LINES OF INQUIRY
Annex I

THE PHILIPPINE ECONOMY: RECENT EVENTS

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ANNEX I

The Philippine Economy: Recent Events

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I. Introduction

A. Summary of the Current Crisis

1.01 The Philippine economy is in its most serious crisis since World War II. The assassination of former Senator Aquino on August 21, 1983 precipitated the crisis, although there were prior signs that one was developing. This prompted a rapid outflow of capital and a virtual cessation of new investment and commercial loan inflows. By mid-October 1983, the country's international reserves declined to less than the equivalent of one month's imports ($430 million). The Government of the Philippines (GOP) was forced to declare a debt moratorium on principal repayments of commercial loans due international banks and allowed the official peso exchange rate to depreciate 21.4 percent. The free market rate maintained a premium of about 50 percent over the official rate.

1.02. These events reinforced the 1980-82 economic slowdown in the Philippines and led to a deepening business recession in 1983. A number of establishments closed down and thousands of workers were laid-off. This related not only to difficulties in obtaining imported inputs for production, but also to the general economic and socio-political events which did not present an optimistic picture for early resolution. Prices of basic goods and services rose by more than 20% during the past few months, while commodities with a large import content rose anywhere between 50 to 150%. Real income for a large segment of the population has fallen as wages have not kept up with inflation, and income distribution appears to be worsening. The unstable economic and political situation resulted in large withdrawals of bank deposits, runs on several financial institutions, and nearly zero growth in investments. Credit funds contracted, pushing up interest rates to record-high levels in December. The external commercial debt moratorium had to be extended by another 90 days beyond January 16, 1984, in order to continue negotiations for the restructuring of debt maturing in 1984-85. Furthermore, an additional $3.3 billion in new loans from both commercial and official sources will be needed by the GOP to finance the expected current account deficit and other foreign exchange requirements in 1984. Without this money only limited essential imports can be maintained.

1.03. The GOP has been negotiating for a new stand-by credit agreement amounting to $650 million with the IMF. The agreement would require further budgetary adjustments, cautious monetary policies and flexible exchange rate management to help improve both the balance of payment (BOP) and the budget. The approval of the new agreement could facilitate the inflow of new capital from both official and commercial sources. Meanwhile, major development donors have been requested by the GOP to convert some of their assistance to commodity import financing loans. Likewise, the GOP is now negotiating with private banks for the restructuring of almost $10 billion in commercial loans maturing in 1984-85 to give the economy some time to adjust to a new financial program without being constrained by foreign exchange shortfalls.

B. Events in the Perspective

1.04. To understand the current crisis it is necessary to place into perspective the events which have occurred over the last several years. The country's balance of payments deficit widened from $54 million (0.2% of GNP) in 1978 to well over an estimated $2.0 billion (more than 5.0% of GNP) in 1983. Several key reasons contributed to the worsening BOP condition. First, the external terms of trade declined by 32% between 1979 (the start of the second oil crisis) and 1983. The sharp fall in commodity export prices was accompanied by a drop in export volume as a result of the prolonged economic recession. Second, interest payments on all external loans increased four-fold from $397 million in 1978 to over $1.65 billion in 1982. This reflected an increase in the country's outstanding debt and the relatively higher interest rates which prevailed in the international capital market during the last three years. The only bright spots among current account transactions came from the continued expansion of non-traditional manufactured exports and from remittances of contract workers abroad. The former now accounts for nearly half of the country's total export earnings, while the latter rose to more than $1.0 billion in 1983, more than three times the level in 1978.

1.05. Third, there was a sharp deceleration in capital inflows in 1983 caused mainly by the reluctance of private banks to lend to the Philippines during the latter half of 1983. This caused net inflows of foreign loans and investments to drop precipitously to only $670 million as of September from a comparable $1.7 billion a year earlier. This could not cover the $2.2 billion current account deficit during the period. In previous years, shortfalls in current account transactions were financed mainly by heavy foreign borrowing, although foreign exchange reserves were also occasionally drawn down. Between 1980-82, net inflows of medium- and long-term debts reached more than $1.4 billion annually while net short-term financing also amounted to $1.4 billion. Officially-reported outstanding external debt in the non-banking sector thus rose four-fold from less than $4.0 billion in 1975 to $17.3 billion in 1982. The debt-service ratio, defined as amortization and interest payments on fixed term debt as a percentage of foreign exchange receipts in the preceding year, also increased from 16% during the mid-'70s to almost 20% in 1982.

1.06. In the last three years, the GOP allowed the peso to depreciate more rapidly than in the past in order to arrest the deteriorating BOP position. The official value of the peso vis-a-vis the U.S. dollar depreciated by 17% during the 1980-82 period and by 35% in 1983. However, the trade-weighted exchange rate of the peso (against a basket of major foreign currencies) appreciated during the late 1970s and depreciated only 8.5% during the 1980-1982 period. This adversely affected the international competitiveness of Philippine exports. Comparing higher domestic inflation rates with those in the U.S, the peso was overvalued annually by about 2.5 percent during the '70s and into the early '80s. The peso overvaluation reinforced the structural problems of the economy by reducing the competitiveness of exports, by encouraging the heavy import-dependence of the modern sector, and by artificially cheapening imported capital goods and raw materials. Thus the situation favored imports over local production and made external borrowing appear cheaper and more attractive. The major peso depreciation in 1983 served to correct much of the past years' overvaluation by allowing the value of the peso to reach a more realistic level against the currencies of its major trading partners. It remains to be seen, however, if this change will provide the economy with the boost necessary for export revenues to pick up and reduce the BOP deficit.

1.07. External sector problems adversely impacted the domestic economy. Real GNP growth decelerated from almost 7.0% annually in 1977-1979, to only 3.3% annually during 1980-1982, and to a very low 1.4% in 1983. The growth of the industrial and commercial sectors declined markedly because of the domestic recessionary conditions. Agricultural production was severely affected by unfavorable weather since the start of the '80s. First, by severe typhoons in 1981 and then by an eight-month drought in 1982-1983. This caused the sector's gross value added to decline by 2% in 1983 compared to an annual growth of 3.6% in 1980-82 and 5.5% during the late '70s. Investment growth was similarly restrained by the poor business climate which was highlighted by the financial crisis in early 1981, and the economic and political turmoil in 1983. The GOP budget deficit rose sharply in 1981 and 1982 as fiscal policies were expansionary to make up for the sluggish business activity, and the tax collection effort did not improve. Inflation remained at the double-digit level during the last four years because of budget deficits, the effect of higher oil prices, and the declining peso exchange rate.

1.08. The GOP recognized that its economic and financial policies were inappropriate to the country's long-term growth. Therefore, in 1980 the GOP embarked on a structural adjustment program assisted by the World Bank (IBRD) to encourage more efficient use of resources and to strengthen the economic base. The GOP implemented a five-year tariff realignment and reduction reform, and a three-year import-restriction removal plan to enhance the efficiency and competitiveness of Philippine industry. Financial sector reforms were undertaken developing multipurpose banking and lifting interest rate ceilings on loans and deposits to improve the efficiency of financial intermediation. In industry, a program for restructuring and modernizing of the cement and textile sectors was initiated; while the investment incentive system was revised to eliminate its import- and capital-intensive biases and to allow market forces to play a greater role in guiding industrial investments. The GOP also initiated policy reforms in the energy sector to reduce the country's heavy dependence on oil imports, improve the efficiency of energy use, and strengthen significant areas of public resource management. The reform programs were supported by structural adjustment loans from the World Bank. Their overall implementation so far has been satisfactory, although the current severe shortage of foreign exchange forced the GOP to reimpose import restrictions and higher import duties, and defer further implementation of the textile industry rehabilitation program.

1.09. The GOP has initiated discussions with the IMF for a new standby credit agreement because of the rapid depletion of the country's international reserves and the declaration of a commercial debt moratorium . The new agreement will be for $650 million and will supercede the previous abrogated agreement reached in early 1983. The GOP has also requested the World Bank, Asian Development Bank (ADB), Japanese and other friendly governments to convert some of their assistance to commodity import financing loans for the procurement of essential imports. At the same time, the GOP has been negotiating with the international bankers for the restructuring of some $10.0 billion in commercial loans maturing in 1984 and 1985 to give the domestic economy some time to adjust to a new financial program without being constrained by foreign-exchange shortfalls. The GOP has also requested a meeting of the Paris Club (composed of O.E.C.D. countries) to discuss the restructuring of maturing government-to-government debt.

1.10. The new IMF stand-by agreement is expected to be approved during the second quarter of 1984. It may require the GOP to reduce the overall budget deficit to about 1.5% of GNP in 1984 from more than 4% in 1981 and 1982. This would mean significant expenditure restraint, mostly through large cutbacks on capital outlays and public investments in parastatals and minimal increases in current expenditures of GOP entities, despite an expected high inflation rate. Monetary policies would restrict the expansion of the banking system's net domestic assets which normally fuel the GOP's and private sector's propensity to import. The GOP is also expected to implement a more realistic flexible exchange rate policy which could result in further declines in the value of the peso unless the external deficits are substantially reduced.

C. Prospects

1.11. The near term economic prospects for the Philippines are bleak. The economic difficulties experienced during the last quarter of 1983 are expected to be more serious in 1984. The external sector will be generally stagnant, with fewer foreign trade and capital account transactions. The BOP deficit will be lower due to stringent trade and foreign exchange controls rather than to higher export earnings. Foreign capital will again start coming in during the second half of 1984, although at much lower levels and at a higher cost compared to previous years. The domestic sector will remain weak because of the slowdown in industrial activities, the tight credit situation, and lower consumer purchasing power. For the first time since World War II, real GNP is projected to fall in 1984, accompanied by sharp reductions in investments and GOP expenditures. Real income will thus continue to decline as high inflation rates erode the purchasing power of both households and businesses. Some economists believe it may take the economy at least five years to fully recover per capita income levels, to restructure investment patterns, and to reach a sustainable 6% annual growth comparable to the 1970s.

1.12. The GOP's austerity program and restrictive policies will undoubtedly impede the implementation of the country's Five-Year Plan, further constraining the development effort. With reduced budgetary support for development activities, AID and other donor-assisted projects are going to be adversely affected. This is particularly true of those projects involving GOP corporations with severely reduced budget support. These entities must increase their internal revenue generation to maintain their operations. The implementation of capital projects will slowdown and, therefore, delay the expected benefits, or on-going and/or new activities will be outright cancelled. Neither outcome is attractive so the major foreign donors are looking for new ways to help the GOP surmount immediate shortages in foreign exchange and local currency resources.

1.13. AID and other development assistance agencies have strong reasons to assist the GOP in overcoming the serious BOP and budgetary problems. The root causes of these problems have important implications for the degree of success ultimately achieved by each donor's assistance efforts and should therefore be addressed as early as possible. The causes go beyond affecting the growth aspects of the economy into other areas of development concern, including the alleviation of very serious poverty and employment problems. There are also several macroeconomic development policies which should be reviewed because they are essential to achieving external and budgetary adjustments and are relevant to areas of AID development concern. These include:

a) the continued implementation of the structural adjustment program for more efficient resource utilization and a stronger economic base;

b) the review of agricultural pricing and marketing policies to improve rural income and productivity;

c) the need for greater domestic resource mobilization to enable appropriate investments and development programs to be pursued;

d) the need for less public sector intervention in private sector activities to create a more competitive, open market environment.

1.14. Important as all of the above is, the GOP should also begin to reduce the significant gap between the articulation of development policies and their implementation. It has been observed that there has been a marked difference between GOP policy pronouncements and performance. This has occurred in part because of poor implementation capacity and strong pressures from powerful groups to intervene in markets for unaltruistic reasons. Together with recent concern about the reliability of key economic and financial data, this problem has served to undermine both the credibility of the GOP and the effectiveness of sound economic policies in the long-run. A more serious effort to pursue stated policies is easily the first step towards the successful attainment of development targets and objectives.

1.15. The longer-term outlook for the economy could be promising. The present crisis could be the unexpected catalyst which will propel the economy forward into the long and complex process of overhauling the distortions in its structure. If fundamental structural changes could continue to be pursued, then a more efficient use of resources could improve labor absorption by the modern sector, increase domestic resource mobilization and sustain a reasonable growth pattern in the immediate years ahead. A refinement of the country's outward-looking development strategy could result in a relatively greater role by other key sectors, like agriculture and small industries, in the economy's growth. More essential, political reforms and institutional changes could restore the people's confidence in the economy and in its management. These changes would require inspired economic leadership and sacrifice on many people's part over an extended period. Economic policy reforms would have to be maintained despite short-term disruptions in the economy, and the government would have to commit its resources to long-term programs and not divert resources to superficial or unsustainable programs. These are by no means easy assignments for any government.

II. The External Sector

A. Balance of Payments

2.01. The external sector has performed poorly in recent years. This was a major factor contributing to the serious economic crisis currently facing the Philippines. The overall balance of payments (BOP), which generally had been in deficit since the mid-1970s, reached alarming proportions in 1979 with a deficit over $500 million. The gap widened to $1.1 billion (2.9% of GNP) in 1982 and is estimated to have doubled again in 1983, reaching more than $2.0 billion or 5% of the GNP. There were large foreign exchange outflows in 1983 resulting from the crisis of confidence in the country's economic and political stability.

