Thirty-Third

ANNUAL REPORT 1981

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
Prime Minister and Minister of Finance

PLACIDO MAPA, JR.
Director General
National Economic and Development Authority

ROBERTO V. ONGPIN
Chairman, Board of Investments

CESAR A. BUENAVENTURA

PRINCIPAL OFFICERS

JAIME C. LAYA
Governor

GABRIEL C. SINGSON
Senior Deputy Governor

Deputy Governors

EUGENIO NIERRAS, JR.

JUAN QUINTOS, JR. CARLOTA P. VALENZUELA

Hon. Escolastica B. Bince was deputy governor in 1981 until her retirement on February 11, 1982.

Central Bank of the Philippines

MANILA

OFFICE OF THE GOVERNOR

March 31, 1982

His Excellency
The President of the Philippines
Malacañang, Manila

Dear Mr. President:

I have the honor to submit the Thirty-Third Annual Report (1981) of the Central Bank of the Philippines pursuant to the provisions of Section 37 of Republic Act No. 265, as amended.

Very respectfully,

JAIME C. LAYA
Governor

Thirty-Third
Annual Report
1981

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 1981

The Philippine economy proved once again its basic strength and resiliency in 1981 when gains in growth and domestic price stability were realized despite severe recession abroad and the unsettling events which shook the country's financial system early in the year.

The pursuit of economic growth was made difficult by developments in both the external and domestic fronts but the Gross National Product grew by 4.9 per cent in real terms. Slow growth coupled with protectionist measures of industrialized countries, persistent inflation and high interest rates continued to characterize the international economic scene. These were translated in the Philippines as weak demand for exports, heavier cost burden on imports and increased interest expense on external borrowings. Thus, the country's external position weakened as the balance of payments deficit widened to $560 million from $381 million in 1980. On the other hand, the crisis of confidence which struck the domestic financial system in early 1981 dampened private sector investment and production which prompted stepped-up activities on the part of the government sector.

The period just ended likewise proved to be another year of challenge to stabilization efforts. Dislocations and disturbances brought about by flagging export earnings, the rising import bill particularly for energy, and the unsettling impact of the financial crisis brought in new domestic policy measures and a number of structural changes in the economic and financial framework of the country. The relative stability of the economy during the year was manifested in the appreciable scaling down of the inflation rate from around 18 per cent in 1980 to 12 per cent, one of the lowest since 1974. This moderation in domestic inflation was to a large extent due to prudent monetary policy, supply stabilization measures and improved distribution of key commodities and the retention of selective price controls.

Monetary and Financial Developments

The Central Bank granted emergency advances to a few financial institutions which suffered liquidity problems due to the crisis of confidence experienced in early 1981. Selected viable industries affected by the crisis also received financial assistance from the Industrial Fund which had been established to help them avoid impairment of their output and employment-generating capacity. To neutralize the inflationary impact of these advances, Central Bank Certificates of Indebtedness (CBCIs) amounting to ₱500 million were issued although the general policy later was to phase out CBCIs to enhance the marketability of Treasury issues.

The issuance of commercial paper was so regulated that such type of borrowings would be limited to prime paper and prime issuers only. Moreover, initial efforts were made leading to the establishments of a credit information system and a credit rating bureau to provide financial institutions with more information on total borrowings and credit standing of borrowers.

Credit policy in 1981 saw more funds going to the public sector to step up infrastructure activities. This policy was meant to counteract the slowdown in the private sector's production and investment activities as well as meet increased funding needs of the government in connection with rehabilitation operations during the financial crisis and relief work after the strong typhoons which hit the country late in the year. Thus, by end-1981, cash transactions of the National Government resulted in a deficit substantially larger than the shortfall registered in 1980.

Outstanding credits of the monetary system to the public sector grew by 37 per cent, thus increasing its share to total credits from 15 per cent to 18 per cent. On the other hand, credits to the private sector increased by only 13 per cent although it continued to account for the bulk of total domestic credits. Thus, domestic credits outstanding of the monetary system expanded by 16.8 per cent to reach a level of ₱111,110 million. This marked a deceleration from the 19.7 per cent increase in 1980 which was in line with the 1981 financial program.

Domestic liquidity continued to grow although at a decelerated rate during the year. Money supply expanded at a lower rate of 3.5 per cent owing to the deficit in the country's external payments. Savings and time deposits which comprised half of total liquidity registered an annual growth rate of 19 per cent, reflecting the favorable impact of interest rate deregulation. Despite the financial crisis deposit substitutes increased by 28.7 per cent since only a general shifting of funds from non-banks to banks occured.

The money market surmounted the dislocations brought about by the financial crisis with total volume transacted exceeding last year's level by 8.5 per cent. Total money market transactions stood at ₱329,621 million with an average interest rate of 15.601 per cent which was 2.335 percentage points higher than that in 1980. On the other hand, the stock market recorded its worst slump in 24 years. Peso turnover in the two stock exchanges aggregated only ₱608 million, a decrease of 70.5 per cent from the total value transacted in 1980. Likewise, the number of shares traded dropped to 19,677 million or by 50.8 per cent. More new business organizations were set up during the year although their total paid-in capital was less by 16 per cent compared to the previous year.

The year 1981 also saw the deregulation of interest rates which took effect in July. Except for interest rates on short-term loans and purchases of short-term receivables, all interest rates on deposits, deposit substitutes, loans and purchases of receivables were freed from administrative ceilings. The deregulation of interest rates generated a positive effect on financial savings as seen in the growth of savings and time deposits as well as deposit substitutes.

Movements in long-term lending rates were generally moderate with the adoption of Central Bank stabilization measures mainly through open market operations.

As a result of the financial reforms introduced in 1980, more mergers took place giving rise to bigger multi-purpose banks. The end of the year saw the existence of six universal banks. In the rural banking system, 14 rural banks in Bohol were consolidated to form the First Consolidated Rural Bank.

New financing programs were also established in 1981 to support new projects undertaken by the government. An initial fund of ₱1 billion administered by the Central Bank was set up for the Kilusang Kabuhayan at Kaunlaran livelihood projects, an undertaking designed to tap the participation of the citizenry at grassroots level in production activities. The stock exchange was also given further support with the setting up of the ₱70 million stock financing program and the eligibility for rediscounting with the Central Bank of loans extended by banks for the purchase of high grade equity issues. Towards the end of the year, the Central Bank accredited 12 government securities dealers which were given additional incentives as well as definite responsibilities in developing the market.

Production

While 1981 was admittedly a difficult year for many industries and for the financial system as a whole, the Philippine economy performed comparatively well in maintaining economic growth. Real gross domestic product (GDP) grew by 4.8 per cent to ₱97,256 million.

Due mainly to the adverse effects of the extended recession in the world economy, relative slowdown in output characterized the performance of major domestic industries especially export-oriented activities such as mining. The slower pace of gross domestic investments, partly the result of the cautious attitude in the business community, as well as adverse weather conditions also contributed to the lower growth rates registered by some industries in 1981.

Electricity, gas and water recorded the lead growth pace of 7.8 per cent while mining and quarrying exhibited the smallest gain of 1.7 per cent following the decline in export prices particularly of copper.

Manufacturing remained the biggest contributor to total real GDP with with a share of 25.7 per cent despite some deceleration from the 5.9 per cent growth rate in 1980 to 5.1 per cent in 1981. This was due to the marked slowdown in the output of food, furniture, chemicals, basic metals and machinery.

Production growth in the agricultural, fishery and forestry sector which contributed about 25 per cent of real GDP in the last three years was 4.3 per cent compared to 4.9 per cent in 1980. Strong typhoons which occured during the latter part of the year and drought in some areas reduced the growth of agricultural crop production. Moreover, livestock output declined further during the period.

An encouraging development in the Philippine economy was the substantial deceleration of the inflation rate in 1981. During the year, prices showed the lowest rate of increase since 1979 in terms of annual changes in the consumer price indices both for the Philippines and Metro Manila.

Notwithstanding the inflationary impact of the adjustment in fuel prices in the early part of 1981, consumer prices rose by only 12.4 per cent at the national level and by only 11.8 per cent in Metro Manila. These figures compared well with the inflation rates of 17.6 per cent for the whole Philipines and 17.8 per cent for Metro Manila in 1980. Prices of both food and non-food groups rose at much reduced rates in 1981.

A key factor in the improved price situation was the relative success of the various measures aimed at stabilizing supply which included financial incentives to higher production and better distribution services and the setting up of more KADIWA centers. Demand management measures of the monetary authorities also helped minimize upward price pressures. Moreover, price ceilings on a few basic commodities were maintained.

Price movements in the Philippines in 1981 compared well with those in other countries. Among some selected developing economies, the Philippines was one of only three countries which showed a significant deceleration in inflation rate during the year.

External Transactions

The country's external sector continued to be adversely affected by the global economic slowdown which depressed export demand in major trading partners, sustained general increase in import prices, sharp rise in interest rates in international capital markets and substantial exchange rate volatility. As the Philippine's terms of trade deteriorated, the balance of payments registered an overall deficit of $560 million in 1981. This was significantly higher than the 1980 deficit of $381 million but lower than the peak deficit of $570 million in 1979.

The overall deficit resulted solely from the merchandise trade shortfall caused by sluggish export markets and higher import prices. The cost of imports rose by 5.6 per cent largely on account of the unabated increase in oil prices. Both export prices and quantum declined, resulting in a deceleration of value. Consequently, the net terms of trade deteriorated further by 5.4 per cent; the end result was a further widening of the merchandise trade deficit which reached $2,492 million compared to $1,939 million in 1980.

Export earnings decreased by 1.4 per cent reflecting principally the extended recession in the industrialized countries. Adversely affected commodities included copper, gold, lumber and logs, the earnings from which declined substantially. The effects of the recession were aggravated by the imposition of non-conventional protectionist measures by some developed nations on certain export products in an effort to protect their domestic employment situation. The continued growth of non-traditional exports partly offset the decline in earnings from some traditional exports.

In contrast to the decline in export, imports increased by 6.1 per cent on account mainly of higher prices as import volume actually dropped during 1981. The increase in crude oil prices from $29 per barrel in 1980 to $34 per barrel in 1981 and the 1.1-million-barrels expansion in volume added some $353 million to the oil bill which reached $2,210 million. This accounted for 71.6 per cent of the overall increase in imports. Non-oil imports also expanded but at a comparatively lower rate.

The government's thrust at expanding the export of labor yielded higher receipts from Filipino seamen and contract workers in foreign countries. Such an increase together with higher interest income from foreign securities held by domestic financial institutions, greater inward remittances to cover operating expenses of multinational firms and improved travel earnings from tourism substantially reduced the non-merchandise trade deficit from $546 million to $386 million in 1981. Thus, these improvements cushioned the impact of higher interest payments caused by the uptrend in foreign borrowings and higher interest rates in international capital markets.

Increased inflows of personal transfers, brought this account to a surplus of $473 million, partly covering the trade shortfall.

As a result of these transactions the current account ended in a deficit of $2,405 million which was higher than that in 1980.

Non-monetary capital inflows in 1981 served to finance a large portion of the current accounts deficit. Net inflows of long-term loans increased by 16.3 per cent, on account mainly of public sector availments particularly the structural adjustment loan from the World Bank. Foreign direct investments, showed a net inflow of $375 million compared to only $45 million in 1980. In contrast net inflows of short-term capital declined by 73.0 per cent as the substantial short-term borrowings incurred in 1980 were repaid in 1981. On the whole, non-monetary capital transactions netted $1,418 million compared to $1,513 million in 1980.

The overall balance of payments deficit was further trimmed down with the monetization of gold amounting to $400 million and a Special Drawing Rights allocation valued at $27 million from the International Monetary Fund.

The counter-cyclical policy of the government in 1981 required external financing to support its infrastructure and other development projects as well as productive activities of the private sector. A 25 per cent increment was recorded in the country's outstanding external debt which reached $15,835 million at the end of the year. The annual growth rate of the outstanding debt decelerated from 25 per cent in 1980 due partly to the cautious attitude of the business community.

A shift in international reserve policy was also undertaken in 1981. The Central Bank reduced short-term credit availments used for reserve purposes to cut down interest payments. As a result, the gross international reserve stood at $2,707 million at the end of 1981, down from $3,155 million at the end of 1980. The end-1981 reserve level was equivalent to about four months of import requirements.

The renewed strength of the U.S. dollar, supported by restrictive monetary policy in the United States, exerted downward pressure on the value of the peso. Like the currencies of other developed and developing countries, the peso weakened vis-a-vis the dollar. The peso-dollar rate moved to ₱8.2000 at the end of 1981 from only ₱7.6080 a year earlier or a depreciation of 7.8 per cent for the domestic currency. In average terms, the rate settled at ₱7.8997 in 1981 compared to ₱7.5114 in 1980 or a decline of 5.2 per cent for the peso.

Prospects for 1982

The adjustments and reforms implemented in 1981 should provide a basis for expecting better economic performance in 1982. The adoption of new financial measures should strengthen the financial system and enhance the effectiveness of monetary management in pursuing growth with stability. With the improvements in the financial system, more financing for productive endeavors from essentially non-inflationary sources could be facilitated.

The anticipated recovery of industrial economies which has been forecasted to occur during the second half of the year should allow the economy to improve on its 1981 performance.

Further easing of domestic inflation in 1982 is possible with the general deceleration of inflation in major industrialized nations resulting in slower rise in prices of Philippine imports. In addition, as oil prices stabilize, the balance of payments is expected to show some improvements although still in deficit position during the year.

The monetary authorities intend to continue providing support to projects essential to the pursuance of growth and stability objectives. The Central Bank rediscounting facility will remain open to preferred economic activities such as exports, food production, small and medium scale industries. Additional financing programs designed to develop the long-term end of the funds market are expected to gain importance, particularly in support of equity investments of expanded commercial banks in allied and non-allied priority undertakings.

Further rationalization of the rediscounting mechanism would continue to make it more responsive to changing market conditions without shedding off its preferential nature. At the same time, the use of open market operations as an important monetary policy instrument will continue and be improved further to enhance the effectiveness of monetary management in an increasingly deregulated system.

The policy of deregulation will be maintained consistent with the structural adjustment program. The freeing of interest rates and the reduction of functional differentiations among financial institutions under the expanded commercial banking system should lead to a more efficient use of capital resources and accelerated industrial growth in the Philippine economy.

Monetary Policy

Monetary management adhered closely to a financial program which was adopted to achieve growth with stability objectives, i.e., a growth rate of 5.5 per cent in real GNP, an inflation rate of not more than 12 per cent and a balance of payments deficit not exceeding $375 million. Actual quantitative performance at the close of the year showed that domestic liquidity was kept at the target growth rate of 16 per cent although domestic credit exceeded program limits due largely to rescue operations. Real GNP increased by 4.9 per cent, the inflation rate was 12.4 per cent as expected and the balance of payments deficit amounted to $560 million.

Reserve money developments were closely monitored while operations of the credit windows of the Central Bank namely, rediscounting, repurchase and peso-dollar swap operations as well as transaction on government securities were managed and coordinated to achieve the desired level and cost of credit in the short-run. Specifically, their operations were geared to stabilize the financial markets while pursuing growth targets. Measures to stabilize the financial markets e.g., by insulating or cushioning the destabilizing effects of oil remittances and tax payments, were also adopted. To encourage banks to lend to domestic borrowers instead of building up their net foreign asset position, the rediscount window was closed to banks whose net foreign asset position exceeded the limit in relation to their outstanding import letters of credit.

A number of policy and institutional changes were introduced to strengthen and make the financial system more responsive to development needs and monetary management.

During the early part of January, the Central Bank's supervisory power was enlarged to include supervision of subsidiaries and affiliates of banks and non-banks with quasi-banking functions. These additional powers, contained in P.D. No. 1771, were also complemented with an increase in the Central Bank's capitalization from ₱10 million to ₱10 billion.

Selective rehabilitation of distressed but viable industrial and financial institutions affected by the financial crisis of early 1981 was undertaken through the granting of advances and the establishment of the Industrial Fund. The Central Bank extended emergency advances to banks and quasi-banks faced with grave liquidity problems and at interest rates higher than the prevailing commercial paper rate to force these institutions to seek other refinancing from other sources. To moderate the inflationary impact of these advances, Central Bank Certificates of Indebtedness (CBCIs) amounting to ₱500 million were issued.

The Industrial Fund, on the other hand, was established to provide financial relief and assistance to viable enterprises which experienced severe liquidity problems but with crucial role in the economy. Of the initial ₱1.5 billion fund contributed by the National Government and the Central Bank, ₱452 million has been released by the end of the year to a number of corporations through the three government-owned banks acting as lead banks.

The Central Bank in coordination with the Securities and Exchange Commission, drew up new rules and regulations governing borrowings in the money market. Specifically, Circular No. 834 issued on December 11, 1981 provided the guidelines and regulations to govern commercial paper issues. These included a limit on the total outstanding liabilities or borrowings of a commercial paper issuer to no more than 300 per cent of its net worth and the requirement that any proposed issue shall have to be supported by a committed credit line agreement with a qualified bank. Guidelines for banks which may provide this committed credit line facility were specified in Circular No. 835 while the terms and conditions of the granting of Central Bank special credit accommodations to banks which issue committed line agreements with corporations proposing to issue commercial paper were prescribed in Circular No. 836.

The Central Bank also initiated the setting up of a credit information system and a credit rating bureau in order to provide lending institutions with more information on total borrowings and credit standing of their borrowers.

In the area of capital market development, commercial and specialized government banks which availed themselves of loans under the stock financing program for relending to securities dealers, stock brokers and investors for the purchase of "blue chips" common and preferred shares were allowed to rediscount such loans with the Central Bank effective June 1981. A new government securities dealership network was also set up late in the year to enhance the role of accredited dealers in developing the government securities market. Efforts of these dealers will be concentrated in selling Treasury issues since the Central Bank is gradually phasing out issuance of its own certificates of indebtedness.

Interest rate movements were kept within reasonable bounds after the monetary authorities decided to float interest rates on deposits and loans. Effective July 1, 1981, ceilings on interest rates on savings and time deposits and NOW accounts (Circular No. 777), deposit substitutes (Circular No. 779) and on loans and yields on purchases of receivables with maturities beyond 730 days (Circular No. 783) were lifted. Interest rate ceilings on short-term loans were, however, maintained at 16 per cent and 18 per cent for secured and unsecured loans, respectively. This was made not only to place an informal limit to short term deposit rates and thereby moderate any undue fluctuations that might occur while the market adjusted itself to the new environment but also to serve as a benchmark for other interest rates. The definition of short-term loans and purchases of receivables was amended from 730 days to 365 days effective October 1981 (Circular No. 817) thus limiting the coverage of imposed ceilings on these instruments to a shorter maturity period.

In line with the new interest rate policy and the modified universal banking orientation of the financial system, the reserve requirements on deposits and deposit substitutes were modified. The reserve requirement against demand deposits was reduced from 20 per cent to 16 per cent, at the rate of 1 percentage point starting January 1, 1982 and every semester thereafter until the new rate has been attained. This was intended to increase the loanable funds of banks and at the same time lower their reserve-holding cost. Moreover, the reserve requirement on other liabilities with similar characteristics was also made uniform across various financial institutions as provided for in Circular No. 782.

Selective allocation of credit to priority activities continued to be part of over-all monetary and credit strategy. Measures to this effect included the rediscounting of paper involving credits for the financing of mini-hydro system and similar small and self-contained energy projects and dendro-thermal plants. Rules and regulations on the guarantee and lending program of the Cottage Industry Guarantee and Loan Fund were also promulgated under Circular No. 773. To give further support to rural banks which provide the bulk of the credit needs of the agricultural sector, their rediscounting ceiling was increased to 300 per cent of their net worth plus 300 per cent of their average savings and time deposits. The Central Bank also administered ₱700 million of the ₱1 billion initial fund set aside for the Kilusang Kabuhayan at Kaunlaran (KKK) projects. As of the end of 1981, a total of ₱73 million was released by the Central Bank to the Philippine National Bank, the Development Bank of the Philippines and the Land Bank of the Philippines to finance various KKK projects.

Domestic Liquidity

Growth in domestic liquidity slowed down during 1981 but remained close to the specified target in the financial program drawn up at the start of the year.

At ₱78,539 million, domestic liquidity consisting of money supply, savings and time deposits and deposit subsitutes grew by 15.8 per cent. This incremental rate of increase was slightly higher than necessary to attain a real GNP growth rate of 5 per cent and stable price increase.

Quasi-money which comprised 50 per cent of total liquidity grew considerably with the rapid expansion in savings and time deposits which gained momentum following the interest rate deregulation measures which took effect in July. Savings deposits aggregating ₱22,602 million increased by 15.7 per cent. Time deposits, the attractiveness of which has been enhanced partly by the deregulation measures and partly by the shortening of the minimum maturity period, increased at a fast rate of 24.8 per cent. Compared to 1980, quasi-money expanded by more than 19 per cent reaching ₱39,285 million at the end of the period.

Meanwhile, because of the financial dislocations experienced early in the year, a channelling of funds from investment houses, financing companies and other non-bank financial entities to bigger, more stable commercial banks took place. The volume of deposit substitutes of these institutions thus rose by almost 29 per cent during the year in sharp contrast to the 3 per cent growth rate

CHART 1 – PER CENT CHANGES IN DOMESTIC LIQUIDITY
1980 & 1981

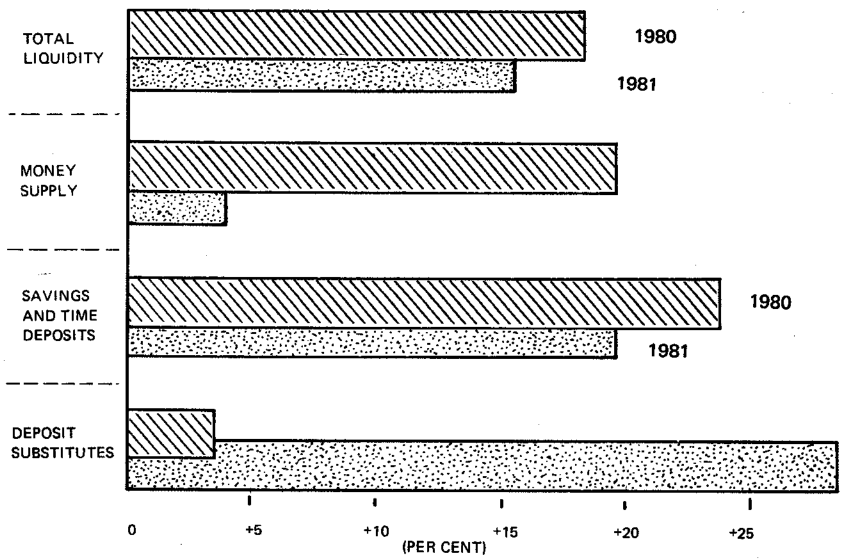


Table 1 – TOTAL DOMESTIC LIQUIDITY
December 31, 1980 and 1981
(Million Pesos)

	1981	1980	Changes Amount	Changes Per Cent
TOTAL DOMESTIC LIQUIDITY	78,538.7	67,803.2	10,735.5	15.8
Money Supply	23,331.3	22,537.5	793.8	3.5
Currency in Circulation	11,711.6	10,174.6	1,537.0	15.1
Demand Deposits	11,619.7	12,362.9	(743.2)	(6.0)
Quasi-Money	39,284.8	32,894.3	6,390.5	19.4
Savings Deposits	22,601.5	19,529.9	3,071.6	15.7
Time Deposits	16,683.3	13,364.4	3,318.9	24.8
Deposit Substitutes	15,922.6	12,371.4	3,551.2	28.7

reflected last year. At the level of ₱15,923 million, deposit substitutes made up approximately 20 per cent of total liquidity.

Money supply accounted for the remaining 30 per cent of domestic liquidity. Composed of demand deposits and currency in circulation, money supply grew at the slowed-down rate of 3.5 per cent to ₱23,331 million. This occurred due to the marked contraction in externally generated money in view of the increased deficit in the balance of payments, which partly offset the expansion in money of internal origin.

Aggregating ₱34,376 million at the end of 1981, money of internal origin expanded by 15.9 per cent, reflecting additional credits extended by the monetary system to the National Government and to the private sector. This nullified the leakage in the transaction of local and semi-government entities amounting to some ₱608 million. In contrast, external transactions siphoned off ₱3,929 million from the money stream. The negative effect of substantial increases in foreign exchange liabilities of both the Central Bank and the commercial banking system dampened the ₱3,714 million build-up in the gross foreign exchange assets of the entire system.

