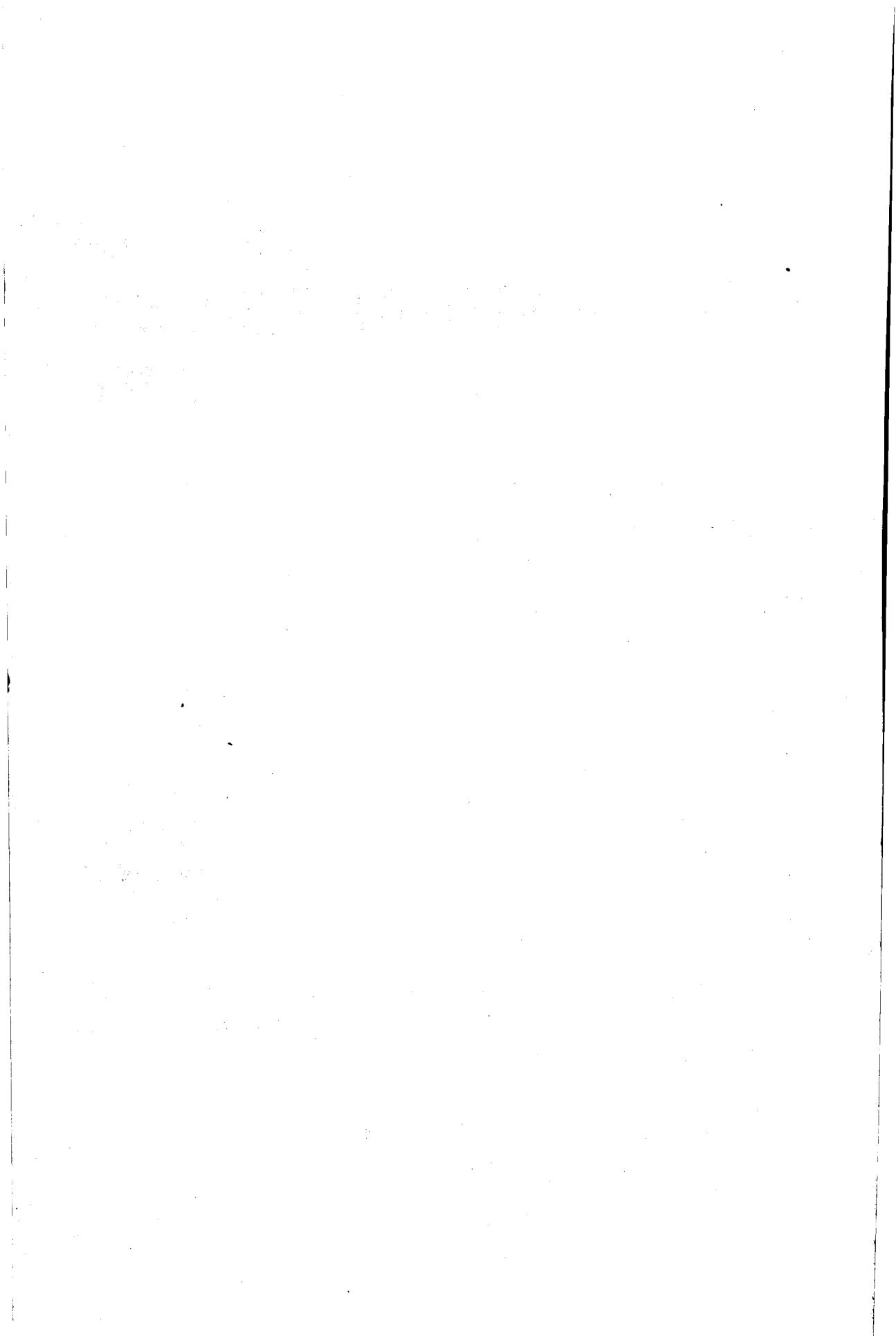


Thirty-eighth
ANNUAL REPORT
1986



CENTRAL BANK OF THE PHILIPPINES
Manila, Philippines



Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

March 31, 1987

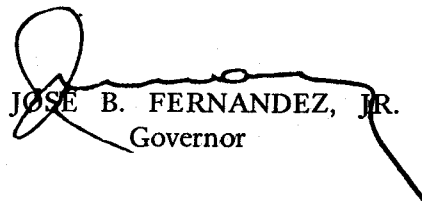
Her Excellency Corazon C. Aquino
The President of the Philippines
Malacañang Palace, Manila

Dear Madame President:

I have the honor to submit the Thirty-eightth Annual Report (1986) of the Central Bank of the Philippines pursuant to the provision of Section 37 of Republic Act No. 265, as amended.

The Report contains a review of economic and financial developments in 1986, the major policy thrusts and specific measures adopted by the Monetary Authorities and highlights of the Bank's operations and other activities, including a statement on the Bank's financial position for the year.

Very respectfully yours,


JOSE B. FERNANDEZ, JR.
Governor

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 1.
Republic Act No. 265, as amended

CENTRAL BANK OF THE PHILIPPINES

Monetary Board Members

JOSE B. FERNANDEZ, JR.
Chairman
Governor, Central Bank of the Philippines

JAIME V. ONGPIN
Secretary of Finance

JOSE S. CONCEPCION, JR.
Secretary of Trade and Industry

GUILLERMO N. CARAGUE
Secretary of the Budget

SOLITA C. MONSOD
*Secretary of Economic Planning
and Director-General, National
Economic and Development Authority*

CESAR A. BUENAVENTURA
President
*Pilipinas Shell Petroleum
Corporation*

JESUS V. AYALA
Chairman and President
*Davao Fruits Corp., and Hijos
Plantation, Inc.*

Principal Officers

JOSE B. FERNANDEZ, JR.
Governor

GABRIEL C. SINGSON
Senior Deputy Governor

EUGENIO C. NIERRAS, JR.
Deputy Governor

CARLOTA P. VALENZUELA
Deputy Governor

JUAN QUINTOS, JR.
Deputy Governor

EDGARDO P. ZIALCITA
Deputy Governor

This listing of Monetary Board Members and Principal Officers is as of March 31, 1987.

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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.

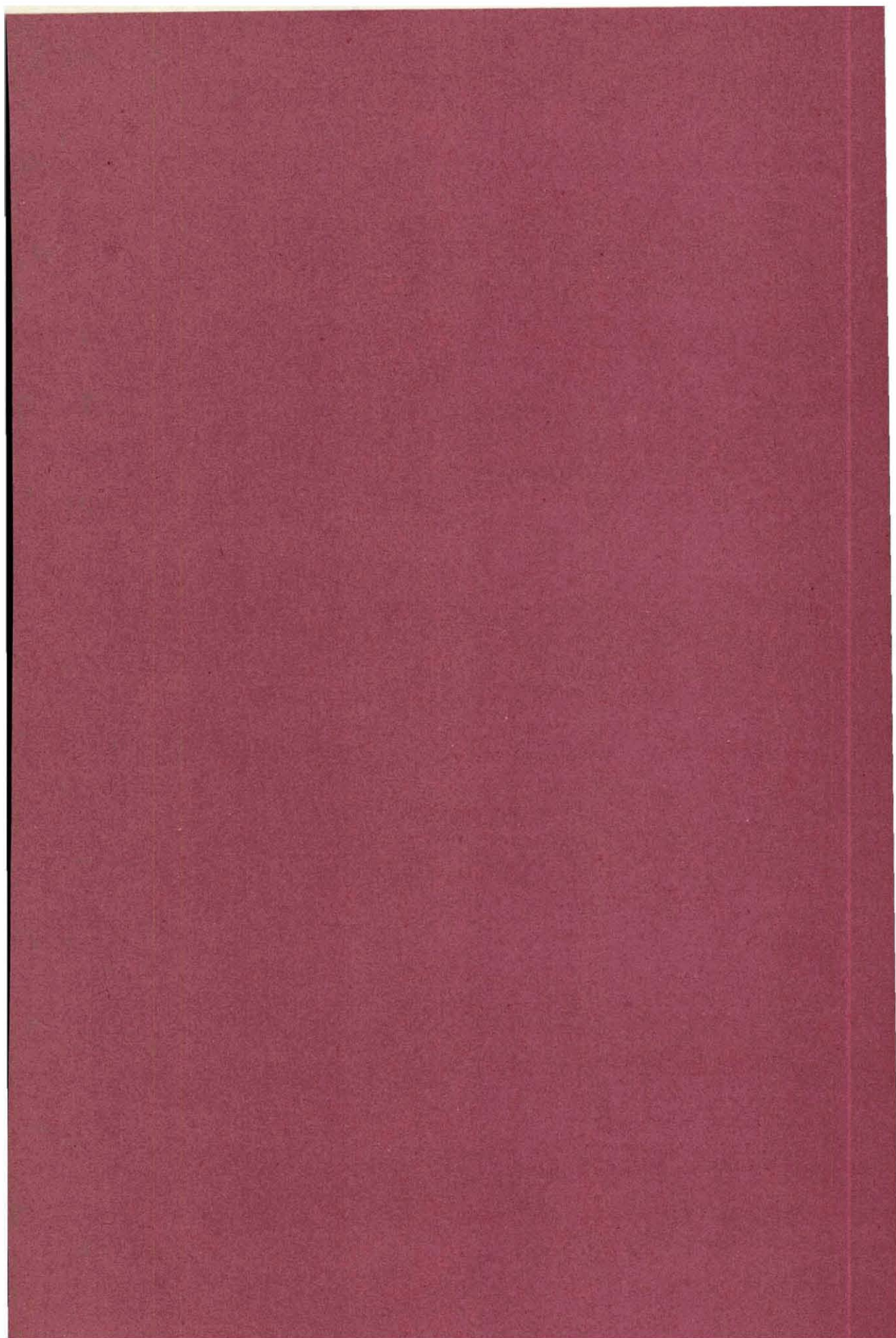
Definitions. The series are defined in general and specific terms in the "Notes on the Series Used" of the Statistical Bulletin, Volume II of the Annual Report. Changes made in each table are also explained briefly, including clarifications on the elimination of certain footnotes under the old tables.

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.c.	Not elsewhere classified

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:
THE PHILIPPINE
ECONOMY



The extraordinary events early in the year brought about the installation of a new government whose efforts to accelerate economic recovery resulted in a positive growth rate in GNP under conditions of relative price stability particularly during the latter part of the year. Despite a series of incidents suggesting attempts of certain groups to destabilize the new government, indications of an economic turnaround became evident beginning the third quarter of 1986 and became pronounced during the fourth quarter as the stability of domestic prices, interest rates and the exchange rate continued to provide an environment conducive to investment and growth.

The balance of payments yielded a significant surplus owing to the marked improvement in the current account arising from an expansion in earnings from exports of goods and services and a reduction in imports and service payments, aided no doubt by the sharp fall in oil prices and international interest rates. Due to amortizations on loans from multilateral financial institutions and the substantial decline in the amount of rescheduled medium- and long-term debt, however, the net inflow of non-monetary capital contracted sharply even as direct investments and the short-term capital account recorded considerable improvement. Nonetheless, the country's international reserve reached a comfortable level of \$2.5 billion, which in turn helped sustain the stability of the peso-dollar exchange rate.

Meanwhile, the deflationary trend in domestic prices continued at a reduced pace as the productive sectors started to respond favorably to economic policies aimed at stimulating the economy and enhancing productivity and efficiency. Preliminary estimates of national income accounts indicated a positive growth in aggregate output of 1.5 percent following two consecutive years of economic contraction. Responding to the immediate need to achieve economic recovery in the short-term and sustained growth over the long run, the economic program of the new administration adopted four broad principles and underlying strategies, namely: 1) the substantial reduction in the extent of government intervention in the economy; 2) the reestablishment of competitive markets; 3) renewed emphasis on rural development and on the equitable sharing of the fruits of sustained recovery; and 4) a more competitive and outward-looking economy through trade liberalization and flexible exchange rate policies.

In support of efforts to stimulate investment and productive activities, the thrust towards market orientation, deregulation and privatization was pursued more resolutely in monetary policy. A more relaxed monetary policy for the rest of the year was made possible with the relative stability of the exchange rate and the declining trend in domestic price movements beginning the second half of the period.

Monetary policy was eased by such measures as a further reduction in the reserve requirement by one percentage point in May and another in August on short-term bank deposit liabilities and by one percentage point in November on long-term deposit liabilities. Moreover, the rediscount rate was reduced to 10.0 percent in December 1986 from 12.75 percent at end-1985. The policy of redeeming CB Bills on maturity dates was also adopted in October when the auction method for Treasury Bill flotations was reintroduced.

The changes in monetary policy which increased the availability of credit at lower interest rates, also served to reduce banks' intermediation costs and lower lending rates. With the containment of inflation, real interest rates remained positive although nominal yields on traditional savings and time deposits as well as

on promissory issues of banks (MRR) dropped by as much as 2 to 8 percentage points, while nominal rates on secured loans fell to 17.4 percent in 1986 from 28.2 percent in 1985. With the relaxation of monetary policy, banks maintained relatively more liquid positions in 1986 as demand remained sluggish.

In the external sector, external debt management remained supportive of efforts to maintain the viability of the country's external payments position through the negotiation of multi-year debt restructuring based on longer grace/repayment periods and lower interest spreads as well as through the infusion of fresh credits. Negotiations with the International Monetary Fund were completed in July 1986 on the 1986-88 economic program which was subsequently approved by the IMF Executive Board in October 1986. Involving IMF drawings of SDR 198.0 million over an 18-month period starting November 1986 and SDR 224.0 million under the Compensatory Financing Facility (CFF), an initial drawdown of \$275.0 million representing the full amount of the CFF and the first tranche of the standby credit was released towards the end of October. Furthermore, the country obtained in December the third and final drawdown on the New Money Facility from foreign commercial banks. Along with other incentives to encourage investments, the debt-to-equity conversion program was introduced by the monetary authorities in August 1986 to channel the country's external debt into investments and to help ease the debt burden.

To improve efficiency and productivity and enhance the country's international competitiveness, the abolition of controls over imported items was further implemented. Under the import liberalization program which sought to ensure the availability of essential capital goods and raw materials for local business and to minimize, if not remove the excessive protection accorded local industries that had tended to subsidize inefficiency, restrictions on a total of 936 out of the 1,232 items scheduled for liberalization in different stages beginning 1986 were phased out by the end of the year. Liberalization of the remaining items will be pursued in 1987 until April 1988.

A privatization program intended to reduce the scope and size of government in economic activity was undertaken during the year with the approval of a divestment program for state-owned government corporations and the institution of reforms in government financial institutions through the adoption of revised charters and the installation of new management with substantial private sector participation in two major government banks. The sale of 40 percent equity of a government-acquired commercial bank to the private sector has been concluded while negotiations for the sale of two more government banks are currently underway.

The National Government, for its part, intensified pump-priming operations through higher expenditure levels towards the latter part of the year. This resulted in a higher budgetary deficit of P26.1 billion in 1986, more than double that incurred in 1985. Approximately half or P15.2 billion of the deficit was incurred in the fourth quarter following accelerated releases of funds to the government's emergency employment program which was implemented in July 1986 to generate livelihood opportunities and to create off-farm employment in the rural areas. On the revenue side, a comprehensive tax reform program was approved to strengthen the elasticity of the tax structure through such measures as the provision of higher tax exemptions for low income earners, simplification of the tax structure, increases in taxes on non-essential items, abolition of export taxes ex-

cept on logs, removal of tax and duty exemptions and the granting of tax amnesty in the second half of 1986.

The implementation of these vital policy measures, the institution of democratic reforms and the infusion of incremental inputs to recovery by way of external financial assistance resulted in improvements essential to the achievement of national goals.

**INTERNATIONAL
SECTOR**

Significant progress was achieved in the external sector in 1986 as reflected in the substantial build-up of the country's gross international reserves, the relatively stable exchange rate of the peso and the considerable improvement of the current account. Policies that would promote exports, maintain the competitiveness of Philippine products abroad and encourage the inflow of foreign investments continued to be implemented even as certain international developments such as lower oil prices and interest rates contributed to the improved external position. Moreover, the restoration of confidence in the country following the change in the national leadership in February 1986 had a significant positive influence on external performance during the year.