2.02. A chronic and growing BOP deficit generally indicates worsening economic conditions. Problems show up in the two major BOP accounts: current and capital. Current account deficits indicate the value of the country's present output sold in the international market is less than what it buys. Capital account deficits indicate that the future performance of the country will be disadvantaged because the stock of investment is being drawn down with capital outflows exceeding inflows. Over the years, the Philippines has used surplus capital inflows to reduce its large current account deficit. A third element in the Philippines' BOP has become significant in recent years. This involves the monetization of gold and SDR allocations from the IMF, both of which have augmented the economy's foreign exchange resources to finance part of the BOP deficits.

2.03. Like most developing countries, the Philippine BOP problems relate to chronic trade imbalances. The deficit on the current account has risen

External Sector Performance
(in billion $)

	1978	1979	1980	1981	1982	1983 1/
Trade Balance	(1.31)	(1.54)	(1.94)	(2.22)	(2.68)	(1.76)
Other Current Account Trans.	0.14	(0.04)	(0.11)	(0.07)	(0.68)	(0.42)
Current Account Total	(1.17)	(1.57)	(2.05)	(2.29)	(3.36)	(2.18)
Capital Account, Total	1.09	0.94	1.51	1.31	1.97	0.67
Gold and SDR Allocations	0.03	0.07	0.16	0.43	0.28	0.17
Overall Balance of Payments	(0.05)	(0.57)	(0.38)	(0.56)	(1.11)	(1.34)
Foreign Exchange Rate (Average)	7.37	7.38	7.51	7.90	8.54	11.22

Note: Numbers in ( ) are negative.

1/ Jan. to Sept. only, except for the foreign exchange rate which is for the whole year.

three-fold in four years, from $1.1 billion or 4.8% of GNP in 1978 to almost $3.4 billion or 8.6% of GNP in 1982. (See Appendix, Table 1). The current account gap in 1983 is estimated at $2.9 billion (8.4% of GNP), or some 15% lower than the previous year's level. This is still high, considering that the large peso depreciation and the imposition of strict GOP controls on imports during the last half of the year should have drastically restricted the further growth in the current account deficit.

1. External Terms of Trade and Other World Market Developments.

2.04. Several unfavorable developments since the start of the decade have led to the deterioration of the country's current account. For one, the sharp rise in oil prices in 1979-80 was aggravated in subsequent years by steep declines, or downward fluctuations over long periods, in the world market prices of major Philippine commodity exports, e.g. coconuts, sugar, copper and logs. This led to a severe deterioration in the country's external terms of trade from a 1979 index level of 81.6 (1972=100) to 55.8 during the first nine months of 1983, reflecting a hefty 32% decline in the prices of exports relative to imports. (See Appendix, Table 2).

2.05. Aside from falling export prices, the volume was depressed by the 1980-82 worldwide recession. This adversely affected demand for non-traditional manufactured exports, particularly garments and handicrafts, and caused dollar earnings from these items to drop in 1982 for the first time since 1975, after increasing by more than 30% annually. In the same manner, the imposition of sugar quotas, and the availability of cheaper substitutes for coconut oil and sugar, and reduced production levels from typhoons and drought prevented an increase in the volume of traditional export commodities which could have helped offset the effects of lower prices. Coconut oil prices improved markedly since early 1983, but this was partly related to a sharp drop in Philippine production rather than a significant increase in world demand. The country therefore was unable to achieve substantial gains in export volume.

2.06. The dollar value of total exports declined by more than 10% in 1982. It is estimated to have dropped another 10% in 1983, despite the peso depreciations or the economic recovery underway in the industrialized countries. (See Appendix, Table 3). Significantly, non-traditional manufactured goods now account for half of total export receipts compared to less than 35% in the late '70s. On the other hand, the country's total imports exceeded by more than 50% total export earnings in 1982. The trade deficit thus widened to $2.7 billion (7.0% of GNP) in 1982, almost twice the level in 1979.

2. The Trade Deficit.

2.07. Between 1978 and 1982 the Philippines was unable to reduce imports below the level of exports because the industrial sector was import-dependent, crude oil import costs were high and the peso exchange rate was overvalued. The country's industrial sector import demand for capital and intermediate goods and raw materials was high. Excluding petroleum, these items constitute roughly two-thirds of total imports. The aggregate dollar value of these imports increased by 147% between 1978 and 1982 despite the decelerating growth of domestic output during the period. (See Appendix, Table 4). This could be attributed partly to the continuous high import-dependency of certain large industries such as chemicals, iron and steel, machinery and transport equipment, and partly to the growing demand for imported inputs coming from the new export-processing industries. The export processing industries were granted special duty-free privileges, and their payments for imports under these arrangements increased by more than 40% annually since 1975, representing the most rapidly growing item in the country's import bill. It is estimated that almost 60% of the materials for garments made in the export-processing zones were imported, while the import content of semi-conductor devices was a very high 90%.

2.08. On the other hand, more than one third of the dollar value increase in imports between 1978-1982 was accounted for by crude oil. Due largely to the precipitious rise in oil prices from less than $17 in 1979 to over $30 per barrel in 1980-81, oil import payments went up to $2.1 billion in 1982 from only $1.0 billion in 1978. This meant that a considerable share of the country's foreign exchange earnings was absorbed by payments for crude oil (almost 43% of the total merchandise export receipts in 1982). In terms of volume, however, there was a slight drop in crude oil imports during the 1978-82 period which reflects the increased production of energy from domestic resources.

2.09. However, during the first nine months of 1983 a 7.3% hike in the volume of crude oil importation occurred as the GOP rebuilt inventories drawn down to produce electricity as an eight-month drought cut back hydro power production. Given the country's energy requirements, it will be difficult to achieve more than a gradual reduction in crude oil imports despite the GOP's intensive energy program. The Government even altered the country's foreign exchange arrangements when reserves were exhausted in October, 1983 to ensure that dollars would be available for essential imports and other priority foreign exchange payments. Banks were required to turn in all their current foreign exchange receipts to the Central Bank (CB). These dollars constitute a pool which can be allocated to priority transactions such as oil imports, raw materials, supplies and spare parts and other needs of export industries, essential foodgrains and raw materials for vital domestic industries. In addition, the GOP reimposed import restrictions on several non-essential items, and placed CB and Board of Investments (BOI) clearance requirements on all imports. These measures will likely result in lower imports in the short-run, but they are hardly expected to substantially reduce the import-intensiveness of most industries once the foreign exchange crisis is over.

2.10. To a large extent, the overvalued peso exchange rate in recent years reinforced the import dependence of the economy by artificially cheapening imported equipment and raw material to the disadvantage of domestic producers. In contrast, exporters have been penalized through lower net peso returns for their output, weakening their competitive position in international markets. This situation has constrained the growth of exports and helped create the import-dependent, capital-intensive industrial sector that exists today.

3. Other Current Account Transactions.

2.11. There are three key items in the non-merchandise transactions which have become increasing important elements in the Philippine's BOP. These are payments for interest on loans, receipts from tourism, and overseas workers' remittances. (See Appendix, Table 5). Interest expenses have accounted for nearly half the total payments for services in recent years. As it is, interest payments on Philippine loans, especially on floating short-term debts, increased sharply from $304 million in 1978 to over $1.8 billion in 1982 due to higher interest rates in international capital markets. This aggravated the effects of the worsening terms of trade on the BOP. The London Inter-bank rate (LIBOR) on six-month deposits rose from an average of 9% in 1978 to 14% in 1980 and over 16% in 1981 and the first half of 1982. Such high international interest rates have raised inventory costs of primary commodities, thereby reducing further world demand for Philippine exports during this period. LIBOR rates in 1983 went down substantially (ranging from 9-11%) reducing the country's estimated interest payments for the year. The decline, however, may be short-lived as the current debt moratorium (which does not include interest payments) and the proposed restructuring of loans would probably allow lenders to charge an additional 1.0-1.5% interest over LIBOR.

2.12. Foreign exchange earnings from tourism and salary remittances of overseas workers kept the current account deficit from widening further. Earnings from tourism increased by more than 20% yearly prior to 1983 as a result of an extensive GOP marketing campaign and the development of tourist destinations outside Manila. Tourism receipts accounted for 15% of total dollar earnings from current account services for 1980-82. Income from tourism fell in 1983, in spite of the increasingly favorable peso exchange rate, because international publicity regarding the Aquino assassination and resultant social unrest caused a marked decrease in tourist arrivals.

2.13. The implementation of various measures to improve the remittances of contract workers abroad, especially in the Middle East, pushed the level up to $810 million in 1982. This is more than double the receipts recorded in the late '70s. In 1983, total remittances is estimated to have reach more than $1.0 billion. The major factors behind this uptrend include: the recent peso rate changes; the Central Bank's Foreign Exchange Incentive Raffle Program; the streamlining of institutional arrangements for transferring the remittances of overseas workers to their families; and, the involvement of more private banks in the remittance process. However, the growth of overseas employment in the Middle East has decelerated now that these countries are experiencing slower growth in oil revenues, and this will affect income remittances in the future.

4. Capital Account

2.14. About 60% of the current account imbalance in recent years was covered by a capital account surplus derived mostly from foreign loans. Net inflows of long-term loans over 1980-82 amounted to more than $1.4 billion annually, while net short-term financing totalled $1.4 billion during that period. The continuous inflow of foreign capital was facilitated by the availability of international credit for trade financing, and the relatively good credit standing of the Philippines in the world banking community during these years.

2.15. However, in 1983, an unstable world debt situation made increased lending to developing countries difficult. This adversely impacted on the Philippines as only one CB $300 million loan was successfully syndicated during that year. Other foreign loans were completed at smaller amounts than anticipated as international banks tried to maintain their total exposure within their respective "country ceilings." Consequently, improvements already underway in the current account were negated by lower capital inflows. Moreover, political uncertainties accelerated demands for repayment of short-term obligations while investments and other loan inflows ceased. The IMF did not release the full amount due the GOP under the January 1983 stand-by agreement mainly because of the need to clarify the GOPs' proposed measures to respond to the crisis.

2.16. Thus, as of September 1983, the capital account surplus in the BOP had declined by more than 60% compared to the level for the same period last year (from $1.7 billion to only $670 million). The net inflow of capital may have dropped further during the last quarter of 1983, however reliable information is unavailable. The unexpected dramatic erosion in the capital account forced the GOP in October to request the Philippines' international bank creditors for a 90-day moratorium on commercial loan principal payments, which was subsequently extended by another 90 days on January 17, 1983. The freeze on debt payments was intended to arrest the heavy outflow of short-term capital experienced in the previous months, while enabling the CB to avoid any further loss of its dwindling foreign exchange reserves. The debt moratorium will provide the GOP time to correct deficiencies in the country's external structure, to negotiate the rescheduling of foreign obligations maturing in the near term, and to seek out new funds from non-traditional sources, provided it can come to an agreement soon with the IMF and commercial bankers.

B. Exchange Rate

1. An Overvalued Peso.

2.17. The peso-dollar exchange rate, the general indicator of the strength of the peso in the international currency market, depreciated by almost 35%

during 1983.[1] Although the Central Bank maintains it officially pursues a flexible exchange rate policy which allows the value of the peso to fluctuate freely against other currencies in the official foreign exchange market,[2] the practice recently is in fact for the Government to regulate the rate through its controlled banks. This practice distorts the market signals and thwarts the purpose of having a flexible rate which keeps Philippine exports competitive in the world market, ensures that there is no artificial incentive to import or borrow abroad and establishes an equilibrium between the demand and supply of foreign exchange. The two large adjustments in the peso-U.S. dollar rate in 1983 are examples of this recent practice. The first was on June 23 when the peso-dollar exchange rate fell by 7.2% to 9.09 cents from 9.80 cents the previous day. The second de facto devaluation was on October 5, when the peso further declined in value from 9.09 cents to 7.14 cents. These changes were intended to correct the peso's overvaluation during the last ten years. The GOP now accepted the overvaluation problem as a key contributing factor to the current economic and financial crisis.

2.18. Historically, the peso-dollar rate hardly moved during the last half of the 1970s. (See Appendix, Table 6). From 1975 through 1980, the average value of the peso ranged from ₱7.25-₱7.51 to the U.S. dollar. Since the value of the dollar had weakened relative to most currencies in the years prior to 1978, Philippine exports were more competitive in the other countries. However, the trend changed and the dollar began to strengthen in 1978. With no substantial adjustments in the peso-dollar exchange rate, the peso thus began to effectively appreciate against the yen and other major foreign currencies, reducing the competitiveness of Philippine exports in these countries. It was only in mid-1981 that the peso depreciated against the dollar at an accelerated rate, but it had years of overvaluation to catch up and it is only with the major 1983 de facto devaluations that exports appear to be back to a competitive position.

