Thirty-Second

ANNUAL REPORT 1980

CENTRAL BANK OF THE PHILIPPINES
Manila, Philippines

RESPONSIBILITIES AND OBJECTIVES OF THE CENTRAL BANK

"It shall be the responsibility of the Central Bank of the Philippines to administer the monetary, banking and credit system of the Republic.

"It shall be the duty of the Central Bank to use the powers granted to it under this Act to achieve the following objectives:

"(a) Primarily to maintain internal and external monetary stability in the Philippines, and to preserve the international value of the peso and convertibility of the peso into other freely convertible currencies and

"(b) To foster monetary, credit and exchange conditions conducive to a balanced and sustainable growth of the economy."

—Section 2, Article II.
Republic Act No. 265, as amended.

CENTRAL BANK OF THE PHILIPPINES

MONETARY BOARD MEMBERS

JAIME C. LAYA
Chairman
Governor, Central Bank of the Philippines

CESAR E. A. VIRATA
Minister of Finance

GERARDO P. SICAT
Director—General
National Economic and Development Authority

ROBERTO V. ONGPIN
Chairman, Board of Investments

CESAR C. ZALAMEA

PRINCIPAL OFFICERS

JAIME C. LAYA
Governor

GABRIEL C. SINGSON
Senior Deputy Governor

Deputy Governors

ESCOLASTICA B. BINCE   EUGENIO NIERRAS, JR.

JUAN QUINTOS, JR.   CARLOTA P. VALENZUELA

This listing of Monetary Board Members and Principal Officers is as of March 31, 1981. As of December 31, 1980, the Monetary Board Chairman and Governor was Hon. G.S. Licaros and Hon. Cesar J. Lomotan was a Deputy Governor.

Central Bank of the Philippines

MANILA

OFFICE OF THE GOVERNOR

March 31, 1981

His Excellency
The President of the Philippines
Malacañang, Manila

Dear Mr. President:

Pursuant to the provisions of Section 37 of Republic Act No. 265, as amended, I have the honor to submit the Thirty-Second Annual Report (1980) of the Central Bank of the Philippines.

Very respectfully,

JAIME C. LAYA
Governor

Thirty-Second
Annual Report
1980

Tables

Charts

SOURCES AND SYMBOLS

SOURCES – Statistics are derived from government bureaus and offices, financial institutions and private firms, through direct communication with the entities concerned, from published statistical reports and bulletins and from the different departments of the Central Bank.

DEFINITIONS – The series are defined in general and specific terms in the "Notes on the Series Used" of the Statistical Bulletin – Vol. II of the Annual Report. Changes made in each table are also explained briefly, including clarifications on the elimination of certain footnotes under the old tables.

SYMBOLS – The following symbols are used to convey the information in each case.

Symbol	*Information*
. .	Data not available
. . .	Data not applicable or appropriate
–	Nil or zero
– –	Data too small to be expressed
p	*(Set up as a superior index)* Preliminary
r	*(Set up as a superior index)* Revised
e	*(Set up as a superior index)* Estimate
n.e.s.	Not elsewhere specified

ROUNDING OF FIGURES – Any slight discrepancy that may be noticed between the sum of the constituent items and the total shown in some tables may be attributed to the rounding of numbers.

Part One

ECONOMIC REVIEW

THE PHILIPPINE ECONOMY IN 1980

Mixed trends continued to characterize Philippine economic performance in 1980. The pursuance of growth and stability goals met with limited success as the economy strove to improve its structural and institutional framework while coping with and adjusting to such adverse external developments as prolonged recession, inflation and protectionistic stance of trading partner countries.

The substantial increases in prices of oil and other imports coupled with the moderate growth in export prices led to the deterioration in the terms of trade and the widening of the trade and current account deficits despite the generally creditable performance of the export sector and the moderation of import growth. Non-traditional exports continued to grow to increase its share of total exports. Traditional exports and total exports grew at a rate lower than in 1979 even with the support of credit and fiscal incentives and export promotion efforts. The growth in the value of imports was due entirely to the rise in import (particularly oil) prices as import volume declined despite the move towards the liberalization of import restrictions. The over-all balance of payments deficit narrowed from $570 million in 1979 to $381 million in 1980. Recession abroad which affected export demand contributed to the lower-than-targeted real growth rate of 4.7 per cent in output (GNP). Credit and liquidity growth rates were well within program limits, with priority given to exports and agriculture in credit allocation. Prudent monetary and fiscal policies, demand management, pricing and other measures helped contain the inflation rate (CPI) at 17.6 per cent in the face of wage and other cost increases which followed oil price hikes. The period in review also saw fresh initiatives or intensified efforts at export promotion, agricultural production and accelerated energy programs, major financial reforms and other efforts with both long and short-run effects.

Monetary and Financial Developments

Monetary policy was pursued with the help of a financial program adopted in 1980 which targeted a real growth rate of 5.5 per cent in output consistent with the expected 18.0 per cent inflation rate and $480 million balance of payments deficit. A selective policy channelled the bulk of low-interest credit to agriculture, exports and other preferred activities. The year saw rediscount rates for other activities as well as the repurchase rate aligned with market rates to reflect a more realistic lending rate and at the same time encourage banks to tap other fund sources.

Total domestic credits expanded at an annual rate of 19.7 per cent which was significantly lower than the 26.0 per cent registered in 1979. This growth rate also fell within the programmed annual increase of 23.0 per cent. Along with deceleration in economic growth the slowdown in credit expansion also reflected the authorities' intention to put a brake in domestic inflationary pressures and keep the balance of payments deficit within manageable level.

The private sector continued to absorb the bulk or 85.0 per cent of total credits while the rest went to the public sector. Commercial bank lending to all industrial sectors increased by 17.3 per cent. The bulk of incremental credits went to manufacturing, followed by agriculture. Credits of other banking institutions also reflected their specialized operation; the bulk of thrift banks' loans went to real estate while rural banks largely catered to the credit needs of the agricultural sector.

Total domestic liquidity increased by 18.2 per cent stemming primarily from incremental credits of the Central Bank and the commercial banking system to both the public and private sectors. The liquidity expansion marked an acceleration over 1979's 10.6 per cent but was slightly lower than the 19.0 per cent envisaged by the financial program.

In the face of monetary outflows experienced in the country's foreign exchange transactions and the slowdown in private sector credit availments, the National Government played a compensatory role. Cash operations of the Government ended in a deficit as compared to the surplus attained in 1979. This deficit was financed largely by security flotation and foreign borrowings, with part of the proceeds deposited outside of the Central Bank and the commercial banking system.

The stabilizing effect of demand management policies employed during the year coupled with softened demand for short-term credit was also felt in the money market. Total money market transactions increased by less than 3 per cent at an average interest rate of about 13.3 per cent. Cost of short-term money thus increased by 0.380 basic points as compared to 1979.

Meanwhile, in the long-term end of the funds market, the monetary authorities lifted the ceilings on interest rates of loans with more than four-year maturities, a move designed not only to encourage long-term lending but also to effect a more realistic lending rate structure. This move merely served as a prelude to the intention of monetary authorities to allow interest rate policy to work under market forces. Moves toward a market-determined interest rate structure were undertaken during the latter part of 1980 and were expected to be put into effect in 1981.

In the area of financial structure development, extensive amendments to the legislation governing financial institutions were made in 1980 which removed some of the functional distinctions among financial institutions. This was intended to establish a modified form of universal banking in the country where financial institutions can offer a wide range of services subject to high minimum paid-in capital requirements. One of the end-results sought by the shift in the financial system's orientation would be to enhance its capability in mobilizing long-term resources needed to fund major industrial projects to be implemented in the eighties.

Production, Gross Sales and Investments

A slowdown in economic expansion was reflected in the performance of various industrial sectors of the economy although certain key industries managed to post growth rates higher than those registered in 1979. Agriculture-fishery-forestry output rose at the rate of 6.8 per cent as compared with the 4.2 per cent in 1979. Favorable weather condition during the crop year as well as strong government support saw increased production in food crops such as palay, corn, vegetables and fruits.

Mining and quarrying was the leading growth sector with an over-all output increase of 9.2 per cent. Output of this sector which was principally geared to foreign markets, however, grew at a slower pace compared to the 14.0 per cent registered in 1979. Manufacturing production went up by 4.1 per cent which was slightly off from the 4.3 per cent of the previous year. New construction activity of the private sector in the City of Manila went down while addition, alteration and repair activities were favored.

Sales transactions in terms of value proceeded at an accelerated growth pace. Power sales also increased during the year. Receipts in domestic railways and international shipping activity, however, showed a decelerated rate of increase.

The deceleration in economic growth in 1980 was met with divergent trends in the investment community. The number of new business organizations set up and total capital invested showed improvements during the year. New business organizations registered in 1980 reached 54,247, exceeding 1979's total by 25.4 per cent. Total capital invested went up by 73.4 per cent, the bulk of which came from single-proprietorship-type of organizations. In contrast, the stock market was bearish with volume shares traded dropping by 28.9 per cent at the Manila Stock Exchange. Aggregate peso turnover also declined by 9.0 per These downturns in the stock market reflected its sensitivity to general foreign and domestic developments as well as to specific factors such as the abscondence of certain stockholders, expected reimposition of the capital gains tax and the setbacks in local oil production.

Prices, Earnings and Employment

The impact of two rounds of nation-wide increase in oil prices was immediately transmitted in the consumer market. This in turn sparked off a series of upward revision in power, water, transport, and freight rates. Hence, consumer prices in the country increased at an average of 17.6 per cent (Consumer Price Index-Philippines, 1972=100), marking a further advance over the 16.5 per cent in 1979. Government action to stem undue price movements during the year took the form of reinforcement of price controls on selected commodities, increased importation of basic items, the opening of more KADIWA food centers selling at subsidized prices and disciplined monetary and fiscal policy. Moreover, the generally favorable weather condition during the year boosted crop harvests thus resulting to mild increases in food prices.

Average monthly earnings of salaried employees and wage earners increased by 15.3 per cent and 24.9 per cent, respectively. These were brought about largely by legislated increase in allowances and salary and wage adjustments in response to the acceleration of inflation and in line with the government's policy of maintaining the purchasing power of workers and employees. Considering the average increase in prices during the year, real earnings of wage earners increased by 6.1 per cent while those of salaried employees went down by 2.0 per cent.

Employment absorption in 1980 registered a fractional growth of only 0.1 per cent as a result of the slowdown in major industries. The tapering off in the number of Filipino workers finding employment overseas, particularly in the Middle East and the two upward adjustments in wages and allowances during the year also exerted a negative impact on employment. The agricultural and manufacturing sectors recorded cutbacks in employment.

External Transactions

The balance of payments resulted in a lower deficit of $381 million compared to the negative balance of $570 million registered in 1979. Both the net merchandise and non-merchandise trade accounts deteriorated further while net inflows of transfers and donations and movements in non-monetary capital, despite some signs of weakening, provided some buoyant force to the country's foreign exchange transactions. Thus, the current account ended the year with a deficit of $2,074 million which was partly offset by the net foreign capital inflows amounting to $1,536 million. In terms of share to GNP, the current account deficit accounted for 6.4 per cent as compared to 5.2 per cent in 1979.

In spite of the boost provided by the growth in non-traditional exports and price improvements of some traditional exports, the over-all growth in exports decelerated at 25.8 per cent compared to 34.3 per cent in 1979. Earnings from non-traditional export grew faster by 31.1 per cent than those from traditionals (15.5 per cent). Non-traditional export products also increased their share to total exports, from 43.4 per cent in 1979 to 46.4 per cent in 1980. Sugar was the top foreign exchange earner while nickel and banana joined the top ten exports, bringing to four the number of non-traditional export items in the list.

The continued performance of non-traditional exports as one of the top foreign exchange earners indicated in part their positive response to the liberal and preferential credit policy accorded them. Additional rediscounting privileges and export incentives were further promulgated during the year to benefit non-traditional exports, service exports, overseas construction and other non-trade foreign exchange earners. These new regulations form part of the over-all rediscounting policy which placed exports and other foreign exchange earning activities in the favored list.

Imports rose by 25.8 per cent and brought the merchandise trade account to a deficit of $1,940 million. This increase was purely accounted for by worldwide inflation as average prices of imports rose by 23.9 per cent while quantum increased by 1.3 per cent. Mineral fuels, lubricants and related materials exhibited the highest price increment, at 70.0 per cent, and this commodity group alone accounted for a third of the country's total import bill. The rest of the country's imports, 95 per cent of which were classified as producer's use, also registered price hikes during the year except for base metals. Notwithstanding the country's close monitoring of imports for balance of payment management purposes, the policy on imports continued to lean towards greater liberalization. This was indicated in the removal from the restricted categories of several items which made them freely importable without Central Bank clearance.

The country's net terms of trade deteriorated by 15.9 per cent, from a 1979 index of 81.6 (1972=100) to 68.6. The purchasing power of exports increased by only 1.5 per cent as a consequence of the substantial rise in import prices.

The non-merchandise trade deficit widened further to reach a level of $555 million due largely to a 21.7 per cent hike in payments for freight, insurance and other costs associated with increased import bill. Substantial increases in interest expense and remittances of profits, earnings and dividends were offset by earnings from travel and investment income which improved during the year. However, income remittances of contract workers and income from non-merchandise insurance decreased during the year.

In the non-monetary capital account, net availments of long-term loans declined particularly gross inflows to the public sector. Net direct investments likewise dropped from the previous year's level as a result of significant outflows in the form of capital invested abroad and capital withdrawals from the country. Short-term borrowings resulted in a net availment of $712 million mainly to finance oil imports, reversing the previous year's net payment position. As of the end of 1980, the country's foreign borrowings reached a level of $12,270 million, representing a 25.0 per cent increase over the 1979 outstanding level.

In the face of world financial instability, the strengthening of the U.S. dollar and the country's payments deficit, the exchange rate of the peso against the U.S. dollar traced a depreciating pattern during the year. The interbank guiding rate averaged ₱7.5114 per U.S. dollar in 1980 which was 1.8 per cent higher than the previous year's average of ₱7.3776.

Notwithstanding the volatility of the international financial community and the disequilibrium in the country's balance of payments, the international reserve moved up with the help of compensatory borrowings from various credit facilities including the International Monetary Fund. Thus as of the end of the year, the international reserve amounted to $3,155 million which was 30.2 per cent higher than that in 1979 and was equivalent to five months import requirements.

Prospects for 1981

The strong performance of the export sector, particularly non-traditional manufactures, and the significant reduction of the balance of payments deficit from $570 million in 1979, together with the restructuring of the Government's development priorities, provide some degree of optimism for improved economic performance in 1981.

Performance targets which aim for a GNP real growth rate of 5.5 per cent, an inflation rate of not more than 12 per cent and a slight improvement in the external payments position from 1980 provide the bases of the financial program for the coming year. In comparison, actual performance in 1980 resulted in a 4.7 per cent increase in GNP, an average inflation rate of 17.6 per cent which had gone down to 15.0 per cent in December 1980, and a BOP deficit of $381 million. The Central Bank will therefore continue to adhere closely to this financial program and monitor carefully economic and financial variables to ensure the accommodation of reauirements for achieving these targets.

Based on a policy of continuity, monetary and credit measures will be generally supportive of sustained growth in both the agricultural and industrial sectors. Emphasis will be placed on the financing of export-oriented industries to improve further the basic structure of the balance of payments, labor-intensive activities to provide more employment opportunities to a growing labor force and other priority sectors.

Financial assistance will also be extended by fiscal and monetary authorities to industries whose financial positions are severely affected by developments beyond their control, which industries will in turn have to take appropriate steps designed to regain sound and viable operations.

In support of the country's energy program which envisaged a steady progress toward greater energy independence, more funds will be allocated for the exploration and development of indigenous energy resources and additional incentives will be provided to key industries to encourage conversion to energy sources other than oil.

The effects of the financial reforms undertaken in 1980 to generate a greater volume of longer-term funds for productive uses mainly in the private sector are expected to be felt in the years ahead. In 1981 complementary policy measures to ensure smooth transition to the modified universal banking concept will additionally be adopted together with other measures designed to further strengthen the financial svstem.

With respect to interest rates, their determination will be geared away from a ceiling-oriented regime to a market-determined one. Thus, while financial assistance will be provided to preferred sectors, deregulation of interest rates, aside from its anticipated positive impact on the savings rate, is expected to lead to improved efficiency of capital resources and contribute to a more rapid industrial growth in the long-run.

MONEY, CREDIT AND PUBLIC FINANCE

Monetary Policy

In 1980, monetary policy was geared towards attaining the target growth rate in output and containing the inflation rate as well as the balance of payments deficit. On the whole, a supportive and expansionary credit policy was pursued. This credit expansion was particularly true with regard to the private sector to compensate for the contractions experienced in the country's foreign transactions. On the other hand, open market operations through repurchase transactions were the major stabilizing factors tempering the fluctuations in the money market resulting from temporary liquidity strains in the banking system.

The year 1980 also set the stage in building a new financial structure for the Philippines. Measures orienting the financial system along a modified universal banking concept were promulgated. Under this new direction, the financial system is expected to, among others, provide more varied services and enhance its role in mobilizing longer-term funds. The implementation of major monetary policy instruments was likewise rationalized to make it more responsive to domestic and international market developments.

In mid-August, the basic rediscounting regulations were amended with new rediscount ceilings, rates and loan values in addition to making eligible for rediscounting, papers with medium and long-term maturities. One of the objectives of these amendments was to encourage banks to tap other sources of funds and lessen their dependence on cheap Central Bank credit. In spite of these amendments, however, the rediscount window remained accommodative with regard to the financing needs of government-favored activities such as supervised agricultural credit programs, exports and small- and medium-scale industries. A special credit accommodations scheme was made available not only for banks but also for non-banks performing quasi-banking functions. This scheme operates as a lender of last resort facility in the rediscounting window and charges an interest rate equivalent to a Rediscount Reference Rate (RRR) determined by the Central Bank plus an allowable add-on rate.

Open market transactions during the year were generally expansionary and directed towards stabilizing and compensating for developments such as oil remittances, inflow of loans negotiated by the Central Bank and through Foreign Currency Deposit Units (FCDUs), tax payments and other influences. Starting in the fourth quarter of the year, the repurchase rate on CBCIs was adjusted upwards and aligned with the Rediscount Reference Rate. Repurchase operations through the regular open market account and the hotel financing scheme generated a net positive effect as of the end of the year. Moreover, transactions in government security holdings of the Central Bank and sales and redemptions of CBCIs ended the year with a net expansionary impact on liquidity.

In line with the move towards modified universal banking orientation, Circular No. 739 was issued which prescribed the rules and regulations governing commercial banks and banks with expanded banking authority. The expanded commercial banking authority allows bank to exercise investment functions, to invest in the equity of allied and non-allied undertakings and to own up to 100 per cent of the equity of a financial intermediary other than a commercial bank or a bank authorized to provide commercial banking services.

Relatedly, new guidelines were also issued to govern the expanded operations of rural and thrift banks and non-bank financial intermediaries performing quasi-banking functions. The required minimum paid-in capital for these financial institutions were also specified in Central Bank Circulars No. 740, 741 and 742.

Some amendments to interest rate policy also took place during the year. With the adoption of the modified universal banking concept, a new categorization as to which banks could give the 1/2 percentage point interest rate differential to their savings and time deposits was issued. Under Circular No. 751, thrift and rural banks were authorized to pay an interest rate 1/2 percentage points higher than those of banks with expanded commercial banking authority, commercial banks, the Development Bank of the Philippines and the Land Bank of the Philippines.

A more significant amendment was contained in Circular No. 755 which floated the interest rate of loans with maturities of more than four years. However, such a floating rate shall not exceed a reference rate known as the Manila Reference Rate (MRR) plus a margin not exceeding 3 percentage points. The MRR is determined and announced fortnightly by the Central Bank based on the weighted average of the interest rates paid by the five banks with the largest volume of business transacted during the immediately preceding 90 days on time deposits with maturities of more than 730 days.

To allow for a uniform application of interest rates in the organized financial system, regulation on interest rates on deposits and loans of non-stock savings and loan associations and ceilings on loans granted by pawnshops were also issued during the year.

Finally, during the latter part of the year, studies leading towards a market-determined interest rate were being finalized and measures to this effect were expected to be issued in 1981.

Domestic Liquidity

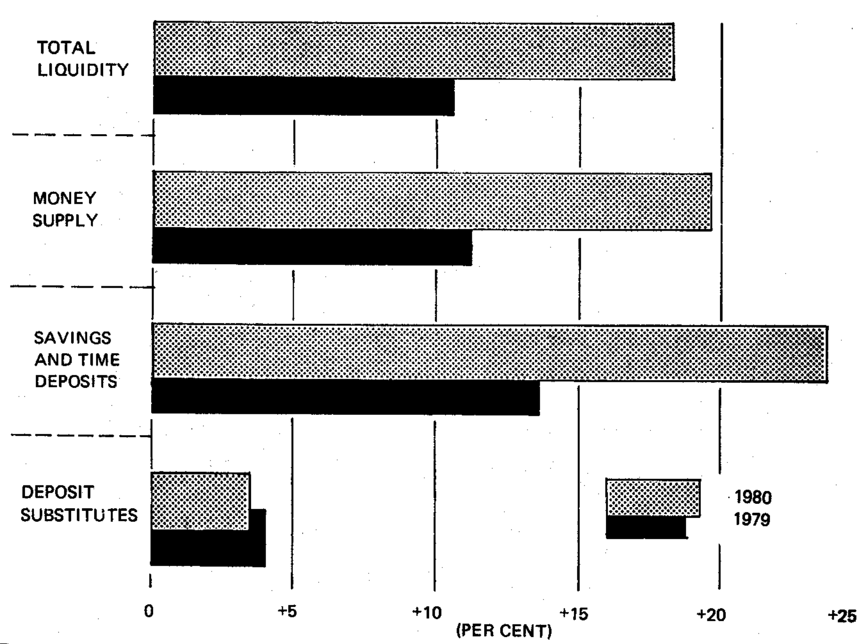
As of the end of December 1980, total domestic liquidity reached a new high of ₱67,803 million increasing by 18.2 per cent from its year-ago level. This expansion stemmed primarily from incremental credit releases of the Central

Bank and the commercial banking system to both the public and private sectors. Partly offsetting this were the contractions in the monetary system's net foreign and net unclassified assets. Likewise, increases in capital accounts and CBCI purchases by other banks and non-bank financial institutions provided a brake on domestic liquidity expansion.

Domestic liquidity took the form of savings and time deposits which accounted for 49 per cent of the total; money supply, 33 per cent; and deposit substitutes, 18 per cent.

Savings and time deposits expanded at an annual incremental rate of 23.8 per cent reaching ₱32,894 million by the end of December 1980. Notable was the 38.3 per cent growth in time deposit inflows to banks attributed partly to higher deposit rates.

CHART 1 — PER CENT CHANGES IN DOMESTIC LIQUIDITY
1979 and 1980



Money supply, composed of money in circulation (45 per cent) and demand deposits (55 per cent) totalled ₱22,538 million posting a 19.6 per cent rate of growth during the period under review. The ₱3,694 million expansion in this monetary aggregate was internally generated as transactions of the foreign sector, in view of the balance of payments deficit, were contractionary. Both the public and private sectors contributed to the addition in money stock with the former contributing ₱1,288 million and the latter, some ₱4,454 million. Leakages brought about by the increases in savings and time deposits, deposit

TABLE 1 – TOTAL DOMESTIC LIQUIDITY
December 31, 1979 and 1980
(Million Pesos)

	1980	1979	Changes Amount	Changes Per Cent
TOTAL DOMESTIC LIQUIDITY	67,803.2	57,360.0	10,443.2	18.2
Money Supply	22,537.5	18,843.6	3,693.9	19.6
Currency in Circulation	10,174.6	9,181.7	992.9	10.8
Demand Deposits	12,362.9	9,661.9	2,701.0	28.0
Quasi-Money	32,894.3	26,565.5	6,328.8	23.8
Savings Deposits	19,529.9	16,900.2	2,629.7	15.6
Time Deposits	13,364.4	9,665.3	3,699.1	38.3
Deposit Substitutes	12,371.4	11,950.9	420.5	3.5

substitutes and net miscellaneous accounts of the commercial banking system partly dampened the expansionary impact of domestic credits. The net increase in the foreign exchange liabilities of the monetary system also siphoned off ₱2,048 million from the money stream.

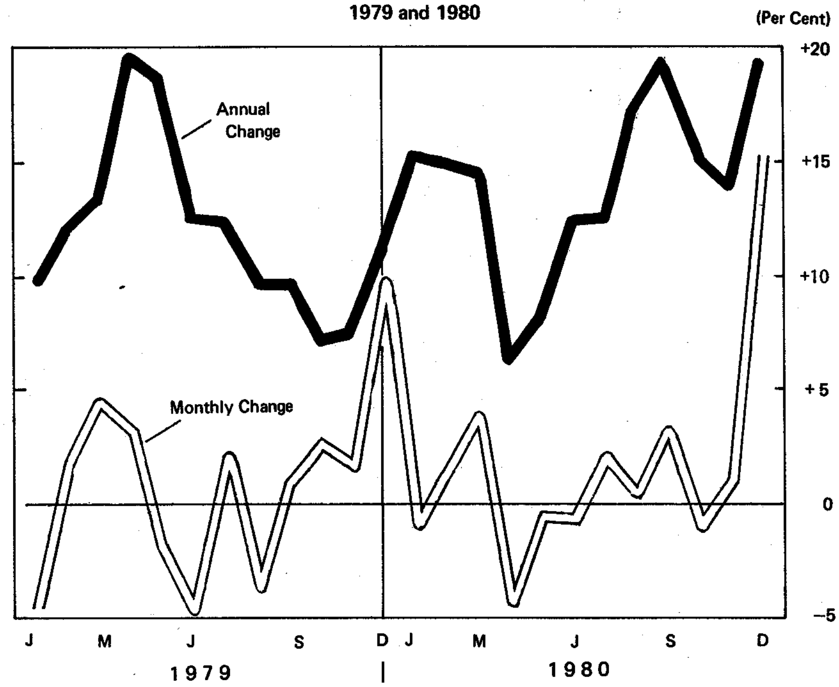
Deposit substitutes totalling ₱12,371 million grew by 3.5 per cent during the twelve-month period ending December 31, 1980. This growth rate was slightly lower than that observed in 1979, a development attributed to the generally lower interest rates in the money market which was partly attributed to the partial lifting of time deposit rate ceilings.