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

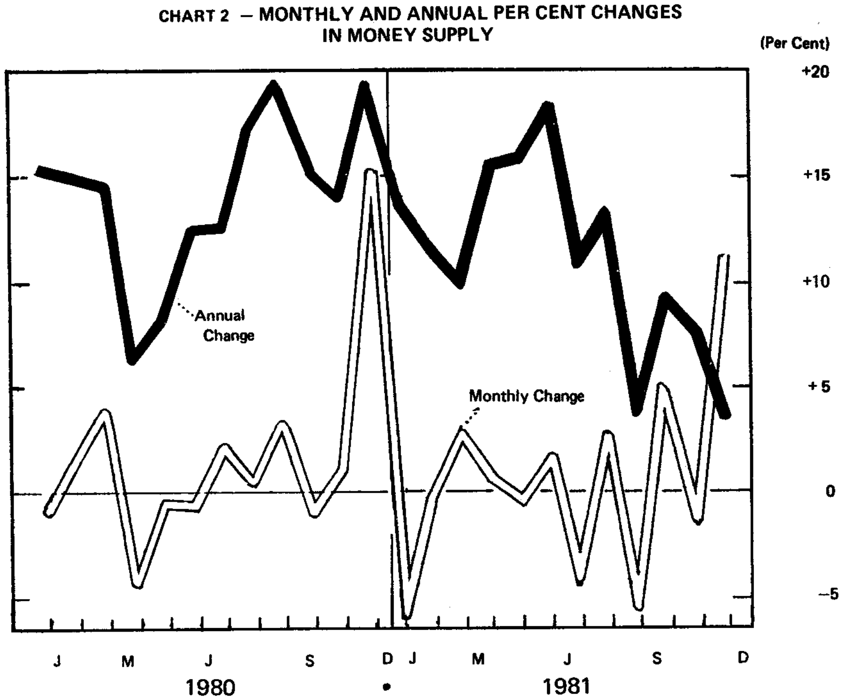


Table 2 — FACTORS RESPONSIBLE FOR MONEY SUPPLY MOVEMENT
December 31, 1980 and 1981
(Million Pesos)

	1981	1980	Net Effect on Money Supply
Money of Internal Origin	34,375.9	29,653.4	4,722.5
Public Sector	16,354.8	12,021.2	4,333.6
National Government	10,275.9	5,334.0	4,941.9
Local Government and Semi-Government Entities	6,078.9	6,687.2	(608.3)
Private Sector	18,021.1	17,632.2	388.9
Credit of the Central Bank and the Commercial Banking System	91,193.1	80,556.0	10,637.1
Less:			
Savings and Time Deposits	37,169.6	31,147.0	6,022.6
Marginal Deposits	3,106.7	3,126.4	(19.7)
Deposit Substitutes	15,922.6	12,371.4	3,551.2
Net Miscellaneous Accounts of the Commercial Banking System	16,973.1	16,279.0	694.1
Money of External Origin	(11,044.6)	(7,115.9)	(3,928.7)
Gross Foreign Exchange Assets of the Central Bank and the Commercial Banking System	43,349.5	39,605.8	3,713.7
Less: Foreign Exchange Liabilities of the Central Bank and the Commercial Banking System	54,394.1	46,721.7	7,672.4
Money Supply	23,331.3	22,537.5	793.8

Reserve Position of Commercial Banks

Commercial banks presented a less liquid position in 1981 than in 1980, with generally lower monthly excess reserve ratios. The ratio of excess reserves to deposit liabilities fluctuated between a range of negative 0.1 per cent and 1.3 per cent and averaged 0.7 per cent during the period. This is three percentage points lower than the average figure obtained last year.

This development may be traced to the inability of commercial banks to build up reserves in response to the progressive increase in deposit liabilities, particularly in savings and time deposits. Total regular deposits subject to reserves during the period increased by almost 18 per cent reaching ₱41,155 million in December 1981. This necessitated an equal percentage increase in mandatory reserves which rose from ₱6,983 million to ₱8,207 million. In contrast, available reserves rose by less than 15 per cent and amounted to ₱8,361 million consisting of deposit balances with the Central Bank, ₱3,184 million; cash in bank vaults, ₱1,576 million; government securities, ₱3,577 million; and foreign balances, ₱24 million.

Table 3 – RESERVE POSITION OF COMMERCIAL BANKS
December 31, 1980 and 1981
(Million Pesos)

	1981	1980
DEPOSIT LIABILITIES	41,155.2	34,942.2
AVAILABLE RESERVES	8,361.0	7,297.9
Deposit Balance with CB	3,184.5	3,321.4
Cash in Bank Vaults	1,576.3	1,260.9
Government Securities	3,576.6	2,710.4
Foreign Balances	23.6	5.2
REQUIRED RESERVES	8,207.3	6,982.7
Excess/Deficiency in Reserves	153.7	315.2
LIQUIDITY RATIOS (In Per cent of Deposit Liabilities):		
Available Reserves	20.3	20.9
Required Reserves	19.9	20.0
Excess/Deficiency in Reserves	0.4	0.9

As their demand for liquidity mounted, banks increased their borrowings from the interbank call loan market, which demand for funds was reflected in the 2.455 percentage points increase in the annual average interbank call loan rate from 13.266 per cent in 1980 to 15.601 per cent.

CHART 3 – RESERVE POSITION OF COMMERCIAL BANKS

1979 – 1981

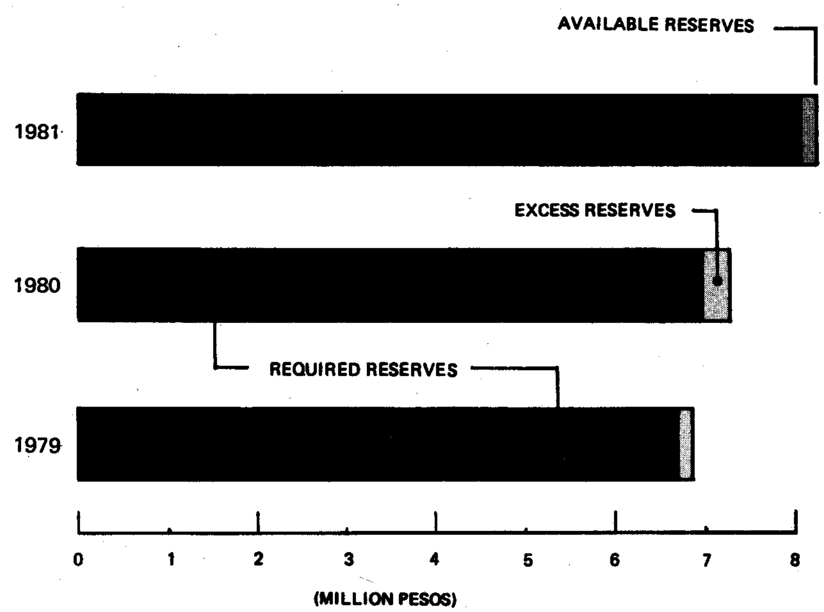


Table 4–MONTHLY AVERAGE EXCESS RESERVES
OF COMMERCIAL BANKS
1980 and 1981
(Million Pesos)

	1981	1980
January	462.7	501.5
February	346.7	325.4
March	155.9	266.4
April	158.3	186.4
May	112.0	293.2
June	293.6	325.1
July	288.5	445.9
August	466.5	377.4
September	368.4	338.2
October	168.7	371.1
November	224.8	315.4
December	153.7	315.2

Credit Operations

Domestic Credits Outstanding of the Monetary System – Net domestic credits of the monetary system increased to ₱111,109.7 million at the end of December 1981, indicating a yearly increase of ₱15,981.4 million or 16.8 per cent, a deceleration in the 19.7 per cent growth rate in 1980.

Of total credits outstanding, the private sector accounted for a substantial share of 82 per cent or ₱91,193 million although this was lower than the previous year's 85 per cent of the aggregate which reflected government efforts to provide impetus where external demand slackened. Incremental credits of the private sector amounted to ₱10,637.1 million or 13.2 per cent; ₱2,159 million from the monetary authorities and ₱8,478.1 million from deposit money banks mostly in the form of loans. On the other hand, although public sector credits accounted for only 18 per cent, its growth rate was comparatively higher at 37 per cent. The aggregate growth in this sector's credit was primarily influenced by the rise in National Government loans from the Central Bank and deposit money banks.

Classified by institutional source, credit operations of deposit money banks remained substantial accounting for 60 per cent of the increment in the monetary system's total credits.

Central Bank

Outstanding credits of the Central Bank expanded by 64.7 per cent amounting to ₱16,309.1 million as of the year-end as compared to ₱9,904.3 million in 1980.

The contractionary impact of the build-up in National Government deposits of ₱122.0 million and the 17 per cent decline in Central Bank loans to semi-government entities was exceeded by additional loans to the National Government (₱1,043.0 million); thrift banks (₱966.0 million); specialized government banks (₱741.0 million); non-demand deposit rural banks (₱424.0 million); and non-bank financial institutions (₱28.0 million) together with the acquisition of National Government securities.

Commercial Banking System

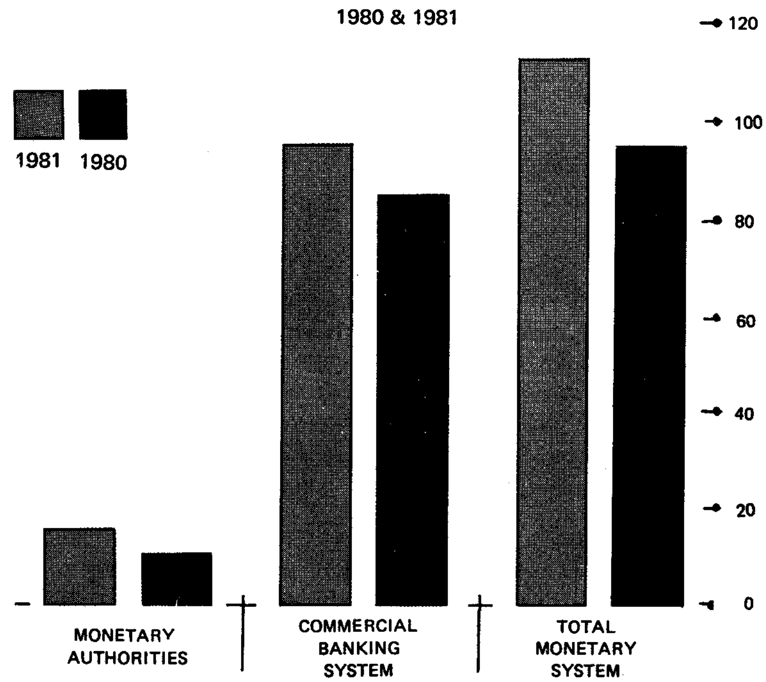
The incremental credits of deposit money banks accounted principally for the expansion in total domestic credits. Outstanding domestic credits of the system reached ₱94,800.6 million, marking a growth rate of 11.2 per cent in lending operations and acquisition of domestic securities. Additional loan accommodations to private business and individuals totalled ₱83,501.0 million, up by ₱7,096.1 million or 11 per cent. Likewise, loans to local government went up to ₱25.8 million or an increase of ₱7.0 million or 38 per cent. Meanwhile, loans to National Government and semi-government entities dropped by ₱554.0 million or 48 per cent and ₱260.0 million or 4.7 per cent, respectively.

The securities portfolio of the banking system also expanded by 12 per cent to reach ₱14,523.0 million as of end-1981.

Table 5 — DOMESTIC CREDITS OUTSTANDING OF THE MONETARY SYSTEM BY SOURCE AND END-USER
December 31, 1980 and 1981
(Million Pesos)

			Changes	
BY SOURCE	1981	1980	Amount	Per Cent
Monetary Authorities	16,309.1	9,904.3	6,404.8	64.7
Loans and Advances	11,613.1	8,507.0	3,106.1	36.5
Domestic Securities	7,156.1	3,735.7	3,420.4	91.6
Less: Government Deposits	2,460.1	2,338.4	121.7	5.2
Commercial Banking System	94,800.6	85,224.0	9,576.6	11.2
Loans and Advances	90,044.9	82,516.4	7,528.5	9.1
Domestic Securities	9,256.7	6,840.5	2,416.2	35.3
Less: Government Deposits	4,501.0	4,132.9	368.1	8.9
TOTAL	111,109.7	95,128.3	15,981.4	16.8
BY END - USER				
Public	19,916.6	14,572.3	5,344.3	36.7
Private	91,193.1	80,556.0	10,637.1	13.2

CHART 4 — DOMESTIC CREDITS OUTSTANDING OF THE MONETARY SYSTEM
1980 & 1981



Notwithstanding the expansion in the credit portfolio of the commercial banking system, National Government deposit balances of deposit money banks increased by ₱368 million or 8.9 per cent.

Distribution of Commercial Bank Loans — The distribution of commercial bank loans generally followed the same pattern as in 1980 except for shifts from construction to real estate and from financing, insurance and business services to mining and quarrying. As of end-September 1981, outstanding loans of commercial banks reached ₱77,800 million reflecting an upturn of 5.7 per cent or ₱4,163.6 million from the previous year's level of ₱73,636.4 million.

The bulk of incremental credits was channelled mostly to manufacturing (₱1,568.8 million); trade (₱1,455.0 million) and real estate (₱1,293.8 million) sectors. The total loan transactions of these industry groups amounted to more than half of total outstanding loans during the period under review. Construction, mining and quarrying, transport storage and communication, community, social and personal services posted net availments of ₱961.0 million; ₱232.1 million; ₱228.1 million and ₱182.5 million, respectively. On the other hand, agriculture, fishery and forestry and financing, insurance and business services combined, registered a downturn of ₱1,830.8 million. Allocated credits for the electrical, gas and water industry showed the smallest increase amounting only to ₱73.1 million as of end-September 1981.

Table 6 — LOANS OUTSTANDING OF COMMERCIAL BANKS BY INDUSTRY
September 30, 1980 and 1981
(Million Pesos)

	1981	1980	Changes: Amount	Changes: Per Cent	Per Cent Distribution: 1981	Per Cent Distribution: 1980
TOTAL	77,800.0	73,636.4	4,163.6	5.7	100.0	100.0
Agri., Fishery & Forestry	10,300.8	11,098.7	– 797.9	–7.2	13.2	15.1
Mining & Quarrying	6,643.3	6,411.2	232.1	3.6	8.5	8.7
Manufacturing	27,482.0	25,913.2	–1,568.8	6.0	35.3	35.2
Elect., Gas & Water	840.7	767.6	73.1	9.5	1.1	1.1
Construction	3,282.2	2,321.2	961.0	41.4	4.2	3.2
Trade	12,924.3	11,469.3	1,455.0	12.7	16.6	15.6
Transport, Storage, & Communication	2,369.3	2,141.2	228.1	10.7	3.1	2.9
Financing, Insurance & Business Service	6,528.0	7,560.9	-1,032.9	-13.7	8.4	10.3
Real Estate	3,566.4	2,272.6	1,293.8	56.9	4.6	3.1
Community, Social & Personal Services	3,863.0	3,680.5	182.5	5.0	5.0	5.0

1/ Excluding past due items, items in litigation, domestic and foreign bills-clean.

Credit Operations of Other Banking Institutions

Rural Banks

The loan-to-deposit and borrowings ratio of rural banks dropped slightly from 103.7 per cent last year to 103.0 per cent as of end-September 1981. This was indicative of the moderation in regional economic activities especially with the downturn in export prices of major traditional exports.

From ₱4,644.2 million, outstanding loans expanded by 14.3 per cent to ₱5,309.5 million. Agricultural loans which rose by 14.1 per cent, comprised 89.2 per cent of total for the financing of agricultural crops (particularly rice, coconut and sugar) and non-crops (mainly poultry and livestock). Significantly lower balances were accounted for by commercial, industrial and other loan allocations. Supervised credits comprised substantially of agricultural credits (Masagana 99, Masaganang Maisan, cotton) made up 49.6 per cent of total, and the balance by nonsupervised credits where other loan purposes were concentrated.

By region, loans of rural banks were mainly allocated to Southern Tagalog, Central Luzon, Ilocos and Mountain Province. Loans granted were lower in the regions of Eastern and Central Visayas and Western Mindanao.

Table 7 – LOANS OUTSTANDING OF RURAL BANKS BY PURPOSE
September 30, 1980 and 1981
(Million Pesos)

	Amount		Per Cent Distribution	
	1981	1980	1981	1980
TOTAL	5,309.5	4,644.2	100.0	100.0
Agricultural	4,737.3	4,152.4	89.2	89.4
Commercial	258.7	227.5	4.9	4.9
Industrial	137.7	116.3	2.6	2.5
Others	175.8	148.0	3.3	3.2

Thrift Banks

Even with the rising competition posed by the entry of expanded commercial banks, thrift banks maintained their 3 per cent share of total resources of the financial system and expanded their loan operations.

Aggregate outstanding loans increased to ₱6,911.6 million as of end-November 1981 by 15.2 per cent although lower than the growth of 22.7 per cent in 1980. This was due mainly to the conversion in March 1981 of Family Savings Bank into a commercial bank. Of total loans, savings and mortgage banks contributed 62.8 per cent, private development banks, 18.7 per cent, and stock savings and loan associations, 18.5 per cent.

Classified by purpose, loans of thrift banks were concentrated in real estate, agriculture and commercial uses. Declines were noted in loans for agriculture, real estate and consumption purposes.

Savings banks principally lent to the real estate sector, private developement banks to agriculture and industry, and stock savings and loan associations, to agriculture and commerce.

Table 8 – LOANS OUTSTANDING OF THRIFT BANKS BY PURPOSE
November 30, 1980 and 1981
(Million Pesos)

	Amount		Per Cent Distribution	
	1981	1980	1981	1980
TOTAL	6,911.6	6,001.0	100.0	100.0
Agriculture	1,065.6	1,152.1	15.4	19.2
Commercial	903.0	424.7	13.1	7.1
Industrial	552.9	418.3	8.0	7.0
Real Estate	2,112.5	2,341.3	30.6	39.0
Consumption	271.9	667.7	3.9	11.1
Others	2,005.7	996.9	29.0	16.6

Note: Includes Family Savings Bank in 1980.

Specialized Government Banks

With a share of 10 per cent of total financial resources, specialized government banks (Development Bank of the Philippines, Land Bank of the Philippines and Philippine Amanah Bank) stepped up their outstanding loans by 23.5 per cent to ₱23,600.1 million as of end-September 1981. This amount made up about 80.3 per cent of gross deposits and bills payable of government banks.

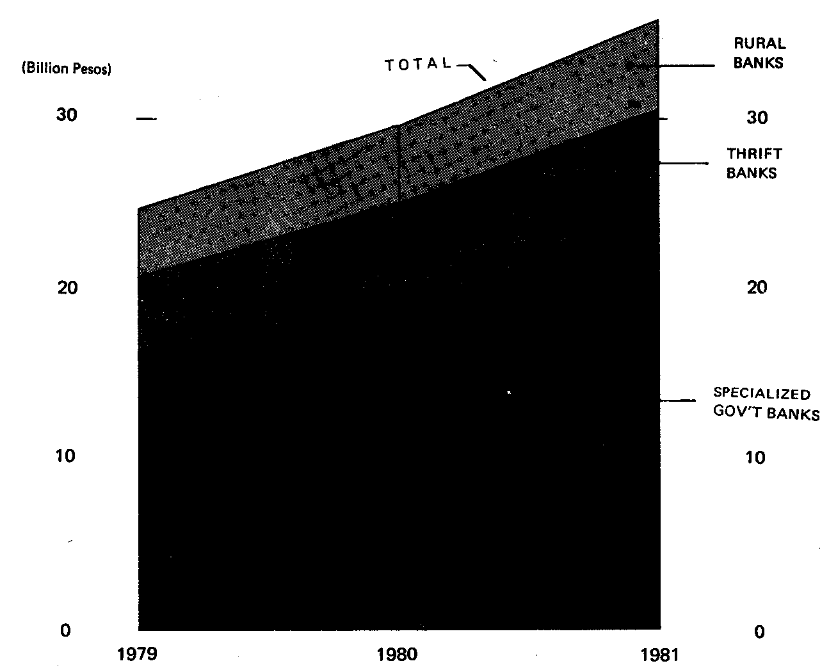
Industrial loans comprised two-fifths of total contributed mainly by the

Table 9 – LOANS OUTSTANDING OF SPECIALIZED GOVERNMENT BANKS BY PURPOSE
September 30, 1980 and 1981
(Million Pesos)

	Amount		Per Cent Distribution	
	1981	1980	1981	1980
TOTAL	23,600.1	19,110.6	100.0	100.0
Agricultural	4,694.4	4,010.9	19.9	21.0
Commercial	1,225.1	608.6	5.2	3.2
Industrial	9,591.0	6,539.9	40.6	34.2
Real Estate	3,931.7	3,257.3	16.7	17.0
Consumption	382.4	341.4	1.6	1.8
Others	3,775.5	4,352.5	16.0	22.8

Development Bank of the Philippines. Large-scale industrial lendings to exports and energy development projects as well as the rehabilitation of vital industries were made along with the grant of loans to medium-and small-scale industries for countryside development. Loans for agricultural, real estate, consumption, and other purposes likewise expanded but to lower proportions of total. Commercial loans expanded from a proportion of 3.2 per cent to 5.2 per cent.

CHART 5 – LOANS OUTSTANDING OF OTHER BANKING INSTITUTIONS



Credit Operations of Non-Bank Financial Institutions – Non-bank financial institutions (which shared about one-fifth of total resources* of the financial system) continued to expand their role in the credit-allocation process as outstanding loans grew at an accelerated rate of 29.1 per cent to ₱15,636.8 million as of September 30, 1981 from 17.1 per cent in 1980. Government non-banks made up of the Government Service Insurance System, Social Security System, National Investment Development Corporation and the Agricultural Credit Administration shared 90 per cent and the balance by selected private investment houses and non-bank thrift institutions.

Loans of government non-banks rose by 31.2 per cent to ₱14.141 million of which real estate and consumption loans made up about half of total. Industrial

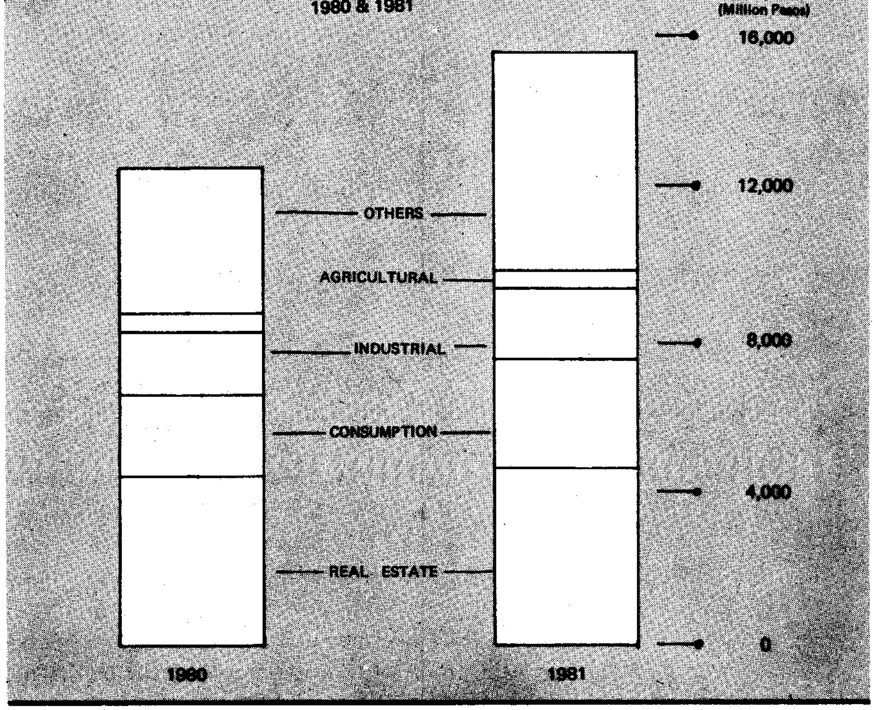
*As of end-September 1981.

