1996, it increased dramatically to 9.5 percent. The surplus was mainly due to the huge inflows of remittances of personal income (REMIT) and peso conversion of foreign currency deposits (FCD). In 1989, the sum of REMIT and FCD was only 4.0 percent of GNP. In the first six months of the 1996, it increased to 15.2 percent. Furthermore, interest expense on foreign debt to GNP ratio appears to be on a declining trend. Although the ratio inched up a bit in the first semester of 1996, the ratio showed a declining trend from 5.1 percent in 1990 to 3.1 percent in 1995.

Thus, the current account (CA) deficit remained manageable all these years. In the period from 1986 to the first semester of 1996, the CA deficit to GNP ratio fluctuated within a range between -1.0 percent (in 1988) to -5.8 percent (1990). The CA deficit ratio at present is -4.2 percent.

The performance of the capital account is also favorable, especially in the 1990s. It has generated surpluses from 3.6 percent of GNP in 1989 to 10.1 percent in the first semester of 1996. As a result, the BOP position of the Philippines is at a comfortable surplus level. In the first six months of 1996, BOP surplus to GNP ratio was 5.8 percent.

IIb. Patterns and Trends of NTF Inflows

There has been a sharp increase in NTF inflows to the Philippines, especially in the 1990s. Table 2 shows that the steepest rise occurred in 1994, with NTF flows increasing by almost US\$4 billion during the year. In 1995, total NTF inflows reached almost US\$12 billion, or 15.6 percent of GNP. The surge is sustained in the first six months of 1996, with NTF inflows totalling US\$10.3 billion, or 25 percent of GNP. This amount is almost twice the inflows recorded during the same period last year.

Of the NTF inflows about 50 percent is contributed by REMIT and FCD, except in 1995 when their total contribution exceeded 80 percent to the total. REMIT has been increasing rapidly since 1989, from a billion US dollars during the year (2.4 percent of GNP) to almost US\$5 billion in 1995 (6.4 percent of GNP). In the first six months of 1996, remittances have already reached US\$3.5

billion (8.4 percent of GNP). Given the present trend total remittances of personal income could very well exceed the US\$7 billion level for the current year.

Could the present trend of REMIT sustain in the long run? We attempted to look into the issue by conducting regression experiments relating REMIT with possible determinants to be able to get an idea of its long term trend. The complete set of results is reported in Statistical Appendix B. What are discussed here are the possible implications that one may be able to derive from the estimated regression coefficient of one of the regressors which indicates the number of overseas contract workers (OCWs) deployed.

The average elasticity estimate of REMIT to changes in the number of OCWs is about 2. This would imply that for every 1 percent increase in the number of deployed workers, total remittances would potentially increase by about 2 percent. The converse is also true, i.e., if the number of deployed workers decreases by 1 percent, total remittances decreases by 2 percent. This has long term implications about the flow of remittances. Lately, the number of incidences involving foreign employers' abuses on overseas contract workers (particularly on domestic helpers) which get into the headlines of major local newspapers increase after the execution of Flor Contemplation in Singapore in March 1995 and the well-celebrated case of Sarah Balabagan in 1996. Thus, it is not uncommon to come across with news items reporting and sensationalizing OCWs coming back home DOA ("dead on arrival"). This could surely portray a picture that it is highly risky and dangerous to work overseas and may lead to a major decline in the number of OCWs in the future. Since remittances are highly elastic to changes in the number of OCWs, inflows from remittances of personal income could potentially decline in a significant way. This implies that since remittances is one of the major inflow sources, the potential decline could put a lot of pressure on merchandise export which has not been growing as fast as merchandise imports. Merchandise export has to increase rapidly, otherwise the current account deficit could balloon to unmanageable levels and may trigger instability in the external account and the financial system, especially that the BOT deficit has reached high levels already.

FCDs have also been moving along a similar uptrend, growing dramatically over the same period from US\$700 million in 1989 (1.6 percent of GNP) to US\$4.7 billion in 1995 (6.2 percent of GNP). In the first six months of 1996, it has already recorded a level of US\$2.8 billion (6.8 percent of GNP). However, the sources of this inflow are unclear. Part of it could be due to earnings of overseas contract workers (OCWs) which were not declared but were deposited and withdrawn from FCD accounts. Part of it could also be due to capital flight that is returning back to the country or cash personally brought in by small foreign investors and temporarily parked in FDC accounts. Nonetheless, from the impressive steady growth in the last six years, it appears that it will continue to be a major source of foreign exchange in the next few years.

Thus, given the sizeable amounts of foreign exchange coming from these two inflows, nonmerchandise trade account of the BOP appears to yield huge surpluses, especially that interest expense on foreign debt has generally been declining.

The capital account surplus has also been increasing rapidly in the past few years. From

US\$1.5 billion 1990, the surplus increased to US\$4.5 billion in 1994, about 6.9 percent of GNP. However, the surplus declined in 1995. But in the first 6 months of 1996, the surplus surged to almost 10 percent of GNP.

Of the major items in the capital account, foreign investment (which is composed of both long term and short term flows) is showing promising trend. Its share to the total NTF inflows increased from 14.5 percent in 1990 to 19.5 percent in 1995. In the first 6 months of 1996, its share has reached 15.5 percent already, a lot higher compared to the same period last year.

The contribution of medium and long term loans (MLT) has been erratic, especially in the 1990s. This is the result of the foreign debt restructuring program of the government. From 12.3 percent of the total NTF inflows in 1990, its share increased to a peak of 32.7 percent in 1993. The increase was mainly brought about by the bond flotations of the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP). Since then, it has been on a declining trend. In 1995, its share was down to only 9.9 percent. Although this is a major source of long term funds, the downtrend has positive and favorable implications on the huge stock of foreign debt and on foreign debt servicing.

The net inflow of short-term loans has been erratic. This is mostly related to export financing and export credit facilities. However, changes in commercial banks net foreign assets, which is a new item under the revised BOP accounts, has been growing rapidly. In the first 6 months of 1996, its share to the total NTF inflows is almost 40 percent.

However, one surprising and puzzling trend is seen in errors and omissions. Usually, errors and omissions in the BOP are considered as a "catch-all" indicator of capital flight wherein a negative value would indicate capital moving out of the country and a positive value, capital reflows. Last year, errors and omissions registered a huge negative value of -US\$2.4 billion. In the first six of 1996, this increased further to -US\$2.6 billion. These negative values are difficult to explain, especially during periods of massive foreign exchange inflows.

Table 3 shows the composition of the capital account. It also shows an analysis of the movements and patterns of each of the items. The methodology used in the analysis is based essentially on the variability of the items around their respective trend³. The analysis considered quarterly data from the first quarter of 1990 to the second quarter of 1996. Column (a) in the table shows the standard error around the trend, while (b) the mean, and (c) the standard deviation around

³Methodology: Variability Analysis

Objective: To derive an indicator of variability of a time series variable. The time series variables are the components of the capital account of BOP 1. The variables were analyzed suing their quarterly data from the first quarter of 1990 to the second quarter of 1996.

^{2.} The time series were deseasonalized to take out the seasonal factors.

^{3.} The deseasonalized data were regressed against time.

^{4.} The following statistics were computed and used in the analysis

⁽a) east square coefficient of the time variable (or the slope)

⁽b) standard error of the regression (of time)

⁽c) mean of the series

⁽d) standard deviation of the series

the mean. Column (d) shows whether an item is generally increasing or decreasing. This is indicated by the slope of the trend. Column (e) is the value of the slope, while the last two columns show indicators of comparative growth and variability of the items.

The peso conversion of FCDs has the highest growth indicator within the period, being 9.1 Also, it has one of the lowest variabilities, at 31.9. This would indicate that its transitory component is relatively small. Although the sources of this inflow may not be very clear, its generally low variability and high growth indicators would imply that this can indeed be a major source of inflows in the medium term, or even in the long-term.

The next item with high growth indicator is net foreign investment, being 8.6. Its variability indicator however is relatively higher than FDCs, but lower relative to the rest of the items in the capital account. However, the major driving force behind foreign investment is portfolio investment. The growth indicator of the inflow of portfolio investment is 12.5, versus 5.2 for direct investment. The variability of the former is higher compared to the latter. Portfolio investment, which is generally labelled "hot money" is highly volatile and speculative. It is usually related to the political and economic stability of the country. Unfavorable political developments for example can quickly reverse the flow and can surely undermine economic stability, especially that the trade account deficit is substantial at present.

Both the short-term loans and medium and long term loans are have low growth indicator. They have the highest degree of variability.

In sum, the direction of the inflows is generally favorable. The inflows would seem to indicate that it is more of foreign investment and less of foreign debt inflow in the capital account. The implication on foreign debt stock and foreign debt servicing is therefore positive. However, it would have been a lot better and healthier had the foreign investment been dominated by direct investment than portfolio investment. The former involves a more long term inflow, while the latter is highly erratic and speculative and quite sensitive to negative developments in the country.

IIc. Factors Behind the Surge in NTF Flows

The recent surge in capital inflows is not unique to the Philippines. In fact, almost all developing countries (especially Asian countries) have experienced the same pattern of inflows (Figure 2 and Table 4). The literature has provided 3 basic reasons behind the surge in inflows (IMF, 1995): (i) the successful restructuring of commercial bank debt of some Western Hemisphere countries (including the Philippines), together with the implementation of sound macroeconomic policies and wide-ranging structural reforms, including financial sector reforms, which facilitated the re-entry to the international capital market; (ii) the economic slowdown in industrial country economies which stimulated the flow of capital into the emerging markets (specifically, the sluggishness in economic activity, the weak demand for funds, and the decline in interest rates in the industrial countries in the early 1990s contributed to investors having a greater interest in developing countries); and finally, (iii) the ongoing international diversification of rapidly expanding institutional

portfolios (mutual funds, insurance companies, pension funds, proprietary trading of banks and securities houses) has contributed greatly to the flows into the emerging markets.

This section focuses on the first item, i.e., the reforms that have been instituted in the local economy. Table 5 documents the reforms implemented in the financial sector from 1986 to 1994 (see Annex for a complete listing of Central Bank Circulars that effect the financial reforms. The list also includes monetary policies and other macroeconomic policies implemented during the 1990s).

Of the reforms, the major ones that have positively affected foreign capital inflows are: (1) the foreign exchange markets liberalization; and (2) the bank entry. In 1992, the authorities liberalized the transactions of foreign exchange. The liberalization included (a) the shift to off-floor foreign exchange transaction; (b) the removal of CB's restriction on the use of foreign exchange earnings by exporters; (c) the removal of restrictions and limits on foreign exchange purchases; (d) the removal of CB's restriction on repatriation and remittances of investments; (e) the increase in the allowable outward investment by residents; and (f) the allowed access to domestic FCDUs loans by both direct and indirect exporters. The rapid rise in the peso conversion of FDCs in the 1990s can therefore be attributed to these developments. Thus, this would imply that for as long as the foreign exchange market remains free and the political and economic stability sustained, FDC inflows could continue to increase in a sustainable manner.

Another major reform implemented is the entry of foreign banks in 1994. The reform allowed the 10 foreign banks to have 6 branches each. Furthermore, foreign banks may acquire or establish a bank up to 60 percent of the total equity of each bank. The entry of foreign bank could be the major factor behind the impressive growth in foreign direct investment.

III. Assessing The Impact on the Economy

IIIa. On Macroeconomic Variables

There has been fast accumulation of foreign exchange reserves. At present the gross international reserves (GIR) of the BSP stand at US\$9.96 billion (end of June 1996). This is equivalent to more than 7 months of imports.⁴ Figure 3 is a "normalized" chart that shows the impact of the fast accumulation of foreign exchange on money supply. One can observe that the increase in M3, an indicator of total liquidity, follows very closely the increase in GIR. However, the increase in reserve money (RM) (which follows closely the movement of base money), is not as close. We will see below that this is due to the increase in the money multiplier, which is in turn due to the reduction in reserve requirements on deposits. This is especially true starting 1993.

Figure 4 shows the movements of consumer price index and the 91-day Treasury bill rate.

⁴Calculated using the imports of the first six months of 1996 and end-of-June GIR.

There are two noticeable periods seen in the chart when both inflation and interest rates increased dramatically: in the mid-1980s and in the early 1990s. During these periods, the economy experienced shortages of foreign exchange that triggered speculation. Thus, a major part of inflation and interest rates during those periods was speculation factor. To dampen speculative activities and arrest the increase in prices and interest rates, the authorities applied both fiscal (budget cuts) and monetary (tight credit) policies. Based on the movements of the two, indeed the authorities succeeded in lowering both inflation and interest rates in the ensuing years.

In the period after 1992, both inflation and interest rates stabilized despite the surge in NTF inflows. In fact, in 1995 both inflation and interest rate settled at low levels, 11.7 percent and 8.1 percent, respectively.

Figure 5 shows the computed indices of trade-weighted foreign exchange rate (nominal and real). The indices were based on the 1980 exchange rate level. The index of nominal trade-weighted foreign exchange rate was derived using the yearly averages of the Philippine peso relative to the following trading partners: United States, Japan, Germany, Netherlands, United Kingdom, Singapore, and Saudi Arabia. The index was computed using the total trade value (exports and imports) of the Philippines with these countries as weights. The index of real trade-weighted foreign exchange rate, on the other hand, was the nominal trade-weighted foreign exchange rate, adjusted for inflation differential (CPI based).

One can observe that in nominal terms, the Philippine peso has depreciated relative to the currency of these countries. From 100 in 1980, the index increased to 508.74 in 1995, or an annual average nominal depreciation of 27.2 percent in the last 15 years. In real terms, however, the picture is different. In the early 1980s, there was a real appreciation of the currency. This is clearly seen in Figure 6 which shows the deviation of the index around 100. A sharp real depreciation of the currency, however, was seen in 1983, in particular during the start of the mid-1980 crisis. Real appreciation was seen again in 1985. However, because of very low domestic inflation in 1986 and a very stable nominal exchange rate, the year saw another sharp real depreciation. Since then the trend reversed, the exchange rate appreciated in real terms, especially in the following years: 1989, 1992, 1994, and 1995. In the last two years, the exchange rate is in fact below the 1980 level.

IIIb. On Competitiveness, Resource Allocation, Export Structure and Output Growth

Impact on Competitiveness.⁵ Medalla computed the ratio of domestic resource cost (DRC) and shadow exchange rate (SER) of the Philippine manufacturing sector. She found that around 28 percent of manufacturing has comparative advantage, i.e., with DRC/SER ratio of less or equal to one. However, in terms of "market DRC" the percentage reduces to only 13 percent of the manufacturing which have the capability of its own to actually compete in the world market.

She experimented with different exchange rate factors in the computation and found out that

⁵The discussion of this issue, and the next one that follows, is based on the unpublished paper of Medalla.

for an additional real peso appreciation of say 10 percent, the list of industries with competitive advantage (the ones with DRC/SER of less or equal to one) would be reduced by 8 percentage points. In her computations, the estimates show that the industries will be dominated by the electronic sector. This result would indicate the critical role and the impact of the exchange rate on Philippine industries.

Impact on Relative Incentives and Resource Allocation. Tables 6 and 7 show data on Board of Investment (BOI) approved projects (new and expansion). One can observe that there is a declining share of export-oriented firms in BOI-approved projects. Export producers accounted for more than 70 percent of project cost between 1983 and 1986. In 1993 this went down to 25 percent. In 1994, it further declined to 15 percent (see Table 6).

The same trend is seen in data on foreign direct investment. In fact, the trend in the distribution of foreign equity of BOI-approved projects replicates that of the distribution of project cost of BOI-approved new and expansion projects over the same period. In 1985, around 97 percent of foreign equity investments of BOI-approved projects are export-oriented. The share declined to around 40 percent in 1993 and further down to 21 percent in 1994 (see Table 7).

The real appreciation of the foreign exchange could be a major reason behind this trend. In principle, a real appreciation of the domestic currency raises the price of nontradables (NT) relative to tradables (T) (both exportables (X) and importables (M)). The increase in the price of NT increases its relative attractiveness, inducing therefore a corresponding flow of resources. Within the NT sector, the effects would vary. Those sub-sectors with the lowest value-added coefficient are the ones who would benefit the most from the a real appreciation of the currency. Within the T sector, on the other hand, the exporting sectors with the highest value added coefficient would be the ones who would be most adversely affected. The trend seen in the investment data could be a result of changes in relative prices due to the real appreciation of the domestic currency.

Thus, Medalla concluded that "If prolonged, the real appreciation of the domestic currency could translate into a corresponding resource flow which would bring about relatively more investments going into nontradable sectors vis-a-vis exportable sectors".