TABLE 2 — FACTORS RESPONSIBLE FOR MONEY SUPPLY MOVEMENT
December 31, 1979 and 1980

(Million Pesos)

	1980	1979	Net Effect on Money Supply
I. MONEY OF INTERNAL ORIGIN	29,653.4	23,912.0	+5,741.4
A. Public Sector	12,021.2	10,733.3	+1,287.9
National Government	5,334.0	4,229.4	+1,014.6
Local Governments and Semi-Government Entities	6,687.2	6,503.9	+ 183.3
B. Private Sector	17,632.2	13,178.7	+4,453.5
Credits of the Central Bank and the Commercial Banking System	80,556.0	67,188.7	+13,367.3
Less: Savings and Time Deposits	31,147.0	25,371.1	– 5,775.9
Marginal Deposits	3,126.4	3,143.5	+ 17.1
Deposit Substitutes	12,371.4	11,950.9	– 420.5
Net Miscellaneous Accounts of the Commercial Banking System	16,279.9	13,544.5	–2,734.5
II. MONEY OF EXTERNAL ORIGIN	(7,115.9)	(5,068.4)	–2,047.5
Gross Foreign Exchange Assets of the Central Bank and the Commercial Banking System	39,605.8	28,712.6	+10,893.2
Less: Foreign Exchange Liabilities of the Central Bank and the Commercial Banking System	46,721.7	33,781.0	–12,940.7
III. MONEY SUPPLY	22,537.5	18,843.6	+ 3,693.9

CHART 2 – MONTHLY AND ANNUAL PER CENT CHANGES IN MONEY SUPPLY 1979 and 1980



Reserve Position of Commercial Banks

Commercial banks presented a generally liquid position as required reserves against demand, savings, time and foreign currency deposits were more than adequately met during 1980. Consequently, average monthly excess reserves were consistently reflected ranging from a low of ₱186 million to a high of ₱502 million. Expressed in ratios to deposit liabilities, excess reserves which fluctuated between 0.5 per cent and 1.4 per cent averaged 1 per cent during the year. This was 0.3 percentage points higher than the 1979 average of 0.7 per cent.

The relative ease that prevailed during the period was reflected in short-term interest rates. The annual average interbank rate dropped from 13.576 per cent in 1979 to 11.870 per cent or by 1.706 percentage points.

An increase in excess reserves in December 1980 placed commercial banks in a more liquid position compared to December of last year. This developed as the rate of growth in available reserves outpaced those of deposit liabilities and mandatory reserves by almost 2 percentage points. As the year drew to a close, deposit liabilities subject to reserves aggregated ₱34,942 million while legal reserves totalled ₱6,983 million. Reserve assets holdings of the commercial banking system amounted to ₱7,298 million and were in the form of deposit balances with the Central Bank (46 per cent); cash in banks' vault (17 per cent); government securities (37 per cent) and a minimal amount in foreign balances.

TABLE 3 — RESERVE POSITION OF COMMERCIAL BANKS
1979 and 1980
(Million Pesos)

	1980	1979
Deposit Liabilities	34,942	33,550
Available Reserves	7,298	6,893
Deposit Balance with CB	3,322	4,032
Cash in Bank Vaults	1,261	1,122
Government Securities	2,710	1,733
Foreign Balances	5	6
Required Reserves	6,983	6,701
Excess/Deficiency in Reserves	315	192
Liquidity Ratios (In per cent of deposit liabilities):		
Available Reserves	20.89	20.55
Required Reserves	19.98	19.97
Excess/Deficiency in Reserves	0.90	2.57

CHART 3 — RESERVE POSITION OF COMMERCIAL BANKS
1978 — 1980

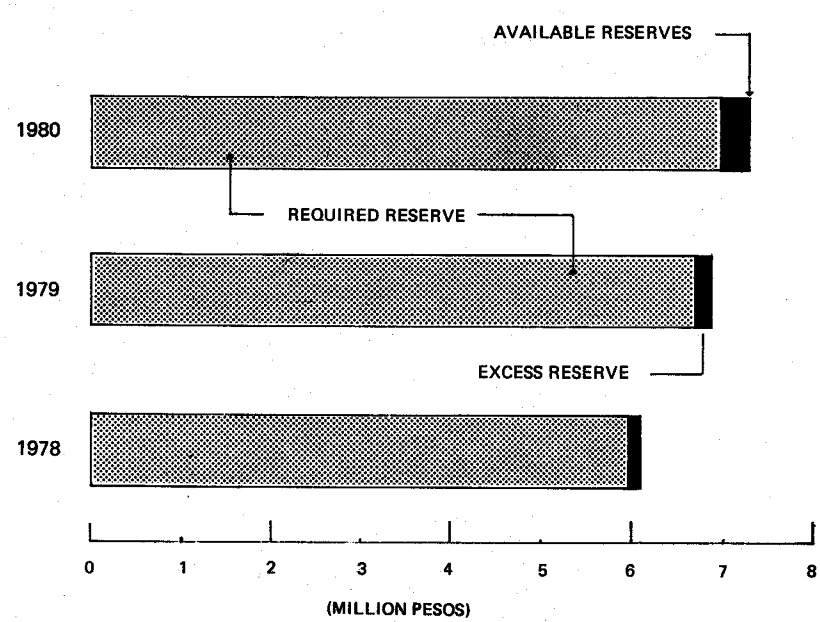


TABLE 4 – MONTHLY AVERAGE EXCESS RESERVES OF COMMERCIAL BANKS
1979 and 1980
(Million Pesos)

	1980	1979
January	501.5	354.0
February	325.4	181.7
March	266.4	360.8
April	186.4	204.9
May	293.2	207.5
June	325.1	(59.5)
July	445.9	298.9
August	377.4	191.7
September	338.2	142.4
October	371.1	269.3
November	315.4	239.6
December	315.2	192.2
AVERAGE	338.4	215.3

Credit Operations

Domestic Credits Outstanding of the Monetary System – Domestic credits outstanding of the monetary system rose by 19.7 per cent or ₱15,653 million on an annual basis reaching ₱95,128 million by end-December 1980. This rate of expansion was higher than the 15 per cent statutory benchmark but lower than the 26 per cent of last year. This reflected the attempt of the government to ensure adequate flow of funds to priority activities, while containing the rising inflationary pressures.

The bulk of incremental credits went to the private sector, increasing by 19.9 per cent or ₱13,367 million, private sector credits reached ₱80,556 million at the end of the year. Additional credit availments of the sector mostly in the form of loans from deposit money banks amounted to ₱12,638 million while outstanding loans from the monetary authorities moved up by ₱279 million.

Meanwhile, outstanding credits of the public sector at ₱14,572 million rose at a slightly lower annual pace of 18.6 per cent or ₱2,286 million. The aggregate growth in this sector's credits was primarily brought about by the net credit availment of semi-government entities totalling ₱1,168 million and the rise in National Government indebtedness from the Central Bank and deposit money banks.

Central Bank Credits

Classification by source showed that outstanding credits of the Central Bank expanded by 13 per cent and amounted to ₱9,904 million as of the end of

1980. The absolute increase of ₱1,143 million was brought about by additional loans of the Monetary Authorities to the National Government (₱136 million); non-demand deposit rural banks (₱482 million); Land Bank and Development Bank of the Philippines (₱189 million); thrift banks (₱30 million) and non-bank financial institutions(₱28 million). These, together with the net acquisition of National Government securities totally offset the contractionary impact of the drop in Central Bank loans to semi-government entities and the build-up in National Government deposits of P39 million.

TABLE 5 – DOMESTIC CREDITS OUTSTANDING OF THE MONETARY SYSTEM, BY SOURCE AND END-USER
December 31, 1979 and 1980

(Million Pesos)

	1980	1979	Changes Amount	Changes Per Cent
BY SOURCE				
Monetary Authorities	9,904.3	8,761.2	1,143.1	13.0
Loans and Advances	8,507.0	7,767.9	739.1	9.5
Domestic Securities	3,735.7	3,292.1	443.6	13.5
Less: Government Deposits	2,338.4	2,298.8	39.6	1.7
Commercial Banking Sytem	85,224.0	70,713.8	14,510.2	20.5
Loans and Advances	82,516.4	69,740.7	12,775.7	18.3
Domestic Securities	6,840.5	5,145.5	1,695.0	32.9
Less: Government Deposits	4,132.9	4,172.4	(39.5)	(0.9)
TOTAL	95,128.3	79,475.0	15,653.3	19.7
BY END-USER				
Public	14,572.3	12,286.3	2,286.0	18.6
Private	80,556.0	67,188.7	13,367.3	19.9

Commercial Banking System

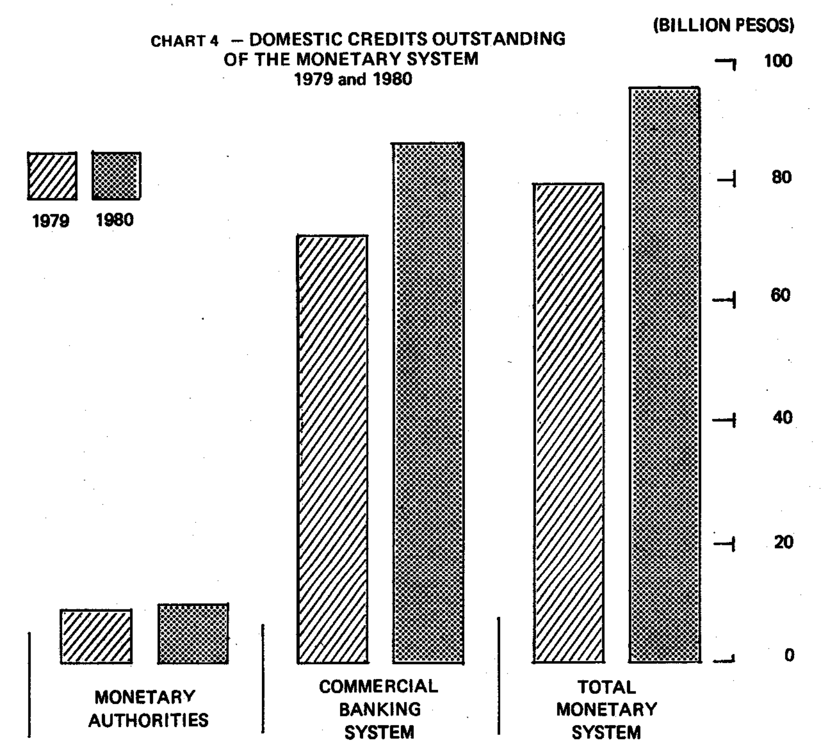
The commercial banking system remained the main source of borrowed funds accounting for more than 89 per cent of total domestic credits. The system's credit portfolio which totalled ₱85,224 million by year-end expanded by 20.5 per cent reflecting its stepped-up lending operations and its substantial acquisition of domestic securities.

As of December 1980, outstanding loans of the commercial banking system aggregated ₱82,516 million and expanded by 18.3 per cent from year-end 1979 level. This reflected mainly additional loan accommodations to private businesses and individuals and to local and semi-government entities which taken together totalled ₱13,090 million. Loans to the National Government on the other hand, dropped by ₱315 million.

Net purchase of domestic securities issued by the National Government (₱840 million), semi-government entities (₱665 million), and the private sector (₱190 million) resulted in a 32.9 per cent increase in the securities portfolio of the banking system. At the end of the period, outstanding holdings of domestic securities aggregated ₱6,841 million.

Meanwhile, drawings by the National Government against its deposit balances with deposit money banks totalling ₱40 million provided a slight contractionary influence to the expansion in the credit portfolio of the commerical banking system.

CHART 4 – DOMESTIC CREDITS OUTSTANDING OF THE MONETARY SYSTEM 1979 and 1980



Distribution of Commercial Bank Loans

An analysis of the distribution of commercial bank loans showed that manufacturing and agricultural activities received a substantial share of total loans. As of end-September 1980, outstanding loans of commercial banks[1] amounted to ₱73,636 million, 17.3 per cent or ₱10,852 million higher than the previous year's level. The bulk of incremental credits were channelled to the manufacturing (₱5,466 million), agricultural (₱3,489 million), financing, insurance and business services (₱2,174 million) and mining and quarrying (₱1,510 million) sectors. These aggregated to ₱12,639 million and accounted for more than two-thirds of the total outstanding loans as of the end of the period under review. Construction, electricity, gas and water, and transport, storage and communication posted smaller net availments of ₱398 million, ₱97 million and ₱531 million, respectively. On the other hand, loan transactions of the rest of the industrial groups including trade, real estate, and community, social and personal services declined substantially by ₱2,811 million , reflecting the lower priorities, attached to these groups.

1/ Based on the Form CBP 5-17-01.

TABLE 6 — LOANS OUTSTANDING OF COMMERCIAL BANKS BY INDUSTRY[1]

September 30, 1979 and 1980

(Million Pesos)

	1980	1979	Changes Amount	Changes Per Cent
TOTAL [2]	73,636.4	62,784.9	10,851.5	17.3
Agriculture, Fishery and Forestry	11,098.7	7,610.2	3,488.5	45.8
Mining and Quarrying	6,411.2	4,901.3	1,509.9	30.8
Manufacturing	25,913.2	20,447.6	5,465.6	26.7
Electricity, Gas & Water	767.6	671.1	96.5	14.4
Construction	2,321.2	1,923.2	398.0	20.7
Trade	11,469.3	13,131.5	(1,662.2)	(12.7)
Transportation, Storage and Communication	2,141.2	1,610.2	531.0	33.0
Financing, Insurance & Business Services	7,560.9	5,387.4	2,173.5	40.3
Real Estate	2,272.6	2,343.7	(71.1)	(3.0)
Community, Social & Personal Services	3,680.5	4,758.7	(1,078.2)	(22.7)

1 Prior to February 1980, data were adjusted to conform with the 1977 PSIC industry group.

2 Excluding past due items, items in litigation, domestic and foreign bills-clean except data for PNB for 1978 and 1979.

Credit Operations of Other Banking Institutions

Rural Banks

Loans outstanding of rural banks totalled ₱4,644 million as of the end of September 1980, up by 15.6 per cent over the previous year level. As prime lenders to farmers, loans outstanding of these banks for agricultural purposes expanded by 14 per cent to reach a level of ₱4,152 million from last year's balance of ₱3,643 million. Commercial purpose loans at ₱228 million rose by 15.7 per cent; industrial purpose loans (at ₱116 million), by 6.7 per cent; and loans for other purposes (at ₱148 million), by 111.4 per cent. The overall growth of ₱625 million in loans outstanding emanated from increases in releases for the following purposes: agricultural, ₱509 million; commercial, ₱31 million; industrial, ₱7.5 million; and others, ₱78 million.

TABLE 7 — LOANS OUTSTANDING OF RURAL BANKS, BY PURPOSE

September 30, 1979 and 1980

(Million Pesos)

	1980	1979	Per Cent Change
TOTAL	4,644.2	4,018.8	15.6
Agricultural	4,152.4	3,643.4	14.0
Commercial	227.5	196.6	15.7
Industrial	116.3	108.8	6.9
Others	148.0	70.0	111.4

Thrift Banks

Thrift banks (composed of savings and mortgage banks, private development banks and stock savings and loan associations) in line with their specialized orientation granted more loans for real estate purposes. Credits outstanding under this category went up by ₱524 million or 30.0 per cent to reach ₱2,268 million as of end-September 1980. The increasing participation of thrift banks in agricultural credit was reflected in the ₱226 million or 27.0 per cent growth in their outstanding agricultural loans. Commercial purpose loans grew by ₱168 million or 53.9 per cent; industrial purpose loans, by ₱57 million or 19.7 per cent and other purpose loans, by ₱174 million or 19.4 per cent. Loans for consumption purposes, on the other hand, dipped by ₱11 million or 1.8 per cent. Thus, total loans outstanding of thrift banks increased by ₱1,137 million or 24.2 per cent to reach a level of ₱5,843 million as of end-September 1980.

TABLE 8 – LOANS OUTSTANDING OF THRIFT BANKS, BY PURPOSE
September 30, 1979 and 1980

(Million Pesos)

	1980	1979	Per Cent Change
TOTAL	5,843.1	4,705.8	24.2
Agricultural	1,064.3	838.2	27.0
Commercial	479.4	311.6	53.9
Industrial	345.2	288.4	19.7
Real Estate	2,268.4	1,744.4	30.0
Consumption	615.8	626.8	(1.8)
Others	1,070.0	896.4	19.4

Specialized Banks

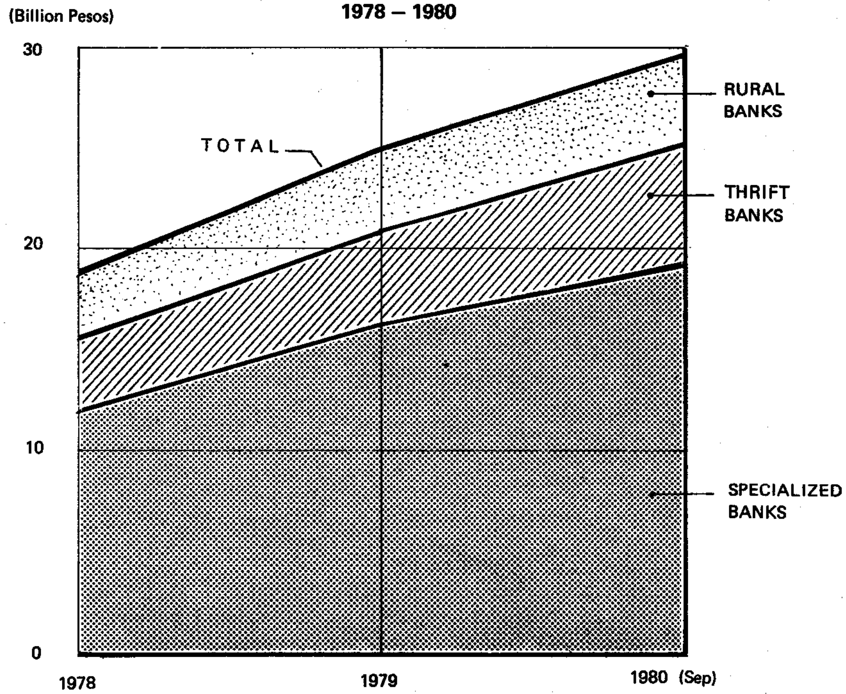
Loans outstanding of specialized banks (consisting of the Development Bank of the Philippines, Land Bank and Amanah Bank) aggregated ₱19,111 million at the end of September, 1980, increasing by ₱3,036 million or 18.9 per cent when compared to the preceding year's total of ₱16,075 million. The over-all growth may be traced to increases in loans outstanding for the following purposes: agricultural – ₱144 million or 3.7 per cent; commercial – ₱520 million or 516.4 per cent; industrial – ₱1,262 million or 23.9 per cent; real estate – ₱820 million or 29.6 per cent; and others – ₱289 million or 7.1 per cent. In terms of share to total, industrial purpose loans continued to absorb the largest portion or 34.2 per cent of specialized banks' credit resources.

TABLE 9 – LOANS OUTSTANDING OF SPECIALIZED BANKS, BY PURPOSE
September 30, 1979 and 1980

(Million Pesos)

	1980	1979	Per Cent Change
TOTAL	19,110.6	16,075.0	18.9
Agricultural	4,011.1	3,866.6	3.7
Commercial	620.7	100.7	516.4
Industrial	6,540.0	5,277.6	23.9
Real Estate	3,592.7	2,773.1	29.6
Others	4,346.1	4,057.0	7.1

CHART 5 – LOANS OUTSTANDING OF OTHER BANKING INSTITUTIONS
1978 – 1980



Credit Operations of Non-Bank Financial Institutions – Total loans outstanding of non-bank financial institutions increased by ₱1,774 million or 16.6 per cent to reach a level of ₱12,438 million at the end of September 1980. Classified by purpose, the end-September 1980 total was distributed as follows: real estate loans, 34.6 per cent; consumption loans, 18.4 per cent; industrial loans, 13.6 per cent; agricultural loans, 3.5 per cent; public utility loans, 3.1 per cent; commercial loans, 0.3 per cent; and other loans, 26.5 per cent. Except for commercial purpose loans which dropped by 1.5 per cent, all types of loans moved up at rates ranging from 9.4 per cent to 38.7 per cent.

A major portion or ₱10,778 million of total loans outstanding as of September 30, 1980 represented releases of government non-bank financial, institutions (comprising ACA, GSIS, SSS and NIDC) while the remaining ₱1,661 million came from private non-bank financial firms. The government non-bank financial sector's credit portfolio expanded by ₱1,547 million or 16.8 per cent while that of the private non-bank financial group rose by ₱226 million or 15.8 per cent.

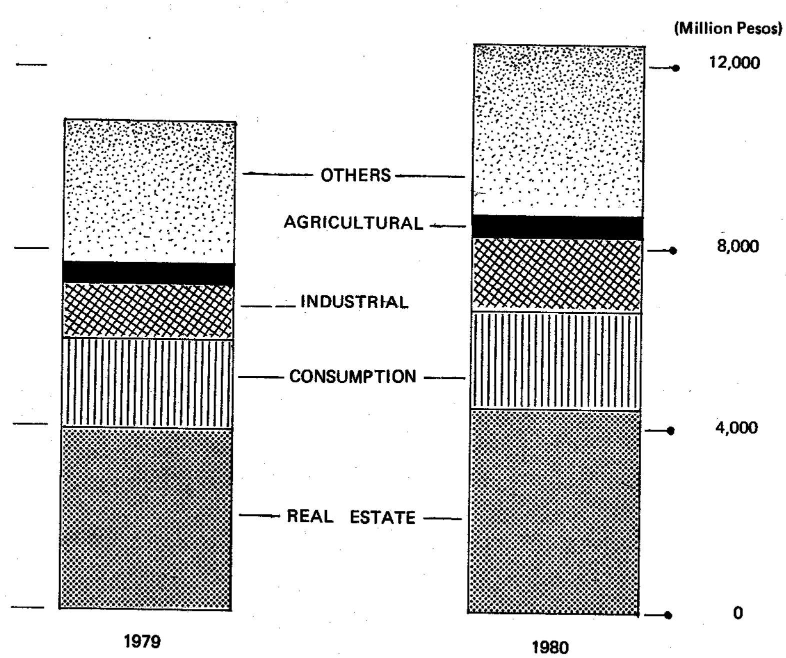
TABLE 10 — LOANS OUTSTANDING OF NON-BANK FINANCIAL INSTITUTIONS, BY PURPOSE

September 30, 1979 and 1980

(Million Pesos)

	1980	1979	Per Cent Change
TOTAL	12,438.4	10,664.7	16.6
Agricultural	441.2	400.0	10.3
Industrial	1,692.1	1,219.6	38.7
Commercial	33.1	33.6	(1.5)
Public Utility	384.2	309.2	24.3
Real Estate	4,301.9	3,932.7	9.4
Consumption	2,295.2	1,955.2	17.4
Others	3,290.7	2,814.4	16.9

CHART 6 — LOANS OUTSTANDING OF NON-BANK FINANCIAL INSTITUTIONS
1979 and 1980



Capital and Money Markets

Capital Investments — The number of new business organizations registered in 1980 reached 54,247 raising ₱4,076 million in capital funds during the year: ₱2,775 million from single proprietorships; ₱1,214 million, corporations; and ₱87 million, partnerships. An improvement was noted in number and total capital invested as both indicators exceeded their respective levels in 1979 by 25.4 per cent and 73.4 per cent. Despite the increase in corporate capital, the number of corporations registered declined by 7.1 per cent on account of the moderation in economic activity during the year.

The increase in aggregate paid-in capital of ₱1,726 million was due mainly to the higher number of single proprietorships registered for wholesale and retail trade. New capital brought in by corporations and partnerships also increased by 15.3 per cent and 5.5 per cent, respectively.

By industry, capital increases were recorded in economic activities related to agriculture, mining, manufacturing, electricity, wholesale, retail, financing, insurance, construction and real estate. On the other hand, paid-in capital for transportation and community services declined as shown in the following table:

TABLE 11 — PAID-IN CAPITAL OF NEWLY-REGISTERED BUSINESS ORGANIZATIONS BY INDUSTRY

January to October, 1979 and 1980

(Million Pesos)

	1980	1979	Per Cent Change
TOTAL	4,076	2,350	73.4
Agriculture	157	86	82.4
Mining	140	20	583.2
Manufacturing	543	500	8.6
Construction	260	241	8.1
Electricity	18	1	16.7
Wholesale and Retail	1,552	430	260.1
Financing, Insurance & Real Estate	967	568	70.2
Transportation	157	167	(6.0)
Community and Business Services	282	337	(16.4)

Stock Market – The combined peso turnover at the Manila Stock Exchange declined by 9.0 per cent from ₱2,269 million in 1979 to ₱2,064 million in 1980. The volume of shares traded during the year also dropped by 28.9 per cent to about 40 billion shares.

The relatively bearish market was influenced by the international economic environment of recession, rising inflationary pressures, oil price increases and uncertainties in metal prices abroad. In the domestic scene, the pending re-imposition of the capital gains tax of 10 to 20 per cent and setbacks in local oil production also contributed to depressed stock market trading.

Of the three sectors, only commercial-industrial issues managed to gain a larger increase in peso turnover during the year. This was accounted for by the special block sales undertaken by a commercial-industrial company during the second quarter of the year. The value of shares traded totalled ₱537 million, up by 39.1 per cent from ₱386 million the year earlier although volume dipped by 71.6 per cent to 467 million shares during the year.

Trading in mining shares started strong but weakened during the second quarter in response to uncertainties in metal prices abroad. Mining shares which constituted the bulk or 53.3 per cent of total volume of stocks traded in 1980 declined by 7.0 per cent to 21,297 million shares.

The oil sector performed well in the first quarter of the year, particularly in February when optimism over the drilling operations in Matinloc and in

TABLE 12 – STOCK MARKET TRANSACTIONS IN MANILA

1979 and 1980

	1980	1979
VOLUME (Million Shares)	39,965.0	56,188.2
Commercial and Industrial	466.8	1,642.6
Mining	21,298.6	22,890.0
Oil	18,199.6	31,655.6
VALUE (Million Pesos)	2,064.0	2,268.8
Commercial and Industrial	537.0	386.0
Mining	1,085.0	953.0
Oil	442.0	929.8

SOURCE OF BASIC DATA: Manila Stock Exchange

Semirara areas was high. However, trading subsequently turned dull as local oil output suffered a set-back and speculation in oil issues dropped. The value turnover of ₱930 million in 1979 declined further to P442 million or 52.5 per cent.