Table 10 — LOANS OUTSTANDING OF NON-BANK FINANCIAL INSTITUTIONS, BY PURPOSE
September 30, 1980 and 1981
(Million Pesos)

	Amount		Per Cent Distribution	
	1981	1980 a/	1981	1980 a/
TOTAL	15,636.8	12,115.1	100.0	100.0
Agricultural	411.5	423.6	2.6	3.5
Industrial	1,875.4	1,592.5	12.0	13.1
Commercial	10.1	17.9	0.1	0.1
Public Utility	442.8	382.2	2.9	3.2
Real Estate	4,556.9	4,242.9	29.1	35.0
Consumption	2,813.6	2,285.9	18.0	18.9
Others	5,526.5	3,170.1	35.3	26.2

a/ Adjusted to exclude one investment house which was converted to a savings bank.

CHART 8 – LOANS OUTSTANDING OF NON-BANK FINANCIAL INSTITUTIONS
1980 & 1981



loans held a share of 6 per cent and reflected a high growth rate of 26.5 per cent, followed by consumption and public utility loans. Credits to the agricultural sector, however, declined by 2 per cent, a reflection of the sector's weak performance.

Private nonbanks similarly increased their outstanding loans to ₱1,495.8 million but at a decelerated growth rate of 9.9 per cent. This could be ascribed to the financial crisis in early 1981 which led to shifts of funds from private nonbanks to the banking system. Loans for industrial purposes continued to account for a major proportion or 66 per cent. Accounting for lower shares, loans for consumption and public utility purposes likewise increased. Declines were reflected in the case of credits for agricultural, commercial and real estate that made up 9 per cent of total.

On the aggregate, outstanding loans of public and private nonbanks expanded. However, the generally slack demand for credit and the cautious lending policies of the financial intermediaries led to lower percentage shares of each loan purpose, particularly in the case of real estate.

Capital and Money Markets

Capital Investments — During the year, 59,275 new business organizations infused ₱4,277 million in capital funds or down by 13.8 per cent from the previous year's ₱4,960 million. The decline in capital invested may be attributed to the dampening effects of world recession and inflation and slowdown in economic activity. Single proprietorships, which accounted for 91 per cent of the total number of firms, contributed about ₱2,734 million. Corporate investors put in an additional ₱3,491 million while partnerships accounted for investments of ₱110 million. Only that of partnerships showed an improvement with an increment of 5.8 per cent from ₱104 million in the year earlier.

Despite the significant decline of 14.2 per cent in capital investments, Filipinos continued to be the primary investors contributing ₱4,154 million total paid-in capital, registering 97 per cent share of total investments.

Table 11 — CAPITAL INVESTMENTS OF NEWLY-REGISTERED BUSINESS ORGANIZATIONS BY INDUSTRY 1980 and 1981
(Million Pesos)

			Changes	
	1981	**1980**	**Amount**	**Per Cent**
TOTAL	4,277	4,960	(683)	(13.8)
Agri., fishing and forestry	277	185	92	49.7
Mining and quarrying	43	162	(119)	(73.5)
Manufacturing	742	815	(73)	(9.0)
Construction	443	388	55	(14.2)
Electricity, gas & water services	3	19	(16)	(84.2)
Wholesale & retail trade	1,581	1,770	(189)	(10.7)
Financing, insurance & real estate	787	1,100	(313)	(28.4)
Transportation	191	192	(1)	(0.5)
Community, social & personal	210	329	(119)	(36.2)

The American share increased from 0.1 per cent to 0.4 per cent. In terms of absolute amount invested, Americans put up an additional ₱15 million which was ₱8 million higher than that invested a year ago, an indication of continued confidence in the profitability of business in the Philippines. The Chinese, Japanese and other nationalities combined invested ₱108 million.

The new paid-in capital contributions were funneled mostly to the wholesale and retail trade, financing, insurance and real estate and the manufacturing industries. The most notable registered increase however were the 49.7 per cent growth in agriculture, fishery, forestry and the 14.2 per cent in construction.

Stock Market — In 1981 the stock market saw its worst slump in 24 years. The depressed state of the exchanges was particularly noticeable in terms of value turnover: combined peso turnover at the Manila Stock Exchange plunged to ₱608 million, marking a 70.5 per cent drop from the previous year's ₱2,064 million. Share turnover likewise suffered a sharp decline as it went down to 19,677 million or 50.8 per cent below the 39,965 million shares traded in 1980.

Factors such as the low peso-dollar exchange rate, the worldwide recession, the series of financial scandals and the reimposition of the 10% tax on capital gains from sales of stock at the start of the year were among the reasons cited for the year's lacklustre performance.

By Sector, commercial-industrial issues traded, which accounted for a minimal 0.3 per cent of the total market, reached 53.6 million shares for ₱156.5 million, a 70.9 per cent dive from the preceding year's ₱537 million from 466.8 million shares.

The mining sector, with a 43.7 per cent share of the market, transacted 8,606.8 million shares or ₱305.7 million, a 71.8 per cent decrease from last

Table 12 — STOCK MARKET TRANSACTIONS IN MANILA 1980 and 1981

	1981	1980	Changes Amount	Changes Per Cent
VOLUME (Million shares)	19,677.3	39,965.0	(20,287.7)	(50.8)
Commercial and Industrial	53.6	466.8	(413.2)	(88.5)
Mining	8,606.8	21,298.6	(12,691.8)	(59.6)
Oil	11,016.9	18,199.6	(7,182.7)	(39.5)
VALUE (Million Pesos)	607.8	2,064.0	(1,456.2)	(70.5)
Commercial and Industrial	156.5	537.0	(380.5)	(70.9)
Mining	305.7	1,085.0	(779.3)	(71.8)
Oil	145.6	442.0	(296.4)	(67.1)

year's ₱1,085 million, accounting for 21,298.6 million shares. Low metal prices and the continuing decline of the mining companies' profits due to increased labor and energy costs contributed to depressed trading in the mining sector.

Meanwhile, the oil sector, which had a 56 per cent share of the market exchanged 11,016.9 million shares totalling to ₱145.6 million, 67.1 per cent below the previous year's ₱442 million from 18,199.6 million shares. Oil shares drew little interest because of the lack of encouraging news from the drilling front.

The combination of all these negative factors pulled down the stock price index in Manila from 66.1 to 54.1 (1965 = 100).

Money Market – Borrowings from the funds market were more expensive in 1981 and averaged 15.601 per cent, higher by 2.335 basis points, compared to 1980. Demand for funds was heavy despite generally slower business activity. Tightness in the market was felt following the dislocations caused by a financial scandal in the early part of the year. However, timely action on the part of the monetary authorities brought back public confidence in the system thus resulting to a favorable volume turnover of money market transactions toward the end of the year. Total money market transactions in 1981 stood at ₱329,621 million, marking an increment of ₱25,881 million or 8.5 per cent from last year's turnover of ₱303,740 million.

Table 13 – MONEY MARKET TRANSACTIONS BY INSTRUMENT
1980 and 1981
(Volume in Million Pesos)

	1981		1980	
	Volume	WAIR Per Cent	Volume	WAIR Per Cent
TOTAL	329,621.0	15.601	303,739.9	13.266
Interbank Call Loans	66,969.3	14.930	50,509.3	11.870
Promissory Notes	189,531.8	15.782	144,463.2	12.204
Repurchase Agreements (Private)	20,610.7	15.682	60,369.7	15.490
Repurchase Agreements (Gov't.)	27,207.3	15.756	35,290.3	14.988
Certificates of Assignment (Private)	230.2	16.807	1,065.2	16.123
Certificates of Assignment (Gov t.)	–	–	–	–
Certificates of Participation (Private)	255.8	15.929	895.3	15.762
Certificates of Participation (Gov't)	–	–	–	–
Commercial Papers (Non-financial)	20,467.1	16.478	8,575.9	16.059
Commercial Papers (Financial)	3,458.7	18.127	1,889.9	17.413
CBCIs	674.3	13.155	478.5	11.901
Treasury Bills	64.5	12.355	147.4	13.099
DBP Bonds	105.0	13.557	39.4	13.162
Other Government Securities	45.8	11.674	15.7	9.338

According to instrument, weighted average interest rate of all money market instruments except treasury bills and certificates of participation (private) registered increases ranging from .204 basis points for repurchase agreement – private instruments to 3.578 basis points for promissory notes. Quotes on promissory notes shot up to 15.782 per cent as compared with 12.204 per cent average in 1980. Weighted averaged interest rate on repurchase agreements (private) reached 15.682 per cent as against 15.478 the year earlier. Rates on certificates of assignment – private, averaged 16.807 per cent, up by .491 basis points. Quotes on commercial papers, financial and non-financial, registered increments of .714 and .419 basis points, respectively. Similarly, a sharp rise in the average interbank call loan rate was noted, stretching to 14.930 per cent, up by 3.06 basis points. The relatively high rate came about as available reserves of the commercial banking system fell below the required minimum. Trading rates on CBCIs, DBP bonds and other government securities also went up.

The bulk of investmens during the year went to promissory notes fetching 57.8 per cent (₱189,532 million) of total transactions. This was followed by interbank call loans representing 20.3 per cent (₱66,969 million) of the aggregate value. Repurchase agreements – government and private instruments taken together–notched ₱47,819 million while commercial papers, non-financial and financial, chalked up ₱23,926 million. The remaining instruments combined, received ₱1,375 million.

Share pattern of money market trading by institution during the period under review showed a similar trend to that of the previous year with commercial banks accounting for the bulk at 69.7 per cent of total transactions while investment houses took 15.0 per cent and financing companies, 11.9 per cent.

Public Finance

Cash Operation of the National Government – The adoption of countercyclical and other stabilization policies during the year to maintain aggregate demand in the face of a decline in private investment and activity brought about certain changes in the fiscal position of the government in 1981.

Cash operations during 1981 reflected a much larger budgetary gap than that obtaining in the preceding period. Compared to a ₱1.1 billion deficit in 1980, cash transactions of the National Government during the year resulted in a larger estimated deficit of ₱8.7 billion. Government expenditures increased by 24 per cent on account of increments in government spending to assist in the rehabilitation of distressed industries, the accelerated implementation of the infrastructure program and increases in other government expenditures for the KKK program and housing industry. Another contributory factor was the settlement of outstanding payables particularly accrued interest during the year. Meanwhile, revenue performance weakened as a result of the decline in receipts from taxes in international trade and the slower-than-expected pace of economic activity.

Table 14 – CASH OPERATIONS OF THE NATIONAL GOVERNMENT

1980 and 1981

(Million Pesos)

	1981p/	1980
RECEIPTS	49,665.0	45,816.2
DISBURSEMENTS	58,390.8	46,911.0
Operating	23,096.4	27,107.0
Capital	16,010.1	7,365.9
Interest Payments	2,082.9	1,894.7
Others	17,201.4	10,543.4
SURPLUS/(DEFICIT)	(8,725.8)	(1,094.8)
NET FINANCIAL TRANSACTIONS	12,043.3	2,588.2
Debt Redemption	7,836.9	14,688.5
Borrowing	19,880.2	17,276.7
Foreign	6,663.3	3,424.3
Domestic	13,216.9	13,852.4
Treasury Bills	4,390.3	8,854.6
Treasury Notes	1,443.4	311.4
Treasury Bonds	1,724.1	2,306.5
Other Government Securities	359.1	839.7
Loans	5,300.0	1,540.2
NET CASH TRANSACTIONS	3,317.5	1,493.4
STATUS OF CASH BALANCE		
Beginning, January 1	14,050.6	12,557.2
Ending, December 31	17,368.1	14,050.6
Change in Status	3,317.5	1,493.4

The deficit in the current year was financed largely by credits from the banking system, net foreign borrowings and domestic nonbank borrowings. About 60 per cent of government borrowings from the domestic sector was in the form of bonds and the balance, direct loans.

At the end of 1981, the cash position of the Treasury rose by ₱3.3 billion as net financing transactions exceeded the cash deficit during the period. The government continued to maintain the major portion of its cash balance with non-monetary financial institutions.

Internal Public Debt – The large budgetary deficit incurred by the National Government during 1981 led to additional borrowings from domestic sources. As of December 31, 1981, total domestic debt outstanding of the government sector reached ₱49,388.8 million[e], representing an annual increase of ₱8,157.2 million or by 20 per cent. Accounting for this growth were increases in outstanding domestic obligations of the National Government which grew by ₱6,781.5 million to a total of ₱28,657.0 million and government corporations whose outstanding obligations expanded by ₱1,677.9 million to the level of ₱6,656.4 million.

On the other hand, outstanding obligations of the Central Bank on its certificates of indebtedness declined following its policy to phase out the use of CBCIs as instruments of open market operations in favor of Treasury issues.

External Public Debt – Gross public external debt during the period under review expanded by 28 per cent basically to sustain the financing of infrastructure projects and to refinance maturing external obligations. The bulk or 38 per cent of these borrowings was availed of by government corporations largely for the purchase of equipment and other capital projects. Borrowings of the National Government and the Central Bank both amounted to 62 per cent of total borrowings.

Outstanding loan availments of government corporations from foreign sources which represented foreign credits availed of mostly by the NPC and DBP expanded by 16 per cent and amounted to $4,190 million. Gross foreign borrowings of the Central Bank and the National Government reached $3,461 million and $3,288 million, respectively. As in the preceding year, the major portion of these credits came from foreign commercial banks and from various international financial organizations.

Table 15 – PUBLIC DEBT OUTSTANDING
December 31, 1980 and 1981
(Million Pesos)

	1981	1980
INTERNAL DEBT (PESOS)	49,338.8	41,181.6
National Government	28,657.1	21,875.5
Local Governments	355.9	335.9
Government Corporations	6,656.4	4,978.5
Guaranteed	4,561.0	3,753.9
Non-Guaranteed	2,095.4	1,224.6
Monetary Institutions	13,689.4	13,991.7
	NOV. 1981	DEC. 1980
EXTERNAL DEBT (PESOS)	88,629	64,694
EXTERNAL DEBT (U.S.$)	10,941	8,519
National Government	3,288	2,305
Local Governments	2	–
Government Corporations	4,190	3,612
Monetary Institutions	3,461	2,602

In terms of real gross domestic product, the economy showed a modest growth rate of 4.8 per cent rising in absolute terms to ₱97,256 million in 1981. This growth indicated to some extent the economy's strength even as the year was marked by economic difficulties following the extended recession in the world business market, slackened investments, and unfavorable weather conditions.

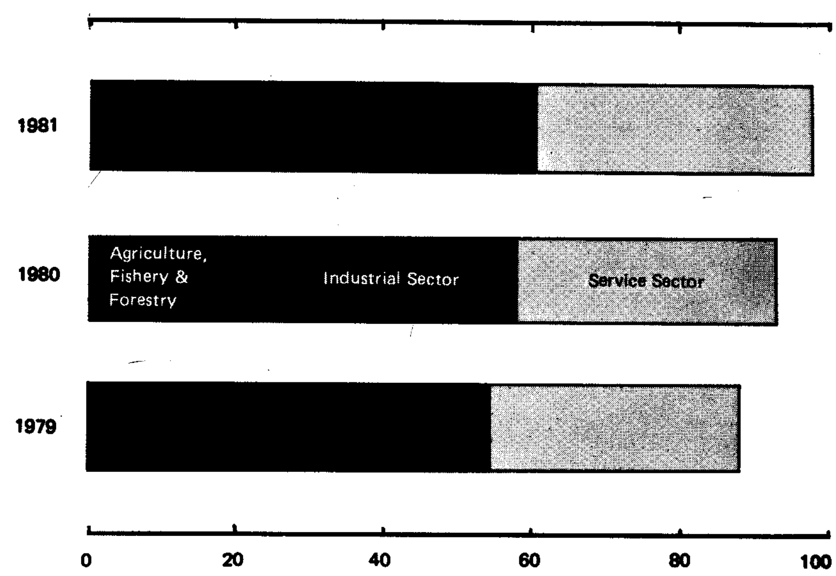
During the year, real value added in the agricultural sector including fishery and forestry improved by 4.3 per cent, slightly off from the 4.9 per cent growth in 1980. Significant gains were noted in the poulty, fishery and forestry

Table 16 – GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
1979 to 1981
(In Million Pesos at Constant 1972 Prices)

	1979[r]	1980[p]	1981[e]	Per Cent Changes 1980	Per Cent Changes 1981
AGRICULTURE, FISHERY AND FORESTRY	22,595	23,695	24,722	4.9	4.3
INDUSTRIAL SECTOR	31,741	33,848	35,579	6.6	5.1
Mining and Quarrying	2,134	2,236	2,275	4.8	1.7
Manufacturing	22,420	23,739	24,958	5.9	5.1
Construction	6,338	6,952	7,353	9.7	5.8
Electricity, gas and water	849	921	993	8.5	7.8
SERVICE SECTOR	33,408	35,249	36,955	5.5	4.8
Transport, communication and storage	4,613	4,827	5,025	4.6	4.1
Commerce	18,085	19,086	20,040	5.5	5.0
Services	10,710	11,336	11,890	5.8	4.9
GROSS DOMESTIC PRODUCT at market price	87,744	92,792	97,256	5.8	4.8

SOURCE: NEDA

CHART 7 – GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
1979 – 1981



groups. Output of the principal sub-sector of farm crops, meanwhile slackened slightly due to weather disturbances.

On the other hand, the industrial sector, representing more than a third of total GDP exhibited the highest growth of 5.1 per cent. Output slowdown was felt in all the industry groups as recession continued and investments decreased during the year. Manufacturing which accounted for about 70 per cent of this sectoral output-likewise showed a decelerated growth of 5.1 per cent while mining and quarrying improved by 1.7 per cent due to the sharp dip of most metal prices in the world market. Meanwhile, the construction industry was marked by accelerated growth in government infrastructure while a slower pace in private building activity posted a smaller expansion of 5.8 per cent in 1981. Electricity-gas-water which grew by 7.8 per cent provided added impetus to total industrial production.

Production

Agriculture-Fishery-Forestry – The gross value added contribution of agriculture-fishery-forestry at 1972 prices reached ₱24,722 million in 1981, up by 4.3 per cent or ₱1.0 billion above the 1980 level. Significant gains were noted in the poultry-fishery and forestry groups. However, the slackened growth of farm crop production and the continued slump in the livestock industry contributed to the slowdown in the agricultural sector as compared to the 4.9 per cent gain obtained a year ago.

Typhoon and drought-stricken output of farm crops, contributing more than half of real gross value added in the agricultural sector, grew at a decelerated rate of 4.7 per cent to P15,677 million due mainly to lean harvest of palay and banana. Real output from palay increased by only 1.9 per cent – barely a third of the 5.6 per cent gain in 1980 partly due to losses resulting from a strong typhoon in Luzon. On the other hand, corn production improved by a higher rate or 2.2 per cent in response to high domestic demand for feedgrains.

Coconut including copra maintained its value added gain of 3.4 per cent in 1980 notwithstanding depressed world market prices. On the other hand, sugar

Table 17 – GROSS VALUE ADDED IN AGRICULTURE, FISHERY AND FORESTRY BY INDUSTRY
1979-1981
(In Million Pesos at Constant 1972 Prices)

	1979[r]	1980[p]	1981[e]	Per Cent Changes 1980	Per Cent Changes 1981
AGRICULTURAL CROPS	14,149	14,975	15,677	5.8	4.7
Palay	3,948	4,169	4,249	5.6	1.9
Corn	1,423	1,426	1,457	0.2	2.2
Coconut including copra	1,270	1,313	1,358	3.4	3.4
Sugar cane	1,366	1,322	1,371	-3.2	3.7
Banana	2,183	2,402	2,379	10.0	-1.0
Other crops	3,959	4,343	4,864	9.7	12.0
LIVESTOCK	1,957	1,837	1,673	6.1	8.9
POULTRY	1,387	1,633	1,866	17.7	14.3
FISHERY	3,667	3,864	4,088	5.4	5.8
FORESTRY	1,435	1,386	1,418	-3.4	2.3
GROSS VALUE ADDED IN AGRICULTURE, FISHERY AND FORESTRY	22,595	23,695	24,722	4.9	4.3

SOURCE: NEDA

cane reversed its downtrend in 1980 and pulled up by 3.7 per cent in 1981 owing to a marked improvement in export prices for its end products.

Other crops consisting of vegetables, fruits, rootcrops, coffee, cacao, cotton, etc. contributed largely to real output increasing by 12 per cent to ₱4,864 million; among the leading growth sources were pineapple, coffee and cotton. Meanwhile, banana suffered a 1 per cent shortfall with export earnings dropping by 4.2 per cent.

In 1981, livestock further slumped by 8.9 per cent with production hampered by the short supply of feedgrains. On the other hand, poultry sustained a double digit growth of 14.3 per cent to ₱1,866 million in real terms.

During the same period, fishery accelerated its output by 5.8 per cent to ₱4,088 million accruing largely from the improvement of 16 per cent in export earnings with fish and crustaceans as lead earners. Real income from forestry recovery increased by 2.3 per cent in contrast to the 3.4 per cent loss a year ago. The recovery was attributed mainly to the authorized extension of log exports covering the 1980 period export quota to take advantage of the relatively improved prices abroad towards the end of 1981.

Industrial Sector

Mining and Quarrying — Gross value added at 1972 prices in mining and quarrying amounted to ₱2,275 million in 1981 or a modest increase of 1.7 per cent from the previous year level. The slack in base metal production attributed to world recessionary pressures and weak metal prices particularly for copper influenced the over-all slowdown in the sector during the period as compared to the 4.8 per cent growth obtained in 1980.

In 1981, real output of copper mining improved slightly by 0.3 per cent to ₱1,497 million, a minimal expansion compared to the 2.1 per cent registered a year ago. The volume of production barely increased while shipments abroad declined following a 13.1 per cent fall in export prices. Nonetheless, copper ranked as the fourth dollar earner contributing more than half of the real income of the mining industry in 1981.

Despite the levelling-off in prices of gold in1981 from the mid-year average of $493 per ounce, value added of this precious metal reached ₱140 million during the period or an increase of 17.6 per cent from the 1980 level due largely to extraction of higher grade ore; this was, however, short of the 20.2 per cent gain obtained in 1980.

The value added from chromium ore mining amounted to ₱37 million in 1981, nearly 12 per cent less than that of 1980. This was attributed to continued production restraints such as due to high operation costs and the mining of lower grade ores resulting in poor mill recovery. Low market prices affected nickel mining in 1981 which suffered a 5.7 per cent loss in value added

Table 18 – GROSS VALUE ADDED IN MINING AND QUARRYING BY INDUSTRY 1979-1981
(In Million Pesos at Constant 1972 Prices)

	1979r	1980p	1981a	Per Cent Changes 1980	1981
Copper mining	1,463	1,493	1,497	2.1	0.3
Gold mining	99	119	140	20.2	17.6
Chromium ore mining	47	42	37	–10.6	–11.9
Nickel mining	59	88	83	49.2	–5.7
Other metal mining 1/	235	204	138	–13.2	–32.4
Stone quarrying, clay and sand pits 2/	167	216	278	29.3	28.7
Other non-metallic mining and quarrying 3/	64	74	103	15.6	37.8
GROSS VALUE ADDED IN MINING AND QUARRYING	2,134	2,236	2,275	4.8	1.7

1/ Includes manganese ore, quicksilver, lead, zinc, pyrite cinders, silver, molybdenum, cobalt, and iron ore mining.
2/ Includes gravel and sand, adobe, marble, feldspar, dolomite silica, limestone mining and quarrying, and clay pits.
3/ Includes coal, salt, pyrite, guano, gypsum, asbestos, talc, tuff, sulphur mining and quarrying.

SOURCE: NEDA

after the marked gain of nearly 50 per cent a year ago. Other metal mining notably cobalt, lead, zinc and manganese showed a further downtrend of 32.4 per cent during the period.

Non-metallic products, comprising more than 15 per cent of total value added in the mineral industry during 1981 recorded the highest growth rates during the period. Stone quarrying, clay and sand pits contributing to ₱278 million maintained its two-digit expansion of 28.7 per cent accruing largely from sand, gravel and silica. Other non-metallic mining performed even better with an accelerated increase of 37.8 per cent and this was traceable largely to coal production under the boost of the coal conversion program.