On the whole, preliminary data indicated an overall balance of payments surplus of \$1,247 million (with rescheduling) for 1986 on the strength of the favorable shift of the current account balance from a shortfall to a surplus position (Table 1). The overall balance of payments surplus was lower than the year-ago level due mainly to the sharp decline in actual loan availments and rescheduling. Without rescheduling, the overall BOP position would have stood at positive \$137 million compared to negative \$545 million in 1985.

CURRENT ACCOUNT DEVELOPMENTS

From a \$77 million deficit in 1985, current transactions yielded a surplus of \$1,022 million in 1986 (Figure 1). Underlying this strong performance were the expansion in invisible receipts and the recovery of the country's major exports coupled with lower commodity imports and service payments.

Merchandise Trade

The growth in exports by 4.6 percent to \$4,842 million together with the compression of imports by 1.3 percent to \$5,044 million contributed to the significant narrowing of the trade gap to \$202 million in 1986 from \$482 million a year ago. Exports advanced during the year on account of gains in major products such as garments, chemicals, coffee, gold, fish (fresh or preserved), and copra following a number of favorable developments in the international market (Table 2). These included the appreciation of major European currencies against the U.S. dollar, the successful penetration of non-quota markets particularly for garments, the production slump in a major coffee supplier country, and the uptrend in the demand for and price of shrimps and prawns in Japan. Furthermore, in the domestic scene, the increased production of phosphatic fertilizer made possible a rise in export shipments of chemicals while the continued implementation of a flexible exchange rate policy, the lifting of the export ban on copra and the lifting of export duties on all export products (except logs) provided an environment conducive to export growth. Meanwhile, depressed demand for semiconductor devices in the world market coupled with financial difficulties and labor problems confronting the domestic industry continued to affect the performance of the country's electronic exports. Moreover, low free market price of sugar discouraged export shipments to countries other than the U.S. where the price was relatively high.

In the case of imports, a significant decline was posted by mineral fuels and lubricants which, at \$869 million, represented a 40.2 percent drop from the 1985 level of \$1,452 million following the sharp reduction in the price of petroleum crude from an average of \$26.90 per barrel in 1985 to \$14.74 per barrel in 1986.

Table 1. BALANCE OF PAYMENTS
1985 & 1986
(In Million US Dollars)

Item	1986 ^P	1985
I. Current Transactions		
A. Merchandise Trade	-202	-482
Exports	4,842	4,629
Imports	5,044	5,111
B. Non-Merchandise Trade	783	26
Inflow	3,791	3,288
Outflow	3,008	3,262
C. Transfers	441	379
Inflow	445	388
Outflow	4	9
Current Account, Net	1,022	-77
II. Non-Monetary Capital		
D. Long-Term Loans	815	2,787
Inflow	2,545	3,962
Outflow	1,730	1,175
E. Direct Investment	114	-9
Inflow	186	124
Outflow	72	133
F. Short-Term Capital, Net	-814	-1,731
G. Errors and Omissions	-101	638
Non-Monetary Capital, Net	14	1,685
H. Monetization of Gold	279	221
I. Revaluation Adjustments	-68	-88
J. Unremittable Arrears	—	560
III. Overall BOP Position¹	1,247	2,301

¹Based on official concept; after exceptional financing

^PPreliminary

Source: Department of Economic Research-International, Central Bank of the Philippines

Table 2. EXPORTS BY MAJOR COMMODITY GROUP
1985 & 1986
(Volume in 000 MT; Unit Price in US\$/MT; FOB Value in US\$M)

Commodity Group	1986			1985		
	Volume	Price	Value	Volume	Price	Value
I. Traditional Exports			1,275			1,302
Coconut Products			470			459
Copra	125	144	18	-	-	-
Coconut Oil	1,249	267	333	651	533	347
Desiccated Coconut	68	647	44	65	1,169	76
Copra Meal/Cake	822	91	75	444	81	36
Sugar & Products			103			185
Centrifugal & Refined	222	392	87	572	295	169
Molasses	279	57	16	422	38	16
Forest Products ¹			201			199
Logs	297	91	27	454	86	39
Lumber	495	210	104	512	178	91
Plywood	239	234	56	238	214	51
Veneer Sheets/Corestocks	50	180	9	69	174	12
Others			5			6
Mineral Products			267			243
Copper Concentrates	360	250	90	344	244	84
Gold ²	395	354	140	323	310	100
Chromium Ore	118	93	11	126	95	12
Others			26			47
Fruits & Vegetables			137			136
Canned Pineapple	172	483	83	185	481	89
Pineapple Juice	30	200	6	30	233	7
Pineapple Concentrates	30	600	18	24	583	14
Others			30			26
Abaca Fibers	25	520	13	25	680	17
Tobacco Unmanufactured	17	1,235	21	20	1,200	24
Petroleum Products			63			39
II. Non-Traditional Exports			3,447			3,275
Non-Traditional Manufactures			2,879			2,765
Elec. & Elec. Eqpt./Parts & Telecom.			919			1,056
Garments			751			623
Textile Yarns/Fabrics			44			39
Footwear			31			39
Travel Goods & Handbags			12			10
Wood Manufactures			49			43

Continued Next Page

Commodity Group	1 9 8 6			1 9 8 5		
	Volume	Price	Value	Volume	Price	Value
Furniture & Fixtures			89			84
Chemicals			243			150
Copper Metal	130	1,323	172	129	1,302	168
Non-Metallic Mineral Manufactures			18			24
Machinery & Transport Equipment			45			30
Processed Food & Beverages			116			106
Misc. Mftrd. Articles, n.e.c.			159			136
Others			231			257
Non-Traditional Unmanufactures			568			510
Nickel	4	3,750	15	14	4,571	64
Iron Ore Agglomerates	3,587	24	85	4,022	24	95
Bananas	856	152	130	789	143	113
Mangoes	7	1,143	8	8	875	7
Coffee, Raw Not Roasted	43	2,767	119	31	2,258	70
Fish, Fresh/Simply Preserved	33	4,333	143	32	3,094	99
Rice			-			-
Others			68			62
III. Special Transactions			8			12
IV. Re-Exports			112			40
Total Exports			4,842			4,629

¹Volume in 000 cu. m.; unit price in US\$/cu.m.
²Volume in 000 ounces; unit price in US\$/oz.

Source of Basic Data: National Census and Statistics Office

Figure 1. CURRENT ACCOUNT AND MERCHANDISE
TRADE SURPLUS/DEFICIT
1975-1986

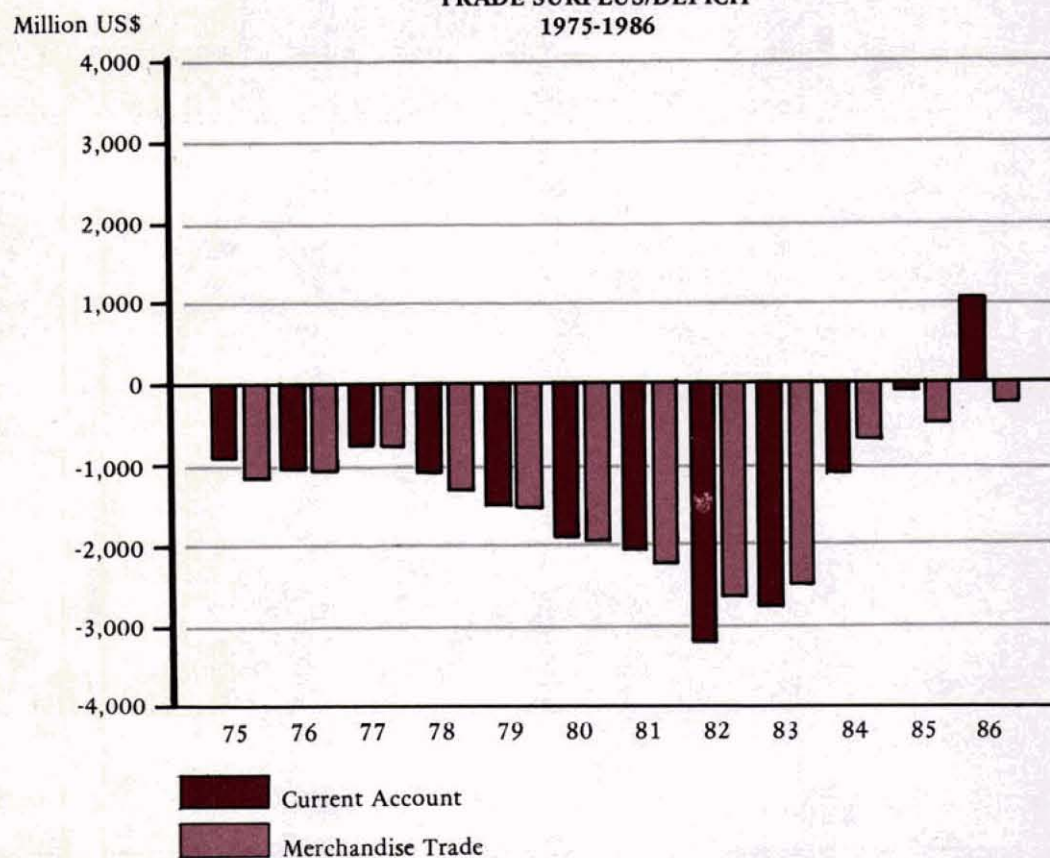
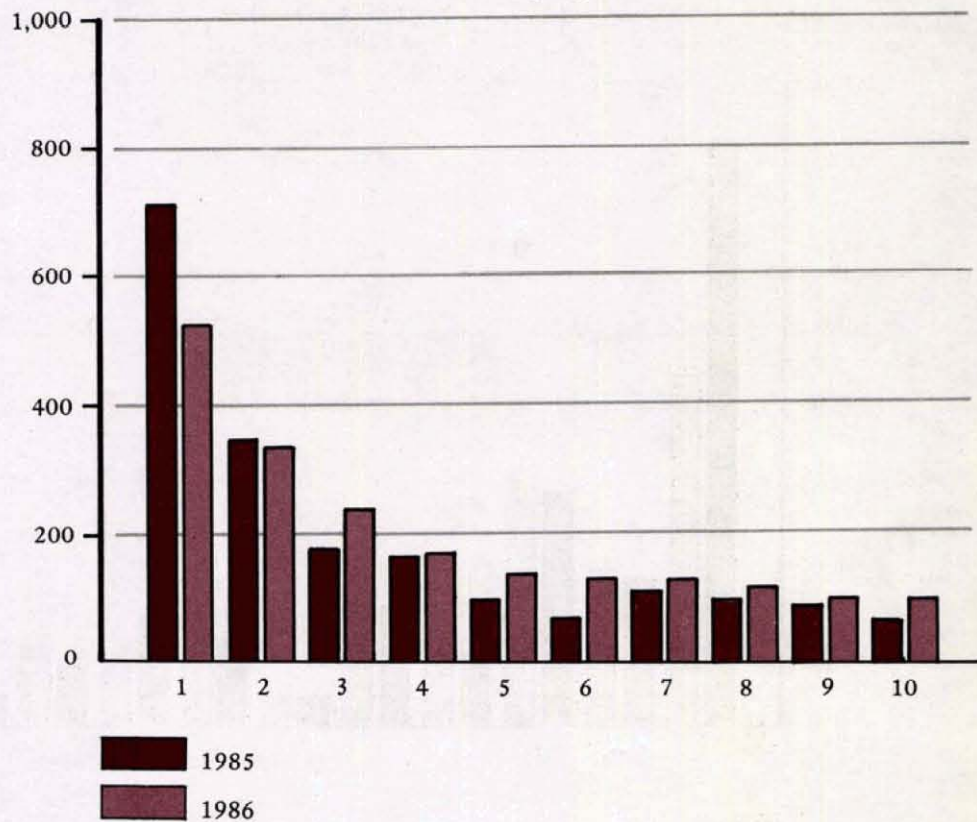


Figure 2. FOREIGN TRADE BY PRINCIPAL COMMODITIES
1985-1986

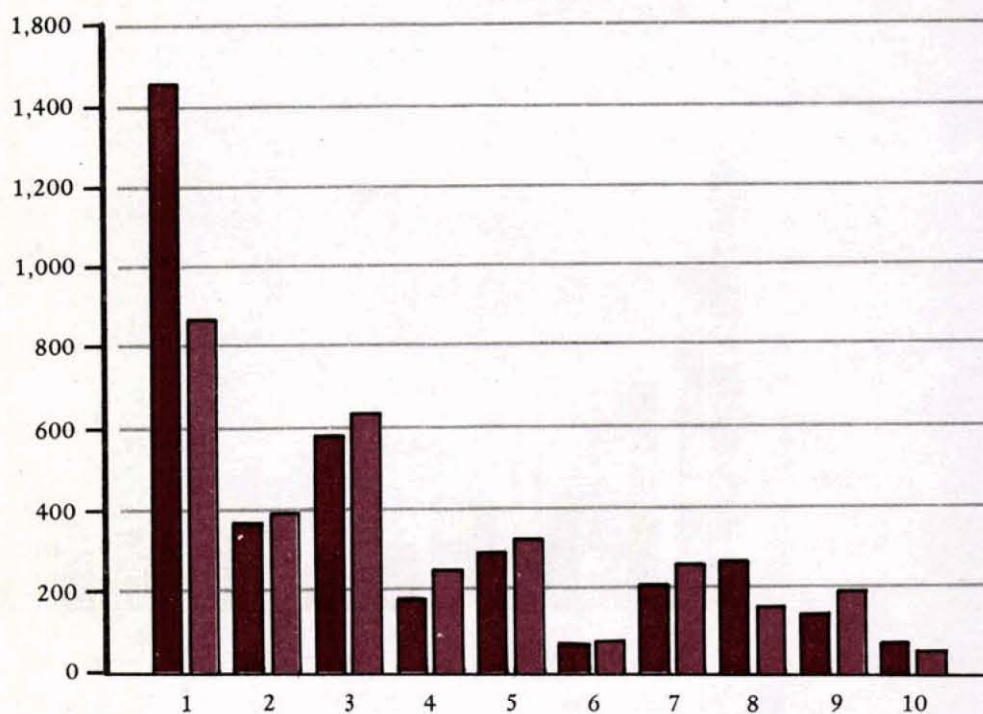
(FOB Million US\$)

Ten Leading Exports



1. Semi-Conductor Devices
2. Coconut Oil
3. Electronic Microcircuits
4. Copper Metal
5. Gold
6. Coffee, Raw Not Roasted
7. Bananas
8. Consigned Children's & Infant Wear
9. Lumber
10. Consigned Women's Wear