2.19. Based on a simple method which compares the Philippine inflation rates with those in the U.S., the Center for Research and Communications (CRC) tried to measure the extent of the peso overvaluation over the past years by using

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1/ There are two ways of computing the amount of peso depreciation: one, on the basis of the foreign currency per peso (or \$/₱) and the other on the basis of a basket of foreign currencies per peso (i.e. the SDR). The 1983 depreciation figure is derived from the end-1982 dollar value of \$0.109 and end-1983 dollar value of \$0.071 per peso. However, because the rate is "de facto" controlled by the government, the proper conceptual term is devaluation rather than depreciation. The "de jure" position of the Central Bank is that market forces determine the rate and therefore depreciation is the proper term for a lowering in value of the peso.

2/ It must be remembered that not all foreign exchange transactions are permitted in the official market. Thus, there is a free market which meets the demand of those not permitted access to the official one. This provides another distortion in the market.

the derived difference in inflation rates as the pressure for the peso-dollar rate movement.1/ That study found that since 1972 such pressure built up by roughly 5% per year, while the peso-dollar rate depreciated by only 2.5% annually. Therefore, the peso was overvalued by almost 30% after a decade (2.4% annually). This implied that the peso-dollar rate should have risen from ₱6.7 in 1972 to at least ₱11 by 1982 instead of the actual average rate of ₱8.54.

2.20. The years of overvaluation adversely affected the performance and structure of the economy.2/ It reduced the competitiveness of Philippine exports and contributed to the continued heavy dependence of the domestic industry on imports by artificially cheapening imported capital goods and raw materials. It thus allowed the economy to generally favor imports over local production. Moreover, the peso overvaluation raised the computed rate of return on projects with high imported capital investment components to the detriment of more labor-intensive processes. It made foreign borrowings appear cheaper and more attractive, thereby encouraging the economy to expand money supply, domestic credit, and local financing of investment projects. These borrowings, in turn, allowed the GOP to take a countercyclical policy stance through higher expenditures during periods of domestic recession.

2.21. The 1983 peso depreciation made Philippine exports more competitive in the world market and served to discourage imports and to reduce the attractions of foreign borrowing. Also, the GOP will need to adopt austerity measures to scale down its import and investment programs to more modest levels dictated by foreign exchange receipts and domestic resource mobilization. Although further peso de facto devaluations are likely because of the country's huge BOP deficit, the present peso-dollar rate and related foreign exchange regulations should help improve the current account and compensate for the recent dollar outflows in the capital account. The free market peso-dollar rates have gone above ₱20 per dollar since November, nearly 50% higher than the official market rate. The very high free market rates, though, are related to non-economic factors which were encouraging capital flight, dollar smuggling, and further speculations on the peso exchange rate. In fact, by mid February, 1984 this rate has dropped dramatically to under ₱18.00 per dollar from a high of ₱22.50 per dollar in mid-January.

1/ CRC Senior Staff Memo, "Our Flaws are Showing" by J. Estanislao, December 1983. (Numbers adjusted by AID.)

2/ Although the overvalued peso was not the only reason, Philippine real GNP growth has decelerated since 1980, while the export quantum index increased annually by only 8.9% from 1978-82 compared to 14.4% in 1975-1978. Total import values, on the other hand, continue to rise by some 12.5% per annum during 1978-82 although this is due to higher import prices rather than volume.

C. External Borrowings and Debt Management

1. The Debt Crisis.

2.22. The Philippines has relied heavily on foreign borrowings in the past years to finance its import surplus and the foreign exchange requirements of investment programs. Prior to the request for the commercial debt payment moratorium in October 1983, the Central Bank had reported the country's total external debt was less than $20 billion. In its September quarterly report on the economy, the total outstanding external debt of the public and private sectors, including obligations to the IMF, was estimated at $18.7 billion as of September 30, 1983.1/ Of this total, some $14.3 billion or 79% was fixed-term borrowings with maturity of one year or more. The remainder was short-term revolving credits used principally for oil-trade financing and similar transactions. Thus, the country's officially reported total outstanding external debt of the non-banking sector as of September 1983 represent a five-fold increase over its $3.8 billion level in 1975. (See Appendix, Table 7). Roughly $11 billion or almost two-thirds of these total outstanding foreign borrowings have been incurred by the GOP and other public corporations and financial institutions.

2.23. However, when the foreign exchange liabilities of the domestic banking sector were included, the country's total external obligations were much higher. According to the CB, the foreign exchange liabilities of the monetary sector consisted of (1) commercial bank liabilities of $5.0 billion, and (2) Central Bank obligations of $1.7 billion. In addition, an unspecified amount of foreign exchange liabilities contingent on overseas contract performance had been guaranteed in part by GOP financial institutions and were additional to these figures. These monetary sector liabilities were incurred to cover the BOP deficits and to finance the foreign exchange assets of the banking system. Thus, the total foreign exchange liabilities of the country were calculated to be about $25.0 billion in mid-October 1983 (see table below), including some $9.5 billion in short-term obligations to private international banks.

2.24. Philippine foreign borrowings in the 1970s were facilitated by a highly liquid international capital market flooded with OPEC dollars. Credit terms were liberal and attractive, with low interest rates and 1-3 years maturity, enabling the economy to resort to heavy foreign borrowing. Thus, officially reported total outstanding external debt sharply rose from $3.8 billion in 1975 to $9.8 billion in 1979. About 80% of this was medium- and long-term obligations, mostly obtained by the GOP to finance the dollar requirements of its industrial, energy and infrastructure programs.

1/ See CB Governor Laya Memo to the President, "Economic and Financial Developments, January-September, 1983," Central Bank October 25, 1983.

Philippine Foreign Exchange Liabilities[1/]
(as of Oct. 17, 1983, in million $)

	Short-Term Trade	Short-Term Non-Trade	Medium- and Long-Term	TOTAL	% Share to total
Banking Sector	504.2	5,306.8	2,782.3	8,593.3	34.9
Commercial Banks	468.0	3,848.9	551.9	4,868.8	19.8
Central Bank	36.2	1,457.9	2,230.4	3,724.5	15.1
Non Banking Sector	3649.0	215.7	11,975.2	15,839.9	64.3
Public	1848.8	215.7	9,044.9	11,109.3	45.1
Private	1800.2	-	2,930.3	4,730.5	19.2
"Red Clause" Advances[2/]	198.4	-	-	198.4	0.8
Public	158.4	-	-	158.4	0.6
Private	40.0	-	-	40.0	0.2
TOTAL	4351.6	5,522.5	14,757.5	24,631.6	100.0

1/ Excludes contract performance guarantees by GOP financial institutions and obligations to the IMF.

2/ A form of trade finance.

Source: Central Bank

2.25. By 1979, the debt maturity structure of new loans started to shorten as opportunities for raising medium- and long-term funding became limited because of the worldwide recession and the shrinking volume of petrodollars. In turn, short term foreign currency swaps increased as a means of encouraging Philippine corporate and bank borrowers to obtain foreign financing on their own credit. Short-term revolving credits began to rise as a source of financing current business transactions. Meanwhile, as allocations from the IMF became insufficient in financing the growing BOP gaps, the Central Bank and the commercial banking system increased borrowings from commercial credits in order to meet BOP deficits and for foreign exchange reserve build-up and maintenance. These borrowings tended to be shorter in maturity as international credit tightened. The Philippines began to have a difficult time rolling over its short term foreign loans from commercial sources because of the pervasive nervousness over developing country lending, particularly to countries with high foreign exchange liabilities.

2.26. These developments adversely affected the country's international reserve position. It was further compounded after the Aquino assassination when normal 90-day short-term credits were reduced to two-week, one-week and even 24-hour call loans during the succeeding weeks. With many bank creditors asking for full repayment of what are usually revolving credits, the CB had to use its international reserves to fulfill its obligations. Illegal capital flight (via the free market and, possibly, over and under invoicing respectively of imports and exports) continued unabated despite the October 5 peso de facto devaluation. Consequently, the CB reported that by mid-October the country's international reserves amounted to $430 million, one quarter of the level in March 31, 1983 and equivalent to less than one month of imports. (In December 1983, the CB announced that it had overstated the gross international reserve figure by about $600 million for several months prior to September 1983. Nevertheless, the international reserves contraction during the August-October period is still substantial and considered extraordinary.)

2.27. The failure to reach an early agreement with the IMF for a new standby credit line which could have renewed confidence among bankers in the Philippines, and the refusal of a number of international commercial banks to restructure their loans forced the GOP to declare a 90-day moratorium on principal repayments on both public and private sector commercial loans beginning October 17, 1983. Interest payments, though, continued to be made on schedule but at slightly higher rates than the original agreement, at least through December. In effect, the "standstill" as the GOP called the move, meant an automatic 90-day rollover on all liabilities to be repaid up to Jan. 16, 1984. It saved an additional capital outflow estimated at $600 million which otherwise would have been made during the 90-day period. Indeed, without the debt moratorium, the country would have defaulted on these agreements and suffered greater financial problems.

2.28. The debt moratorium enabled the CB to build up a higher international reserve position by the end of 1983, slightly easing the pressures on the country's BOP. The GOP reported that its foreign exchange reserves amounted to $951 million by end 1983 due to dollar inflow coming from export receipts and from loan and grant proceeds of the World Bank, ADB and the U.S. Government. The debt moratorium has been further extended by another 90 days, while GOP negotiates with the private commercial banks and IMF for a financial plan which will allow the restructuring of almost $10 billion worth of commercial loans due to mature in 1984 and 1985. For government-to-government debt, a Paris Club meeting is being sought to disucss rescheduling; and in the interim at least since January, it appears that the GOP is defaulting on payment of principal and interest to at least two donors.

2. Debt-Service Ratio.

2.29. By law, the GOP is required to keep the country's total debt service on all fixed term credits (excluding payments to IMF) below 20% of the previous year's total foreign exchange receipts. This conservative definition coupled with the liquidity in the international capital market during the 1970s made it possible for the GOP to keep the debt-service ratio within the statutory 20% ceiling. Up to 1979, the country's annual debt-service ratio under this definition ranged between 14 to 18% (See Appendix, Table 8). The ratio would be about 2 percentage points higher if GOP payments to the IMF were included. However, as a result of the sharp increase in interest payments and lower levels of foreign exchange receipts in the previous year, the debt-service burden rose from less than 16% in 1977 to 19.1% and 19.4% in 1981 and 1982, respectively.

2.30. Obviously, the rising debt-service ratios were not attractive to most private bankers and this affected the country's credit standing in international capital market. This was exacerbated by doubts of the veracity of the official figures as they appeared to have been made to comply with the statutory ceiling. Based on a debt-service ratio definition of amortization and interest payments on medium- and long-term external borrowings as a percentage of exports of goods and services as used by the IMF and World Bank, the country's debt-service burden increased sharply from 16% in 1980 to 20% in 1981 and 27% in 1982. The sharp uptrend reflected an ominous level that presaged the debt crisis of 1983.

III. Domestic Sector

A. Output and Prices.

1. Sectoral Performance

3.01. Adverse external and domestic economic conditions over the past few years led to the deceleration in the annual growth of real GNP to an average of only 3.2% during 1980-82, compared to the average annual 6.5% growth rate during the 1970s. Real GNP growth in 1983 has dropped further to 1.4%, the lowest in over two decades. The depressing effects of the deteriorating external terms of trade on profits and investments, the recent world recession, and the repercussions of the 1981 financial crisis and the political/economic crisis in 1983 largely contributed to the poor performance. Moreover, a major part of the slow growth can also be attributed to prior inefficient industrial investments which are now an uncompetitive burden on the economy, diverting scarce resources away from new, productive investments.

3.02. Most sectors of the economy experienced depressed growth rates during 1980-82 reflecting the weak world and domestic demand conditions that have prevailed since 1980. (See Appendix, Tables 9-11). Annual growth of manufacturing output, which was about 6.5% yearly during the 1970s, decelerated to 2.8% during 1980-1982. Real output of the mining and quarrying sector dropped 9% between 1980 and 1982 because of low world mineral prices. This reversed the 7.7% annual real growth of the mining sector in the previous decade. The annual increase in the value-added in commerce of 4.4% during the 1970s dropped to 2.4%, largely reflecting the disruptive effects of the 1981 domestic financial crisis and a substantial slowdown in retail and wholesale trade. Meanwhile, the output of the agricultural sector was affected by unfavorable weather, including several typhoons in 1981. This resulted in a lower 3.4% annual growth in agricultural sector value added during 1980-82 compared to the 4.9% annual average growth during the '70s.

3.03. During the early part of 1983, the economy started recovering from the 1980-82 slump. Real output grew by 3% during the first six months. Influenced by the economic recovery underway in the country's major trading partners (i.e., the U.S. and Japan), the value added of the manufacturing and mining sectors rose by 4.3% and 7.3%, respectively, during the first semester of 1983. The commercial sector rose by over 5% as trade, financing and housing activities picked up. However, the agricultural sector did not fare as well because an eight-month drought which started in September 1982 resulted in lower production of rice, sugar and coconuts. The sector's total value added for the first half of 1983 dropped 1% below its corresponding level in 1982.