Manufacturing – At constant 1972 prices, gross value added in manufacturing rose to ₱24,958 million in 1981 notwithstanding the effects of global recession, inflationary pressures and adjustments in interest rates and oil prices. Contribu-

Table 19 -- GROSS VALUE ADDED IN MANUFACTURING BY INDUSTRY 1979-1981
(In Million Pesos at Constant 1972 Prices)

	1979[r]	1980[p]	1981[e]	Per Cent Changes 1980	1981
Food	7,870	8,427	8,831	7.1	5.4
Beverage	707	732	771	3.5	5.3
Tobacco	872	881	889	1.0	0.9
Textile	1,228	1,257	1,291	2.4	2.7
Footwear, Wearing Apparel	942	1,019	1,142	0.2	12.1
Wood and Cork Products	686	665	690	(3.1)	3.8
Furniture and Fixtures	167	192	203	15.0	5.7
Paper and Paper Products	202	200	202	(1.0)	1.0
Publishing and Printing	301	324	347	7.6	7.1
Leather and Leather Products	48	51	54	6.3	5.9
Rubber Products	321	337	354	5.0	5.0
Chemicals and Chemical Products	2,528	2,733	2,911	8.1	6.5
Products of Petroleum and Coal	1,363	1,355	1,297	(.6)	(4.3)
Non-Metallic Mineral Products	535	586	612	9.5	4.4
Basic Metal Industries	865	905	928	4.6	2.5
Metal Products	1,040	1,074	1,095	3.3	2.0
Machinery except Electrical	670	742	781	10.7	5.3
Electrical Machinery	947	1,109	1,292	17.1	16.5
Transport Equipment	898	885	909	(1.4)	2.7
Miscellaneous	230	265	306	15.2	15.5
GROSS VALUE ADDED IN MANUFACTURING	22,420	23,739	24,903	5.9	5.1

SOURCE: NEDA

ting the bulk of real output in the industrial sector, manufacturing improved by 5.1 per cent with significant gains registered by export-oriented industries, under the footwear-wearing apparel, and electrical machinery groups. This was, however, short of the 5.9 per cent growth obtained in 1980 as real output slowed down for a number of industries producing basically for domestic consumption like food which accounts for nearly a third of value added in manufacturing.

Among the growth industries in 1981, apart from electrical machinery and footwear-wearing apparel which posted increments of 16.5 per cent and 12.1 per cent, respectively, were miscellaneous manufactures (15.5 per cent), beverages (5.3 per cent), textile (2.7 per cent) which improved on their previous year's gains. In addition, transport equipment, wood and paper products more than recovered from the downtrend observed for these industries in 1980. The improved performance of these subsectors in 1981 was partly attributed to the continued support of government and its sustained efforts in export promotion particularly for non-traditional exports through liberalization of credit to small and medium-scale industries.

Moderating these gains were the shortfall in petroleum products and coal and observed slack in some industries, specifically, food and chemicals, the two leading industry groups in the manufacturing sector. Petroleum products and coal suffered real losses of 4.3 per cent reflecting cutbacks in output due to high inventory levels of petroleum products.

Construction —Real value added in construction rose from ₱6,952 million in 1980 to ₱7,353 million in 1981, posting a growth of 5.8 per cent against the previous year's 9.7 per cent.

Government construction picked up at a higher rate of 6.4 per cent to ₱3,121 million accruingly largely from power and waterworks projects. On the other hand, ₱4,232 million or more than half of total value of the industry in 1981 was accounted for by private construction activity. This, however, slowed down during the period as high building costs dampened demand for both residential and non-residential structures. Consequently, a marked deceleration in construction growth of 5.3 per cent from 13.2 per cent in 1980 was recorded for the private sector leading to the slackened growth of the construction industry in 1981.

Table 20 — GROSS VALUE ADDED IN CONSTRUCTION
1979 — 1981
(In Million Pesos at Constant 1972 Prices)

				Per Cent Changes	
	1979r	1980p	1981e	1980	1981
Government	2,788	2,932	3,121	5.2	6.4
Private	3,550	4,020	4,232	13.2	5.3
GROSS VALUE ADDED IN CONSTRUCTION	6,338	6,952	7,353	9.7	5.8

SOURCE: NEDA

Electricity, Gas and Water – Gross value added by the electricity, gas and water group in 1981 amounted to P993 million at 1972 prices or a real gain of 7.8 per cent.

The water industry sustained its double-digit growth with an output increase of 12 per cent as a result of the continuing expansion of the waterwork system in Metro Manila. However, electricity and gas which contributed the larger share in aggregate earnings of this utility group slackened to 7.3 per cent reflecting the combined effects of the sluggish activities in the industrial sector and the various measures adopted to conserve energy.

Table 21 – GROSS VALUE ADDED IN ELECTRICITY. GAS AND WATER BY INDUSTRY
1979-1981
(In Million Pesos at Constant 1972 Prices)

				Per Cent Changes	
	1979[r]	1980[p]	1981[e]	1980	1981
Electricity and gas	751	813	872	8.3	7.3
Water	98	108	121	10.2	12.0
GROSS VALUE ADDED IN ELECTRICITY, GAS AND WATER	849	921	993	8.5	7.8

SOURCE: NEDA,

Services Sector

Transportation, Communication and Storage – In 1981, income originating from transport, communication and storage valued at 1972 prices rose to P5,025 million, or a sustained increase of more than 4 per cent over the preceding year level. The transport and storage group contributed P4,113 million or about three-fourths of the aggregate value representing a higher gain of 4.5 per cent compared to 1980. This was attributed largely to the significant improvement in land transport which more than doubled in 1981 thus offsetting the slump noted in air transport as well as in storage and related services.

On the other hand, after realizing a 10.4 per cent growth in 1980, the communication group, inclusive of mail, telephone, wire and radio, slowed down to 2.5 per cent in 1981 in the face of huge operational expenses entailed in rehabilitating and modernizing the communication system.

Table 22 – GROSS VALUE ADDED IN TRANSPORT, COMMUNICATION AND STORAGE BY INDUSTRY 1979–1981

(In Million Pesos at Constant 1972 Prices)

	1979[r]	1980[p]	1981[e]	Per Cent Changes 1980	1981
TRANSPORT AND STORAGE	3,807	3,937	4,113	3.4	4.5
Land	1,915	1,957	2,051	2.2	4.8
Water	845	853	870	0.9	2.0
Air	317	332	342	4.7	3.0
Storage and services incidental to transport	730	795	850	8.9	6.9
COMMUNICATION	806	890	912	10.4	2.5
GROSS VALUE ADDED IN TRANSPORT, COMMUNICATION AND STORAGE	4,613	4,827	5,025	4.6	4.1

SOURCE: NEDA

Commerce – Commerce contributed ₱20,040 million or more than half of real gross value added (1972 = 100) in the services sector in 1981 and showed a growth rate of 5.0 per cent compared to the previous year.

The real estate group which further improved its two-digit expansion in the previous year to 13.9 per cent led other groups in growth record. To some extent, this development was reflective of general cautiousness in the market involving less speculative ventures. Ownership of dwellings nearly doubled its increment to 4.3 per cent following the intensified housing programs of the National Government through more attractive financing schemes. Insurance picked up by 3.8 per cent notwithstanding the large claims of crop insurance after the occurrence of destructive typhoons in November.

However, lower growth rates marked the output performance of wholesale-retail trade and banks which accounted for three-fourths of total real gross value added in the commerce group. The slowdown in the private expenditure contributed to the deceleration (from 6.6 per cent to 5.3 per cent) in trade activity while the financial difficulties experienced during the early part of 1981 affected the performance of bank and similar institutions.

Table 23 — GROSS VALUE ADDED IN COMMERCE BY INDUSTRY
1979-1981
(In Million Pesos at Constant 1972 Prices)

	1979^r	1980^p	1981^e	Per Cent Changes 1980	Per Cent Changes 1981
Wholesale and retail trade	11,525	12,286	12,943	6.6	5.3
Banks	2,248	2,298	2,344	2.2	2.0
Non-banks	867	890	913	2.7	2.6
Insurance	772	797	827	3.2	3.8
Real Estate	697	792	902	13.6	13.9
Ownership of dwellings	1,976	2,023	2,111	2.4	4.3
GROSS VALUE ADDED IN COMMERCE	18,085	19,086	20,040	5.5	5.0

SOURCE: NEDA.

Services — Income from services at 1972 prices amounted to ₱11,890 million in 1981 with an absolute gain of ₱554 million from the ₱11,336 million earned in 1980. However, income growth slowed down from 5.4 per cent to 4.9 per cent.

Table 24 — GROSS VALUE ADDED IN SERVICES BY INDUSTRY
1979 - 1981
(In Million Pesos at Constant 1972 Prices)

	1979^r	1980^p	1981^e	Per Cent Changes 1980	Per Cent Changes 1981
Government	4,484	4,769	4,998	6.4	4.8
Private	6,226	6,567	6,892	5.5	4.9
Educational	747	786	827	5.2	5.2
Medical and health	923	972	1,012	5.3	4.1
Business	946	1,022	1,084	8.0	6.1
Recreational	459	477	494	3.9	3.6
Personal	730	756	801	3.6	6.0
Hotels and restaurants	1,360	1,440	1,502	5.9	4.3
Other services	1,061	1,114	1,172	0	5.2
GROSS VALUE ADDED IN SERVICES	10,710	11,336	11,890	5.8	4.9

SOURCE: NEDA.

The real gross value added generated by government services likewise slackened to 4.8 per cent due primarily to continued price escalation during the year.

Meanwhile, the increase in the legislated wages and allowances influenced a rise in the current gross value added coming from the private sector in 1981. However, the low demand for services on account of industrial slowdown and moderate tourist traffic limited real growth to 4.9 per cent.

Of the private services group, personal services nearly doubled their incremental rate to 6.0 per cent while educational and other services sustained their previous year's real gains of 5 per cent each. These performances, however, were dampened by bigger slowdowns in the rest of the subsectors including hotels and restaurants which decelerated from 6 per cent in 1980 to 4.3 per cent in 1981; business, from 8 per cent to 6.1 per cent; medical health and recreational, from 5.3 per cent to 4.1 per cent.

Employment

In 1981, the country's labor force rose to 18,573 thousand or an increase of 2.7 per cent from 1980. Of this number, 95.0 per cent or 17,644 thousand were employed leaving less than a million or 5 per cent as unemployed. With the employment situation improving by 2.6 per cent or almost twice the growth of the previous year the unemployed force showed only a 6.3 per cent gain as compared to nearly 10 per cent in 1980. Among the various programs and activities creating employment opportunities is the national livelihood program or the "Kilusang Kabuhayan at Kaunlaran" (KKK) launched in August 1981. The project is expected to generate 750,000 jobs annually and consequently reduce the annual unemployment rate to 4 per cent. Export incentives, likewise, tended to boost employment particularly in the agricultural sector.

In the same period, overseas employment, although not part of the labor force, expanded by 12.8 per cent to 240,611, turning in $550 million in foreign exchange in 1981. Protective measures instituted by Government include the administration of a welfare fund and the declaration of illegal recruitment as a crime of economic sabotage.

Table 25 — LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT

1979 — 1981

(In Thousands)

	1979[a]	1980[b]	1981[e]	Per Cent Changes 1980	1981	As Per Cent of Labor Force 1980	1981
TOTAL LABOR FORCE	17,764	18,076	18,573	1.8	2.7	100.0	100.0
Employed	16,969	17,202	17,644	1.4	2.6	95.2	95.0
Unemployed	795	874	929	9.9	6.3	4.8	5.0

a/ Average of 1st, 2nd and 4th Quarters.
b/ Average of 3rd and 4th Quarters.

SOURCE: NCSO-NEDA

One of the more significant developments in the domestic economy in 1981 was the continued slowdown in inflation. Supply stabilization measures continued to improve price levels during the year which was likewise marked by a slight weakening of local demand following the unabated recessionary pressures in the world market.

Consumer price movements in the Philippines and Metro Manila exhibited marked decelerations in annual growth from 17.6 per cent to 12.4 per cent and from 17.8 per cent to 11.8 per cent, respectively. Likewise, preliminary figures on wholesale and retail prices indicated one of the sharpest moderations since 1979.

The inflationary effect on the purchasing power of the peso (1972=100) was slight during the year as the peso slid down from .3394 in 1980 to .3020 in 1981, or a depreciation of only 11.0 per cent compared to over 15.0 per cent in 1980.

Meanwhile, the modest growth in legislated money wages of both agricultural and non-agricultural sectors compared to price escalation influenced the sluggish growth in demand in terms of lower personal consumption expenditures.

Table 26 – COMPARATIVE INFLATION RATES OF SELECTED THIRD WORLD COUNTRIES 1980 and 1981

COUNTRY	Inflation Rates 1981[1]	1980
Bangladesh	12.9	13.2
India	13.1	11.5
Indonesia	13.8	18.5
Korea	26.0	28.7
Malaysia	9.8	6.7
Pakistan	14.4	11.7
Papua New Guinea	10.0	12.1
Philippines	12.4	17.6
Singapore	7.6	8.5
Sri Lanka	18.1	26.2
Taiwan	18.6	19.0

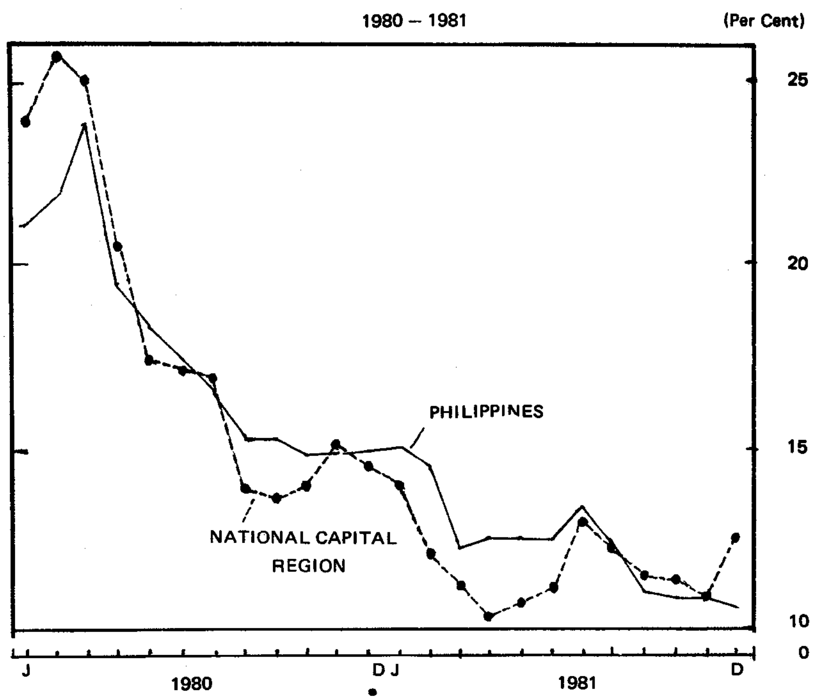
1/ January-September 1981, average, except for Philippines (whole year) and Papua New Guinea (first semester).

The continued implementation of demand management measures including selective pricing schemes and supply stabilization policies such as financial incentives to higher production and better distribution services likewise helped bring about moderate price swings in 1981. Another factor to price deceleration came from the monetary reforms adopted during the year which effected the strengthening of the financial and banking system for greater capability in generating and providing investment resources to various production activities.

Relative to other selected Third World countries, the Philippines had a fairly comparable price record in 1981.

Of the eleven countries, the Philippines was among the eight countries which recorded price slowdown and one of the three countries including Indonesia and Sri Lanka which showed the most significant improvements. India, Malaysia, and Pakistan posted continued increases in inflation rates in 1981.

CHART 8 – ANNUAL PER CENT CHANGES IN CONSUMER PRICES
1980 – 1981



Consumer Prices

Consumer price movements in Metro Manila and the Philippines as a whole showed a marked slowdown as the increase in petroleum prices and domestic demand moderated during the year.

Compared to the two substantial adjustments in fuel prices in 1980, there was only one price hike in February 1981. This led to the relative deceleration in price increases of many oil-dependent consumer goods and services although the ceiling prices on socialized items such as pork cuts, canned milk and chicken were subsequently revised upward.

As a result, CPI Metro Manila recorded a climb from 284.1 index points in 1980 to 317.7 index points in 1981 or a growth rate of 11.8 per cent from the prior year's 17.8 per cent. Both food and non-food prices moderated to 12.1 per cent and 11.1 per cent, respectively.

Of the food, beverages and tobacco group, only tobacco experienced an uptrend from 10.9 per cent to 15.5 per cent particularly in the last quarter of the year following the shortage of stocks.

Meanwhile, the significant slowdown in all the non-food items more than offset the mild acceleration in housing and repair which grew from 9.8 per cent to 10.9 per cent due to the yearly increase in the heavily-weighted rental component.

The lower price growth in imported goods and inputs reflected the effect of the relatively modest movement in world fuel prices.

The growth in CPI Philippines likewise reflected this sluggish price movement in the national capital region.

Notwithstanding the inflationary impact of the increase in rice and corn prices and the rise in fertilizer cost, CPI Philippines rose from 294.6 index points to 331.1 index points, or a slowdown from 17.6 per cent to 12.4 per cent in 1981.

Table 27 – CONSUMER PRICE INDEX IN THE PHILIPPINES
1979 – 1981
(1972 = 100)

	1979	1980	1981	Per Cent Changes 1980	Per Cent Changes 1981
ALL ITEMS	250.5	294.6	331.1	17.6	12.4
Food, beverages and tobacco	239.2	274.7	308.2	14.8	12.2
Non-Food	269.8	328.6	370.3	21.8	12.7
Clothing	275.6	336.2	378.6	22.0	12.6
Housing and repairs	262.7	307.3	345.0	17.0	12.3
Fuel, light and water	290.2	389.4	472.2	34.2	21.3
Services	260.1	325.7	363.2	25.2	11.5
Miscellaneous	277.4	326.2	357.5	17.6	9.6

SOURCE: NCSO

Table 28 – CONSUMER PRICE INDEX IN THE NATIONAL CAPITAL REGION

1979 – 1981

(1972 = 100)

	1979	1980	1981	Per Cent Changes 1980	Per Cent Changes 1981
ALL ITEMS	241.1	284.1	317.7	17.8	11.8
Food, beverages and tobacco	244.8	284.4	320.3	16.2	12.6
Food	247.8	287.3	322.1	15.9	12.1
Beverages	236.0	294.3	346.3	24.7	17.7
Tobacco	210.9	233.9	270.2	10.9	15.5
Non-food	237.5	283.8	315.2	19.5	11.1
Clothing	265.6	340.6	373.6	28.2	9.7
Housing and repairs	206.6	226.9	251.7	9.8	10.9
Fuel, light and water	217.4	292.6	337.8	34.6	15.4
Services	257.6	317.0	356.2	23.1	12.4
Miscellaneous	263.9	311.0	335.0	17.8	7.7
DOMESTIC (CHIEFLY OF DOMESTIC ORIGIN)	230.6	266.6		15.6	
DOMESTIC (USING IMPORTED INPUTS)	264.8	330.4		24.8	

SOURCE: NCSO

However, the deceleration in food prices was partially offset by the upward adjustment in the price ceilings of selected food commodities outside Metro Manila in June 1981. Supply stabilization policies, accompanied by better distribution net work through the continued formation of KADIWA centers, helped minimize violent price upswings.

All the components of non-food prices registered significant slowdowns particularly fuel, light and water, services and housing and repairs.

Wholesale Prices

Preliminary figures on the wholesale price index (1978 = 100) in the national capital region showed mixed trends in prices of food and non-food items.

Although wholesale prices of food commodities recorded increments from

14.6 per cent in 1980 to 17.5 per cent in 1981, all non-food items showed marked decelerations. As a whole, WPI rose by 13.4 per cent in 1981, the lowest since 1979.

This development came about as the increase in wholesale prices of mineral fuel, lubricants and related materials on which many other wholesale products were input-dependent slowed down from 58.1 per cent to 25.7 per cent. Likewise, wholesale prices of chemical and crude materials moderated significantly. These favorable price trends were indicative of the slight upward revision in pet-

Table 29 – WHOLESALE PRICE INDEX FOR THE NATIONAL CAPITAL REGION

1979 – 1981

(1978 = 100)

				Per Cent Changes	
	1979	1980	1981p	1980	1981
ALL ITEMS	119.0	140.8	159.7	18.3	13.4
Food	116.2	133.2	156.5	146.	17.5
Beverages and Tobacco	115.0	134.6	147.2	17.0	9.4
Crude Materials, Inedible except Fuels	125.3	137.9	140.8	10.1	2.1
Mineral Fuels, Lubricants and related materials	128.4	203.0	255.1	58.1	25.7
Chemicals, including Animals and Vegetable Oils & Fats	121.1	135.4	137.7	11.8	1.7
Manufactured Goods Classified Chiefly by Materials	121.0	146.1	162.8	20.7	11.4
Machinery and Transport Equipment	110.7	123.9	136.9	11.9	10.5
Miscellaneous Manufactured Articles	115.3	140.0	157.7	21.4	12.6

SOURCE: NCSO

roleum prices during the year in sharp contrast to two substantial adjustments in 1980. The world glut in oil helped depress the international prices of crude on the wholesale level.

Other non-food prices registered substantially lower growth rates including manufactured goods, 11.4 per cent; beverages and tobacco, 9.4 per cent; and miscellaneous manufactures, 12.6 per cent. Machinery and transport equipment also recorded a smaller gain of 10.5 per cent compared to 11.9 per cent in the other year.

Retail Prices

The increase in retail prices slowed down from 20.7 per cent in 1980 to 11.5 per cent in 1981. Apart from the continued enforcement of price ceilings of 13 basic consumer commodities, the marked slowdown particularly in prices of fuel and related products influenced the slower movement in retail prices during the period.

All the major components recorded price deceleration. Food prices grew mildly by 11.3 per cent compared to the previous year's 14.2 per cent due mainly to slower price movement in the food components except fruits and vegetables which showed erratic trends during the year.

Table 30 – RETAIL PRICE INDEX FOR THE NATIONAL CAPITAL REGION
1979 – 1981
(1978 = 100)

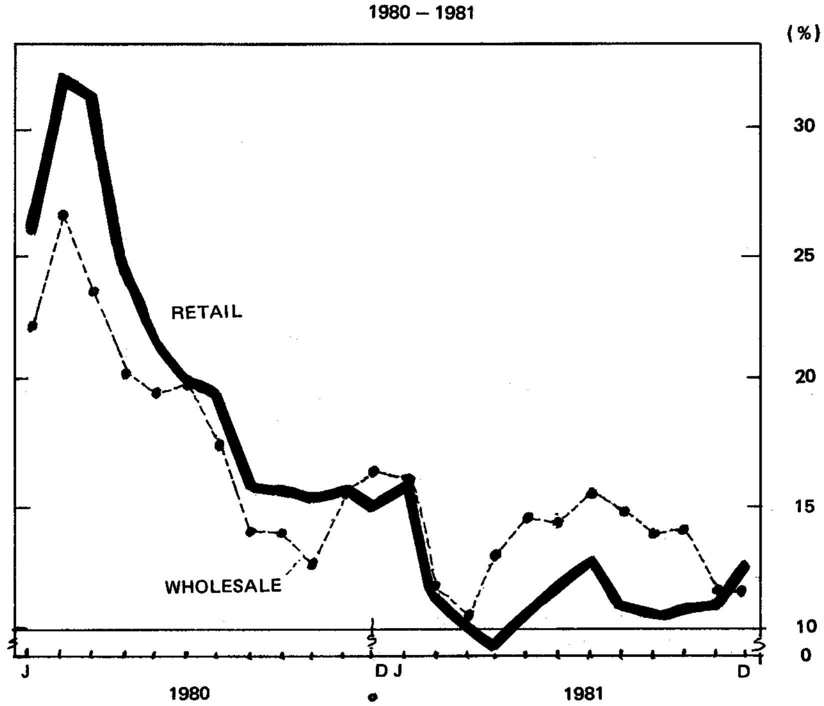
	1979	1980	1981[p]	Per Cent Changes 1980	Per Cent Changes 1981
ALL ITEMS	120.7	145.7	162.4	20.7	11.5
Food	118.8	135.7	151.0	14.2	11.3
Beverages and Tobacco	12.2	136.6	160.9	21.7	17.8
Crude materials, inedible except fuels	125.3	160.4	176.4	28.0	10.0
Mineral fuels, lubricants and related materials	137.1	248.0	284.8	80.9	14.8
Chemicals, including animals and vegetable oils & fats	113.7	131.0	143.6	15.2	9.6
Manufactured goods classified chiefly by materials	129.2	156.2	170.5	20.9	9.2
Machinery and transport equipment	118.7	132.4	141.1	11.5	6.6
Miscellaneous manufactured articles	112.6	133.6	148.4	18.7	11.1

SOURCE: NCSO

Of the non-food group, the adjustment in mineral fuel, lubricants and related materials slowed down substantially from 80.9 per cent to 14.8 per cent reflecting the minimal rise in petroleum prices. Crude materials, chemicals and machinery likewise showed significant declines in prices.