Given this environment, the stock price index in Manila dropped from 82.2 to 66.1 (1965=100).

Money Market – Financial market developments in 1980 were dominated by the slowdown in economic expansion, oil price increases and the cautious attitude of the banking sector in its financial dealings. After surging to a high of 14.503 per cent earlier in the year, money market interest rates gradually dropped to less than 12 per cent in the second and third quarters as demand for money and short-term credits moderated along with economic activity. Around mid-October, however, rates in money market borrowings started to rise, climbing by 3.794 percentage points in the next two months for an overall weighted average of 13.266 per cent which is .380 basis points higher than in 1979. Total money market transactions registered a small percentage increase of 2.8 per cent to a total of ₱303,740 million for the year.

The softened demand for credit coupled with an atmosphere of cautiousness which pervaded the financial community, placed the banking sector in a fairly liquid position in all of 1980. Excess reserves during the year averaged P338.5 million or 57.2 per cent more than in the preceding year. Interbank rates moved within reasonable limits of 5 to 16 per cent as compared to a trading range of 8 to 17 per cent a year earlier. Call loan rates showed an average of 11.870 per cent as against the annual average of 13.576 per cent in 1979.

In the business sector, corporate demand for short-term funds, however, continued, despite the slowing down of economic activity on account of higher operating costs largely due to oil and other cost/price increases. The volume of corporate borrowings rose to ₱252,550 million, up by 23.4 per cent from the amount registered in 1979. Average yields of the heavily traded promissory notes fluctuated between 4 per cent and 17 per cent for an average of 12.204 per cent, or 0.157 basis points above the level in 1979. Quotes on commercial papers without recourse and other money market papers paralleled the movement in promissory notes rate. Trading rates on the former average 16.736 per cent, 1.896 basis points higher than the 1979 level. Repurchase agreements (private instruments), certificates of assignment and certificates of participation settled at respective higher levels of 15.491 per cent, 16.429 per cent and 15.766 per cent.

In the government securities market, volume trading declined by 56.3 per cent. Rates on secondary trading of Treasury bills and DBP bonds, were at higher levels of 13.099 per cent and 13.162 per cent, respectively, while yields on CBCIs and other government securities declined.

TABLE 13 — MONEY MARKET TRANSACTIONS, BY INSTRUMENT
1979 and 1980
(Volume in Million Pesos)

	1980		1979	
	Volume	WAIR (Per Cent)	Volume	WAIR (Per Cent)
OVERALL	303,739.9	13.266	295,489.1	12.886
Interbank Call Loans	50,509.3	11.870	42,268.2	13.576
Promissory Notes	144,463.2	12.204	151,203.5	12.047
Repurchase Agreements (priv) . . .	60,369.8	15.491	39,275.6	13.724
Repurchase Agreements (gov't) . .	35,290.3	14.988	50,804.1	13.716
Certificates of Assignment (priv) .	1,065.2	16.429	55.6	14.338
Certificates of Assignment (gov't) .	—	—	—	—
Certificates of Participation (priv)	895.2	15.766	559.6	13.525
Certificates of Participation (gov't)	—	—	—	—
Commerical Papers (non-financial)	8,575.9	16.059	7,928.8	14.364
Commercial Papers (financial) . . .	1,889.9	17.413	1,834.6	15.317
CBCIs	478.5	11.901	1,033.9	12.346
Treasury Bills	147.5	13.099	298.5	11.833
DBP Bonds	39.4	13.162	130.6	11.954
Other Government Securities . . .	15.7	9.339	96.1	11.237

Public Finance

Cash Operations of the National Government — In 1980, cash operations of the National Government reflected an expansionary fiscal policy arising from the government's efforts to pursue the imperatives of economic development. From a cash surplus of ₱508 million in 1979, a deficit of ₱1,083 million was incurred this year.

Cash receipts at ₱46,488 million expanded at a faster rate from 18.3 per cent to 31.8 per cent, accounted for primarily by the increase in tax revenues from net income, profits and imports amounting to ₱2,475 million and the substantial growth in non-tax receipts of ₱4,538 million.

Of total tax take of ₱28,558 million, the proportion of direct taxes (net income, profits, property) rose from 27 per cent to 31 per cent, indicating the increasingly progressive character of the Philippine tax structure. Indirect taxes (goods and services, imports, exports) continued to register a substantial share of 59 per cent, which, however, was lower than the 1979 proportion of 62 per cent. Other miscellaneous taxes accounted for the balance of 10 per cent.

TABLE 14 – AGGREGATE CASH OPERATIONS OF THE NATIONAL GOVERNMENT 1979 and 1980

(Million Pesos)

	1980	1979
A. Current Operational Transactions		
Receipts	46,488.3	35,258.7
Disbursements	47,571.2	34,750.4
Operating	23,987.2	16,898.8
Capital	10,590.5	8,905.1
Interest Payments	2,082.3	1,840.8
Others	10,911.2	7,105.7
Surplus/(Deficit)	(1,082.9)	508.3
B. Net Financial Transactions	2,520.2	2,747.9
Debt Redemption	7,025.4	11,711.0
Borrowing	9,545.6	14,458.9
Domestic	6,490.7	10,778.2
Treasury Bills	1,253.3	6,842.3
Treasury Notes	311.3	1,206.8
Treasury Bonds	2,297.2	154.5
Other Government Securities	126.7	574.6
Loans	2,502.2	2,000.0
Foreign	3,055.0	3,680.7
C. Net Cash Transactions	1,437.3	3,256.2
D. Status of Cash Balance		
Beginning, January 1	12,557.2	9,301.0
Ending, December 31	13,994.5	12,557.2
Change in Status	1,437.3	3,256.2

Rising domestic costs contributed to the increase in cash disbursements to ₱47,572 million or at a rate of 36.9 per cent from 10.8 per cent last year. Of total disbursements, operating expenditures accounted for 50 per cent as against 49 per cent last year. Other budgetary and non-budgetary disbursements likewise expanded their share from 20 per cent to 23 per cent. On the other hand, capital expenses were 22 per cent of total disbursements compared to 26 per cent last year while interest payments registered a share of almost 5 per cent.

Net financial transactions of the National Government at ₱2,520 million more than covered the fiscal deficit of ₱1,083 million. Cash borrowings reached ₱9,546 million, composed mainly of domestic securities, while debt redemptions aggregated ₱7,025 million, thus resulting in an increase by ₱1,437 million in National Government balances as of end-December 1980.

Internal Public Debt – Indicative of the rising financial requirements for economic development, internal public debt as of end-December 1980 further increased to ₱41,135 million p/ or 11.7 per cent more than the comparable level last year.

Of the ₱4,308 million increment in internal debt, 65 per cent was accounted for by the National Government. Total borrowings of this sector rose to ₱21,876 million by 14.6 per cent as outstanding government securities expanded by ₱2,653 million and loans by ₱136 million. Additional securities were issued primarily to liquidate the provisional advances of the National Government from the Central Bank (Treasury Bonds), refinance matured Treasury Notes, finance public expenditures authorized under R.A. No. 245, as amended, (Treasury Bills) and replenish the common bond fund of Premyo Savings Bonds.

About 25 per cent of incremental debt was contributed by government corporations whose aggregate borrowings scaled up to ₱4,979 million by 27.0 per cent. Bonds issued by the Development Bank of the Philippines, Public Estates Authority, Export Processing Zone Authority, and the Philippine Charity Sweepstakes Office as well as loans of the Land Bank of the Philippines from the Central Bank accounted mainly for government corporations' additional debt.

Borrowings of monetary institutions expanded by a relatively slower pace of 3.4 per cent to a level of ₱13,992 million. In the case of local governments, outstanding debt remained at ₱289 million.

External Public Debt – To support the programmed rate of capital formation for the year 1980, the public sector availed itself of additional foreign borrowings which reached an outstanding level of $8,137 million or ₱61,793 million p as of end-December 1980. This level was higher by 25.2 per cent from last year's external debt of $6,498 million and recorded a substantial share of 60 per cent to total public debt.

Government corporations accounted for 41 per cent ($3,339 million) of total external borrowings due mainly to the loans of the National Power Corporation and the Philippine National Oil Company for energy development and current oil needs of the country. Monetary institutions shared 31 per cent ($2,554 million) arising principally from availments of the Central Bank of the Philippines of International Monetary Fund lines. Borrowings of the National Government likewise indicated a relatively large proportion of 28 per cent ($2,243 million) for infrastructure projects. Meanwhile outstanding obligations of local governments remained at $0.3 million.

In accordance with sound credit management policy, the maturity structure of external public debt showed that a substantial share of 56 per cent was for long-term and 22 per cent each for medium and short-term debt.

TABLE 15 – PUBLIC DEBT OUTSTANDING
December 31, 1979 and 1980
(Amount in Million)

	1980 P	1979
TOTAL (Pesos)	102,927.6	84,981.0
Internal Debt (Pesos)	41,135.1	36,826.6
National Government	21,875.5	19,086.6
Local Governments	289.3	289.4
Government Corporations	4,978.5	3,919.8
Guaranteed	3,753.9	3,073.9
Non-Guaranteed	1,224.6	845.9
Monetary Institutions	13,991.7	13,530.8
External Debt (Pesos)	61,792.5	48,154.4
External Debt (U.S.$)	8,136.8	6,497.7
National Government	2,243.2	1,858.2
Local Governments	0.3	0.3
Government Corporations	3,339.0	2,672.6
Monetary Institutions	2,554.3	1,966.6

PRODUCTION, EMPLOYMENT, EARNINGS AND GROSS SALES

The key domestic industries performed at higher levels in 1980 although sectoral growth rates experienced a general slowdown compared to those registered in 1979. Strong government policy support helped cushion the impact of recession and inflation generated by continuing increases in oil prices. Other growth factors were the favorable weather in crop year ending June 30, 1980 and relatively favorable prices in both domestic and foreign markets.

Agriculture-fishery-forestry output for crop year 1980 rose at the rate of 6.8 per cent compared with 4.2 per cent in 1979. Palay sustained its surplus position while increased production was noted in corn, vegetables and fruits particularly banana. Coconut pulled up from the 1979 slump while other crops such as coffee and cacao together with cotton expanded output in the same period. Aside from farm gains, the acceleration in fishery and recovery in livestock-poultry production offset the downturn in forestry operations.

Mining and quarrying garnered an increment of 9.2 per cent in 1980 due mainly to higher world prices for gold and nickel. However, this was a deceleration from the 14.1 per cent registered for 1979 since metal prices during this period were higher. The tonnage of principal metals rose by bigger margins except for copper, the major producer of which was hampered by the oil crunch.

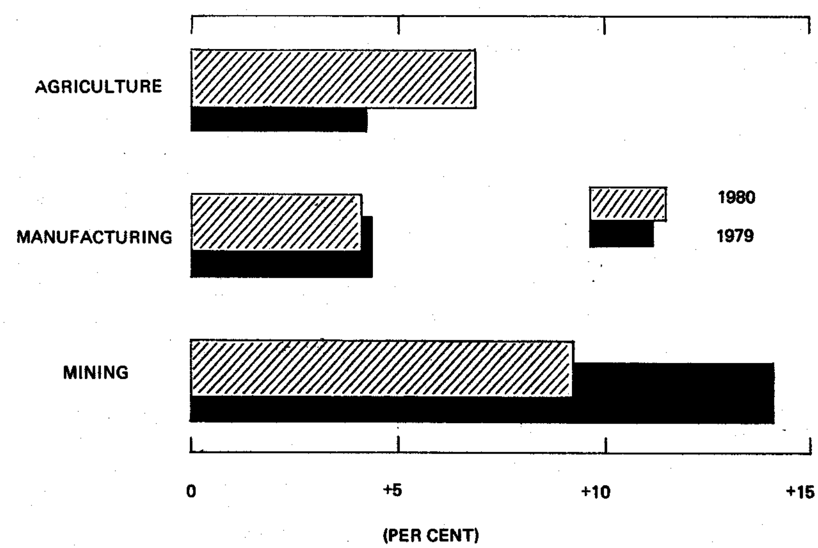
Manufacturing production picked up by 4.1 per cent, slightly short of the 4.3 per cent growth in the previous year. Output gains from five industries were somewhat dampened by the slack observed in the heavily-weighted food-beverages-tobacco group.

In the same period, private construction activity in the City of Manila suffered downturns anew as both residential and non-residential constructions slumped while addition, alteration and repair picked up considerably. Meanwhile, the first nine months of the year showed mixed trends in real estate transactions for Manila and surrounding cities of Caloocan, Pasay and Quezon. Sales transactions increased at decelerated rates in both volume and value. On the other hand, mortgage deals dropped, while the corresponding value increased reflecting limited supply and high prices of lots. For the same period, power production accelerated showing progress in rural electrification while sales slackened with the retirement of three oil-fired plants in late 1979.

International shipping and domestic railways activity lagged behind their previous year levels. The sluggish world and domestic markets somewhat moderated the movement of goods during the year.

With the slowdown of activities in some major industries, employment registered a fractional growth of 0.4 per cent in 1980 as compared to 7 per cent in 1979. The heavily-weighted agriculture sector showed a smaller workforce in the face of two upward adjustments in wages and allowances during the year. Added to this was the slower pace of production in the manufacturing industry which influenced the reduction of manpower during the period. The additional compensation and hike in oil prices bolstered gross sales in five industry groups by 17.4 per cent.

CHART 7 – PER CENT CHANGES IN THE PHYSICAL VOLUME OF PRODUCTION
1979 and 1980



Even as the impact of slack activities was generally felt in 1980, the aggregate monthly earnings of both salaried employees and wage earners moved up in all industries. While the over-all gains were less compared to a year ago, earnings of salaried employees and wage earners in four out of nine industries improved at markedly accelerated rate during the period. To a large extent, the legislated increases in basic compensation and allowances influenced the uptrend in average earnings.

Production

Agriculture-Fishery-Forestry – For crop year 1980, the production index for the agriculture-fishery-forestry sector moved up to 160.7 (1972=100) or an increase of 6.8 per cent compared to 4.2 per cent in 1979. Under the various production packages of government, the significantly higher growth rates observed, notably, in output of agricultural crops and fishery more than made up for the sharp cutback in forestry operations.

With sustained credit and other government support for increased agricultural production, and generally fair weather prevailing during the crop year period, farm crops led the sectoral gains with an expansion of 9 per cent, the biggest increment recorded since 1977. Palay harvest placed at 7,504.0 thousand metric tons increased at the same rate of 4.3 per cent as in 1979 under the support of "Masagana 99" and complementary rice programs. During the crop year, about 150,000 m. tons of milled rice were exported to Indonesia, Malaysia and Brazil. Output of corn increased to 3,176.0 thousand metric tons or a decelerated improvement of only 0.3 per cent. At this level, production fell below the total estimated corn requirements for food, feeds, industry and other uses. Vegetable production rose by 7.1 per cent or thrice the growth rate in 1979. The incentives provided by the vegetable and multi-cropping programs of government contributed partly to the expansion led by root crops, beans and leafy vegetables. Likewise, production of fruits and nuts improved markedly by 20.5 per cent due largely to the strong performance of bananas which continued to enjoy favorable prices in domestic and export markets.

Coconut production recovered from the slump of 23.5 per cent in the preceding year to grow by 10.1 per cent despite the depressed export prices of copra. Improved land productivity and expanded hectarage accounted for the 9,585.0 million coconuts gathered. On the other hand, sugar cane production dropped anew by 3.2 per cent due to diversification of more profitable crops. Ironically, producers were not able to take full advantage of the bullish market in 1980 as centrifugal sugar output decreased by 3.1 per cent. On the other hand, higher prices abroad influenced the considerably improved performance of tobacco and fibercrops specifically abaca as compared to that of 1979. Production of other agricultural crops grew by an accelerated rate of 6.3 per cent as all components especially coffee and cacao – some of the country's fast-growing non-traditional export products – contributed to the expansion.

During the same period, livestock and poultry production picked up by 1.6 per cent from the observed downtrend in 1979. The poultry industry gained strongly by 4.7 per cent as it recovered from the previous year slump while livestock showed a further increase, notwithstanding the sporadic outbreaks of animal diseases affecting carabaos during the year. The continued financial and technical assistance channelled to the industry through the various government livestock and feedgrain programs influenced its positive performance in 1980.

The fishery catch in 1980 reached 1,660 thousand metric tons or an increase of 4.6 per cent above the 1979 level. Upturns in output of nearly 6 per cent for ocean as well as inland fishing more than offset the 4.3 per cent decline registered in typhoon-affected fish farms.

Forestry activity suffered a 12.5 per cent shortfall in spite of favorable world market prices for logs and lumber. The existing partial log export ban and forest conservation drive influenced the 12.5 per cent severe cutback in logging operations. With the on-going diversification drive toward non-oil sources of energy, other forest activities including firewood-cutting and charcoal-making further improved after the expansion of 53.5 per cent a year earlier.

TABLE 16 – INDEX OF THE PHYSICAL VOLUME OF PRODUCTION IN AGRICULTURE, FISHERY AND FORESTRY

Crop Years, 1978–1980

(1972=100)

	1978	1979 p	1980 e	Per Cent Change 1979	Per Cent Change 1980
AGRICULTURE, FISHERY AND FORESTRY	144.4	150.4	160.7	4.2	6.8
Agricultural Crops Production	166.5	175.8	191.7	5.6	9.0
Palay	135.2	141.1	147.1	4.4	4.3
Corn	141.9	157.4	157.8	0.9	0.3
Vegetables incl. root and tuber crops	194.8	199.9	214.1	2.6	7.1
Fruits and nuts (excl. coconut)	264.1	331.6	399.5	25.6	20.5
Coconut incl. copra making in the farm	135.2	103.4	113.8	–23.5	10.1
Sugar cane incl. muscovado sugar-making in the farm	121.3	125.9	121.9	3.8	–3.2
Tobacco	101.0	91.6	90.4	–9.3	–1.3
Fiber crops	114.3	107.6	106.9	–5.9	–0.7
Agricultural crops, n.e.c.	234.1	236.5	251.4	1.0	6.3
Production of Livestock, Poultry and Other Animals [1]	99.8	95.2	97.6	–3.7	1.6
Livestock	86.4	91.2	92.0	5.6	0.9
Poultry	119.4	101.1	105.9	–15.3	4.7
Fishery [1]	142.1	142.8	149.4	0.5	4.6
Ocean (off-shore) and coastal fishing	119.1	117.9	124.6	–1.0	5.7
Inland fishing	159.7	158.2	167.5	–0.9	5.9
Operation of fish farm	120.0	135.1	129.3	12.6	–4.3
Forestry	68.2	72.6	63.5	6.5	–12.5
Logging Operations	85.0	85.3	72.1	0.4	–15.5
Other forestry activities	26.9	41.3	42.2	53.5	2.2

[1] Calendar year

SOURCES OF BASIC DATA: Bureau of Agricultural Economics, Bureau of Fisheries & Aquatic Resources, Philippine Coconut Authority, Bureau of Forest Development & Philippine Sugar Commission

Mining and Quarrying – The mining and quarrying production index for 1980 moved up to 158.7 (1972=100) showing a growth rate of 9.2 per cent as output of both metallic and non-metallic products continued to expand although at slower rate than the previous year. The growth of metallic mining moderated to 10 per cent while that of non-metallic to 6.5 per cent after posting two-digit expansions in 1979.

In metallic ore mining, gold set the pace with the full operation of a large gold project in mid year which contributed to the marked upturn in production of 19,745 kilograms or an increase of 18.5 per cent over 1979. This substantial expansion was influenced largely by the price of gold which more than doubled in 1980. The other precious metal group represented solely by silver – as platinum and palladium were off-stream since 1977 – also expanded output by 15 per cent to 65,740 kilograms.

The full operation of a big copper project at the start of 1980 boosted copper output to 1,151.1 thousand metric tons. At this level, however, the increase was only half that registered in 1979 in the face of slowdown in foreign demand and export prices of copper concentrates. The fuel restraints also affected the production of the principal copper mine during the period.

Spurred by bullish trends in steel markets, nickel output reached 38.3 thousand metric tons or an increase of 15 per cent. Chromite ore production more than recovered from the shortfall in 1979, thus increasing by 1.8 per cent to 427.6 thousand metric tons. The more profitable refractory type – comprising 94 per cent of aggregate output – staged an upturn of 3.2 per cent to offset the sustained slump in the metallurgical category. Iron-lump ore production picked up by nearly 5 per cent after the 263.3 per cent upsurge in the preceding year. Similarly, other base metals posted a decelerated aggregate gain of 8.8 per cent due to cutbacks in production of zinc and manganese and the slowdown in output of lead. The slump in automobile manufacture affected the pace of activity of these latter industry which improved by 16.6 per cent or barely half of the growth of production in the previous year. For the fourth consecutive year, mercury remained outside the production line.

Output of the non-metallic mining and quarrying group improved by 6.5 per cent although this was merely a third of the increment obtained in 1979. Coal production expanded by nearly 25 per cent or nearly eight fold to 328.8 thousand metric tons with the government's oil-to-coal switch campaign for cement and mining plants. However, stone quarrying, clay and sand pits activity representing more than half of total weights for this group contributed only 2.5 per cent to the sectoral gain as compared to 13.1 per cent for 1979. Similarly, other non-metallic mining and quarrying – which include chemical and fertilizer mineral, salt, and miscellaneous other non-metallic and quarrying products, showed a decelerated increase in output of 11.6 per cent in 1980 from 37.9 per cent in the previous year, even as salt production improved by 3.5 per cent.

TABLE 17 – INDEX OF THE PHYSICAL VOLUME OF MINING AND QUARRYING PRODUCTION
1978–1980
(1972=100)

	1978	1979	1980[e]	Per Cent Change 1979	Per Cent Change 1980
MINING AND QUARRYING	127.4	145.3	158.7	14.1	9.2
Metallic Ore Mining . . .	123.4	139.1	153.0	12.7	10.0
Gold ore mining	96.6	88.2	104.6	–8.7	18.6
Other precious metal ore mining	85.1	95.5	109.8	12.2	15.0
Copper ore mining[1] . .	114.5	134.1	145.4	17.1	8.4
Nickel ore mining	7,689.6	8,668.5	9,968.5	12.7	15.0
Chromite ore mining . .	125.5	121.2	123.4	–3.4	1.8
Iron ore mining	0.079	0.287	0.301	263.3	4.9
Other base metal ore mining	160.3	185.5	202.1	15.9	8.8
Non-Metallic Mining and Quarrying	145.4	172.9	184.1	18.9	6.5
Coal mining	655.6	676.4	845.1	3.2	24.9
Stone quarrying, clay and sandpits[2]	170.9	193.3	198.1	13.1	2.5
Other non-metallic mining and quarrying[2]	92.4	127.4	142.2	37.9	11.6

1 In concentrate.

2 Applicable for annual data only. Monthly/quarterly figures not available.

SOURCE OF BASIC DATA: Bureau of Mines and Geo-Sciences.

Manufacturing – Central Bank indicators showed a moderated growth of 4.1 per cent in the volume of manufacturing production for 1980. Strong output gains were observed in five industries, notably in paper, fabricated metals and non-metallic mineral products. However, the decline in textiles, wood and other manufacturing industries as well as the significant slowdown in the food, beverages and tobacco group influenced the slight deceleration from the overall manufacturing growth of 4.3 per cent registered in 1979.

Signs of improving performance observed in the early part of the year were offset by the resurgence of recessionary and inflationary pressures which persisted until the close of 1980. Many manufacturing industries were hampered by periodic power failures on top of higher power and water rates. In the external front, the prevailing protectionism in the world market dampened the export drive of many manufacturing concerns.

In 1980, the production of textiles, wearing apparel and leather industries dropped by 1.6 per cent in contrast to the 1.7 per cent growth in 1979 due to substantial declines in output of all components except footwear; the latter industry recorded a strong recovery to muster a gain more than 50 per cent. This downturn in production was attributed in part, to the combined effects of the high cost of imported material inputs and reduced competitiveness against imported garments.

The manufacture of wood products also showed a considerable setback from the 7.6 per cent gain obtained in 1979 following the substantial production cutbacks of many lumber firms in the Mindanao area as a result of weak market conditions. The existing regulations curtailing wood exports also depressed production.

Meanwhile, a bigger decline of 5.8 per cent was observed in the activities of the other manufacturing industries group. With the removal in July 1980 of preferential rates in the US for some Philippine products like shell articles, production in this group further contracted. Lower production of musical instruments, athletic supplies, paper by-products and other related items contributed to the shortfall in total output of miscellaneous manufactures during the year.

There was strong deceleration from 7.9 per cent to 2.0 per cent in the manufacture of the food group even as beverages chalked up a significant rise from a fractional growth of 0.5 per cent in 1979 to 5.8 per cent in 1980. Food manufacturing which includes slaughtering, canning, and packing slowed down from 10.4 per cent to 1.0 per cent on account of weak demand for local meat, sugar and fish products while the gain in tobacco manufacturing was reduced from 3.6 per cent to 3.2 per cent due partly to successive power failures that affected production during the period.

The manufacturing sector for 1980 was also marked by creditable performance of five industries. The strongest acceleration from 4.6 per cent to 22.6 per cent was exhibited by the non-metallic mineral products particularly glass and cement. Local production of glass products improved during the year despite the lifting of dumping duty on imported unworked sheet glass. The world market glut for cement influenced greater domestic sales and consequently resulted in a pick up in production activity during the year.

Other industries which showed further improvements were the chemical especially petroleum industries (3.9 per cent), basic metal industries (8.3 per cent) and fabricated metal products (9.9 per cent). The former's growth represented a sharp recovery from the 2.2 per cent decline registered in 1979. This came about as a result of the strong performance in all its sub-industries except transport which suffered a further decline of 8.8 per cent reflecting lower car/truck sales in 1980 due to higher oil prices.

In general, the higher cost of production due to increased energy prices as well as those related to marketing and distribution impinged on the various manufacturing activities. A slowdown in gross sales of the sector further contributed to a recessionary trend. The generally weak international market also depressed production of some export-oriented manufacturing industries.