FOB Million US\$

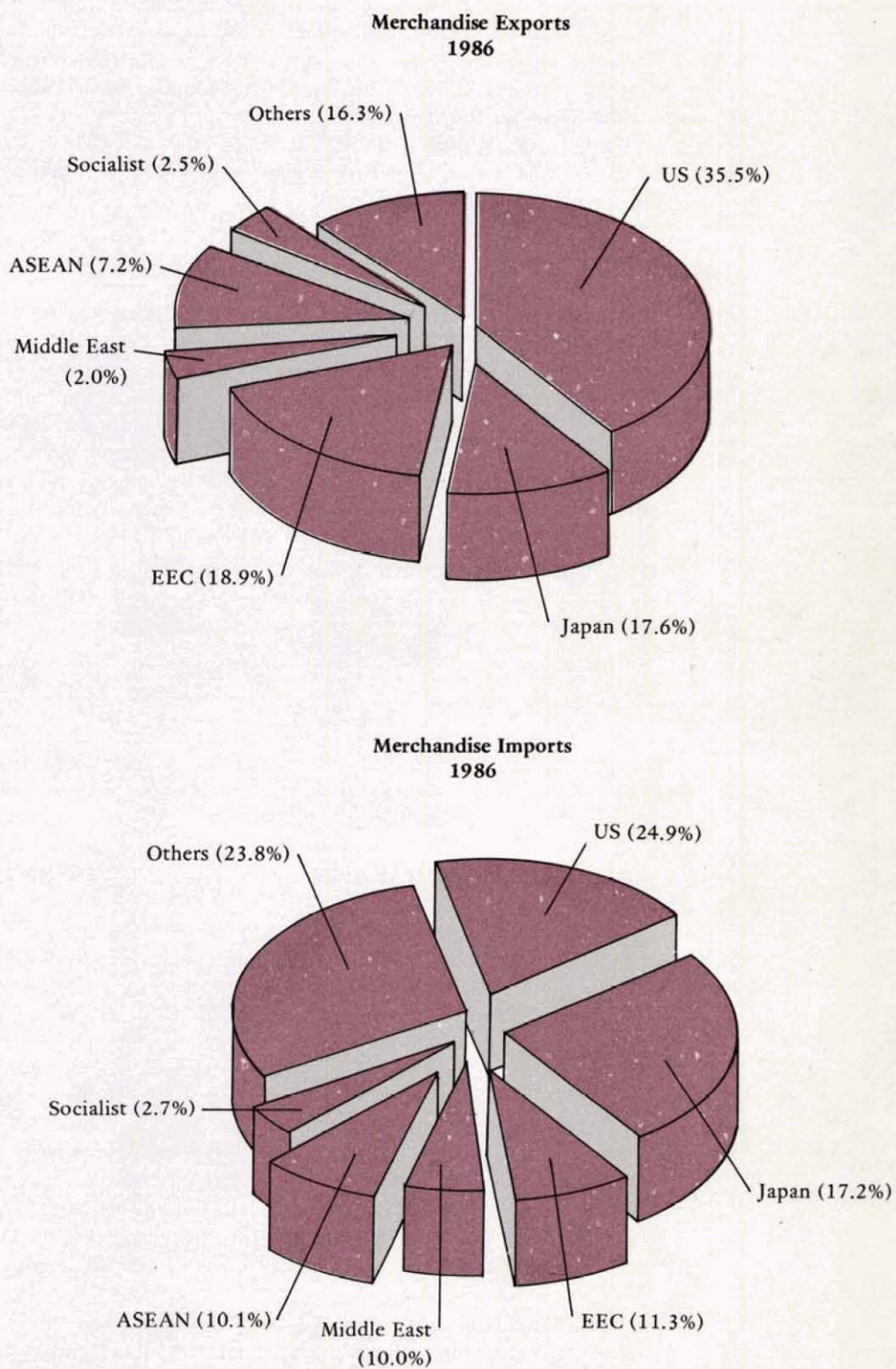
Ten Principal Imports
1985-1986

1985

1986

1. Mineral Fuels, Lubricants & Related Materials
2. Machinery Other Than Electric
3. Materials and Accessories for the Manufacture of Electronic Equipment
4. Base Metals
5. Elec. Machinery, Apparatus & Appliances
6. Transport Equipment
7. Chemical Elements & Compound
8. Cereals and Cereal Preparations
9. Explosives & Miscellaneous Chemical Materials & Products
10. Manufacture of Metals

Figure 3. FOREIGN TRADE BY AREAS AND COUNTRIES, 1986



Imports of consumer goods similarly decreased by 9.8 percent. In contrast, raw materials and intermediate goods rose by \$473 million or 21.5 percent to \$2,671 million during the year indicating some restocking in preparation for an upturn in economic activity. Imports of capital goods particularly electrical and non-electrical machinery similarly increased to \$864 million during the review period from \$788 million in 1985 (Table 3).

The net terms of trade index in 1986 improved to 82.1 (1972=100) from 55.9 a year ago (Table 4) as import prices declined at a faster pace than export prices (40.5 percent as against 12.6 percent).

Non-Merchandise Trade

The surplus on non-merchandise trade widened considerably to \$783 million in 1986, from \$26 million a year ago. The notable improvement was brought about mainly by the growth in service receipts by 15.3 percent to \$3,791 million on account of increases in foreign government expenditures in the country (by 95.7 percent), travel receipts (by 27.9 percent), and operating expenses of foreign companies (by 25.1 percent). The increase in foreign government expenditures, accounting for nearly three-fourths of the \$503 million expansion in service receipts, was traceable principally to the rise in the Economic Support Fund (ESF) provided by the U.S. government from \$62 million in 1985 to \$300 million in 1986. At the same time, payments for services dropped by 7.8 percent to \$3,008 million due mainly to the decline in interest expense to \$2,046 million from \$2,250 million a year ago, reflecting the continued softening of international interest rates.

Transfers

Transfers netted \$441 million during the year, up by 16.4 percent from the 1985 level. Inward transfers went up by \$57 million, the bulk of which came from private transfers, particularly personal remittances.

NON-MONETARY CAPITAL ACCOUNT

In 1986, there was a notable reduction in the net inflow of non-monetary capital from \$1,685 million in 1985 to \$14 million. The single factor behind the weakening of the capital account was the decline in MLT loan availments, particularly loans deemed rescheduled, from \$2,846 million to \$1,110 million as the Paris Club rescheduling in 1986 covered only the period January through June. With MLT loan outflows rising by almost half from the year-ago level owing to higher amortizations on loans from multilateral financial institutions, the net inflow from MLT loans dropped to \$815 million, from \$2,787 million in 1985.

The short-term capital account, on the other hand, improved substantially, registering a net outflow of \$814 million which was 53.0 percent lower than the 1985 record of \$1,731 million. While transactions under DAs and OAs recorded larger net repayments, those under short-term loans, particularly the Trade Facility where a large amount of trade credit was converted into CB deposits, recorded a lower net outflow of \$138 million.

Significantly, too, there was a turnaround in direct investments from a net outflow of \$9 million in 1985 to a net inflow of \$114 million as a result of

higher net inward remittances of head offices of foreign banks to their local branches, increase in technical fees and other expenses converted into equity, and the sustained inward repatriation of capital invested abroad by residents. There was also a noticeable decline by 45.9 percent to \$72 million in investment outflows, particularly capital for investment abroad.

INTERNATIONAL RESERVES

The Central Bank gross international reserves improved substantially after the February Revolution, reaching \$2,459 million at the end of 1986. At this new level, reserves were higher by \$1,398 million or 131.8 percent than the level prevailing a year ago and were sufficient to fund about 3.7 months' imports of goods and services.¹

Central Bank reserves improved to \$1,244 million at the end of March, after posting slippages in the first two months of 1986. An upsurge of sales of foreign exchange to the CB and the second drawdown of \$175 million from the New Money Facility boosted reserves. At the end of the second quarter, reserves grew further by \$358 million to \$1,602 million from the end-March level, chiefly owing to net foreign exchange purchases from the general public and the financial sector which were even more substantial than in the previous quarter, and the purchase by the Central Bank of the proceeds of the government's Asian Development Bank loan and the Economic Support Fund from the US. Reserves continued to climb by \$108 million during the third quarter reaching \$1,710 million at end-September, due mainly to continued net purchases of foreign exchange from the banking system, the decline in net withdrawals against deposits with the Central Bank under the Trade Facility, an increase in primary gold purchases and proceeds from the Eighth RP-Japan Commodity loan and the last drawdown from the Economic Support Fund. At the close of the fourth quarter, CB reserves totalled \$2,459 million, up by \$749 million or 43.8 percent from the end-September level. Contributing to the substantial increase during the quarter were the third and last drawdown of \$350 million from the New Money Facility with foreign commercial banks; the drawdown from the IMF's Compensatory Financing Facility (equivalent to \$269 million) and the first tranche of the existing standby arrangement (equivalent to \$6 million); proceeds of the RP-Japan Ninth Commodity loan (\$161 million); and the notable increase in CB primary gold purchases.

The Central Bank's international reserves at year-end consisted of foreign investments (65.2 percent), gold (32.5 percent), and foreign exchange holdings and special drawing rights (SDRs) which together accounted for 2.3 percent (Table 5).

EXCHANGE RATE

After coming under heavy pressure in the first two months of 1986, as a result of speculation caused by a very rapid expansion of government spending and political uncertainties surrounding the presidential election, the exchange rate of the peso against the US dollar exhibited significant stability for the remainder of

¹Based on the level of goods and services for 1986.

Table 3. IMPORTS BY COMMODITY GROUP
1985 & 1986
 (Volume in 000 MT; Unit Price in US\$/MT; FOB Value in US\$M)

Commodity Group	1 9 8 6			1 9 8 5		
	Volume	Price	Value	Volume	Price	Value
I. Capital Goods			864			788
Non-Electrical Machinery			395			366
Electrical Machinery			333			293
Transport Equipment			54			48
Aircraft, Ships & Boats			24			20
Prof., Scentfic. & Cont. Instrmnts.			58			61
II. Raw Materials & Intermediate Goods			2,671			2,198
Wheat	960	134	129	663	160	106
Crude Materials, Inedible			229			150
Cotton	43	768	33	21	1,197	25
Synthetic & Artificial Fibers	42	1,368	57	35	1,421	50
Others			139			75
Animal & Vegetable Oils & Fats			13			13
Chemicals			711			584
Chemical Compounds			272			219
Medicinal & Pharmaceutical			71			52
Urea	540	100	54	370	167	62
Fertilizer Excl. Urea	320	91	29	277	159	44
Others			285			207
Manufactures			654			508
Paper & Paper Products	176	416	73	152	429	65
Textile, Yarn, Fabric, Etc.			207			140
Iron & Steel	677	301	204	398	340	135
Metal Products			58			75
Others			112			93
Embroideries			253			196
Mat./Acc. for Mftr. of Elect. Eqpt.			640			585
Iron Ore Not Agglomerated	2,575	16	42	3,389	17	56
III. Mineral Fuels and Lubricants ¹			869			1,452
Coal, Coke and Briquettes			42			50
Petroleum Crude	49.39	14.74	728	47.47	26.90	1,277
Other Mineral Fuels & Lubricants	6.71	14.79	99	5.01	25.02	125

Continued Next Page

Table 3 Continuation

Commodity Group	1 9 8 6			1 9 8 5		
	Volume	Price	Value	Volume	Price	Value
IV. Consumer Goods			398			441
Food & Live Animals for Food			271			320
Dairy Products	106	928	98	83	867	72
Fish & Fish Preparations	33	265	9	5	259	1
Rice	-	-	-	538	205	110
Corn	-	-	-	281	119	34
Others			164			103
Beverages & Tobacco			72			76
Miscellaneous Instruments			55			45
V. Special Transactions			242			232
Total Imports			5,044			5,111

¹Volume in million barrels; unit price in US\$/barrel
Source of Basic Data: National Census and Statistics Office

Table 4. INDICES OF FOREIGN TRADE
1983-1986
(1972=100)

Period	Exports		Imports		Net Terms of Trade	Purchasing Power of Exports
	Volume	Prices ¹	Volume	Prices ²		
1983 ^r	204.2	210.0	156.9	342.4	61.3	125.1
1984	199.4	231.4	112.0	386.8	59.8	119.3
1985	195.0	203.2	100.8	363.8	55.9	108.9
1986	233.4	177.5	167.9	216.3	82.1	191.6

¹Computed on F.O.B. basis
²Computed on C.I.F. basis
Source: National Census and Statistics Office

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AR TAB 5

Table 5. INTERNATIONAL RESERVES OF THE CENTRAL BANK¹
As of Dates Indicated
(In Million US Dollars)

End of Period	Total	Gold	SDRs	Foreign Investments	Foreign Exchange
1985 Jan	900.57	308.75	3.47	506.40	81.95
Feb	665.47	325.01	2.95	254.35	83.16
Mar	587.96	333.66	0.78	136.63	116.89
Apr	823.31	357.21	9.79	366.59	89.72
May	949.34	379.75	0.07	508.13	61.39
Jun	1,036.91	408.70	0.13	565.36	62.72
Jul	1,025.82	426.20	11.43	496.71	91.48
Aug	1,542.91	446.03	3.83	847.27	245.78
Sep	1,436.57	459.07	1.55	516.93	459.02
Oct	1,228.97	477.30	10.98	608.77	131.92
Nov	1,132.93	489.41	0.10	492.27	151.15
Dec	1,061.14	501.03	37.99	365.57	156.55
1986 Jan	951.62	505.68	17.71	325.92	102.31
Feb	898.05	512.46	8.14	276.25	101.20
Mar	1,243.56	560.63	5.70	502.76	174.47
Apr	1,435.52	581.11	13.95	637.46	203.00
May	1,594.24	589.32	2.11	867.09	135.72
Jun	1,601.79	609.63	2.18	921.50	68.48
Jul	1,704.16	649.09	13.51	951.94	89.62
Aug	1,670.91	668.68	2.07	911.53	88.63
Sep	1,710.35	680.51	2.08	952.52	75.24
Oct	1,904.79	704.68	13.52	1,113.01	73.58
Nov	1,884.37	731.71	0.01	1,104.11	48.54
Dec	2,458.98	798.67	5.69	1,602.84	51.78

¹With revaluation; SGV adjustments are reflected

Source: Treasury, Central Bank of the Philippines

the year (Figure 5). The conclusion of the February Revolution brought calm into the foreign exchange market. From March onwards, the peso remained relatively firm and steady as inflation continued to decline and foreign investors' confidence in the economy gradually returned. During the same period, the parallel market rate stood generally lower than the comparable rate at the official market. Meanwhile, Central Bank purchases of foreign exchange exceeded official sales, with consequent beneficial effects on the level of international reserves (Table A-05).

The local currency moved up from P19.10 per US dollar at end-January to P21.98 at end-February before strengthening to P20.60 in March. Thereafter, end-of-month rates moved narrowly between P20.43 and P20.58 and stood at P20.53 in December, depreciating in terms of the US dollar by 7.3 percent from its level at end-1985 (Table 6).

Over the year, the peso cross exchange rates vis-a-vis selected major currencies, however, reflected relatively larger depreciations, as follows: the Swiss franc by 38.3 percent, the Deutsche mark, 37.4 percent; the Japanese yen, 35.7 percent; the French franc, 28.0 percent; and the pound sterling, 10.6 percent. The considerable depreciations of the peso versus these major currencies resulted mainly from the continued substantial nominal depreciation of the US currency against main non-dollar currencies in line with the Group of Five (G-5) September 1985 accord to bring about an orderly depreciation of the dollar so that exchange rates could better reflect fundamental economic conditions among the major industrial nations.

The peso cross rates versus a number of Asian currencies except the Indonesian rupiah against which it appreciated by 36.7 percent, likewise weakened over the same period, as follows: against the New Taiwan dollar by 19.0 percent; the South Korean won, 11.2 percent; the Hongkong dollar, 8.0 percent; the Thai baht, 5.4 percent; the Singapore dollar, 4.4 percent; and the Malaysian dollar, 1.0 percent.

In terms of changes in the nominal effective exchange rate (NEER) index, an indicator of the average exchange value of the peso against a total trade-weighted basket of currencies, the peso in December 1986 depreciated by 14.1 percent compared to its level a year earlier. Meanwhile, the average index of the peso's real effective exchange rate (REER), i.e., the NEER adjusted for inflation differential with the country's major trading partners, declined by 15.0 percent over the year to December 1986 (Figure 5-A).

FOREIGN EXCHANGE LIABILITIES

Philippine foreign exchange liabilities aggregated US\$28,256 million at end-December 1986. The expansion in the outstanding level over the year amounting to \$2,004 million was traceable to the drawdown of the \$175 million second tranche of the New Money Facility in January and the final drawdown of \$350 million in December, the adjustments arising from exchange rate revaluation of third-currency loans, and increases in CB direct loans and in banking and public sector medium- and long-term obligations.

The debts of the public non-banking sector, the private sector and the banking system accounted for 48.2 percent, 14.8 percent and 35.1 percent, respectively, of total external liabilities while red clause drawings comprised 1.9 percent of the total.