Retail prices of beverages and tobacco rose slightly due to the sudden shortage of cigarette and other tobacco products in the closing months of 1981. During the year, manufactured goods and other miscellaneous articles also exhibited lower price gains.

CHART 9 – ANNUAL PER CENT CHANGES IN WHOLESALE AND RETAIL PRICES
1980 – 1981



Balance of Payments Management

The external sector remained an area of concern during 1981. The extended world recession depressed export demand in the industrialized countries, not only constraining productive activities in exporting countries but also aggravating the unfavorable terms of trade of most developing countries. Import prices continued to rise, raising production costs and compounding the trade imbalance. These developments were accompanied by higher foreign interest rates, which raised the cost of external borrowing and by volatile exchange rates that generally led to higher domestic currency cost of imports.

In the face of these developments, Philippine authorities implemented various measures designed to stabilize the external sector of the economy. An important area was the improvement in the rate of inward repatriation of foreign exchange earnings, particularly from merchandise exports and from Filipino workers employed abroad. Thus, compliance with the required repatriation of export proceeds within 60 days from date of shipment was strictly enforced (Circular-Letter dated November 16, 1981).

For effective implementation and monitoring purposes, Filipino seamen/workers were required to use their tax account numbers when remitting their mandatory foreign exchange allotments to their beneficiaries in the Philippines (Circular-Letter dated May 5, 1981). Related to this, efforts were also undertaken to facilitate the inward remittance of such allotments, mainly through the improvement of institutional arrangements, particularly the expansion of correspondent relations between Philippine and foreign banks operating in those regions with significant Filipino presence.

Starting 1981, foreign students in the tertiary level were required to present evidences to their respective schools that the pesos used to pay their tuition and other school fees and to support themselves arose from the sale of acceptable foreign currencies to authorized agent banks and/or foreign exchange dealers (Circular-Letter dated September 23, 1981). And toward the end of the year, tourists and non-resident temporary visitors were henceforth required to declare the foreign exchange brought by them into the Philippines whenever this exceeded $3,000 or its equivalent amount in other foreign currencies.

The export sector continued to receive assistance, particularly in the form of preferential credit. Rediscounted loans channeled to this sector totalled ₱33.4 billion in 1981, about 76 per cent of aggregate rediscounted loans granted through commercial banks during the year. The Government likewise sustained its export promotion drive, a significant component of which beginning 1981 was the launching of the Kilusang Kabuhayan at Kaunlaran (KKK) which aims to develop entrepreneurial activity and achieve self-sufficiency in the villages. A portion of the output of KKK projects will be channelled to the export market and the Government has already established a number of outlets for this purpose. Moreover, the list of export-oriented firms was expanded during the year to encourage more export enterprises by providing them with assistance/privileges as granted to eligible foreign exchange earners.

Garments are a major export of the Philippines, accounting for some 11 per cent of total exports in 1981. Closer monitoring of prices of garments and textiles, particularly prices of shipments authorized by the Garment and Textile Export Board, was established to ensure that winning bid prices under the Board's net foreign exchange earnings rule were the very same prices indicated in the exporters' Applications for Export Permit. This measure seeks to maximize earnings from this commodity group in particular from those foreign markets imposing entry quotas.

On the import side, efforts designed to increase the production of intermediate and semi-processed goods under the on-going industrial reform program were continued. Envisaged to lessen the country's import dependence on such types of goods, this effort is aimed at reducing the pressure on the import bill. The Government also accelerated domestic energy production to raise the share of indigenous energy sources in total consumption while moderating the effects of rising oil import prices on the balance of payments and the economy as a whole.

In accordance with the simplification and facilitation of the conduct of trade, regulations on importations were rationalized. Imports now need to be covered by a Formal Entry only, and are subject to a fixed import processing fee, the proceeds from which are to be used for trade and export promotion activities of various government agencies (MAAB No. 18 dated November 10, 1981).

Another important measure adopted in 1981 was the institutionalization of closer coordination with respect to the country's international borrowings. All government agencies/offices/corporations have been required to consult with and secure clearance from the Central Bank for their borrowing plans, even before preliminary negotiations or informal approaches to international financial markets are undertaken (Circular-Letter dated February 9, 1981). This measure is designed to achieve and maintain a well-coordinated government borrowing strategy and strengthen the Philippines' negotiating posture with foreign creditors.

Certain regulatory changes were also made relative to the operations of offshore banking units, generally to improve the business environment for these financial institutions. Early in the year, the 5 per cent tax on their net offshore income was abolished (Circular Letter No. 30 dated February 2, 1981 implementing Section 7 of Presidential Decree No. 1773 dated January 16, 1981). This was followed by the grant of authority to OBUs to render financial advisory and related services to residents and collect payment in foreign exchange (Circular No. 797 dated May 22, 1981), giving them an additional source of income. Moreover, OBUs were authorized to arrange the importations, including the opening of letters of credit, of resident borrowers who are recipients of Central Bank-approved OBU long-term loans (Circular No. 831 dated November 13, 1981).

Within the Central Bank itself, a policy shift in international reserve management was adopted in view mainly of rising interest rates in international capital markets. Short-term credit availments used for reserve purposes were by design reduced in 1981 to cut down related interest payments. Simultaneously, the investment strategy for reserve assets was upgraded to take advantage of the best available terms and optimize interest income. In implementing the policy shift, the holding of an appropriate amount of reserves as buffer for foreign exchange developments remained the underlying purpose of the authorities.

Balance of Payments The country's balance of payments in 1981 registered an overall deficit of $560 million, $179 million more than the shortfall in 1980 but $10 million below the unprecedented $570 million deficit in 1979.

The key factor behind this development was the further deterioration in the merchandise trade account which, for the first time recorded a deficit exceeding the $2 billion mark. Given depressed world market conditions and rising protectionism in industrial countries, the growth of Philippine exports lagged behind the rise in imports which was accounted for mostly by the higher oil import bill. Thus, the trade deficit widened to $2,492 million or more than half a billion higher than that of the prior year.

The combined services and transfers account resulted in a net inflow due to substantial gains in inward remittances of Filipino workers abroad and personal transfers. Nevertheless, current transactions remained in deficit for the year, in the amount of $2,405 million which was partly offset by net foreign capital inflows. Similarly, gold purchases of the Central Bank and SDR allocations helped reduce the over-all balance of payments deficit for the year.

Earnings from exports declined by 1.4 per cent compared to an increase of 25.8 per cent in 1980, largely due to weak external demand in view of slower growth in most industrial countries. Among exports, garments, semi-conductor devices, fruits and vegetables, unmanufactured tobacco and other non-traditional manufactures performed creditably well during the year. Mineral-based products particularly copper concentrates and gold and forest-based products such as lumber and logs however posted sharp downswings.

Imports continued to accelerate although at a substantially reduced rate of 6.1 per cent compared to 25.8 per cent in 1980. Nearly three-fourths of the value increase was accounted for by crude oil and other petroleum products. The import cost for crude oil alone went up by $353 million to $2,210 million while volume purchases increased by 1.1 million barrels to 65.0 million barrels. In absolute terms, crude oil prices in 1981 averaged $34 per barrel in contrast to the previous year's price of $29.07 per barrel. Non-oil imports similarly expanded, which was, however, less than half the increase in the oil bill.

With the increase in import prices (5.6 per cent) and the decrement in export prices of 0.2 per cent, the country's net terms of trade weakened by 5.4 per cent in 1981. Likewise, the purchasing power of exports dropped by 6.6 per cent, indicating a smaller volume of imports that could be purchased from the country's export income.

Meanwhile, the negative balance of the non-merchandise trade account was reduced in 1981 to $386 million from $546 million in 1980 following the 23.5 per cent increase in proceeds from various invisible transactions. The upsurge in demand for Filipino overseas contract workers and seamen, and stricter enforcement of the requirement that workers remit at least 70 per cent of their earnings back to the Philippines resulted in increased inflows from this source by $104 million. In addition, there was an increase of $99 million in interest income from foreign securities and bonds held largely by domestic financial institutions. Inward remittances covering operating expenses of multinationals likewise expanded by $71 million.

Table 31 – BALANCE OF PAYMENTS
1980 and 1981
(Million U.S. Dollars)

	1981p	1980
I. Current Transactions		
A. Merchandise Trade	2,492	–1,939
Exports	5,708	5,788
Imports	8,200	7,727
B. Non-Merchandise Trade	–386	546
Inflow	2,562	2,075
Outflow	2,948	2,621
C. Transfers (Donations, etc.)	473	434
Inflow	486	451
Outflow	13	17
Current Transactions, Total	–2,405	–2,051
II. Non-Monetary Capital		
D. Long-Term Loans	1,200	1,032
Inflow	1,900	1,579
Outflow	700	547
E. Direct Investments	375	45
Inflow	448	266
Outflow	73	221
F. Short-Term Capital	212	784
Inflow	8,043	7,458
Outflow	7,831	6,674
Errors and Omissions	–369	–348
Non-Monetary Capital, Total	1,418	1,513
G. Monetization of Gold	400	128
H. Allocation of SDRs	27	29
III. Overall Surplus (Deficit)	–560	–381

Disbursements in the non-merchandise account reflected a smaller increment of 12.5 per cent in 1981. The bulk of this year's disbursements was u to meet interest charges which rose from $846 million to $1,132 million in as a consequence of the uptrend in foreign borrowings and higher interest rates in the world financial markets. Of the total interest payments, nearly nine-tenths were on foreign loans and the balance for foreign currency deposits. There was also a marked increase of $81 million in outward remittances of reinvested earnings.

In the transfers account, a net surplus of $473 million was realized in 1981 following substantial inflows of pesonal remittances and transfers from the US Veterans Administration. These served to cushion the deficit in the trade account.

As a result of these transactions the current account balance recorded a deficit of $2,405 million, bigger by $354 million than the figure for 1980.

Non-monetary capital transactions were relatively favorable during the year. Long-term loan availments in 1981 reached $1,900 million while payments totalled only $700 million, thereby resulting in a net availment of $1,200 million. This represented an annual gain of $168 million or 16.3 per cent. The upswing in net long-term loans came mainly from the $246 million rise in loans of the public sector which accounted for 50.3 per cent of aggregate loans. Most of the increase in loans of the public sector was obtained from the World Bank of which $200 million represented proceeds from the structural adjustment loan. Power, transportation, irrigation and the financial institutions were the main beneficiaries of the loans obtained by the public sector. On the other hand, amortization of existing debts advanced by 28.0 per cent on an annual basis, 58.3 per cent of which were loans of the private sector.

Prompted by the positive investment climate in the country, new foreign investments mainly in the service, industrial and agricultural sectors rose by 45.5 per cent to $323 million in 1981. Together with the 76.9 per cent slowdown in capital withdrawn from the Philippines, net inflows from foreign investments rose to $375 million, about 8-1/2 times more than the net inflow of the preceding year.

Net availment of short-term capital dropped to $212 million, 73.0 per cent lower than the availment in 1980. Accountable for this development was the settlement of fixed-term loans and revolving credits of $609 million which was further aggravated by bigger red clause payments in the amount of $73 million. The liquidation of a sizeable amount of short-term loans was brought about by the shift to longer term loans in line with the policy adopted during the year on the preferred maturity structure of external debt.

Non-monetary capital account therefore posted a net inflow of $1,418 million which was, however, 6.3 per cent lower than that of the previous year.

External Trade

Exports — In 1981 earnings from exports declined by 1.4 per cent in contrast with the high 24.9 per cent gain in 1980. Behind this short fall were the recessionary conditions in major industrial countries which depressed prices of and demand for some of the country's major export commodities. In addition, Philippine export products, faced non-conventional protectionist measures resorted to by some industrialized nations to avoid confrontation with the rules of the General Agreement on Tariffs and Trade. Such measures further aggravated the effects of lower demand caused by the recession.

In absolute terms, exports reached $5,708 million of which, 47.8 per cent was accounted for by traditional exports and 51.2 per cent by non-traditional exports. Traditional exports however recorded a negative growth rate of 10.9 per cent mainly due to substantial declines on earnings from copper concentrates, lumber, coconut oil and gold. Non-traditional exports; on the other hand, advanced by 10.3 per cent following the government's continued efforts to promote the development of this group of exports. Semi-conductor devices and bananas were some of the non-traditional exports which performed relatively well during the period.

The country's ten principal exports earned a total of $2,937 million, representing 51.4 per cent of aggregate exports. The list of the ten principal exports remained the same as that of the previous year. Four non-traditional exports remained in the list of the country's ten principal exports, namely, semi-conductor devices, bananas, nickel and iron ore agglomerates. Only two of the ten principal exports surpassed their previous year's levels.

The top non-traditional export, semi-conductor devices, moved up from fourth to first position on account of the 27.4 per cent increase in value to

Table 32 – TEN PRINCIPAL EXPORTS
1980 and 1981
(F.O.B. Value in Million U.S. Dollars)

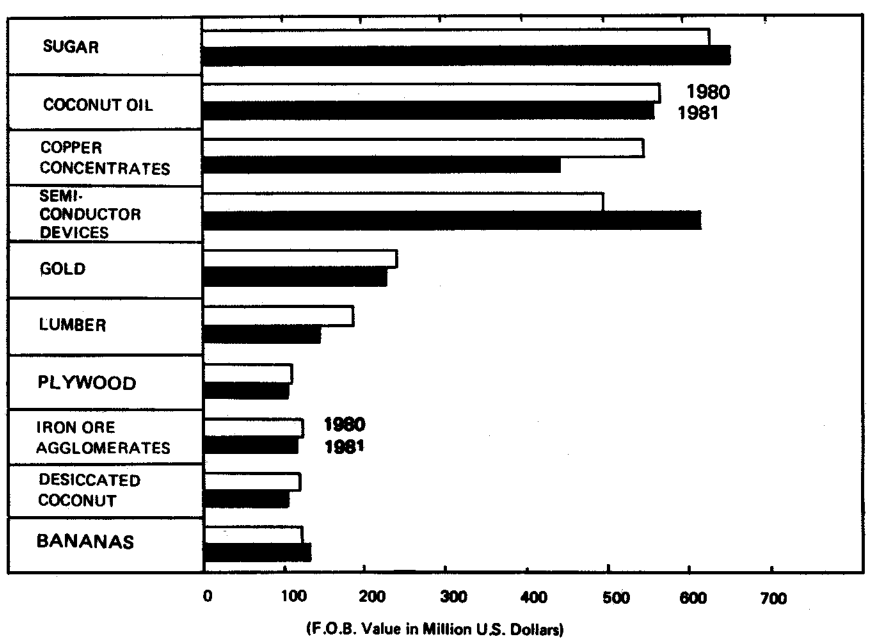
	1981^p		1980	
	Value	Per Cent Distribution	Value	Per Cent Distribution
TOTAL EXPORTS	5,708.0	100.0	5,787.8	100.0
Total Ten Principal Exports	2,937.3	51.4	3,142.1	54.3
Sugar	553.1	9.7	624.0	10.8
Semi-conductor devices	636.2	11.1	499.5	8.7
Coconut oil	536.2	9.4	566.8	9.8
Copper concentrates	426.5	7.5	545.0	9.4
Gold	211.1	3.7	239.2	4.1
Lumber	128.3	2.2	181.3	3.1
Bananas	124.8	2.2	114.2	2.0
Iron ore agglomerates	116.1	2.0	118.2	2.0
Plywood	104.5	1.8	137.9	2.4
Desiccated coconut	100.5	1.8	116.0	2.0
Others	2,770.7	48.6	2,645.7	45.7

$636 million. Underlying this strong performance was the boom in overseas demand particularly in the United States and Japan causing volume to rise by 21.9 per cent to 3,441 metric tons and prices to move up from an average of $177,000 per metric ton last year to $185,000 per metric ton.

Sugar was the second top foreign exchange grosser generating $553 million or 9.7 per cent of total exports. Earnings from this commodity, however, declined by 11.4 per cent compared to the high 195.0 per cent growth for 1980, when the Philippines' basic export quota was suspended. Though prices were on the uptrend, the cutback in volume shipments was the principal factor responsible for deceleration in the growth of sugar exports during the year. The average price of sugar in 1981 rose to $464 per metric ton from $360 per metric ton or an annual increase of 28.9 per cent. However, the reimposition of sugar quotas last May 1981 by the International Sugar Organization led to the contraction in shipments of this commodity. During the year, the effective quota alloted

CHART 10 – TEN PRINCIPAL EXPORTS

1980 & 1981



the Philippines totalled 1,436 million metric tons but due to low domestic production during the last four months of the year only 1,193 million metric tons were shipped. This was 31.2 per cent lower than the volume shipment in 1980 of 1,735 million metric tons.

Maintaining third place was coconut oil, earnings of which amounted to $536 million, the equivalent of 9.4 per cent of aggregate exports. Due to heavy demand especially from the United States, volume shipment of this commodity expanded from the 1980 level of 918 thousand metric tons to 1,045 thousand metric tons. Price developments in the world vegetable oil market however adversely affected coconut oil prices. From an average of $618 per mettric ton in 1980, prices dropped sharply to $513 per metric ton, resulting in a decline in value by 5.5 per cent.

Earnings from copper concentrates, affected largely by soft prices and weak markets due to recessionary conditions in copper importing countries like Japan, declined by 21.7 per cent to $427 million, a reversal from the 23.9 per cent increase in the preceding year. The average export price of copper concentrates was at $382 per metric ton in 1981 compared to $478 per metric ton in 1980. This was further aggravated by the cutback in volume shipment of 1.8 per cent to 1,119 thousand metric tons. Thus, copper which was the third top dollar earner a year ago was relegated to fourth position and accounted for 7.5 per cent of total exports.

Inspite of the contractions in value of 11.7 per cent and 29.3 per cent, gold and lumber remained the fifth and sixth leading dollar grossers, respectively. Exports of gold amounted to $211 million comprising 3.7 per cent of total exports. Low prices attributed to the upward movement in interest rates in the United States was the principal factor behind the unfavorable performance of this commodity. Were it not for the 9.0 per cent gain in quantum to 458 thousand ounces from 420 thousand ounces, earnings from gold could have fallen further. In the case of lumber, the drop in value was due mainly to reduced volume shipment as a result of the continued slowdown in construction activity notably in the European continent. Sales of lumber hit only 551 thousand cubic meters as against the 741 thousand cubic meters sold the previous year. The average price of $232 per cubic meter was, even lower than the previous year's price of $244 per cubic meter.

Rounding off the list of the ten top exports were iron ore agglomerates in eighth, nickel in ninth and desiccated coconut in tenth positions. Iron ore agglomerates continued to be affected by the slump in world demand and posted a lower negative growth rate of 1.8 per cent in value this year, compared to 3.4 per cent registered a year ago. Volume shipments dropped by 17.1 per cent compared to the 17.9 per cent gain in prices. Nickel which experienced falling prices suffered a 24.6 per cent downturn in value. During the year, demand for nickel increased by 38 thousand cubic meters but export prices averaged only $5,770 per metric ton as against the 1980 price of $6,009 per metric ton. Similarly, the value of desiccated coconut decreased by 13.4 per cent on account of price shortfalls of 11.8 per cent.

Imports – Philippine imports in 1981 reached $8,200 million, up by $473 million or 6.1 per cent from the level a year ago. This year's growth rate was significantly lower when compared to 25.8 per cent for 1980. The 5.6 per cent increase in price was the principal factor that led to the growth of imports this year as volume dropped by 0.2 per cent, possibly indicating a slowdown in domestic economic activity.

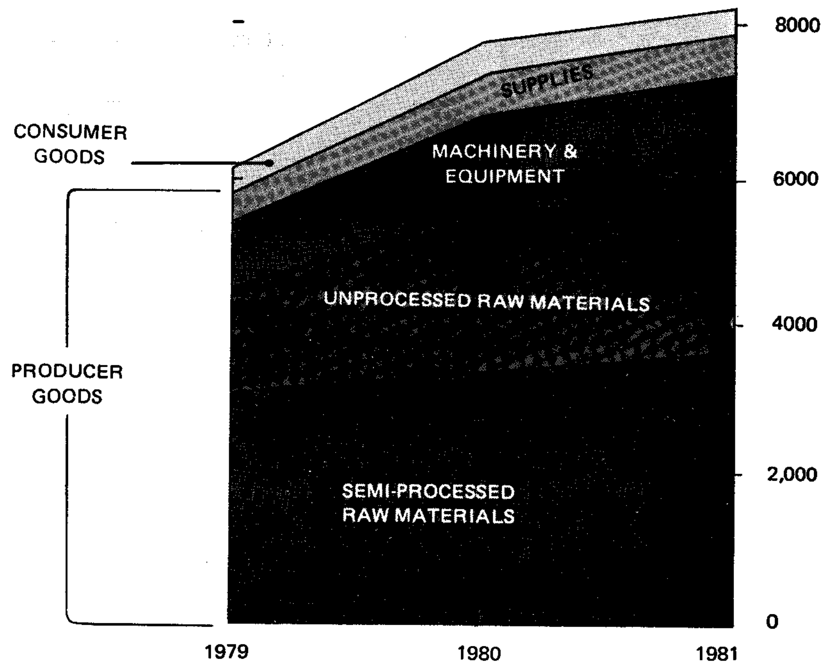
The entire increment in imports came from heavier arrivals of producer goods which accounted for 95.8 per cent of aggregate imports. Producer goods rose by 6.3 per cent as relatively higher prices pushed up the value of unprocessed raw materials by 13.0 per cent and semi-processed raw materials by 8.8 per cent. Arrivals of consumer goods, on the other hand, contracted by $54.6 million or 13.7 per cent as demand for both durable and non-durable goods slackened.

The country's ten principal imports remained basically the same as that of the preceding year although their combined value moved up by approximately

Table 33 – IMPORTS BY END-USE
1980 and 1981
(F.O.B. Value in Million U.S. Dollars)

	1981[p]		1980	
	Value	Per Cent Distribution	Value	Per Cent Distribution
TOTAL IMPORTS	8,200.0	100.0	7,726.9	100.0
PRODUCER GOODS	7,855.6	95.8	7,387.9	95.6
Machinery & equipment	1,221.8	14.9	1,253.4	16.2
Unprocessed raw materials	2,525.6	30.8	2,234.7	28.9
Semi-processed raw materials	3,591.6	43.8	3,300.4	42.7
Supplies	516.6	6.3	599.4	7.8
CONSUMER GOODS	344.4	4.2	399.0	4.4
Durable	32.8	0.4	28.1	0.4
Non-Durable	311.6	3.8	310.9	4.0

CHART 11 — IMPORTS CLASSIFIED AS TO END - USE
(F.O.B. Value in Million U.S. Dollars)



6.7 per cent to $6,371 million and their share to total imports expanded from 77.3 per cent to 77.7 per cent in 1981. Except for machinery other than electric, transport equipment and base metals, the rest of the leading imports exceeded their 1980 levels.

On top of the list was mineral fuels, lubricants and related materials which accounted for nearly one-third of aggregate imports (31.8 per cent). Valued at $2,605 million, arrivals of this commodity group advanced at a decelerated pace of 15.9 per cent as against 62.3 per cent last year. The growth in 1981 was largely influenced by the run-up in the price paid for petroleum crude, the largest import under this commodity group, from an average unit price of $29.07 per barrel in 1980 to $34.00 per barrel in 1981. This was equivalent to a price hike of $4.93 per barrel or 17.0 per cent compared to 1980 increase of $12.13 per barrel or 71.6 per cent. The volume of petroleum crude imports likewise increased from 63.9 million barrels in 1980 to 65.0 million barrels in 1981 in order to maintain the existing level of inventory.

In contrast to the modest increase of 8.6 per cent the previous year, arrivals of machinery other than electric, the second leading import commodity group dropped by 5.5 per cent this year. This downturn could be traced to the general slowdown in construction as well as oil drilling activities which caused demand for construction and drilling machineries to weaken. Value-wise, arrivals of this commodity group totalled $959.0 million, representing 11.7 per cent of aggregate imports.