3.04. On the other hand, the economic scenario changed dramatically during the latter part of 1983. The two major peso de facto devaluations, the subsequent imposition by the GOP of import controls and foreign exchange allocations, and the political turmoil in the aftermath of the Aquino assassination severely affected manufacturing and business activities. Interest rates rose sharply due to the tight credit situation resulting from recent GOP monetary policies and to the uncertainties in the economic and political climate. Interbank rates rose to as high as 55% in December, while the prime lending rate increased by as much as 5 percentage points over its July level of 18 percent. Consequently, the output of the import-dependent industrial sector was reduced sharply by shortages in imported raw materials, while trading activities were hampered by the high cost of borrowing and a substantial hike in the prices of goods and services. The operations of banks and other financial institutions were hindered by massive deposit withdrawals and reduced earnings resulting from the tight foreign exchange regulations and the low loan repayment rate of borrowers. Agricultural output continued to be constrained by the effects of the earlier drought, and the adverse impact of higher peso costs or unavailability of fertilizers, feedgrains, and other agricultural inputs. As a result, the sector failed to make gains in the second half of 1983 despite improved coconut oil prices in the world market. Near term prospects are not much brigher.

2. Income and Investments.

3.05. Poor performance in the agricultural sector coupled with the business recession, rapidly rising prices due to shortages, and peso exchange rate changes should cause the real income of a large majority of the population to fall significantly. The dollar value of real per capita GNP in 1983 declined to a level similar to that in 1980. Considering the country's skewed income distribution, it is believed that the drop in income will be most severe among low-income families in urban and rural areas. Real wages of urban workers seem to have substantially declined since the mid-70s despite higher legislated minimum wages. (See Appendix, Table 12). Moreover, minimum wages do not seem to be widely observed and coverage is not considered significant, particularly in the agricultural sector where many persons are self-employed. In the rural areas, incomes have been affected by the deteriorating agricultural terms of trade. (See Appendix, Table 13). This is due partly to external factors such as the second oil crisis and the fall in coconut prices, and partly to domestic policies which have generally kept food prices down through price controls. While international coconut oil prices have more than doubled in recent months compared to a year ago, the income of coconut farmers has not paralleled this increase because of lower yields caused by typhoons and droughts. In fact, the income of coconut farmers in real terms in late 1983 is still 47% below its level in 1979 when coconut oil prices were last at their peak.1/

3.06. Fixed capital formation (investment) has risen only at a 3.1% annual rate since 1980. This is much lower than the 10.8% annual growth rate recorded in the 1970s and reflects the recent domestic recessionary conditions. Gross domestic savings in more recent years has covered less than

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1/ USAID Memo, Effects of Recent Developments on the Coconut Farmers, January 9, 1984.

80% of total investments. As a result, the investment/saving gap as a percentage of GNP has risen from 5.2% in 1978 to more than 7% in 1982 and 6.5% in 1983. (See Appendix, Table 14). This is far off the GOP targets in the previous Five-Year Plan where the investment/saving gap was projected to be reduced to 3% of GNP and the dependence on foreign savings reduced to 10% of gross investments by 1982. Aside from poor domestic saving mobilization, a major problem with past investments lies in the fact that little impact seemed to have been made on improving income and output. The country's incremental capital to output ratio (ICOR),1/ which measures the amount of capital investment needed to produce one more unit of output, has almost doubled from an acceptable average of 3.4 in 1976-1978 to an unsustainable 6.6 in 1980-1982. (See Appendix, Table 15). The latter level is inappropriately high in a labor surplus economy. The ICOR stood at a phenomenal 23.2 in 1983 but this has to be regarded as an anomaly indicating the seriousness of the domestic recession which occurred during the year and the continued large investments made in 1982 by the Government and its public corporations in projects with long gestation periods (e.g. energy and major industrial projects).

3.07 The dramatic increase in the ICOR shows that investments have not been efficient and wastage of capital resources has occurred. Many of these investments are now proving to be unviable and a burden on the economy. It is apparent that capital has not been treated as a scarce resource because of the low interest rates and the availability of liberal credit from abroad. Thus the returns from these investments have been very disappointing.

3. Inflation and Prices.

3.08. Increases in consumer prices in the past years had been influenced largely by domestic oil price hikes and subsequent increases in utility rates as the GOP passed on the oil and foreign exchange cost increases to consumers. With more stable domestic oil prices during the year, inflaction had declined to 10% in 1982 from about 17% in 1979 and 1980. (See Appendix, Tables 16-17). It continued to decelerate steadily in the first half of 1983, reaching as low as 6% in April. However, the June and October de facto devaluations have triggered a wave of price and cost adjustments, including increases of 30% in fuel prices, 20-30% in rice, meat and other basic food items, and 20% in transportation costs. Prices of goods with significant imported inputs have risen by 50 to 150%. Together with the impact of a 19% hike in minimum wages and cost-of-living allowances, these increases pushed up inflation to as high as 25% during the last quarter of 1983, bringing the average inflation to 10% for 1983 and much worse prospects for 1984.

1/ The World Bank definition of ICOR is the ratio of fixed capital formation in the previous period to the current increase in gross domestic product (GDP) over the previous period.

3.09. As a matter of policy, price ceilings are imposed by the GOP on selected commodities, primarily basic food items and fuel products. Generally, the prices of controlled or regulated commodities are adjusted to reflect economic conditions to allow producers to restore their cost margins. However, recently these adjustments have not been timely or reflected real conditions of increasing input costs. This has led to many disputed interventions and upset normal marketing procedures. Rice, corn, milk, sugar and meat products are the most important food items which are under strict GOP price controls. Transportation and utility rates are also regulated by various GOP agencies. In instances where the price of a product is not controlled, the GOP sometimes intervenes in other ways. This happened when the contents of a few warehouses were confiscated by the government during some panic buying of soap and other commodities in late 1983. The government offered these goods for sale and warned hoarders to reestablish normal supply levels. This worked effectively to control a potentially damaging situation. In another less effective case, the National Food Authority (NFA) recently took over the distribution of flour in response to reports that millers had been hoarding flour or indiscriminately raising prices. It has been reported that the price increases are greater with NFA involved, that shortages still remain, and that distribution is inefficient. Local manufacturers recently have been admonished by the GOP for alleged overpricing and/or causing supply shortages. Price ceilings have since been applied to other intermediate and consumer goods such as tires, textile products and construction materials. While the GOP has tended towards less market intervention in the past, it is apparent that recent political and economic events have caused a reversal in this trend. There are indications that the government is not effective in doing this, and, in fact, is damaging the very market systems which provide competition and keep prices under control.

B. Structural Reforms

3.10. Since 1980, the GOP has been implementing a package of economic reforms designed to correct the import-substitution and capital-intensive biases of the country's trade and industrial policies. Financially supported by the World Bank through $502 million in two Structural Adjustment Loans (SAL), the reform programs aim at accelerating manufactured exports and increasing their backward linkages, promoting efficient import substitution, and encouraging regional dispersal of industry. The program's first phase is focusing on trade, industrial and financial policies. Major trade policy reforms have been instituted to increase the efficiency and international competitiveness of the domestic industrial sector by lowering the overall level of protection and reducing the disparity in tariff rates within and between sectors. The five-year tariff reform program is expected to reduce the average effective protection rate for the manufacturing sector from 44% to 29%, and for the whole economy from 36% to 23% by 1985. To complement the tariff realignment, the GOP has taken steps to liberalize imports by removing restrictions on over 70% of 1,304 restricted items.

3.11. At the same time, the GOP has undertaken industrial restructuring and rehabilitation programs designed to assist existing industries produce at lower costs, improve efficiency and increase competitiveness in order to adjust to policy changes. A program for restructuring the cement industry is currently underway, mainly to convert cement plants from oil to coal-fired kilns. A similar rehabilitation program had been initiated with World Bank assistance for the textile industry to modernize its equipment and enable it to become more efficient. The textile program did not succeeded because of uncertain international and domestic markets and loan terms which exceeded risk and return factors. Reforms in financial policies were also instituted to increase savings and the availability of longer-term finance, as well as reduce the fragmentation and inefficiency of financial institutions. Towards this end, the GOP has deregulated most interest rates on loans and deposits, provided fiscal incentives for long-term lending and equity investments, and revised banking legislation to encourage expansion of multipurpose banking. The deregulation of interest rates has not appeared to work. Little movement was observed for many months. However, with the current economic crisis there seems to be more competition and the rates have moved up slightly. The issue of interest rate flexibility needs to be looked into if money markets and investment decisions are to be influenced by rational economic factors.

3.12. The current, second phase of the structural adjustment process extends reform programs in the industrial sector, continues ongoing trade policy changes and initiates reforms in the energy sector and in public resource management. A major revision of the industrial investment incentives system has been undertaken to correct market failures and distortions in order to improve the efficiency of investment, increase labor absorption and improve regional allocation of investment. The new incentives would allow market forces to play a greater role in guiding industrial investments, while reducing the GOP's Board of Investments (BOI) excessive control in regulating entry into a particular industry. However, foreign investors still complain about inconsistent application of rules and slow bureaucratic responses. This problem when coupled with the recent political/social unrest is apparently causing many investors to look elsewhere. Trade policy reforms have involved the adjustment to lower tariff rates and further elimination of import restrictions. The GOP has initiated policy reforms for the energy sector which aim at reducing the country's heavy dependence on oil imports, improving the efficiency of energy use, and strengthening a significant area of public resource management.

3.13. Implementation of the structural adjustment program has so far been good in most areas. There has been some slippage, though, in the implementation of the import liberalization program with the imposition in mid-1983 of new restrictions on imports as a harbinger of the foreign exchange crisis. Import restrictions on some non-essential items were reimposed, duties raised, and the CB and BOI required prior approval of most imports. The GOP has indicated that it would gradually lift these restrictions in 1984 when local economic conditions improve as anticipated. The World Bank loan for the textile industry rehabilitation program has been rechannelled into an $120 million Export Development Fund for the raw materials of export-oriented industries.

3.14. A new phase of the program is scheduled to start in 1985. It would likely involve policy reforms in agriculture as well as further reforms in the energy sector and public sector resource mobilization. The relatively poor performance of several major crops in recent years has highlighted the need to address key issues with respect to the allocation and efficiency of investment in the agricultural sector, as well as institutional issues, which call for structural changes. The GOP, together with the World Bank, will initiate studies in all these areas which would provide the basis for the formulation of structural reforms in the agriculture sector in the near future.

C. The IMF Standby-Program.

3.15. The Philippine Government drew on a series of IMF stand-by credit agreements to provide short-term financing, not available elsewhere, for its BOP deficit. These agreements, in turn required the GOP to meet certain conditions designed to improve the BOP. These conditions included a comprehensive set of policies for budgetary adjustments, restrictive monetary policy, flexible foreign exchange rate management, restrictions on foreign borrowings, and structural reforms. There were two IMF stand-by programs in recent years: one covering 1980-81, and the other in 1983.

3.16. The 1980-81 stand-by program responded to a deteriorating external situation brought about by the oil price hike and the falling terms of trade. Demand management policies were designed to reduce inflation and to contain the BOP deficit. However, a severe domestic financial crisis in early 1981 (the Dewey Dee scandal) forced the GOP to modify monetary and fiscal policies, with large-scale emergency assistance being extended by the Central Bank to financial institutions to restore confidence in the financial system. Fiscal policy became more stimulative in 1981 as expenditures were adjusted upward to counteract the worldwide recession and the domestic financial disruption. With GOP revenues barely increasing, the overall budget deficit widened considerably from ₱3.4 billion in 1980 to ₱12.2 billion in 1981. Still, the stand-by program was successful in achieving a substantial deceleration of inflation from 19% in 1979 to 12% in 1981, and in containing the increase in the current account deficit to around 45% only, despite the doubling of oil prices. The 3.8% real GNP growth in 1981, however, fell short of the Plan's target of about 6% due to the weakened demand conditions.

3.17. There was no stand-by program in 1982 even though the economic environment deteriorated further. The deficits in the current account and the overall BOP reached record-highs, while real GNP growth declined to under 3%. The failure to have a stand-by program during the year was attributed to the GOP's continued implementation of expansionary fiscal policies (although there also appeared to be some disagreement regarding GOP national accounting data, e.g. real GNP growth in 1981). The budget deficit in 1982 was the most prominent area of slippage in policy implementation. Although the 1982 budget had aimed at a significant reduction in the deficit to facilitate external adjustment, the deficit was larger both in absolute terms (₱14.4 billion) and as a percent of GNP (4.2%) than in 1981, reflecting a shortfall in revenues and unsuccessful attempts at expenditure restraint.

3.18. A new stand-by program was approved in February 1983 after additional policy actions were taken in late 1982 to arrest the deterioration in the BOP and the budget. These actions included adopting a more flexible exchange rate policy and more stringent controls on GOP expenditures. The IMF agreed to provide some $550 million in stand-by credits and compensatory financing to the GOP, which would have been released in several tranches in 1983. As part of this agreement, the GOP adopted relatively tight fiscal, monetary, and external policies to reduce the budget and BOP deficits. Budgetary expenditures were to be reduced from 15.5% of GNP in 1982 to 13.6% of GNP in 1983, mainly through cutbacks in equity contributions and net lending to public corporations. This meant a fiscal deficit of ₱9.4 billion or 2.4% of GNP. In turn, the public corporations were to increase their internal cash generation or cut back on their investment programs to adjust to the lower level of government capital infusions. Total revenues as a percent of GNP were expected at nearly the same level as in 1982 with the implementation of additional revenue measures including higher import duty surcharges and specific taxes on petroleum, tobacco and alcoholic products.