Table 6. EXCHANGE RATES OF THE PESO
End of Month, 1985-1986
(Pesos Per Unit of Foreign Currency)

Period	US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	HK Dollar	Singapore Dollar	S. Korea Won	NT Dollar	Malaysian Dollar	Indo Rupiah	Thai Baht
1985 Jan	18.400	0.0722	5.8070	20.8380	1.9007	6.8816	2.3607	8.3370	0.022190	0.4728	7.3968	0.0189	0.6734
Feb	18.359	0.0708	5.5205	20.0113	1.8083	6.4972	2.3554	8.2707	0.022141	0.4626	7.2573	0.0189	0.6535
Mar	18.467	0.0729	5.9186	22.6959	1.9371	6.9934	2.3693	8.3563	0.021957	0.4727	7.3277	0.0190	0.6777
Apr	18.493	0.0733	6.0009	23.0700	1.9658	7.1586	2.3781	8.3218	0.021488	0.4734	7.4637	0.0190	0.6879
May	18.490	0.0734	6.0018	23.5932	1.9673	7.1223	2.3796	8.3334	0.021300	0.4696	7.4921	0.0190	0.6748
Jun	18.465	0.0742	6.0509	23.9214	1.9868	7.2345	2.3801	8.2580	0.021511	0.4671	7.4377	0.0190	0.6776
Jul	18.666	0.0788	6.6506	26.5990	2.1820	8.1402	2.4097	8.5079	0.021391	0.4666	7.5839	0.0192	0.6850
Aug	18.605	0.0784	6.6884	26.0190	2.1879	8.1620	2.3851	8.2606	0.021116	0.4632	7.5294	0.0191	0.7125
Sep	18.640	0.0854	6.9676	26.2078	2.2815	8.5110	2.3971	8.7813	0.020970	0.4641	7.6703	0.0191	0.6934
Oct	18.755	0.0883	7.1231	26.9040	2.3368	8.6985	2.4062	8.8148	0.021080	0.4707	7.6801	0.0193	0.7126
Nov	18.758	0.0932	7.3718	27.5930	2.4179	8.9550	2.4047	8.9794	0.021065	0.4727	7.7470	0.0193	0.7165
Dec	19.032	0.0938	7.6032	27.1872	2.4779	9.0459	2.4379	8.9907	0.021449	0.4777	7.8278	0.0196	0.7422
1986 Jan	19.1030	0.0992	8.0500	27.1931	2.6266	9.4846	2.4490	8.9478	0.021490	0.4871	7.7348	0.0196	0.7182
Feb	21.9790	0.1218	9.9213	32.3091	3.2265	11.7389	2.8199	10.2312	0.024902	0.5670	8.8707	0.0226	0.8395
Mar	20.6000	0.1146	8.8291	30.3850	2.8695	10.5739	2.6368	9.4924	0.023381	0.5335	8.0154	0.0212	0.7848
Apr	20.5000	0.1220	9.4177	31.6827	2.9561	11.2504	2.6342	9.3603	0.023247	0.5330	7.9847	0.0211	0.7872
May	20.5020	0.1191	8.8835	30.4762	2.7903	10.7450	2.6283	9.2156	0.023249	0.5371	7.7948	0.0211	0.7831
Jun	20.5800	0.1244	9.3494	31.5388	2.9326	11.4260	2.6362	9.3762	0.023378	0.5453	7.8245	0.0211	0.7902
Jul	20.4255	0.1317	9.7082	30.5259	2.9821	12.1102	2.6165	9.3916	0.023182	0.5392	7.7780	0.0210	0.7843
Aug	20.4700	0.1311	9.9750	30.2444	3.0459	12.3741	2.6242	9.4919	0.023376	0.5526	7.8666	0.0210	0.7860
Sep	20.4480	0.1331	10.1299	29.3940	3.0917	12.4896	2.6214	9.4224	0.023392	0.5582	7.8050	0.0125	0.7852
Oct	20.4360	0.1277	10.0953	28.8760	3.0899	12.2248	2.6219	9.3617	0.023521	0.5619	7.8004	0.0125	0.7806
Nov	20.4360	0.1253	10.2813	29.2541	3.1389	12.3331	2.6260	9.3331	0.023644	0.5640	7.8576	0.0124	0.7786
Dec	20.5300	0.1273	10.4477	30.0559	3.1718	12.5089	2.6339	9.3822	0.023855	0.5686	7.9081	0.0124	0.7821

Source: Treasury, Central Bank of the Philippines

Table 6A. EXCHANGE RATES OF THE PESO¹
End of Month; 1985-1986
(Units of Foreign Currency Per Peso)

Period	US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	HK Dollar	Singapore Dollar	S. Korea Won	NT Dollar	Malaysian Dollar	Indo Rupiah	Thai Baht
1985 Jan	0.054348	13.850416	0.172206	0.047989	0.526122	0.145315	0.423603	0.119947	45.065345	2.115059	0.135194	52.910053	1.485001
Feb	0.054469	14.124294	0.181143	0.049972	0.553006	0.153912	0.424556	0.120909	45.165078	2.161695	0.137792	52.910053	1.530222
Mar	0.054151	13.717421	0.168959	0.044061	0.516236	0.142992	0.422066	0.119670	45.543562	2.115507	0.136468	52.631579	1.475579
Apr	0.054075	13.642565	0.166642	0.043346	0.508699	0.139692	0.420504	0.120166	46.537602	2.112379	0.133982	52.631579	1.453700
May	0.054083	13.623978	0.166617	0.042385	0.508311	0.140404	0.420239	0.119999	46.948357	2.129472	0.133474	52.631579	1.481921
Jun	0.054157	13.477089	0.165265	0.041804	0.503322	0.138227	0.420150	0.121095	46.487843	2.140869	0.134450	52.631579	1.475797
Jul	0.053573	12.690355	0.150362	0.037595	0.458295	0.122847	0.414989	0.117538	46.748633	2.143163	0.131858	52.083333	1.459854
Aug	0.53749	12.755102	0.149513	0.038433	0.457059	0.122519	0.419270	0.121057	47.357454	2.158895	0.132813	52.356021	1.403509
Sep	0.53648	11.709602	0.143521	0.038157	0.438308	0.117495	0.417171	0.113878	47.687172	2.154708	0.130373	52.356021	1.442169
Oct	0.053319	11.325028	0.140388	0.037169	0.427936	0.114962	0.415593	0.113446	47.438330	2.124495	0.130207	51.813472	1.403312
Nov	0.053311	10.729614	0.135652	0.036241	0.413582	0.111669	0.415852	0.111366	47.472110	2.115507	0.129082	51.813472	1.395673
Dec	0.052543	10.660981	0.131524	0.036782	0.403568	0.110547	0.410189	0.111226	46.622220	2.093364	0.127750	51.020408	1.347346
1986 Jan	0.052348	10.080645	0.124224	0.036774	0.380720	0.105434	0.408330	0.111759	46.533271	2.052967	0.129286	51.020408	1.392370
Feb	0.045498	8.210181	0.100793	0.030951	0.309933	0.085187	0.354623	0.097740	40.157417	1.763668	0.112731	44.247788	1.191185
Mar	0.048544	8.726003	0.113262	0.032911	0.348493	0.094572	0.379248	0.105347	42.769770	1.874414	0.124760	47.169811	1.274210
Apr	0.048780	8.196721	0.106183	0.031563	0.338284	0.088886	0.379622	0.106834	43.016303	1.876173	0.125240	47.393365	1.270325
May	0.048776	8.396306	0.112568	0.032812	0.358384	0.093067	0.380474	0.108512	43.012603	1.861851	0.128291	47.393365	1.276976
Jun	0.048591	8.038585	0.106959	0.031707	0.340994	0.087520	0.379334	0.106653	42.775259	1.833853	0.127804	47.393365	1.265502
Jul	0.048958	7.593014	0.103006	0.032759	0.335334	0.082575	0.382190	0.106478	43.136917	1.854599	0.128568	47.619048	1.275022
Aug	0.048852	7.627765	0.100251	0.033064	0.328310	0.080814	0.381069	0.105353	42.778919	1.809627	0.127120	47.619048	1.272265
Sep	0.048905	7.513148	0.098718	0.034021	0.323447	0.080067	0.381476	0.106130	42.749658	1.791473	0.128123	80.000000	1.273561
Oct	0.048933	7.830854	0.099056	0.034631	0.323635	0.081801	0.381403	0.106818	42.515199	1.779676	0.128199	80.000000	1.281066
Nov	0.048933	7.980846	0.097264	0.034183	0.318583	0.081083	0.380807	0.107146	42.294028	1.773050	0.127265	80.645161	1.284357
Dec	0.048709	7.855460	0.095715	0.033271	0.315278	0.079943	0.379665	0.106585	41.919933	1.758706	0.126453	80.645161	1.278609

¹ Computed from Table 6

Source of Basic Data: Treasury, Central Bank of the Philippines

Figure 4. INTERNATIONAL RESERVES OF THE CENTRAL BANK
1985-1986

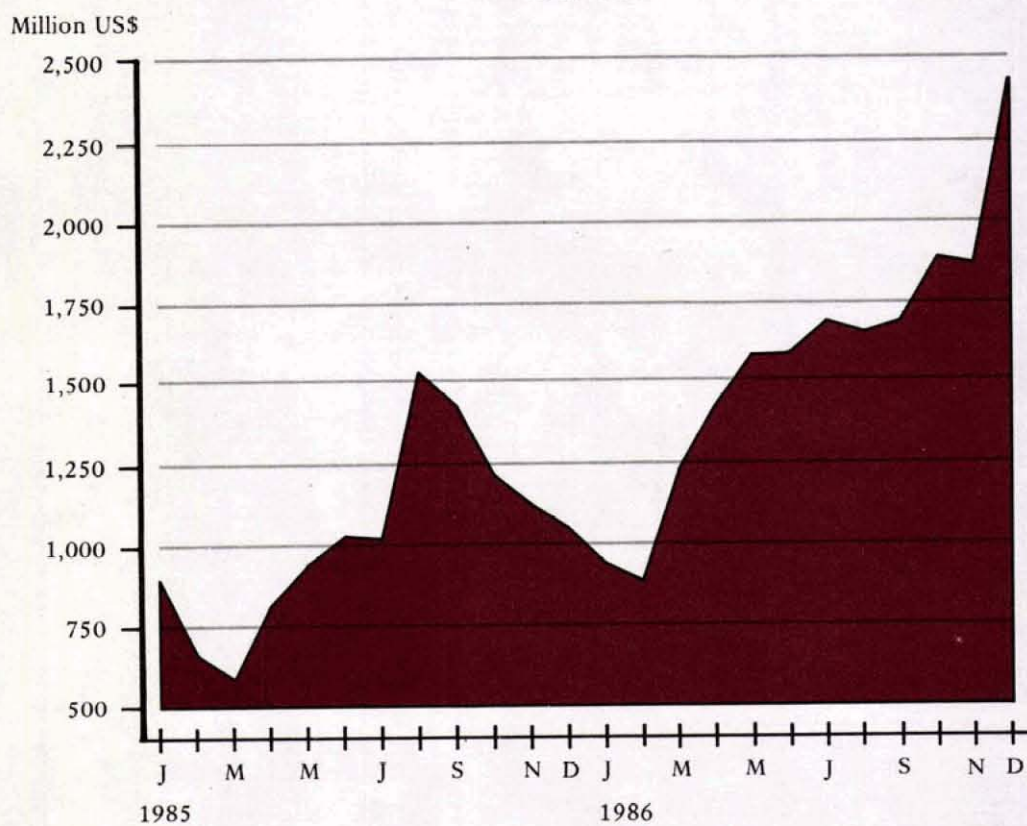


Figure 5. PESO PER U.S. DOLLAR
1985-1986 (Monthly Averages)

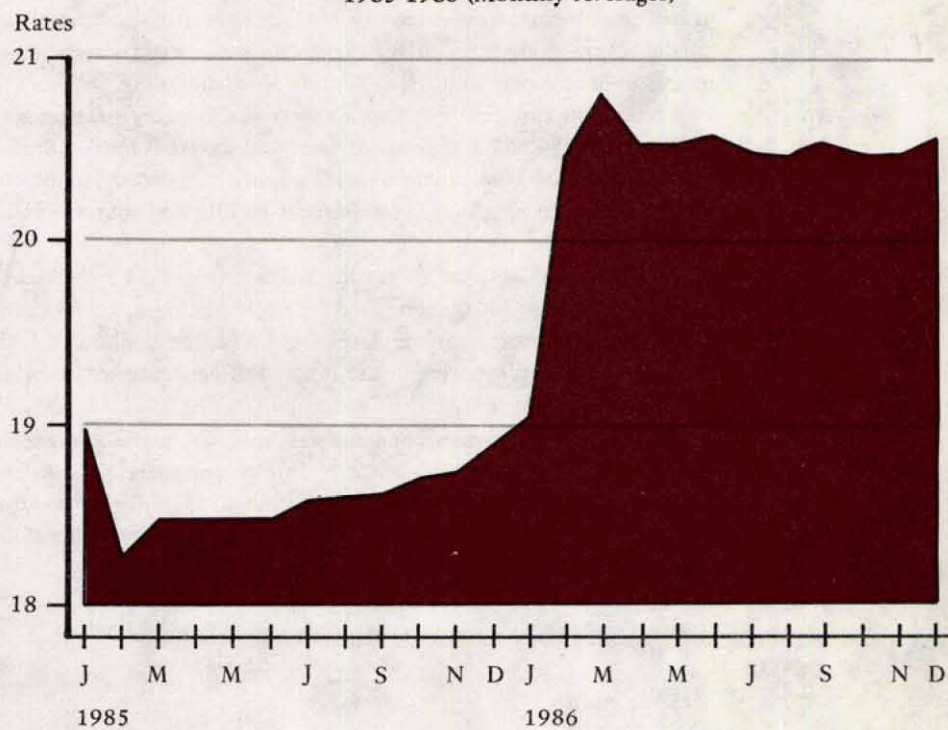
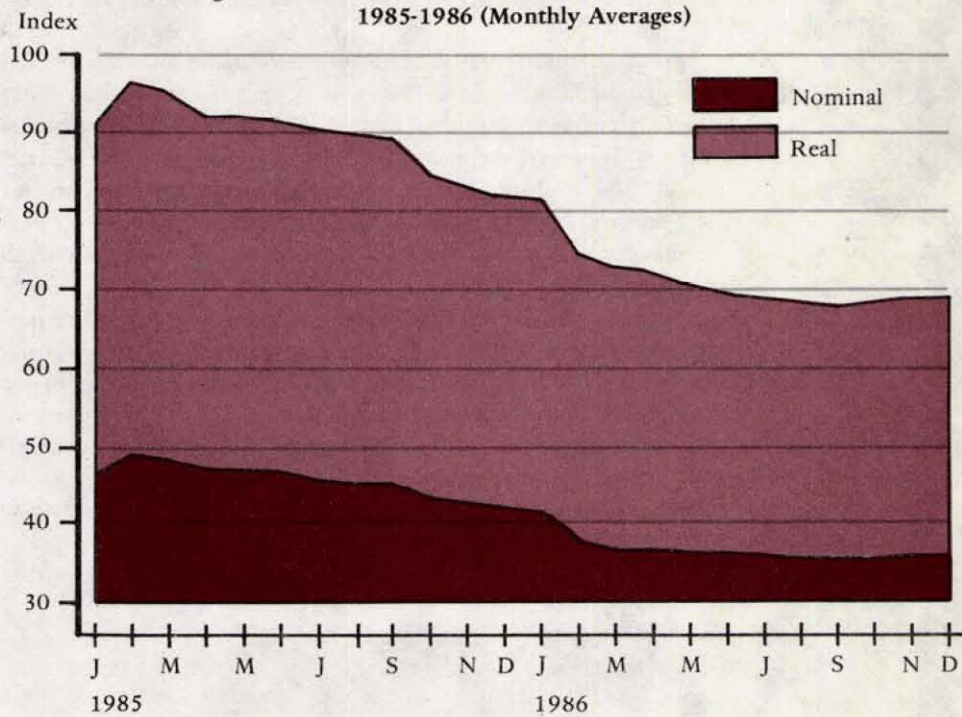


Figure 5A. EFFECTIVE EXCHANGE RATES OF THE PESO
1985-1986 (Monthly Averages)



By maturity, 19.0 percent were short-term liabilities while the remaining 81.0 percent had maturities in excess of one year. This pattern which showed a significant improvement compared to the 32.7 percent short-term and 67.3 percent medium- and long-term maturity profile recorded a year ago reflected adjustments in debt categorization as a result of rescheduling.

Banks and financial institutions were the country's major creditors. At end-December 1986, 57.3 percent of the total external indebtedness were owed to commercial banks and financial institutions; 16.6 percent to multilateral agencies; 10.9 percent to suppliers; 13.9 percent to bilateral sources; and 1.3 percent to other sources.

The outstanding level of trade credits covered by the Trade Facility at the end of December 1986 aggregated US\$2,981 million, US\$8 million higher than the confirmed commitment level of US\$2,973 million. Of the outstanding amount, 41.2 percent were in the form of direct trade credits while 58.8 percent consisted of deposits with the Central Bank.

During the year, the country was able to reschedule external obligations amounting to \$731 million owed to foreign commercial banks and \$379 million from official creditors. In addition to the \$525 million drawdown of the New Money Facility from commercial banks, the country was also able to obtain fresh credits from official sources amounting to \$246 million.