TABLE 18 – INDEX OF THE PHYSICAL VOLUME OF PRODUCTION IN MANUFACTURING
1978–1980
(1972=100)

				Per Cent Change	
	1978	1979	1980 P	1979	1980
MANUFACTURING	126.4	131.8	137.2	4.3	4.1
Food, beverages & tobacco . . .	123.6	133.4	136.1	7.9	2.0
Textile, wearing apparel and leather industries	145.9	148.4	146.1	1.7	–1.6
Wood & wood products, including furniture	118.8	127.8	126.9	7.6	–0.7
Paper & paper products, printing & publishing	124.5	129.7	149.9	4.2	15.6
Chemicals & chemical, petroleum, coal, rubber & plastic products	103.6	107.5	111.7	3.8	3.9
Non-metallic mineral products except products of petroleum and coal	117.2	122.6	150.3	4.6	22.6
Basic metal industries	204.2	203.8	220.8	–0.2	8.3
Fabricated metal products, machinery & equipment . . .	131.7	128.8	141.5	–2.2	9.9
Other manufacturing industries	97.2	96.4	90.8	–0.8	–5.8

SOURCE OF BASIC DATA: Sample firms.

Construction – Based on building permits issued for 1980, private construction activity in the City of Manila slumped after a brisk performance in 1979. In the face of accelerated building costs, the total number of permits granted decreased by 5.6 per cent followed by a drop of 46.3 per cent in aggregate value – in sharp contrast to the marked uptrends noted in the previous year. In absolute terms, permits issued aggregated 1,832 valued at ₱357.5 million as compared to 1,940 and ₱665.6 million, respectively, in 1979.

During 1980, 462 permits for residential buildings were issued or 43 units

TABLE 19 – PERMIT VALUATION OF PRIVATE BUILDING CONSTRUCTION
By Type in the City of Manila
1978 – 1980
(Value in Million Pesos)

	1978		1979		1980		Per Cent Change 1979		Per Cent Change 1980	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
TOTAL	1,736	504.2	1,940	665.6	1,832	357.5	11.8	32.0	–5.6	–46.3
Residential	355	108.7	505	174.1	462	121.2	42.3	60.1	–8.5	–30.4
Non-residential	236	292.9	269	381.1	187	163.2	14.0	30.1	–30.5	–57.2
Addition, alteration & repair	1,145	102.6	1,166	110.4	1,183	73.2	1.8	7.6	1.5	–33.7

1 Inclusive of factories, warehouses and plants

2 Inclusive of recreational, social, educational, charitable, religious, medical and other similar institutions

3 Inclusive of buildings not classified elsewhere

SOURCE OF BASIC DATA: Department of Engineering and Public Works, City Engineer's Office, Manila less than in the preceding year while the corresponding value amounting to ₱121.2 million was 30.4 per cent below the 1979 level. Construction was heaviest in the non-residential category which constituted nearly 50 per cent of total valuation. However, as compared to 1979, permits totalling 187 declined by 30.5 per cent and value amounting to ₱163.2 million was less by 57.2 per cent. Under this same category, the downturn was most pronounced in commercial buildings which showed a drop of 35.9 per cent in volume and 64 per cent in value. There was a similar decline in both number and value of the industrial and public utility as well as institutional types of construction, although at relatively smaller rates in both number and value after their substantial growth a year earlier. Meanwhile, there were 68 permits issued in 1980 for other types of non-residential buildings valued at ₱23.7 million. Although these were still below preceding year levels, the observed slump was not as deep as in 1979.

The addition, alteration and repair category which continued to form the bulk of total number of permits issued further increased by 1.5 per cent to 1,183. However, the corresponding value amounting to ₱73.2 million was 33.7 per cent less than that of 1979, reflecting lower budget projects of this type undertaken during 1980.

Real Estate — Real estate activity in Manila and Other Cities — Caloocan, Pasay and Quezon — slowed down markedly in the first nine months of 1980 after a strong performance in 1979. Credit considerations, recent restrictions affecting land development under the Urban Land Reform Zone and to some extent the regulation of land prices and rentals influenced the modest development in the real estate sector.

Sale transactions totalling 13,253 increased at a much reduced rate of 0.7 per cent compared to 40.1 per cent obtained a year ago. The corresponding value amounted to ₱1,288.3 million or 21.1 per cent higher than the 1979 level compared to 59.8 per cent growth rate in 1979. This slack was partly attributed to the weak sales performance in the City of Manila which recorded 1,220 deals or 50.4 per cent less than the preceding year. With the high prices of lots in this area, however, the value reached ₱331.9 million in 1980 or 127.8 per cent more than that of 1979. In other cities — which garnered 90 per cent of total sales volume and three-fourths of aggregate value — the corresponding number of sales further increased to 12,033 but at a slower rate of 12.4 per cent as compared to nearly 43 per cent in the 1979 period. Quezon City led with sales of 4,680 lots for ₱558.4 million even as these transactions were fewer than the previous year's level. Caloocan City followed with 4,259 deals or 12 per cent more than its record a year ago, the corresponding value decreased by 19.4 per cent to ₱116.0 million indicating preference for a number of small transactions. Pasay came in last though showing the most improved performance in the volume of sales which surged from 388 to 3,094 with values rising from ₱57.3 million in 1979 to ₱282.0 million during the period.

TABLE 20 — REAL ESTATE SALES AND MORTGAGES IN MANILA AND OTHER CITIES
January – September, 1978–1980
(Value in Million Pesos)

	1978		1979		1980		Per Cent Change 1979		Per Cent Change 1980	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
SALES	9,397	665.5	13,166	1,063.8	13,253	1,288.3	40.1	59.8	0.7	21.1
Manila	1,906	76.5	2,460	145.7	1,220	331.9	29.1	90.5	–50.4	127.8
Other Cities	7,491	589.0	10,706	918.1	12,033	956.4	42.9	55.9	12.4	4.2
Caloocan City	2,011 [a]	45.5 [a]	3,804	144.0	4,259	116.0	89.2	216.5	12.0	–19.4
Pasay City	370	39.7	388	57.3	3,094	282.0	4.9	44.3	697.4	392.1
Quezon City	5,110	503.8	6,514	716.8	4,680	558.4	27.5	42.3	–28.2	–22.1
MORTGAGES	7,568	1,183.4	10,457	1,243.8	9,679	1,897.4	38.2	5.1	–7.4	52.5
Manila	2,777	305.6	2,488	301.6	1,139	383.5	–10.4	–1.3	–54.2	27.2
Other Cities	4,791	877.8	7,969	942.2	8,540	1,513.9	66.3	7.3	7.2	60.7
Caloocan City	1,221 [a]	37.0 [a]	3,580	136.5	2,012	113.1	193.2	268.9	–43.8	–17.1
Pasay City	349	207.4	330	60.4	2,648	468.0	–5.4	70.9	702.4	674.8
Quezon City	3,221	633.4	4,059	745.3	3,880	932.8	26.0	17.7	–4.4	25.2

[a] January to June

SOURCE OF BASIC DATA: Manila Board of Realtors and Quezon City Hall

Mortgage transactions dropped from the preceding year's level by 7.4 per cent to 9,679 while the corresponding value advanced by 52.5 per cent to ₱1,897.4 million. This slump of more than 50 per cent in the volume of mortgage transactions in the Manila area triggered the downswing in the over-all volume of deals. Likewise, the marked growth in the corresponding value for Manila bolstered to some extent the total value of negotiated mortgages. As in the sales transactions, the other cities recorded more deals compared to the City of Manila reflecting the trend towards suburban living. The considerable expansion of 702.4 per cent in the mortgage transactions of Pasay City more than offset the down-turns occurring in Caloocan and Pasay Cities. In terms of value, the big upsurge of 60.7 per cent for Other Cities came from transactions in Pasay and Quezon City.

Electricity – For the first nine months of 1980, data from the National Power Corporation indicated higher levels of output and sales in volume of power as compared to the same period in 1979. Total power production aggregated 11,312.5 million kwh and sales aggregated 9,883.6 million kwh. However, while the pace of growth in sales took a positive turn by 21.7 per cent with the intensified electrification of rural areas, the increase in production slowed down to 10 per cent following the retirement of three oil-fired plants and occasional breakdown of generating units.

Total sales value rose by only 4.7 per cent to ₱4,072.7 million due mainly to the sharp drop of 42.4 per cent in the value of sales to franchise holders other than Meralco.

Power sold to the Manila Electric Company constituting two-thirds of total sales volume rose at a decelerated rate of 3 per cent to 6,165.4 million kwh. This slowdown reflected the demand-pressing effects of higher power rates which in turn boosted sales receipts to ₱2,974 million or an increase of 50 per cent over the 1979 level. The industrial sector which accounted for about 40 per cent of power sales in the franchise area of Meralco purchased 2,469.9 million kwh or a decline of 2.2 per cent. This was attributed partly to the slower pace of manufacturing activity during the period. Sales to the commercial group also slowed down by 4.5 per cent to 1, 954 million kwh. Following a similar trend, the residential sector consumed 1, 655.7 million kwh during the first nine months of 1980, or at a slower rate of 10 per cent giving some indications of energy conservation.

Public street lighting, likewise, expanded in volume and value at identical rates of about 6 per cent, as additional streets, bridges and parks were lighted.

Fuel cost adjustment registered a negative growth while power purchase adjustment grew substantially by 143.1 per cent to ₱191.1 million representing the price differences in power purchases of Meralco from the National Power Corporation.

In the same period, the sales of the National Power Corporation to other

TABLE 21 — PRODUCTION AND SALES OF ELECTRICITY
January — September, 1978—1980

(Value in Million Pesos)

	1978		1979		1980		Per Cent Change 1979		Per Cent Change 1980	
	Million KWH	Value	Million KWH	Value	Million KWH	Value	Million KWH	Value	Million KWH	Value
Production .	8,634.9		10,280.7		11,312.5		19.1		10.0	
Sales	8,165.7	2,173.4	8,117.9	3,888.2	9,883.6	4,072.7	–0.6	78.9	21.7	4.7
Meralco .	5,506.1	1,707.4	5,986.4	1,983.8	6,165.4	2,974.9	8.7	16.2	3.0	50.0
Others ..	2,659.6	466.0	2,131.5	1,904.4	3,718.2	1,097.8	–19.9	308.7	74.4	–42.4

SOURCES OF BASIC DATA: National Power Corporation (NAPOCOR) and Manila Electric Company (MERALCO) franchise holders or cooperatives — constituting about 35 per cent of the total volume of sales — grew by 74.4 per cent to 3,718.2 million kwh. This manifested the progress of rural electrification largely in the Visayas and Mindanao regions. However, the corresponding value dropped further by 42.4 per cent to ₱1, 097.8 million with the continued implementation of the socialized pricing policy.

Transportation

Philippine National Railways

In 1980, the Philippine National Railways handled cargoes aggregating 166, 645 metric tons or a further decline of 7.0 per cent compared to the previous year. The corresponding revenue, however, went up to ₱11.1 million or an increase of 8.9 per cent following the upward adjustment of about 10.0 per cent in cargo charges effected in the latter part of 1979. Freight car loadings - constituting 85 per cent of the total net tonnage — reached 141,855 metric tons or 2.1 per cent lighter than that of 1979 while freight receipts went up by 17.2 per cent to ₱6.8 million. However, express receipts from cargo dropped by 2.1 per cent to ₱4.3 million as a result of the marked reduction in accompanying tonnage by 27.5 per cent from the preceding year level.

International Shipping Movement

For 1980, the Manila South Harbor manifested a downturn in international maritime activities as compared to 1979. The marked slowdown in volume of imports and to some extent, the hikes in freight rates which prevailed since early 1980 contributed to the depressed shipping movement. Pressures brought about by fuel-oil crunch also undermined improvements obtained in berth management and cargo-handling.

The number of incoming vessels totaled 2,682 or 6.0 per cent less than the entries in 1979. The corresponding tonnage was lighter by 1.7 per cent to 11.7 million metric tons. The outgoing bottoms aggregating 2,658 with tonnage of 11.6 million metric tons likewise dropped although at slower rates of 4.6 per cent and 1.1 per cent, respectively.

Employment

In 1980, the Central Bank employment index covering nine major industry groups showed a fractional gain of 0.1 per cent. This was a marked deceleration from the 7.0 per cent increase registered in the previous year following marked reductions in the work force of the relatively more significant industries of agriculture, and manufacturing, as well as the electricity group.

In the agricultural sector which recorded a 4.7 per cent decline in employment, big lay offs were observed among crop workers particularly in the sugar industy. This more than offset the higher number of labor employed in the fishery group. Employment in manufacturing in 1980 also dropped by 3.9 per cent after gaining more than 5.0 per cent the year before. This downturn was reflective of the slower pace of activity in domestic manufactures during the period. The

TABLE 22 — EMPLOYMENT INDEX BY MAJOR DIVISION
1978–1980
(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	129.0	138.0	138.2	7.0	0.1
Agriculture, etc.	118.5	123.3	117.5	4.1	(4.7)
Mining & Quarrying . .	113.7	119.8	132.6	5.4	10.7
Manufacturing	142.2	149.5	143.7	5.1	(3.9)
Electricity, gas & water	215.1	243.8	224.6	13.3	(7.9)
Construction	167.7	196.5	203.9	17.2	3.8
Wholesale & retail trade	129.7	138.6	144.6	6.9	4.3
Transport, storage & communications . . .	110.0	111.5	130.9	1.4	17.4
Financing, insurance, real estate & business services . .	135.1	164.6	170.3	21.8	3.5
Community, social & personal services . . .	118.6	113.8	114.5	(4.0)	0.6

SOURCE OF BASIC DATA: Sample establishments.

heaviest cutback in manpower occured in establishments in the electricity, gas and water group which showed a 7.9 per cent over-all decrease from the 1979 level.

On the other hand, the transport, storage and communication group chalked up the highest employment growth of 17.4 per cent owing to brisker transport activity during the year. Employment in mining and quarrying also improved at an accelerated rate of 10.7 per cent moving consistently with the observed expansion of gold, copper and nickel mines in 1980. Increased operations of banking and financial institutions and land development activity induced the 3.5 per cent improvement in employment in this industry although the over-all increment was barely one-sixth of the gain in 1979. There were also increases in the workforce of the wholesale and retail trade and construction industries in 1980 although at lower rates than those obtained in the previous year. Meanwhile, the community, social and personal services group hired more workers to slightly offset the 4.0 per cent slump in 1979.

Earnings

In 1980, the average monthly earnings of salaried employees and wage earners further improved with increments of 15.3 per cent and 24.9 per cent, respectively. The increases came about following the implementation of pay increases in February and August 1980.

There was a moderated salary growth from 25.6 per cent in 1979 on account of decelerated increases in five out of nine industries. The heavily-weighted agricultural sector showed a marked weakening from 44.1 per cent to 16.5 per cent due to slight movement in earnings in fishery and forestry. Financing, insurance, real estate and business services also grew but at a slower rate of 10.7 per cent. Likewise, wholesale and retail trade recorded a modest growth of 7.0 per cent after a 13.7 per cent climb in 1979. Public utilities and mining and quarrying chalked up lower pays at 11.6 per cent and 14.0 per cent despite the upward revision of utility rates as well as improved world market prices for metal.

However, there were substantial increases in the average monthly earnings of salaried employees in manufacturing (14.8 per cent), construction (32.1 per cent), and community services (28.7 per cent).

TABLE 23 – AVERAGE MONTHLY EARNINGS INDEX OF SALARIED EMPLOYEES BY MAJOR DIVISION
1978–1980
(1972=100)

				Per Cent Change	
	1978	1979	1980	1979	1980
ALL WORKERS	189.2	237.7	274.1	25.6	15.3
Agriculture, etc.	157.7	227.2	264.6	44.1	16.5
Mining & quarrying ...	164.9	205.2	233.9	24.4	14.0
Manufacturing	205.9	227.9	261.6	10.7	14.8
Electricity, gas & water	283.4	337.0	376.2	18.9	11.6
Construction	168.4	196.6	259.8	16.7	32.1
Wholesale & retail trade	216.3	245.9	263.2	13.7	7.0
Transport, storage & communication	181.5	197.1	225.6	8.6	14.5
Financing, insurance, real estate & business services	257.6	349.1	386.6	35.5	10.7
Community, social & personal services ...	146.1	176.8	227.6	21.0	28.7

SOURCE OF BASIC DATA: Sample establishments.

For the same period, earnings of wage workers moved up from 204.6 (1972=100) to 255.5 reflecting 24.9 per cent increment or slightly higher than the 24.5 per cent gain of a year ago. Wage earners in most covered industries enjoyed bigger compensations than their salaried counterparts, notably those from financing, insurance, real estate and business services where earnings improved at the fastest rate of 37.4 per cent. Against a drop of 7.9 per cent in employment, wage earnings in the electricity, gas and water industry improved by a larger gain of 30.6 per cent. Those for community, social and personal services as well as manufacturing likewise moved up at faster rates of 28.0 per cent and 29.1 per cent, respectively. Other industries also indicated further improvement in pays ranging from 6.0 per cent for mining and quarrying to 24.6 per cent for transport, storage and communication.

TABLE 24 — AVERAGE MONTHLY EARNINGS OF WAGE EARNERS BY MAJOR DIVISION
1978—1980
(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL WORKERS	164.4	204.6	255.5	24.5	24.9
Agriculture, etc.	135.2	178.3	211.9	31.9	18.8
Mining & quarrying ...	223.8	322.7	342.1	44.2	6.0
Manufacturing	195.6	213.7	275.8	9.3	29.1
Electricity, gas & water	115.7	131.2	171.3	13.4	30.6
Construction	205.2	252.3	305.1	23.0	20.9
Wholesale & retail trade	135.9	171.6	199.5	26.3	16.3
Transport, storage & communication ..	223.5	294.8	367.4	31.9	24.6
Financing, insurance, real estate & business services ...	212.4	266.1	365.7	25.3	37.4
Community, social & personal services ...	131.2	166.2	212.7	26.7	28.0

SOURCE OF BASIC DATA: Sample establishments.

Gross Sales

The total current gross sales value of more than six hundred establishments located throughout the country— representing five industry groups — exhibited a higher annual growth of 18.1 per cent in 1980. Higher prices triggered off by the successive hikes in oil prices contributed to the accelerated increase in sales value as compared to that of the previous year.

Based on the index (1972=100), trading in all the covered industries registered improvements during the period. The community, social and personal services group or the third heaviest component recorded the biggest increment of 43.7 per cent — boosted by higher receipts from hotels, restaurants and educational institutions. With the upward adjustments in power rates during the early part of 1980, receipts from electricity, gas and water showed an accelerated increase of 23.0 per cent. The ranking manufacturing industry, likewise, exhibited continued gains in sales although at a slower rate of 13.1 per cent following the observed slowdown in manufacturing operations during the period. On the other hand, sales in the wholesale and retail trade sector — the second most weighted group — recorded a slight gain of 0.6 per cent. This, however, compared favorably with the 5.6 per cent shortfall registered a year ago.

TABLE 25 — GROSS SALES AND/OR RECEIPTS INDEX
BY MAJOR DIVISION
1978 – 1980
(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	291.3	332.0	392.1	14.0	18.1
Manufacturing	328.5	377.5	427.0	14.9	13.1
Electricity, gas & water ..	452.8	537.4	661.2	18.7	23.1
Wholesale & retail trade ..	357.6	337.5	339.5	(5.6)	0.6
Transport, storage & communication	220.6	302.4	407.2	37.1	34.7
Community, social & personal services	186.8	263.1	378.0	40.8	43.7

SOURCE OF BASIC DATA: Sample establishments.

Higher petroleum prices led to the continued escalation in the domestic price levels in 1980. Even as the consumer price index (CPI) for Metro Manila (1972=100) decelerated from 18.8 per cent in 1979 to 17.8 per cent in 1980, CPI Philippines and the retail price index (RPI) in the national capital region recorded further advances of 17.6 per cent and 20.2 per cent, respectively. At the wholesale level (WPI), prices also grew at an identical rate of 18.3 per cent

These price developments during the year, however, compared quite favorably with those of some Third World countries which were also unspared from the adverse effects of the phenomenal rise in the cartelized oil prices.

TABLE 26 — COMPARATIVE INFLATION RATES OF SELECTED THIRD WORLD COUNTRIES
1979 and 1980

Country	Inflation Rates*	
	1980	1979
Bangladesh	16.4	10.3
India	8.5	2.3
Indonesia	9.0	21.8
Korea	25.2	18.1
Malaysia	4.6	3.6
Pakistan	10.4	8.3
Papua New Guinea	11.4	7.0
Philippines	17.6	16.5
Singapore	9.8	4.1
Sri Lanka	26.0	10.8
Taiwan	17.3	9.7

*Preliminary except that of Philippines

Of the eleven countries, only oil-rich Indonesia managed to hold down the rise in consumer prices significantly in 1980 while the others with the possible exception of Malaysia and the Philippines showed marked increases in inflation rates.

The appreciable containment of Philippine inflation during the year resulted basically from the combined policy measures on demand management and supply stabilization. Demand management took the form of selective pricing scheme for fuel products, water and power which effectively made higher levels of consumption more prohibitive. Supply stabilization measures consisting of financial incentives to higher production became more necessary following the destructive tropical depression in the latter part of 1980. On top of these measures, price control was retained in 1980 and various government food centers were formed to improve the consumers' access to cheap commodities.

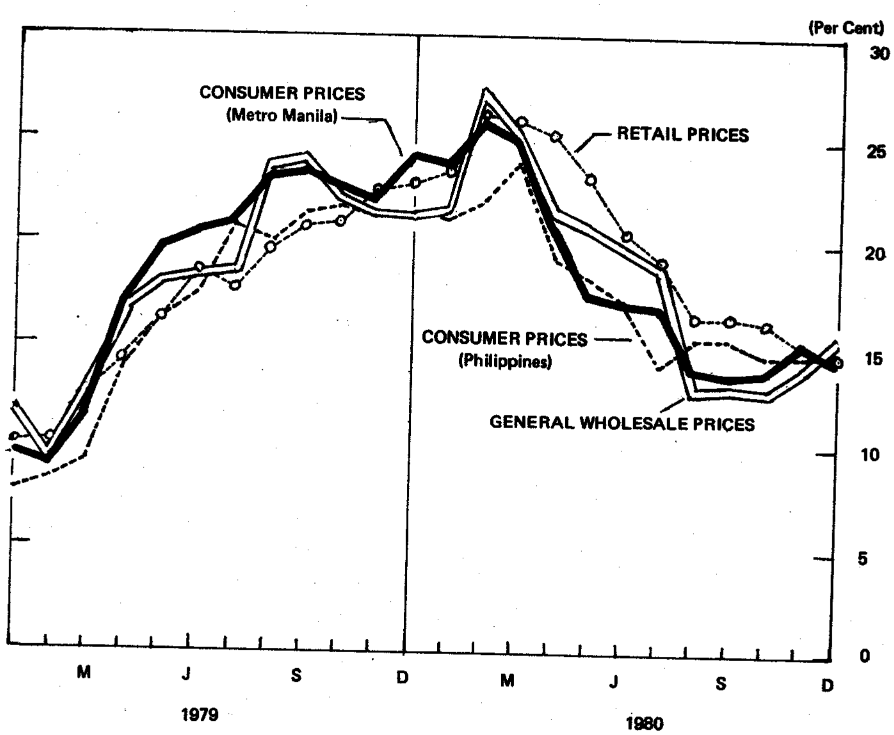
The rationalization of the country's financial system in 1980 and the conscientious adherence to the financial program also helped moderate the uptrend in prices.

Consumer Prices

The slowdown observed in the rise in CPI Metro Manila compared with the accelerated increase of 17.6 per cent in CPI Philippines resulted largely from the continued enforcement of price control of ten basic items and the operation of KADIWA food centers selling at subsidized prices in the national capital region. Moreover, supply was relatively abundant in the Manila area, being the country's major trade center.

The principal growth factors in both consumer indices, however, were the two nation-wide adjustments in oil prices, the 11th and 12th since 1973, including those of oil derivatives. In turn, these parked off a series of upward revision in power, water, transport and freight rates. In addition, agricultural and food supply came in short supply in the latter part of the year due to the damage

CHART 8 – ANNUAL PER CENT CHANGES IN PRICES
1979 and 1980



caused of typhoon "Aring" in November. However, increased importation of basic items and production incentives came in time to neutralize this development.

For CPI Philippines, even as food, beverages and tobacco showed a mild deceleration, non-food items — many of which are basically oil-dependent — recorded a significant run-up of 21.8 per cent.

TABLE 27 — CONSUMER PRICE INDEX IN THE PHILIPPINES
1978 – 1980
(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	215.0	250.5	294.6	16.5	17.6
Food, beverages and tobacco	207.9	239.2	274.7	15.1	14.8
Non-food	227.1	269.8	328.6	18.8	21.8
Clothing	235.6	*275.6	336.2	17.0	22.0
Housing and repairs	225.0	262.7	307.3	16.8	17.0
Fuel, light and water	230.5	290.2	389.4	25.9	34.2
Services	214.1	260.1	325.7	21.5	25.2
Miscellaneous	238.4	277.4	326.2	16.4	17.6

SOURCES OF BASIC DATA: BAEcon, TAC-MOT and reporting private establishments.

Fuel, light and water registered the highest rate of 34.2 per cent reflecting the upward adjustments made during the year. Services and clothing were higher by over 20.0 per cent while miscellaneous non-food items and housing and repairs grew by about 17.0 per cent.

The average growth rate of 17.6 per cent of CPI Philippines in 1980 was the highest since 1974 when inflation rate peaked at 34.2 per cent at the height of the oil crisis.

The upward movement in CPI Metro Manila was influenced by the sustained increase of 19.5 per cent in non-food prices particularly those of fuel, light and water which reached 34.6 per cent. The sharp increase in fuel, light and water rates combined with the 28.2 per cent rise in prices of clothing offset the slowdowns observed for housing and repairs and miscellaneous food and the stable price level for services.

Relatively modest growth rates were registered in prices of food and tobacco although prices of beverages accelerated further. During the year, significant slowdowns were observed for cereals, particularly rice, cereal preparations, fish, and meat. Import-dependent dairy products, as well as eggs, fruits and vegetables, and miscellaneous food items advanced further.

Commodities with imported inputs which recorded a price spiral of 24.8 per cent contributed more to inflation than domestic goods using local inputs which turned in only a 15.6 per cent increase.