3.19. The program's monetary policy during 1983 was aimed at supporting adjustments in the external accounts and ensuring an adequate share of credit for productive investments in the private sector. A stringent credit policy was to be adopted particularly with respect to the public sector, and in the growth of liquidity in 1983 compared with 1982. Meanwhile, the GOP was to continue pursuing a flexible exchange rate policy to improve the competitiveness of Philippine exports. The program had also set limits on new approvals of external debt on medium- and long-term borrowing of 1-12 year maturity to $1.6 billion, subject to a sub-limit on borrowing of 1-5 year maturity of $100 million. Only $1.0 billion of these loans could come from the commercial banks. Short-term debts were also to be closely monitored to avoid a net increase in such obligations, except for trade financing purposes. The tight monitoring on external borrowings helped ensure that these were used to finance trade- and project-related requirements and shared equally by the public and private sectors. The implementation of these policies were subjected to a mid-term review in June 1983. At this review the GOP's overall performance was found unsatisfactory although budget deficit targets had been met. Future drawdowns of IMF stand-by credits were held up while discussions were underway to adjust the terms of the agreement. In effect, the agreement was abrogated.

3.20. Due to the severe foreign exchange crisis, the GOP requested in October 1983 a new stand-by credit arrangement with the IMF, to supercede the earlier one, amounting to $650 million. This is intimately linked to a total financial rehabilitation plan which must be agreed to by the commercial banks affected by the debt moratorium. The last public figure of estimated 1984 financial needs was $3.3 billion in new money. Negotiations have been underway since October but continued data problems have significantly slowed the compilation of a final package that is agreeable to all parties. Any proposed agreement with the IMF would no doubt require the GOP to take steps to further moderate credit expansion, to further reduce the government budgetary deficit, to improve the finances of public corporations, and generally to dampen further demand for foreign exchange and speculation against the peso.

3.21. While the targets are not known at this time we assume that the 1984 budget deficit will be reduced to about 1.5% of GNP from the old targetted level of 2.0% of GNP (despite an expected higher inflation rate and the effects on the budget of 1983 peso depreciation). This will be achieved by expenditure restraint, mostly through cutbacks on equity contributions to GOP corporations and financial institutions. Monetary policy measures will continue to be generally restrictive in order to control the expansion of net domestic assets of the banking system and penalize rediscounting at the Central Bank. The exchange rate will be allowed to fluctuate freely or a two tiered system will be installed with flexibility in at least one rate.

D. Public Finance

3.22. Budgetary developments in recent years generally showed a weakening of revenues relative to GNP and unsuccessful efforts to contain the budget deficit through compensating expenditure restraint. This is a sharp contrast to the situation during the late 1970s when the overall budget deficit remained manageable at levels equivalent to less than 1.0% of GNP. Total GOP revenues, nearly 90% of which were tax receipts, grew by 13.6% annually from 1975-1979. Expenditures, on the other hand, rose by a slightly higher 14.7% during the same period, partly due to increased public investments in energy, transportation, and other infrastructure projects. With the economy growing steadily at 6.5% per year and the availability of external financing, the GOP felt comfortable to embarking on capital-intensive projects.

3.23. Under recessionary conditions during 1980-82 the GOP chose fiscal policies to become more expansionary in order to compensate for the sluggishness in private sector activities. Furthermore, in the wake of the financial crisis in early 1981, total budgetary expenditures rose sharply when the GOP had to increase its equity contributions and lending to financially distressed private companies and financial institutions. Revenues fell substantially short of the GOP targets due to depressed economic conditions and a sharp decline in the income elasticity of tax revenue, reflecting problems in tax administration. Consequently, the overall budget deficit increased dramatically from ₱0.30 billion in 1979 to ₱12.2 billion (4% of GNP) and ₱14.4 billion (4.2% of GNP) in 1981 and 1982, respectively. (See Appendix, Table 18). Significantly, the actual 1982 fiscal deficit was 44% greater than the programmed level for the year. To finance these huge deficits, the GOP relied on bank credit and foreign borrowings to a greater extent than before.

3.24. The GOP took additional steps in late 1982 to arrest the deteriorating fiscal deficit through more stringent control of expenditures. A budgetary program for 1983 was formulated as part of the IMF stand-by agreement to reduce the overall deficit to ₱9.4 billion (2.4% of GNP). This was to be achieved through severe expenditure restraints, resulting in a decline in the ratio of expenditures to GNP from 15.5% in 1982 to 13.6% in 1983 and, to a lesser extent, through new revenues amounting to about 0.5% of GNP. The total programmed cash budget of ₱52.9 billion was about the same level as 1982, implying a reduction in real terms. The bulk of adjustment came from a 44% reduction between the 1982 and 1983 appropriation levels in equity contributions and lendings to public corporations and financial institutions. This reversed the large increases which took place in the preceding years. Other capital expenditures were maintained at same level as in 1982, while current expenditures were increase by about 17%, mainly because of an 85% rise in interest payments on GOP debts.

3.25. However, the worsening BOP situation and the rapid depreciation of the peso during the year required further adjustments in the GOP's 1983 budgetary program. The targetted budget deficit was revised downwards to ₱7.6 billion (2.0% of GNP) amidst an inflationary environment. GOP revenue collections were projected to rise by some 4% due to effects of the peso's depreciation on prices and on nominal GNP. The level of programmed disbursements, however, was slightly reduced even though the GOP had to pay higher interest on foreign loans and to grant increases in allowances (i.e. ₱100/month/person) of its personnel.

3.26. GOP corporations were adversely affected by the austerity measures. Allocations in 1983 for corporate equity contributions were reduced to ₱4.0 billion or 51% of their original appropriated level. This was also 50% below the actual 1982 level of $8.0 billion. The public corporations adjusted to these sharp reductions by scaling down their investment programs and by generating additional funds from internal sources. Accordingly, capital investment of the major public entitles was reduced by as much as 15% from the 1982 level of ₱17.3 billion. This entailed the postponement of six of the eleven GOP major industrial projects, and the deceleration in the implementation of other capital projects. Similarly, the National Power Corporation (NPC), which absorbs almost half of all GOP corporate capital investment, reduced its investment outlays sharply in 1983 by deferring the initiation of several power generation projects, and accelerated the implementation of tariff increases to generate an estimated ₱600 million in additional revenue. The Metropolitan Waterworks and Sewerage System (MWSS) postponed certain investment outlays with an estimated savings of about ₱300 million, while implementing a substantial tariff increase. As a result, the internal generation of resources by these corporations increased from ₱3.0 billion in 1982 to an estimated ₱4.0 billion in 1983.

3.27. The GOP was unable to reduce the budgetary deficit through greater resource mobilization in the past years despite the imposition of numerous new tax measures. The previous Five-Year Development Plan for 1978-82 had targetted an increase in GOP and local government tax revenues from 12.5% of GNP in 1975-76 to an average of 14.6% of GNP during that period. However, the actual tax effort was only 12.3% of GNP in 1978-80 and then dropped to 11.0% in 1981-1982 under the impact of a sluggish domestic economy. The shortfall from the GOP revenue targets was primarily in the area of domestic taxation although taxes on international trade also did not improve as much as expected. Trade related revenues increased by an average of 11.8% annually during 1978-82 versus the 16% Plan target partly because of the structural adjustment program's tariff restructuring program which started in 1980. Given the considerable existing tax legislation, the relatively poor revenue performance indicated that tax administration has not improved over the past years.

3.28. The resource mobilization performance of public corporations and financial institutions had also been very weak. During the past years, public entities (e.g. NPC and MWSS) were financing less than 10% of their investment programs from internal cash generation. They became heavily dependent on GOP contributions. By developing-country standards, the 10% internal generation factor was low; in Thailand, for example, public corporations are financing 25% of their investment from internal sources.1/ The low proportions were attributable to such factors as unreasonably low tariffs charged by the entities, poor collection performance, and large investments in new projects which were not yet compensated for by other revenue-generating activities. These corporations were thus a great burden on taxpayers, most of whom were probably poorer on average than the major consumers of these corporations' services.

3.29. In the case of GOP banks, i.e. the Philippine National Bank (PNB), Development Bank of the Philippines (DBP) and the Land Bank (LB), their revenue performance was poor because of widespread loan defaults as well as the relatively low interest rates charged lenders under specialized credit programs. DBP and LB were collecting only one-third of the debt-service due to them, while the loan recovery performance of PNB was only slightly better.2/ As a result, these institutions continued to depend on GOP contributions and GOP-guaranteed borrowings. GOP support to these banks included GOP cash balances maintained on deposits, which were effectively unavailable for disbursement for budgetary purposes. The GOP raised the lending rates of these institutions in 1982 in consonance with the overall rationalization of interest rates in the economy. However, GOP policies allowed these banks to convert bad loans into equity for several financially-distressed large companies and hotels which served to exacerbate the poor loan recovery performance of public financial institutions.

1/ World Bank, "The Philippines: Selected Issues for the 1983-87 Plan Period," June 1, 1982, pp. 26-27.

2/ Ibid., p. 21.

IV. Near-Term Prospects

4.01. The Philippine economy faces bleak prospects in the 1984-85 near-term. The business recession will continue; there will be greater unemployment and double-digit inflation; imports will be reduced to essential commodities; foreign and domestic private investment will virtually cease; and, economic growth will be at best minimal. Regarding the external accounts, the BOP deficit for the next few years will likely be much lower than the over $2.0 billion in 1983, but this will be primarily because of stringent trade and foreign exchange controls rather than higher dollar earnings. Workers' remittances may be a bright spot in the near term but that will depend on how the Government handles the exchange rate issue. Tourism earnings probably won't recover until some time in 1985, and this depends more on how social and political events unfold in the near term. On the other hand, domestic conditions will remain weak because of the slowdown in industrial activities, a tight credit market, and lower consumer purchasing power. Real output is projected by most private sector economists to decline in 1984, accompanied by sharp reductions in consumer spending.[1/] Investment will decelerate in the wake of reduced public spending and the lack of private sector risk taking because of anxieties over the country's political situation. Real income will thus continue to decline as high inflation rates erode the buying power of both households and businesses. The recession may be so deep as to require special Government employment and food aid programs in urban as well as rural areas. Some economists believe it will take at least five years for the economy to recover 1982 real income levels, redirect investment into productive areas, and achieve the 6% annual growth rate experienced during the 1970s.

A. External Sector

4.02. The current debt moratorium and expected forthcoming restructuring of Philippine obligations maturing in 1984 and 1985 should provide the economic managers sufficient time to formulate a new financial plan covering the next few years without having to contend with further deterioration in the BOP. The plan will require the inflow of some new commercial foreign loans, mostly in the nature of long-term working capital financing arrangements or short-term trade-related credits. In the immediate months ahead, the GOP has to rely on official development assistance from international development banks and friendly countries to provide the foreign exchange needed to allow the replenishment of the country's international reserves and to continue financing essential imports. Commercial sources will not provide new money until the entire package is negotiated and approved by the IMF.

1/ The Private Development Corporation of the Philippines (PDCP) in its analysis of the performance and prospects of the domestic economy forecasts GNP to decline by as much as 5% in 1984, CRC forecasts a 1% contraction in GNP during the year.

4.03. The short-term current account picture depends to a large extent on the amount of new capital inflows. As stated earlier, the GOP is seeking an additional $3.3 billion in new loans from both commercial and official sources to finance the current account deficit and other foreign exchange requirements in 1984. Without this money only essential imports could be maintained. The deficit on current account transactions will be lower compared to previous years primarily due to a restrictive trade environment. Imports will be generally limited to only the essential items until new letters of credit can be opened, probably during the second half of 1984. Import restrictions will likely be retained for the most part of the 1984-1985 period. On the other hand, exports will register only gradual improvements because of their heavy reliance on imported inputs, in spite of the on-going economic recovery abroad. While overseas contracts are becoming more difficult to get, official remittances of income from Filipino overseas workers are expected to increase markedly from the $1.0 billion level of 1983 due to relatively higher peso-dollar rates and a more effective system of fostering remittances.

4.04. Certain key developments with respect to the foreign exchange rate are expected to occur as part of an agreement with the IMF. Strong pressures from the IMF and private bankers should influence the GOP to adopt a more realistic exchange rate policy. Further depreciation of the peso is possible, given the very large BOP deficits the past two years. In addition, a two-tier (or even a multi-tier) exchange rate system may be adopted which will allow the peso-dollar rate to reflect domestic market demand for foreign exchange as well as to ensure that dollars will be available for essential imports at lower cost. Because of the acute foreign exchange shortage, the peso exchange rate to the dollar in the free market is presently 28% higher than the official rate. A two-tiered system will tend to formalize the existing free market, with a lower peso-dollar rate for key imports like oil, and a higher floating or flexible rate for all other transactions. The objective of establishing such a system will be to capture dollars currently in the free market to finance the foreign exchange needs of industries.