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, totalled $631 million or 7.7 per cent of total imports. Purchases reflected a growth rate of 14.9 per cent which was substantially lower than the previous year's growth of 56.4 per cent. The slower growth in 1981 was reflective of the reduced demand for certain electrical gadgets and wires for the manufacture of semi-conductor devices which are now available in the domestic market. Notwithstanding the slow

Table 34 – TEN PRINCIPAL IMPORTS
1980 and 1981
(F.O.B. Value in Million U.S. Dollars)

	1981 P		1980	
	Value	Per Cent Distribution	Value	Per Cent Distribution
TOTAL IMPORTS	8,200.0	100.0	7,726.9	100.0
Total Ten Principal Imports	6,370.6	77.7	5,970.3	77.3
Mineral fuels, lubricants & related materials	2,605.0	31.8	2,248.4	29.1
Machinery other than electric	959.4	11.7	1,015.1	13.2
Materials & accessories for the manufacture of electrical equipment	631.2	7.7	548.9	7.1
Transport equipment	491.0	6.0	533.4	6.9
Base metals	393.6	4.8	501.3	6.5
Electrical machinery	393.1	4.8	312.1	4.0
Chemical elements & compounds	310.4	3.8	267.0	3.5
Cereals & cereal preparations	233.0	2.9	214.3	2.8
Explosives & miscellaneous chemical materials & products	213.8	2.6	197.0	2.5
Manufactures of metal	140.1	1.7	132.8	1.7
Others	1,829.4	22.3	1,756.6	22.7

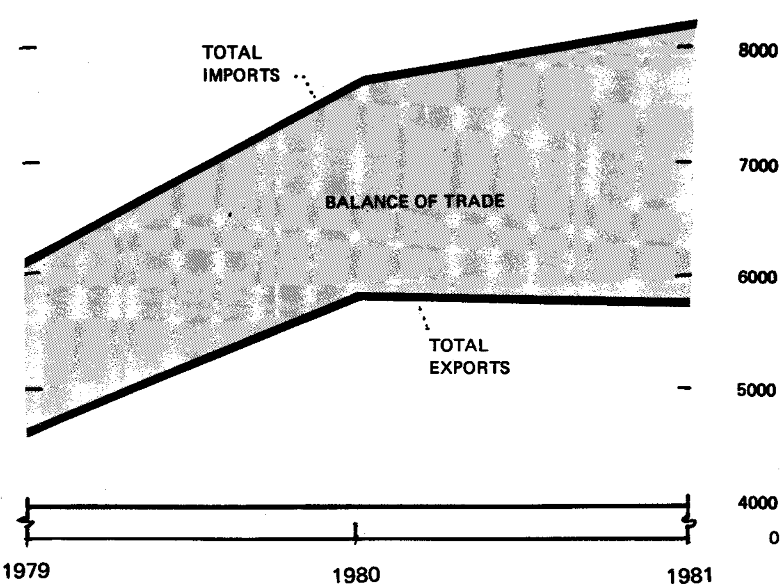
growth, this commodity group maintained its position as the third major import.

Transport equipment ranked fourth followed by base metals in fifth continued to encounter weak demand in the domestic market this year. This resulted in imports of transport equipment to fall back by 8 per cent, which is slightly lower than the 2.0 per cent decrease in 1980, as arrivals of CKD parts for cars and trucks as well as accessories for motor vehicles and aircrafts were reduced. In the case of base metals, the 21.3 per cent contraction, as against a lower 8.4 per cent decline the preceding year, was to a large extent caused by the cutback in iron and steel imports in view of reduced orders from industrial users. The combined purchases of both commodity groups, comprised $884.6 million or 10.8 per cent of total imports.

Listed in sixth was electrical machinery, apparatus and appliances whose import value amounted to $393 million or 4.8 per cent of aggregate imports. Though arrivals of this commodity group registered an upturn in 1981, its growth rate of 26.0 per cent was lower than the gain attained the preceding year at 36.2 per cent. Additional orders of electrical power equipments and parts, electrical apparatus for making and breaking electrical circuits, telecommunication machinery and apparatus, and sound recording system were behind the in-

CHART 12 — EXTERNAL TRADE

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



crease in imports of this commodity group.

In view of the heavier inward shipments of such items as hydro-carbon, inorganic chemical elements and oxides, carboxylic acids as well as various pharmaceutical drugs and products, arrivals of chemical elements and compounds accelerated from $267 million to $310 million. This amount was about 16.1 per cent more than the 1980 figure and constituted 3.8 per cent of total imports. Chemical elements and compounds was the seventh top import commodity group.

In eighth position accounting for $233 million or 2.8 per cent of aggregate imports was cereals and cereal preparations. Purchases of this commodity group expanded at a lower rate of 8.9 per cent compared with the gain of 48.6 per cent in 1980. Behind the growth in 1981 was the strong demand for wheat and corn to augment dwindling inventories which were acquired at relatively higher prices.

In ninth and tenth positions were explosives and miscellaneous chemical materials and manufactures of metal in that order. Collectivley, these two commodity groups accounted for $353.9 million or 4.3 per cent of aggregate imports. Both import groups surpassed their 1980 level with the former posting a much larger rate of growth to 8.6 per cent as against the latter's 5.3 per cent. Arrivals of explosives and miscellaneous chemical materials comprised $214 million or 2.6 per cent of total imports while that of manufactures of metal reached $140 million, representing 1.7 per cent of total imports.

Direction of Trade — No significant changes in the country's direction of trade occured in 1981, as the United States and Japan remained the two leading trading partners accounting for about half of total trade. In terms of regional grouping, the Economic and Social Commission for Asia and the Pacific (ESCAP) retained its top position sharing 17.0 per cent of total trade. However, the Middle East replaced the European Economic Community (EEC) as the next largest trading bloc/region partner after ESCAP.

Total Philippine trade in 1981 reached $13,908 million, up by 2.9 per cent from the previous year's level. Of this amount, 59.0 per cent represented imports and the balance of 41.0 per cent, exports.

The United States maintained its position as the country's top trading partner accounting for more than a quarter or $3,644 million of total Philippine trade. RP-US trade advanced by 8.0 per cent during the period in review as sales to and purchases from that country reflected uptrends.

For the sixth consecutive year, the United States remained the premier outlet for Philippine exports with sales hitting $1,766 million or 30.9 per cent of total exports. This year's growth of 11.2 per cent, which was slightly lower than the previous year's rate of 14.7 per cent, was due largely to bigger shipments of non-traditional exports notably semi-conductor devices. Of the ten top exports, the bulk of shipments of sugar, semi-conductor devices, coconut oil and desiccated coconut was absorbed by this market. In addition, the United States was a large buyer of lumber and nickel.

In providing the country's import requirements, the United States likewise led all others by delivering a total of $1,878 million worth of American products. This was equivalent to 22.9 per cent of total imports and was 5.2 per cent more than the previous year's level. Five out of the country's ten leading import commodity groups, namely: machinery other than electric, explosives and miscellaneous chemicals, manufactures of metal, cereals and cereal preparations and textile fibers not manufactured into yarn were mostly procured from this market.

In view of the faster pace of export growth over imports, the $197 million trade deficit incurred by the Philippines with the United States in 1980 was pared down significantly, by 43.1 per cent to $112 million this year.

By sharing $2,783 million or 20.0 per cent of total trade, Japan was the next important trading partner of the Philippines. As a consequence of the weak performance of the export sector, trade with Japan in 1981 declined by 9.2 per cent after expanding by 17.9 per cent the preceding year.

Valued at $1,258 million, shipments to Japan dropped by 18.0 per cent as demand for certain leading exports stagnated in view of the prolonged recession in that country. Nevertheless, the Japanese market remained the second largest outlet for Philippine made products obtaining the biggest share of copper concentrates, logs, iron ore agglomerates and gold. Purchases of Japan comprised 22.0 per cent of total exports.

Similarly, arrivals from Japan decreased slightly by $6 million to $1,525 million, representing 18.6 per cent of aggregate imports. As the second largest supplier, it provided most of the country's needs for base metals, transport equipment, chemical elements and compounds and electrical machinery, apparatus and appliances. Japan was also a large source of machinery other than electric, manufactures of metal and explosives and miscellaneous chemical materials.

Due to weak demand for Philippine exports, trade with Japan resulted in a $267 million deficit, a complete reversal of the $2 million surplus realized the previous year.

Transactions with the Economic and Social Commission for Asia and the Pacific (ESCAP) countries, which grew by 11.5 per cent, resulted in the exchange of $2,366 million worth of commodities, comprising 17.0 per cent of aggregate trade.

The Association of Southeast Asian Nations (ASEAN) group shared 41.6 per cent of the total RP-ESCAP trade and grew by 14.4 per cent on an annual basis. Trade with the ASEAN was heavier on the import side reaching a level of $564 million while exports amounted to $420 million. Indonesia was the most active customer among ASEAN cornering 40.2 per cent of total Philippine trade with ASEAN followed by Malaysia (30.4 per cent) and Singapore (24.5 per cent). Goods originating from the ASEAN which reflected a 16.8 per cent gain included mineral fuel, lubricants and related products from Indonesia and Malaysia and machinery from Singapore. Shipments to these countries on the other hand, composed largely of coconut-based products, semi-conductor devices and coffee, accelerated by 11.4 per cent.

Outside the ASEAN sub-region, Hongkong, Australia and South Korea were the major trading partners. Taken together, transactions with these three countries totalled $1,077 million or about 45.5 per cent of total RP-ESCAP trade. In terms of imports, Hongkong contributed $211 million and South Korea, $111 million which were made up largely of textile yarns, fibers and related materials as well as fertilizers. The bulk of Australian exports to the Philippines valued at $217 million consisted mostly of dairy products, eggs and honey. Hongkong and South Korea were leading markets for Philippine exports accounting for $221 million and $195 million, respectively, majority of which comprised mineral-based products and forest-based products.

Substantial trade was also undertaken with New Zealand and Brunei but were mostly imports. Arrivals from Brunei comprised mostly crude oil valued at $125 million while those from New Zealand aggregating $71 million were predominantly dairy products. Aside from India with whom the Philippines had sizeable trade amounting to $43 million, the rest of the ESCAP countries recorded minimal transactions all below the $10 million mark. With these developments, the trade deficit with the ESCAP region in 1980 of $266 million was increased to about $275 million.

Accounting for $1,817 million or 13.1 per cent of total trade, RP-Middle East trade expanded by only 4.0 per cent in 1981 as compared to the preceding year's rate of 70.4 per cent.

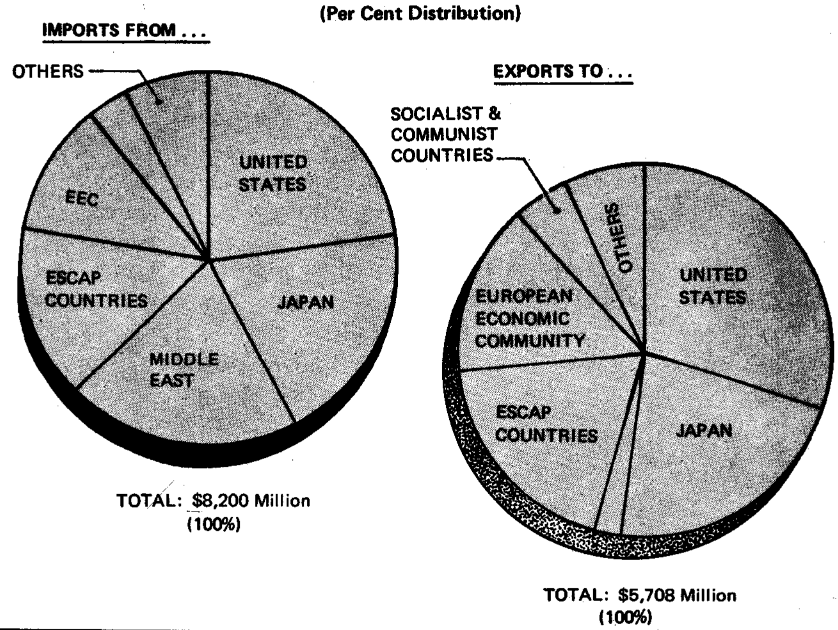
Of total trade with the Middle East, 94.0 per cent constituted imports which was 5.0 per cent higher than last year's level. This upturn could be due to the acquisition of additional oil from the region to augment existing inventories. Some $1,370.3 million or 72.9 per cent of total crude oil importation in 1981 was from the region, the bulk of which was provided by Saudi Arabia. Arrivals from Saudi Arabia which included other mineral products increased by 41.2 per cent to $1,125 million, equivalent to two-thirds of the total imports from the Middle East. Other large suppliers were Kuwait ($398 million) and Oman ($30 million).

The Middle East, however, absorbed only $103 milion or 1.8 per cent of total Philippine exports, 11.0 per cent less than the 1980 figure. Saudi Arabia and

Iraq were the biggest buyers among countries in the region with a combined purchase of $57 million. Portland cement, garments and fruits and vegetables were the principal exports to this bloc.

RP-Middle East trade yielded the largest deficit totalling $1,611 million, up by 6.3 per cent from the previous year's deficit as transactions with almost all countries posted negative balances.

CHART 13 – **DIRECTION OF TRADE**
1981
(Per Cent Distribution)



Trade with the European Economic Community (EEC) totalling $1,780 million dropped in 1981 by 1.5 per cent as against the 1.5 per cent increase recorded in 1980. This block shared 12.8 per cent of total trade.

Export shipments to the EEC declined by some 6.2 per cent to $919 million, possibly resulting from a slowdown in economic activity and the protectionist stance of some member countries. About 16.1 per cent of total exports was obtained by this bloc. The Netherlands was the principal export outlet in the community purchasing Philippine products valued at $317 million about half of which consisted of coconut oil. Other major customers were West Germany ($244 million), the United Kingdom ($188 million) and France ($83 million). Coconut-based products, forest-based products, semi-conductor devices, handicrafts and garments were the most heavily demanded products in the community.

The EEC on the other hand exported a total of $861 million comprising 10.5 per cent of aggregate Philippine imports. Arrivals from this bloc expanded by 4.0 per cent in 1981 in contrast to the 2.7 per cent decline in 1980. This gain could be traced to heavier deliveries of capital goods mostly machinery and transport equipment. West Germany and the United Kingdom were the two largest sources of imports from the community with contributions reaching $334 million and $171 million, respectively. Substantial purchases were also made from the Netherlands ($129 million) and France ($101 million).

At year-end, RP-EEC trade recorded a positive balance of $58 million — $95 million lower than the $153 million surplus earned in 1980.

Trade with countries from the socialist and communist block valued at $460 million or 3.3 per cent of total trade decreased by 8.1 per cent. Purchases from this group totalled $238 million, 94.1 per cent of which emanated from the People's Republic of China. A large part of imports from China consisted of crude oil, the largest item obtained from the bloc.

The USSR was the main market for Philippine products within the bloc obtaining 59.5 per cent of the total shipment of $222 million. Sugar and coconut oil were the principal items channeled to this country. Sales to the PROC amounted to $82 million which was twice as large as the previous year's figure.

The trade surplus of $11 million with this socialist and communist country in 1980 reversed to a deficit of $16 million this year.

On the overall, Philippine trade with the rest of the world for the period in review ended in a negative balance. The deficit of $1,939 million in 1980 widened to $2,492 million in 1981 or a difference of $553 million or 28.5 per cent.

Table 35 – DIRECTION OF TRADE

1980 and 1981

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

	1981^{p}		1980		Balance of Trade	
	Imports	Exports	Imports	Exports	1981	1980
TOTAL (All Countries)	8,200.0	5,708.0	7,726.9	5,787.8	−2,492.0	−1,939.1
United States	1,877.8	1,766.2	1,785.7	1,588.4	−111.6	−197.3
Japan	1,525.2	1,257.8	1,531.2	1,533.3	−267.4	2.1
European Economic Community	861.0	919.5	827.5	980.8	58.5	153.3
Middle East Countries	1,713.8	102.7	1,631.6	115.4	−1,611.1	−1,516.2
ESCAP Countries (excluding Japan, Iran, USSR, People's Republic of China, Netherlands, France, United Kingdom and the United States)	1,320.2	1,045.7	1,194.2	928.2	−274.5	−266.0
Socialist and Communist Countries	237.8	222.2	245.0	255.6	−15.6	10.6
Other Countries	664.2	393.9	511.7	386.1	−270.3	−125.6

SOURCE OF DATA: NCSO

Terms of Trade – For the second consecutive year, the net terms of trade turned against the country's favor by reflecting a negative 5.4 per cent in 1981 compared to the negative 15.9 per cent posted the previous year. The net terms of trade index for 1981 dropped to 64.9 (1972 = 100) from 68.6 in 1980.

The downswing in the net terms of trade resulted from the continuous rise in the cost of imports (5.6 per cent) which was largely influenced by the unabated rise in the price of petroleum and other products. Both export prices and quantum declined resulting in a deceleration of value.

Mainly because of the much faster rise in the growth of imports over exports, the country's balance of trade in 1981 yielded a deficit of $2,492 million in contrast to the $1,939 million for 1980 or a difference of $553 million. Had there been no deterioration in the net terms of trade, the trade deficit for this year could have been reduced by about $743 million or more than enough to wipe out the overall deficit.

The growth of import value was caused entirely by the upward movement in prices by 5.6 per cent which could not be fully mitigated by the 0.2 per cent reduction in quantum. With respect to exports, the decreases in price and volume of 0.2 per cent and 1.2 per cent respectively, pulled down the export value to 1.4 per cent.

As a result of these developments, the purchasing power of exports, which indicates the country's capacity to import based on the sale of exports, decelerated by 6.6 per cent from 138.1 index points in 1980 to 129.0 index points for the current year.

Table 36 – TRADE INDICES
1980 and 1981
(1972 = 100)

	1981P	1980	Per Cent Changes
EXPORTS			
Quantum	198.9	201.3	–1.2
Price	245.6	246.0	–0.2
Value	488.6	495.4	–1.4
IMPORTS			
Quantum	155.5	155.8	–0.2
Price	378.7	358.6	5.6
Value	588.7	558.5	5.4
NET TERMS OF TRADE	64.9	68.6	–5.4
PURCHASING POWER OF EXPORTS	129.0	138.1	–6.6

Foreign Exchange Market

International Reserves — The policy of reducing short-term credit availments for reserve purposes to save on interest payments was adopted in 1981. At the same time, active reserve management was pursued with excess reserves being invested in earning instruments in order to optimize interest income from reserve assets. Thus, the international reserves as of the end of the year amounting to $2,707 million showed a $448 million or 14.2 per cent reduction from its level a year earlier. The amount was sufficient to finance the equivalent of about 4-½ months imports based on import payments during the year in review compared to 5 months imports in 1980.

The international reserves showed a continuous downtrend during the first three quarters of 1981: by $290 million or 9.2 per cent in the first quarter; by $269 million or 9.4 per cent in the second quarter; and by $48 million or 1.8 per cent in the third quarter. However, it rose by $158 million or 6.2 per cent in the fourth quarter due partly to the increase in direct foreign currency deposits of foreign currency deposit units, offshore banking units, and circular 343 banks with the Central Bank.

During the year, the Central Bank availed itself of four credit facilities of the International Monetary Fund (IMF) namely: the Trust Fund Agreement, $0.72 million; Supplementary Financing Facility, $219 million; Oil Facility, $13 million and Extended Fund Facility, $4 million. In the preceding year, the Central Bank availed of 4 IMF credit facilities involving an amount

CHART 14 — INTERNATIONAL RESERVES

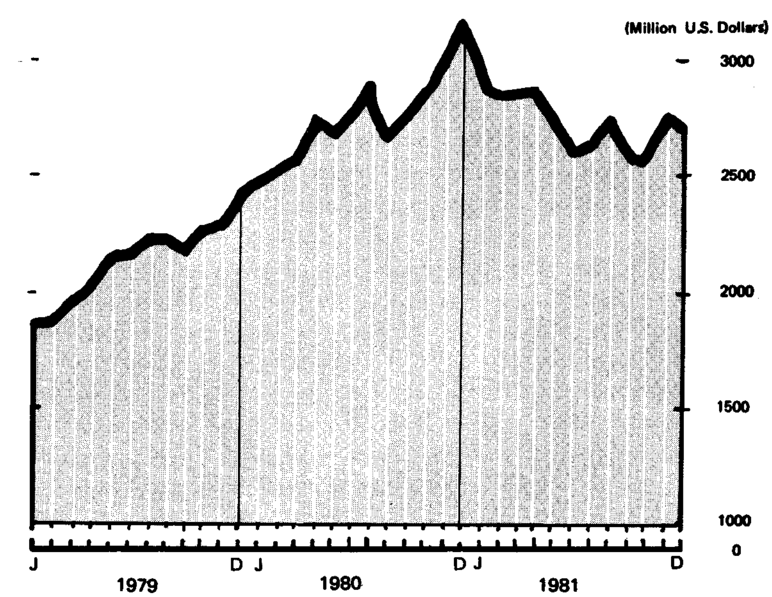


Table 37 – INTERNATIONAL RESERVES OF THE PHILIPPINES
December 31, 1980 and 1981
(Million U.S. Dollars)

	1981[p]	1980
TOTAL INTERNATIONAL RESERVES	2,706.99	3,155.37
Time Deposits	736.15	1,017.26
Demand Deposits	390.40	792.61
Foreign Investments	1,063.88	1,025.25
Gold	508.49	294.03
SDR Holdings	1.50	15.78
Foreign Currencies	6.57	10.44

SOURCE: Foreign Exchange Department, Central Bank

of $395 million. Repayment to IMF during the year amounted to $65.6 million as against $149 million in 1980.

Majority of the Central Bank's international reserve assets consisted of foreign investments (39.3 per cent) and time deposits (27.2 per cent). Gold holdings accounted for 18.8 per cent, demand deposits, 14.4 per cent and the rest consisted of holdings in SDR and foreign currencies.

The decline in total reserve assets from last year was traced mainly to demand deposits which were reduced by $402 million or 50.7 per cent to meet short-term payments. Other reserve assets which were pared down were: time deposits, by $281 million or 27.6 per cent; holdings of SDR, by $14 million or 90.5 percent; and holdings of foreign currencies, by $4 million or 37.1 per cent. On the other hand, foreign investments were increased by $39 million or 3.8 per cent to take advantage of higher yields obtaining in the financial markets, while gold holdings went up by $214 million or 72.9 per cent partly on account of increased purchases of gold.

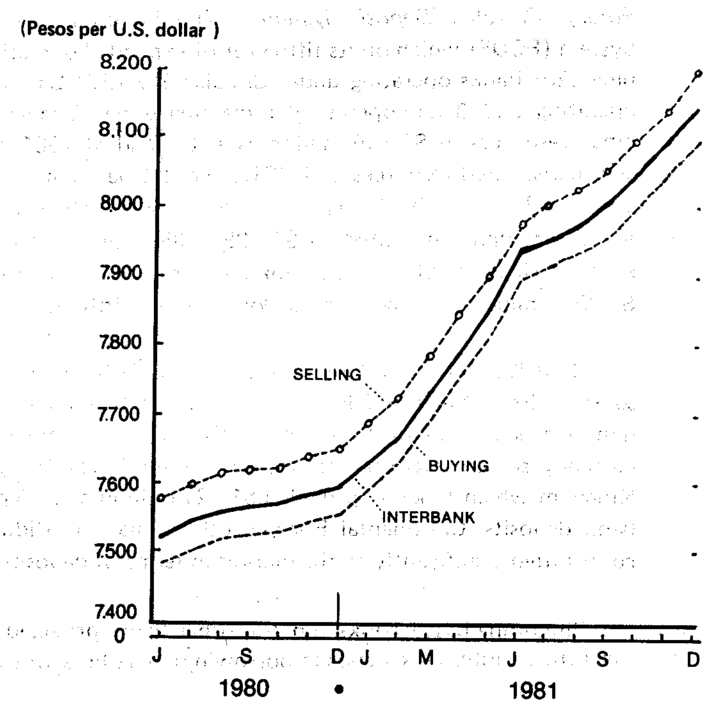
However, the Central Bank buttressed its international liquidity position by credit lines amounting to $1,260 mllion. Standby credits available under loan agreements with foreign banks amounted to $525 million, the availability period of which extends to 1987. Funds available for relending under the Consolidated Foreign Borrowings Program (CFBP) rose by $350 million to $1,645 million during the year. Drawdowns on the CFBP funds since the start of the program till the end of 1981, aggregated $1,240 million, leaving an undrawn balance of $405 million.

Foreign Exchange Rate – A high demand for U.S. dollars persisted in 1981 as the country's foreign exchange requirements to finance imports and service external debt continued to outpace foreign exchange earnings. This, together with the renewed general strength of the U.S. dollar exerted an upward pressure on the peso-U.S. dollar rate during the year. Thus, on an annual basis, the average interbank peso-U.S. dollar rate rose to ₱7.8997 from ₱7.5114 last year, a depreciation of 38.83 centavos or 5.2 per cent.