TABLE 28 — CONSUMER PRICE INDEX IN METRO MANILA 1978–1980

(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	202.9	241.1	284.4	18.8	17.8
Food, beverages and tobacco	205.7	244.8	284.4	19.0	16.2
Food	207.6	247.8	287.3	19.4	15.9
Cereals	177.7	200.2	215.0	12.7	7.4
Rice	177.7	200.5	215.1	12.8	7.3
Corn	170.2	180.9	208.7	6.3	15.4
Cereal preparations	241.0	359.9	455.6	49.3	26.6
Dairy products	171.9	195.4	242.0	13.7	23.8
Eggs	179.3	186.3	214.8	3.9	15.3
Fish	221.9	279.5	340.8	26.0	21.9
Fruits and vegetables	229.2	259.1	299.6	13.0	15.6
Meat	204.5	244.5	270.1	19.6	10.5
Miscellaneous	222.0	250.8	284.1	13.0	13.3
Beverages	197.1	236.0	294.3	19.7	24.7
Tobacco	187.1	210.9	233.9	12.7	10.9
Non-food	200.2	237.5	283.8	18.6	19.5
Clothing	225.8	265.6	340.6	17.6	28.2
Housing and repairs	180.7	206.6	226.9	14.3	9.8
Fuel, light and water	180.4	217.4	292.6	20.5	34.6
Services	209.3	257.6	317.0	23.1	23.1
Miscellaneous	221.9	263.9	311.0	18.9	17.8
Domestic (Chiefly of domestic origin)	194.7	230.6	266.6	18.4	15.6
Domestic (With imported inputs)	217.0	264.8	330.4	22.0	24.8

SOURCES OF BASIC DATA: BAEcon, TAC-MOT and reporting private establishments.

Wholesale Prices

Due to mixed trends observed in the price growth of unprocessed and processed goods in 1980, the overall increase in the general WPI was maintained at the 1979 rate of 18.3 per cent.

Unprocessed goods slowed down from 19.8 per cent to 17.7 per cent following the decelerated growth of agricultural crops, livestock and poultry,

TABLE 29 — WHOLESALE PRICE INDEX IN METRO MANILA
1978–1980

(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	247.0	292.2	345.6	13.3	18.3
Unprocessed Goods	267.4	320.3	377.1	19.8	17.7
Processed Goods	235.7	276.5	328.0	17.3	18.6
Domestic WPI	246.8	295.8	351.6	19.9	18.9
Locally-Produced WPI . .	245.6	292.7	353.4	19.2	20.7
Exportable Commodities WPI	271.5	335.4	343.2	23.5	23.0
Imported Commodities WPI	250.0	288.3	358.9	15.3	24.5
Home Consumption (WPI)	249.0	293.2	351.9	17.8	20.0

fish and forestry products. Only wholesale prices of mining products shot up by 37.4 per cent.

In contrast, processed goods increased from 17.3 per cent to 18.6 per cent. Textiles, footwear, furnitures, paper, printing products, rubber, chemicals, and transport equipment contributed to the uptrend. Textile prices rose during the year due largely to high cost of materials and financing. On the other hand, slowdowns in price increases were observed on other commodity groups whose growth rates ranged from 4.5 per cent for non-electrical machinery to 32.3 per cent for wood products.

The effects of the international economic crisis on domestic price levels were reflected in the large increase from 15.3 per cent to 24.5 per cent in WPI of imported goods. In turn, this was translated into higher prices of import-dependent commodities in the wholesale as well as in the retail and consumer lists of the national capital region. Thus, while WPI of domestic goods and WPI of exportable goods moderated during the year, locally-produced goods WPI and home consumption goods WPI showed further gains.

Retail Prices

The continued uptrend in wholesale prices influenced the significant adjustment in retail prices from 17.2 per cent to 20.2 per cent in Metro Manila during the year. Since retailers had greater leeway in the pricing scheme, the increment shown in the retail price index was higher.

Fuel was retailed at a level higher than the previous year's by 36.8 per cent following the two upward revisions in petroleum prices. Likewise, the higher taxes imposed on beverages specifically on locally-produced alcoholic and distilled spirits, compounded liquors, beer, and tobacco brought about the increase in prices of these products by 26.5 per cent and 20.6 per cent, respectively. Wearing apparel, medical and pharmaceutical preparations and school supplies also showed bigger increases of 21.3 per cent, 13.7 per cent and 17.8 per cent, respectively. The ₱0.25 adjustment on writing pads and notebooks allowed by the Price Stabilization Council in August 1980 generated the further increment in prices of office and school supplies.

Despite the new ceilings for food commodities in the price control list, retail prices of food grew at a decelerated rate of 14.5 per cent. This increase was influenced by the sharp advances in food prices in the last two months of the year following the short supply of vegetables and fruits that resulted from typhoon "Aring." Construction materials and household operations and supplies likewise moved up at modest rates as a result of relative sufficiency in supply especially among the construction items like cement.

TABLE 30 – RETAIL PRICE INDEX OF SELECTED COMMODITIES IN METRO MANILA
1978–1980
(1972=100)

	1978	1979	1980	Per Cent Change 1979	Per Cent Change 1980
ALL ITEMS	216.3	253.4	304.5	17.2	20.2
Food	206.2	240.4	275.3	16.6	14.5
Beverages	199.3	238.2	301.3	19.5	26.5
Tobacco	212.6	230.2	277.6	8.3	20.6
Wearing Apparel	223.5	257.7	312.6	15.3	21.3
Construction Materials	277.9	340.9	387.0	22.7	13.5
Fuel	221.1	275.9	377.4	24.8	36.8
Med. & Phar. Prepns.	166.4	187.0	212.6	12.4	13.7
Office & School Supplies	247.4	285.9	336.7	15.6	17.8
Household Oper. & Supplies	210.0	251.9	299.1	20.0	18.7

SOURCES OF BASIC DATA: Bureau of Agricultural Economics, Trade Assistance Center-Department of Trade and reporting private establishments.

Balance of Payments Management

In 1980 efforts aimed at improving the basic structure of the country's balance of payments continued. Measures implemented during the year sought generally to promote further the growth of exports, particularly of non-traditional manufactures, and strengthen the services sector mainly through the provision of additional incentives to service exporters and overseas construction contractors. Export privileges were also automatically extended to all enterprises in export processing zones. Furthermore, regulations were issued to further streamline the operations of offshore banking units (OBUs), foreign currency deposit units (FCDUs) and domestic insurance companies affiliated with foreign insurance companies.

Along with the process of rationalizing the Central Bank's rediscounting facility, the loan value of export paper covering non-traditional commodities was raised from 80 to 100 per cent. The rediscount rate and the maximum bank lending rate for such items were maintained at 4 per cent and 10 per cent, respectively. Meanwhile, the loan value of paper covering traditional exports was kept at 80 per cent and the rediscount rate at 6 per cent, but the maximum bank lending rate was raised to 12 per cent in line with the general increase in the overall interest rate structure in the economy, a rate still considered preferential compared with 16 and 18 per cent interest rates for commercial loans (Circular No. 750 dated August 22, 1980).

All export enterprises located in the Baguio and Mactan Export Processing zones and in other export processing zones as might be established were automatically considered export-oriented firms under MAAB No. 11 issued on May 14, 1980. As such, they became entitled to the same privileges such as rediscounting and simplified export procedures enjoyed by other certified exporters.

Concrete steps were also undertaken to liberalize the importation of previously banned items in line with the tariff reform seeking to enhance the efficiency of domestic firms through greater competition and to minimize the impact of higher import costs on the consumer sector. Through Circular No. 758 dated September 4, 1980, the sale of foreign exchange by authorized agent banks (AABs) for the importation of goods under the "Unclassified Consumer" (UC) and "Non-Essential Consumer" (NEC) categories was allowed without prior specific approval of the Central Bank. However, importations of these items would continue to be monitored by the Central Bank as provided under MAAB No. 35 issued on December 24, 1980.

Other measures touching on merchandise trade transactions included the liberalization of export and import procedures for cocoa following the expiration of the International Cocoa Agreement (MAAB No. 15 dated June 16, 1980) and an advice sent to AABs regarding the lifting of export duties on coconut products (Circular-Letter dated May 28, 1980).

The Central Bank also extended to non-trade (invisible) foreign exchange earners various forms of assistance and incentives similar to those enjoyed by Central Bank-certified export-oriented firms. Designed to help improve the performance of the service export and overseas construction industry, such incentives were in the form of importation under an export deduction scheme, extra travel allowance, shorter repayment terms for foreign loan availments, shorter periods of repatriation of foreign equity investments, reduced marginal deposits on import letters of credit and higher domestic borrowing ceilings (Circular No. 746 dated August 2, 1980). At the same time, the qualifications and requirements for certification as export-oriented non-trade foreign exchange earner were correspondingly laid out in the same Circular.

Relatedly, the Monetary Boaru issued specific guidelines on the following matters:

a) Applications for the issuance of guarantees or counter-guarantees for overseas projects of Philippine contractors which shall be submitted to the Central Bank through MEDIAD to be accompanied by certain basic documents (Circular No. 744 dated July 10, 1980);

b) The extent and nature of the retention of funds abroad to meet the foreign exchange requirements of Philippine construction companies registered with the Philippine Overseas Construction Board with overseas projects, and the reporting of the foreign exchange receipts and disbursements of such firms (Circular No. 743 dated July 10, 1980); and

c) The sale of foreign exchange to qualified officers travelling abroad on behalf of exporters which shall be based on their foreign exchange earnings, country of destination, length of time of travel and frequency of trips abroad (MAAB No. 22 dated September 8, 1980).

To promote further the growth of the foreign currency deposit system, the Central Bank issued a clarification that foreign currency depositors, whose foreign currency deposits with AABs were used as hold-out and subsequently forfeited due to default on the peso loan, would be allowed to convert their peso amounts into foreign exchange on a case-to-case basis. The local borrower should however be qualified to secure short-term foreign currency loans under Circular No. 685 (Circular-Letter dated June 10, 1980).

For effective monitoring purposes, additional notes and instructions were given to OBUs and FCDUs on the reporting of their spot and forward foreign exchange transactions to the Central Bank (Circular-Letter No. 26 dated June 17, 1980). Likewise, FCDUs and Circular No. 343 banks were enjoined to report all their foreign currency loans regardless of maturity, foreign currency/peso-denominated loans covered by swap arrangements with the Central Bank, and all peso loans regardless of maturity secured by hold-outs on foreign currency deposits.

Furthermore, the Central Bank issued the following regulations mainly to effectively monitor foreign exchange transactions involving insurance companies:

a) MAAB No. 16 dated June 27, 1980 listing the documents required to be submitted by insurance companies/brokers to accompany foreign exchange applications for the remittance of net profits, reinsurance premium and payment of loss claims; and

b) MAAB No. 17 dated July 15, 1980 laying down the guidelines for the opening and maintenance of peso deposit accounts in the books of AABs in the name of non-resident foreign insurers or non-resident foreign reinsurance brokers.

Other measures issued during the year were related to such matters as reporting requirements and modifications in regulations governing specific import/export commodities and amendments/inclusions of certain items to the 1977 Philippine Standard Commodity Classification.

Balance of Payments

The country's balance of payments remained in deficit in 1980 although at an appreciably lower level than in 1979. This negative position emanated from the persistent merchandise trade gap which widened further to $1,940 million during the year under review due mainly to the unabated rise in import prices, particularly of crude oil and other essential commodities. As the combined services and income accounts also showed a deficit, the current account balance continued to be negative at $2,073 million, somewhat moderated by net inflows of transfers and donations. As in previous years, capital transactions ended in net inflows totalling $1,535 million which, together with gold purchases by the Central Bank and SDR allocations, offset a significant portion of the foreign exchange deficit. Altogether, the balance of payments showed a negative balance of $381 million, lower by $189 million than the $570 million deficit for 1979.

The merchandise trade position deteriorated further by $399 million compared with the previous year's $1,540 million deficit in spite of the 25.8 per cent rise in exports. Due mainly to continuing global inflation, the value of imports increased by $1,585 million or 25.8 per cent to $7,727 million in 1980 even as quantum increased by only 1.3 per cent from the 1979 level. Import prices on the whole increased by 23.9 per cent. The value of mineral fuels, lubricants and related materials reached $2,248 million compared to only $1,385 million in the previous year, making this commodity group account for about a third of total imports. Meanwhile, the increment of $863 million comprised approximately 54.4 per cent of the overall increase in aggregate imports.

Practically all the country's principal imports reflected increases in value except for base metals whose value declined by 8.3 per cent. Significant uptrends were noted in the value of materials for the manufacture of electrical and electronic machinery (up by $198 million); electric machinery, apparatus and appliances ($83 million); cereals and cereal preparations ($71 million) and machinery other than electric ($81 million).

Meanwhile, export earnings showed an improvement of $1,187 million over their previous year's level to $5,788 million in 1980. This uptrend was attributable mainly to a 20.7 per cent increase in the quantity of exports and a 4.2 per cent rise in prices. Sugar led all other commodities in value improvement, rising by almost 200 per cent or $412 million to $624 million, which accounted for about 11 per cent of aggregate export earnings. Other items that registered substantial increases in earnings were semi-conductor devices (up by $211 million), gold ($136 million), copper concentrates ($105 million) and nickel ($46 million).

In contrast, unfavorable conditions in some world commodity markets affected certain Philippine export products, particularly coconut oil which showed a 23.7 per cent drop in value to $567 million. This comprised only about 10 per cent of total exports in 1980 compared to a share of 16 per cent in 1979. Lumber and iron ore agglomerates also registered decreases of $17 million and $2 million, respectively.

As a result of the substantial increase in import prices, the country's net terms of trade deteriorated by 15.9 per cent in 1980, reflecting a reversal from the improvements in the preceding two years. The purchasing power of exports increased by 1.5 per cent, indicating a bigger volume of imports that could be derived from the country's export income.

The non-merchandise trade deficit widened further from $390 million in 1979 to $555 million in 1980. Following the rise in merchandise imports, payments for freight and insurance increased substantiallly by 20.6 per cent to $568 million as imports are normally acquired on a c.i.f. basis. There was also a 44.9 per cent uptrend in interest expense to $856 million, of which over nine-tenths was spent on foreign loans and the remainder paid to foreign currency deposits. At the same time, remittance of profits, earnings and dividends rose by 65.9 per cent to $158 million.

Meanwhile, earnings from travel and investment income improved by 34.3 per cent and 46.9 per cent to $320 million and $313 million, respectively. Interest income derived mainly from the investment of Central Bank reserves amounted to $218 million, showing a significant increase of 61.9 per cent over that realized in 1979. In contrast, there was a decline of $26 million in personal income remittances of contract workers and of nearly $3 million in income from non-merchandise insurance.

Net inflows of transfer and donations reached $422 million, 18.7 per cent higher than in the previous year, with the bulk being composed of personal remittances and transfers from the U.S. Veterans Administration. These served to moderate the deficit in the trade accounts.

As a result of these transactions the current account reflected a deficit of $2,073 million, some $497 million bigger than the comparative figure for 1979.

In the non-monetary capital account, net availments of long-term loans amounted to $1,032 million, 10.4 per cent lower than the previous year with the significant drop in gross inflows to the public sector. Consequently, this sector accounted for only 51.9 per cent of net availments in contrast to 85.8 per cent in 1979. The share of net long-term loans going to the private sector correspondingly went up from 14.2 per cent in 1979 to 48.1 per cent in 1980. Loans of the public sector were channeled mostly to power, transportation, irrigation and the financial sector, while privately contracted loans went largely to the communications and manufacturing industries.

TABLE 31 — BALANCE OF PAYMENTS
1979 and 1980

(Million U.S. Dollars)

	1980 P/	1979
I. Current Transactions		
A. Merchandise Trade	1,939.12	−1,540.54
Exports	5,789.79	4,601.19
Imports	7,726.91	6,141.73
B. Non-Merchandise Trade	−555.35	−389.94
Inflow	2,074.85	1,575.89
Outflow	2,630.20	1,965.83
C. Transfers (Donations, etc.)	421.62	355.12
Inflow	438.19	368.85
Outflow	16.57	13.73
Current Transactions, Total . . .	−2,072.85	−1,575.36
II. Non-Monetary Capital		
D. Long-Term Loans	1,031.70	1,151.19
Inflow	1,579.10	2,110.66
Outflow	547.40	959.47
E. Direct Investments	49.55	99.31
Inflow	270.59	225.21
Outflow	221.04	125.90
F. Short-Term Capital	712.33	−49.47
Inflow	7,432.28	4,230.75
Outflow	6,719.95	4,280.22
Errors and Omissions	−257.80	−265.74
Non-Monetary Capital, Total . .	1,535.08	935.29
G. Monetization of Gold	127.73	41.26
H. Allocation of SDRs	28.86	28.45
III. Overall Surplus (Deficit)	−381.18	−570.36

Although new foreign investments in the Philippines totalled $222 million or more than 1-1/2 times those in 1979, there was a drop in net direct investments from $99 million in the previous year to $50 million in 1980. This was brought about mainly by the significant increase in outflows in the form of capital for investment abroad (up by $46 million), capital withdrawn from the country ($19 million) and subscription to the IMF ($30 million).

In contrast, there was a turnaround in the short-term capital account from a net payment of $49 million in 1979 to a net availment of $712 million this year. Revolving credits were increasingly utilized particularly by oil companies, resulting in net inflows of $805 million compared to only $260 million in the previous year. Positive balances were likewise registered in advances for Philippine exports ($19 million).

Despite the overall deficit in the balance of payments, the international reserve improved by $732 million from its end-1979 level to $3,155 million by the end of 1980. The increase was reflected in the expansion particularly of the Central Bank's demand deposits (128.5 per cent), foreign investments (61.0 per cent) and gold (77.4 per cent). Meanwhile, the foreign exchange position of the commercial banking system deteriorated further by $113 million to a net liability position of $1,783 million as of end-1980.

External Trade

Exports — The country's exports continued to post substantial gains in 1980 notwithstanding recessionary trends abroad. This was due largely to the sustained growth of non-traditional exports and improved prices for some major traditional commodities. Aggregating $5,788 million, export earnings in 1980 were higher by 25.8 per cent than in 1979. This year's growth rate was however comparatively lower than the growth rate of 34.3 per cent realized in the previous year.

Earnings generated from non-traditional exports advanced significantly by 32.2 per cent to $2,639 million, reflecting in part the success of the govenment's continuing efforts to develop this group of commodities. Earnings from traditional exports similarly accelerated although at a slower pace of 20.7 per cent to $3,097 million. Consequently, the share of non-traditional exports to total exports moved up from 43.4 per cent in 1979 to 45.6 per cent in 1980, while that of traditional exports slid down from 55.8 per cent to 53.8 per cent. *

The country's ten principal export products accounted for $3,142 million or 54.3 per cent of total exports, slightly higher than the 52.2 per cent share in the preceding year. Some changes were noted in the composition of this year's top export products. Because of the generally sluggish demand for forest-based products in the world market, logs and plywood were replaced bv nickel and

*Balance was composed of re-exports.

bananas in the top ten list, bringing to four the number of non-traditional items in the list from only two in 1979. Except for coconut oil, lumber and iron ore agglomerates, all other principal commodities surpassed their earnings for the previous year.

TABLE 32 – TEN PRINCIPAL EXPORTS
1979 and 1980

(F.O.B. Value in Million U.S. Dollars)

	1980 P		1979	
	Value	Per Cent Distribution	Value	Per Cent Distribution
Sugar (Centrifugal & Refined)	624.0	10.8	211.6	4.6
Coconut Oil	566.8	9.8	742.5	16.1
Copper Concentrates	545.0	9.4	440.4	9.6
Semi-Conductor devices . .	499.5	8.6	289.0	6.3
Gold	239.2	4.1	103.3	2.3
Lumber	181.3	3.1	198.4	4.3
Nickel	137.9	2.4	91.7	2.0
Iron Ore Agglomerates . . .	118.2	2.1	120.0	2.6
Desiccated Coconut	116.0	2.0	107.0	2.3
Bananas	114.2	2.0	96.7	2.1
TOTAL TEN PRINCIPAL EXPORTS	3,142.1	54.3	2,400.6	52.2
Others	2,645.8	45.7	2,200.6	47.8
TOTAL EXPORTS . . .	5,787.7	100.0	4,601.2	100.0

SOURCE OF BASIC DATA: National Census and Statistics Office, NEDA.

Sugar was the top foreign exchange earner in 1980, generating $624 million or the equivalent of 10.8 per cent of total exports. After posting a modest growth of 7.4 per cent in 1979, proceeds from this commodity rose sharply by 194.9 per cent – the highest growth rate recorded by any major export during the year in review. Better prices, as reflected by a 95.5 per cent price increase to an average of $360 per metric ton and larger export volume, up by 50.9 per cent to 1.7 million tons, were the principal factors behind the substantial improvement in sugar earnings. In turn, these developments were attributable to shortages of stocks resulting from poor production in some sugar-producing countries.

Earnings from coconut oil, affected mainly by depressed prices due to oversupply, declined by 23.7 per cent to $567 million, in contrast to an increase of 19.6 per cent in the preceding year. Export prices of this commodity averaged only $618 per metric ton in 1980 compared to $924 per metric ton in 1979. Were it not for the 14.2 per cent increment in quantum which expanded to 918 thousand metric tons from 803 thousand metric tons, earnings from this commodity would have declined further. Thus, coconut oil which was the top dollar grosser in 1979 was relegated to second position and accounted for 10 per cent of total exports.

Proceeds from copper concentrates, the third leading export, continued to increase but at a reduced pace of 23.8 per cent compared to the high 76 per cent in the previous year. The rise in value was due to an improvement in prices from an average fo $420 per metric ton to $478 per metric ton and to heavier volume deliveries which expanded by 8.8 per cent to 1,140 thousand metric tons. Valuewise, earnings from this commodity totalled $545 million or 9.4 per cent of total exports.

The top non-traditional export, semi-conductor devices, which ranked fourth in the list, contributed $499 million or 8.6 per cent to total exports during the year in review. Its rate of growth of 72.8 per cent was slightly higher than its growth of 66.5 per cent in 1979. Behind this strong performance was the boom in overseas demand, particularly in the United States and Japan, which led volume to advance by 57.1 per cent to 2,824 metric tons and prices to move up from an average of $161,000 per metric ton to $177,000 per metric ton.

Gold moved up from tenth to fifth position as a result of the sizeable gain in value which rose to $239 million or by 131.5 per cent compared to only 36.5 per cent in the preceding year. The improvement in earnings emanated from both higher prices and increased volume which reflected sustained strong demand for the product in the international market. The average price of gold in 1980 stood at $570 per ounce, more than twice the average price in 1979, while deliveries abroad totalled 420 thousand ounces or 14.3 per cent more than the level last year.

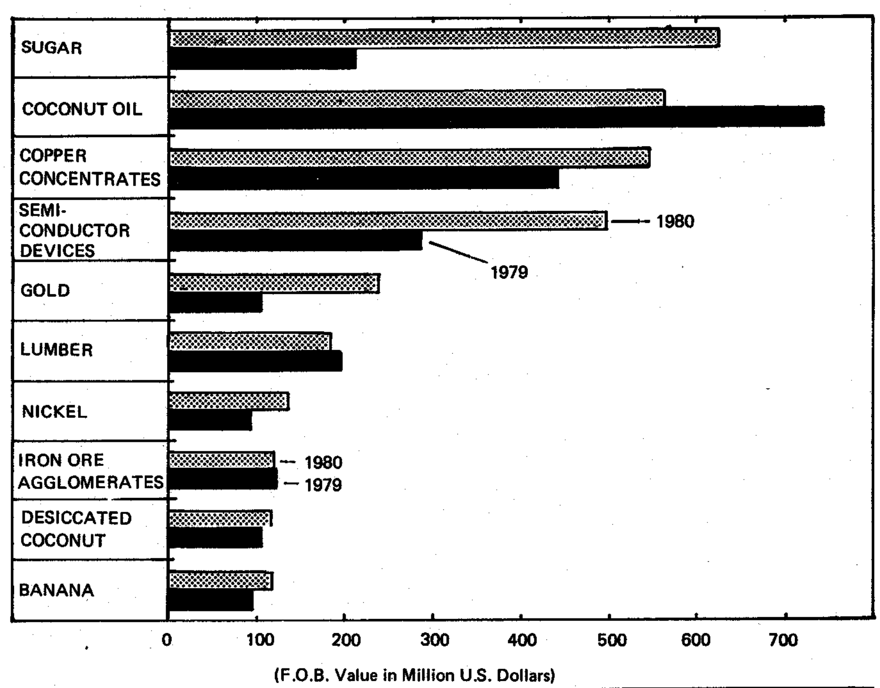
In sixth position was lumber, earnings from which amounted to $181 million, the equivalent of 3.1 per cent of total exports. Due to the slowdown in construction activity especially in European countries, volume shipments of this commodity declined from the 1979 level of 915 thousand cubic meters to 741 thousand cubic meters. Prices however improved from an average of $217 per cubic meter to $244 per cubic meter, resulting in a decline in value of only 8.6 per cent. Nevertheless, this was a complete turnaround from the previous year's gain of 132.8 per cent.

Boosted by a 33.4 per cent upswing in quantum and a 12.8 per cent price hike, earnings from nickel exports accelerated by 50.4 per cent to $138 million. As a result, this commodity landed on the list of the ten leading exports in 1980, occupying the seventh position with a share of 2.4 per cent of total exports.

Iron ore agglomerates was next on the list of principal exports, accounting for 2.1 per cent of total exports. Largely influenced by unfavorable prices which fell by 4.7 per cent, sales of iron ore agglomerates weakened by 1.5 per cent to $118 million, notwithstanding the slight rise in volume by 3.4 per cent.

Rounding off the list of the top ten exports were desiccated coconut in ninth position and bananas in tenth position. Desiccated coconut registered

CHART 9 – TEN PRINCIPAL EXPORTS 1979 and 1980



a growth rate of 8.4 per cent in value, substantially lower than the 30.7 per cent increase recorded in the previous year. Behind this relatively moderate growth pace were the similarly moderate 6.7 per cent improvement in price and the 1.6 per cent increase in volume. Bananas, on the other hand, registered an improvement in value of 18.1 per cent to $114 million due to gains in both volume and prices by 7.5 per cent and 9.9 per cent from the previous year, respectively. The combined value of these commodities comprised 4 per cent of aggregate exports about the same as their combined share in 1979.

Imports — Import arrivals in 1980 rose by $1,585 million or 25.8 per cent to $7,727 million, compared to the increase of 29.8 per cent in 1979. The higher value of imports this year resulted entirely from the 23.9 per cent hike in prices which was only partly neutralized by the 1.3 per cent contraction in volume.