DOMESTIC MONEY, CREDIT AND INTEREST RATES SECTOR

Reserve Money

Reserve money developments reflected efforts to counteract destabilizing pressures particularly during the early part of the year as well as policy actions taken in support of the new government's determination to turn the economy around in 1986.

More specifically, reserve money rose to P40.8 billion as of end-February 1986 or by P2.8 billion from end-1985 with the increase in CB net credits to the National Government and overdraft accommodations to banks hard-hit by deposit withdrawals. However, the excess liquidity generated by these transactions was completely siphoned off through open market operations beginning the third week of February 1986 through March 1986. By end-March 1986, reserve money was trimmed down to P40.4 billion, a level which was well within the March 1986 program limits.

From its end-March 1986 level, reserve money during the next two quarters was reduced to P38.0 billion as of end-June 1986 and P39.5 billion as of end-September 1986 (Figure 6), notwithstanding the unwinding of some P2.6 billion in CB Bills and reverse RPs during these two quarters as the yields on these instruments were reduced to encourage investments. The decline in reserve money was due to the repayment of overdrafts and regular rediscount credits of some banks with improved financial positions following the reductions in reserve requirement in May and August.

With the CB continuing its policy of monetary relaxation to accommodate the growth objective, mainly through the phase-out of Central Bank Bills, reserve money rose in the fourth quarter of 1986 and reached P50.0 billion by year-end with some P5.6 billion or about 50 percent of the P12.0 billion total increment during the year taking place in December 1986 alone.

Efforts of the monetary authorities to bring down reserve money closer to program levels in December 1986 were constrained by the unusually strong public preference for currency. The seasonal increase in currency demand and the acceleration of the government's pump-priming activities in the form of rural infrastructure spendings, salary increases and bonuses for government employees in December 1986 contributed to the 24.9 percent increase in currency issue from end-November 1986.

Meanwhile, base money (defined as reserve money plus reserve-eligible government securities of deposit money banks) stood at P54.8 billion as of end-1986, higher by P11.4 billion than its end-1985 level. Base money movement during the year was the overall result of the expansion of P12.0 billion in reserve money and of the decline by P0.7 billion in reserve-eligible government securities in line with the policy to phase-out the reserve-eligibility feature of government securities effective March 1986 (Table 7).

Figure 6. RESERVE MONEY
(Annual Growth Rates)
1985-1986

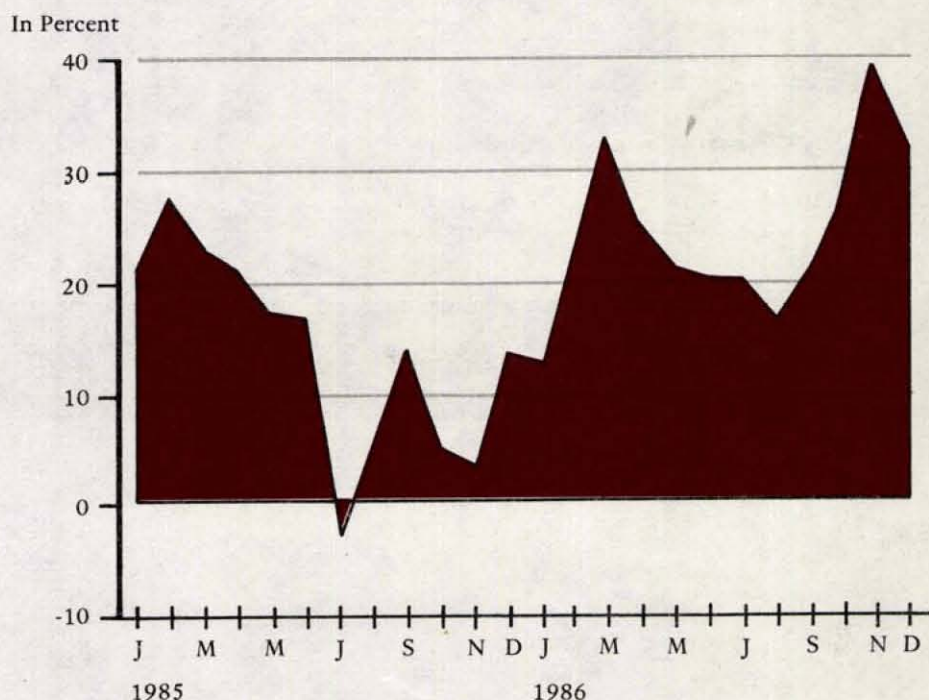


Table 7. SOURCES OF RESERVE MONEY MOVEMENTS
As of End 1985-1986
(In Million Pesos)

Item	December 1986 ^P	December 1985	Percent Change
I. Reserve Money	49,984	37,986	31.6
1.0 Currency Issued Net of Cash in Treasury Vault	34,291	27,444	24.9
2.0 Bank Deposit Balances with the Central Bank	15,693	10,542	48.9
II. Net Foreign Assets - Monetary Authorities (MA)	-98,968	-84,502	17.1
1.0 Net International Reserves - MA	-18,689	-34,886	-46.4
1.1 Gross International Reserves	50,451	20,163	150.2
1.2 Short-Term Foreign Liabilities	-69,140	-55,049	25.6
2.0 Medium- and Long-Term Foreign Liabilities (Net)	-80,279	-49,616	61.8
III. Net Domestic Assets - MA	148,952	122,488	21.6
Of Which:			
1.0 Net Credits to the National Government (MA)	2,820	13,024	-78.3
of which:			
National Government Deposits >	-14,881	-8,272	79.9
2.0 Assistance to Financial Institutions	13,741	13,748	-
of which:			
Overdrafts	9,899	9,752	1.5
3.0 Regular Rediscounting	6,896	8,297	-16.9
4.0 CB Bills/Reverse RPs	-30,275	-31,606	-4.2
5.0 Forward Cover Differential	22,428	21,734	3.2
Memo Items:			
Reserve-Eligible Government Securities	4,844	5,468	-11.4
Base Money	54,828	43,454	26.2

Source: Accounting Department, Central Bank of the Philippines

Domestic Liquidity

Following the substantial expansion in reserve money, domestic liquidity (M3) at P149.8 billion at end-December 1986 increased by P16.9 billion or at an annual rate of 12.7 percent, well below the programmed growth target of 13.0 percent. The annual growth of liquidity in 1986 was, however, higher than the 9.6 percent growth in 1985 following the more liberal monetary policy stance in 1986 (Figure 7).

The impact of the increase in reserve money on the growth of liquidity was dampened by the rise in currency holdings of the public vis-a-vis bank deposits and the higher excess reserves of banks which depressed the money multiplier (i.e., the ratio of domestic liquidity to base money) from an average of 3.039 in 1985 to 2.844 in 1986. The increase in currency holdings of the public was due mainly to the continued preference for cash prompted by the uncertainties of the times coupled with declining nominal interest rates. The excess reserve position of banks stemmed from the relaxation in monetary policy and the continued slack in demand for bank loans.

Figure 7. DOMESTIC LIQUIDITY
(Annual Growth Rates)
1985-1986

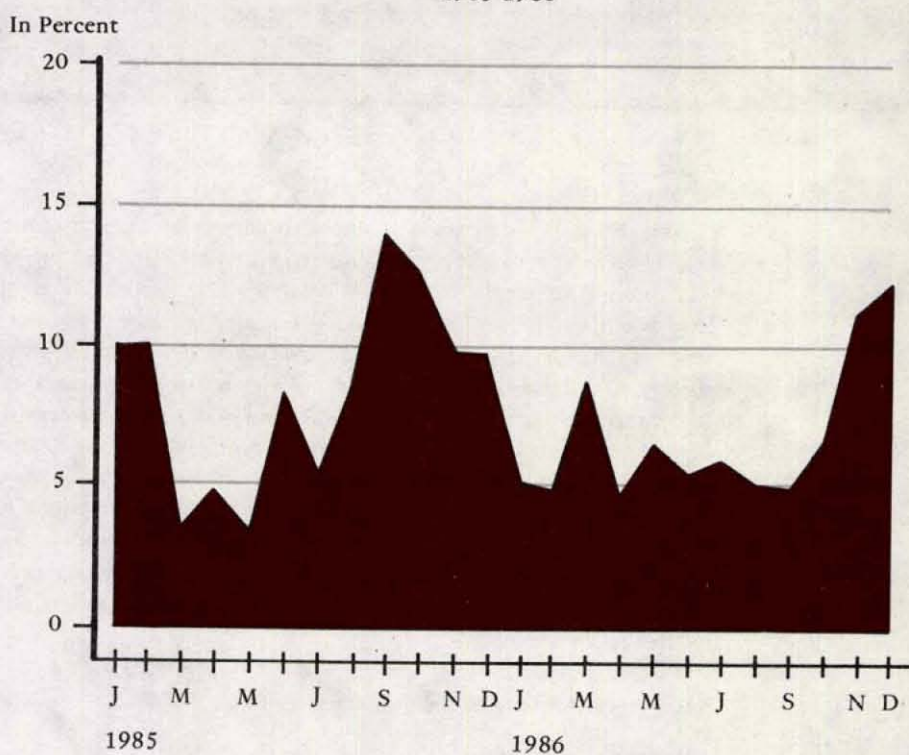


Table 8. DOMESTIC LIQUIDITY
As of End 1985-1986
(In Million Pesos)

Item	1986 ^P		1985		Percent Change	
	Level	Percent Share	Level	Percent Share	1986	1985
Domestic Liquidity	149,224	100.0	132,882	100.0	12.3	9.6
Money Supply	42,725	28.6	35,826	27.0	19.3	6.5
Currency in Circulation	29,388	19.7	24,066	18.1	22.1	10.4
Demand Deposits	13,337	8.9	11,760	8.9	13.4	-0.6
Quasi-Money	97,577	65.4	88,447	66.5	10.3	15.9
Savings Deposits	61,205	41.0	46,412	34.9	31.9	21.5
Time Deposits	36,372	24.4	42,035	31.6	-13.5	10.3
Deposit Substitutes	8,922	6.0	8,609	6.5	3.6	-23.7

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

The rise in liquidity was accounted for largely by the substantial 19.6 percent expansion in money supply which reached P42.9 billion at the end of 1986. In particular, currency in circulation grew by 22.2 percent, more than double its growth of 10.4 percent in 1985. Quasi-money (savings plus time deposits) likewise went up by 10.8 percent and continued to account for the bulk or 65.4 percent of total domestic liquidity. Savings deposits registered an increment of 32.5 percent which offset the 13.1 percent decline in time deposits. Meanwhile, deposit substitutes grew by 3.6 percent to reach P8.9 billion (Table 8).

The expansion in savings deposits was reflective of the effects of positive real yields on bank deposits due to low inflation rates and the public's preference for more liquid but earning financial assets particularly in times of uncertainty. Preference for time deposits weakened as rates on short-term government securities remained relatively higher and as the stock market offered an alternative outlet for financial holdings.

Net Domestic Assets of the Monetary System

The net domestic assets (NDA) of the monetary system amounted to P292.6 billion as of end-December 1986, reflecting an annual growth of 7.5 percent or P20.4 billion (Figure 8).

Net domestic credits of the monetary system, comprising 48.0 percent of NDA, declined by P16.3 billion or 10.4 percent to P140.5 billion notwithstanding the relaxed monetary and credit policies of the Central Bank which had significantly increased the loanable funds of banks and reduced lending rates. The contraction in net domestic credits reflected the continued inertia of private demand for credit in the wake of uncertainties during the period (Table 9).

Sectorwise, net credits to the public sector which amounted to P23.2 billion or 16.5 percent of net domestic credits, declined by P9.0 billion or 28.0 percent. The decline was due primarily to the dampening effect of government deposits with the Central Bank and commercial banks which more than offset increased investments of banks in government securities particularly Treasury Bills.

Accounting for P117.3 billion or 83.5 percent of net domestic credits, bank credits to the private sector also dropped by P7.3 billion or 5.8 percent. The drop in net private credits resulted from the contractionary effect of increased borrowings of the Central Bank from private financial institutions through the reverse repurchase window as part of its open market operations, the repayment of peso loans under the Trade Facility, and the drop in outstanding peso-denominated loans extended by commercial banks to the private sector.

Figure 8. NET DOMESTIC ASSETS
(Annual Growth Rates)
1985-1986

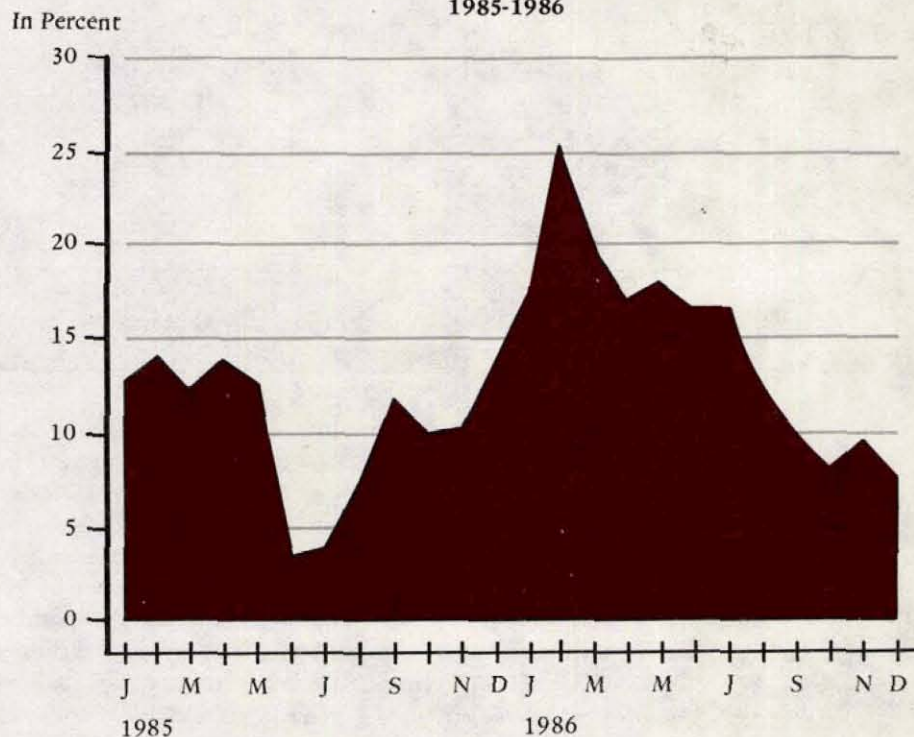


Table 9. NET DOMESTIC ASSETS OF THE MONETARY SYSTEM
As of End 1985-1986
(In Million Pesos)

Item	1986 ^P	1985 ^T	Percent Change
Net Domestic Assets	292,557	272,131	7.5
I. Net Domestic Credits	140,472	156,745	-10.4
A. By Source			
1. Monetary Authorities	14,783	30,260	-51.1
Loans and Advances	22 585	27,849	-18.9
Domestic Securities	7 079	10,683	-33.7
Less: Government Deposits	14,881	8,272	79.9
2. Deposit Money Banks	125,689	126,485	-0.6
Loans and Advances	111,471	115,890	-3.8
Domestic Securities	26,630	19,659	35.5
Less: Government Deposits	12,412	9,064	36.9
B. By End-User			
1. Public	23,175	32,191	-28.0
2. Private	117,297	124,554	-5.8
II. Net Other Items	152,085	115,386	31.8
Of Which: Revaluation	106,340	88,425	20.3
<i>Source: Department of Economic Research-Domestic, Central Bank of the Philippines</i>			

By source, net credits extended by the monetary authorities to both the public and private sectors at P14.8 billion or 10.5 percent of the total, declined by P15.5 billion or 51.1 percent due mainly to the contractionary impact of increased National Government deposits with the Central Bank. Meanwhile, net credits extended by deposit money banks at P125.7 billion dropped by P0.8 billion or 0.6 percent during the period as the increase in government deposits with commercial banks was offset by investments of banks in government securities.

Comprising 52.0 percent of NDA was net other asset items of the monetary system which increased by 31.8 percent or P36.7 billion to reach P152.1 billion at end-1986. Accounting for a major portion of the increase in net other items were interest payments on Central Bank foreign and domestic borrowings.

Reserve Position of Commercial Banks

Although the average reserve position of the entire commercial banking system remained in deficiency in 1986 at P0.4 billion, this has been a relative improvement when compared to the P2.7 billion deficiency registered in 1985. This development was even made more significant considering that only two banks accounted for the deficiency, which if excluded would have resulted in an average surplus for 1986 of P0.3 billion in the reserve positions of the rest of the commercial banks.