On a monthly basis, the average interbank guiding rate traced a continuous uptrend from ₱7.6323 in January to ₱8.1312 in December or an average rate of increase of 0.6 per cent. The highest monthly rate of increase (1.1 per cent) was registered in June as the monthly amortization and interest payments on the country's fixed-term external debt was also highest during this month at $223.5 million. The second highest monthly growth of 0.9 per cent was noted in October when the monthly current account deficit registered a peak of $281.6 million.

The average commercial buying and selling rates of the U.S. dollar also continued to rise and each registered the same annual rate of increase as the interbank rate i.e., 5.2 per cent. However, in absolute terms, the buying rate rose by 38.63 centavos to ₱7.8601 while the selling rate went up by 39.12 centavos to ₱7.9589. The average spread between the buying and selling rates thus widened to 9.88 centavos from 9.39 centavos in the preceding year.

CHART 15 – FOREIGN EXCHANGE RATES



In the terms of its average cross-rates with other currencies, the peso appreciated against some major currencies which suffered greater setbacks vis-a-vis the U.S. dollar. Among these currencies were the pound sterling, the deutschemark, the Dutch guilder, the Swiss franc and the Hongkong dollar. The average peso-cost of purchasing these currencies in 1981 registered reductions ranging from 0.13 centavo (South Korean won) to ₱1.46 (pound sterling, from their comparable levels a year earlier. Apparently, these currencies were more vulnerable than the peso was to the high U.S. interest rates and recession prevailing during the year. However, the peso weakened against currencies which were relatively, firm or depreciated less in their U.S. dollar values as compared to the peso. These included the Japanese yen, the Singapore dollar and the New Taiwan dollar which became costlier by 0.27 centavo, 23.15 centavos and 0.55 centavo, respectively.

Meanwhile, at the foreign exchange (FOREX) trading center, the value of transactions went up by US$281.7 million or 12.8 per cent to $2,476.6 million as of end-1981 from its level of $2,194.9 million a year earlier. Purchases and sales of the Central Bank reflected net sales of $1,294.8 million or more than twice the $601.2 million net sales in 1980. Similarly, forward exchange commitments of the Central Bank under various swap transactions increased by $61.8 million or 5.6 per cent to $1,161.4 million. Of this total, $892.9 million or 76.9 per cent were swaps under Circular 343/547 and $268.5 million or 23.1 per cent were special swaps approved by the Monetary Board on a case to case basis.

Foreign Currency Deposit System — The Philippine Foreign Currency Deposit System (FCDS) which on its fifth year of expanded operations comprised twenty nine (29) banks operating under Circular 547 (FCDUs) and thirteen banks (10 operating and 3 non-operating) remaining under Circular 343, recorded combined resources of $5,195 million as at the end of 1981. Of this total, 95.6 per cent constituted resources of FCDUs and 4.4 per cent resources of banks under Circular 343. Interbank deposits/borrowings which were the System's major source of funds amounted to $3,085 million, or about three-fifths of total resources. Deposits of the non-banking sector on the other hand, amounted to $1,039 million and accounted for another fifth of the System's resources.

Contributing $2,159 million or a full 70.0 per cent of the total funds sourced from the interbank market, foreign-based banks continued to be a dominant source of funds for the FCDS. As in previous years, principal foreign currency sources were Singapore, the United States, Hongkong and the United Kingdom which together provided $1,721 million or 55.8 per cent of total interbank deposits. Continental Europe, other Asia and Middle East countries also contributed significantly to the market in terms of deposits.

Philippine-based banks, on the other hand, provided $926 million or 30.0 per cent of interbank deposits/borrowings. The bulk of these were supplied by

Table 38 — FOREIGN CURRENCY DEPOSIT SYSTEM
Selected Data as of December 31, 1980 and 1981
(Million U.S. Dollars)

	1981	1980
GROSS RESOURCES	5,195	5,209
DEPOSITS/BORROWINGS	4,124	4,324
Banks	3,085	3,157
Non-banks	1,039	1,167
PLACEMENTS/LENDINGS	4,874	5,018
Banks	2,214	2,042
Non-banks	2,660	2,976
EARNINGS AND EXPENSES		
Earnings	848	424
Onshore	577	326
Offshore	271	98
Expenses	720	383
Net Earnings after Tax	123	38

Philippine-based OBUs (in the amount of $664 million or nearly 72.0 per cent) and the FCDUs (in the amount of $145 million or 15.7 per cent).

Partly reflecting the worldwide slowdown in economic activity and the uptrend in interest rates in major inernational financial markets in 1981, the level of deposits/borrowings of the System dropped to $4,124 million, or by 4.6 per cent from 1980. Interbank deposits/borrowings were smaller by $72 million or 2.3 per cent from the prior year's $3,157 million, while foreign currency deposits of the non-bank sector fell by $128 million or 11.0 per cent to $1,039 million. Mainly on account of these developments, the gross resources of the System slipped by some $14 million or 0.3 per cent from the 1980 level of $5,209 million.

Placements/lendings by the FCDUs aggregated $4,874 million or about 94.0 per cent of the System's gross resources. Of this, $2,660 million (or 54.6 per cent) represented loans to the non-bank sector, and $2,214 million (or 45.4 percent) were interbank placements/lendings.

Slightly more than one-half of interbank placements/lendings were channeled to Philippine-based banks. These were as follows: the Central Bank, $676 million or 58.4 per cent; offshore banking units, $237 million or 20.5 per cent; FCDUs, $181 million or 15.6 per cent; and other banks, $63 million or 5.5 per cent. Foreign-based banks – chiefly from the United States and to some extent also from Hongkong and Singapore – were also active borrowers from the market, absorbing 47.7 per cent of total interbank loans.

Amounting to $2,660 million, loans to the non-bank sector were channeled wholly to resident borrowers. Most of these went to the manufacturing sector (42.3 per cent), the mining industry (26.0 per cent), the public utility firms (10.2 per cent), and the financial sector (6.7 per cent). Aggregate borrowings of these industries amounted to $2,267 million and accounted for 85.2 per cent of the total loans to non-bank resident borrowers.

For the year ended December 31,1981, the gross income of the Philippine Foreign Currency Deposit System reached $848 million, $424 million or100.0 per cent more than in 1980. Of this year's income $577 million or 68.0 per cent was derived from onshore transactions and $271 million or 32.0 per cent was realized from offshore operations. For the same period, total expenses incurred by the FCDS rose by 88.0 per cent to $720 million due mostly to a run-up in interest costs on deposits and interbank borrowings. Net earnings after tax of the FCDS thus amounted to$123million which, compared to the prior year's figure of $38 million, represented a substantial increase of $85 million or 223.7 per cent.

Offshore Banking System – Two significant measures intended to enhance the development and growth of the country's Offshore Banking System (OBS) were adopted in 1981. PD 1773 which abolished the 5 per cent income tax on net offshore income of offshore banking units (OBUs) and Circular 831 which authorized OBUs to arrange importation of resident borrowers who are recipients of CB-approved OBU long-term loans.

Likewise, during the year the Central Bank increased the number of OBUs permitted to operate in the country from 20 to 25. However, only 21 were in actual operation as the four were still in their organizational stages.

With these developments, gross resources of the system went up by 14.0 per cent to $4,627 million. Of this amount, the bulk or 84.6 per cent was secured from abroad and the balance of 15.4 per cent from within the country. Capital brought in from abroad which increased by 30.6 per cent was mainly responsible for the increase in resources of the system as capital obtained from the domestic sources contracted by 32.9 per cent.

Deposits/borrowings were the major sources of funds of the system which generated a total of $4,479 million representing around 96.7 per cent of the total resources of the system and was 14.2 per cent more than the 1980 level.

The banking community emerged as the biggest depositors of the system

Table 39 – PHILIPPINE OFFSHORE BANKING SYSTEM
Selected Data as of December 31, 1980 and 1981
(Million U.S. Dollars)

	1981	1980
GROSS RESOURCES	4,627	4,058
DEPOSITS/BORROWINGS	4,479	3,923
Banks	4,332	3,812
Non-banks	147	111
PLACEMENTS/LENDINGS	4,479	3,919
Banks	2,781	2,627
Non-banks	1,698	1,292
EARNINGS & EXPENSES		
Earnings	644	448
Onshore	201	137
Offshore	442	311
Expenses	618	430
Net Earnings after Tax	23	15

accounting for $4,332 million or 93.6 per cent of total outstanding deposits. A large part or $3,651 million of these deposits emanated from foreign-based banks which was 30.2 per cent higher than deposits generated the previous year. This growth in deposits may have been due to relatively attractive interest rates. The larger share of these deposits originated from banks-based in Singapore ($1,514 million), Hongkong ($621 million) and the United States ($220 million). The remainder was funded mostly by other European and Middle East-based banks.

In contrast, deposits provided by onshore banks declined by 32.4 per cent from $1,007 million in 1980 to $681 million in1981 brought about by substantial withdrawal of Central Bank deposits. Placements of the Central Bank during the period amounted to only $223 million, 64.3 per cent short of last year's $624 million. As a result, FCDU banks emerged as the biggest depositors among Philippine-based banks sharing 41.1 per cent or $280 million of the total domestic interbank deposits.

Placements of the non-bank sector reached $147 million, up by $36 million from the earlier year's $111 million. The entire deposits secured from this sector emanated from abroad mainly from multinationals to finance the operations of their local subsidiaries.

In terms of its lending operations, the system was able to lend out the entire deposit generated during the year or a gearing ratio of 1:1. Loans and advances of the system registered an annual growth rate of 14.3 per cent. The system's lendings were allocated among banks and non-bank clients in the proportion of 62.1 per cent ($2,781 million) and 37.9 per cent ($1,698 million), respectively.

Loans outstanding to locally-based banks amounted to $1,877 million, surpassing the figure for 1980 by 10.9 per cent. Of this amount, almost half or $859 million went to FCDUs, $575 million or 30.6 per cent to the Central

Bank and the balance of $443 million to other domestic banks.

There was, however, a decline in loans to foreign-based banks which at end-1981 stood at $904 million. The easing of the demand for funds was registered in banks based in other European countries, the United Kingdom, Singapore and Middle East. These declines were, however, partially offset by a hike in loans to banks in the United States and other countries where interest rates were comparatively higher.

Loans to the non-bank sector, moved up by 31.4 per cent to $1,698 million. Borrowings by this sector were mostly channelled to resident clients, which at $1,567 million accounted for 92.3 per cent of the total non-bank lendings.During the year, the demand for funds by non-resident borrowers was relatively high at $131 million from the previous year's $61 million. Thus, their share to total non-bank loans went up to 7.7 per cent compared to 4.7 per cent a year earlier.

Industry-wise, the main bulk of loans to non-bank resident customers was channelled to manufacturing which obtained $797 million or 50.9 per cent; public utility, $414 million or 26.4 per cent; and mining, $179 million or 11.4 per cent. However, the share of other industries notably commerce, agriculture, fishery and forestry and other financial institutions declined to about 2.2 per each from around 4.9 per cent a year ago.

As in the previous year, the maturity pattern of loans to non-bank customers was predominantly short-term as placements/lendings maturing within one year amounted to $1,516 million and $100 million or 5.9 percent and $82 million or 4.8 per cent were committed up to five years and over five years, respectively.

For the year ended December 1981, the Philippine offshore banking system generated gross earnings of $644 million, representing a $196 million or 43.8 per cent improvement from $448 million last year. Two-thirds of total revenues of the OBS were generated from offshore operations and one-third came from onshore transactions.

Meanwhile, expenses incurred during the period soared to $618 million, of which, $600 million were interest paid to deposits and borrowings. Net income before taxes stood at $26 million compared to $18 million during the prior year. On a net of taxes basis, the OBS yielded a total of $22.6 million, exceeding by $8 million the 1980 income of $14.9 million.

Part Two

ACTIVITIES OF THE CENTRAL BANK OF THE PHILIPPINES

THE CENTRAL BANK OF THE PHILIPPINES IN 1981

With the growing complexity and expansion of the Philippine economy and the increasing sophistication of the financial sector, central banking activities in 1981 were intensified to lend support to its basic monetary and balance of payments management functions. Thus, to enable it to discharge its duties and responsibilities more effectively, the Central Bank was granted additional powers by virtue of P.D. No. 1771 issued last January 16, 1981. Moreover the Central Bank's authorized capitalization was raised from ₱10 million to ₱10 billion. This capital hike was intended to give the Bank greater flexibility in the operation of its credit facilities.

The Central Bank was also authorized to conduct periodic supervision or special examination not only of banking institutions and non-bank financial intermediaries with quasi-banking functions but also of the subsidiaries and affiliates of these banks and non-banks. On suspicion of bank fraud or serious irregularity, the decree provided that the Monetary Board may authorize supervising/examining departments of the Central Bank to look into all deposits with banking institutions and investments in debt instruments issued by the government.

In response to financial problems experienced in the past, P.D. No. 1771 also empowered the monetary authorities to fix, change or eliminate, in consultation with the Securities and Exchange Commission, the rate ceiling on financial company assets originating from financing transactions. Likewise, the Monetary Board was also given a final and executory note to its action related to insolvency proceedings and was also authorized to order a bank's liquidation in the event of insolvency, indicate the manner of its liquidation and approve a liquidation plan.

During the year, the Central Bank also stepped-up its printing and issuance of paper currency as well as the minting and issuance of coins to replace mutilated paper money issues and to meet increased demand for coins of the general public. Thus net outstanding currency issue of the Central Bank registered an annual increase of 12 per cent. On the other hand, the number and value of checks cleared through the Central Bank went down in 1981 reflecting the taking over of check clearing operations in Metro Manila by the Philippine Clearing House Corporation.

The Central Bank in pursuance of its supervisory and regulatory authority over financial institutions, authorized the establishment of 51 new bank head offices and 236 additional branches, agencies and extension offices. This brought the total number of banking units operating in the country to 3,658 or an increase of 8.5 per cent over the total obtained in 1980. The number of regular and special examinations performed by the Central Bank through its supervisory departments on banks and non-banks with quasi-banking functions also increased in 1981 not only due to the number of operating financial institutions in the country but also on account of the financial dislocations experienced early in the year.

The campaign for domestic savings and increased public consciousness of credit collection or repayment of credit was continually waged by the Central Bank in 1981. Quantitative indicators showed the positive contribution of these on-going drives in increasing the loanable funds of banks particularly the amount of savings and time deposits that flowed into the banking system.

The placement of government securities in the primary market went up in 1981 notably Treasury issues although the bulk of these were of the non-marketable type used largely as reserves against deposit and deposit substitute liabilities. In contrast, the volume of CBCIs issued during the year dropped in view of the gradual phasing out of these securities in the market.

Taxes collected by the Central Bank for the National Government increased by 3.6 per cent as compared to the previous year's total collections. However, beginning 1982, this tax collection function of the Central Bank will be transferred to the appropriate revenue collecting agencies of the National Government.

On matters relating to external transactions, the Central Bank adopted import liberalization procedures in 1981 to complement the tariff reform program of the government. Effective January 1, 1981 a total of 263 items falling under the unclassified consumer (UC) and non-essential consumer (NEC) categories were removed from the list of banned items. Henceforth, importations of these items would no longer require Central Bank approval. On the export side, modification of existing rediscount policies in favor of non-traditional exports and other priority areas was the main thrust during the year. The Central Bank also took further steps forward simplifying procedural requirements in processing and documentation of export papers to reduce overhead expenses and delays on the part of the exporters.

External debt management in 1981 was aimed at acquiring foreign loans at the best possible terms and maturities and the utilization of such proceeds solely in accordance with the objectives of economic development. Borrowings by the Central Bank under the Consolidated Foreign Borrowings Program continued to be pursued. During the year, outstanding foreign borrowings stood at $15,835 million, up by 25 per cent from the previous year. The bulk of these credits were used to finance projects covering manufacturing, public utilities, power and electrification and general infrastructure. The Central Bank likewise approved, where appropriate, the refinancing/restructuring of foreign credits.

As of December 31, 1981, total assets of the Central Bank reached ₱71,571.2 million representing a 9.4 per cent increase over its end-1980 resources. This growth in resources was due primarily to the expansion in its loans and advances which was large enough to offset the substantial decline in international reserve. Likewise, its outstanding liabilities grew by the same incremental rate due mainly to an increase in its foreign loans payable. Thus, the Central Bank's financial operations during the year ended with a net worth of ₱529.1 million, up by 5 per cent from the previous year's level.

Supervision of Banks and Savings and Loan Associations

Opening of New Banks/Branches/etc.– In 1981, 51 new head offices and 236 additional branches, agencies, extension offices, etc. were established, bringing the total number of banking units in operation to 3,658.

Table 40 — Number of Financial Institutions in Operation Under the Supervision of the Central Bank 1980 and 1981

	1981	1980
TOTAL	3,658	3,371
Head Offices	1,222	1,171
Branches/Agencies/Extension Offices	2,436	2,200
Commercial Banks	1,732	1,503
Head Offices	33	32
Branches/Agencies/Extension Offices	1,699	1,471
Savings & Mortgage Banks	187	268
Head Offices	9	10
Branches/Agencies/Extension Offices	178	258
Development Banks	247	219
Head Offices	45	44
Branches/Agencies/Extension Offices	202	175
Rural Banks	1,167	1,096
Head Offices	1,040	985
Branches/Agencies/Extension Offices	127	111
Stock Savings and Loan Associations	268	251
Head Offices	87	91
Branches/Agencies/Extension Offices	181	160
Land Bank of the Philippines	42	18
Head Office	1	1
Branches/Agencies/Extension OFfices	41	17
Philippine Amanah Bank	9	9
Head Office	1	1
Branches/Agencies/Extension Offices	8	8
Building and Loan Associations	6	7

Examination of Banks — A total of 1,236 head offices of commercial banks, savings banks, rural banks, development banks, specialized government banks, stock savings and loan associations and building and loan associations, and 1,381 of their branches and other banking offices were covered by regular bank examinations.

Table 41 — Number of Banking Offices Examined
1980 and 1981

	1981	1980
TOTAL	2,617	2,589
Commercial Banks	1,117	1,038
Savings & Mortgage Banks	137	165
Development Banks	191	181
Rural Banks	958	981
Stock Savings and Loan Associations	182	195
Building and Loan Associations	6	7
Other Banking Institutions	26	22

The Department of Commercial and Savings Banks also conducted special examinations of particular bank accounts at the instance of the Central Bank management to verify the accuracy of reports/information submitted; program of compliance with directives issued by the Central Bank; questionable money market and other lending operations and other complaints received by the Department.

Regulation of Non-Bank Financial Intermediaries

The Department of Financial Intermediaries (Non-Banks) continued to regulate the operations of 1,549 non-bank financial intermediaries. A total of 507 examinations were conducted on head offices or branches, selected subsidiaries/affiliates of NBQBs, pawnshops and other non-bank financial intermediaries. Of this figure, 52.1 per cent or 264 were operational/regular examinations while 47.9 per cent or 243 were special examinations.

The bulk of regular examinations were performed on pawnshop head offices.

The special examinations which were similarly confined mostly to head offices, focused on specific purposes, namely: (1) unauthorized quasi-banking functions; (2) follow-up of non-payment of penalties/closure of entities; (3) verification of reports, (4) loan appraisal of NBQBs; (5) verification of conduit arrangement of some NBQBs.

Further, close monitoring of some institutions was undertaken by the Department with regular reports to higher management on the three (3) NBQBs (one investment house and two financing companies) suffering from liqudity stresses, solvency and capital deficiency problems.

Coordination of Supervisory Policy and Regulations

The Office of the Supervisory Policy and Regulations was involved in conducting studies and drafting issuances covering primarily the implementation of the unibanking reforms, the deregulation of interest rates, and the rationalization of regulations affecting the different types of financial institutions.

On the unibanking thrust, studies conducted were the establishment of regulations and guidelines on graduation of smaller banks into commercial banks, their straight-forward merger and consolidation into a new banking unit or their affiliation under the umbrella of a commercial bank or holding corporation, the public offering of their capital stock and performance of foreign exchange operations.

The Office also participated in settling questions on the implementation of the floating interest rate policy such as the disclosure requirement, appropriate base-year for computation of interest rates and repercussions of the policy, in general.

The alignment of similar functions under uniform regulations was directed in areas of bond issue, mortgage and chattel mortgage certificates, risk asset-to-net worth ratio, single borrower's loan limit and fringe benefits to officers and employees.

Among the more significant studies conducted by the Office were rationalization, consolidation and issuance of regulations covering the two distinct but sometimes over-lapping functions of trust operations and fund management functions. The Office was also involved in attemps to resolve issues on quasi-banking functions and commercial paper issuances.

Issuances submitted for approval of the Monetary Board and those prepared with participation of the office totalled 39 as compared with the 24 issuances done in 1980.

External Debt Management

Obtaining the best terms and maturities of foreign loans as well as insuring that the proceeds were utilized solely in accordance with the objectives of economic development continued to be the general guidelines under which the Central Bank pursued its external debt management in 1981. Priorities in the allocation of foreign loans and investments were based on capacity to repay, development of expertise and indigenous resources, and the use of external resources only as a supplement and not a substitute for domestic resources.

Thus, preferred and priority areas of investments absorbed all foreign borrowings in 1981. Outstanding foreign borrowings amounted to \$15,834.7 million, up by \$3,134.2 million or 25 per cent from its level a year earlier. Foreign investments approved by the Central Bank which reached \$1,821 million as of September 30, 1981 from \$1,450 million a year earlier, were mainly for firms requiring technological know-how and expertise which were not available from local sources.

Some 335 applications/requests from the private sector for the availment of foreign credits involving an amount of \$2,181.0 million were processed along existing guidelines. In addition, about 2,814 applications/requests of the private sector for lease arrangements, review of credit and other financial agreements, and implementing letters and letters-reply to queries were processed/attended to. Around 970 requests of the government sector for approval in principle and/or registration of foreign loans in the amount of \$3,913.8 million and some 10,400 commercial documents of import transactions involving an amount of \$158.9 million were processed. Compliance with the requirements of the Foreign Borrowings Act (R.A. 6142), as amended, and pertinent bank regulations particularly with respect to credit terms and conditions were emphasized in the processing of foreign loan applications.

Some 792 requests for approval of foreign investments, capital repatriation, remittance of profits, dividends, royalties, technical service and similar matters, and approval of outward investments were processed under existing guidelines. The amount involved was \$554.7 million. Requests for approval of agreement for technology transfer and guarantee requirements of overseas projects which were given due course numbered 92, while 453 requests for additional documents/information and 405 miscellaneous requests relative to foreign investments were attended to.

Authorized imports for the private sector amounted to \$670.7 million compared to \$708.0 million in the preceding year. On the other hand, the number of replies to queries and other correspondences prepared for this sector rose to 5,971 from 4,867 in the preceding year. Similarly, the number of import applications of government agencies/corporations which were processed went up from 4,867 to 5,253. Full support was again extended to government-approved projects and progressive manufacturing/industry rationalization programs in meeting their import requirements. Majority of approved government importation applications this year were for iron and steel, machineries, equipments and spare parts.

External debt management during the year in review also dealt on project development, registration/monitoring of foreign loans and investments; statistical systems and special studies; and assessment and evaluation of existing policies on foreign loans, foreign investments, importations and other related matters.

Regulations on Other Invisibles

To ensure the maximum inflow of foreign exchange from invisibles, a minimum monthly amount of foreign exchange to be sold to the banking system was imposed on individuai Authorized Foreign Exchange Dealers (AFEDs) during the year. A system of obtaining foreign currency declarations of tourists and non-resident temporary visitors upon arrival in the country was implemented. Emphasis was also given to the use of tax account numbers by Filipino overseas seamen/workers when remitting their mandatory allotments to their beneficiaries.

During the year, reported foreign exchange receipts from invisibles surrendered to the banking system increased by 23.4 per cent or $319.6 million to $1,687.1 million.

Meanwhile, before taking appropriate action on requests for the purchase of foreign exchange particularly on the transfer of technology and payment of taxes due the government, the Central Bank coordinated with other government agencies involved to effectively regulate the outward remittances of foreign exchange.

The number of applications processed/approved by the Central Bank for registration of agreements/contracts and outward remittances decreased considerably from 17,270 in 1980 to 9,103 in 1981. Notable decreases were reflected in applications for educational expenses and maintenance of Philippine students abroad as these requests need not be referred to the Central Bank by authorized agent banks for prior clearance. Applications tor travel funds also dropped from 10,014 in 1980 to only 2,328 in 1981 consequent to the increase in allowable travel funds which could be obtained from authorized agent banks. Requests for remittances of technical fees/royalties/rental fees, however, increased to 270 from 252 last year.