About 95 per cent of the increment in imports came from heavier arrivals of producer goods whose value reached $7,334 million. This represented an increase of 26.8 per cent from 1979 and accounted for about 95.0 per cent of total imports. On the other hand, consumer goods which comprised 5 per cent of total imports rose by an annual rate of 9.5 per cent to $393 million as demand for both durable and non-durable consumer goods accelerated. Among producer goods, semi-processed raw materials showed the sharpest growth in value ($376 million), followed by machinery and equipment ($157 million).

The composition of the ten principal imports with a combined value of $5,970 million remained essentially the same as that of last year, although their share to total imports rose from 76.6 per cent to 77.2 per cent in 1980. Practically all principal imports, except for base metals, surpassed their previous year's levels by a range of $5 million to $863 million.

Mineral fuels, lubricants and related materials continued to be at the top of the ten leading imports with a total value of $2,248 million. This represented 29 per cent of total imports, and was 62.3 per cent larger than the previous year's total. The sharp rise in value was traced largely to the upward adjustment in the price of crude petroleum, the biggest import under this commodity group, which posted an average price of $29.07 per barrel in 1980 compared to only $16.94 per barrel in 1979. To augment existing stockpiles, the volume of imported crude oil likewise rose from 65.8 million barrels last year to 63.9 million barrels this year.

Machinery other than electric was the second leading import commodity group with a share of 13.1 per cent of total imports. Valued at $1,015 million, purchases of this commodity group rose at a decelerated rate of 8.6 per cent as against the 26.9 per cent recorded in the preceding year. The smaller increase resulted from a reduction in the importation of construction and industrial machinery from the United Kingdom.

TABLE 33 — TEN PRINCIPAL IMPORTS

1979 and 1980

(F.O.B. Value in Million U.S. Dollars)

	1980		1979	
		Per Cent		Per Cent
	Value	Distribution	Value	Distribution
Mineral fuels, lubricants & related materials	2,248.4	29.1	1,385.2	22.5
Machinery other than electric	1,015.1	13.1	934.6	15.2
Materials for the manufacture of electrical & electronic machinery	548.9	7.1	351.2	5.7
Transport equipment	533.4	6.9	544.1	8.9
Base metals	501.3	6.5	546.9	8.9
Electric machinery, apparatus & appliances . .	312.1	4.0	229.3	3.7
Chemical elements & compounds	267.4	3.5	249.3	4.1
Cereals & cereal preparations	214.3	2.8	143.5	2.3
Explosives & miscellaneous chemical materials & products	197.0	2.5	195.2	3.2
Manufactures of metals . . .	132.8	1.7	127.9	2.1
TOTAL TEN PRINCIPAL IMPORTS	5,970.7	77.2	4,707.2	76.6
Others	1,756.2	22.8	1,434.5	23.4
TOTAL IMPORTS	7,726.9	100.0	6,141.7	100.0

SOURCE OF BASIC DATA: National Census and Statistics Office, NEDA

Materials for the manufacture of electrical and electronic machinery, consisting mostly of materials consigned to domestic firms for processing into finished products such as semi-conductor devices, comprised $549 million or 7.1 per cent of total imports. Purchases showed an annual growth rate of 56.4 per cent, making this commodity group the third largest for the year. The need to meet the growing demand for semi-conductor devices in the United States, Japan and Malaysia mainly accounted for the sizeable increase in purchases.

Listed in fourth was transport equipment which recorded a decrease of 2 per cent due largely to stock adjustments after the increase of 39.8 per cent in 1979. The value of imports under this group aggregated $533 million or the equivalent of 6.9 per cent of total imports. CKD parts of cars and trucks as well as accessories for motor vehicles and aircrafts were the most heavily transacted goods under this category.

In contrast to the sizeable increase of 42.8 per cent the previous year, purchases of base metals dropped by 8.4 per cent to $501 million in 1980. This downturn was attributable to the cutback in imports of iron and steel brought about by the slump in domestic demand. Accounting for 6.5 per cent of total imports, base metals as a group ranked fifth in the list of principal imports.

In sixth position was the electric machinery, apparatus and appliances group, followed by chemical elements and compounds in seventh. Combined purchases of both commodities comprised $579 million or 7.5 per cent of total imports. These two commodity groups exceeded their year ago levels by 36.2 per cent and 7.2 per cent, respectively. The strong demand for telecommunications equipment and parts, electrical equipment and parts, as well as sound recording and reproduction apparatus and equipment was mainly behind the acceleration in the importation under the electrical machinery, apparatus and appliances group. Meanwhile, increased arrivals of chemical elements and compounds were influenced by the higher inward shipments of such items as hydrocarbons, inorganic chemical elements and oxides and carboxylic acids.

Next on the list was the cereals and cereal preparations group whose import value amounted to $214 million. This amount was about one-half more than 1979 and constituted 2.8 per cent of total imports. Heavier arrivals of wheat and corn to replenish the country's dwindling inventories and purchased at relatively higher prices mainly accounted for the upswing in value.

By collectively accounting for $330 million or 4.3 per cent of the total import bill, explosives and miscellaneous chemical materials and products and manufactures of metal occupied the ninth and tenth positions, respectively. Arrivals of both commodity groups continued to expand but at a relatively slower pace. Explosives and miscellaneous chemical materials grew by only 1.0 per cent on an annual basis as compared to the 28.8 per cent registered in 1979 due largely to the slowdown in importations of polymerization and co-polymerization products. In the case of manufactures of metals, depressed demand for fabricated structural materials of iron and steel caused importations to increase by only 3.9 per cent in contrast to the 19.2 per cent rise in the previous year.

CHART 10 — EXTERNAL TRADE
1978 — 1980

(F.O.B. VALUE IN MILLION U.S. DOLLARS)

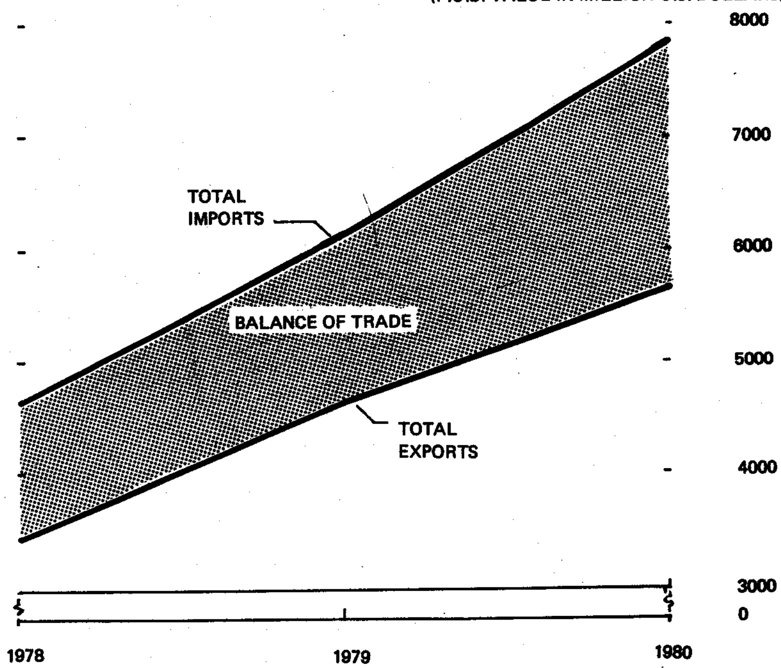
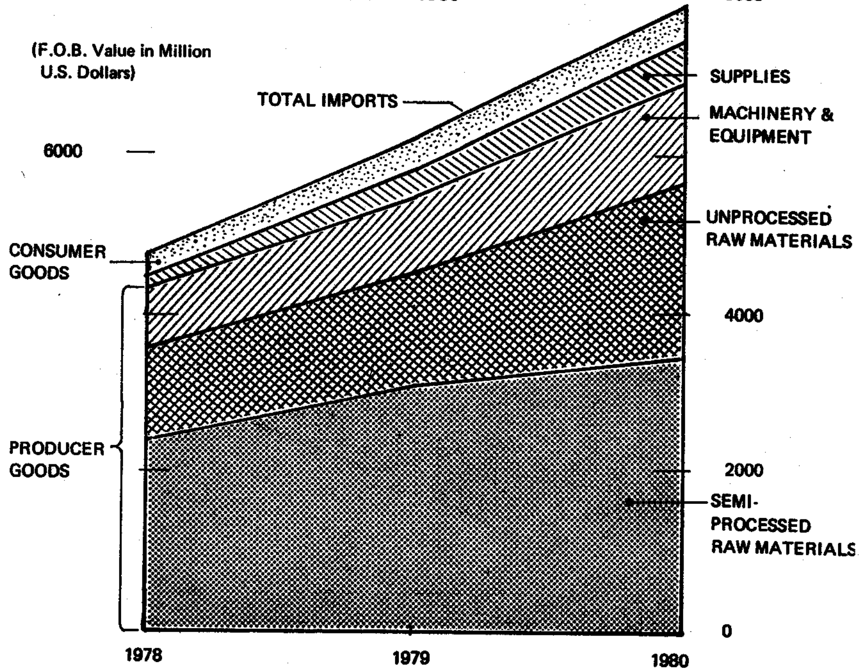


TABLE 34 — IMPORTS BY END-USE
1979 and 1980
(F.O.B. Value in Million U.S. Dollars)

	1980 p/		1979	
	Value	Per Cent Distribution	Value	Per Cent Distribution
TOTAL IMPORTS	7,726.9	100.0	6,141.7	100.0
PRODUCER GOODS . .	7,334.3	94.9	5,783.1	94.2
Machinery and Equipment	1,156.1	15.0	999.4	16.3
Unprocessed Raw Materials....	2,191.7	28.4	1,391.7	22.7
Semi-processed Raw Materials....	3,372.5	43.6	2,997.4	48.8
Supplies	614.0	7.9	394.6	6.4
CONSUMER GOODS . .	392.6	5.1	358.6	5.8
Durable...........	28.8	0.4	29.3	0.5
Non-Durable	363.8	4.7	3[illegible]9.3	5.3

SOURCE OF BASIC DATA: National Census and Statistics Office, NEDA

CHART 11 — IMPORTS CLASSIFIED BY END-USE
1978 — 1980



Direction of Trade — The United States and Japan remained the Philippines' principal trading partners for 1980 by accounting for almost half of total trade. Trade with the United States totalling $3,374 million was however larger than trade with Japan which reached $3,064 million.

Of the total trade with the United States, 52.9 per cent represented imports while exports accounted for the balance of 47.1 per cent. As a market for exports, the United States led all other countries in the purchase of Philippine products which aggregated $1,588 million. This amount represented 27.4 per cent of total exports and was 14.8 per cent more than the previous year's total. Five out of the ten major exports, namely: sugar, coconut oil, semiconductor devices, nickel and desiccated coconut were mostly channeled to this market. Substantial amounts of gold and lumber were also delivered to this country.

The United States was likewise the leading supplier of the country's import requirements as it provided $1,786 million worth of American products. This was equivalent to 23.1 per cent of total imports. Compared to the earlier year, arrivals from the United States grew by 27.4 per cent as heavier deliveries of machinery other than electric and transport equipment were noted. Of the ten principal import commodity groups, the bulk of machinery other than electric, cereals and cereal preparations, electric machinery, apparatus and appliances, explosives and miscellaneous chemical materials and products, textile fibers not manufactured into thread and yarn, and manufactures of metal were procured from this market.

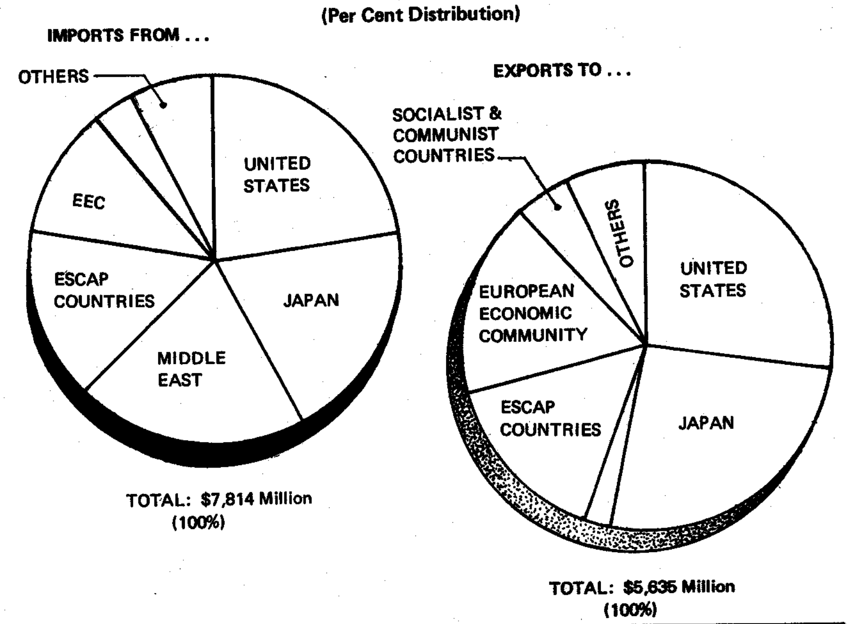
As a consequence of the sizeable growth in imports, the $18 million deficit incurred by the Philippines in its trade with the United States a year ago widened to $197 million this year.

RP-Japan trade which comprised 22.7 per cent of aggregate trade posted an annual gain of 17.9 per cent. Japan was the second largest buyer of Philippine products absorbing the biggest share of copper concentrates, gold, iron ore agglomerates, bananas and lumber export. Shipments to Japan, comprising about one-fourth of total exports, reached $1,533 million, 27.7 per cent more than the previous year's level. This increase was largely influenced by the upswing in the deliveries of sugar and gold.

As a source of imports, Japan increased deliveries by 9.5 per cent to $1,531 million, representing 19.8 per cent of total imports. As the second largest supplier, it provided the bulk of the country's needs for base metals, transport equipment and chemical elements and compounds. In addition, it was next to the United States in supplying the country with machinery other than electric, electric machinery, apparatus and appliances, explosives and miscellaneous chemical materials and compounds, and manufactures of metal.

The faster pace of export growth over imports resulted in a trade surplus of $2 million with Japan from $197 million deficit in the preceding year.

CHART 12 – DIRECTION OF TRADE
1980
(Per Cent Distribution)



A slower rate of growth characterized trade with the European Economic Community (EEC) this year which averaged only 1.5 per cent in contrast to the 44.5 per cent posted the previous year. Value-wise, this amounted to $1,808 million or 13.4 per cent of aggregate trade.

Export transactions with the Community yielded earnings of $981 million or an annual gain of 5.4 per cent, largely influenced by bigger demand for non-traditional manufactured items and mineral-based products. Of the total exports, roughly 16.9 per cent was absorbed by this bloc. The Netherlands emerged as the leading export market purchasing $366 million worth of Philippine products about half of which consisted of coconut oil. The other major EEC customers were West Germany ($255 million), the United Kingdom ($147 million) and France ($95 million). Philippine products heavily transacted in these countries were coconut-based products, forest-based products, semi-conductor devices, garments and handicrafts.

At $828 million, imports from the EEC declined by 2.7 per cent from previous year's level and comprised 10.7 per cent of total imports. During the year, West Germany and the United Kingdom were the two most important suppliers with contributions reaching $323 million and $180 million, respectively. Other leading sources of imports were the Netherlands ($113 million), France ($89 million) and Italy ($65 million). Industrial machinery, electrical machinery and appliances and transport equipment were the main products obtained from this bloc. As a result of improved market conditions, the favorable balance of trade with the EEC increased to $153 million from the preceding year's $80 million.

Trade with the oil producing countries of the Middle East continued to grow at an annual rate of 70.3 per cent and comprised 12.9 per cent of total trade. Of the total trade of $1,746 million with the Middle East, about 93.0 per cent represented imports while exports accounted for the residual of 7.0 per cent.

Arrivals from these countries consisting entirely of crude oil and other petroleum products rose substantially, by 69.2 per cent on an annual basis. Nearly seven-tenths of the total oil consumption of the country in 1980 originated from this bloc. Saudi Arabia, the third largest trading partner of the Philippines was the biggest source of imports from the region delivering a total of $791 million worth of oil. Other large sources of imports were Kuwait ($406 million), Iraq ($197 million), and Bahrain ($101 million).

Although exports to the Middle East remained minimal its total of $115 million this year was twice that of last year. Iraq and Saudi Arabia were the principal outlets for Philippine exports by absorbing $49 million and $27 million worth of local products, respectively. Portland cement, fruits and vegetables and handicrafts were the major commodities channeled to the Middle East.

Trade with the Middle East registered the biggest deficit amounting to $1,515 million in 1980, 67.8 per cent more than the deficit last year as transactions with almost all countries registered negative balance.

The Economic and Social Commission for Asia and the Pacific (ESCAP) countries added $2,117 million or 15.7 per cent to the country's trade basket – up by 38.6 per cent from last year's comparative level. The Association of South-East Asian Nations (ASEAN) shared 40.6 per cent of the total RP-ESCAP trade which was 55.9 per cent larger than the previous year. Transactions with ASEAN countries were predominantly imports which totalled $483 million, while exports were only $378 million. Indonesia emerged as the leading partner in the ASEAN accounting for 33.2 per cent of total RP-ASEAN trade followed closely by Malaysia (29.3 per cent) and Singapore (27.8 per cent). Imports from the ASEAN countries which accelerated by 32.7 per cent included mineral fue', lubricants and related products from Malaysia and Indonesia and refined petroleum from Singapore. Philippine exports made up mostly of coconut-based products, semi-conductor devices and coffee similarly increased by 100.8 per cent.

Outside the ASEAN group, Hongkong, South Korea and Australia were the major trading partners. Transactions with these three countries accounted for $1,038 million or almost half of total RP-ESCAP trade. Hongkong and South Korea's contribution to the country's import requirements totalling $194 million and $137 million, respectively, comprised mostly textile yarns, fibers and related materials and fertilizers. On the export side, shipments to South Korea ($203 million) and Hongkong ($192 million) were largely copper concentrates and forest-based products. Imports from Australia, the bulk of which consisted of dairy products, eggs and honey, grossed $215 million, while shipments amounting to $98 million were mostly metalliferous ores and scrap. Substantial trade transactions were also undertaken with New Zealand and Brunei but were mostly imports. Imports from New Zealand aggregating $77 million were predominantly dairy products while arrivals from Brunei totalling $54 million consisted entirely of crude oil. Exports to both countries amounted to $8 million. India was another country with whom the Philippines had substantial trade amounting to $27 million. Trade with the other ESCAP countries remained minimal, all below the $20 million mark.

RP-ESCAP trade resulted in a deficit of $261 million in 1980.

Trade with countries composing the socialist and communist group reflected an increase of 61.2 per cent to $495 million, equivalent to 3.7 per cent of total Philippine trade. Arrivals from this bloc amounting to $239 million rose by 51.6 per cent and represented 3.1 per cent of aggregate imports. This upswing was attributed to the sizeable inflow of crude oil from the People's Republic of China, which was the biggest source of imports from this bloc.

In the case of exports, the USSR was the leading market for the country's products absorbing almost three-fourths of the total shipment of $189 million to the socialist countries. These consisted mostly of sugar and coconut oil. The People's Republic of China purchased $45 million worth of Philippine products.

With exports outpacing imports, trade transactions with this bloc registered a surplus of $17 million, a complete reversal of the negative balance of $8 million recorded the previous year.

TABLE 35 — DIRECTION OF TRADE
1979 and 1980

(F.O.B. Value in Million U.S. Dollars)

	1980		1979		Balance of Trade	
	Imports	Exports	Imports	Exports	1980	1979
ALL COUNTRIES	7,726.9	5,787.8	6,141.7	4,601.2	−1,939.1	−1,540.5
United States	1,785.7	1,588.4	1,402.5	1,384.2	−197.3	−18.3
Japan	1,531.2	1,533.3	1,397.9	1,201.0	−2.1	−196.9
European Economic Community	827.5	980.8	850.7	930.8	153.3	80.1
Middle East Countries	1,630.6	115.3	964.0	61.1	−1,515.3	−902.9
ESCAP Countries (excluding Japan, Iran, USSR and People's Republic of China)	1,188.6	928.3	925.5	601.6	−260.3	−323.9
Socialist and Communist Countries	239.0	255.6	157.6	149.3	16.6	−8.3
Other Countries	524.3	386.1	443.5	273.2	−138.2	−170.3

In sum, Philippine trade with the rest of the world for the period in review remained in negative balance. The overall deficit for 1980 of $1,939 million was 25.9 per cent bigger than the deficit of $1,541 million posted a year ago.

Terms of Trade – The country's net terms of trade weakened in 1980 after posting improvements during the preceding two consecutive years. At 68.6 (1972=100) the net terms of trade index for the current year was 15.9 per cent lower than the 1979 index of 81.6.

The unfavorable development in the net terms of trade emanated from the significant rise of 23.9 per cent in the prices of imports. Although export prices similarly expanded, the gain was lower at 4.2 per cent. Largely influencing the rise in the prices of imports was the sharp upward adjustment in the cost of crude oil, which advanced by 71.6 per cent from the previous year.

Because of the bigger growth in the absolute value of imports compared to exports, the country's trade deficit continued to widen from $1,541 million in 1979 to $1,939 million in 1980 or a difference of $398 million. Had there been no deterioration in the net terms of trade, the trade deficit for this year would have been reduced to approximately only $373 million.

The expansion of the import bill was caused by the substantial rise in prices (by 23.9 per cent) and the 1.3 per cent increase in quantum. Import value reached $7,727 million during the year. On the other hand, the 20.7 per cent gain in exports quantum and the 4.2 per cent improvement in prices helped boost the value of exports to $5,788 million in 1980.

TABLE 36 – TRADE INDICES
1979 and 1980

(1972=100)

	1980 P	1979	Per Cent Change
EXPORTS			
Quantum	201.3	166.8	20.7
Price	246.0	236.1	4.2
Value	495.4	393.8	25.8
IMPORTS			
Quantum	155.8	153.8	1.3
Price	358.6	289.4	23.9
Value	558.5	445.2	25.4
NET TERMS OF TRADE	68.6	81.6	–15.9
PURCHASING POWER OF EXPORTS	138.1	136.1	1.5

Thus, the purchasing power of exports, which indicates the country's capacity to import based on the sale of exports, contracted by 1.5 per cent from 136.1 index points in the previous year to 138.1 index points in 1980 as a consequence of the substantial rise in import prices.

Foreign Exchange Market

International Reserve — Despite oil-price rises which raised import payments substantially, the international reserve rose by $732.4 million or 30.2 per cent to $3,155.4 million at the end of 1980, reflecting the strong growth in exports and the vigorous credit standing of the country. At this level, the international reserve was sufficient to finance the equivalent of about five months imports based on import arrival figures for the year in review.

The international reserve moved up continuously from quarter to quarter, as follows: by $108 million or 4.5 per cent in the first quarter, by $181 million or 7.2 per cent in the second, by $14 million or 0.52 per cent in the third, and by $429 million or 15.7 per cent in the fourth quarter. The large upswing particularly in the fourth quarter resulted in part from increased direct deposits of foreign currency with the Central Bank by FCDUs, OBUs, and Circular 343 banks.

In the course of the year, the Central Bank also availed itself of various credit facilities from the International Monetary Fund (IMF). Availments totalled the equivalent of U. S. $446.8 million while repayments during the year amounted to $149.4 million. IMF credits utilized consisted of $51.8 million under the Trust Fund Agreement, $121.9 million under the Compensatory Financing Facility for Export Fluctuations, $100.4 million under the current Standby Agreement and $172.7 million under the Supplementary Financing Facility.

Time and call deposits comprised the bulk of reserve assets, accounting for 57.4 per cent of the total portfolio which, however, was lower compared to a relative share of 64.9 per cent in 1979. Meanwhile, foreign investments which were chiefly in foreign securities and negotiable instruments moved up by 61.0 per cent to $1,025.2 million and accounted for 32.5 per cent or almost one-third of the total, surpassing the previous year's record of 26.3 per cent by 6.2 percentage points. The bond portfolio was restructured to take advantage of favorable interest rates abroad not only by shifting towards higher-yielding securities and/or short-maturity bonds but also by switching from lower name quality bonds to top quality name bonds.

Gold holdings of the Central Bank — a portion of which was valued at $42.22 per fine troy ounce starting November 1973 and another portion corresponding to acquisitions starting May 1978 valued at free market prices — reached a total value of $294.0 million, exceeding the year-ago figure by $128.3 million or 77.4 per cent. At this level, the proportionate share of gold to total reserves stood at 9.3 per cent, from 6.8 per cent in 1979.

CHART 13 — INTERNATIONAL RESERVE
1978 — 1980

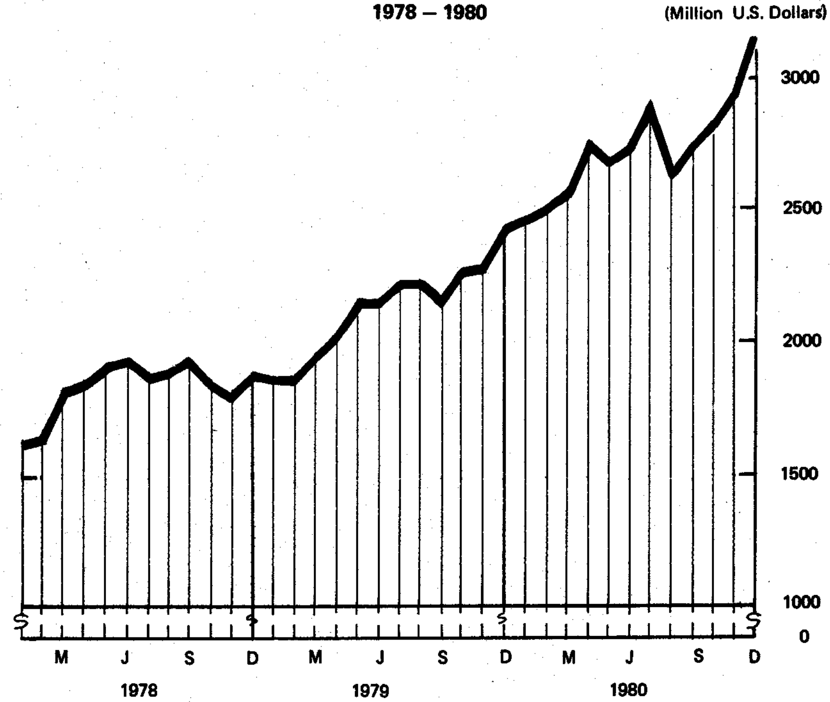


TABLE 37 — INTERNATIONAL RESERVE OF THE PHILIPPINES
December 31, 1979 and 1980

(Million U.S. Dollars)

	1980	1979
Total International Reserve	3,155.37	2,422.92
Time Deposits	1,017.26	1,225.03
Demand Deposits	792.61	346.90
Foreign Investments	1,025.25	636.79
Gold	294.03	165.73
SDR Holdings	15.78	40.86
Foreign Currencies	10.44	7.61

SOURCE: Foreign Exchange Department, Central Bank

SDR holdings, however, showed a decline of $25.1 million from $40.9 million a year earlier. While the Philippines received an additional allocation of SDR 22 million in January under the second SDR allocation program, payments made in December on the country's additional quota to the IMF reduced SDR holdings.