Structure of Export Sector. Tables 8 to 11 show the structure of the export sector. In 1995, the total value of Philippine merchandise exports amounted to US\$17.5 billion (almost 23 percent of GNP). Total exports has registered impressive growth in the last four years. In 1995 alone, total export grew by 29.4 percent. In the first 8 months of 1996, total exports has already registered a growth of 16.5 percent.

However, the structure of the export sector is lopsided. It is highly dominated by only 2 nontraditional, manufacturing industries: the electronics (or semi-conductor) and the garments industries. In 1995, the electronics industry captured about 43 percent of the total export value, while the garments industry 15 percent. Thus, the two industries capture more than half of the entire export receipts. This structure has been existing since the 1980s. One should note that these two industries

have very limited link with the domestic economy because almost all of their material requirements are imported. Take the case of the garments industry. Because of very inefficient local textile industry, the export garments sector has to import raw fabrics to be able to compete in the world market both in terms of price and quality. In the electronics or semi-conductor industry, the Philippines does not have any precision industry to supply the input requirements of the industry. Thus, while both sectors are generating sizeable export receipts, they are also the major users of such receipts through the imports of their raw material requirements. Because of this structure, in net terms, their contribution to the total export earning has been marginal.

On the other hand, the traditional export sector, the major *net* export earner, has generally been in dismal stage. Although coconut export (particular coconut oil) registered an impressive growth of 20 percent in 1994 and another 55 percent in 1995, in general the agricultural or resource-based exports have not been performing well.

In the last three years, exports of garments decelerated substantially. In fact, in the first six 8 months of 1996, it registered a negative growth of -3.6 percent. The garments industry has to be restructured, especially with the gradual phasing out of the Multifiber Agreement, otherwise it will soon join the ranks of what we call the sunset industries.

The electronics industry however, continues to register robust growth. In fact, in the last few years, it contributed almost all of the growth in total exports.

Impact on Growth and Inflation. Using a Philippine economic model⁶, Cororaton (1996) simulated the effect of real appreciation of the currency on the overall output growth of the economy. His conclusion was that, between the period 1988 and 1994, output growth could have grown 5.1 percent more had the exchange not allowed to appreciate in real terms. The impact of nominal depreciation of the currency on prices is not significant as generally claimed. A nominal depreciation that would just allow real exchange rate to maintain its level⁷ would have a marginal effect of 2.3 percent on inflation rate. Thus the result would show that the output effect of a constant real exchange rate is higher that the inflation effect.

In sum, while both inflation and interest rates remained generally stable during the years when the economy experienced surges in NTF inflows, the real exchange rate appreciated. While the movements of inflation and interest rates seem sustainable, the real exchange rate appreciation is not. It can have tremendous adverse effects on the export sector and growth.

⁶A financial computable general equilibrium model of the Philippine constructed by Jemio and Vos (1993).

⁷During the period inflation in the Philippine was higher than its trading partners.

IV. Policy Responses

IVa. Some Basic Concepts

Capital inflows are considered as increases in net international indebtedness of both the private and the public sector. Usually, capital inflows are measured by the surplus in the capital account of the BOP.

Sales and purchases of official reserve assets or international reserves are recorded in the official reserves account of the central bank (CB). The level of official reserves increases if the CB increases its purchase of foreign exchange in the market. Thus, this account measures the extent of CB's intervention in the foreign exchange market.

There are two alternative monetary policy responses to increases in capital flows: nonintervention and intervention by the CB. Non-intervention amounts to pure floating exchange rate. In this case, the surplus in the capital account due to the inflows (which is also equivalent to export of assets to the rest of the world) is financing the net imports of goods and services in the current account. If this policy is used, then capital inflows will **not** be associated with changes in CB's holdings of international reserves. The main disadvantage of a pure floating or non-intervention policy is that massive capital inflows may induce steep nominal, and possibly real, appreciation of the domestic currency. Real appreciation of the currency may hurt the export sector of the economy, especially if the appreciation is persistent.

On the other hand, under intervention, the CB is actively purchasing foreign exchange brought in by capital inflows. In the extreme case, the increase in the capital inflow is matched one-to-one by an increase in international reserves.

Intervention, in turn, has two policy options: sterilized intervention and non-sterilized intervention. The process of sterilized intervention may be explained using the balance sheet of the CB. In the balance sheet, reserve money (RM) falls under the liabilities column. The assets column, on the other hand, has two major items: net foreign assets (NFA) and net domestic assets (NDA). NFA, in turn, comprises two items: international reserves (positive) and foreign liabilities (negative). On the other hand, NDA includes a major item: net domestic credit (NDC) to national government (i.e., the CB's lending to the National Government [NG] less NG's savings in CB). Expressed in equation form we have,

RM = NFA + NDA

Assume that a ceiling on RM is imposed (to meet monetary targets under the IMF stabilization program, for example), then any increases in NFA is sterilized by decreasing NDA. NDA can be reduced if NG increases its savings in the CB. One major way NG increases its deposit in the CB is by the selling NG debt instruments through open market operations (e.g. treasury bills) to the public and by depositing the proceeds in the CB. Another process by which NDA is reduced is

through the selling of CB debt instruments (CB bills) to the market. Both processes put an upward pressure on interest rates, domestic debt stock, and debt servicing (or quasi-fiscal cost of sterilized intervention). Thus one way one can measure the intensity of sterilized intervention by the CB is by examining the stock of either CB bills or government Treasure bills, or both, relative to the monetary base, or by analyzing changes in net domestic assets.

On the other hand, non-sterilized intervention does allow capital inflows to exert a downward pressure on domestic interest rates. Therefore, this effect will have the advantage of slowing down capital inflows and lowering the fiscal cost of outstanding domestic credit. However, it increases the risk of inflation because it increases the monetary base.

Another policy option that the CB can use to contain the negative effects of massive capital inflows is by increasing reserve requirements. When reserve requirements are increased, they tend to reduce the money multiplier and thereby curtail the monetary expansion associated with CB intervention in the foreign exchange market. The advantage of this policy option is that it does not entail quasi-fiscal cost associated with sterilized intervention. The major drawback is that over time this may promote disintermediation. Also, reserve requirements are a tax on the banking system. Banks usually pass on all or a part of any tax to its clients through higher interest rates.

From the fiscal side, one policy option to capital inflows is to tighten fiscal policy. Tightening fiscal policy is not likely to stop capital inflow but may lower aggregate demand and therefore curb the inflationary impact of capital inflows. Furthermore, to the extent that a tighter fiscal policy reduces the need to issue debt, such policy is also likely to lower domestic interest rates. Another fiscal policy option is to impose additional taxes on capital inflows, in particular short-tern capital inflows. This may discourage some of the flows.

IVb. Policies and Reforms Implemented

To better appreciate the policy responses of the government to the recent surge in NTF inflows, we move the analysis back to 1986. The Annex lists down some of the major policies and reforms implemented during the period. The policies and reforms are in the following sectors: trade, financial, fiscal, and investment. The period from 1986 up to the present can be divided into three sub-periods: (1) 1986-1989, which is characterized by economic recovery and high growth; (2) 1990-1992, consolidation period triggered by huge macroeconomic imbalances, deflationary and contractionary effects of economic stabilization, and negative effects of natural calamities; (3) 1993-present, economic recovery. However, in all these three sub-periods, economic reform programs in the different sectors like trade, finance, fiscal, and investments were pursued. Even at present, economic reforms are still underway.

Table 12 shows a number of indicators of economic performance during these sub-periods.

<u>1986-1989</u>: The economic recovery in the period reached a peak of 7.7 percent GNP growth in 1988. It started to slow down, however, in 1989. One of the major reasons behind the slowdown

was the widening imbalances in the external and fiscal sectors. The imbalances translated to rising prices and interest rates. This economic instability plus the adverse effects of political uncertainties and the series of natural calamities pushed the economy down to a recessionary period starting 1990.

A number of structural economic reforms were implemented during the period. The reforms included the resumption of the tariff reduction program and trade liberalization. Furthermore, a tax reform program was also implemented during the period, including the first phase of the implementation of the value-added tax system.

<u>1990-1992</u>: This is generally a consolidation period. Economic stabilization program was implemented to reduce both the fiscal deficit and the external account deficit. The fiscal deficit reduction program included: (1) the imposition of the 9 percent import levy, (2) import levy on oil imports, (3) expenditure cuts especially on maintenance and other operating expenses (MOE) and capital expenditures. Furthermore, the stabilization program included a very tight monetary policy program to control the high growth of money supply. The monetary policies included: (a) very high issuance of Treasury bills; (b) increases in reserve requirements on deposits.

The stabilization program was contractionary. GNP growth in 1991 and 1992 was almost down to zero. However, the twin macroeconomic imbalances were checked. As a result, the increase in interest and inflation rates was arrested.

Despite the contractionary economic stabilization program, structural reforms continued to be implemented. The reforms included: (i) tariff reduction program, (ii) foreign exchange liberalization; (iii) Foreign Investment Act of 1991, and privatization of government assets

<u>1993-present</u>: The performance of the economy started to improve in 1993. Fiscal balance, which used to be in chronic deficit, generated surpluses. Except for the BOT, the external sector performance improved. As a result, interest and inflation rates stabilized and settled at relatively low levels. Furthermore, economic growth started to pick up.

As we have seen above, it was during this period when NTF inflows started to surge. The response of the government to the surge in the inflows was to implement a sterilized intervention program. It actively participated in the transaction of foreign exchange to insulate the economy from the adverse effects of the surges. To prevent the inflationary effects of such policy measure, the government sterilized the purchases by selling government securities. Since this policy puts pressure on interest rate to increase, the government started to bring down reserve requirements on deposits. This mitigated the upward pressure on interest rate. Moreover, the government had the opportunity to reduce reserve requirement because inflation remained at low and "comfortable" levels.

Likewise, the government continued its implementation of the economic reform program. One of the major reforms during the period is the continuation of the trade liberalization program. During the period, the government allowed entry of foreign banks. Furthermore, it vigorously pursued the privatization program.

The dynamics of the policy responses can be summarized as follows:

1. <u>Monetary Policy Response</u>. Table 13 shows how the monetary authorities responded to the surge in the NTF inflows. One can observe from the numbers that the BSP has been intervening quite strongly in the foreign exchange market. This is indicated by the growth of its gross international reserves. The BSP has accumulated almost US\$8 billion of international since 1990 (i.e., from US\$2 billion at the end of 1990 to US\$9.96 billion at the end of June 1996). In the first six months alone, BSP bought net reserves amounting to US\$2.3 billion. Indeed, the BSP has been a major actor in the foreign exchange market.

The huge accumulation of reserves from the market resulted in substantial increases in its net foreign assets (NFA). In 1994, its NFA increased by 62 percent. Although it slowed down in 1995, in the first six months of 1996 it jumped up again by another 55 percent.

The BSP has been sterilizing a major portion of the inflows. Since 1991, its total net domestic assets (NDA) has been on the downtrend. In 1991, NDA declined by -21 percent. It declined further in 1992 by -46 percent. Although it increased slightly in 1993, it continued its descend in 1994, declining by another -21 percent. As a result, the growth of reserve money (RM) has been contained. In 1994, RM only grew by 6 percent. It, however, grew faster in 1995 by 17 percent.

Table 14 presents the regression results showing the degree of substitution between NFA and NDA. The coefficient of NDA is an estimate of what is commonly called the offset coefficient. The estimated coefficient is -0.889, which can be interpreted to mean that NDA decreases by P0.89 for every P1 increase in NFA.

Thus the data would show the indeed the BSP has been applying sterilized intervention. This is to minimize whatever negative effects the inflows may bring to the system. This can partly explain a generally stable period for prices.⁸

The question is: What has been the impact of sterilized intervention on domestic interest rate? Figures 7 and 8 provide an answer. Figure 7 shows the ratio of M3 to RM, which is an indicator of money multiplier. One can observe that since 1992, money multiplier has been increasing; from 2.66 in that year to 3.58 in 1995. In Figure 8, we plotted the ratio of required reserve to total deposit, which is an indicator of required reserve ratio (RRR). One can observe that RRR has been declining during the years when the money multiplier has been increasing. In principle, RRR is a determinant of money multiplier. If RRR decreases, money multiplier increases.

Reserve requirement is a distortionary tax on financial intermediation. It increases the cost of capital of financial institutions, which in turn is passed on to the borrowers and users of funds. Thus,

⁸However, total liquidity, as indicated by M3, has been growing rapidly, averaging a growth of 25.5 percent per year in the last three years.

when reserve requirement is reduced, interest rate tends to go down.⁹

Thus, from the data, it appears that the BSP has sterilized quite heavily the recent surge in NTF inflows. In principle, this could have a strong upward pressure on domestic interest rate. However, the sterilized intervention has been accompanied by a series of reduction in reserve requirements. This is seen in the rise in money multiplier. As a result the upward pressure on interest rate was mitigated.

2. Quasi-Fiscal Cost. However, the sterilized intervention of the BSP has been carried out not without an economic cost. In fact, the cost, which is often called the quasi-fiscal cost, has been huge. The information that we were able to secure covered only the period from January to November 11, 1994. Within the period, the BSP purchased US\$2,739 million of foreign exchange from the market to perk up demand. These purchases accounted for 43 percent of the total volume of transactions in the foreign exchange market. At such level, BSP purchases were 46.8 percent of reserve money and 14.2 percent of total domestic liquidity. These purchases had cost the BSP some P5,753 million with a return of only P1,154 million. Thus, for the same period, the BSP incurred a net loss of P4,599 million, representing nearly half of the expected BSP net income for the whole year of 1994. On top of this cost, the BSP also recorded a revaluation loss in its balance sheet aggregating about P5.2 billion on account of these purchases.

3. <u>Fiscal Policy Response</u>. Table 15 shows the fiscal performance. From the chronic deficit in the 1980s and in the early 1990s, the National Government (NG) cash operations generated big surpluses in the last two years and in the first nine months of 1996. In 1994, overall surpluses was P18 billion (1.0 percent of GNP). In 1995, another fiscal surplus amounting to P10 billion (0.5 percent of GNP) was generated. Therefore, the successive surpluses in government reduce the need to issue government debt to finance government operations, thereby minimize the upward pressure on interest rates.

Overall, based on the above review of economic data, NTF inflows have been quite huge. This is partly due to the economic reforms implemented and the ongoing economic recovery which favorably signal investors (both foreign and local) to come and invest in the Philippines. However, NTF inflows come in huge volume to form like a shock to the system. Thus, if nothing is done to minimize its adverse on the economy, it can create instability specially to the financial system. Based on the movements of relevant data, it appears that the authorities implemented a coordinated set of fiscal and monetary policies to combat the possible negative impact of the inflows. Sterilized intervention was applied, but this was accompanied by a series of reduction in reserve requirements

⁹The present reserve requirement is 15 percent. The BSP is planning to further cut down this by another 2 percentage points before the end of the year. The proposed reduction can release some P10 billion in loanable funds into the financial system. Although this reduction is within the long-term plan to reduce intermediation cost, the 2 percentage point reduction was prompted by the continued low levels of inflation, which remained at single-digit levels for the past few months.

¹⁰Bangko Sentral ng Pilipinas. "Primer on the Exchange Rate and on BSP Measures to Support Exports".

and improvement in NG cash operation

V. Other major Concern: Sequencing of Economic Reforms

There seems to be some degree of coordination between fiscal and monetary policy measures implemented in recent years. Whether this is a result of a well-planned policy program laid out at the outset is not clear, but surely it has been able to minimize the possible adverse effects on the economy of the NTF inflows which have been flowing in recently like a shock. In the monetary front, the BSP has been intervening quite heavily in the foreign exchange market to perk up demand and to minimize the pressure on the exchange rate to appreciate. As a result, there has been a significant build-up of international reserves. Moreover, it has been sterilizing its foreign exchange purchases through open market operation to minimize the effect on inflation. The sterilization process creates quasi-fiscal costs which have been quite substantial. However, the upward pressure on domestic interest rate as a result of sterilization has been mitigated by the series of reduction in reserve requirements, which is a tax on financial intermediation.

In the fiscal front, the government has been able to reverse the trend from the chronic fiscal deficit in the 1980s and early 1990s to a series of fiscal surpluses in the past 2 and a half years. As a result, both inflation and interest rates seem to have stabilized in the past years.

However, the exchange rate has appreciated quite significantly in real terms. We have noted that this could have tremendous negative effect on the flow of resources and the performance and the competitiveness of the tradable export sector. The real appreciation of the exchange rate may not be sustainable in the long run.