Notwithstanding lower nominal interest rates on deposit instruments, the total deposit liabilities of the commercial banking system expanded by 18.2 percent to reach P117.4 billion in December 1986 from P99.4 billion in December 1985 requiring a corresponding 17.1 percent increase in required reserves from P18.8 billion to P22.1 billion. Available reserves in the amount of P21.7 billion, however, fell short of the required reserve level resulting in a reserve deficiency of P0.4 billion in December 1986, an improvement when compared with the December 1985 reserve deficiency of P2.7 billion (Table 10).

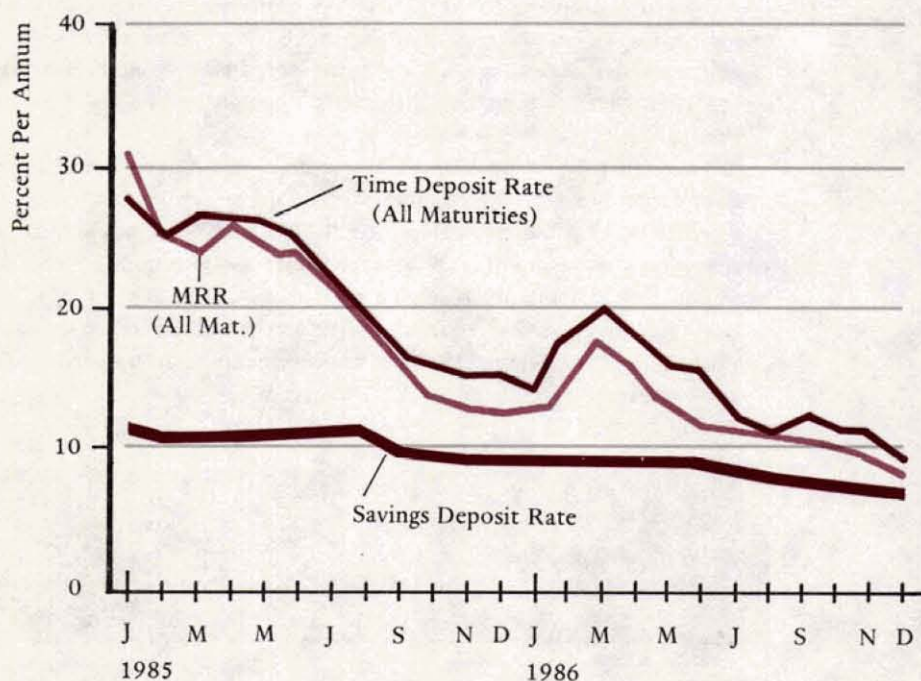
Table 10. AVERAGE RESERVE POSITION OF COMMERCIAL BANKS¹
As of End 1985-1986
(In Million Pesos)

Item	1986	1985	Percent Change
Deposit Liabilities	117,433.1	99,370.4	18.2
Available Reserves	21,677.8	16,093.7	34.7
Deposit Balances with the Central Bank	15,919.6	9,643.0	65.1
Cash in Bank Vaults	2,292.8	2,504.4	-8.4
Government Securities	3,462.7	3,939.2	-12.1
Foreign Balances	2.7	7.1	-62.0
Required Reserves	22,067.6	18,838.3	17.1
Excess/Deficiency (-)	-389.8	-2,744.6	
Liquidity Ratio (In Percent of Deposit Liabilities)			
Available Reserves	18.5	16.2	
Required Reserves	18.8	19.0	
Excess/Deficiency (-)	-0.3	-2.8	

¹ Simple average of weekly averages

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Figure 9. BORROWING RATES OF COMMERCIAL BANKS
1985-1986



At P15.9 billion, the proportionate share of deposit balances with the Central Bank increased from 59.9 percent to 73.4 percent of the available reserves, indicative of the continued preference of banks to hold reserves in this form of liquid asset as the Central Bank pays four percent interest on banks' reserve balances. In contrast, the share of reserves in the form of government securities declined from 24.5 percent to 16.0 percent as a result of the policy to gradually phase out reserve-eligible government securities. Meanwhile, the share of reserve holdings of banks in the form of cash in vaults declined to 10.6 percent from 15.6 percent reflective of banks' attempts to improve their income position by keeping a smaller portion of reserves in non-earning assets.

Expressed in terms of ratios to deposit liabilities, required reserves comprised 18.8 percent while available reserves accounted for 18.5 percent.

Outstanding Loans/Credits

Central Bank. At P83.3 billion, outstanding Central Bank credits as of end-December 1986 declined by P3.7 billion from the previous year's level. CB loans and advances, which accounted for 86.7 percent of total CB credits, dropped by P2.6 billion following repayments by the National Government and government financial institutions of borrowings under the Trade Facility. Repayments of rediscount loans were also made by private commercial banks as their liquidity position improved during the year. Meanwhile, government securities holdings of the Central Bank declined from P12.2 billion in 1985 to P11.1 billion, a result largely of the redemption of Treasury Notes and Biglang Bahay Bonds following the policy of phasing-out low yielding securities on maturity dates in favor of marketable securities (Table A-06).

The Central Bank's credit portfolio continued to be dominated by credits to the public sector which comprised 76.5 percent or P63.7 billion of outstanding CB credits, representing a 4.0 percent decline from the previous year's level. Of the total public sector borrowings, the National Government accounted for 47.6 percent or P30.3 billion, followed by government financial institutions, 46.1 percent or P29.4 billion, and other government entities, 6.3 percent or P4.0 billion. Meanwhile, the private sector shared about P19.6 billion (23.5 percent) of gross CB credits, P8.0 billion of which were in the form of emergency loans and overdraft accommodations to commercial banks.

Short-term credits (with maturities of less than one year) continued to account for the bulk or 61.8 percent of outstanding CB credit and totalled P51.5 billion, down by P0.5 billion from the level recorded in the previous year. Intermediate credits (with maturities of more than one year but less than 5 years) registered a substantial decline of P3.8 billion to reach P2.9 billion. Similarly, long-term credits (with maturities of more than 5 years) dropped from P11.2 billion to P10.7 billion.

The weighted average interest rate (WAIR) on outstanding CB credits as of end-December 1986 declined to 9.6 percent from the previous year's rate of 11.7 percent, reflecting the decline in market rates and the continued deceleration in inflation.

Commercial Banks. With the substantial decline in bank nominal lending rates, commercial bank loans outstanding decreased by 1.5 percent or P1.6 billion from end-1985 to P104.6 billion at end-September 1986.

Loan increases were noted in sectors which registered significant output levels in the GNP accounts notably manufacturing and agriculture. In particular, the declines observed in loans outstanding to manufacturing and agricultural sectors in the previous year were reversed to growths of 19.9 percent and 5.2 percent, respectively. Increases in loans outstanding were also registered for construction (25.6 percent); transport, communication and storage, (16.4 percent); and financing, insurance and business services (2.7 percent).

On the other hand, loans outstanding by commercial banks dropped for the following sectors: electricity, gas and water (44.6 percent); trade (20.8 percent); real estate (10.0 percent); mining and quarrying (8.9 percent) and community and personal services (2.5 percent) (Table A-09).

Classified by region, loans outstanding of commercial banks in Metro Manila continued to account for the bulk or 87.6 percent of the total, registering a de-

crease of P2.1 billion during the year. The rest of the country absorbed about 12.4 percent of total loans outstanding of commercial banks with Regions III, VII, XI and XII posting declines totalling P0.3 billion (Table A-10).

Thrift Banks. As of end-December 1986, total loans outstanding of thrift banks (savings banks, private development banks, and stock savings and loan associations) stood at P9.5 billion, representing a 19.0 percent increase from the end-1985 level. Except for industrial and consumption loans, all sectors realized increases in loans from thrift banks. Real estate loans accounted for 17.2 percent of the total; agriculture, 17.0 percent; commercial, 12.0 percent; industrial, 10.8 percent; consumption, 3.6 percent; and other loans (consisting mainly of trading account securities, past due loans and discounts, items in litigation, bills purchased, and other loans and discounts), 39.4 percent (Table A-11).

Loans outstanding of savings banks and private development banks registered increases of 70.2 percent and 25.2 percent, respectively, while those of stock savings and loan associations dropped by 15.1 percent.

Around 96.4 percent of the loans outstanding of savings banks went to Metro Manila (Table A-12). In contrast, a larger share or 50.6 percent of total loans outstanding of private development banks accrued to areas outside Metro Manila (Table A-13).

Specialized Government Banks. As of end-1986, total loans outstanding of specialized government banks stood at P45.5 billion, an increase of 38.2 percent or P12.6 billion from the end-1985 level. Other loans (financing, insurance, business services) accounted for an aggregate share of 88.7 percent followed by agricultural loans, 7.0 percent; real estate loans, 2.9 percent and commercial, industrial and consumption loans with a combined share of 1.4 percent (Table A-14). Loans to Metro Manila continued to account for the bulk or 79.9 percent of total loans outstanding (Table A-15).

Rural Banks. Total loans outstanding of rural banks rose by P0.1 billion from the end-1985 level to reach P6.8 billion at end-1986.

Consistent with rural banks' thrust of providing credit to the agricultural sector, 80.6 percent of total loans outstanding of rural banks was accounted for by the agricultural sector while commercial, industrial and other loans accounted for much smaller shares of 8.3 percent, 2.8 percent and 8.3 percent, respectively (Table A-16).

Domestic Interest Rates

The downtrend in average nominal interest rates which started towards the end of 1984 continued in 1986 with the further relaxation in monetary policy and the lack of attractive outlets for banks' funds. Real interest rates improved significantly, however, on account of the large deceleration in the annual inflation rate from 23.1 percent the previous year to 0.8 percent this year.

Commercial Bank Borrowing and Lending Rates. The nominal interest rate on peso savings deposits dropped by 2.22 percentage points during the year to settle at an average of 8.62 percent. Sharper declines of 7.06 and 8.83 percentage points were noted in the case of time deposits and promissory notes (MRRs) for all maturities to average at 14.77 percent and 12.31 percent, respectively, during the year (Table A-17). Aside from the impact of a relaxed monetary policy, the downtrend in interest rates was likewise reflective of the banks' strategy to reduce their

borrowing costs of funds and thereby minimize losses in a period of depressed demand for credit. As in 1985, interest rates on long-term deposits in 1986 were higher than the rates on short-term deposits (Table A-18). In December, average interest rates reached a low of 7.19 percent for savings deposits, 9.49 percent for time deposits (all maturities) and 8.5 percent for MRRs (all maturities) (Figure 9).

Notwithstanding the overall deficiency in the reserve position of commercial banks, the average interbank call loan rate (IBCLR) declined from 16.15 percent in 1985 to 12.39 percent in 1986, with the monthly average ranging from a high 20.55 percent in February to a low 7.55 percent in November.

Following the drop in banks' nominal cost of funds and the cost of reserves arising from the reductions in the reserve requirement, the average lending rate on secured loans for all maturities likewise declined from 28.23 percent in 1985 to 17.35 percent in 1986, with the lowest rate posted at 13.92 percent in December (Figure 10).

Figure 10. LENDING RATES ON SECURED LOANS
(All Maturities)
1985-1986

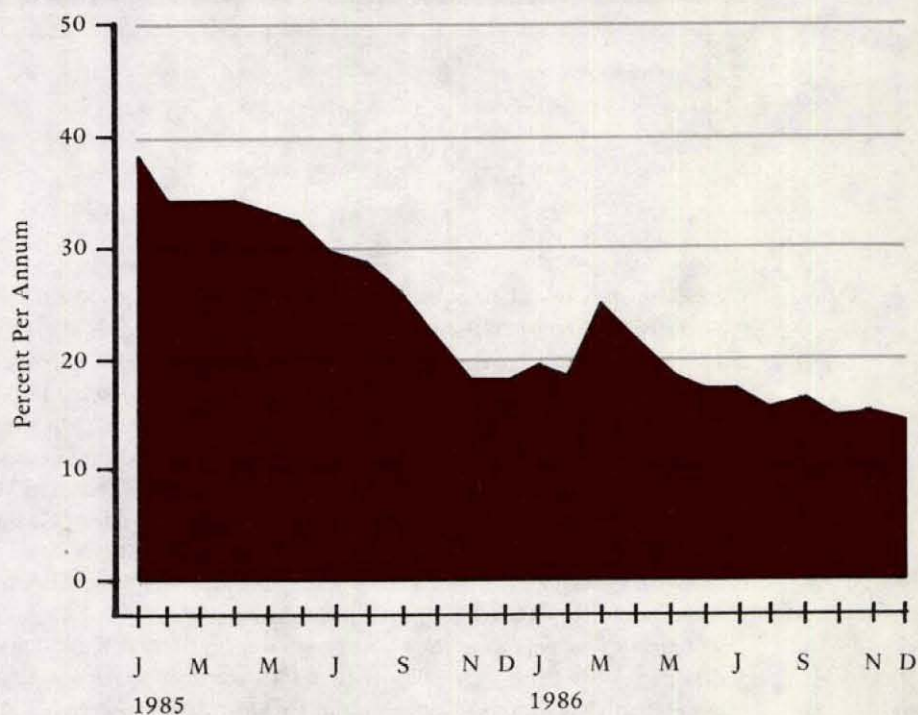
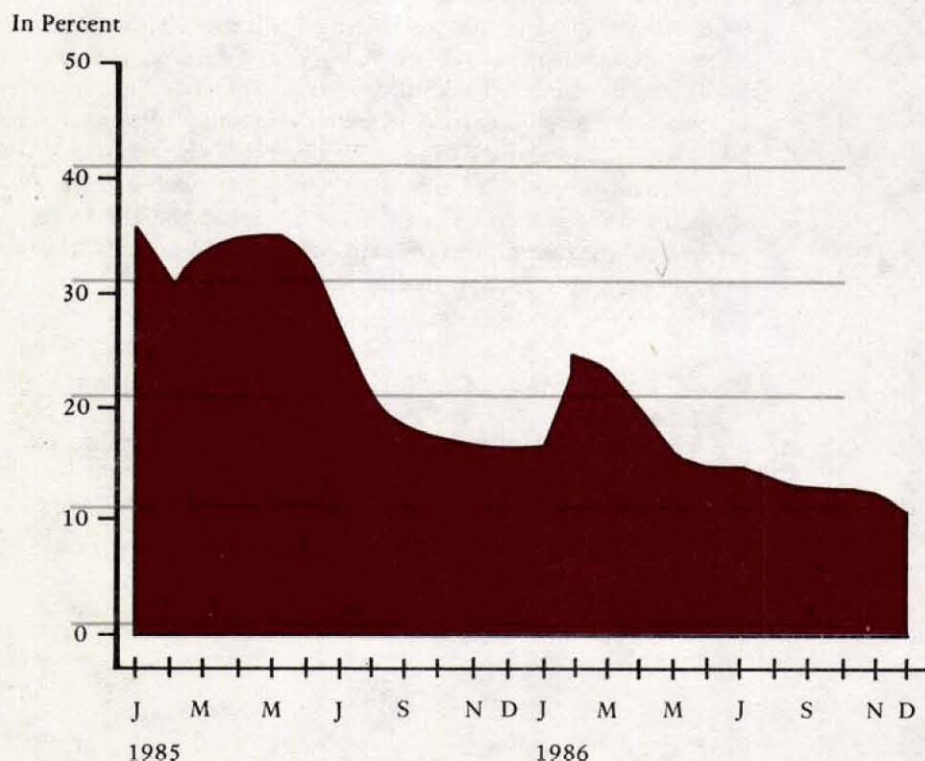


Figure 11. RATES ON TREASURY BILLS
(All Maturities)
1985-1986



Rates on Central Bank Bills/Treasury Bills. The WAIR on CB bills (all maturities) declined from 26.97 percent in 1985 to 19.08 percent in (January-October) 1986 and that on Treasury bills (all maturities) from 27.05 percent to 16.04 percent, indicative of moves to ease market interest rates (Figure 11). The yields on CB bills and on Treasury bills, however, remained higher than the nominal borrowing rates of banks resulting in the sustained demand for these securities. The auction system for Treasury securities was resumed on October 24 to make the rates fully reflective of market forces. Accordingly, the sale of CB bills was phased out to prevent the quoted rates on these instruments from influencing the auction rates on Treasury securities and at the same time to shift reliance on Treasury securities for open-market operations.