B. Domestic Sector

4.05. The short-term aftershocks of the economic crisis are expected to be severely felt in the domestic modern sector, affecting a large number of industries and financial institutions including those belonging to the top 1,000 corporations. The difficulties of obtaining raw materials from abroad will lead to the closure of many establishments of all sizes. One estimate, by the Center for Research and Communication, is that at least 300,000 workers will be laid-off in Metro Manila alone during 1984. Most of them will come from import-dependent firms catering to the domestic market, including those engaged in automotive assembly, chemicals, pulp and paper, metal fabrication, pharmaceuticals and personal care products. In addition, it is highly unlikely that many new jobs will be created for the 650,000 new entrants to the labor force. Operations of financial institutions will be hampered by the low repayment rates of borrowers, illiquid assets, and slower growth of savings arising from the business recession. Banks will continue to experience runs as depositors will be wary of financially-troubled institutions.

4.06. The dramatic increase in unemployment is expected to be accompanied by high inflation. Both the GOP and private research entities anticipate inflation to reach at least 25% in 1984 before tapering off in succeeding years. Several cost-push factors will continue to accelerate price increases in the near-term. Commodity shortages due to the scarcity of imported inputs will result in higher prices for consumer and industrial goods. High borrowing costs brought about by a tight domestic credit market will lead to increased production costs which are normally passed on to consumers. Further depreciation of the peso will also trigger price adjustments. While the GOP is expected to temper price increases to keep inflation down, this will be difficult in view of both the pressures from various sectors (business, households, wage-earners) to protect their purchasing power and/or profit margins, and the undesirability of imposing price controls on all goods or introducing public subsidies. On the other hand, austerity measures being adopted by the GOP to reduce the budget deficit and domestic liquidity will affect both public and private consumption expenditures, possibly serving to ease some pressures on inflation.

4.07. The GOP's budgetary program in the next few years is aimed at bringing the fiscal deficit back to a sustainable level consistent with the external adjustments being made to improve the BOP. This will entail an austere expenditure program. For 1984, the originally-approved budget of ₱59.5 billion is only 11% higher than the previous year's final level despite the expected higher inflation rate. This has been further reduced to ₱57.6 billion to meet the expected IMF target. GOP current expenditures and debt amortization will be slightly higher than the 1983 level because of the effects of a higher peso exchange rate. However, this will require a hefty 24% reduction in capital outlays, mostly in infrastructure spending and equity contributions to public corporations. With revenues expected to increase by only 13% over the past year, the budgetary deficit is expected to be ₱6.5 billion or 1.5% of GNP in 1984. The ratio of the deficit to GNP is expected to decline further in the succeeding years through greater expenditure restraint, particularly in capital outlays. Such cutbacks in capital expenditures will reduce investment outlays of public corporations, possibly leading to the postponement of a number of GOP projects and to the deceleration in the implementation of others.

8. Monetary policies in the near-term will be restrictive in support of efforts to reduce the BOP and budget deficits. In particular, credit growth will be much lower than the average 20% recorded in the past years since strict quarterly ceilings will probably be imposed on the level of net domestic assets (NDA) of the banking system. The NDA is a leading indicator of the credit supply situation, and its expansion has been a contributory factor to the BOP difficulties and large fiscal deficits in the past. The recent increases in reserve requirements on deposits and the limited use by CB of its rediscounting facilities will basically reduce domestic liquidity and

push interest rates upwards. Unlike previous years, it is expected that the composition of credit flows will shift toward the private sector in order to provide sufficient bank resources for domestic economic activity. However, the high cost of borrowing will be detrimental to producers already burdened by more expensive raw materials and inputs and higher transportation cost. Savings, like private investments, are unlikely to improve significantly in the short-run owing to the crisis of confidence in the country's financial and political stability.

4.09. Given the prevailing economic environment, there may be strong temptation for the GOP to backtrack on some of the policy changes which have been underway for several years to improve the efficiency of Philippine industry and the competitiveness of its products abroad. The GOP has so far stated that it is committed to pursuing the structural reforms program in spite of the current difficulties. At the same time, however, it has to pursue an austerity program to reduce both the bulging fiscal and BOP deficits in order to get new financial assistance from the IMF and private banks. While not entirely contradictory, an austerity program may force the GOP to adopt policies such as additional import restrictions and exchange rate controls which would not be favorable to the structural adjustment process.

4.10. The medium-term economic outlook, 1986 to 1990, could be more promising. The present crisis may yet serve as an unexpected catalyst for the needed restructuring of the economy. While the economy and its policy makers are long used to overprotective import-biased industrialization and trade policies, there appears to be little alternative but to change these policies in response to the external adjustment program which should bring out a more productive and efficient economy able to sustain a satisfactory rate of real growth. Fundamental structural changes which alter past inappropriate economic policies could improve labor absorption, increase domestic resource mobilization and enhance efficiency in the use of factors of production. This will require that the agriculture and small industry sectors be given as much emphasis as the export sector is already receiving to increase income and employment.

4.11. The AID assistance strategy for the Philippines over this medium-term is being reexamined as articulated in the Lines of Inquir y Paper. However, it is not expected to be radically different from the current strategy which covers most of this period and which sets sustained and more productive employment for the rural poor as its overall goal. Many of AID's current programs are already actively engaged in these sectors. The Rainfed Resources Development Program is starting the process to enhance the income of a segment of the rural poor by making farming systems in rainfed areas more productive. The Rural Private Enterprise Development Program will promote and develop rural industries to generate greater non-farm employment opportunities. The Local Resource Management Program is improving resource mobilization and management in rural areas for activities that could also generate more productive employment.

4.12. Investments in areas where the Philippines has a comparative advantage (e.g. those which use more labor-intensive processes) will be important in increasing the efficient use of scarce capital resources. Refinements in the country's export-oriented development strategy will reduce the adverse effects of a free trade system. As important, political reforms and institutional changes could go a long way in restoring the people's confidence in the economy and its management. This is all very speculative as it will take enlightened dynamic leadership to pull this together, to convince the people of the need for sacrifice now, and to implement the necessary policy changes.

V. Long Term Key Development Concerns.

5.01. It is impossible today, not knowing what policy prescriptions the Government will choose to address its immediate economic difficulties, to predict with any confidence how the long-term development of the Philippines will progress. Many of the problems which the country faces are transitory in nature and will likely disappear once foreign exchange becomes available and the budget deficit is reduced. However, there are other problems which fundamentally influence the longer term development prospects for the country. These problems include: 1) continued implementation of policies designed to foster productive and efficient investment in areas of the country's comparative advantage; 2) equitable pricing and marketing policies which do not discriminate against agriculture, 3) increased domestic resource mobilization through market-determined interest rates and equitable public sector taxing and revenue measures, and 4) reestablished positive, and dynamic investment climate with low political and social risk and with minimal expectations of direct Government intervention in the market place or indirect favoritism given certain enterprises. These cannot be considered the only long-term problems the country faces (e.g. the rate of population growth is still a very serious issue), however they represent some of the more important concerns which will have to be addressed in order to move the country back onto a realistic development path.

A. Continued Implementation of Structural Reforms.

5.02 It is widely accepted that the implementation of the structural adjustment program is a key factor in strengthening the balance of payments and industrial structure of the country over the long-term. Large BOP and current account deficits, respectively, of 4-5% and 8-9% of GNP which the Philippines has experienced in the last two years, cannot be sustained without serious repercussions on the economy. The continued implementation of structural reforms is therefore necessary to enable the domestic economy to achieve sustainable rates of growth through positive returns on efficient investments.

5.03. The efficiency of resource utilization is a critical determinant in output growth. The structural adjustment program's objective to improve the allocation and efficiency of investment will in turn limit the economy's reliance on foreign borrowings and reduce the current account deficit to more sustainable levels at 2-3% of GNP. This would allow the GOP to make reasonable progress in its development. The current inefficiency of investment in the manufacturing sector, for example, has been attributed to excessive protection, to non-economic incentives for investment, and to a credit allocation system which appears to be more concerned with whom you know than with what you want to do.

5.04. Market forces, not GOP intervention and controls, should be allowed to play the resource allocation function and create a more competitive environment for investments and economic development. Therefore, the GOP should continue to implement reforms in the tariff structure, in import controls, and in the investment incentive system. More broadly, the Government should maintain a realistic flexible exchange rate policy, deregulate interest rates completely, and remove subsidies in energy and other sectors. It is imperative that AID and other external donors encourage and support the GOP to continue pursuing the reforms program notwithstanding the prevailing serious economic difficulties.

B. Agricultural Pricing and Marketing Policies.

5.05. The agriculture sector is expected to be the mainstay of the economy during the difficult years ahead. Its output and performance, though, are highly dependent on a policy environment which provides appropriate returns and incentives to farmers. Specifically, GOP pricing and marketing policies in this sector will strongly impact on rural employment and income. In the past, real agriculture product prices declined amidst farm inputs price increases. This adversely affected the profitability of farming and reduced incentives to invest in more productive farm technology. In most instances, low prices resulted from GOP interventions to control agricultural prices for the benefit of consumers and/or to nationalize processing and marketing of food and commercial crops to the detriment of producers. These policies and their effects on rainfed agricultural development are subject to active review under the research component of the Rainfed Resources Development Program sponsored by AID.

5.06. A policy aimed at sharing benefits between farmers and consumers of improved agricultural productivity arising from GOP programs seems appropriate. The best situation for the poor would be if food prices rose more slowly than wages since food accounts for two-thirds of the expenditures of low-income families. However, it would be inequitable to the farmer if the impact of increased production were to be entirely offset by falling output prices. Artificially low support prices of rice and corn, and low retail prices of sugar and livestock products to satisfy urban consumers have serious negative economic consequences on production, distribution and marketing. Unfavorable agricultural terms of trade not only discourages production but can exacerbate an already high rural-to-urban migration problems.

5.07. Coconut and sugar are key agricultural crops in terms of land use, employment and export earnings. GOP policies favoring the monopolies controlling these industries should be reassessed. Total output of both export crops have not been improving due mainly to the discouraging low prices, and to inefficiencies which have pushed production and/or processing costs above those of the country's competitors. These inefficiencies have been spawned by extensive GOP interventions through the monopolies in the pricing and marketing aspects of these crops, which have served to effectively reduce rather than improve net returns to coconut farmers and sugar producers.

5.08. In the same manner, several parastatals dominate the marketing and distribution of other major crops and inputs. These include the trading and distribution of rice for exports, yellow corn, feedgrains, and wheat; the production and marketing of tobacco and cotton; and, the importation of fertilizers. The almost exclusive control of GOP entities in these sectors should be phased out to encourage more competition and equitable prices to producers. The old rationale that multi-tiered delivery and marketing channels would be inefficient can no longer be accepted as the non-competitive systems fostered by GOP policy have shown themselves to be not only inefficient but inequitable as well.

C. Increased Domestic Resource Mobilization.

5.09. An austere budget with restrictive expenditure policies will improve the immediate deficit situation. However, there is an urgent need for greater domestic resource mobilization to maintain a higher investment level necessary for future growth. The present crisis has highlighted the inherent weakness of the country's public finances as well as the low level of domestic savings vis-a-vis investment. Total GOP revenues have fallen sharply from more than 15% of GNP in the late 70s to less than 13% of GNP since 1981. Despite the significant number of new tax measures which have recently been instituted, the country's already low tax revenue-to-GNP ratio declined further to 11% in 1982. Total domestic savings has remained pegged at around 25% of GNP since the late '70s, causing the investment-savings gap to widen from 5.2% of GNP in 1978 to about 7.0% of GNP in 1982-1983. This is another reason why foreign borrowing grew so rapidly over the last five years.

5.10. Undoubtedly, substantial additional efforts in resource mobilization, particularly in the public sector, are required if the economy is to achieve growth rates comparable to the 1970s, and if the GOP's new development targets will be met. There are several areas in which public revenues could be enhanced. These include: improved tax administration and the elimination of all the special exemptions which permeate the system; greater internal cash generation by public corporations; improved loan collection performance of GOP financial institutions; and increased tax collections of and additional taxing powers to local governments. Efforts have already been initiated under the Local Resources Management Program supported by AID to identify, analyze and alleviate the problems in improving local government's real property tax collections and fiscal management. Private saving, in turn, could be mobilized by a free market interest rate policy which provides sufficiently attractive returns to depositors. This issue is currently being studied by the GOP with AID financing. It could possibly result in an activity dealing with a range of issues concerning rural finance.

D. GOP Involvement in Private Sector Activities.

5.11. The GOP's involvement in business has become quite pervasive in recent years to a point that more than 90 public corporations are now engaged in finance, utilities, industrial development, agricultural trading, transportation and other normally non-governmental economic activities. In addition, there are over a hundred financially-distressed establishments whose assets have been taken over by GOP financial institutions in an attempt to rehabilitate them. Most of these firms relied heavily on debt financing for their operations and the investments have gone bankrupt partly as a result of the financial crisis in 1981 and the subsequent prolonged economic recession. A good number of the firms seemed to enjoy special privileges from the GOP.

5.12. Aside from the large amount of scarce financial and management resources that the GOP spends in maintaining these firms, the continued public sector involvement in normally private sector activities raises major development policy concerns. These concerns relate to the prevailing inefficiency of capital utilization in the economy, and to the ease with which the GOP could use its regulatory powers to favor its position in the market under the present political structure. Common sense dictates that businesses which are not viable should be allowed to dissolve. The GOP should be encouraged to divest itself of establishments which have been successfully rehabilitated, and of enterprises which are best suited to be run by the private sector. The GOP should resort to fewer interventions in private sector actions and allow a more competitive, open-market system, if it wishes to restore investor confidence in the economy.