One can picture the situation in a simple demand and supply framework of foreign exchange as shown in Figure 9. The curve SS is the supply of foreign exchange. The factors affecting this are: (1) the flow of export receipts; (2) capital inflows; and (3) other major inflows like remittances income and peso conversion of foreign currency deposits. The surge in NTF inflows could reflect as an the outward shift of the curve to SS'. In a freely floating exchange market this creates pressure on the exchange rate to appreciate from the old equilibrium e0 to e1.

On the other hand, the demand for foreign exchange is affected by: (1) the demand of the private sector (consumers and industries); (2) the demand of the government sector; and (3) BSP intervention. Thus, if demand coming from the private sector is weak, the authorities will intervene in the market by increasing artificially the demand for foreign exchange during surges in inflows to prevent exchange rate appreciation. For example, assuming the old demand is DD, the authorities could perk up demand to shift the curve to DD' and to maintain the exchange rate at e0. However, there is limit to the BSP intervention, especially if it is sterilized. Sooner or later it could put pressure on inflation, interest rate. debt, and debt servicing.

Intervention of the authorities implies the lack of absorptive capacity to allow the economy

to utilize the resource foreign inflows efficiently. In terms of the demand and supply framework, the demand curve could not "permanently" shift to DD'.

The surge in the inflows and the generally weak absorptive capacity of the economy bring us to the debate on the phasing of economic reforms, i.e., the right sequencing and ordering of economic reforms. In the past decade, the authorities have been able to implement economic reforms to restructure the economy. The Annex discusses the major reforms implemented. However, if one were to separate and categorize the reforms carefully into financial sector reforms and real sector reforms, one arrives at a conclusion that reforms in the financial sector are far ahead compared to the reforms in the real sector. Major reforms in the financial sector are: (1) the foreign exchange market liberalization in 1992; (2) the foreign investment act of 1991; and (3) liberalization of the entry of foreign banks, among other reforms. On the other hand, the major reform in the real sector is the reduction in nominal tariff through the series of tariff reduction program.

While the reforms in the financial sector appear to be aggressive, the reforms in the real sector seem to have lagged way behind. This is clearly seen in the estimate of the effective rate of protection (EPR) of Philippine industries which is shown in Table 16. In the calculation of industry EPRs, the following items are considered: ¹¹ (1) nominal tariffs; (2) drawback of duty on imported inputs to exportable; (3) excise taxes; (4) VAT exemptions; and (5) BOI incentives and duty exemptions. In the period 1988 to 1992, while nominal tariff declined for all major sectors (the highest being agriculture, -15.2 percent, followed by manufacturing, -12.7 percent), the corresponding EPR for the manufacturing sector increased by 4.31 percent. This is ironical because, while it is generally accepted that one of the major reasons behind the inefficiency of Philippines industries is the prolonged high protection, the EPR of the manufacturing sector in the period 1988-1992 increased. The EPRs for agriculture, forestry and mining declined. The efficiency loss due to the increasing EPR for the manufacturing during the period may probably be the reason behind the generally weak (or slow improvement) absorption capacity of the economy to surges in NTF inflows.

While admittedly it is harder to implement real sector reforms than financial sector reforms, because in the former one usually encounters strong resistance from different lobby groups, the continued aggressive financial reforms may be counterproductive in the long run if not accompanied with equally fast and aggressive real sector reforms. Financial reforms and well-managed macroeconomic stabilization program may create wrong market signals and may attract huge capital inflows that could have tremendous negative effects on the economy if the real sector is not restructured enough to be able to absorb such inflows. In other words, the old debate on the right sequencing and ordering of economic reforms cannot just be set aside and taken forgranted.

VI. Summary and Policy Implications

The analysis shows that there has been a sharp increase not only in capital inflows from the

¹¹For a detailed discussion on the methodology, see....

rest of the world, but also in non-merchandise trade, in particular in remittances of personal income and peso conversion of foreign currency deposits. The surge in the inflows in not unique to the Philippines. Developing countries in general, Asian developing countries in particular, have been experiencing surges in capital inflows in recent years.

In the international front, the surge in the inflows may have been caused by the movements of capital from developed industrialized countries, as a result of recessionary environment in those countries in the early 1990s, to developing countries. The surge may also be due to the change in the attitude of institutional fund investors to diversify their portfolio by placing some funds to emerging markets. In the local front, however, it may be due to the series of economic reforms implemented, the successful macroeconomic stabilization program, and the re-entry of the economy to the international financial market after going through a prolonged debt restructuring program.

The direction of the inflows is generally favorable. The inflows would seem to indicate that it is more of foreign investment and less of foreign debt in the capital account. The implication on foreign debt stock and foreign debt servicing is therefore positive. However, it would have been a lot better and healthier had the foreign investment been dominated by direct investment than portfolio investment. The former involves a more long term inflow, while the latter is highly erratic and speculative and quite sensitive to negative developments in the country.

From the analysis it appears that there is some degree of coordination between monetary and fiscal policies instituted, especially in the 1990s. Whether this is a result of a well-planned policy program laid out at the outset is not clear, but surely it has been able to minimize the possible adverse effects on the economy of the NTF inflows which have been flowing in recently like a shock. In the monetary front, the BSP has been intervening quite heavily in the foreign exchange market to perk up demand and to minimize the pressure on the exchange rate to appreciate. As a result, there has been a significant build-up of international reserves. Moreover, it has been sterilizing its foreign exchange purchases through open market operation to minimize the effect on inflation. The sterilization process creates quasi-fiscal costs which have been quite substantial. However, the upward pressure on domestic interest rate as a result of sterilization has been mitigated by the series of reduction in reserve requirements, which is a tax on financial intermediation.

In the fiscal front, the government has been able to reverse the trend from the chronic fiscal deficit in the 1980s and early 1990s to a series of fiscal surpluses in the past 2 and a half years. As a result, both inflation and interest rates seem to have stabilized in the past years.

However, during the period the exchange rate appreciated in real terms. The analysis in the paper shows that the real appreciation of the currency may not be sustainable in the long run because of its unfavorable effects on resource allocation (it creates a tendency to shift resources away from tradable to non-tradable) and export competitiveness.

There is limit to BSP intervention in the foreign exchange market. It cannot for long sustain its purchase of foreign exchange (assuming that the inflows will persist) because pressures on inflation

and interest rate build up to unmanageable levels.

The real appreciation of the currency indicates that the economic structure at present does not have enough absorptive capacity to be able to utilize surges in NTF inflows efficiently. The general lack of absorptive capacity may be related to the issue of sequencing of economic reforms.

From the analysis, it appears that the financial sector reforms have been implemented quite aggressively relative to the real sector reforms. Although nominal tariffs have been reduced as part of the real sector reforms, the manufacturing sector has enjoyed higher EPR from 1988 to 1992 if all exemptions, incentives and subsidies are taken into account. The efficiency loss due to the increase in the EPR may probably be the major reason behind the slow improvement in the absorptive capacity of the economy to surges in foreign exchange inflows. Thus, unless the real sector reforms are accelerated, or at least at pace with the financial sector reforms, the policy responses of the authorities to the recent surge in inflows may only be artificial policy responses, or worse palliative policy measures. In the long run, it may not be able to mitigate the adverse effects on the general economy. In order words, short-term macroeconomic policy responses could not substitute for real sector reforms in the long run.

ANNEX

Economic Policies and Reforms in the Philippines

Trade Liberalization Program:

1980s: Tariff Reform Program of 1981. The objective of the program was to make the levels of protection uniform among and within sectors and achieve effective rate of protection within the range from 30 to 80 percent. This program was complemented by the abolition of all export taxes except those on logs and by tax reforms. Together with the tariff reform program was the import liberalization program which lifted quantitative restriction on imports. However, the mid- 1980 crisis stalled the full implementation of the program. However, a series of tax reforms took place between 1983 and 1985 which gradually unified the sales taxes on import and import substitutes.

When the Aquino administration took over in 1986, the import liberalization program was resumed.

1990s: Another round of tariff reform program was instituted in 1991 through the Executive Order (EO) 470. EO 8 of 1992 was implemented to " tarriffy" 153 commodities. It also realigned tariff for 48 commodities in anticipation of the lifting of quantitative restrictions. In 1995, through EO 264 another tariff reduction program was instituted. The program implemented a multi-year (1995-2000) reduction of tariff for industrial products. The program also provided a system for the adoption of a two-tiered tariff structure by the year 2003, i.e., 3 percent for raw materials and 10 percent for finished products, and a uniform tariff of 5 percent by 2004 for all industrial products. Also implemented in 1995 was EO 288 which instituted a multi-year tariff reduction program for agricultural products, except for the remaining 76 items which are considered sensitive.

The approval of WTO-Uruguay round.

Monetary Policies and Reforms:

The following policies were instituted reform the monetary and financial sectors of the economy.

<u>1990</u>:

Central Bank Circular (CBC) 1262 (Nov 9, 1990) stipulates that all exporters may avail of a US dollar-based working capital credit facility for their peso requirements from the Foreign Currency Deposit Units (FCDUs) of local commercial banks without prior CB approval provided that the amount of the loan shall be up to 50 percent of their export letters of credit.

CBC 1250 (Sept. 7, 1990) - Stipulates that purchases by local banks of US\$200 million

(Series of 1990) Treasury Bills of the Republic of the Philippines shall not be sourced from the banks' regular accounts. Such purchases, however, may be sourced from the bank's respective Foreign Currency Deposit Units (FCDUs) without need for prior Central Bank approval.

CBC 1234 (Apr. 6, 1990) - allows banks to enter without recourse into transactions involving commercial papers of any maturities, provided that these papers are registered with the Securities and Exchange Commissions.

CBC 1233 (Mar. 21, 1990) - increases the reserve requirement of all types of deposit liabilities of commercial banks and non-bank financial intermediaries, and on demand deposits, long-term time deposits and deposit substitute liabilities of thrift banks from 20 percent to 21 percent, and similarly, raising the reserve requirement on saving deposits and short-term time deposit liabilities of thrift banks from 14 percent to 15 percent and by one percentage point every month thereafter to reach 21 percent.

CBC 1238 (May 28, 1990) - pegs temporarily at 17 percent thrift banks' required reserve against savings deposits and time deposits with original maturities of 730 days or less.

CBC 1261 (Nov. 9, 1990) - increases the reserve requirements of all types of deposits of commercial banks, including expanded commercial banks, thrift banks and non-banks with quasi-banking functions.

CBC 1269 (Dec. 26, 1990) - Raises the reserve requirement on all types of deposits and deposit substitutes of commercial banks, including universal banks, thrift banks and non-banks with quasi-banking functions by two percentage points effective Dec. 28, 1990.

<u>1991</u>:

CBC 1317 (Dec. 11, 1991) - Allows exporters to avail themselves of Foreign Currency Deposit Unit (FCDU) loans from a US dollar-based credit facility for their peso or foreign exchange requirements from the FCDU of a local commercial bank without need of prior Central Bank approval but subject to the conditions stipulated therein.

CBC 1272 (Jan. 28, 1991) - Promulgates the rules governing the foreign exchange position of commercial banks, with specific provisions for a basic policy of maintaining a balanced foreign exchange position and limiting the allowable overbought position to the average of their negotiated letters of credit for the immediately preceding three (3) months, Section 3 of the Circular defines among others, foreign exchange assets.

CBC 1274 (Feb. 22, 1991) - increases the allowable overbought foreign exchange position of banks to the extent of their average monthly payments for merchandise imports and invisibles for the preceding twelve (12) months and modifies the definition of foreign exchange assets to include forward purchases from the Central Bank.

CBC 1275 (Mar. 4, 1991) - Amends further Section 3 (Definitions) of Circular No. 1272, as amended by Circular No. 1274 as follows:

a) The exclusion of forward purchases without any corresponding foreign exchange obligation, from consideration as part of a bank's foreign exchange assets, and;

b) The inclusion of 'Cash L/Cs collateralized with confirming bank' under foreign exchange liabilities.

CBC 1283 (Apr. 20, 1991) - Further amends certain regulations on the foreign exchange position of commercial banks earlier issued in Circular Nos. 1272 and 1275 (a) to allow commercial banks' foreign exchange liabilities to exceed their foreign exchange assets by not more than \$500,000.00; (b) to modify the coverage of 'Investment in Bonds and Other Debt Instruments' by excluding investments in public sector debt papers without a corresponding foreign obligation; and (c) to exclude cash letters of credit (L/Cs) collateralized with confirming banks in the reporting of bank's foreign exchange liabilities beginning June 3, 1991.

CBC 1284 (Apr. 25, 1991) - provides a new simplified system for the registration of foreign investments in CB-approved Philippine securities and repatriation of sale proceeds and remittance of dividends/profits. The major revisions include; (1) the extension of the application period for registration of foreign investments in CB-approved securities to seven days (from three days).

CBC 1313 (Oct. 17, 1991) - Issues additional guidelines covering peso blocking requirements on foreign loans subject to Paris Club rescheduling which include, among others:

a) Borrowers with loans assumed by the Central Bank under the first round of Paris Club rescheduling in line with pertinent bilateral agreement for which no peso blocking has been made as prescribed under Circular No. 1045, shall effect payment to the Central Bank of the peso equivalent of 100% principal and 100% interest on maturity dates, i.e. from 1991 to 1995. Non-payment of such loans shall be subject to interest based on applicable 90-day Treasury bill rates and five percent penalty; and

b) Borrowers which have not deposited the peso equivalent of the 1991 maturities due on their loans covered by the third round of Paris Club rescheduling as well as the maturities due on the fourth round of Paris Club rescheduling for current maturities and previously rescheduled debts under the previous rescheduling shall likewise deliver the amounts due to the Central Bank and no later than 30 days from effectivity thereof. Those maturing thereafter shall be deposited with the Central Bank on original maturity dates.

CBC 1303 (Aug. 22, 1991) - Approves the exemption of special time deposits of rural banks and cooperative rural banks under the Multi-Livestock Dispersal Program from the reserve requirement provided that said banks pass on the benefit from said exemptions to their borrowers.

CBC 1331 (Mar. 9, 1992) - Abolishes the requirement from every exporter to submit the Report of Foreign Sales (RFS) in line with the policy liberalizing foreign exchange regulations. However, the circular clarifies that if under existing export regulations of the CB, an RFS covering traditional export products requires CB approval prior to shipment, Authorized Agent Banks (AABs) shall continue to refer to the CB the covering Export Declaration, instead of the RFS for such purpose.

CBC 1348 (July 28, 1992) - Adopts and promulgates the revised rules and regulations governing foreign trade transactions. The highlights of the changes include the following:

a) In the case of imports, (1) streamlining of import classification; (2) liberalization of the modes of import payments; (3) removal of the requirement for prior CB approval for imports which are self-funded, or paid on consignment or under a no-dollar basis; (4) simplification of certain procedures and the delisting of specified transactions from the list which need prior CB approval.

b) In the case of exports, (1) liberalization of the modes of payments; (2) lengthening of the period for inward remittance of export proceeds from 90 days to 180 days; (3) increase in the ceilings on the value of samples/specimens and gifts/donations that may be exported/brought out of the country without need for prior CB approval and other no-dollar exports such as tourist purchases and exhibit items; (4) grant to constructive exports similar treatment as that given to regular exports; and (5) simplification of procedural and reportorial requirements.

CBC 1318 (Jan. 3, 1991) - Promulgates the revised rules and regulations governing nontrade foreign exchange (forex) transactions effective- January 20, 1992 in line with the liberalization policy on forex regulations. The circular covers the rules and regulations on forex receipts and acquisitions, forex disbursements and transfers of local and foreign currencies, foreign investments in the Philippines, outward investments by Philippine residents, offshore banking system, representative offices of foreign banks, foreign currency deposit system, fiscal agency service and gold transactions.