Central Bank Lending Rates. Interest rates on Central Bank liquidity windows declined during the year. The rediscount rate dropped from 12.75 percent in December 1985 to 11.75 percent and further to 10.0 percent in September and December 1986, respectively.

The rates on regular repurchase agreements (term) at 20.85 percent, and on reverse repurchase agreements (term) at 13.99 percent, declined by more than 10 percentage points each from the previous year's levels. Similarly, the rate on

emergency loans and advances dropped from 30.86 percent to 18.41 percent with the decline in Treasury bill rates. Meanwhile, the overdraft rate was at an average penalty rate of 21.52 percent.

FINANCIAL SYSTEM

Number and Resources of Financial Institutions

The financial system, as measured by the number of financial institutions, grew by 329 units, or 5.7 percent from end-1985 to reach 6,109 units at end-December 1986 (Table A-20). The growth was attributed largely to the 16.0 percent increase in the number of non-bank financial units which offset the closure of 24 rural banks and 2 commercial banks during the year.

Total resources of the financial system stood at P522.4 billion as of end-December 1986, up by 4.0 percent from the end-1985 level. The growth was accounted for mainly by the expansion in the resources of commercial banks by P8.8 billion notwithstanding the conversion of one commercial bank into a savings bank

Table 11. TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM¹
As of End 1985-1986
(In Million Pesos)

Institution	1986 ^P	1985	Percent Change
Total	522,424.5	502,498.8	4.0
Commercial Banks	292,118.6	283,347.1	3.1
Thrift Banks	17,652.3	15,081.3	17.0
Savings Banks	8,124.4	6,847.2	18.7
Private Development Banks	5,624.5	5,084.2	10.6
Stock Savings & Loan Associations	3,903.4	3,149.9	23.9
Specialized Government Banks	91,303.1	87,989.4	3.8
Rural Banks	9,350.5	8,821.7	6.0
Non-Bank Financial Institutions	112,000.0	107,259.3	4.4

¹Excluding the Central Bank

Sources: Department of Economic Research-Domestic, Central Bank of the Philippines and Supervisory Reports Office, Central Bank of the Philippines

during the year, non-bank financial institutions by P4.7 billion, specialized government banks by P3.3 billion and thrift banks by P2.6 billion (Table 11).

Commercial banks continued to account for the bulk, or 55.9 percent of the total resource base of the financial system, followed by non-bank financial institutions (21.4 percent), and specialized government banks (17.5 percent). The remainder, or 5.2 percent, was accounted for by rural banks and thrift banks.

With the increase in the number of financial institutions, the total paid-up capital of the financial system grew by about 14.5 percent over the year to reach P61.0 billion at end-December 1986. The growth this year, which was relatively lower than the 30.0 percent expansion in 1985, was due largely to the P4.4 billion and P3.8 billion expansion in the paid-up capital of commercial banks and specialized government banks, respectively. Of the total paid-up capital of the financial system at end-December 1986, specialized government banks shared 41.4 percent; commercial banks, 32.0 percent; non-bank financial institutions, 22.4 percent; thrift banks, 2.4 percent; and rural banks, 1.7 percent.

Deposit Liabilities of the Banking System

Total peso and foreign currency deposit liabilities of the banking system at end-December 1986 were estimated at P176.5 billion, higher by 5.4 percent than the end-1985 level but at a decelerated pace when compared with the 9.9 percent growth rate observed in 1985 (Table A-21). On a monthly basis, deposit liabilities dropped during the first two months of the year due to uncertainties but showed a generally increasing trend thereafter when political conditions started to stabilize.

Specialized government banks registered the highest expansion in deposit liabilities of P4.5 billion (mostly public sector deposits) followed by thrift banks and commercial banks, registering increments of P2.5 billion and P1.6 billion, respectively. Rural banks, on the other hand, managed to generate an additional P0.5 billion in deposits despite the closure of a number of rural banks during the year.

Of the total deposit liabilities of the banking system, about 82.0 percent was accounted for by commercial banks. Thrift banks and specialized government banks posted a combined share of 16.0 percent while rural banks accounted for only 2.0 percent of total deposits.

Savings and demand deposits of the banking system increased by P21.6 billion and P5.1 billion, respectively, while time deposits fell by P17.7 billion reflecting the decline in the attractiveness of time deposits compared with other types of deposits following the narrowing of interest rate differentials between time and savings deposits.

Foreign Currency Deposit System

As of end-June 1986, the total resource base of the Foreign Currency Deposit Units (FCDUs) stood at \$5.7 billion, which was \$1.0 billion or 15.2 percent lower than its previous year's level continuing the declining trend observed since 1984. The downturn in the operations of the FCDU system reflected the perception by foreign investors of the political and economic uncertainties of the country during the period under review.

Aggregate deposits and borrowings of the FCDUs at \$4.1 billion, showed a \$0.9 billion or an 18.3 percent decline from the comparable period last year. The FCDUs' major source of funds, interbank deposits and borrowings stood at \$3.3 billion, \$0.2 billion or 6.6 percent lower than its level at end-1985. Similarly, deposits and borrowings of non-banks decreased by \$0.7 billion to settle at \$0.8 billion.

Placements/lendings of the FCDU system fell to \$5.2 billion as the placements with both banks and non-banks declined by \$0.5 billion and \$0.2 billion, respectively. The decline in lendings of FCDUs may be partly attributed to FCDU loans which were restructured and assumed by the Central Bank under the various restructuring schemes.

Gross earnings of FCDUs reached \$210.0 million, showing a fractional increase of \$6.0 million which was mainly the result of the increase in offshore earnings of \$15.0 million to reach \$90.0 million. Meanwhile, domestic earnings declined by \$9.0 million to settle at \$120.0 million (Table A-22).

Offshore Banking System

Gross resources of the Offshore Banking System (OBS) as of end-June 1986 declined by 5.9 percent to settle at \$3,914 million. The decrease may be attributed mainly to the closure of one Offshore Banking Unit (OBU) and the transfer of bookings of all transactions outside the Philippines of another OBU to a regional branch. Deposits and borrowings from banks, the system's main source of funds, dropped to \$3,846 million from the level of \$4,044 million registered in June 1985. The OBU placements and lendings which were mostly transacted with other banks reached \$3,828 million or 97.8 percent of total resources. Of the placements/lendings to banks, \$2,194 million or about 88.0 percent were placed with Philippine banks and the balance were with the head offices/branches of OBUs and other banks abroad. Placements/lendings with non-banks declined by 25.9 percent during the period.

Notwithstanding the drop of expenses from \$203.0 million to \$162.0 million, the net earnings after tax of the OBUs declined by 13.3 percent to register at \$13.0 million as both onshore and offshore earnings also decreased (Table A-23).

MONEY AND CAPITAL MARKETS

Money Market

Notwithstanding the decline in interest rates and the continued implementation of stringent money market rules designed to protect investors, the volume of money market transactions increased to P523.4 billion as of end-1986, P17.7 billion higher than the previous year's level. This development is a reversal of the downtrend in money market transactions observed in the past two years. The bulk of the increase in money market transactions was accounted for by the large volume of repurchase agreements (private) during the period which rose by 225.3 percent from P14.2 billion in 1985 to P46.1 billion in 1986.

Other money market instruments which posted substantial increases were Central Bank Certificates of Indebtedness (CBCIs) which rose by 71.4 percent and Treasury Bills, the volume of which rose by 43.7 percent.

Interbank call loans, which comprised the bulk or 38.5 percent of the total volume of transactions registered an 11.0 percent decline, reflective of the generally liquid condition of banks during the year. Repurchase agreements of the government also declined by 40.9 percent. Other components that declined during the year were commercial papers and DBP Bonds.

Meanwhile, the weighted average interest rate of all money market instruments registered declines ranging from 0.5 percentage point for CBCIs to 12.7 percentage points for Treasury Bills. At the end of 1986, commercial papers (non-financial) had the lowest rate at 11.8 percent, while certificates of assignment (private) had the highest at 18.6 percent (Table A-24).

Stock Market

The resurgence of business confidence resulting from the installation of the new government during the early part of the year buoyed up the stock market in 1986. For the first time in six years, transactions at both Manila and Makati Stock Exchanges registered a five-fold increase in volume and value traded. Aggregate volume traded stood at 58.6 billion, up by 46.9 billion or 401.1 percent from the end-1985 level of 11.7 billion. Likewise, peso value traded grew by 457.1 percent to reach P11.5 billion compared with P2.1 billion a year ago.

Commercial-industrial issues, although having a share of only 0.6 percent of total volume traded, accounted for the bulk (68.9 percent or P7.9 billion) of total value of stocks traded, representing an increase of P6.2 billion or 359.6 percent over its value in 1985 as the prices of these issues picked up relative to other sectors.

The mining sector accounted for 41.6 percent or 24.4 billion of total shares traded. In terms of total value, however, it accounted for 28.0 percent or P3.2 billion, reflecting a marked improvement of about P2.9 billion or 995.9 percent over the P0.3 billion recorded last year. The resurgence of the mining sector was due to the improvement in the prices of precious metals, particularly, gold.

Trading activities for oil were likewise bullish, with total transactions of 33.8 billion shares, or more than half (57.7 percent) of the total volume of stocks traded in 1986. Total value of these stocks amounted to P358.0 million, representing an increase of P311.0 million over the P47.0 million peso value traded in end-1985 (Table A-25).

PUBLIC FINANCE

Cash Operations of the National Government

To stimulate economic activity, the National Government pursued an expansionary fiscal policy in 1986, thus resulting in an estimated budgetary deficit of P28.1 billion during the year, more than twice the deficit of P11.1 billion in 1985 (Figure 12). Consequently, the ratio of budget deficit to GNP rose to 4.7 percent from 1.9 percent registered in the preceding year (Table 12).

The government's pump-priming activity was reflected in the 33.9 percent increase in expenditures to P107.2 billion, from P80.1 billion in 1985. The bulk of the increase in expenditures was accounted for by current operating expenditures (largely for personnel services and interest payments) and net lending to

government corporations (representing mostly advances of the National Government for debt payment of said corporations), which rose by P12.2 billion or 22.1 percent and P11.7 billion or 72.8 percent, respectively, during the year (Figure 13).

Revenues likewise rose by P10.2 billion or 14.7 percent to P79.1 billion from P69.0 billion in 1985. Tax revenues, which accounted for 82.5 percent of total revenues, grew by P4.1 billion or 6.7 percent, with the improvement in tax collection efficiency, the adoption of tax incentive schemes, the implementation of tax reform measures particularly in the sales tax and specific tax systems, and the amnesties on income and real property taxes and on repatriation of foreign exchange earnings. Non-tax revenues, accounting for 17.5 percent of total revenues, rose markedly by P6.1 billion or 78.3 percent, primarily on account of increased inflows from the Economic Support Fund (Figure 14).

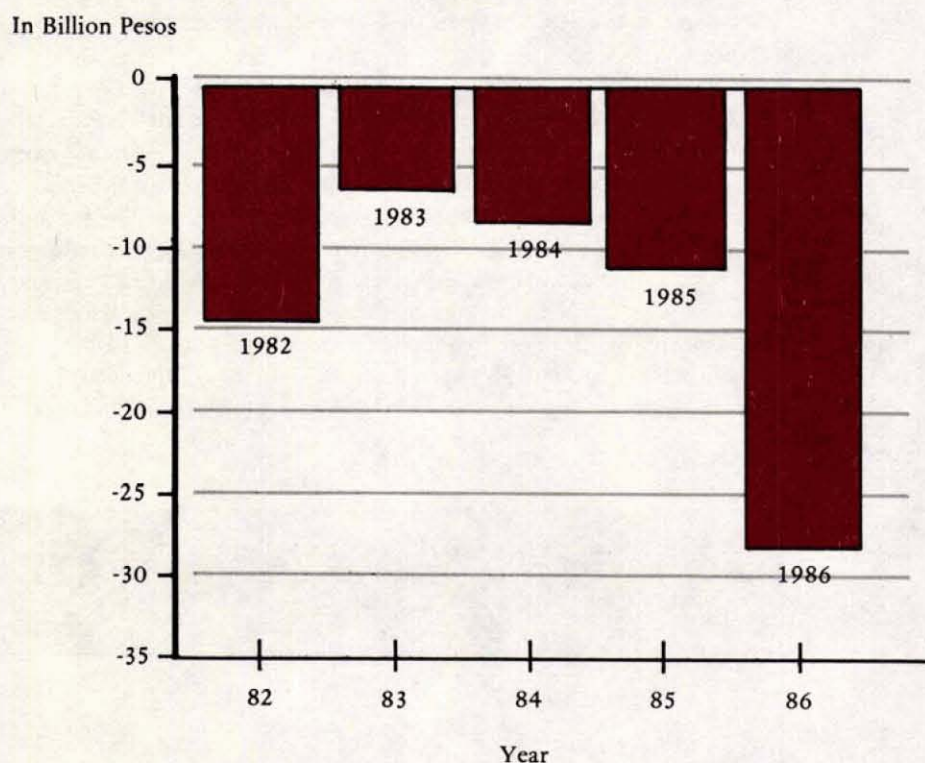
The bulk or around 93 percent of the deficit was financed from domestic sources mainly through the sale of Treasury Bills to the non-bank sector.

**Table 12. NATIONAL GOVERNMENT CASH OPERATIONS
1985-1986
(In Million Pesos)**

Item	1986	1985
I. Revenues	79,128	68,961
Tax Revenues	65,273	61,190
Non-Tax Revenues	13,855	7,771
II. Expenditures	107,227	80,102
Current Expenditures	67,479	55,275
Capital Expenditures	12,051	8,796
Net Lending/Equity	27,697	16,031
III. Surplus/Deficit (-)	-28,099	-11,141
Percent of GNP	4.6	1.9
IV. Financing	28,099	11,141
Net External Borrowing	1,954	-340
Net Domestic Financing	26,145	11,481
Banking System	-4,983	1,965
Monetary Authorities	-7,592	5,024
Deposit Money Banks	2,609	-3,059
Non-Banking System	31,128	9,516

Sources: Department of Economic Research-Domestic, Central Bank of the Philippines and Bureau of Treasury, Ministry of Finance.

Figure 12. NATIONAL GOVERNMENT DEFICIT



Public Internal Debt

As of end-December 1986, the outstanding internal debt of the public sector stood at P144.8 billion, an increase of 23.0 percent from the end-1985 level. The expansion resulted primarily from the increase in the National Government's issuance of Treasury Bills and Treasury Notes to finance its budget deficit. In contrast, the internal debt of monetary institutions declined due mainly to the phase-out of Central Bank Bills.

Of the total outstanding public internal debt at end-1986, the National Government accounted for 72.7 percent; monetary institutions, 16.9 percent; government corporations, 10.3 percent; and local governments, 0.1 percent (Table A-26).