5.13. Finally, there has been an important gap in the articulation of many development policies and their implementation which serves to reduce the credibility of the GOP and the effectiveness of these policies in the long-run. Some of the gaps can be attributed to such factors as poor absorptive capacity, inappropriate timing, overly ambitious programs and targets, and bureaucratic red tape. But often they are the result of strong pressures from powerful groups likely to gain from any divergence from the stated policy. Together with the recently revealed errors in key economic and financial data, the inconsistencies between GOP rhetoric and performance have undermined the confidence of foreign investors, private bankers and multilateral donors in the sincerity and effectiveness of the country's policy-makers. A more serious effort to pursue stated policies is easily the first step towards the successful attainment of development targets and objectives. The Rural Private Enterprise Program which has just been initiated is AID's way of assisting the GOP carry out its enunciated policies to foster the growth and development of small and medium rural enterprises.

Table 1
Balance of Payments, 1978-83
(In Million US $)

	1978	1979	1980	1981	1982	1983 1/
I. Current Transactions						
A. Merchandise Trade	(1307)	(1541)	(1939)	(2224)	(2679)	(1763)
Exports	3425	4601	5788	5722	5021	3741
Imports	4732	6142	7727	7946	7700	5504
B. Non-Merchandise Trade	(178)	(390)	(546)	(541)	(1164)	(750)
Inflow	1413	1576	2075	2664	2721	2188
Outflow	1591	1966	2621	3205	3885	2938
C. Transfers	312	355	434	472	486	330
Inflow	322	369	451	485	498	338
Outflow	10	14	17	13	12	8
Current Account Total	(1173)	(1576)	(2051)	(2293)	(3357)	(2183)
% of GNP	4.8	5.3	5.8	6.0	8.6	
II. Non-Monetary Capital						
D. Long-Term Loans	891	1151	1032	1332	1473	913
Inflow	1850	2110	1579	2072	2348	1715
Outflow	959	959	547	740	875	802
E. Direct Investment	171	99	45	407	292	374
Inflow	205	225	266	480	469	479
Outflow	34	126	221	73	177	115
F. Short-term Capital (Net)	168	(49)	784	188	423	(607)
G. Errors and Omissions	(143)	(264)	(348)	(621)	(204)	n.a
Non-Monetary Capital, Total	1087	937	1513	1306	1973	670
H. Monetization of Gold	32	41	128	400	277	171
I. Allocation of SDR	-	28	29	27	-	-
III. Overall Balance of Payments	(54)	(570)	(381)	(560)	(1107)	(1342)
% of GNP	0.2	1.9	1.1	1.6	2.9	

1/ January to September data only.

Source: Central Bank

Table 2
Philippine Foreign Trade Indices, 1978-1983
(1972=100)

	1978	1979	1980	1981	1982	1983 1/
A. Imports						
1. Quantum Index	140.9	153.8	155.8	143.2	163.4	153.8
2. Price Index	245.8	289.4	358.6	398.6	340.5	364.0
3. Value Index	346.3	445.2	558.5	570.8	556.3	555.4
B. Exports						
1. Quantum Index	152.6	166.8	201.3	203.5	215.0	206.5
2. Price Index	192.1	236.1	246.0	240.6	199.9	203.0
3. Value Index	293.1	393.8	495.4	489.7	429.7	417.7
C. Net Terms of Trade	78.2	81.6	68.6	60.4	58.7	55.8

1/ January to September only.

Source: Central Bank

Table 3
Exports by Commodity Groups, 1978-1983
(FOB Value in Million US $)

	1978	1979	1980	1981	1982	1983 1/
Coconut Products	872	965	781	718	590	571
- Coconut Oil	585	683	537	501	401	426
- Others	287	282	244	217	189	145
Sugar	216	240	657	609	445	301
Forest Products	362	536	468	469	362	296
Mineral Products	554	831	1031	758	532	402
- Copper Concentrates	250	440	545	429	312	232
- Gold	76	103	239	215	169	139
- Others	228	288	247	114	51	31
Fruits and Vegetables	177	214	365	378	374	195
Non-Traditional Manuf.	1076	1520	2108	2572	2461	2154
- Garments	326	404	500	618	539	477
- Electrical equip. & Comp.	253	412	671	838	1000	964
- Handicrafts	100	134	154	134	122	57
- Others	397	570	783	1019	800	656
Other Exports	168	295	378	218	257	522
TOTAL	3425	4601	5788	5722	5021	4441

1/ January to November only.

Source: NEDA, 1983 Philippine Statistical Yearbook

Table 4
Imports by End-Use, 1978-1983
(FOB Value in Million US $)

	1978	1979	1980	1981	1982	1983 1/
A. Capital Goods	1401	1785	1986	1929	1800	1541
- Machinery & Transp. Eqpt.	1330	1705	1860	1801	1682	1364
- Others	71	77	126	128	118	177
B. Raw Materials & Intermediate Goods	1884	2476	2856	2886	3033	2773
- Wheat	85	106	149	151	158	135
- Chemicals	522	670	741	766	743	707
- Iron and Steel	304	438	399	325	423	341
- Materials for garments manuf.	121	125	142	188	150	126
- Materials for electronic equipment manuf.	219	351	549	625	712	691
- Others	633	786	876	831	847	773
C. Mineral Fuel & Lubricants	1030	1385	2248	2458	2105	1936
- Crude Oil	907	1115	1857	2081	1784	1577
- Others	123	270	391	377	321	359
C. Consumer Goods	417	496	637	679	762	594
- Food & Food Prep.	211	248	343	434	492	371
- Others	206	248	294	245	270	223
TOTAL	4732	6142	7727	7952	7700	6844

1/ January to November only.

Source: NCSO

Table 5
Current Account: Services, 1978-1983
(In Million US $)

	1978	1979	1980	1981	1982	1983 1/
Receipts						
Freight & Insurance	82	91	100	106	101	48
Other Transportation	57	71	106	138	73	18
Travel	210	238	320	344	450	220
Direct Investment Income	2	13	5	5	4	2
Interest on Loans	179	200	336	519	365	176
Public Sector	150	172	318	509	236	176
Private Sector	29	28	18	10	29	-
Government	204	193	233	259	281	146
Personal Income	291	365	421	546	810	484
Other Services	388	405	583	747	663	382
TOTAL	1413	1576	2075	2664	2747	1476
Payments						
Freight & Insurance	411	471	568	533	596	243
Other Transportation	91	170	192	248	220	105
Travel	51	74	106	126	147	139
Direct Investment Income	85	95	159	128	158	66
Reinvested Earnings	62	58	39	62	44	22
Interest on Loans	440	626	975	1374	1911	869
Foreign Curr. Deposits	43	90	197	218	261	169
Foreign Loans	397	536	778	1156	1650	700
Government	104	92	121	110	107	67
Other Services	408	473	629	624	761	457
TOTAL	1591	1966	2621	3205	3944	1968

1/ January to June only.

Source: Central Bank

Table 6
Philippine Peso Exchange Rate Movements1/
1975-1983

	Peso/US $	US $/Peso	Trade Weighted Index2/ Nominal	Real3/
1975	7.25	0.138	100.0	100.0
1976	7.44	0.134	99.3	97.6
1977	7.40	0.135	96.1	94.6
1978	7.37	0.136	86.7	86.8
1979	7.38	0.136	88.1	96.9
1980	7.51	0.133	86.7	100.8
1981	7.90	0.127	85.6	102.5
1982	8.54	0.117	85.0	108.5
1983	11.22	0.089	n.a.	n.a.
Dec. 1983	14.00	0.071	n.a.	n.a.

1/ All figures are period averages
2/ A decrease in the number indicates a depreciation
3/ Adjusted for changes in relative consumer price index changes.

Sources: Central Bank
IMF reports, Philippine Request for Stand-by Arrangement, 1982 and 1983.

Table 7
Total Outstanding Philippine External Debt[1/]
1975-1983
(in billion US $)

	1975	1979	1980	1981	1982	1983[a/]
I. Fixed Term Credits	3.09	8.11	9.71	11.37	13.08	14.12
Private Sector[2/]	1.54	3.33	3.92	4.56	5.41	5.47
Public Sector	1.55	4.78	5.79	6.81	7.67	8.65
A. Short-term[3/]	0.13	0.19	0.07	0.11	0.74	0.44
Private Sector[2/]	0.13	0.12	0.06	0.08		
Public Sector	-	0.07	0.01	0.03		
B. Medium-term[4/]	0.40	0.44	0.73	0.87	0.86	1.14
Private Sector[2/]	0.16	0.10	0.18	0.09		
Public Sector	0.24	0.34	0.65	0.78		
C. Long-term[5/]	2.57	7.48	8.91	10.39	12.15	12.93
Private Sector[2/]	1.25	3.11	3.78	4.39		
Public Sector	1.32	4.37	5.13	6.00		
II. Revolving Credits	0.71	1.66	2.99	3.45	4.39	4.57
Private Sector	0.28	1.13	2.02	1.68	2.06	1.94
Public Sector	0.43	0.53	0.97	1.77	2.33	2.63
TOTAL	3.80	9.78	12.70	14.83	17.47	18.69
Private Sector	1.82	4.47	5.93	6.24	7.46	7.41
Public Sector	1.98	5.31	6.77	8.58	10.01	11.28

a/ as of September 30, 1983

1/ excludes IMF allocation of SDR 116.6 million and banking sector foreign-exchange liabilities.
2/ includes loans contracted by the government sector relent to the private to the private sector through financial institutions to finance agriculture, manufacturing and export-oriented projects.
3/ maturity period of less than one year
4/ maturity period ranging from one to five years
5/ maturity period of more than five years

Source: Central Bank.

Table 8
Philippine Debt Service and Debt-Service Ratio
1974-82
(in million US $)

	Total Debt-Service1/	Foreign Exchange Receipts2/	Debt-Service Ratio3/ (in %)
1974	479	3382	14.2
1975	459	4632	9.9
1976	655	4454	14.7
1977	943	5289	17.8
1978	1007	5593	18.0
1979	1254	6741	18.6
1980	1472	7874	18.7
1981	1758	9203	19.1
1982	2244	11567	19.4

1/ Total amortization and interest payments on fixed-term credits except those with maturities of less than one year, and excludes repaymentS to IMF.

2/ Foreign exchange receipts of the preceding year.

3/ Ratio of total debt service to foreign exchange receipts during the preceding calendar year as defined under Republic Act No. 6142, as amended.

Sources: NEDA, Philippine Five-Year (1978-82) Development Plan
IMF Report, Philippine-Request for Standby Arrangement, April 1982
Central Bank

Table 9
Expenditure on Gross National Product, 1978-1983
(In billion pesos at constant 1972 prices)

	1978	1979	1980	1981	1982	1983 1/	Average Annual Growth Rate (in %) 1970-79	1980-83
Personal Consumption	54.1	56.5	59.3	61.6	63.5	65.5	4.8	3.4
Gen. Govt. Consump.	7.8	8.0	8.3	8.6	9.1	9.1	7.3	3.1
A. Comp. of empl.	4.1	4.3	4.6	4.9	5.1	5.2	3.9	4.2
B. Other Expenditures	3.7	3.7	3.7	3.7	4.0	3.9	13.5	1.8
Gross Domestic Capital Formation	23.1	26.3	26.6	27.2	26.4	25.3	10.4	(1.6)
A. Fixed capital formation	19.1	22.1	22.7	23.5	23.8	23.2	12.1	0.7
1. Construction								
a) Govt.	4.3	5.8	4.8	5.2	5.5	4.3	30.8	(3.5)
b) Private	5.0	5.5	6.3	6.8	7.2	7.7	8.8	6.9
TOTAL	9.3	11.1	11.1	12.0	12.7	12.0	15.3	2.6
2. Durable equip.	9.9	11.0	11.6	11.5	11.2	11.2	9.6	(1.1)
B. Increase in stocks	4.0	4.2	3.9	3.7	2.6	2.1	4.2	(15.4)
Exports of Goods and Nonfactor Services	14.0	15.7	18.1	17.9	17.5	17.8	20.5	(0.6)
Imports of Goods and Nonfactor Services	16.4	18.8	19.5	18.9	19.5	19.1	7.3	(0.7)
Statistical Discrepancy	0.2	0.6	(0.1)	(0.3)	2.0	1.7	-	-
Expenditures on Gross Domestic Product	82.8	88.3	92.7	96.2	99.1	100.1	6.3	2.6
Nonfactor income from abroad	0.3	0.4	(0.1)	(0.2)	(0.4)	(0.1)	-	-
Expenditures on Gross National Product	83.1	88.7	92.6	96.0	98.7	100.0	6.6	2.6

1/ Advance estimates.