CBC 1353 (Aug. 24, 1992) - In general, this circular further liberalizes foreign exchange transactions. The measure liberalized cover the removal of the requirement to sell to banks foreign exchange earnings of commodity and service exporters and other earners of foreign exchange, and the elimination of the requirement of prior CB approval for expenditures funded by foreign exchange obtained from the banking system. specifically, these amendments are as follows:

a) On export receipts - the retention by exporters of 100 percent of their export proceeds and the free use of these receipts;

b) On FCDU loans - the raising of the amount of foreign currency loans that may be borrowed from the FCDU of local commercial banks, without need for prior CB approval, to 100 percent of their L/Cs, purchase orders and sales contracts in the case of merchandise exporters, and to 100 percent of their expected foreign exchange receipts in the case of service exporters;

c) On invisibles - the removal of the remaining restrictions on invisible transactions, i.e., lifting of the mandatory surrender requirement of foreign exchange imposed on 15 types of business operations; allowing AABs to sell, without prior CB approval, foreign exchange to residents for invisible payments, subject to the requirement that these transactions must be supported by appropriate documents on the legitimacy of the obligations. In order that foreign loans can be serviced with foreign exchanged purchased from the banking system, the loans must be approved by and registered with the CB and the loan proceeds sold to AABs; foreign exchange can be purchased from AABs for the repatriation of foreign investments and the remittance of profits, earnings and dividends if the investments have been registered with appropriate offices

and proceeds sold to the banking system; allowing departing non-residents to reconvert at ports of exit unspent pesos of up to a maximum of US\$200 or its equivalent in any foreign currency without need of proof of previous sales, in addition to the foreign exchange earlier sold for pesos to AABs;

d) On gold transactions - the export of gold in any form except gold from small-scale mining (including panned gold) which is required to be sold to the CB and the removal of the requirement of prior CB approval for the importation of gold; and

e) On deposits abroad - the abolition of the prohibition against deposits abroad of residents, provided, however, that regulations, violations of which are the subject of pending actions or investigations, shall not be considered repealed insofar as such pending actions or investigations are concerned, in which case the regulations prevailing at the time the cause of action occurred shall govern.

CBC 1325 (Jan. 29, 1992) - Provides that effective January 31, 1992, the applicable interest rate on foreign currency deposits of banks with CB under the Foreign Exchange Clearing and Settlement System, as provided under Circular No. 1300 dated July 29, 1991 is adjusted from 4 percent p.a. to 2.5 percent p.a.

CBC 1360 (Oct. 22, 1992) - abolishes the bidding requirement on prospective investors/creditors for the right to convert their original Central Bank Convertible Debt into their own equity investments.

CBC 1355 (Sept. 11, 1992) - Imposes a 25 percent reserve requirement on demand deposits of thrift banks which are authorized to accept or create such deposits. However, the 19 percent reserve requirement on other types of deposits shall be maintained and may be changed subject to the outcome of the review on reserve requirement.

<u>1993</u>:

CBC 1389 (Apr. 13, 1993) - Consolidates all existing foreign exchange rules and regulations on current account, capital account, foreign currency deposit accounts, offshore banking units (OBUs) and representative offices of foreign banks. Highlights of the Circular include: a) the abolition of the mandatory surrender requirement on the exporters of goods and services. At the same time, exporters have been allowed full access to short-term foreign currency loans from the FCDU system; b) liberalization of the rules and regulations governing non-trade foreign exchange transactions, particularly on the amount of foreign exchange that residents may purchase from Authorized Agent Banks (AABs) for non-trade purposes; and c) in the capital account, the grant of full immediate repatriation and remittance privileges for all types of investments. Inward investments no longer have to be registered with the BSP if those rate are now allowed without restriction if resources are to be obtained from outside the banking system while a limit of under \$1 million was set per investor per year for outward investments to be funded from banking system resources.

CBC 1383 (Feb. 26, 1993) - Amends pertinent provisions of Central Bank Circular No. 1267 dated December 20, 1990 on the Program for the Conversion of Philippine External Debt in Equity Investments as follows:

a) The inclusion of the 1992 Philippine bonds, the Interest Reduction Bonds as part of the external debt eligible for redemption in connection with a debt to equity transaction. Bonds eligible for conversion shall be to the extent of the Central Bank debt converted into these types of bonds.

b) The amendment of the second paragraph of Section 31 which authorizes the Monetary Board to adopt a multiple or tiered redemption for bids considering the different prices of the eligible bonds in the secondary market which shall be announced at least a week before the scheduled auction date.

CBC 1384 (Feb. 26, 1993) - Amends Section 4 of Central Bank Circular No. 1361 dated October 22, 1992 to include the 1992 bonds among the external debt eligible for redemption in connection with a special debt for note transaction for distressed banks.

CBC 1385 (Feb. 26, 1993) - Includes equity investments by member banks in, and loans. by member banks to, the BAP Credit Guaranty Corporation (BCGG), as part of compliance with the mandatory credit allocation to small enterprises.

CBC 1386 (Mar. 3, 1993) - Lowers to 50% the liquidity floor requirement on government deposits/funds inclusive of the reserve requirements against deposits and deposit substitutes. This move is expected to increase available loanable funds for production and investment as well as reduce intermediation cost of banks.

CBC 10 (Dec. 29, 1993) - Requires that not more than 2% of the combined reservable deposit and deposit substitute liabilities of banks and NBQBs may be maintained in the form of short-term market-yielding government securities to be purchased from the BSP. The balance shall be in the same forms and composition as originally provided in the Manual of Regulation for Banks and Other Financial Intermediaries.

Fiscal Policies:

Among the major fiscal policies instituted are:

- * Imposition of the 9 percent import levy in 1991. The imposition of oil levy in 1992 after the phasing out of the 9 percent levy.
- * Budget deficit reduction program
- * Extended value added tax.
- * Privatization of government assets. The privatization included the sale of major ticket item such as Philippine National Bank, Philippine Airlines, Petron Corporations, Fort Bonifacio; Philippine Shipyard and Engineering Corporations;

and Oriental Petroleum and Minerals Corporation.

Foreign Investment:

The Foreign Investment Act of 1991 liberalizes entry of foreign investors within the provisions of the Constitution of the Philippines. As a general rule, there are no restrictions on the extent of ownership of export enterprises (defined as those exporting 60 percent of their output). As for enterprises oriented to the domestic market, foreigners are allowed to invest as much as 100 percent, unless the participation is prohibited or limited to a smaller percentage by existing laws and/or the provisions of the foreign investment act.

Central Banking Restructuring:

The old Central Bank (CB) was rehabilitated to form what is now known the Bangko Sentral ng Pilipinas (BSP). The current BSP is "free" of the huge stock of non-performing assets that almost crippled the old CB. In principle, the BSP should now be able to perform its mandated function; which is to maintain stability in the economy.

List of Figures & Appendices

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Figure 1 Non-Trade Financial Flows



Figure 2 Capital Flows to Developing Countries



Figure 3

International Reserves & Money Supply





	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996Sem1
91-TBILLS	14.00	15.34	18.12	19.24	28.43	26.70	15.77	11.51	14.67	18.65	23.67	21.48	16.02	12.53	12.70	11.68	12.83
Inflation Rate	18.35	13.14	10.24	9.95	49.94	24.81	0.77	3.82	8.77	12.16	14.15	18.77	8.96	7.69	9.08	8.11	11.05

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* Trade Weighted





muleston																
Required Reserve Ratio	11.64	11.35	10.53	13.94	16.15	16.06	16.79	15.99	1 4.47	17.35	21.76	21.05	20.86	18.36	16.32	12.84
91-Day Treasury Bills	14	15	18	19	28	27	16	12	15	19	24	21	16	13	13	12



Statistical Appendix A Balance of Payment (in Million US Dollars)

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hen	1980	1001	1982	1083	1984	1008	1966.	1987	Appen	1969	3990	1991	1992	1462	1904	1996	1006 51 Sem
CURRENT TRANSACTIONS Merchandlee Trade Balance Exports Imports	(1,939) 5,788 7,727	(2,224) 5,722 7,946	(2,646) 5,021 7,667	(2,482) 5,005 7,487	(079) 5,3 9 1 8,070	(482) 4,629 5,111	(202) 4,842 5,044	(1,017) 5,720 8,737	(1,085) 7,074 8,159	(2,598) 7,821 10,419	(4,020) 8,186 12,206	(3,211) 8,840 12,051	(4,695) 9,824 14,519	(6,222) 11,375 17,597	(7,860) 13,483 21,333	(8,944) 17,447 26,391	(5,990) 9,583 15,573
Non-Merchandise Trade Inflow Outflow	(599) 2,222 2,821	(309) 2,896 3,205	(1,040) 2,983 4,023	(740) 3,127 3,887	(823) 2,626 3,449	0 3,268 3,268	715 3,791 3,076	0 3,454 3,454	(90) 3,592 3,672	314 4,588 4,274	739 4,842 4,103	1, 615 5,624 4,109	3,020 7,443 4,423	2,607 b/ 7,497 4,990	3,934 b/ 10,550 6,586	6,084 15,412 9,328	3,913 10,994 7,081
Transfors Inflow Outflow	434 451 17	472 485 13	496 498 12	472 483 11	386 387 1	379 388 9	44 1 445 4	673 575 2	776 778 3	830 832 2	714 717 3	827 828 1	817 826 9	699 746 47	936 1,041 105	960 1,140 260	361 479 128
Current Account, Total	(2,104)	(2,061)	(3,200)	(2,750)	(1,116)	(103)	964	(444)	(380)	(1,454)	(2,687)	(669)	(858)	(3,016)	(2,950)	(1,980)	(1,728)
NON-MONETARY CAPITAL Medium & Long-Term Loens, Net Inflow Outflow	1,032 1,579 547	1, 332 2,072 740	1,549 2,533 985	1,392 2,336 044	478 1,259 781	2,797 3,982 1,175	732 2,605 1,873	159 2,598 2,439	(519) 2,412 2,931	381 2,797 2,416	406 4,321 3,915	922 3,613 2,691	686 7,436 6,770	2,105 4,853 2,748	1,313 ය 4,369 3,056	1,106 3,803 2,697	824 2,484 1,680
Foreign investments Inflow Outflow	(102) 119 221	†75 248 73	17 104 177	112 255 143	17 137 120	17 124 107	140 188 48	320 439 113	998 1,077 91	843 961 118	480 708 226	054 798 144	737 1,364 627	812 d/ 3,607 2,795	1,668 d/ 5,276 3,718	2,326 8,859 4,533	1, 604 5,399 3,795
Short-Term Capital, Net	324	(26)	108	(818)	649	(1,731)	(824)	80	(303)	(69)	19	349	860	(148)	1,002	(68)	182
Change in Com1 Banks' NFA	-	-		•	•	•	-	-	•	•	120	(181)	459	(547)	465	1,309	4,149
Errora % Omissions	112	(406)	(371)	(387)	101	636	33	{144}	422	383	431	564	(360)	84	160	(2,165)	(2,824)
Capital Account, Total	1,368	1,074	1,302	409	1,205	2,271	81	421	586	1,518	1,458	2,328	1,603	2,306	4,498	2,530	4,135
OTHERS Moneterization of Gold	128	400	277	183	169	221	279	365	314	288	218	245	130	113	154	177	103
Allocation of SDR	29	27	0	¢	0	0	0	o	0	0	٥	0	0	0	0	0	0
Reveluation adjustments of which Debt Reduction	28	13 -	(50) -	(50) -	(15) -	(88) -	(72)	(78)	83 -	101 -	800	399 86	527 696	431 97	100 1	(96) e/	(97)
OVERALL BOP POSITION	(363)	(547)	(1,671)	(2,118)	243	2,301	1,242	284	693	451	(93)	2,103	1,492	(186)	1,802	631 e/	2,416
(SURPLUS+/DEF(CIT-) (As % of GNP)	-1.1	-1.5	-4.0	-8.5	0.8	7.7	4.2	0.8	1,6	1.1	-0.2	4.6	2.7	-0.3	2.7	0.8	5.0

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a/ Based on the new methodology for computing peao conversions of FCDs Revised as of September 5, 1996 to reflect adjustments on services, foreign investments and MLT loans data.
b/ Revised as of March 6, 1996 to reflect actual data on interest expense.
c/ Revised as of December 6, 1996 to reflect data on BOT Schemes.
d/ Revised as of March 5, 1998 to reflect data on BOT Schemes.
e/ Revised as of July 8, 1998 to reflect and and audited figures on BSP's foreign exchange assets and liabilities.

Source: Bengka Sentrel ng Pilipines

Non-Merchandise Trade (in Mililon US Dollars)

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Starn	1980	1981	1992	1685	1084	1985	1988	1987	1490	1998	f900	taist	1962	1983	1994	19996	1998 Jert-Jup
Non-Merchandise Trade, Net	(599)	(309)	(1,040)	(740)	(823)	0	715	0	(80)	314	739	1,616	3,020	2,607	3,964	0,084	3,913
Earninge	2,222	2,698	2,983	3,127	2,828	3,288	3,791	3,454	3,592	4,698	4,842	5,624	7,443	7,497	10,650	16,412	10,994
Freight \$ Merchandiae Insurance	100	108	101	100	135	167	120	111	136	10/	170	100	100	74	54	202	17
Other Transportation	106	138	73	33	19	37	44	02	89	84	83	62	120	1 179	072	1 1 9 8	670
Travel	320	344	450	405	366	508	647	458	405	469	400	371	844 470	549	779	1 130	922
Investment Income	341	524	369	375	325	359	235	300	305	309	360	440	4/8	70	118	342	380
Profits, Earnings & Dividends	5	5	4	1	4	13	8	В		11	11	200	280	479	857	797	592
Interest Income	330	519	365	374	321	346	229	294	297	348	3/8	390	309	970	200	245	101
Central Bank	232	320	178	155	32	68	70	110	62	52	60	110	476	218	322	453	341
Commercial Sanks	88	180	158	211	284	276	159	175	235	268	318	265	1/0	208	335	- 0	
Others	18	10	29	8	5	4	0	0	0	0	U				10	25	11
Government	233	259	281	292	257	373	730	489	389	543	347	341	247	30	18	20	
ESF	18	1	1	94	52	62	300	152	8	217	79	56	70	U 40	40	25	11
Others	215	258	280	198	205	311	430	337	381	326	269	285	111	55	19	20	11
Non-Merchandise insurance	11	5	4	4	2	2	2	3	8	11	7	14	10	12	4	1 000	9.470
Personal Income	421	548	B10	944	659	694	696	809	874	1,002	1,203	1,649	2,222	2,276	3,009	9,820	3,478
Withdrawals of 343/547 deposits	148	232	236	386	270	429	417	379	435	690	643	866	1,263	1,680	2,815	9,721	2,009
Commissions & Fees	138	164	141	98	66	64	70	60	91	155	245	223	252	1/3	207	100	100
Construction Activity	70	122	108	83	69	30	18	12	9	11	3	2	4	10	5	10	11
Operating Excense	133	148	181	121	108	227	284	333	304	713	684	737	695	476	695	708	200
Other Services	201	308	251	220	341	391	528	438	457	392	596	525	841	881	1,810	2,245	2,503
Pavments	2,821	3,205	4,023	3,867	3,449	3,200	3,076	3,454	3,672	4,274	4,103	4,109	4,423	4,990	0,580	9,328	7,081
Freight & Merchandise Insurance	568	533	590	495	358	340	351	451	572	752	836	805	942	1,170	1,300	1,800	1,210
Other Trensportation	192	248	220	167	B1	38	52	110	168	157	190	278	283	278	181	132	4 4 4 4
Trave	106	126	147	221	19	37	50	88	76	77	111	62	102	130	195	422	1,111
Investment Expense	1,173	1,564	2,192	2,147	2,359	2,394	2,226	2,296	2,354	2,706	2,337	2,298	2,108	1,887	1,818	2,380	1,202
Profits, Earnings & Dividends	159	128	158	130	87	134	118	187	178	239	283	269	363	328	311	482	230
Reinvested Earnings	39	62	44	28	15	10	20	22	17	56	28	34	42	43	28	23	. 38
Interest Expense	975	1,374	1,090	1,985	2,257	2,250	2,086	2,107	2,159	2,411	2,026	1,993	1,703	1,018	1,5/8	1,875	821
Government	121	110	107	135	45	22	21	31	7	28	40	21	3	18	15	20	
Non-Merchandise Insurance	24	23	25	30	22	28	13	24	28	28	23	24	48	64	11	/0	: 24
Personal Income	9	9	8	7	1	1	0	3	10	4	5	9		13	13	10	100
Commissions & Fees	47	140	169	134	68	45	28	35	42	138	135	157	124	150	2/5	329	108
Construction Activity	23	24	45	8	0	G	3	2	18	6	5	28	25	23	23	90	271
Other Services	338	402	488	502	455	385	320	414	399	378	431	428	781	1,251	2,087	3,930	3,028