Import—Export Regulations

As a complement to the tariff reform program, import liberalization procedures were adopted by the Central Bank. Of the 1,304 commodities subject to import regulatory measures through monitoring of foreign exchange requirements covering UC and NEC goods, about 960 items were to be liberalized in three stages. The first stage which took effect January 1, 1981 resulted in the liberalization of 263 items falling under the UC and NEC categories. Importation of these items no longer required Central Bank approval. Emphasis was also focused on expanding the authority of Offshore Banking Units (OBUs) to handle importations of resident borrowers who are recipients of CB-approved OBU long-term loans, the governing of trust receipts arising from importations and the prohibition on the importation of particular commodities.

Letters of credit opened in 1981 reached a total of US$3.2 billion, slightly lower by 5.9 per cent or US$200 million from the previous year's aggregate level of US$3.4 billion. Items classified under the essential producer goods dominated L/C openings (US$2.19 billion or 69.2 per cent). The balance of 30.8 per cent was distributed among other categories of imports like semi-essential producer (8.6 per cent), unclassified producer (8.0 per cent), non-essential producer (5.8 per cent), essential consumer (4.6 per cent), semi-unclassified producer (1.4 per cent), semi-essential goods (0.9 per cent) and others (1.5 per cent).

Modification of the prescribed Central Bank loan values, rediscount rates and bank lending rates were the main thrust of export regulations and activities in 1981. Also undertaken during the year was the simplification of procedural requirements in the processing of export papers to reduce overhead expenses and delays on the part of the exporters. In order to further lower the cost of funds of exporters, the Bank has likewise reduced the marginal deposit requirement of imported inputs of certain export industries. Additional listings of export-oriented firms and BOI-registered firms were also circularized for proper identification.

In line with the export promotion program of the government, the Central Bank approved a number of requests to export on payment terms longer than the required maturity period. These mainly involved non-traditional export products, especially those destined for new markets, to enable exporters to compete effectively with foreign suppliers of the same products who were granted more liberal payment terms.

Central Bank Certificates of Indebtedness (CBCIs)

Issues of CBCIs during the year aggregated ₱1,061.4 million. Of this amount, ₱813.7 million was auctioned off and ₱247.7 million sold on a negotiated basis under special arrangements authorized by the Monetary Board. Of the ₱813.7 million worth of CBCIs issued through auction, ₱790.4 million were competitive and ₱23.3 million were non-competitive. The discount rate ranged from a low 13.0 per cent to a high of 13.6 per cent for an average of 13.39 per cent.

The Central Bank was also authorized to maintain an inventory of CBCIs worth ₱500.0 million and to approve the purchase and sale thereof in such accounts as may be necessary to stabilize the financial system. Under this scheme, ₱247.7 million was sold under a negotiated arrangement.

Of the new series of CBCIs, ₱650.9 million or 61.3 per cent were held by the banking system, ₱160.7 million or 15.2 per cent by the public non-bank group and ₱249.8 million or 23.5 per cent to the private non-bank sector.

During the year, sales declined by ₱398.6 million as compared to the year ago level, due to the policy of replacing maturing CBCIs with Treasury notes starting August 1981.

Redemptions, on the other hand, totalled ₱2,439.0 million, resulting in a decline of ₱1,377.6 million in outstanding CBCI issues to the level of ₱10,061.4 million.

Premyo Savings Bonds (PSBs)

Premyo Savings Bonds worth ₱33.8 million were sold during the year of which ₱16.8 million were bought by commercial banks; government financial institutions, ₱1.0 million and by the Securities Stabilization Fund, ₱16.0 million. This brought the total outstanding issues to ₱892.1 million or 3.9 per cent more than the preceding year's level. Of the total outstanding issues, ₱711.6 million or 79.8 per cent went to commercial banks, ₱128.2 million or 14.4 per cent of total to SSF, ₱29.9 million or 3.3 per cent to CB portfolio and ₱22.4 million or 2.5 per cent to government financial institutions and government entities.

Other Government Securities

Primary sales of other government securities amounted to ₱14,621.7 million, the bulk or ₱8,050.3 million under the non-marketable category and ₱6,571.4 million, marketable ones. The former comprising 55 per cent of total sales were used largely as reserves against deposits/deposit substitutes. These securities included Treasury Notes, CCP bonds, Treasury Capital bonds, Treasury Bonds and Treasury Bills special series. Under the marketable category, which served as secondary market instruments, were PEA Bonds, Treasury Bills Regular Series, Discounted Treasury Notes, and the 11 3/4 per cent Treasury Notes.

Collection of Taxes

As fiscal agent and banker of the Government, the Central Bank collected a total of ₱23,066.7 million in revenues through authorized agent banks, higher by 3.6 per cent over last year's collection. These consisted of ₱5,106.7 million revenues collected from customs duties; ₱17,675.4 million, internal revenue taxes; ₱263.8 million, export/premium duty; export fees and charges, ₱18.6 million; and import processing fees, ₱2.2 million.

Remittances credited to the account of the National Treasurer increased by 3.6 per cent over the preceding year's level and totalled ₱23,080.3 million.

National Savings for Progress Campaign

The Central Bank through the Committee on Savings continued to wage its savings mobilization campaign, now on its eighth year. Savings and time deposits in banks continued to increase during the year and amounted to ₱60,823 million as of the end of December 1981. This marked an annual growth rate of 21 per cent, surpassing the 12 per cent growth target set by the Committee at the start of the year. The total number of savings and time deposit accounts stood at 24,007,226 or a growth rate of 7 per cent which compared favorably to the year-end goal of 6 per cent.

By type of deposit, savings deposits rose by 20 per cent to reach a level of ₱37,773 million. Time deposits went up by 22 per cent or a total of ₱23,050 million. In terms of number, savings deposits posted an increase of 5 per cent to reach 21,988,452. Time deposits numbered 2,018,774 which marked an increase of 48 per cent. As of end December, the peso value of savings deposits accounted for 62 per cent of the total while time deposits contributed for the remaining 38 per cent. As to number of deposit accounts, savings deposits also comprised the major share of 92 per cent while time deposits accounted for only 8 per cent of the total.

The impact of the lifting of ceilings on interest rates on savings and time deposits effective July 1, 1981, was not immediately felt in July when total deposits grew at a monthly rate of only 1 per cent, a declaration from the June increase of 2 per cent. However, in the following months the favorable effect of higher interest rates on deposits brought about by the new interest rate policy became evident. Except for a decrease in October, savings and time deposits posted monthly increases ranging from 2.6 per cent to 4.9 per cent from August to December 1981.

The favorable movement in savings and time deposits also reflected the minimal impact of the financial crisis during the early part of 1981. A mere shifting of deposits to the more stable and reputed conservative banks followed but the public, on the whole, continued to place their savings in banks and other financial institutions.

Based on a total population of about 48 million, there is roughly one savings deposit for every 2 persons with an average balance of ₱1,718 (nine-month figure). On the other hand, there is one time deposit account for every 24 persons with an average amount of ₱11,418. Comparable figures obtaining at the start of the campaign in June 1973 were one savings deposit for every 5 persons and one time deposit for every 700 persons. Average balances then were ₱786 for savings deposits and ₱27,885 for time deposits.

During the same period, other alternative forms of financial savings also registered favorable movements. Deposit substitutes in banks and non-banks grew by 3 per cent to amount to ₱24,521 million. Trust investments in commercial banks amounted to ₱16,961 million, representing an annual increase of 25 per cent. Outstanding issues of government securities amounted to P39,467 million marking an increase of 15 per cent.

The advertising and promotion activities of the campaign made use of the radio as the primary medium of communication in bringing the savings drive to the widest number of people all over the country. Print was used as the secondary medium for additional reach and visual impact to the target audience. Vernacular comic books continued to play an important part in the print media strategy because of their wide readership base in the countryside.

Activities of the special projects of the National Savings for Progress Campaign, namely the TIPID Movement, the school savings drive and for the Barangay Savings Program, took the form of holding seminar-workshops in the different parts of the country.

Training Program/ Technical Assistance

The Central Bank's training program in 1981 continued to aim at providing the fundamental knowledge in the field of banking to upgrade further the skills and enhance the capability of bank officials/employees in the performance of their duties.

In 1981, 12 personnel development courses were conducted, of which, 2 courses each were conducted in Davao, La Union and Cebu. These training courses were attended by 2,780 officials and employees which involved 100,510 training manhours. In addition, a total of 286 CB personnel were able to attend non-CB seminars.

In the area of specialized training, the Central Bank organized 55 training seminars/courses with a total of 5,006 participants including the thirteen (13) Third World Country bankers.

Likewise, seminars were conducted for private bankers especially for key officials and personnel of rural banks and savings and loan associations. A total of 18 courses were conducted, attended by 5,256 bankers. The coverage of the various courses were highly specialized subjects such as export financing, rediscounting, the use of the different CB financing facilities, etc.

On the other hand, the Bank availed itself of seven (7) foreign training programs covering specialized courses on transfer of technology, balance of payments methodology, small industry financing, and other economic fields of study. Two officials were sent to the Federal Reserve Bank of New York to observe its open market operations and another staff member was sent to undertake graduate studies on development economics at the Williams College, U.S.A.

New Committees

The Central Bank in addition to merging and reconstituting existing committees organized new committees for the purpose of conducting specific studies and researches which would subsequently lead to the formulation of new or improvement of existing policies/measures.

Membership of these organized groups was drawn mostly from the different departments/offices of the Bank and other government agencies.

Among the committees created during 1981 were:

1) Central Bank-Securities and Exchange Commission Coordinating Committee (Office Order No. 53, Jan. 23, 1981) – to provide a continuing and permanent mechanism for the proper enforcement of joint responsibilities of the two agencies under various laws over financial intermediaries.

2) Committee to Review Monetary Measures (Office Order. No. 32, Jan. 23, 1981)-to review and evaluate existing and/or proposed monetary measures involving but not limited to reserve requirements, level and source of rediscount rates and selective credit as well as external monetary stabilization measures within the context of the overall objectives of the Central Bank; and review and evaluate the interest rate structure in a continuing basis in the light of prevailing international and domestic monetary and financial conditions.

3) Ad Hoc Numismatic Committee (MB Res. No. 330, Feb.20, 1981) – to review and evaluate the present denominations, designs and specifications of Central Bank notes, coins, recommend changes, if any, and to submit appropriate designs, specifications and denominations for new banknotes and coins as well as commemorative/proof coins to be issued in the future.

4) Ad Hoc Committee for Securities Dealer Accreditations (Office Order No. 283, Sept. 15, 1981) – to coordinate with the Supervision and Examination Sector with regards to the initial evaluation of the financial condition of the entities applying for accreditation.

5) Committee on Information Systems Integration (Office Order No. 375, Nov. 24, 1981) – to obtain for the Central Bank the benefits of technology of improved information systems which are vital to the sound operation of the Bank and to pass on the benefits to the financial system.

6) Systems Review Committee (Office Order No. 391, Dec. 7, 1981) – to continually upgrade the Bank's operating systems and procedures, particularly with respect to international financial transactions.

In addition, the more significant committees that were reconstituted during the year are as follows:

7) Committee on Financial Structure (formerly Committee on Financial Reforms which was reconstituted under MB Res. No. 92, Jan. 16, 1981) -- to revise and assess the reforms on the financial system and other relevant banking measures with the view to ensure the soundness and stability as well as promote the efficiency of the system.

8) Foreign Currency Inward Remittance and Deposit Committee (formerly Foreign Currency Remittance and Deposit Committee which was reconstituted under MB Res. No. 92, Jan. 23, 1981) – to formulate and recommend to management, plans/programs and regulatory policies to achieve the objective of maximizing the inward remittance of foreign exchange through the Philippine banking system from Filipinos working abroad and from non-merchandise trade sources and to plan and organize efforts by all agencies towards that objective.

9) Committee on Non-Trade (Invisible) Exports Promotion and Developments (Committee on Assistance/Incentives to Non-Trade Foreign Currency Earners merged with the Committee on Financing of Philippine Overseas Project and reconstituted under Office Order No. 46, Jan. 23, 1981) – to conduct research and analysis existing and potential foreign markets for Philippine services.

10) Open Market Committee (Office Order No. 69, Jan. 29, 1981) – to make recommendation to the Monetary Board with respect to the use of Open Market operations as an instrument of action to achieve the objectives of national monetary policy.

11) Foreign Exchange Operations Committee (formerly the International Reserves Management Committee which was rconstituted under Office Order No. 229 dated July 15, 1981) – to monitor the peso-foreign exchange rate and formulate guidelines on the foreign currency deposit rates of the CB, foreign borrowings and investments of the CB, peso-foreign currency swap and forward cover for foreign loans/imports of strategic commodities; coordinate balance of payments policies with international reserves management; and submit periodic reports to the Monetary Board.

Currency Issue and Clearing

Gross currency issue (balance beginning plus issuances during 1981) amounted to ₱16,490 million, representing a decrease of 0.3 per cent over the preceding year's gross outstanding liability. Deducting cash-in-vaults, cash-held-in-trust with branches and agencies and cash subject to verification, net outstanding currency issue stood at ₱13,779 million as of end-December 1981 – higher by 12 per cent compared to the 1980 level of ₱12,284 million.

Currency in circulation consisted of Central Bank "Ang Bagong Lipunan" notes (₱13,000 million) and coins (₱779 million). The Central Bank notes in circulation comprised the 100-piso, 50-piso, 20-piso, 10-piso, 5-piso and 2-piso denominations. Coins issued were made up of denominations ranging from 1-sentimo to 5,000-piso "ABL" ("Ang Bagong Lipunan" in gold), the larger-denomination issues (of 25-piso) also serving as commemorative issues for special events.

Gold coins issued (comprising 5,000-piso "ABL", 2,500-piso "MacArthur", 1,500-piso "IMF-IBRD", 1,500-piso "Pope John Paul II", 1,500-piso "ABL", and 1,000-piso "ABL" totalled 40,156 pieces with a face value of ₱58 million. Meanwhile, the 25-piso silver coins issued numbering 98,031 pieces amounted to ₱2 million.

The total number of currency retired and burned as of December 31, 1981 reached 403 million pieces with a face value of ₱6,375 million. By denomination, these currency notes consisted of 100-piso amounting to ₱1,901 million; 50-piso, ₱2,197 million; 20-piso, ₱1,009 million; 10-piso, ₱570 million; 5-piso, ₱387 million; and 2-piso, ₱310 million.

The regional proliferation of bank branches, offices and agencies and the increasing use of checks in business transactions have led to the establishment of more Central Bank regional clearing units. During 1981, three (3) additional clearing units were opened bringing the total number of 25 units in operation. The Manila Clearing Office and the 25 regional clearing units handled a total of 21.3 million checks valued at ₱151 billion. Total number of checks cleared comprised local checks (10.9 million), out-of-town checks (10.1 million) and inter-regional checks (0.3 million) equivalent to ₱89 billion, ₱59 billion and ₱3 billion, respectively.

Compared to the previous year, the total number of checks cleared dropped by 52 per cent and the aggregate face value declined by 84 per cent due to the taking over of clearing operation in Metro Manila by the Philippine Clearing House Corporation.

Gold Refinery and Mint

During 1981, raw bullions delivered by producers to the Gold Refinery weighed 542,320 fine ounces, up by 33.1 per cent from the 1980 deliveries. These raw bullions yielded 256,642 fine ounces of refined gold and 128,154 fine ounces of refined silver. Compared to 1980 levels, processed gold increased by 57.7 per cent and also exceeded the 1981 target by 6 per cent. A notable innovation for recovering gold from scrubber solution using local component as a reducing agent improved refining operations in terms of safety, economy and effectiveness. On the other hand, refined silver dropped by 4.3 per cent on account of additional consumption of about 40,000 fine ounces in producing silver nitrate electrolyte for seven new Balbach cells — box-like structure utilized for refining silver.

As of end 1981, 254 gold bars containing 100,036 ounces of gold were shipped through the International Treasury for delivery abroad while 442,384 ounces of silver were sold to authorized buyers for ₱32,717.94.

In the same period, the Mint turned out 415,943,000 circulation coins of various denominations. This number exceeded the 1981 target by 643,000 coins and surpassed the 1980 production level by 27.7 per cent. Of this output, the Mint delivered to the Cash Department through the Currency Stock Committee 415,732,000 coins with a face value of ₱53,237,200. Other deliveries consisted of 2,078 sets of brillant uncirculated coins with a face value of ₱2,972.16. The unprecedented output of circulation coins in response to heavy demand was made possible with the activation of two-shift operation since mid-August, 1981 which further improved the Mint's operational efficiency.

Security Printing Plant

During 1981, the Security Printing Plant produced 309 million banknotes or 47.1 per cent more than in 1980. However, the delivery to the Cash Department of the Central Bank dropped by 6.3 per cent to 207 million pieces of which 167 million pieces formed part of the 1981 Order and 40 million pieces in advance from the 1982 Order. The Plant served 81.2 per cent of the 1981 Order or 195 million pieces inclusive of the 28 million delivered in 1980 and the balance of 45 million awaits delivery. In addition, the Plant printed 2,400 special banknote sheets for gift/souvenir items.

During the same period, the Plant delivered in full to the Securities Servicing Department 192,393 pieces of Premyo Savings Bonds — Biglang Bahay Series — and 71,020 pieces of Central Bank Certificates of Indebtedness. With the strict imposition of penalties for non-users of MICR checks, security documents delivered to various banks reached 89,502,396 pieces or 80.9 per cent of total orders largely for MICR-encoded regular checks. Production of Revenue Tax Receipts and Confirmation Receipts met the 1981 requirements, although 75 per cent are awaiting withdrawal with the phasing out of the Revenue Collection Office. On the other hand, printing of BIR strip stamps was deferred for the second quarter of 1982 due to delay in arrival of equipment for the purpose.

Other orders served outside the Plant's 1981 Work Program were 150 PNB Floating Rate Certificate of Deposit and 14,550 pieces of DBP Countryside Bills aside from the order of 3,937 pieces of Treasury bills for the Securities Servicing Department.

Regional Operations

Cash and Banking Operations — In 1981, total receipts — cash and check deposits, cash requisition, incoming cash shipments, CHIT withdrawals from PNB branches, including proceeds from sales of government securities — from the four CB regional offices in Cebu City, Davao City, Tacloban City and La Union and five cash units in the Cities of Dagupan, Legaspi, Iloilo, Cagayan de Oro and Zamboanga amounted to ₱6,695.7 million exceeding total disbursements by ₱82 million and increasing by 24.2 per cent or ₱1,306.3 million over the receipts of the previous year. In both receipts and disbursements, nearly three-fifths were accounted for the Cebu and Davao offices.

Cash deposits received from commercial bank branches and rural banks reached ₱5,279.3 million or an increase of 37.8 per cent while their cash withdrawals aggregated ₱4,304.1 million or 32.7 per cent higher than in 1980. Foreign currency purchases from banks, authorized dealers, tourists and transients reached $4.6 million increasing markedly by 46.7 per cent.

To satisfy the currency requirements of both government and the banking sectors, cash requisitions from the CB Cash Department in Manila and Regional Offices went up to ₱1,169.9 million in 1981 or 62.7 per cent above the preceding year level.

Incoming cash shipments from banks and city/provincial treasurers amounted to only ₱417.2 million or a sharp drop of ₱208.2 million attributed to the discontinuance of the pick-up of cash-held-intrust funds from the PNB, Dagupan Branch since last January. Likewise, cash shipments to the areal jurisdiction of the regional offices slid to ₱156 million or a net decrease of ₱41 million from the 1980 level.

Mutilated currency notes with perforation withdrawn from circulation and shipped to the CB Cash Department in Metro Manila increased by 77 per cent to ₱1,450.8 million. Similarly, the excess clean currency notes shipped back by the La Union Regional Office and Dagupan Cash Unit increased sharply to ₱716 million from ₱210 million a year ago.

Rediscounting Operations — The rediscounting operations of the CB Regional Offices resulted in the granting of ₱1,103.7 million loans to 309 rural banks in 1981, or an increase of 17 per cent over the 1980 level. Of this amount, 53 per cent were classified as supervised credit while 45 per cent as non-supervised credit and 2 per cent as restructured and emergency loans. As of year-end, total loans outstanding reached ₱1.2 billion, of which ₱321 million or 27 per cent were past due.

Securities Marketing and Servicing — Sales of government securities in the Regional Offices increased by more than 50 per cent to ₱4.1 million, however, encashment aggregated ₱8.2 million, or 66 per cent higher than the 1980 level.

Revenue Collections — The Revenue Collection Regional Units in Cebu City, Davao City and La Union collected ₱922 million in customs duties, taxes, export premium duties and import processing fees. With an increase of ₱180 million over the corresponding level in 1980, the collection grew by 24.3 per cent.

Clearing Operations — A total of 77 million checks valued at ₱57.8 million were cleared in the CB Regional Clearing Units in 1981. Of the total, the Cebu Clearing Unit accounted for 6 per cent; Davao, 30.5 per cent; Tacloban, 4.5 per cent and La Union, 4 per cent.

FINANCIAL CONDITION OF THE CENTRAL BANK

The Central Bank's financial position indicated a 9.4 per cent increase in total assets of ₱71,571.2 million at end-December 1981 from ₱65, 447.3 million of end 1980. This growth in resources was brought about by increments in loans and advances, domestic security holdings, monetary adjustment account, bank premises and other fixed assets and other asset accounts which altogether amounted to ₱10,983.0 million. This was partly offset by decreases in the international reserve, special account-foreign-exchange-differentials-and-government-note-treasury-certificate account aggregating ₱4,859.1 million. It may be noted that gold reserve holdings rose by ₱1,657.9 million or 75.5 per cent which helped to limit the decline in the international reserve account to only ₱3,611.6 million.

Outstanding liabilities aggregating ₱71,042.1 million on December 31, 1981 grew by 9.4 per cent from the previous year's total of ₱64,943.4 million, mainly because of the ₱5,070.3 million increase in foreign loans payable. Also contributing to the growth in total liabilities were increases in currency issue (₱1,495.8 million), allocation of special drawing rights (₱166.6 million), revaluation of international réserve (₱453.2 million) and other liabilities account (₱658.8 million).

However, total deposit liabilities which stood at ₱28,299.9 million as of end-December 1981 dipped by ₱368.3 million or 1.3 per cent when compared to the preceding year's balance of ₱28,668.1 million. Similarly, outstanding Central Bank Certificates of Indebtedness declined by ₱1,377.7 million or 11.8 per cent to ₱10,323.1 million from the level of ₱11,700.8 million.

Thus, the Bank's financial operations during the period in review ended with a net worth of ₱529.1 million, up by ₱25.2 million or 5.0 per cent from the previous year's balance of ₱503.9 million. The increase was lodged for the most part in the ₱17.5 million addition to the reserve for currency insurance. Undivided profits and surplus also moved up by 16.4 per cent and 0.2 per cent, respectively.

Table 42 – COMPARATIVE STATEMENT OF CONDITION OF THE CENTRAL BANK
1980 and 1981
(Million Pesos)

	1981	1980	Increase or (Decrease)
ASSETS:			
International Reserve	19,997.9	23,609.5	(3,611.6)
Domestic Securities	6,437.9	6,092.6	345.3
Loans and Advances	32,680.6	25,576.8	7,103.8
Special Accounts – Foreign Exchange Differentials		1,220.2	(1,220.2)
Government Note – Treasury Certificate Account		27.3	(27.3)
Monetary Adjustment Account	5,912.8	4,455.4	1,457.4
Bank Premises and Other Fixed Assets	1,952.3	1,812.3	140.0
Other Assets	4,589.7	2,653.2	1,936.5
TOTAL ASSETS	71,571.2	65,447.3	6,123.9
LIABILITIES:			
Currency Issue	13,779.4	12,283.6	1,495.8
Deposits	28,299.9	28,668.1	(368.2)
Foreign Loans Payable	14,720.5	9,650.2	5,070.3
Allocation of Special Drawing Rights	1,040.8	874.2	166.6
CB Certificates of Indebtedness	10,323.1	11,700.8	(1,377.7)
Revaluation of International Reserve	646.2	193.0	453.2
Other Liabilities	2,232.2	1,573.4	658.8
TOTAL LIABILITIES	71,042.1	64,943.4	6,098.7
NET WORTH:			
Capital	10.0	10.0	–
Surplus	355.2	354.3	0.9
Reserve for Currency Insurance	115.7	98.2	17.5
Undivided Profits	48.2	41.4	6.8
TOTAL NET WORTH	529.1	503.9	25.2
TOTAL LIABILITIES & NET WORTH	71,571.2	65,447.3	6,123.9