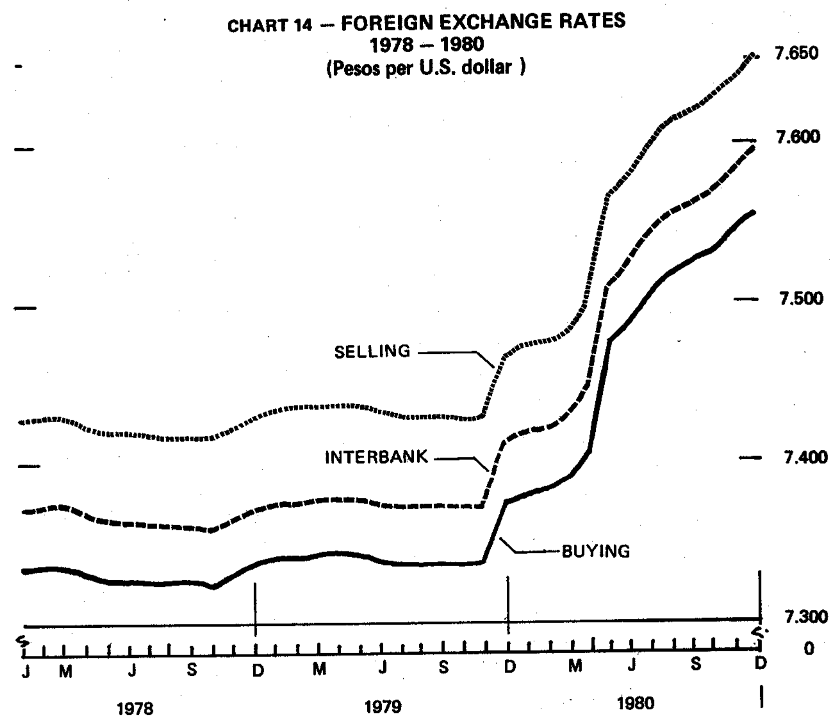
In addition to its various reserve assets, the Central Bank had available to it credit lines amounting to \$897.0 million which buttressed its international liquidity position significantly. Standby credits available under loan agreements with foreign banks amounted to \$525 million. These were restructured in 1980 to extend the availability period of the commitments to 1987, from the original expiration year of 1983. The funds available for relending under the Consolidated Foreign Borrowings Program (CFBP) moreover increased by \$400.0 million to \$1,309.2 million during the year. Of this total, drawdowns aggregating \$937.2 million had been made since the start of the program till the end of 1980, leaving an undrawn balance of \$372 million.

Foreign Exchange Rate — Under conditions of increasing global financial instability and continued deficit in the country's balance of payments, the foreign exchange rate of the peso vis-a-vis the U.S. dollar depreciated by 1.815 per cent on a yearly basis. The interbank guiding rate thus averaged ₱7.5114 per U.S. dollar in 1980, up by 13.38 centavos from ₱7.3776 in 1979.

The interbank guiding rate depreciated continuously from month to month, with the six-month period from March and the last two months of the year, in particular, showing the most substantial decline in the exchange value of the peso. From a level of ₱7.4259 in March, the foreign exchange rate rose by 1.75 centavos in April, by 6.61 centavos in May, by 1.14 centavos in June, by 2.23 centavos in July and by 1.3 centavos in August and then stabilized during the two succeeding months at around ₱7.56 to the dollar. From this level, the interbank rate moved up again by close to 3.0 centavos to reach ₱7.5942 in December. The uptrend in the exchange rate could be traced in large part to the strength of the U.S. dollar during a period of upward pressure on interest rates, especially in April and December. During these two months, interest rates in the United States were extremely volatile and reached unprecedented peaks of 20.0 per cent in April and 21.5 per cent in December for prime lending rates.

Along with the upward movement in the interbank rate, commercial buying and selling rates for foreign exchange posted increases of 13.33 centavos or 1.8159 per cent and 13.49 centavos or 1.8149 per cent, respectively. The average spread between buying and selling rates thus widened by 0.16 centavos to 9.39 centavos in 1980 from a level of 9.23 centavos in the prior year.

The value of transactions at the Foreign Exchange (FOREX) Trading Center amounted to \$2,194.9 million — down by 11.6 per cent from the level of \$2,482.0 million in 1979. On the other hand, purchases and sales of foreign exchange by the Central Bank resulted in net sales of \$601.2 million during the year in review. Forward exchange commitments of the Central Bank under various swap transactions increased by 33.3 per cent to \$1,099.6 million. Of this total, 86.9 per cent or \$955.6 million were swaps under Circular 343/547 and \$144.0 million or 13.1 per cent comprised special swaps approved by the Monetary Board on a case-to-case basis.



Foreign Currency Deposit System – Gross resources of the Foreign Currency Deposit System (FCDS) rose sharply by $1,552 million or 42.4 per cent during the year to reach $5,209 million by end-December 1980. Of this total, 91.2 per cent comprised resources of 26 banks (Circular 547) or Foreign Currency Deposit Units (FCDUs) and 8.8 per cent, resources of 12 other banks (Circular 343). Partly reflecting the accession of four banks (Circular 343) to FCDU status, the aggregate resources of FCDUs climbed steeply by 46.6 per cent to $4,752 million while those of Circular 343 banks moved up by only 10.1 per cent to $457 million.

In the main, the growth in resources of the FCDS arose from interbank deposits/borrowings which at year-end amounted to $3,157 million, $890 million or 39.2 per cent more than in 1979. Nearly $1,000 million or a little less than one-third of these interbank deposits were supplied by Philippine-based banks and $2,164 million or about two-thirds were provided by foreign-based banks. Principal foreign currency sources were Singapore, Hongkong and the United Kingdom which together provided $1,474 million or 46.7 per cent of total interbank deposits/borrowings. The United States and Continental Europe also contributed importantly to the market, supplying $471 million or almost 15.0 per cent of interbank deposits.

Expanding by 40.3 per cent (or $335 million) to $1,167 million during the year in review, foreign currency deposits of the non-bank sector made up 27 per cent of total deposits/borrowings. Non-bank residents increased their deposits with the System by 81.9 per cent to $866 million, thereby boosting their share of non-bank deposits to 74.2 per cent, from 57.2 per cent a year ago. In contrast, non-bank non-residents reduced deposits by $55 million to $301 million which cut their share of total non-bank deposits from 42.8 per cent to 25.8 per cent.

Placements/lendings by the FCDS aggregated $5,018 million surpassing the previous year's level by $1,477 million or 41.7 per cent. Slightly more than two-fifths of these comprised interbank placements/lendings and three-fifths, loans to the non-bank sector.

Amounting to $2,042 million, interbank placements/lendings were up by $556 million or 37.4 per cent from the prior year. Foreign-based banks – chiefly from the United States and to some extent also from Singapore and Hongkong – were active borrowers from the market, absorbing $1,103 million or 54.0 per cent of total interbank loans. Philippine-based banks, on the other hand, availed themselves of $939 million or 46.0 per cent. These were as follows: The Central Bank, $552 million or 58.8 per cent; offshore banking units, $133 million or 14.2 per cent; FCDUs, $161 million or 17.1 per cent; and other banks, $93 million or 9.9 per cent.

Loans to resident non-bank customers amounted to $2,856 million and to non-resident non-bank customers, $120 million for a total of $2,976 million. Loans of FCDUs aggregated $2,766 million while loans of Circular 343 banks amounted to $210 million. Of the total non-bank loans to residents, 44 per cent went to the manufacturing sector, 22 per cent to the mining sector, 8 per cent to public utility firms, 4 per cent each to the services industry and to the agriculture, fishery and forestry sector, 3 per cent each to construction and to other financial institutions, and 12 per cent to commerce and other industries.

Non-bank loans of the FCDS were predominantly short-term (with maturities of one year or less), these accounting for 73 per cent or $2,158 million. Medium-term loans (or those with maturities of over one year to three years) amounted to only $118 million or 4 per cent, while long-term loans (those with maturities of over three years) amounted to $700 million or 23 per cent.

As a result of its operations, the FCDS realized a gross income of $424 million which was $185 million or 77.4 per cent more than in the preceding year. While income from onshore transactions rose by $119 million (or 57.5 per cent) to $326 million, that from offshore transactions tripled from $32 million to $98 million. Expenses, however, also increased substantially by $153 million to $383 million during the period due mostly to a run-up in interest costs for deposits and borrowings. Net earnings after tax of the FCDS thus amounted to $38 million, which compared to the previous year's figure of $6 million, represented a big leap of 533.3 per cent or $32 million.

TABLE 38 – FOREIGN CURRENCY DEPOSIT SYSTEM
Selected Data as of December 31, 1979 and 1980
(Million U.S. Dollars)

	1980	1979
Gross Resources	5,209	3,657
Deposit/Borrowings	4,324	3,099
a) Banks	3,157	2,267
b) Non-banks	1,167	832
Placements/Lendings	5,018	3,541
a) Banks	2,042	1,486
b) Non-banks	2,976	2,055
Earnings & Expenses		
a) Earnings	424	239
Onshore	326	207
Offshore	98	32
b) Expenses	383	230
c) Net Earnings after Income Tax	38	6

Offshore Banking System – The Philippine Offshore Banking System (OBS) exhibited remarkable growth during the year. Brought about by increased inflow of both offshore and onshore funds, its gross resources went up by $1,114 million or 37.8 per cent from 1979 to reach a level of $4,058 million on December 31, 1980. Offshore banks and non-banks brought in nearly $3 billion, $903 million or 43.1 per cent more than in the previous year, while onshore banks and non-banks generated $1,059 million, $211 million or about 25.0 per cent more than in 1979. Of these resources three-fourths or $3,030 million were utilized in the Philippines, compared to $2,051 million or less than 70.0 per cent in the previous year. Funds channeled outside the country amounted to $1,028 million which were larger by $135 million or 15.1 per cent than in the previous year. The number of offshore banking units (OBUs) furthermore increased to twenty as three foreign banks set up their offices and started operations during the year in review.

Interbank deposits/borrowings of the OBS totalled $3,812 million representing 93.9 per cent of its total sources of funds. Deposits/borrowings from Philippine-based and foreign-based banks posted increases of $174 million (equivalent to 20.9 per cent) and $864 million (or 44.5 per cent), respectively. Philippine-based banks provided $1,007 million or 26.4 per cent of the total interbank deposits/borrowings, while foreign-based banks – mostly from Singapore ($1,023 million), the United Kingdom ($925 million) and Hongkong ($297 million) – funded a total of $2,805 million or 73.6 per cent. Head Offices of OBUs funded $1,816 million or close to 48.0 per cent of total interbank deposits/borrowings.

Meanwhile, deposits of non-bank non-residents with the OBS rose to $111 million, $54 million higher than the end-1979 figure of $57 million.

Amounting to $3,919 million, aggregate placements/lendings by OBUs rep-sented 96.6 per cent of the System's total resources. The volume of interbank placements/lendings totalled $2,627 million, and loans of the OBS to non-bank clients totalled $1,292 million, accounting for approximately two-thirds and one third of total placements/lendings by OBUs, respectively.

Of the total interbank placements/lendings, $1,693 million or 64.4 per cent were placements with Philippine-based banks. Of these, $848 million or one-half went to FCDUs, $503 million or 29.7 per cent to the Central Bank of the Philippines, $242 million or 14.3 per cent to Circular 343 banks and $100 million or 5.9 per cent to OBUs (among themselves). Placements with foreign-based banks, on the other hand, amounted to $934 million or 35.6 per cent of the total. This consisted in large part of placements/lendings of $223 million in Singapore, $167 million in Hongkong, $121 million in the United Kingdom, $160 million in other European countries and $93 million in other Asian countries.

Foreign currency loans to non-bank clients consisted principally of loans to residents which at $1,231 million accounted for 95.3 per cent of the total. In contrast to loans and discounts to non-residents which dropped by 25.6 per cent to $61 million, loans to non-bank residents increased substantially by $376 million or 44.0 per cent. Industry-wise, the largest users of funds were the manufacturing, public utility and mining sectors whose respective share in total resident non-bank loans amounted to $661 million (or 53.7 per cent), $226 million (or 18.4 per cent) and $114 million (or 9.3 per cent). During the year, however, there was a perceptible increase in the utilization of OBU fund resources by the agriculture, fishery and forestry sector and by other financial institutions which resulted in a hike in their relative share to total resident non-bank loans to about 5.0 per cent each, from about 3.0 per cent a year ago.

As to maturity, non-bank loans of the OBS were mostly short-term: $1,128 million or 87.3 per cent were to mature within 12 months, only $12 million or less than one per cent carried maturities of 1-3 years and $152 million or 11.8 per cent had maturities exceeding 3 years.

For the year ended December 31, 1980, the operations of the Philippine OBS resulted in gross earnings of $447.6 million, twice as much as in 1979. Of these earnings, $310.9 million or 69.5 per cent were realized from offshore operations, and $136.7 million or 30.5 per cent came from onshore transactions.

For the same period, total expenses reached $429.6 million, also more than double that of the previous year. Interests paid on deposits and borrowings amounted to $415.0 million (comprising 96.6 per cent of total expenses) while administrative costs and other expenses totalled $14.6 million (equivalent to 3.4 per cent of the total). Net earnings before tax thus amounted to $18 million compared to $13.7 million in the prior year. On an after tax basis, earnings stood at $14.9 million, $3.0 million or 25.2 per cent higher than in 1979.

TABLE 39 — OFFSHORE BANKING SYSTEM
Selected Data as of December 31, 1979 and 1980

(Million U.S. Dollars)

	1980	1979
Gross Resources	4,058	2,944
Deposits/Borrowings	3,923	2,831
a) Banks	3,812	2,774
b) Non-banks	111	57
Placements/Lendings	3,919	2,791
a) Banks	2,627	1,854
b) Non-banks	1,292	937
Earnings & Expenses		
a) Earnings	447.6	221.5
Onshore	136.7	66.8
Offshore	310.9	154.7
b) Expenses	429.6	207.8
c) Net Earnings after Income Tax	14.9	11.9

Part Two

ACTIVITIES OF THE CENTRAL BANK OF THE PHILIPPINES

TABLE 42 – COMPARATIVE STATEMENT OF CONDITION OF THE CENTRAL BANK
1979 and 1980
(Million Pesos)

ASSETS:	1980	1979	Increase or (Decrease)
International Reserve	23,609.5	18,146.0	5,463.5
Domestic Securities	6,092.6	4,971.3	1,121.3
Loans and Advances	25,576.8	18,955.3	6,621.5
Special Account – Foreign Exchange Differentials	1,220.2	638.3	581.9
Account to Secure Coinage	–	–	–
Government Note-Treasury Certificate Account	27.3	27.3	–
Monetary Adjustment Account	4,455.4	3,712.3	743.1
Bank Premises and Other Fixed Assets	1,812.3	1,767.9	44.4
Other Assets	2,653.2	2,751.8	(98.6)
TOTAL ASSETS	65,447.3	50,970.2	14,477.1
LIABILITIES:			
Currency Issue	12,283.6	10,575.3	1,708.3
Deposits	28,668.1	17,799.8	10,868.3
Foreign Loans Payable	9,650.2	7,457.1	2,193.1
Allocation of Special Drawing Rights	874.2	657.8	216.4
CB Certificates of Indebtedness	11,700.8	12,473.3	(772.5)
Revaluation of International Reserve	193.0	193.0	–
Other Liabilities	1,573.4	1,131.5	441.9
TOTAL LIABILITIES	64,943.4	50,287.9	14,655.5
NET WORTH:			
Capital	10.0	10.0	–
Surplus	354.3	312.3	42.0
Reserve for Currency Insurance	98.2	80.0	18.2
Reserve for Refund of Margin Fee	–	0.3	(0.3)
Undivided Profits	41.4	279.7	(238.3)
TOTAL NETWORTH	503.9	682.3	(178.4)
TOTAL LIABILITIES AND NET WORTH	65,447.3	50,970.2	14,477.1

THE CENTRAL BANK OF THE PHILIPPINES IN 1980

In 1980, the Central Bank continued to perform what are generally considered the traditional functions of a central bank. In addition to monetary management and balance of payments management, these activities included the supervision and regulation of the operations of banks and other financial institutions in the Philippines, management of the country's foreign exchange reserves, serving as fiscal agent of the government, issuance of currency and conduct of clearing operations. In accordance with established policies and guidelines, the Central Bank was also deeply involved in managing the country's external debt, streamlining the institutional set-up for foreign exhange transactions providing emphasis to the promotion of both goods and invisible exports, accelerating the growth of domestic savings, improving credit collection particularly in the countrysides and providing essential technical assistance to various financial and credit institutions.

During the year, 830 head offices of various types of banks together with 1,319 of their branches and other banking offices, as well as 419 head offices, branches, subsidiaries and affiliates of NBFI-QBs and other NBFIs were covered by regular examination by the Central Bank. The scheduling of bank examinations was in accordance with the statutory provision that every banking institution shall be examined at least once in every twelve months. In addition, special examinations of particular accounts of banks and for specific purposes like compliance with directives on previous examination findings in the case of non-banks were undertaken largely at the instance of the Central Bank.

The Central Bank issued a total of ₱10, 625 million in government securities during the year, 35.5 per cent more than in 1979. This contributed to the rise of 8.3 per cent in outstanding government securities issued through or by the bank which reached ₱31, 282 million. As this developed and with the increase in interest rates, a 19.9 per cent rise in interest payments to ₱2, 043 million was registered in 1980.

A total of 275 banking offices of various categories of banks were approved/licensed in 1980, bringing the aggregate number of banking offices in operation to 4,501 by the end of 1980. Meanwhile, of the two applications filed for authority to engage in quasi-banking functions, one was issued a certificate of authority while the other, which was filed at year's end, is under evaluation. The total number of operating NBFI-QBs and their branches reached 141 in 1980.

Meanwhile, taxes collected through the banking system amounted to over ₱22 billion, all of which were remitted and correspondingly credited to the account of the National Treasurer. Collections for 1980 surpassed the previous high of over ₱19 billion collected in 1979 by 12.6 per cent.

In relation to the issuance of currency, the gross outstanding liability of the Central Bank reached ₱16, 548 million in 1980, up by 12.9 per cent from the previous year's figure of ₱14, 661 million. Adjusting for the Bank's own holdings of currency, its net liability was ₱12, 284 million in 1980. The Bank also continued to provide nationwide facilities for interbank clearing of checks and settlement. The Manila Clearing Office and the 22 regional clearing units handled a total of over 44 million checks with a value of ₱967 billion. The increases of 3.5 per cent and 10.9 per cent in the number and value of checks, respectively, were attributable mainly to the program of establishing more clearing centers to service the needs of banks in regional areas.

Meanwhile, profitability and a balanced mix of instruments continued to be emphasized in the management of the foreign exhange investment portfolio which amounted to $2,402 million in 1980, 21 per cent more than its 1979 level. The Central Bank sought essentially to upgrade the quality of the foreign securities portfolio and improve the composition of foreign currency holdings, taking into consideration applicable yields and interest rates. Together with the uptrend in interest rates abroad and the higher level of interest-earning assets, the Bank's upgrading efforts led to a 55 per cent improvement in portfolio income which totalled $190 million in 1980.

In the management of the country's external debt, the objectives remained the acquisition of foreign loans at the best possible terms and maturities and the utilization of loan proceeds in line with the goals of the national development program. Outstanding foreign borrowings amounted to $12,270 million at the end of 1980, up by 25 per cent from the end-1979 level. These had been channelled mostly to priority areas with the bulk being accounted for by manufacturing, public utilities, power and electrification and general infrastructure. During the year, the Central Bank also approved, where appropriate, the refinancing/restructuring of foreign credits mainly of the private sector.

Through the Committee on Savings, the Central Bank maintained promotional efforts for increasing domestic savings. Progress in this area continued to be reflected in 1980, with savings and time deposits of the banking system rising to ₱50,286 million or by 22 per cent from a year earlier. The number of accounts also increased by 3 per cent to reach 22,386,252. This meant one deposit account for every two Filipinos with an average balance of ₱2,246 per account. A new development during the year was the inclusion in the savings campaign of other forms of saving, specifically holdings of government securities and life insurance.

The Bank's training and technical assistance activities in 1980 reflected largely its main commitment to the development of country-side banking and to the government's food production and export programs. Numerous workshops and seminars were conducted for officers and men of various rural banks and savings and loan associations. At the same time, the Bank sought to develop further the competence and skills of its staff members by sending them to training programs, seminars, diploma courses and observation trips here and abroad. The Bank also participated actively in the training programs of Asian regional bodies and associations and received visitors and trainees from various foreign financial institutions.

During the year, the Monetary Board established a number of committees to study specific areas of direct importance to Central Bank policies and operations. Notable among the committees created were those tasked to look into and formulate recommendations on certain areas of central banking functions. Certain existing committees were also reorganized/reconstituted in line with the streamlining of the functions and responsibilities of the various committees of the Bank.

As of the end of 1980, the Bank's assets totalled ₱65, 447 million, representing a 28.4 per cent increase from the level a year ago. This was attributable largely to the substantial expansion in the international reserve and loans and advances of the Bank. Meanwhile, total liabilities stood at ₱64, 943 million or 29.1 per cent higher than in 1979, due mainly to the growth of deposits with the Bank mostly of financial institutions. Finally, the Bank's net worth amounted to ₱504 million, down by 26.1 per cent from end-1979 as profits from operations decreased during the year under review.

Supervision of Banks and Savings and Loan Associations

Opening of New Banks/Branches — Newly opened head offices, branches, agencies and extension offices in 1980 numbering 186 consisted of: 98 commercial banks, 32 savings banks, 24 development banks, 29 savings and loan associations, and 3 regional offices of the Land Bank of the Philippines. This brought the number of banks in actual operation to a total of 3,443 at the end of the year.

TABLE 40— NUMBER OF BANKS IN OPERATION UNDER THE SUPERVISION OF THE CENTRAL BANK
1979 and 1980

	1980	1979
TOTAL	3,443	3,284
Head Offices	1,243	1,249
Branches/Agencies/Extension Offices	2,200	2,035
Commercial Bank	1,503	1,405
Head Offices	32	32
Branches/Agencies/Extension Offices	1,471	1,373
Savings & Mortgage Banks	268	236
Head Offices	10	10
Branches/Agencies/Extension Offices	258	226
Development Banks	219	195
Head Offices	44	39
Branches/Agencies/Extension Offices	175	156
Rural Banks	1,096	1,123
Head Offices	985	1,002
Branches/Agencies/Extension Offices	111	121
Savings & Loan Associations	323	294
Head Offices	163	157
Branches/Agencies/Extension Offices	160	137
Land Bank of the Philippines	18	15
Head Office	1	1
Branches/Agencies/Extension Offices	17	14
Philippine Amanah Bank	9	9
Head Office	1	1
Branches/Agencies/Extension Offices	8	8
Building & Loan Associations	7	7

Examination of Banks — A total of 2,589 banking units were covered by regular and special bank examinations by the Department of Commercial and Savings Banks and the Department of Rural Banks and Savings and Loan Associations. Compared to the preceding year's performance, the 1980 examination accomplishment was higher by 21 per cent.

TABLE 41 — NUMBER OF BANKING OFFICES EXAMINED

1979 and 1980

	1980	1979
TOTAL	2,589	2,142
Commercial Banks	1,038	773
Savings & Mortgage Banks	165	167
Development Banks	181	156
Rural Banks	981	929
Savings & Loan Associations	195	94
Building and Loan Associations	7	7
Other Banking Institutions	22	16

Regulation of Non-Bank Financial Intermediaries

The Department of Financial Intermediaries (Non-Bank) continued to regulate the operations of 1,475 non-bank financial intermediaries. A total of 544 examinations were conducted on head offices, branches, selected subsidiaries/affiliates of non-banks authorized to perform quasi-banking functions (BNQBs) and other non-bank financial intermediaries (BNFIs). Of this number, 419 or 77 per cent were operations/regular examinations while 125 or 23 per cent were special examinations. Head offices of pawnshops, numbering 323, constituted the bulk of entities on which regular examinations were performed.

The special examinations were mostly confined to head offices and focused on specific purposes like compliance with Monetary Board directives on previous examination findings/exceptions; unusual/specialized activities on practices; and follow-up of uncorrected violations, closure of entities, and tie-up relationships and NBQBs' investment viability in subsidiaries and affiliates.

In line with its functions and responsibilities, the DFI (NB) formulated and recommended appropriate rules, regulations or guidelines governing the operations of NBQBs and pawnshops aimed at improving financial intermediation. These measures included among others, the issuance of circulars prescribing ceilings on the rates of interest for the loan or forbearance of any money, goods and credits; revising the interest rates ceilings on loans granted by pawnshops; and amending Circular 591 on interlocking directorates and officerships in banks and NBFIs.

Coordination of Supervisory Policy and Regulations

The Office of Supervisory Policy and Regulations continued to integrate the action of the Supervision and Examination Sector to ensure: 1) uniform and coordinated thrusts of policy directions; 2) comprehensive evaluation of proposed regulations and exhaustive review of existing ones to bridge the gap and eliminate the inconsistencies; and 3) accurate and precise wording of provisions of laws and rules for clear interpretation and effective implementation.

Among the regulatory policy issues undertaken by the Department and submitted to the Monetary Board were: Circulars to make uniform the system of collecting fines from erring banks, regulating safety rules on pawnshop operations to ensure public protection; Circulars authorizing rural banks to grant loans up to a maximum of 80 per cent of project financed to boost production; and MAABs to ensure public protection by the uniform treatment of partial payments made toward the redemption of properties by foreclosed rural banks; prohibiting drawings against uncollected deposits on both savings and demand deposits to strengthen internal operations on banks.