Source: Bangko Sentral ng Pilipinas

	1880	1981	1992	1508	1854	1906	1994	1997	1982	1988	1990	tept	1992	1995	1994	(205	titus fait Romi
Transfers, Net	434	472	486	472	396	370	441	573	775	830	714	827	817	699	936	880	351
inflow	451	485	498	483	387	388	445	675	778	832	717	828	828	748	1,041	1,146	479
Private Transfers	305	328	324	242	119	181	239	378	503	475	360	474	462	445	585	081	234
Taxes & Fees	0	0	1	0	0	0	1	0	0	0	0	0	0	Ű	0	145	~
Institutional Remittances	80	43	40	23	20	23	33	59	55	44	35	40	64	52	31	143	101
Personal Remittances	205	254	239	180	59	111	163	211	368	360	262	329	315	311	443	932	181
Migranta Transfera	1	0	0	0	0	1	2	0	0	0	1	. 0	1	0	70	+10	
Voluntary Relief Agencies	35	27	37	38	39	45	39	88	58	85	59	105	79	0/	10	120	12
Personal effect	4	4	1	1	1	1	1	1	1	1	2	0	T		U 45	Ň	· .
Debt Conversions	0	0	0	0	0	0	0	10	3	5	1	U	-22	14	15	~	
Others	-	-	-	-	-	-	-	-	-	-		-	~ ~	201	474	440	245
Central Government Transfers	146	157	174	241	268	207	206	197	275	357	357	354	344	301	4/6	448	245 84
U.S. Veterans Administration	114	121	128	110	104	113	112	111	113	114	111	112	115	114	70	77	20
U.S. Bilateral Agreement	13	15	15	63	107	38	29	73	Π	38	72	125	164	139	. 12	5	~~~
U.N. Agencies	11	13	13	21	9	5	11	0	4	10	19	25	10		272	220	153
Other Bliateral Agreements	8	8	8	47	48	51	54	5	81	164	150	88	22	30	212	210	
ESF Grants	-	•	-	-	-	-	-	-	-	-	-		-	-		26	ň
Others	0	0	12	0	0	0	0	2	0	5	5	4	'	10	10	30	Ŭ.
Outflow	17	13	12	11	1	9	4	2	3	2	3	4	9	47	105	268	120
Outrow Schule Transform	i,	3	2	5	1	ē	4	2	3	2	3	1	9	. 47	105	268	128
Filvate latislets	1	ň	ō	õ	ó	õ	Ó	Ō	0	0	0	0	0	1	19	0	
Demonal Comiting and	2	ž	1	ĩ	ō	ō	ō	ō	Ď	1	1	1	2	32	76	0	
Personal Remitances	2	1	1	Å	1	1	1	ī	1	1	2	0	1	0	0 ·	o	
Ches Canital Transform		ò	'n	ó	Ó	8	3	1	2	0	0	0	6	14	10	0	
Control Capital Transform	12	10	10	ě	ñ	ō	ō	Ď	ō	0	0	C	0	0	· 0	ο,	0
Defination Contribution to	12			•	2	•	-	_	-	-							
Inth Organizations	я	A	6	4	D	D	o	0	0	0	0	0	0	0	0	0	
Int FOIganizations Base Support of Foreign	5	•	v		-		-	-	-						. ·		· 1
Assistance Programs	4	4	4	2	0	O	0	0	0	0	0	0	0	0	, o		

Transfers (in Million US Dollars)

Source: Bangko Sentrel ng Pilipinas

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Foreign investments (In Million US Dollars)

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oreign investments, Net	-102	176	17	112	17	17	140	326	960	643	490	654	737	812	1658	2326	1604
	110	248	104	255	137	124	180	439	1077	961	706	798	1364	3807	5276	6659	5396
Direct Investments	114	243	193	247	137	105	157	415	899	568	550	556	770	1238	1591	1524	855
Pacifiant	-	-	-		-			-	•	-	-	-	-	-	-	-	-
Non Resident	114	243	193	247	137	105	157	415	689	568	550	558	776	1236	1591	1524	85
New Forsign Equity Investments in the Phil	75	R1	25	119	32	9	17	34	81	83	171	130	234	547	930	760	24
Rew Foreign Equity investments in the Film.	30	62	44	28	15	10	20	22	17	56	28	34	42	43	- 29	23	3
Technical Face and Others		-		20													
Converted into Equily	0	00	124	QR	61	31	32	17	8	38	22	50	41	5	36	22	
Convenieu ano Equity	Ň	0	12.7	ñ	0	ň	14	287	800	306	226	273	269	193	2	0	
Debt Conversions	Š	ŏ	ŏ	5	ň	ñ	ö	0	0	0					45	48	6
Bond Conversions	0	ŏ	Ň	Ň	20	14	Ř	14	5	i	2	6	5	0	1	6	
Impons Converteo Into Investments	Ň	č	ŏ	~	10	41	AA	41	82	74	101	63	185	313	481	570	34
Bank Mer-Branch Operations	, v	ě		Š	Ň		õ	1	ñ	0	0	Ď	D	137	67	91	12
Ciners	5	5	1	ĕ	ŏ	10	29	24	78	393	156	242	588	2369	3685	5335	454
Portfolio Investments	5	0		6	Ň	2	16		27	7	4	15	22	112	706	595	57
Resident	v	U	U		0	2	10	5	-	•	-		_				
Residenter Withdrawal of	•	•			•	2	18	3	27	7	4	15	22	112	706	595	57
Foreign Investments Abroad	U V	Ŷ	U I	1	0	47	13	21	61	386	152	227	560	2257	2979	4740	396
Non- Resident	5	5	1		0	11	13	21	51	300							
_			499	4.49	120	107	46	- 113	01	119	226	144	627	2795	3718	4533	376
utfow	221	13	117	143	120	69	11	53	18		22	27	101	374	302	399	34
Direct Investments	116	47	61	21	15	50		53	16	ă	2	27	101	374	302	399	34
Resident	116	4/	81	21	10	06			10	ő	4	2	24	323	112	103	11
Residents' Investments Abroad	86	4/	61	21	. 10	24	ź	50	42	ĕ	. 18	26	77	51	180	298	2
Bank Inter-Branch Operations	30	D	U	0	U	34	9	52	12		.0	25		•			
Non- Resident							 a=		76	100	204		528	2421	3416	4134	344
Portfolio Investments	105	28	116	116	105	49	35	0 0	10	109	2.04	15	115	1081	1338	2024	209
Resident	1	2	0	D	3	12	U AF	2 50	74	14	204	102	411	1380	2078	2110	135
Non- Resident	104	24	110	116	102	37	30	98	/9	60	204	104	411	1000	201V		

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Source: Bengko Sentral ng Pilipinas

Short-Term Capital (in Million US Dollars)

yan	1930	198f	1952	1007	1964	1986	1988	1987	1008	1000	1900	1921	1982	tipus	1254	1205	ristas let Rem
Short-Term Capital, Net Short-Term Loans of which: Trade Facility Others D/As and O/As Advances for Exports Nuclear Power Project Constructive Inward Remittances Constructive Outward Remittances FCDU loans to exporters	324 738 (414) (25) 3 19 (60) (460)	(28) 768 (796) (83) (83) (39) (237) (272)	109 405 (297) 58 84 (37) (139) (139) (174)	(618) (848) 230 122 (34) (7) 358 (180)	549 293 256 156 100 25 248 (280)	(1,731) (1,232) (721) (409) (85) 104 2 1 (525)	(824) (61) (23) (763) (264) 140 0 5 (644)	80 363 390 (263) 79 42 0 17 (421)	(303) (188) (153) (137) 91 90 0 (6) (312)	(89) 60 63 (149) 126 189 0 (4) (460)	19 (68) (140) 85 308 117 0 (11) (329) 0	349 49 (22) 300 129 424 0 13 (266) 0	680 134 173 528 89 287 0 (7) 157 0	(148) (534) (1,459) 388 330 106 0 0 0 0	1,002 208 0 738 888 75 0 0 0 0	(56) (328) 0 270 229 41 0 0 0 0 0	182 363 0 (181) (124) (57) 0 0 0 0
Local Companies' Payments for BOT-related projects Withdrawal of Deposit from FDA's by BOT contractors Other Short-Term Capital Movements Others	- (97) 208	- (82) 0	- (89) 0	(27) 0	- (13) 0	- 4 0	- 0 0	- 0 0	- 0 0	- 0 0	- 0 0	- 0 0	- 0 0	(54) 4 (50)	(25) 0 (25)	0 0 0	0 0 0

Source: Bangka Sentral og Pilipines

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Stepp	tuba	1961	1092	1983	1984	4285	1950	1967	1000	1989	14090	1091	1992	1998	1004	1403	1996 1et Sem
Medium- and Long-Term, Nel	1,032	1,332	1,548	1,392	478	2,787	732	169	(619)	3B1	408	922	666	2,105	1,313	1,100	824
inflow	1,579	2,072	2,533	2,338	1,259	3,982	2,605	2,698	2,412	2,797	4,321	3,613	7,436	4,653	4,369	3,803	2,484
Multilaterai Bilaterai Banka and Financial inst. Others	272 102 1,205	518 260 1,294 -	364 381 1,788 -	775 328 1,083 150	471 518 151 121	283 1,093 2,545 41	348 943 1,256 58	396 1,335 857 10	423 1,140 827 22	671 1,241 709 116	987 1,383 1,638 313	686 1,769 916 242	940 2,365 901 3,230	094 1,911 954 994	624 1,566 877 1,100	687 1,291 507 1,318	309 688 - 293 1,194
Outflow	647	740	985	944	781	1,175	1,073	2,43 9	2,931	2,418	3,915	2,691	8,770	2,748	3,050	2,697	1,680
Muittateral Bilateral Banks and Financial inst. Others	37 28 482 0	83 37 620 D	68 40 877 0	95 79 560 210	129 85 294 293	114 602 407 52	225 618 742 288	254 765 1,158 262	364 574 1,663 330	354 531 1,342 189	378 505 2,791 241	389 738 1,393 <i>1</i> 73	428 822 5,334 186	473 957 1,147 171	586 1,257 861 372	694 1,433 277 293	428 824 253 357

Medium and Long - Term Loans (in million US dollars)

Source: Bangio Sentral ng Pilipinas

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Statistical Appendix B Dependent Variable: LREMIT Method: OLS

Reg.#	Contant	LOCWS	GDPGR	D92	D93	D9295	D8995	D95	R-squared	Durbin-Watson
1	-24.320 (-4.404)	2.401 (5.684)	-0.006 (-0.264)	-0.245 (-0.678)					0.779	1.428
2	-24.199 (-4.453)	2.392 (5.756)	0.004 (-0.180)		-0.243 (-0.688)				0.779	1.253
3	-11.228 (-1.342)	1.388 (2.153)	0.007 (0.329)			0.534 (1.628)			0.824	1.151
4	-17.879 (-2.447)	1.898 (3.352)	-0.003 (-0.125)				0.257 (0.285)		0.787	0.935
5	-12.373 (-1.713)	1.477 (2.655)				0.506 (1.683)			0.842	1.137
6	-18.945 (-8497.000)	1.984 (11.677)						0.875 (5.582)	0.953	1.775

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=log of remittances of personal income =log of overseas contract workers growth of real GDP where: LREMIT

LOCWS

GDPGR

List of Tables

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Table 1A Balance of Payments (in Million US Dollars)

	1980	1981	1982	1983	1984	1988	1986	1987	1986	1989	1990	1991	1992	1598	1994	1995	1998
																	Jansten
	(000	0004	00.48	0.400	470	48.2	202	4047	1025	- 1598	-4020	.3211	-4895	-8222	-7850	-8944	-5990
1 Mdse. Trade	-7939	-2224	-2040	-2402	-0/3	-401	-202	-7077 6720	7074	7821	8186	8840	9824	11375	13483	17447	9583
2 Exports	5/68	5/22	3021	3003	0070	4029	4042	0720	0150	10/10	12206	12051	1/510	17597	21333	26391	15573
3 Imports	(12)	/946	/65/	/46/	0070	5111	3044	0/3/	0108	944	790	4545	2020	2507	3964	A084	3913
4 Non-Mdse. Trade	-599	-309	-7040	-/40	-623	2000	2704	2454	-00	4599	4942	5624	7443	7497	10550	15412	10994
5 Inflows	2222	2896	2983	3127	2020	5200	5/5!	J4J4 459	JJ92 405	4000	4042	571	044	1178	973	1136	670
6 Tourism	320	344	450	400	300	506	047	400	405	4000	400	4640	2222	2276	3000	4928	3479
7 Personal Income	421	546	810	944	659	694	696	009	475	1002	643	966	1783	1690	2815	4721	2809
8 Peso Conversions of FCDs	148	232	236	385	2/9	429	417	3/9	430	4074	4402	4100	4422	1000	2015 6586	0328	7081
9 Outflows	2821	3205	4023	3867	3449	3266	3076	3434	30/2	4214	4100	4109	4423	4550	1670	1875	927
10 Interest expense	975	1374	1990	1985	2257	2250	2086	2107	2159	2411	2026	1993	047	1010	028	107.5	351
11 Transfers, Net	434	472	488	472	386	379	441	573	776	830	/14	82/	07/ 826	033 746	1041	1146	470
12 Inflows	451	485	498	483	387	388	445	5/5	118	832	111	020	020	/40	1041	200	475
13 Outflows	17	13	12	11	1	9	4	2	3	2	3	1	9 050	4/	100	200	120
14 Current Acct. Bal.	-2104	-2061	-3200	-2750	-1118	-103	954	-444	-390	-1454	-2667	-889	-000	-3070	-2900	-7500	-1/20
15 L-T Loans, Net	1032	1332	1548	1392	478	2787	732	159	-519	381	408	922	000	2700	1313	7700	2494
te inflows	1579	2072	2533	2336	1259	3962	2605	2598	2412	2/9/	4321	3613	/436	4003	4309	3003	2404
17 Outflows	547	740	985	944	781	1175	1873	2439	2931	2416	3915	2691	6770	2/48	3036	2097	1660
18 Foreign Direct Inves't	-102	175	17	112	17	17	140	326	986	843	480	654	737	812	1008	2326	1604
of which:																	
19 Net Direct Investment	-2	196	132	220	122	47	146	362	983	559	528	529	675	864	1289	1125	509
20 Net portfolio	-100	-21	-115	-108	-105	-30	-6	-36	3	284	-48	125	62	-52	269	1201	1095
21 S-T Capital, Net	324	-28	108	-618	549	-1731	-824	80	-303	-89	19	349	660	-148	1002	-56	182
22 Purchase Collateral	0	0	0	0	0	0	0	0	0	0	. 0	0	0	0	0	0	0
23 Change in Com'l Banks' NFA	-	-	-	-	-	-	-	-	-	-	120	-181	459	-547	465	1309	4149
24 Error & Omissions	112	-406	-371	-387	161	638	33	-144	422	383	431	584	-360	84	160	-2155	-2624
25 Capital Acct. Bal.	1366	1074	1302	49 9	1205	2271	81	421	586	1518	1456	2328	1693	2306	4498	2530	4135
28 Mon. of Gold	128	400	277	183	169	221	279	365	314	288	218	245	130	113	154	177	103
27 Alloc. of SDRs	29	27	0	0	0	0	0	0	. 0	0	0	0	0	0	0	0.	. 0
28 Umremit. Arrears	0	0	0	0	0	0	0	0	0	0	0		0	0	. 0	0	0.
29 Revaluation Adj.	28	13	-50	-50	-15	-88	-72	-78	83	101	800	399	527	431	100	-96	-97
30 Bel. of Payments	-353	-547	-1671	-2118	243	2301	1242	264	593	451	-93	2103	1492	-166	1802	831	2415

Source: Bangko Sentral ng Pilipinas.

itens	1980	1901	1982	1983	1984	1995	1966	1987	1986	1989	1990	1991	1993	1993	1994	1995	1896 st Sem.
As % of GNP															<u>unning an</u>		
Baiance of Trade Exports Imports	-6.0 17.9 23.9	-6.3 16.1 22.4	-7.2 13.7 20.9	-7.6 15.3 22.9	-2.2 17.7 19.9	-1.6 15.1 16.6	-0.7 16.2 16.9	-3.1 17.2 20.3	-2.9 18.7 21.5	-6.1 18.4 24.5	-9.1 18.5 27.5	-7.1 19.5 26.5	-8.9 18.5 27.4	-11.3 20.7 32.0	-11.9 20.5 32.4	-11.7 22.8 34.4	-14.5 23.1 37.6
Non-Merchandise Trade Personal Income FCDUs	-1.8 1.3 0.5	-0.9 1.5 0.7	-2.8 2.2 0.6	-2.3 2.9 1.2 6 1	-2.7 2.2 0.9 7.4	0.0 2.3 1.4 7.3	2.4 2.3 1.4 7.0	0.0 2.4 1.1 6.3	-0.2 2.3 1.1 5.7	0.7 2.4 1.6 5.7	1.7 2.7 1.5 4.6	3.3 3.6 1.9 4.4	5.7 4.2 2.4 3.2	4.6 4.1 3.1 2.8	6.0 4.6 4.3 2.4	7.9 6.4 6.2 2.4	9.4 8.4 6.8 2.2
Current Account	-6.5	-5.8 0.5	-8.7	-8.4	-3.7	-0.3	3.2	-1.3	-1.0 2.6	-3.4 2.0	-5.8 1.1	-1.9 1.4	-1.6 1.4	-5.5 1.5	-4.5 2.4	-2.6 3.0	-4.2 3.9
Foreign Direct investments Medium & Long-Term Loans Capital Account	-0.5 3.2 4.2	3.8 3.0	4.2 3.5	4.3 1.5	1.6 4.0	9.1 7.4	2.5 0.3	0.5 1.3	-1.4 1.5	0.9 3.6	0.9 3.3	2.0 5.1	1.3 3.2	3.8 4.2	2.0 6.8	1.4 3.3	2.0 10.0
Error & Omissions Balance of Payment	0.0 -0.0	-0.0 -0.0	-0.0 -0.0	-0.0 -0.1	0.0 0.0	0.0 0.1	0.0 0.0	-0.0 0.0	0.0 0.0	0.0 0.0	0.0 -0.0	0.0 0.0	-0.0 0.0	0.0 -0.0	0.0 0.0	-0.0 0.0	-0.1 0.1
Gross Int'l Reserves/ave mo imports	4.9	3.9	2.7	1.4	1.8	2.5	5.9	3.5	3.0	2.7	2.0	4.5	4.3	4.0	3.9	3.5	7.7

Table 1B Selected Ratios

Source of Basic Data: Bangko Sentrel ng Pilipinas.