Source: National Income Accounts, NEDA

Table 10
Industrial Origin of Gross Domestic Product
at Constant 1972 Prices
(In million pesos)

	1978	1979	1980	1981	1982	1983 1/	Average Annual Growth Rate (in %) 1970-79	1980-83
Agriculture, Fishery & Forestry	21.6	22.6	23.7	24.6	25.4	24.8	4.9	1.5
Industry Sector	29.6	32.3	33.5	35.0	35.8	36.0	8.9	2.4
- Mining	1.8	2.1	2.2	2.2	2.0	2.1	7.7	(1.5)
- Manufacturing	21.1	22.2	23.2	24.0	24.5	25.1	7.3	2.7
- Construction	5.9	7.1	7.1	7.9	8.2	7.7	17.0	2.7
- Utilities	0.8	0.8	0.9	1.0	1.1	1.2	8.9	10.1
Service Sector	31.6	33.4	35.5	36.6	37.9	39.2	5.2	2.0
- Transp., Commun. and storage	4.5	4.6	4.8	5.0	5.2	5.3	9.4	3.4
- Commerce	16.9	18.1	19.3	19.6	20.4	21.4	4.4	3.5
- Services	10.2	10.7	11.3	11.9	12.4	12.5	5.0	3.4
Gross Domestic Product	82.8	88.3	92.7	96.2	99.1	100.1	6.5	2.6

1/ Advance estimates.

Source: National Income Accounts, NEDA.

Table 11
Industrial Origin of Gross Domestic Product
(In billion pesos at current prices)

	1978	1979	1980	1981	1982	1983 1/
Agriculture, Fishery and Forestry	47.3	55.5	61.8	69.4	76.2	82.1
Industry Sector	62.0	79.8	98.2	111.6	122.9	137.4
- Mining	3.3	5.8	8.1	6.8	6.1	6.8
- Manufacturing	44.4	54.1	66.0	75.2	83.1	95.0
- Construction	12.5	17.8	21.3	26.3	29.7	30.6
- Utilities	1.7	2.1	2.8	3.3	4.0	5.0
Service Sector	69.3	85.2	106.1	124.3	141.3	161.4
- Transp. commun. & storage	9.9	12.4	16.4	19.6	21.4	24.1
- Commerce	40.0	50.1	62.6	72.4	82.5	96.1
- Services	19.4	22.7	27.1	32.3	37.4	41.1
Gross Domestic Product	178.6	220.5	266.0	305.3	340.4	380.8
Percent Distribution						
Agriculture, Fishery and Forestry	26.5	25.2	23.3	22.7	22.4	21.6
Industry Sector	34.7	36.2	36.9	36.6	36.1	36.1
- Mining	1.8	2.6	3.0	2.2	1.8	1.8
- Manufacturing	24.9	24.5	24.8	24.6	24.4	24.9
- Construction	7.0	8.1	8.0	8.6	8.7	8.0
- Utilities	1.0	1.0	1.1	1.1	1.2	1.3
Service Sector	38.8	38.6	39.9	40.7	41.5	42.4
- Transp. commun. & storage	5.5	5.6	6.2	6.5	6.3	6.3
- Commerce	22.4	22.7	23.5	23.7	24.2	25.3
- Services	10.9	10.3	10.2	10.6	11.0	10.8
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0

1/ Advance estimates.

Source: National Income Accounts, NEDA.

Table 12
Legislated Effective Minimum Daily Wages1/, 1972-1983
(In Pesos)

	Agriculture2/		Non-Agriculture3/	
	Nominal Wage	Real Wage4/	Nominal Wage	Real Wage
1972	4.75	4.75	8.00	8.00
1973	4.75	4.06	8.00	7.02
1974	5.34	3.40	9.98	6.56
1975	5.74	3.43	10.65	6.47
1976	7.09	3.86	12.81	7.33
1977	9.47	4.68	15.18	8.05
1978	10.55	4.86	16.27	8.02
1979	13.51	5.36	23.19	9.62
1980	17.28	5.83	29.85	10.51
1981	18.53	5.56	30.70	9.70
1982	19.65	5.25	31.82	8.91
1983	21.73	5.42	35.40	9.18
1984 (Jan)	25.86	5.60	42.07	9.28
1972-1983 Average Annual Growth Rate (%)	14.8	1.2	14.5	1.3

1/ Include stipulated daily minimum wages and cost of living allowances
2/ for workers in non-plantation areas
3/ for workers in non-agricultural firms located in Metro Manila
4/ nominal wages deflated by the consumer price index (1972=100) for areas outside Metro Manila for agriculture, and Manila for non-agriculture.

Source of Basic Data: National Wage Council.

Table 13
Terms of Trade of the Agricultural and Food Sectors
(1972=100)

	Agricultural Terms of Trade			Food Terms of Trade		
	Agric'l Prices1/	Non-Agrc'l Prices2/	Terms of Trade	Food Prices3/	Nonfood Prices4/	Terms of Trade
1975	181.3	159.7	1.135	163.1	182.0	0.896
1976	187.3	180.6	1.048	172.4	198.9	0.867
1977	207.2	196.3	1.056	203.6	220.6.	0.923
1978	218.9	214.6	1.020	221.7	240.1	0.923
1979	245.7	251.1	0.978	256.9	280.5	0.916
1980	260.2	296.2	0.878	291.0	339.9	0.856
1981	281.9	329.2	0.856	347.0	382.2	0.908
1982	300.2	360.7	0.832	394.2	425.9	0.926
1983a/	330.4	397.5	0.831	419.7	448.4	0.936

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a/ January to June only for food and non-food prices.

1/ Based on the implicit price index of the gross domestic value added of the agricultural sector.
2/ Based on the value-weighted average of the implicit price indices of the industrial and services gross value added.
3/ Based on the wholesale price index of locally produced food for home consumption in Metro Manila for 1975-1980, and general wholesale price index for food in Metro Manila for 1981-1983.
4/ Based on the weighted average of consumer price indices for areas outside Metro Manila for clothing, housing and miscellaneous items.

Sources: World Bank, The Philippines: Selected Issues for the 1983-1987 Plan Period, p. 134 for 1975-1980 data

NCSO

National Income Accounts, NEDA

Table 14
Investment and Saving Ratio, 1978-1983
(As a percent of GNP at current prices)

	1978	1979	1980	1981	1982	1983[1/]
Gross Domestic Capital Formation	29.0	31.2	30.6	30.7	28.9	26.9
a) Fixed capital formation	23.8	26.0	25.7	26.1	25.8	24.5
1. Government	5.8	7.3	6.2	6.6	6.7	5.1
2. Private	18.0	18.7	19.5	19.5	19.1	19.4
b) Increase in stocks	5.2	5.2	5.0	4.6	3.1	2.4
Gross Domestic Saving	23.8	26.7	25.5	25.7	21.6	20.4
a) Capital Consumption Allowance	9.4	9.3	9.3	10.1	10.3	10.4
b) Net Domestic Saving	14.4	17.4	16.2	15.6	11.3	10.0
1. Households	5.4	6.7	5.8	6.5	4.0	2.2
2. Corporations	5.5	6.7	5.5	5.3	4.5	4.4
3. Government	0.4	5.3	5.0	3.8	2.8	3.4
Investment/Saving Gap	5.2	4.5	5.1	5.0	7.3	6.5

Source of Basic Data: National Income Accounts, NEDA

Table 15
Incremental Capital/Output Ratios for the Philippines[1/]
1971-1983

	Increase in Real GDP	Fixed Capital Formation (Previous Year)	Capital-Output Ratio	3-Year Moving Average
	(in million pesos)			
1971	2512	7919	3.2	-
1972	2549	8690	3.4	2.8
1973	4856	8831	1.8	2.7
1974	3208	9085	2.8	2.4
1975	4222	11382	2.7	2.8
1976	4601	15037	3.3	3.1
1977	5028	16310	3.2	3.4
1978	4807	17108	3.6	3.4
1979	5549	19138	3.4	4.0
1980	4360	22113	5.1	5.0
1981	3501	22737	6.5	6.6
1982	2890	23542	8.1	12.6
1983	1028	23838	23.2	-

1/ The ICOR is defined as the ratio of fixed capital formation in the previous period to the current increase in gross domestic product (GDP) over the previous period.

Source of basic data: National Income Accounts, NEDA

Table 16
Consumer Price Index, 1978-83 1/
(1978=100)

	Phils.	Manila	Areas Outside M. Manila	CPI Annual Growth Rate (in %) Phils.	Manila	Areas Outside M. Manila
1978	100.0	100.0	100.0	-	-	-
1979	116.5	118.8	116.2	16.5	18.8	16.2
1980	137.0	140.0	136.6	17.6	17.8	17.6
1981	157.1	158.7	156.8	14.8	13.4	14.8
1982	173.2	176.1	172.6	10.2	11.0	10.1
1983	190.5	195.3	189.7	10.0	10.9	9.9
Jan	178.7	182.0	178.1	6.9	6.9	7.3
Feb	179.6	182.4	179.0	6.7	6.5	6.7
Mar	180.0	182.4	179.6	6.4	6.2	6.5
Apr	180.9	183.7	180.4	6.2	6.2	6.2
May	182.2	184.3	181.8	6.7	6.1	6.8
June	184.4	187.2	183.9	7.3	7.5	7.3
July	188.8	193.3	188.0	8.0	8.5	7.8
Aug	192.2	195.4	191.6	9.1	8.7	9.2
Sept	193.0	195.8	192.5	9.1	8.7	9.2
Oct	195.4	200.7	194.4	10.3	11.7	10.0
Nov	207.2	219.4	204.9	16.7	22.4	15.6
Dec e/	224.0	236.6	222.3	26.1	32.3	25.3

e/ estimates

1/ Data for 1979 and 1980 have been adjusted to a 1978 base year using the percent changes in their previous indices based on 1972 = 100.

Source: NCSO

Table 17
Consumer and Wholesale Price Indices by Items
(1978=100)

	1981	1982	1983 1/	Percent Changes 1981-82	1982-83
CPI Philippines					
Food	149.8	162.5	173.4	8.5	6.7
Clothing	162.0	178.2	191.4	10.0	7.4
Housing and Repairs	154.7	180.5	199.4	16.7	10.5
Fuel, Light & Water	211.6	240.0	276.6	13.4	15.3
Services	171.1	192.9	212.9	12.7	10.4
Miscellaneous	153.3	165.9	177.6	8.2	7.1
All Items	157.1	173.2	187.5	10.2	8.3
CPI Manila					
Food	153.8	165.9	175.5	7.9	5.8
Clothing	154.3	179.0	201.2	16.0	12.4
Housing and Repairs	140.0	163.9	191.1	17.1	16.6
Fuel, Light & Water	204.8	229.6	256.5	12.1	11.7
Services	184.2	208.3	221.3	13.1	6.2
Miscellaneous	149.4	163.1	181.0	9.2	11.0
All Items	158.7	176.2	191.5	11.0	8.7
General Wholesale Prices in Metro Manila					
All Items	159.2	176.3	195.5	10.7	10.9
Food	156.5	178.4	201.0	14.0	12.7
Beverages & Tobacco	147.2	160.2	172.9	8.8	7.9
Crude Materials, except fuel	139.6	164.9	199.0	18.1	20.7
Mineral fuels	255.1	260.9	250.3	2.3	(4.1)
Chemicals	137.7	147.5	176.3	7.1	19.5
Manufactured Goods	162.8	170.3	179.6	4.6	5.5
Machinery & Trans. Eqpt.	136.9	155.2	168.9	13.4	8.8
Misc. Manuf. Items	157.7	173.6	183.1	10.1	5.5

1/ As of November only

Source: NCSO

Table 18
National Government Cash Budget, 1980-84
(in billion ₱)

	1978	1979	1980	1981	1982	1983		1984
						Program	Latest Estimate	Proposed
Revenue	24.0	29.5	34.7	35.9	38.2	43.5	45.2	51.1
Tax Revenue	20.5	25.9	30.5	31.4	32.8	38.0	39.6	39.2
Non Tax Revenue	3.5	3.6	4.2	4.5	5.4	5.5	5.6	11.9
Expenditure	26.2	29.8	38.1	48.1	52.6	52.9	52.8	57.6
Current Expenditure	19.2	20.6	24.5	26.4	30.8	36.1	36.4	41.8
Capital Expenditure 1/	7.0	9.2	13.6	21.7	21.8	16.8	16.4	15.8
Overall Surplus/deficit	-2.2	-0.3	-3.4	-12.2	-14.4	-9.4	-7.6	-6.5
Financing	2.2	0.3	3.4	12.2	14.4	-9.4	n.a.	n.a.
Foreign Borrowing (net)	1.9	3.2	2.1	6.0	2.2	3.0	n.a.	n.a.
Gross Borrowing	2.3	3.7	3.0	6.7	3.1	4.7		
Less: Amortization	0.4	0.5	0.9	0.7	0.9	1.7		
Domestic Borrowing (net)	0.3	-2.9	1.3	6.2	12.2	6.4	n.a.	n.a.
Banking System	-1.0	-1.2	1.2	5.3	9.1	4.5		
Nonbank Sector	1.3	-1.7	0.1	0.9	3.1	1.9		
Overall surplus/deficit as a percentage of GNP	-1.2	-0.1	-1.3	-4.0	-4.2	-2.4	-2.0	-1.5

1/ includes GOP equity contributions and net lending.

Source: Office of Budget and Management