MANAGEMENT OF EXTERNAL ACCOUNTS

External Debt Management

The Central Bank's external debt policy in 1980 was aimed at obtaining the best terms and maturities for foreign loans contracted and insuring that the proceeds were utilized solely in accordance with the objectives of the economic development program of the country. Capacity to repay, development of expertise and indigenous resources as well as the use of external resources only as a supplement and not a substitute for domestic resources, were particularly emphasized in the guidelines for the allocation of the proceeds of foreign loans and investments.

Consequently, outstanding foreign borrowings which amounted to $12, 628 million at the end of 1980 (up by $2,850 million or 29 per cent over the end-1979 level) had been channelled to preferred and priority development areas. Foreign investments approved by the Central Bank registered an increase of 25 per cent from $1,216 million as of December 31, 1979 to $1,519 million as of December 31, 1980, the beneficiaries of which were largely those sectors requiring technological know-how and expertise not locally available.

In accordance with existing policy guidelines, 484 applications/requests for availments, refinancing and restructuring of foreign credits from the private sector involving an amount of $3,278 million were processed during the year. Some 3,136 related requests, i.e., lease arrangements, review of credits and other financial agreements and implementing letters and letters-reply to queries from this sector, were also processed. For the government sector, 610 requests for approval in principle and/or registration of foreign loans worth $8,318 million and 3,300 commercial documents of import transactions amounting to $42 million were processed.

Under the policy guidelines on foreign investments, 747 requests for approval of foreign investments, capital repatriation, remittances of profits, dividends, royalties, technical service fees and related matters; and outward investments were given due course. The amount involved was $425 million. Approvals of agreements for technology transfer and guarantee requirements of overseas projects numbered 63, while there were 490 requests for additional documents/information and 433 miscellaneous requests attended to.

In import applications, authorized imports for the private sector aggregated $708 million while import authorizations, replies to queries and other coorespondences prepared totalled 16,014. Full support was again extended to Government-approved projects and progressive manufacturing/industry rationalization programs in meeting their import requirements. Some 4,867 applications of government agencies/corporations to import machineries, equipment, spare parts, iron and steel were likewise processed.

Other significant undertakings on external debt management during the year dealt on monitoring of project development and registration monitoring of foreign loans and investments, maintenance of statistical systems on foreign investments and loans, continuing assessment and evaluation of existing policies on foreign loans, foreign investments, importations and other related studies.

Regulations on Other Invisibles

Regulations on other invisible transactions issued during 1980 continued to focus on maximizing the inflow of foreign exchange from all possible sources. Additional incentives were extended to Central Bank-certified non-trade activities and the qualifications to avail of such were issued. At the same time, proper monitoring/reporting of dollar receipts and disbursements of non-trade foreign exchange earners was required. Clarifications/instructions on certain regulations on invisibles were also circularized for proper implementation/ compliance.

In the implementation of regulations governing the outflow of foreign exchange arising from non-trade transactions, 17,270 applications for outward remittances were processed as against 13,236 in the preceding year. The number of applications for travel funds processed rose to 10,014 from only 5,556 last year. Requests for remittances of royalties and technical fees (252) and capital transfers (824) were also up from their 1979 levels of 180 and 591, respectively.

Import-Export Regulations

Improvements in the pattern of imports, minimization of dollar salting, assistance to distressed local industries, prevention of unfair competition from imported goods and liberalization of certain import restrictions in support of the country's industrial development program were the underlying bases of import regulations in 1980.

Letters of credit opened during the year aggregated $3,466 million, slightly higher than the level of importations of the previous year which was at $3,383 million. By category, essential producer goods accounted for the bulk of importations – $2,573 million or 74.2 per cent. The remaining 25.8 per cent was distributed among unclassified producer (7.5 per cent), semi-essential producer (6.0 per cent), non-essential producer (4.8 per cent), essential consumer (3.3 per cent), semi-unclassified producer (1.8 per cent), semi-essential consumer goods (1.3 per cent) and others (1.1 per cent).

Meanwhile, diversification of export products and markets and general export promotion efforts continued to be the main concerns of export regulations/activities in 1980. To enable exporters to compete effectively with foreign suppliers particularly with regard to non-traditional exports and new markets, 136 authorizations to export on payment terms longer than the existing prescribed period were granted. In addition, 343 requests for extensions of authority and other special export arrangements/privileges were acted upon. These included applications and requests for approval of export contracts/agreements, availment of the Central Bank's rediscount facility, consignment account arrangements, availment of general export declaration/permit and renewals of authority previously granted.

Foreign Exchange Investment Portfolio

The Central Bank's foreign exchange investment portfolio in 1980 rose by $417 million or 21 per cent to $2,402 million from its 1979 level notwithstanding heavy foreign exchange outflows particularly for imports of mineral fuels, lubricants and related materials. This stemmed from the increments in call deposits ($428 million or 120.4 per cent), foreign securities/negotiable instruments ($104 million or 28.9 per cent) and funds managed by correspondent banks ($72 million or 106 per cent). In contrast, time deposits declined by $187 million or 15.6 per cent.

Profitability was again emphasized this year in the management of the portfolio. Expansion of foreign exchange trading operations, including spot and forward contracts of Swiss francs and Deutsche mark proceeds of swaps with commercial banks and switch financing of oil companies, were undertaken. The bond portfolio was restructured by selling low-yield securities and reinvesting in those with higher yields and/or of shorter maturity. At the same time, there was a switch over from lower to top quality bonds. The high interest rate differential between the domestic free yen deposit and the cost of obtaining funds through the reverse repos (Gensakis) was taken advantage of. Fund flows in U.S. dollars, Swiss francs and Deutsche marks were closely monitored and correspondent relationships with China, Australia and India were expanded, thereby broadening the Bank's credit base.

By maturity structure, investments in time deposits of less than 3 months comprised 51.6 per cent of the total portfolio as against 65.5 per cent in 1979. The share of those maturing within 3 to 6 months also declined from 15.6 per cent to 11.3 per cent. On the other hand, increments were registered in the share of deposits with maturities of 6 to 9 months (1.5 to 17.6 per cent) and 9 months to 1 year (17.4 to 19.4 per cent).

Foreign exchange holdings were mostly in U.S. dollars which constituted 43 per cent of the total. Due to the sizeable inflow of Swiss franc proceeds from swaps with commercial banks and switch financing of oil companies, the share of Swiss francs in the total portfolio reached 36.2 per cent. The other major components of the portfolio were Deutsche marks, 12 per cent and Japanese yen, 6.2 per cent.

With the overall improvement in the quality of the foreign securities portfolio (restructuring to increase yields, favorable mix of currency holdings) as well as higher interest rates abroad, income from the foreign exchange investment portfolio in 1980 rose to $190 million, surpassing the 1979 level by $67.2 million or 55.0 per cent.

OPERATIONS AS FISCAL AGENT OF THE GOVERNMENT

Central Bank Certificates of Indebtedness (CBCIs)

A total of ₱1.45 billion in CBCIs sold during 1980, consisted of purchases of the banking sector —₱763.8 million (52.7 per cent) and non-banking segment — ₱686.2 million (47.3 per cent). Seven (7) series comprised the entire issue, five (5) of which were sold on auction and two (2) on negotiated basis.

Secondary trading volume totalled ₱2.9 billion, reflecting a 17.1 per cent shortfall against the target goal of ₱3.5 billion for the year.

Premyo Savings Bonds (PSBs)

The combined volume of Premyo Savings Bonds (Regular and Biglang Bahay series) traded amounted to ₱89.0 million, consisting of primary sales of ₱58.4 million and repayments of ₱16.6 million. Of the ₱58.4 million primary sales distribution, ₱57.4 million or 98.3 per cent went to commercial banks and the remaining ₱1.0 million or 0.7 per cent to other banks and non-bank entities. Likewise, secondary sales of accredited outlets to the general public amounting to ₱14.0 were distributed as follows: commercial banks — ₱8.0 million or 56.7 per cent; Securities Stabilization Fund — ₱4.4 million or 31.3 per cent; other banks, ₱1.6 million or 18.0 per cent.

Redemptions of Premyo Savings Bonds (Regular series and Biglang Bahay series) aggregating ₱16.6 million were mostly made through commercial banks and S.S.F. which serviced a total of ₱15.2 million or equivalent to 88 per cent.

Thus, total outstanding Premyo Savings Bonds stood at ₱858.4 million as of end-December 1980. Of the total, ₱794.8 million worth of PSBs were sold in Metro-Manila and the remaining ₱63.6 million went to other regions.

Other Government Securities

Primary sales of other government securities totalled ₱2,385.1 million, representing 695 per cent above the projected sales output. The amount was generated mainly through direct tie-in arrangements and back-to-back agreements with traditional buyers.

Secondary sales aggregating ₱6,700.7 million comprised Treasury Bonds (₱6,554.8 million), Treasury Notes (₱144.9 million) and Public Estate Authority Bonds (₱1.0 million). Export Processing Zone Authoritiy Bonds amounted only to ₱45 thousand. By type of investors, commercial banks bought ₱6,298.5 million, thrift banks — ₱386.7 million, rural banks — ₱12.9million, and others — ₱2.5 million.

Collection of Taxes

As fiscal agent and banker of the Government, the Central Bank collected a total of ₱22,273.4 million in revenues through authorized agent banks, higher by 12.2 per cent over last year's collections. The total consisted of collections from customs duties (₱5,135.0 million), internal revenue taxes (₱16,694.8

million), export-premium duty (₱426.6 million) and export fees and others (₱17.1 million).

Remittances credited to the account of the National Treasurer increased by 12.4 per cent to ₱22,286.4 million over the preceding year's total of ₱19,836.1 million.

Accounting for the bulk of ₱4,889.3 million of the total customs duties collected were collections from the Port of Manila and Manila International Airport. Collections in ports of Cebu amounted to ₱187.4 million; Cagayan de Oro, ₱47.1 million; Davao, ₱9.4 million; and Iloilo, ₱1.7 million. As a consequence, total customs collections amounting to ₱5,135.0 million during 1980 exceeded by 2.1 per cent the 1979 collections.

Total collections of internal revenue taxes through authorized agent banks reached ₱16,694.8 million, exceeding last year's figure by 18.6 per cent. Ninety-five (95) per cent or ₱15,930.1 million of the total collections came from Greater Manila Area, other cities and municipalities. Among the agent banks, commercial banks collected ₱11,931.2 million or 71.5 per cent; specialized government banks, ₱2,658.1 million or 15.9 per cent; and thrift banks, ₱2,105.4 million or 12.6 per cent.

Export and premium duties collected during 1980 totalled ₱426.6 million, lower by 42.1 per cent over the 1979 collections of ₱737.0 million. The decline may be attributed to the non-collection of taxes from sugar exports and the lifting of export and premium duties on 14 products.

Similarly, collections from stabilization taxes amounted only to ₱6,325.00, down by 99.5 per cent when compared to the previous year's record of ₱1.2 million. In contrast, export fees and charges collected improved ninefold from ₱1.9 million in 1979 to ₱17.1 million in 1980.

National Savings for Progress Campaign

Savings and Time Deposits — Savings and time deposits of the banking system[1] continued to expand steadily, posting a 22 per cent growth to amount to ₱50,286.1 million as of the end of 1980. This more than achieved the 12 per cent target set by the National Commission on Savings. The growth in deposits notwithstanding inflationary pressures, may be due to a number of factors, not to speak of the effects of the on-going nationwide savings campaign. Some shifting of funds to the banking system from investments offering high rates of interests was noted. Specifically, the stock market was not able to generate much interest from investors while a number of ill-conceived business ventures made the public wary of unrealistically high returns on investments.

On the other hand, the number of savings and time deposits increased by 3 per cent to reach 22,418,723 (as of September 30, 1980). At this level, the number of deposit accounts is still 5 percentage points short of the 8 per cent target. The modest growth in the number of accounts may be due largely to the slowdown in domestic economic activity consequent to higher cost of oil and instability in the international economic climate. This in turn increased the ranks of the unemployed and reduced incomes thus making the opening of new deposit accounts more difficult.

Based on a 1980 population of about 48 million, the savings figures meant one deposit account for every two Filipinos with an average balance of ₱2,057 per account.

Advertising and Promotions — The thrust of the savings campaign continued to be focused at the barangay level through its Barangay Savings Program and also to the school children through the TIPID Movement. During the year under review, saving in forms of financial assets other than deposits in banks was included in the savings campaign. This was carried in advertising copies which introduced the people to the other forms of savings such as holdings of government securities and life insurance. Radio was used as the primary medium in disseminating the savings campaign to the people particularly those in rural areas. This was supported by print and cinema advertising and wide distribution of informational materials.

Finally, to establish direct contact with school officials, school children and development officers at the rural level, activities like seminars and workshops as well as special contests for school children highlighting the concept of savings in banks were undertaken.

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1 For purposes of the National Savings for Progress Campaign, this includes all savings and time deposits of banks excluding special and time deposits and rural banks, foreign currency deposits, interbank deposits and deposits of non-operating banks.

Training Program/ Technical Assistance

The Bank's firm commitment to the growth of development of countryside banking and credit and its prominent role in the implementation of the Government's food production and export development strategies continued to pervade the training and technical assistance activities in 1980.

As part of its on-going programs designed to strengthen the management structure and loan operations of countryside banking and credit institutions, the Bank conducted numerous workshops and seminars during various periods for a total of more than 2,000 officers and men of rural banks and savings and loan associations (SLAs) all over the country. It sponsored seminars for 386 rural bank officers on executive development and several courses in basic rural banking for 718 rural bank staff members. Together with basic training courses for 241 stock and non-stock SLAs, the Bank also held, jointly with rural bank regional confederations, four management workshops for 464 rural bankers in the urban centers of Bicol, Mindanao, Central and Northern Luzon regions.

Three of several foreign training programs availed of by the Bank during the year for its staff covered specialized courses in livestock development, export promotion and agro-industrial projects, all sponsored by the World Bank at the Economic Development Institute in Washington, D.C. These courses complemented the locally-held fourteen sessions on export financing specially programmed by the Bank for 425 bank officers and exporters at various periods. Combined with eleven locally-held seminars on agricultural financing for 376 rural bank technicians and staff in collaboration with Ministry of Local Government and Community Development and the nine sessions on Bakahan/Kambingan Barangay for 573 participants co-sponsored with the Ministry of Agriculture under the Livestock Loan Fund program, these training activities constituted in part the Bank's active support of the Government's food production and export promotion programs.

The Bank's 1980 domestic training programs, on the other hand, sustained the level and tempo of the previous year's staff development programs. Various in-house seminars and lecture sessions in specialized areas such as development financing and bank management designed to boost the Bank's supervision-examination operations continued to dominate the courses conducted during the year. These programs included, among others, basic-intermediate-integrated courses for 200 bank examiners and agricultural credit supervisors and a specialized EDP course designed to equip 30 bank examiners with the needed skills in the examination and audit of computerized banks. Furthermore, a seminar on credit analysis and evaluation, conducted jointly with the Financial Executives Institute of the Philippines (FINEX) for 57 senior-level examiners of the Bank and officers of member institutions of FINEX, complemented the foregoing bank-examination staff training programs.

The sending of top officials abroad to observe investment banking policies and practices in select European and American financial centers, in line with the policy reorientation toward the development of universal banking in the Philippines, highlighted the Bank's foreign training programs during the period. The Bank also sent 11 of its officers and staff members in other training assignments abroad. Six of these assignments covered a 6-month intensive training in financial analysis and policy and balance of payments methodology both held at the IMF Institute in Washington, D.C., study of import management in Finland sponsored by the UNCTAD/GATT, the expanded book-entry securities system adopted in the US Federal Reserve System and the Bank of Canada, and participation in foreign trade statistics and small enterprise development in Germany and Japan, respectively, under the Bilateral Training Program.

Forming part of its active participation in the affairs of Asian regional blocs and associations, the Bank sent an officer to the SEANZA central banking course held in Indonesia, two staff members in the SEACEN financial analysis and policy course in Malaysia and two other officers in the small industry and extension courses held in India under the Colombo Plan technical and training assistance program.

New Committees

To ensure the effective formulation and implementation of new and existing policies or to carry out specific assignments, the Bank created and organized various committees whose members were drawn from different departments and offices. Where broader national matters are concerned, membership in Central Bank Committees are extended to other appropriate government agencies for proper coordination.

The new committees created in 1980 included the following:

a) Committee on Assistance/Incentives for Non-Trade Foreign Exchange Earners (MB Res. No. 97 Jan. 11, 1980) – to conduct research and analysis and existing and potential foreign markets for Philippine services, to gather data necessary for the preparation of market forecasts and appropriate marketing strategies and to formulate and recommend monetary, credit and fiscal measures needed to assist the creation of new and/or expansion of existing exportable services and to help promote sales abroad.

b) Inter-Agency Committee on Classification/Reclassification of Commodities (MB Res. No. 836 May 9, 1980) – to promote integrated efforts toward the classification/reclassification of commodities. It is composed of representatives from the Central Bank, Ministry of Finance, Ministry of Industry, NEDA and Tariff Commission.

c) Committee created under MB Res. No. 711 April 18, 1980 relative to the comprehensive import supervision scheme (CISSO) of the Societe Generale de Surveillance S.A. – constituted by representatives from the International Operations Sector of the Bank.

d) An advisory Committee on the Interpretation and Clarification of CB Circular Nos. 739-742 and 749-755 (MB Res. No. 1782 Sept. 19, 1980) – to attend to and act on all requests from departments and offices of the Central Bank, banking institutions, non-bank financial intermediaries authorized to engage in quasi-banking functions and other persons and entities for interpretation and clarification of provisions of CB Circular Nos. 739-742 and 749-755 and other regulations and matters related thereto.

e) Ad Hoc Committee (Office Order No. 127, series of 1980) — to conduct a study on the possible restructuring of the Philippine rural banking system.

f) Committee created under Office Order No. 38 dated 18 February 1977 (MB Res. No. 29, 4 January 1980) — to conduct a study on a system of incentives for increasing bank capitalization and a study on concentrated holdings in bank ownership.

g) Permanent Hearing Committee to hear cases in the Department of Rural Banks and Savings and Loan Associations (MB Res. No. 35 dated Aug. 22, 1980) in which due hearing is required by law.

Some important existing Committees which were reconstituted during 1980 were the following:

h) Modification in the composition of the Open Market Committee (MB Res. No. 1564, Aug. 22, 1980) — to include another representative of the Ministry of Finance as additional member thereof, to specifically designate the Special Assistant to the Governor, in-charge of the Foreign Exchange Department, as a member and to designate additional members of the Technical Staff of the Committee.

i) Reconstitution of the Committee created under MB Res. No. 2248 dated November 24, 1972 — to direct and coordinate all collection efforts on borrowers of the Central Bank and all other banks proceeded against by the Monetary Board under the provisions of Section 29 of R. A. No. 265, as amended and to be composed of the Senior Deputy Governor as Chairman; Deputy Governor, Supervision and Examination Sector and the Director, Legal Department as members.

Currency Issue and Clearing

Gross currency issue of the Central Bank amounted to ₱16,548 million as of end-December 1980, up by 12.9 per cent from ₱14,661 million in 1979. Deducting cash in vaults, cash-held-in-trust with PNB branches and agencies, and cash subject to verification amounting to ₱4,264 million — net currency in circulation totalled ₱12,284 million. The net amount was higher by 16.2 per cent over the previous year's level.

Total currency in circulation (net of deductions) consisted of Central Bank "Ang Bagong Lipunan" notes, amounting to ₱11,599 million and coins, ₱685 million. Coins included the 5,000 piso — "ABL" gold coin and 1,500 piso — "IMF" gold coin denominations.

Mutilated-perforated currency notes retired by burning during 1980 aggregated more than 179 million pieces with a face value of ₱2,767 million. Compared to 1979, these figures represented increments of about 18 million pieces with a face vaue of ₱528 million.

To provide nationwide facilities for interbank clearing of checks, regional clearing units were increased from 19 to 22 offices in 1980. The Manila Clearing Office and the regional clearing units handled a total of 44.1 million checks worth ₱967 million. Total number of checks cleared consisted of local checks, 34.8 million; out-of-town checks, 9.0 million; and interregional checks, 0.3 million with corresponding amounts of ₱913 million, ₱50 million and ₱4 million.

Compared with the 1979 totals, the number of checks cleared went up by about 4.0 per cent the face value of which rose by 11 per cent.

Gold Refinery and Mint

Based on the production report of the Gold Refinery for 1980, raw bullions processed aggregated 407,562,007 fine ounces, up by 3.8 per cent from the previous year level. The growth reflected the expansion in domestic ouput spurred by attractive international prices for gold. From these raw bullions were produced 162,782,195 fine ounces of gold and 133,906.519 fine ounces of refined silver, both metal output assaying 99.9 per cent.

A notable innovation of the Refinery in the process of production was the extraction of gold from used scrubber solution using sugar which is 11 times cheaper than the currently used Scrap Iron Method and 30 times cheaper than the Hydrazine Sulfate Method.

In the same period the Mint produced 325,436,000 coins representing an increase of 48.4 per cent over the 1979 level. Output deliveries of the Plant through the Currency Stock Committee to the Cash Department reached 327,542,060 pieces of circulation coins including some coins with year marks 1978 and 1979 altogether valued at ₱55,133,166.92. In addition, 945 pieces of BU coins were delivered with face value of ₱266.49. To a large extent, the marked improvement in the number of coins minted was attributed to the acquisition of four units of high-speed coin presses and auxiliary minting equipment.

The Gold Refinery and Mint reported gross revenue of P47,850,675.20 from operations and P397,997.17 from other sources.

Security Printing Plant

On its third year of operation in 1980, the Security Printing Plant delivered 210 million banknotes of 1980 Order and an advance 28 million part of 1981 Order. In the same period, the Plant started production of Premyo Savings Bonds (PSB) and Central Bank Certificates of Indebtedness (CBCI) with deliveries of 8,775,000 PSBs and 12,500 CBCIs.

For 1980, or the second year of check production, orders for MICR-encoded regular and special checks together with other security documents reached 99,684,820 or an increase of 63.7 per cent over the 1979 level.

Regional Operations

Cash and Banking Operations — In 1980, the Central Bank regional offices in Cebu City, Davao City and San Fernando, La Union, and the sub-regional office in Tacloban accounted for total receipts of ₱5,389.4 million or ₱231 million more than total disbursements of ₱5,158.9 million. In both receipts and disbursements, Cebu City garnered more than 50 per cent of the overall, indicating brisker business transactions in this area in 1980.

Cash deposits from banks within the areal jurisdiction of the regional sub-regional offices reached ₱3,831.0 million or an increase of 28.2 per cent from the deposits in 1979. Likewise, cash withdrawals rose by 17.2 per cent to ₱3,243.0 million in 1980. Foreign currency purchases from commercial bank branches, authorized foreign exchange dealers, tourists and transients amounted to ₱3.1 million, up by 42 per cent from the previous year's level.

To supply currency needs, cash requisitions of ₱719.0 million were placed during the year in the CB Cash Department in Manila and Cebu Regional Office. This amount, however, was smaller by ₱608.2 million or more than 46 per cent compared to 1979.

Incoming cash shipments from banks and provincial/city treasurers went up by 99.4 per cent to ₱625.5 million reflecting the pick-up of cash-held-in-trust in the La Union Regional Office which came largely from authorized PNB branches during the year. On the other hand, outgoing cash shipments of currency notes and coins to meet the cash requirements of banks – amounted to ₱197.5 million or a net decrease of ₱31.6 million.

Mutilated currency notes with perforation withdrawn from circulation and shipped to the CB Cash Department in Manila during 1980 amounted to ₱822.6 million increasing by ₱130.6 million or 18.9 per cent over the 1979 level. However, there was a decrease of ₱147.3 million in excess of clean currency notes shipped to the Head Office by the La Union Regional Office in 1980.

FINANCIAL CONDITION OF THE CENTRAL BANK

Total assets of the Central Bank expanded by 28.4 per cent to reach a level of ₱65,447.3 million at the end of 1980 when compared to the end-1979 level of ₱50,970.2 million. Accounting for a large portion of the expansion were international reserves and loans and advances items which increased by 30.1 per cent to ₱23,609.5 million and by 34.9 per cent to ₱25,576.8 million, respectively. The remaining went to domestic securities, special account-foreign exchange differentials, monetary adjustment account, and bank premises and other fixed assets as reflected by their respective growth rates of 22.6 per cent, 91.1 per cent, 20.0 per cent and 2.5 per cent. However, government note-treasury certificate account remained steady while other assets dropped by 3.6 per cent.

Total liabilities of the Central Bank stood at ₱64,943.4 million as of end-December 1980, higher by 29.1 per cent over last year's balance of ₱50,287.9 million. The increment was brought about mainly by a ₱10,868.3 million or 61.0 per cent growth in deposits coming mostly from financial institutions. As a consequence, deposits aggregated ₱28,668.1 million at the end of 1980 and this represented an increase of 61.1 per cent over the level of a year ago.

Total currency issue amounting to ₱12,283.6 million went up by 16.2 per cent from the previous year's level of ₱10,575.3 million. The total consisted of notes in circulation (₱11,201.4 million or 91.1 per cent) and coins in circulation (₱1,082.2 million or 8.9 per cent). Compared to the corresponding levels last year, notes in circulation grew by 12.6 per cent and coins in circulation rose by 72.9 per cent.

Foreign loans outstanding moved up by 29.4 per cent to ₱9,650.2 million from the 1979 level of ₱7,457.1 million largely because of increased obligations under the Consolidated Foreign Borrowings Program (CFBP) and oil financing scheme.

Likewise, allocation of special drawings rights and other liabilities accounts increased from ₱657.8 million to ₱874.2 million and from ₱1,131.5 million to ₱1,573.4 million or by 32.9 per cent and 39.0 per cent, respectively.

On the other hand, the Central Bank reduced its obligations from the issuance of certificates of indebtedness. As of end-1980, its outstanding issues amounting to ₱11,700.8 million registered a decline of ₱772.5 million or 6.5 per cent over the level of a year before.

As the year 1980 ended, the Central Bank's operations resulted in a ₱178.4 million or 26.1 per cent decrease in its net worth, that is, from ₱682.3 million to ₱503.9 million. The result emanated solely from the shortfall of ₱238.3 million in undivided profits offsetting increases in surplus and reserves accounts amounting to ₱59.9 million.