. *

Table 2 Major Non-Trade Financial Flows (values in million US\$)

Indicatore 1990 1991 1992 1903 1994 1996 1996 1997 1988 1909 1990 1991 1992 1998 1	1994 1995	1986 1996 (st šem, 19, Sem,
1 Personal income 421 546 810 944 659 694 696 809 874 1,002 1,203 1,649 2,222 2,276	3,009 4,928 4,6 6,4	2,211 3,479 6.2 8.4
% of GNP 1.3 1.5 2.2 2.3 2.2 2.3 2.3 2.4 2.0 2.4 2.1 2.6		
	2,815 4,721	2,087 2,809
% of GNP 0.5 0.7 0.6 1.2 0.9 1.4 1.4 1.1 1.1 1.6 1.5 1.9 2.4 3.1	4.3 6.2	5.8 6.8
	4 540 2.272	1.512 4.035
3 Capital Account 1,365 1,074 1,302 499 1,205 1,711 61 421 645 1,516 1,455 2,525 2,155		
orwinen: Martine 4.2 3.0 3.5 1.5 4.0 5.6 0.3 1.3 1.7 3.6 3.3 5.1 4.1 4.5	6.9 3.0	4.2 9.7
	1 919 1 106	120 824
3.a Medium & Long-Term Loans 1,032 1,332 1,548 1,392 478 2,787 732 159 (519) 381 406 922 606 2,105	1,313 1,100	04 20
% of GNP 3.2 3.8 4.2 4.3 1.6 9.1 2.5 0.5 (1.4) 0.9 0.9 2.0 1.3 3.8	2.9 1.4	204 2.0
3.b Short-Term Loans 324 (28) 108 (618) 549 (1,731) (824) 80 (303) (89) 19 349 660 (146)	1,002 (96)	, 304 102
% of GNP 1.0 -0.1 0.3 -1.9 1.8 -5.6 -2.8 0.2 -0.8 -0.2 0.0 0.8 1.2 -0.3	1.0 -0.1	577 1604
3.c Foreign Investments (102) 175 17 112 17 17 140 326 986 843 480 654 737 612	1,000 2,020	16 30
Kot GNP -0.3 0.5 0.0 0.3 0.1 0.1 0.5 1.0 2.6 2.0 1.1 1.4 1.4 1.5	2.4 3.0	904 4 04P .
3.d Changes in KBs' NFA 61 55 200 (547)	400 1,005	22 88
% of GNP 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.	0,7 (0,412)	(202) (2624)
3.e Errors & Omissions 112 (405) (371) (387) 161 638 33 (144) 479 383 490 348 (181) 264	202 (2,413)	
% of GNP 0.3 -1.1 -1.0 -1.2 0.5 2.1 0.1 -0.4 1.3 0.9 1.1 0.8 -0.3 0.5	0.3 -3.1	•0.0 •0.3
Total NTEE 1 935 1 852 2 348 1 829 2 143 2 834 1 194 1 609 1 952 3 210 3 302 4 843 5 647 6 442 1	10,364 11,921	5,810 10,323
Kof GNP 6.0 5.2 6.4 5.6 7.0 9.2 4.0 4.8 5.2 7.5 7.5 10.7 10.7 11.7	15.8 15.6	16.2 24.9

Major Non-Trade Financial Flows (percentage distribution)

Indicators	1980	1991	1982	1963	1964	1985	1988	1987	1998	1969	1990	1991	1992	1993	1994	1995	1995 1 st Sem. 1	1996 st Sem.
1 Personal Income	21.8	29.5	34.5	51.6	30.8	24.5	58.3	50.3	44.8	31.2	36.4	34.0	39.3	35.3	29.0	41.3	38.1	33.7
2 FCDUs	7,6	12.5	1 0.1	21.1	13.0	15.1	34.9	23.8	22.3	21.5	19.5	17.9	22.4	26.1	27.2	39.6	35.9	27.2
3 Capital Account of which:	70,6	58.0	55.5	27.3	56.2	60.4	6.8	26.2	32.9	47.3	44.1	48.1	38.3	38.6	43.8	19.1	26.0	39.1 ו
3.a Medium & Long-Term Loans	53.3	71.9	65.9	76.1	22.3	98.3	61.3	9.9	-26.6	11. 9	12.3	19.0	11.8	32.7	12.7	9.3	2.2	8.0
3.5 Short-Term Loans	16.7	-1.5	4.6	-33.8	25.6	-61.1	-69.0	5.0	-15.5	-2.8	0.6	7.2	11.7	-2.3	9.7	-0.5	5.2	1.8
3.c Foreign Investments	-5.3	9.4	0.7	6.1	0.8	0.6	11.7	20.3	50.5	26.3	14.5	13.5	13.1	12.6	15.0	19.5	9.9	15.5
3.d Changes in KBs' NFA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8	1.1	5.0	-8.5	4.5	11.0	13.8	39.2
3.e Errors & Omissiona	5.8	-21. 9	-15.8	-21.2	7.5	22.5	2.8	-8.9	24.5	11.9	14. 8	7.2	-3.2	4.1	1.9	-20.2	-5.2	-25.4
8 Total NTFF	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1 00 .0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0 -	100.0

.

Source of Basic Data: Bangko Saniral ng Pilipinas

 Table 3

 Analysis of Movements and Patterns 'Using Quarterly Data From 1990 to 1996 Quarter 2

	10000000	100000000	00000000	0000000	101101000	0000000000		Blandard		Standard	Trend	Sippe	Comparative	Comparative
irem 191	90 4	681	1992	1993	1994	1995 1	996Semi	error of	(1000000000000000000000000000000000000	deviation			Indicator	indicator of
		888888 (alues in	million U	§ dollars			regression					ofGtowth	variability
			COCCESSION					(8)	(6) Second	(c)	65556 () (655)	5004 (1) /5555	(en)	2020 (B ID] 2020/2020
FOREIGN INVESTMENTS, NET														
Foreian Investments. Net	480	654	737	812	1558	2326	1604	232.1	319.1	309.2	increasing	27.38	8.6	.72.7
Inflow	706	798	1364	3607	5276	6859	5399	314.7	917.6	792.7	increasing	95.48	10.4	34.3
Direct Investments	550	556	776	1238	1590	1524	855	99.8	269.6	145.7	increasing	14.12	5.2	37.0
Resident									200.0	4 45 7		14 13	50	37.0
Non- Resident	550	556	776	1238	1590	1524	855	99.8	209.0	140.7	increasing	7 13	65	99.5
New Forgn Equity Invest. In the Phils	171	130	234	547	930	700	249	109.1	109.0	63	increasing	0.01	0.1	68.3
Reinvested Earnings	28	34	42	43	29	23	39	310	77.5	57.4	increasing	6.37	8:2	40.1
Debt Conversions	220	273	209	183	36	13	ň	10.3	6.9	11.0	decreasing	-0.56	-8.1	149.6
Pech. Fees & Others Conv. Into Equity	101	63	185	313	481	576	340	31.1	77.4	57.5	increasing	6.37	8.2	40.2
Others	4	õ	ŏ	137	67	91	128		-		-			
Portfolio Investments	156	242	588	2369	3685	5335	4544	301.7	643.0	680.3	increasing	80.11	12.5	46.9
Resident	4	15	22	112	706	595	576	77.0	85.9	121.8	increasing	12.51	14.6	89.7
Non- Resident	152	227	566	2257	2979	4740	3968	263.7	564.9	588.6	increasing	69.16	12.2	46.7
Outriow	226	144	627	2795	3718	4533	3795			E7 ^	in energies -	E #4	10.4	51.2
Direct Investments	22	27	101	374	302	399	346	31.4	61.4	57.9	increasing	0.47	10.4	453
Portfolio Investments	204	117	526	2421	3416	4134	3449	252.1	000.0	201.0	increasing	36 11	13.8	65.9
Resident	0	15	115	1061	1335	2024	2090	1/2.5	201.r 208.1	271.3	increasing	30.37	10.2	48.0
Non- Resident	204	102	411	1360	2076	2110	1335	143.1	230.1	211.5	increasing	00.01		
4														
SHORT-TERM CAPITAL, NET														
							400	101.0	70.0	107 43	Increasing	0.88	11	248.6
Short-Term Capital, Net	19	349	660	-148	1002	-56	182	191.Z	637	107.42	increasing	1.03	-16.2	-1927.8
Loans	-55	49	134	-034	200	-320	-124	R4 1	64.3	82.4	decreasing	-0.04	-0.1	130.8
	300	258	297	106	75	41	-57	87.7	33.32	87.7	decreasing	-2.48	-7.4	263.2
Advances for Exports	111	200	207	.00			01							
MEDIUM & LONG-TERM LOANS, NET														
				0405	4940	1100	004	A70 A	777	AR2 5	increasing	15	54	172.7
Medium & Long-Term Loans, Net	406	922	7420	2705	1313	3803	024 2484	410.4 456 62	1457	402.5	increasing	2.29	0.2	39.5
Inflow	4327	3013 686	940	4003	4309	687	309	61 4	208	63.1	decreasing	-2.5	-1.2	29.5
Nutilialeral Riletoral	1383	1769	2365	1943	1568	1291	688	116.2	420.5	116.2	decreasing	-3.02	-0.7	27.6
Banka and Fla	1214	812	901	956	877	507	293	96.73	206.35	98.75	decreasing	-3.62	-1.8	46.9
Outflow	3913	2636	6870	2748	3056	2697	1660	496.52	881.9	496.9	decreasing	-13.23	-1.5	56.3
Multilateral	378	38 9	428	473	566	694	426	22.36	128.80	40.26	Increasing	4.42	3.4	17.4
Bilateral	505	736	822	957	1257	1433	624	42.68	237.03	84.82	increasing	9.65	4.1	18.0
Banks and Fis	2791	1393	5334	1147	861	277	253	549.36	455.22	602.90	aecreasing	-30.00	-7.0	, 120.7
Other Items														
	1000	1840	2222	2270	3000	4029	2426	103 0/	721 01	427 21	Increasing	50.03	6.9	26.9
Personal Income (OCWs Remittances)	1203	1649	12222	4690	2009	4920	3430 2867	193.94	564.9	432.3	increasing	51.6	9.1	31.9
Peso Conversions of FCDs	043 131	000 584	-360	1000	160	-2155	-911	329.6	-87.7	382.5	decreasing	-26.8	30.6	-375.8
Errors & Umissions	431	504	-000		,00	2100	2.1							

.

Source of Basic Data: Bangko Sentral ng Pilipinas

Table 4Capital Flows to Developing Countries 1/
(in billion US dollars)

			*****************	*************	000000000000000000000000000000000000000		
	1977-1982 19	183-1989				4000	4004
	Annual Aver	age	1990	1991	1992	1993	1924
All developing countries 2/							
Total net capital inflows	30.5	8.8	39.8	92.9	111.6	154.7	125.2
Foreian direct investment							
plus portfolio investment (net)	0.7	19.8	25.7	51.3	77.2	141.1	118.0
Net foreign direct investment	11.2	13.3	19.5	28.8	38.0	52.8	56.3
Net portfolio investment	-10.5	6.5	6.2	22.5	39.1	88.3	61.7
Other	29.8	-11.0	14.2	41.7	34.5	13.6	7.2
Other	20.0						
Acia							
Total net capital inflows	15.8	16 7	25.6	50.7	39.2	72.0	73.4
Earoign direct investment	10.0	10.1	20.0				
roleigh unect investment (not)	2 2	66	94	18.0	27.3	59.5	65.0
plus portiono investment (net)	2.5	5.0	0. 4 9.8	14.9	19.9	35.6	36.9
Net toreign direct investment	2.7	J.Z 1 A	0.0	21	74	23.9	28.1
Net portiolio investment	0.0	1.4	-0.4	22.7	11 0	12.5	84
Other	12.5	10.1	10.2	32.1	11.5	12.0	0.4

1/ Flows exclude exceptional financing. A number of countries do not report assets and liabilities separately. For these countries, it is assumed that there are no outflows, so that liabilities are set equal to the net value. To the extent that this assumption is not valid, the data underestimate the gross value. Adjustments are also made to the World Economic Outlook data to net out the effect of bonds exchanged for commercial bank loans in debt and debt service reduction operations and to provide additional detail on selected private capital flows.
2/ Excludes capital exporting countries such as Kuwait and Saudi Arabia.

- 4

Source: " International Capital Markets: Dev'ts., Prospects & Policy Issues" World Economic & Financial Surveys, IMF

	Table 5		
Financial Sect	or Reform in the	Philippines,	1986-1994

Dallar Maanung	Refore Deform	After Reform	Date
FUNCY MEASURES	- DCIVIC ACIVI II	ALL ALIT	
1. Central Bank rediscount window	Rediscount rate: varies by type of economic activities (allowable spread: 1%-11%)	Uniform floating rate for all; no prescribed spread.	November 1985
	Rediscount value: varies by type of economic activities (value: 60%-100%)	Uniform: 80%	November 1985
2. Central Bank Special credit programs	Directly managed special credit programs	Central Bank-managed special credit programs transferred to government financial institutions.	1987-1988
II. Bank Competition			
1. Bank Entry	New commercial banks - moratorium since 1980; other banks - no moratorium.	New commercial banks - moratorium lifted	1989
	Foreign banks - no entry since 1949.	Ten foreign banks allowed to have 6 branches each; foreign banks may acquire or establish a bank up to 60% of the total equity of each bank.	1994
2. Branching	Restrictive branching policy - the country was divided into five service areas: heavily overbranched areas; overbranched areas; ideally	Branching was liberalized but the Central Bank retained discretionary power with respect to the opening of branches in certain areas considered "overbanked".	May 1989
	branched areas; underbranched areas; and encouraged branching areas.	Banks may open branches anywhere they like provided they meet the required minimum capital requirement.	May 1993
3. Government Banks	Largely doing retail lending that directly competes with private banks.	More focus on wholesale lending using private banks as conduits.	since 1987
4. Interest Rates			
a. Deposit rates	No cap since 1981		
b. Lending rates			
Private banks	No cap since 1983	same	1987
Special credit programs	Cap on end-user rate	No cap on end-user	
III. Prudential Measures			1
		Prohibiting concurrent officerships between banks or between a bank and a non-bank financial intermediary except with prior approval of the Monetary Board.	September 1986
		Requiring each bank to cause an annual financial audit to be conducted by an external independent auditor not later than 30 days after the close of the calendar year.	December 1986
		Requiring all banks and non-bank financial intermediaries to adopt the Statements of Financial Accounting Standards.	December 1987
		The Central Bank declared a policy that it shall refrain from sustaining weak banks, except in times of general financial emergency or when specific banks face problems of liquidity rather than of solvency.	May 1989

	Deposits of insider-borrower were protected by the Secrecy of Bank Deposits Law.	Including contingent liabilities in the determination of the limit to which banks can lend to a single borrower or a group of affiliated borrowers. Insider-borrower shall waive the secrecy of their deposits for examination purposes. Increasing the minimum capital requirements for banks. Latest: Universal banks: P2.25B Commercial banks - P1.125B Thrift banks - P150M Rural banks - P20M	June 1993
IV. Foreign Exchange Markets			
1. Foreign exchange trading	On-floor	Off-floor through an electronic screened based network for sharing information and undertaking transactions.	December 1992
2. Export receipts	Mandatory surrender of foreign exchange receipts	Foreign exchange earners may retain 100% of total receipts and can use them freely without prior Central Bank authorization.	September 1992
3. Foreign exchange purchases	Limits on foreign exchange purchases such as travel, educational expenses, etc.	No limit.	September 1992
4. Repatriation and remittances of investments	Staggered from 3-9 years subject to Central Bank approval.	Full and immediate repatriation without Central Bank approval for foreign investments duly registered with the Central Bank or custodian bank. Allowed initially up to US\$1M, but lately increased to US\$6M.	September 1992
5. Outward investment by residents	Not allowed.	Direct exporters allowed access	1992-1994
6. Access to domestic FCDU loans.	No access.	Indirect exporters allowed access.	September 1992
			July 1994

Source: Lamberte and Llanto (1995).

Table 6Percentage Distribution of Project Costof BOI-Approved Projects by SectorNew & expansion projects, with incentives, 1985 - 1994

	1985	1986	1988	1990	1991	1992	1993	1994
DOMESTIC	25.3	28.4	43.0	74.0	85.3	78.5	75.0	65.9
Manufacturing	0.9	8.4	29.2	18.8	48.1	34.2	30.6	33.0
Agriculture, Forestry & Fishery	17.8	19.3	5.7	0.8	0.7	2.5	2.1	0.5
Mining	1.6	0.0	0.7	7.2	2.5	1.0	0.1	0.4
Energy-related projects	5.0	0.7	4.2	23.4	27.2	36.2	38.7	26.2
Tourism-oriented projects	0.0	0.0	0.3	12.9	4.1	1.2	0.7	1.9
Public utilities	0.0	0.0	2.9	3.5	1.3	1.7	1.9	19.0
Others	0.0	0.0	0.0	7.4	1.5	1.6	0.8	4.9
EXPORT	74.7	71.8	57.0	26.0	14.7	21,5	25,0	14,1
Manufacturing	73.8	67.6	47.1	23.0	13.1	14.9	21.3	13.0
Agriculture, Forestry & Fishery	0.6	0.9	5.4	0.4	1.2	6.4	1.0	0.3
Mining	0.0	0.0	1.2	2.6	0.4	0.3	2.7	0.8
Energy-related projects	0.4	3.1	3.0	0.0	0.0	0.0	0.0	0.0
Tourism-oriented projects	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Public utilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note : Others include service, Agricultural farm services, Infrastructure/ind'l service facilities, Export traders, Commerce and Research and development activities.

Source : Board of Investments

Table 7Percentage Distribution of Foreign Equity Investmentsof BOI-Approved Projects by SectorNew and Expansion Projects, with incentives : 1985-1994

	1985	1986	1988	1990	1991	1992	1993	1994
DOMESTIC	2.9	19.0	43.0	52.8	64.1	54.4	60.4	78.7
Manufacturing	1.2	1.0	31.8	10.3	50.3	25.9	23.5	32.2
Agriculture, Forestry & Fishery	1.7	15.5	7.8	0.0	0.0	0.1	0.2	0.0
Mining	0.0	0.0	0.2	4.5	2.0	1.2	0.2	0.7
Energy-related projects	0.0	2.5	3.1	23.4	24.5	35.8	34.0	35.1
Tourism-oriented projects	0.0	0.0	0.0	10.8	3.8	0.0	0.9	3.6
Public utilities	0.0	0.0	0.0	0.2	0.2	1.0	0.4	5.6
Others	0.0	0.0	0.0	3.5	3.3	0.4	1.3	1.4
EXPORT	\$7.1	81.9	57.0	47.2	15. ¥	35. S	39,6	21.3
Manufacturing	96.2	74.8	54.6	46.2	12.2	31.5	38.2	21.2
Agriculture, Forestry & Fishery	0.0	5.8	1.4	0.9	3.5	2.3	0.0	0.1
Mining	0.0	0.0	0.3	0.0	0.1	1.8	1.3	0.0
Energy-related projects	0.9	0.4	0.7	0.0	0.0	0.0.	0.0	0.0
Tourism-oriented projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public utilities	0.0	0.0	0.0	0.0	0.0	0.0	0,0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note : Others include Service, Agricultural farm services, Infrastructure/ind'l service facilities, Export traders, Commerce and Research & development activities.

Source : Board of Investments

Table 8 Exports By Major Commodity Group (FOB Value in million US dollars)

	1990	1981	1982	1683	1984	1965	1986	1987	1988	1989	1380	t 991	1992	1993	1994	1995	1995 Jan-Aug	4996 Jan Aug
	200300.00000	1000000000	00000000											0.007	0.404	0.007	0.000	4 770
I. Traditional Exports (unmanufactured)	3,722	3,293	2,594	2,557	2,483	1,947	1,956	2,001	2,467	2,453	2,210	2,163	2,246	2,307	2,401	3,027	2,003	1,170
Coconut Products	820	756	593	662	733	466	474	566	582	541	503	44/	643	332	0J9 475	909	559	400
Coconut Oll						347	333	381	408	3//	301	798	401	300	4/3	74	74	00
Sugar and Sugar Products	657	604	441	316	279	185	103	7.1	74	113	133	135	110	129	400	/4	247	202
Fruits and Vegetables	232	251	282	221	262	256	275	283	306	319	326	393	3/1	439	429	400	317	323
Forects Products	425	352	294	331	271	199	201	243	261	197	95	13	16	40 606	23	903	£3 602	537
Mineral Products	1,174	976	687	633	494	570	539	462	/64	829	123	504	033	470	/00	676	002	335
Others	414	354	297	374	444	271	364	376	480	404	430	504	432	4/0	333	313	310	333
It. Petroleum Products						91	94	133	162	95	155	175	150	136	132	171	86	172
III. Nontraditional Exports																		
Nontraditional Manufacturing	1,996	2,369	2,373	2,357	2,775	2,539	2,672	3,430	4,338	5,192	5,707	6,403	7,298	8,729	10,615	13,060	8,806	10,779
Elec & Elec Eqpt/Parts & Telecom	671	338	1,000	1,053	1,329	1,056	919	1,119	1,476	1,751	1,964	2,293	2,753	3,551	4,984	7,413	4,605	6,270
Garments	502	618	541	545	603	623	751	1,098	1,317	1,575	1,776	1,861	2,140	2,272	2,375	2,570	1,676	1,616
Chemicals	89	105	95	88	105	150	243	245	256	279	261	304	268	262	306	343	231	217
Machinery & Transport Eqpt.	47	47	48	35	36	30	45	78	54	115	150	181	268	363	469	741	405	/16
Processed Food & Beverages	92	154	150	127	109	106	116	126	184	206	207	233	220	271	303	292	208	219
Others	595	1,107	539	509	593	574	598	764	1,051	1,266	1,349	1,531	1,629	2,010	2,178	2,509	1,681	1,741
IV Special Transactions	33	50	45	57	8	12	8	7	27	10	19	17	32	38	74	108	, 61	82
V. Re-Exports	37	10	9	34	125	40	112	149	80	71	95	82	98	165	181	273	191	248
Total Exports	5,788	6,722	5,021	6,005	5,391	4,629	4,842	6,720	7,074	7,821	8,186	8,840	9,824	11,375	13,483	17,447	11,207	13,051

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Source: Bangko Sentral og Pilipin**es**

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Table 9 Exports By Major Commodity Group Growth Rates (%)

	80-31	81-82	82-83	83-84	84-88	8 5- 86	86-87	87-88	609-689	88-90	90.91	91-92	#2-\$1 3	93-9 4	84-95	1995 Jon Aug.
1 Traditional Exports (upmanufactured)	(11.5)	(21.2)	(1.4)	(2.9)	(21.6)	0.5	2.3	23.3	(0.6)	(9.9)	(2.1)	3.8	2.7	7.5	22.0	(14.2)
Coconut Products	(7.6)	(21.6)	15.0	7.5	(36.4)	1.7	19.4	2.8	(7.0)	(7.0)	(11.1)	43.8	(17.3)	20.1	54.8	(32.0)
Coconut Oil	(,	(- · · · -)				(4.0)	14.4	7.1	(7.6)	(4.2)	(17.2)	60.9	(25.6)	32.7	73.9	(36.2)
Sugar and Sugar Products	(8.1)	(27.0)	(28.3)	(11.7)	(33.7)	(44.3)	(31.1)	4.2	52.7	17.7	2.3	(19.1)	17.3	(40.3)	(3.9)	33.8
Fruits and Vegetables	8.2	12.4	(21.6)	18.6	(2.3)	7.4	2.9	8.1	4.2	2.2	20.6	(5.6)	18.3	(2.3)	6.8	1.9
Forects Products	(17.2)	(16.5)	12.6	(18.1)	(26.6)	1.0	20.9	7.4	(24.5)	(51.8)	(23.2)	(21.9)	(21.1)	(48.9)	65.2	(8.7)
Mineral Products	(16.9)	(29.6)	(7.9)	(22.0)	15.4	(5.4)	(14.3)	65.4	8.5	(12.8)	(15.6)	3.8	8.4	13.7	14.5	(10.8)
Others	(14.5)	(16.1)	25.9	18.7	(39.0)	34.3	3.3	27.7	(5.4)	(5.3)	17.2	(14.3)	10.2	12.0	7.9	(11.4)
II. Petroleum Producis						3.3	41.5	21.8	(41.4)	63.2	12.9	(14.3)	(9.3)	(2.9)	29.5	100.0
III. Nontraditional Exports																
Nontraditional Manufacturing	18.7	0.2	(0.7)	17.7	(8.5)	5.2	28.4	26.5	19.7	9.9	12.2	14.0	19.6	21.6	30.6	22.4
Elec & Elec Eqpl/Parts & Telecom	(49.6)	195.9	5.3	26.2	(20.5)	(13.0)	21.8	31.9	18.6	12.2	16.8	20.1	29.0	40.4	48.7	36.2
Garments	23.1	(12.5)	0.7	10.6	3.3	20,5	46.2	19.9	19.6	12.8	4.8	15.0	6.2	4.5	8.2	(3.6)
Chemicals	18.0	(9.5)	(7.4)	19.3	42.9	62.0	0.8	4.5	9.0	(6.5)	16.5	(11.8)	(2.2)	16.8	12.1	(6.1)
Machinery & Transport Egpt.	0.0	2.1	(27.1)	2.9	(16.7)	50.0	73.3	(30.8)	113.0	30.4	20.7	59.1	26.0	29.2	58.0	76.8
Processed Food & Beverages	67.4	(2.6)	(15.3)	(14.2)	(2.8)	9.4	8.6	46.0	12.0	0.5	12.6	(5.6)	23.2	11.8	(3.6)	5.3
Others	86.1	(51.3)	(5.6)	16.5	(3.2)	4.2	27.8	37.6	20.5	6.6	13.5	6.4	23.4	8.4	15.2	3.6
IV Special Transactions	51.5	(10.0)	26.7	(86.0)	50.0	(33.3)	(12.5)	285.7	(63.0)	90.0	(10.5)	88.2	18.8	94.7	45.9	34.4
V. Re-Exports	(73.0)	(10.0)	277.8	267.6	(68.0)	180.0	33.0	(46.3)	(11.3)	33.8	(13.7)	19.5	68,4	9.7	50.8	29.8
Total Exports	(1.1)	(12.3)	(0.3)	7.7	(†4.1)	4.6	18.1	23.7	10.6	4.7	8.0	11.1	15.8	18.5	29.4	16.5

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Source: Bangko Sentral ng Pilipinas

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 Table 10

 Exports By Major Commodity Group (Percent Distribution)

	1880	1981	1 98 2	1983	1984	1995	1969	1987	1988	1929	1990	1991	1892	1993	1994	1995	1995 Jan-Ality	1998 Jaco Aug
1 Treditional Exports (upmenufactured)	64.3%	57.5%	51.7%	51.1%	46.1%	42.1%	40.4%	35.0%	34.9%	31.4%	27.0%	24.5%	22.9%	20.3%	18.4%	17.3%	18.4%	13.6%
Coconut Products	14.2%	13.2%	11.8%	13.6%	13.6%	10.1%	9.8%	9.9%	8.2%	6.9%	6.1%	5.1%	6.5%	4.7%	4.7%	5.7%	6.0%	3.5%
Coconst Of	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	6.9%	6.7%	5.8%	4.8%	4.4%	3.4%	4.9%	3.1%	3.5%	4.7%	5.0%	2.7%
Sugar and Sugar Products	11.4%	10.6%	8.8%	6.3%	5.2%	4.0%	2.1%	1.2%	1.0%	1.4%	1.6%	1.5%	1.1%	1.1%	0.6%	0.4%	0.7%	0.8%
Fruits and Vegatables	4.0%	4.4%	5.6%	4.4%	4.9%	5.5%	5.7%	4.9%	4.3%	4.1%	4.0%	4.4%	3.8%	3.9%	3.2%	2.6%	2.8%	2.5%
Forects Products	7.3%	6.2%	5.9%	6.6%	5.0%	4.3%	4.2%	4.2%	3.7%	2.5%	1.2%	0.8%	0.6%	D.4%	0.2%	0.2%	0.2%	0.2%
Mineral Products	20.3%	17.1%	13.7%	12.6%	9.2%	12.3%	11.1%	8.1%	10.8%	10.6%	8.8%	6.9%	6.4%	6.0%	5.8%	5.1%	5.4%	4.1%
Others	7.2%	6.2%	5.9%	7.5%	8.2%	5.9%	7.5%	6.6%	6.8%	5.8%	5.3%	5.7%	4.4%	4.2%	4.0%	3.3%	3.4%	2.6%
II. Petroleum Products	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	1.9%	2.3%	2.3%	1.2%	1.9%	2.0%	1.5%	1.2%	1.0%	1.0%	0.8%	1.3%
III. Nontraditional Exports	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Nontraditional Manufacturing	34.5%	41.4%	47.3%	47.1%	51.5%	54.8%	55.2%	60.0%	61.3%	66.4%	69.7%	72.4%	74.3%	76.7%	78.7%	79.5%	78.6%	82.6%
Elec & Elec Eqpt/Parts & Telecom	11.6%	5.9%	19.9%	21.0%	24.7%	22.8%	19.0%	19.6%	20.9%	22.4%	24.0%	25.9%	28.0%	31.2%	37.0%	42.5%	41.1%	48.0%
Garments	8.7%	10.8%	10.8%	10.9%	11.2%	13.5%	15.5%	19.2%	18.6%	20.1%	21.7%	21.1%	21.8%	20.0%	17.6%	14.7%	15.0%	12.4%
Chemicats	1.5%	1.8%	1.9%	1.8%	1.9%	3.2%	5.0%	4.3%	3.6%	3.6%	3.2%	3.4%	2.7%	2.3%	2.3%	2.0%	2.1%	1.7%
Machinery & Transport Eqpt.	0.8%	0.8%	1.0%	0.7%	0.7%	0.6%	0.9%	1.4%	0.8%	1.5%	1.8%	2.0%	2.9%	3.2%	3.5%	4.2%	3.6%	5.5%
Processed Food & Beverages	1.6%	2.7%	3.0%	2.5%	2.0%	2.3%	2.4%	2.2%	2.6%	2.6%	2.5%	2.6%	2.2%	2.4%	2.2%	1.7%	1.9%	1.7%
Others	10.3%	19.3%	10.7%	10.2%	11.0%	12.4%	12.4%	13.4%	14.9%	16.2%	16.5%	17.3%	16.6%	17.7%	16.2%	14.4%	10.0%	13.5%
IV Special Transactions	0.6%	0.9%	0.9%	1.1%	0.1%	0.3%	0.2%	0.1%	0.4%	0.1%	. 0.2%	0.2%	0.3%	0.3%	0.5%	0.6%	0.5%	0.6%
V. Re-Exports	0.6%	0.2%	0.2%	0.7%	2.3%	0.9%	2.3%	2.6%	1.1%	0.9%	1.2%	0.9%	1.0%	1.5%	1.3%	1.6%	1.7%	1.9%
Total Exports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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Source: Bangko Sentral ng Pilipinas

Table 11 Exports By Major Commodity Group Sources of Growth

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	1991	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1983	1994	1985	1995
							66666666								4.0	(0.5)
I. Traditional Exports (unmanufactured)	(7.4)	(12.2)	(0.7)	(1.5)	(9.9)	0.2	0.9	8.1	(0.2)	(3.1)	(U.5) (0.71)	0.9	0.0	1.0	4.0	(2.5)
Coconut Products	(1.1)	(2.8)	1.8	1.0	(5.0)	0.2	1.9	0.3	(0.0)	(U.S) (0.0)	(U.7) (7.0)	2.2	(1.1)	1.0	2.0	(1.0)
Coconut Oll	0.0	0.0	0.0	0.0	0.0	(0.3)	1.0	0.5	(0.4)	(0.2)	(0.6)	2.1	(1.3)	1.0	2.0	0.7
Sugar and Sugar Products	(0.9)	(2.8)	(2.5)	(0.7)	(1.7)	(1.8)	(0.7)	0.1	0.6	0.3	0.0	(0.3)	0.2	(0.5)	(0.0)	0,1
Fruits and Vegetables	0.3	0.5	(1.2)	0.8	(0.1)	0.4	0.2	0.4	0.2	0.1	0.8	(0.2)	0.7	(0.1)	0.2	0.0
Forects Products	(1.3)	(1.0)	0.7	(1.2)	(1.3)	0.0	0.9	0.3	(0.9)	(1.3)	(0.3)	(0.2)	(0.1)	(0.2)	0.1	(0.0)
Mineral Products	(3.4)	(5.1)	(1.1)	(2.8)	1.4	(0.7)	(1.6)	5.3	0.9	(1.4)	(1.4)	0,3	0.5	0.8	0.6	(0.6)
Others	(1.0)	(1.0)	1.5	1.4	(3.2)	2.0	0.2	1.8	(0.4)	(0.3)	0.9	(0.8)	0.4	0.5	0.3	(U.4)
II. Petroleum Products	0.0	0.0	0.0	0.0	0.0	0.1	0.8	0.5	(0.9)	0.8	0.2	(0.3)	(0.1)	(0.0) .	0.3	1.0
III. Nontraditionai Exports																
Nontraditional Manufacturing	6.4	0.1	(0.3)	8.4	(4.4)	2.9	15.7	15.9	12.1	6.6	8.5	10.1	14.6	16.6	24.1	17.8
Elec & Elec Eqpt/Parts & Telecom	(5.8)	11.6	1.1	5.5	(5.1)	(3.0)	4.1	6.2	3.9	2.7	4.0	5.2	8.1	12.6	18.0	15.4
Garments	2.0	(1.3)	0.1	1.2	0.4	2.8	7.2	3.8	3.6	2.6	1.0	3.2	1.3	0.9	1.4	(0.5)
Chemicals	0.3	(0.2)	(0.1)	0.3	0.8	2.0	0.0	0.2	0.3	(0.2)	0.5	(0.4)	(0.1)	0.4	0.3	(0.1)
Machinery & Transport Eqpt.	0.0	0.0	(0.3)	0.0	(0.1)	0.3	0.7	(0.4)	0.9	0.4	0.4	1.2	0.8	0.9	2.0	3.3
Processed Food & Beverages	1.1	(0.1)	(0.5)	(0.4)	(0.1)	0.2	0.2	1.0	0.3	0.0	0.3	(0.1)	0.5	0.3	(0.1)	0.1
Others	8.8	(9.9)	(0.6)	1.7	(0.4)	0.5	3.4	5.0	3.0	1.1	2.2	1,1	3.9	1.5	2.5	0.5
IV Special Transactions	0.3	(0.1)	0.2	(1.0)	0.1	(0.1)	(0.0)	0.3	(0.2)	0.1	(0.0)	0.2	0.1	0.3	0.3	0.2
V. Re-Exports	(0.5)	(0.0)	0.5	1.8	(1.6)	1.6	0.8	(1.2)	(0.1)	0.3	(0.2)	0.2	0.7	0.1	0.7	0.5
Total Exports	(1.1)	(12.3)	(0.3)	7.7	(14.1)	4.6	18.1	23.7	10.6	4.7	8.0	11.1	15.8	18.5	29.4	16.5

Source: Bangko Sentral ng Pilipinas

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
4	CNID (real growth %)	<i>A</i> 1	46	77	5.6	51	0.3	13	15	5.3	5.7
2	Inflation Bate	0.8	3.8	8.8	12.2	14.2	18.8	90	7.7	9.1	8.1
2		15.8	11.5	14.7	18.7	23.7	21.5	16.0	12.5	12.7	11.7
0	SY (D/& depression)	10.0	0.2	05	0.6	26	32	-20	1.7	-0.8	-0.7
4	FX (F)& depreciation)	1.0	0.2	0.0	0.0	2.0	0.2				
5	BOT/GNP (%)	-0.7	-3.1	-2.9	-6.1	-9.1	-7.1	-8.9 🎆	-11.3	-11.9	-11.7
6	CA/GNP (%)	0.3	1.3	1.5	3.6 🌺	3.3	5.1	3.2 🎆	4.2	6.8	3.3
7	BOP/GNP (%)	4.2	0.8	1.6	1.1 🎆	-0.2	4.6	2.8 🎆	-0.3	2.7	0.8
8	GIR Level	2,459	1,959	2,059	2,324 🎆	1,993	4,470	5,218 🎆	5,801	6,995	7,647
g	Fiscal Surplus/Deficit (-)/GNP (%)	-5.1	-2.4	-2.9	-2.1	-3.5	-2.1	-1.2 🎆	-1.5	1.0	0.5
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10	Revenues (% distribution)										
	1. Tax Revenues	82.6	83.2	80.1	80.4 🎆	83.9	82.6	86.0 🎆	88.4	81.0	86.1
ĺ	2. Non-Tax Revenues	17.4	16.8	19.9	19.6 🎆	16.1	17.4	14.0 🎆	11.6	19.0	13.9
ĺ										· ·	_
11	Expenditures (% distribution)										
	1. Personal Services	23.2	20.3	26.0	30.0 🎆	25.1	23.6	27.1 🎆	24.5	28:2	· 29.7
	2. Maintenance & Other Operating	11.7	12.3	11.4	13.4 🎆	10.3	9.4	10.8 🎆	10.1	10.6	11.3
	3. Debt Service	35.2	45.2	42.6	32.8 🎆	41.6	41.1	38.1 🎆	36.4	24.2	19.6
	4. Net Lending	0.0	4.9	2.9	0.9 🎆	0.8	. 2.0	0.8 🎆	0.9	0.3	0.3
	5. Transfer Payment	6.9	4.4	6.1	7.1 🎆	7.2	6.9	10.2 💥	13.8	17.1	1 4.5
	6. Capital Outlay	23.0	13.0	10.9	15.8 🚫	15.0	16.9	13.1 💥	14.3	20.3	24.8
12	Domestic Liquidity (growth rate)	7.6	12.1	22.6	28.0 🎆	18.4	15.5	11.0 🎆	24.6	26.5	25.3
13	Reserve Money (growth rate)	32.7	13.1	16.5	38.0 🎆	17.1	19.0	12.0 🎆	18.6	6.2	16.6
14	Money Multiplier	2.8	2.8	2.9	2.7 🎇	2.8	2.7	2.7 ∭	2.8	3.3	3.6
15	Reserve Requirement Ratio	16.8	16.0	14.5	17.3 🎆	21.8	21.0	20.9	18.4	16.3	12.8

	Table 12	
Selected	Economic	Indicators
	1986 - 199	5

Sources of basic data: Bangko Sentral ng Pilipinas Bureau of Treasury

item	1899	1981	1982	1983	1984	1985	1996	1967	1988	1989	1990	1991	1992	1893	1894	1995	1996 1st Sem.
Gross Int'l Reserves	3,155	2,574	1,711	865	886	1,061	2,459	1,959	2,059	2,324	1,993	4,470	5,218	5,801	6,995	7,647	9,959
(Million US \$) DIFFERENCE QROWTH RATE		(581) (18.4)	(863) (33.5)	(846) (49.4)	21 2.4	175 19.8	1,398 131.8	(500) (20.3)	100 5.1	265 12.9	(331) (14.2)	2,477 124.3	748 16.7	583 11.2	1,194 20.6	652 9.3	2,312 30.2
Net Foreign Assets	(2,749)	(13,358)	(34,026)	(61,115)	(87,658)	(118,033)	(133,287)	(132,252)	(121,581)	(108,236)	(140,54 6)	(68,549)	38,162	56,769	91,784	118,356	183,948
(Million Pesos) DIFFERENCE GROWTH RATE		(10,60 9)	(20,668)	(27,089)	(26,543)	(30,375)	(15,254)	1,035	10,671	13,345	(32,310)	71,997 (51.2)	106,711 (155.7)	18,607 48.8	35,015 61.7	26,572 29.0	65,592 55.4
Net Domestic Assets	19,141	31,341	53,069	89,073	121,290	156,480	184,316	189,990	188,863	201,112	249,267	197,912	106,676	114,977	90,629	94,379	17,523
(Million Pesca) DIFFERENCE QROWTH RATE		12,200 63.7	21,728 69.3	36,004 67.8	32,217 36.2	35,190 29.0	27,836 17.8	5,674 3.1	(1,127) (0.6)	12,249 6.5	48,155 23.9	(51,355) (20.6)	(91 ,236) (46.1)	8,301 7.8	(24,348) (21.2)	3,750 4.1	'(76,856) ' (81.4)
Reserve Money	16,392	17,983	19,043	27,958	33,632	38,447	51,029	57,738	67,282	92,876	108,721	129,363	144,838	171,746	182,413	212,735	201,471 _a
(Million Pesos) DIFFERENCE QROWTH RATE		1,591 9.7	1,060 5.9	8,915 46.8	5,674 20.3	4,815 14.3	12,582 32.7	6,709 13.1	9,544 18.5	25,594 38.0	15,845 17.1	20,642 19.0	15,475 12.0	26,908 18.6	10,667 6.2	30,322 16.6	(11,264)` (5.3)`

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Table 13 Asset Acquisition of Bangko Sentral ng Pilipinas

Table 14
Dependent Variables: Net Foreign Assets
Method: OLS

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a. ..

Variable	NFA
Constant	-2785.913 (-3.973)
Net Domestic Assets	-0.889 (-17.063)
Gross National Product	0.148 (16.465)
91-Day TBills Rate	-21.780 (0.524)
Inflation Rate	1.148 (0.058)
Current FOREX	2.000 (0.156)
R squared	0.993
Durbin-Watson	1.382

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Table 15
National Government Cash Operations
for periods indicated
In miliion pesos

Reins	1980	1991	1582	1983	1984	1965	1986	1987	1966	1989	1990	1991	1992	1993	1994	1995	1996 Jan-Cicl,
I. Revenues 1. Tax Revenues 2. Non-Tax Revenues	34,731 30,533 4,198	35,933 31,423 4,510	38,205 33,779 4,426	45,632 39,524 6,108	56,861 50,118 6,743	68,961 61,253 7,708	79,245 65,491 13,754	103,214 85,923 17,291	112,861 90,352 22,509	152,410 122,462 29,948	180,902 151,698 29,204	220,787 182,275 38,512	242,715 208,706 34,009	260,405 230,171 30,234	335,227 271,456 63,771	360,215 309,978 50,237	341,379 304,549 36,368
If. Expenditures A. Current Operating Expenditures	38,118 24,516	48,079 26,390	52,610 31,746	53,063 34,522	66,926 42,873	80,102 55,275	110,497 71,330	119,907 96,265	1 36,067 113, 59 5	171,978 144,632	218,095 94,114	247,136 94,966	258,680 219,505	282,296 234,561	317,113 277,274	350,041 289,053	334,529 119,943
1. interest Payments a. Domestic b. Foreign	2,296 - -	2,429	3,560	4,996 - -	10,409 6,141 4,268	14,652 10,459 4,193	20,953 15,156 5,797	36,905 24,301 12,604	45,865 32,183 13,682	54,714 41,033 13,681	71,113 53,727 17,386	74,922 56,347 18,575	79,539 63,112 16,427 74,337	76,489 56,183 20,306 78,695	79,008 59,771 19,237 92,678	72,851 51,569 21,282	67,038
2. Personal Services B. Capital Expenditures C. Net Lending & Equity	9,331 8,405 5,197	10,631 12,679 9,010	10,647 9,278 11,586	13,877 10,400 8,132	16,854 9,786 14,267	22,896 8,796 16,031	24,991 11,683 27,484	32,527 12,151 11,491	40,795 15,234 7,238	21,157 6,189	n.a. n.a. 2,769	n.a. n.a. 5,965	46,125 (6,950)	37,830 9,905	33,605 7,171	52,673 8,296	2,838
۱۱. Overall Surplus/Deficit (-) % of GNP	(3,387) -1.39	(12,146) -4.33	(14,405) -4.59	(7,431) -2.05	(10,065) -1.98	(11,141) -2.00	(31,252) -5.24	(16,693) -2.49	(23,206) -2.93	(19,568) -2.15	(37,194) -3.47	(26,349) -2.10	(15,965) -1.16	(21,891) -1.46	18,114 1.04	10,174 0. 5 2	7,490
V. Financing A. Domestic Financing 1. Net Domestic Borrowings Grose Domestic Borrowings Less: Amortizations 2. Non-Budgetary Accounts	3,387 983 1,092 5,067 3,975 1,034 (1,142)	12,146 6,154 8,828 12,403 3,575 688 (3,257)	14,405 9,808 6,602 10,541 3,939 1,925	7,431 1,994 6,591 8,096 1,505 (1,959) (2,638)	10,065 8,061 16,000 17,142 1,142 268 (8,207)	11,141 11,481 12,871 15,778 2,907 381 (1 771)	31,252 27,672 28,449 35,461 7,012 2,592 (3,369)	16,693 9,912 34,337 58,618 24,281 (1,268) (23,157)	23,206 18,964 35,087 47,339 12,252 1,936 (18,059)	19,568 11,358 20,450 37,210 16,760 4,090 (13,182)	37,194 33,067 15,143 30,097 14,954 4,859 13,065	26,349 19,469 34,368 64,722 30,354 3,243 (18,142)	15,965 1,575 138,247 148,145 9,898 (46,013) (90,659)	21,891 8,979 (28,565) (16,990) 11,575 13,305 24,239	(18,114) (4,408) (9,497) 4,620 14,117 (31,265) 36,354	(10,174) 2,721 19,624 58,724 39,100 (35,441) 18,538	(7,490) 155,777 76,118 85,927 9,809 14,172 65,487
3. Use of Cash Balances B. Foreign Financing Gross Domestic Borrowings Less: Amortizations	(1,143) 2,404 3,055 651	(3,362) 5,992 6,724 732	4,597 5,388 791	(2,636) 5,437 7,684 2,247	2,004 5,069 3,065	(340) 3,704 4,044	3,580 9,769 6,189	6,781 15,420 8,639	4,242 17,290 13,048	8,210 19,953 11,743	4,127 24,406 20,279	6,880 23,086 16,206	14,390 34,143 19,753	12,912 38,223 25,311	(13,706) 11,239 24,945	(12,895) 16,824 29,719	(3,949) 14,768 18,717

Source: Rureau of Treasury

	Tat	ble	16		
Effective Protection	Rate	8	Weighted	Nominal	Tariff
	1988	&	1992		

	19 EPR2a	88 EPR26	Effective Prot 199 EPR2a	ection Rate 2 EPR2b	% Cha EPR2a	nge EPR2b	Weight 1988	ed Nominal 1992	Tariff % Change
Minimum	-27.03%	-11.57%	-19.09%	-19.09%	-29.39%	65.00%	0.00%	0.00%	-
Maximum	104.56%	106.71%	109.83%	109.83%	5.04%	2.92%	18.00%	16.00%	-11.11%
Agriculture	25.39%	26.35%	26.19%	26.19%	3.17%	-0.60%	29.97%	25.38%	-15.30%
Forestry	16.26%	17.23%	10.65%	10.65%	-34.48%	-38.16%	18.00%	16.00%	-11.11%
Mining	2.64%	3.71%	1.65%	1.65%	-37.60%	-55.53%	10.69%	9.66%	-9.63%
Manufacturing	31.90%	34.05%	36.03%	35.52%	12.94%	4.31%	33.37%	29.12%	-12.73%

Source: "Refinement in EPR Estimation Methodology", project funded by USAID.