Public External Debt

As of end-December 1986, total outstanding public external debt stood at \$15.6 billion, an increase of \$0.3 billion or 2.1 percent over the end-1985 level of \$15.3 billion. Outstanding external obligations of monetary institutions grew by \$0.6 billion or 14.5 percent due mainly to the availment of the New Money Facility, the IMF Compensatory Financing Facility and the 8th RP-Japan Commodity Loan. Likewise, National Government external debt rose by \$0.1 billion

Figure 13. TOTAL GOVERNMENT EXPENDITURES
By Use, 1986

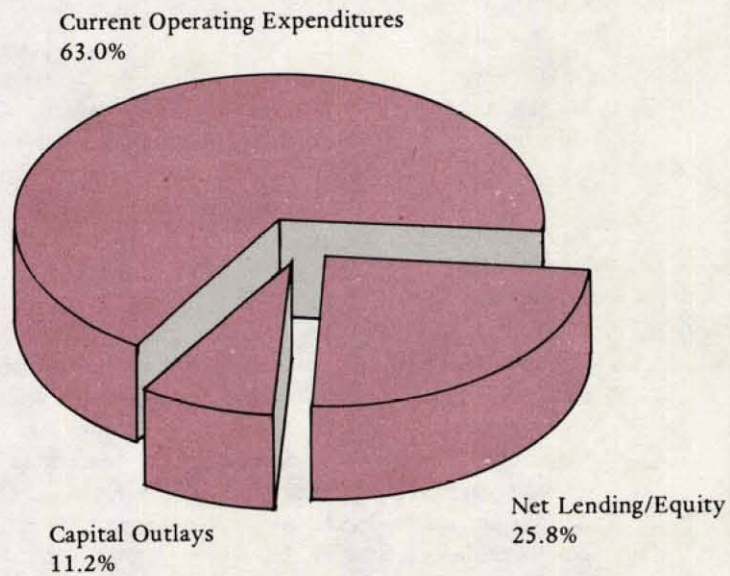
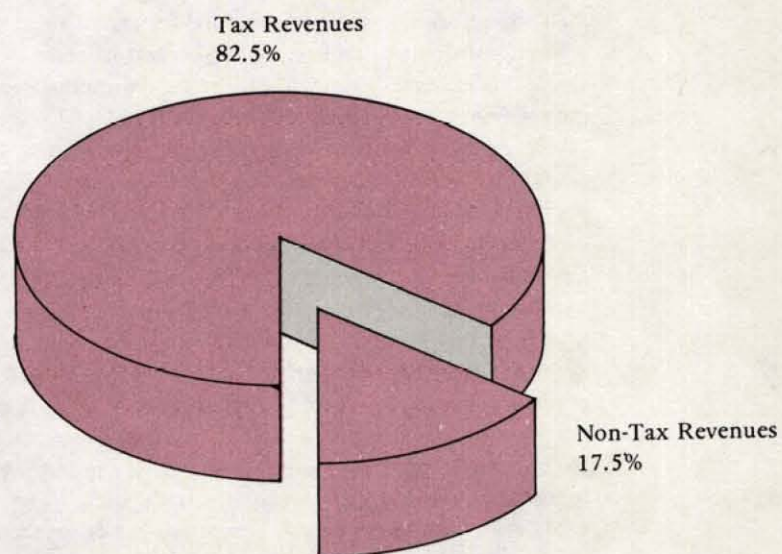


Figure 14. TOTAL GOVERNMENT REVENUES
By Source, 1986



or 2.2 percent following the availment of various undrawn credit lines. On the other hand, the outstanding external debt of government corporations declined by \$0.4 billion as a result of the assumption by the Central Bank of the re-scheduled loans of these corporations under the various restructuring schemes for foreign loans.

Of the \$15.6 billion total outstanding public external debt as of end-December 1986, government corporations accounted for 35.6 percent; the National Government, 34.3 percent; and monetary institutions, 30.1 percent (Table A-26).

REAL SECTOR

Production

The country's real output of goods and services registered a modest growth rate in 1986 as gross domestic product (GDP) at 1972 prices reached P90.8 billion or an expansion of 1.1 percent over the preceding year's level, a distinct improvement over the successive declines of 4.4 percent in 1985 and 6.1 percent in 1984. As net factor payments abroad decreased by 17.7 percent, the real gross national product (GNP) grew by a higher 1.5 percent (Table A-27) which compared favorably with the negative growth of 7.2 percent and 4.2 percent posted respectively in 1984 and 1985 (Figure 15). The agricultural and services sectors, where pump-priming efforts of the government were directed, were the growth sectors while the industrial sector still registered a slowdown although at a reduced rate following the improved performance of the manufacturing industry (Figure 16). These industries were apparently the first to respond positively to measures aimed at reviving aggregate demand such as the relaxation of monetary and fiscal policies and the more aggressive stance taken by the new government in stimulating the economy under conditions of low inflation rates, declining interest rates and stable exchange rates.

The agriculture, fishery and forestry sector remained the primary source of growth with output registering the biggest increase of 3.7 percent over the 1985 level; this exceeded the 3.1 percent 1986 growth target and was reflective of the government's renewed efforts in agricultural and related activities. Thus, appreciable gains were noted in harvests of farm crops (4.6 percent), livestock and poultry (3.0 percent) and fishery (2.9 percent) which combined effects offset the shortfall observed in forestry production (-7.4 percent).

After consecutive declines of more than 10.0 percent for the last two years, the industrial sector which contributed about 31.1 percent to total GDP registered a smaller negative growth of 2.7 percent. This resulted from the marked upturn in its heavily-weighted manufacturing component which increased by 0.8 percent after the cumulative decline of about 14.7 percent registered in the preceding two years, thus, moderating the effects of the prolonged slump (-20.6 percent) in construction activity resulting from cutbacks in both private and government capital expenditures as well as the observed downturn in the mining industry due to depressed world mineral prices.

The services sector which comprised the largest share or about 38.9 percent of GDP, improved by 2.3 percent in 1986 after posting a negative growth of 4.6

Figure 15. GROSS NATIONAL PRODUCT
(Annual Growth Rates)
(At Constant 1972 Prices)
1982-1986

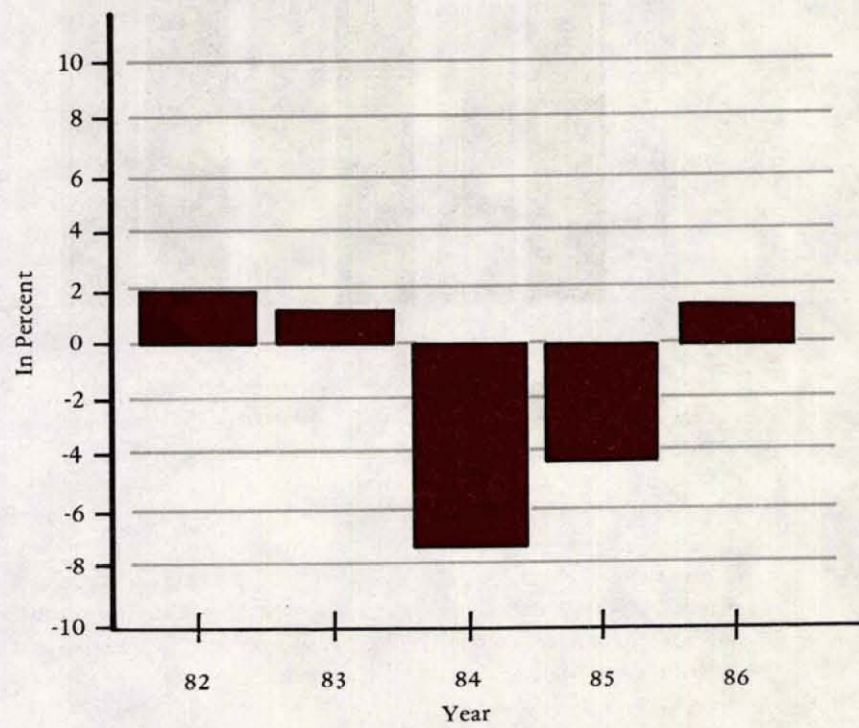
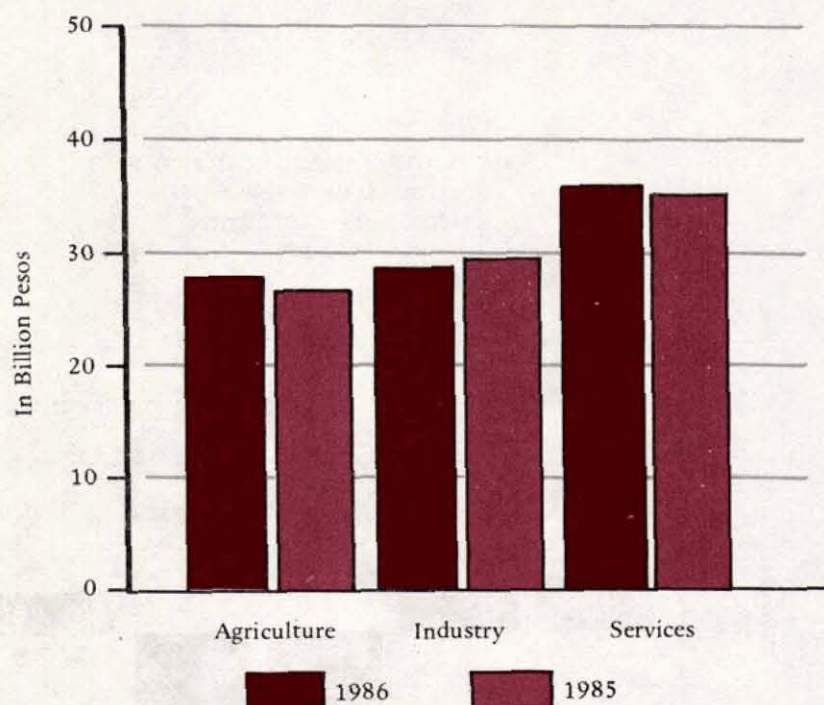


Figure 16. GROSS NATIONAL PRODUCT
By Industrial Origin, 1985-1986
(Levels at Constant 1972 Prices)



percent in the previous year. Brisker activity resulting in upturns was noted in government services (6.6 percent), transportation (2.6 percent) and trade as well as finance and housing (both at 1.9 percent).

Employment

As of end-1986, the Philippine labor force was estimated at 22.1 million or 3.5 percent higher than that of the preceding year. Of this number, 88.9 percent were employed and 11.1 percent remained out of work, thus, approximating the unemployment rate of 11.1 percent registered a year ago.

During the year, the number of establishments that were shut down either permanently or temporarily was reduced to 989 or a third lower than the 1,478 establishments that closed shop a year ago. Following the same trend, the number of workers laid off in 1986 totalling 43,104 was lower by 43.6 percent than that of the preceding year. This development reflected the improvement in the business climate, particularly toward the latter part of the year when upturns in the manufacturing industry and the reactivation of the stock market augured the containment of further retrenchment activity.

Efforts to alleviate the unemployment problem included the implementation of the Community Employment and Development Program aimed at generating livelihood opportunities and creating off-farm employment in the countryside. Notwithstanding the delay in its implementation, the program generated 638,474 new jobs during the July-December period from the 21,262 completed and ongoing projects, thus, exceeding by 3.3 percent the 618,034 employment target of the program for 1986.

Meanwhile, overseas employment was intensified bringing the total number of workers deployed abroad to 414.5 thousand for the entire year of 1986, or 6.5 percent more than the 1985 level of 389.2 thousand.

Prices

In 1986, consumer prices at the national level moved up at decelerated rates during the first half and sustained a downward course during the last six months of the year as inflationary elements continuously weakened to register an average of 355.3 index points for the year or a slight increase of 0.8 percent over that of 1985 (Figure 17). This was a significant improvement from the double digit inflation rates observed since 1979 that reached 50.3 percent in 1984 and 23.1 percent in 1985.

Figure 17. ANNUAL INFLATION RATES
1985-1986

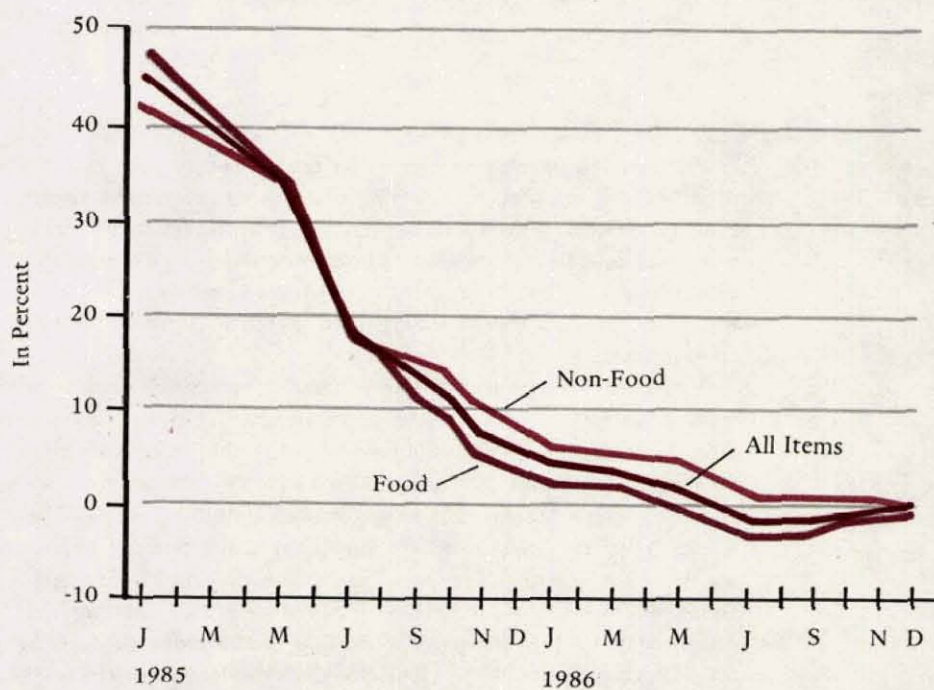
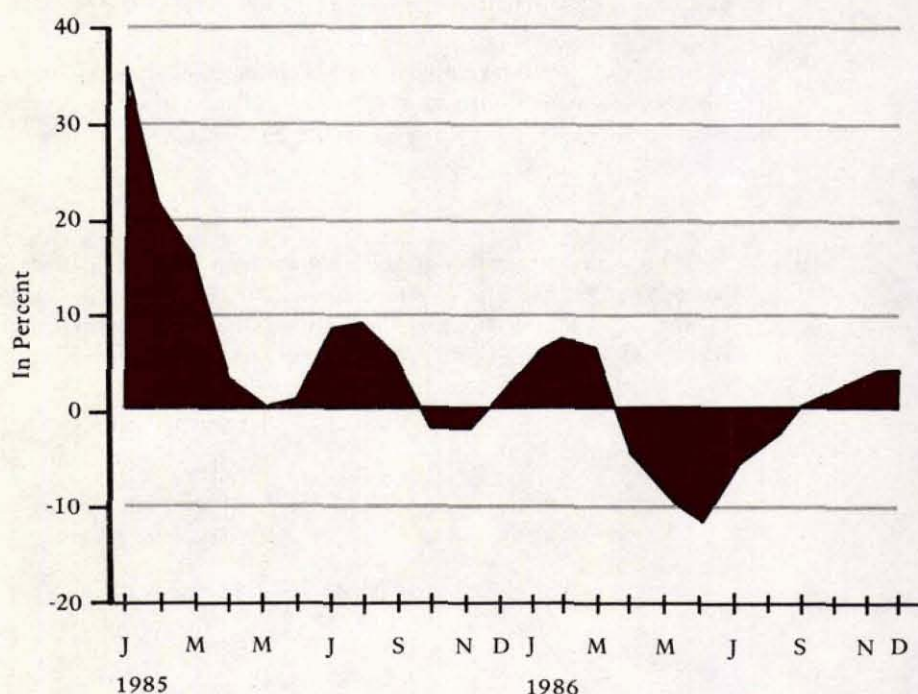


Figure 18. ANNUALIZED INFLATION RATES
(Three Month Moving Basis)
(All Items)
1985-1986



Price-related developments such as the three-fold price rollback in petroleum products and consequent lowering of transport fares, the relatively stable exchange rates and lower interest rates directly affecting production costs were translated into lower consumer prices. Moreover, the opening up of importation of wheat grains, flour and animal feed ingredients to the private sector reduced input supply bottlenecks and helped stabilize the availability of basic food commodities.

Viewed by component, prices of food, beverage and tobacco which represent more than 50.0 percent of the consumer basket posted a 0.9 percent decline after successive uptrends observed in more than ten years that reached 53.8 percent in 1984 and 22.3 percent in 1985. The stable supply of rice and corn and other basic staples comprising the bulk of food expenditures contributed markedly to this downturn. On the other hand, non-food prices continued to rise although at a much reduced rate of 2.8 percent as compared to substantial annual increases of 46.4 percent in 1984 and 24.0 percent in 1985. This was mainly due to the 6.8 percent decline in the index of fuel, light and water following the reductions in oil prices which moderated the increases recorded for other non-food components such as housing and repairs (7.4 percent), clothing (4.4 percent), miscellaneous (4.3 percent) and services (3.0 percent).

On the basis of the three-month moving annualized method of computation, consumer prices slid by an average of 0.2 percent in 1986 which is a marked improvement compared to the 8.3 percent increment obtained in 1985. After dropping by as much as 11.7 percent in June 1986, the annualized inflation rate, however, started to pick up in the fourth quarter, signalling the revival in economic demand during the period (Figure 18).

Regionwise, lower prices prevailed in regions outside the National Capital Region (NCR) with the index moving down by 0.1 percent, largely attributable to cheaper food commodities which fell by 1.6 percent during the same period. In the NCR or Metro Manila area, food likewise exerted a large influence on the 5.3 percent rise in the overall index, as this heavily-weighted item moved up by 4.1 percent along with higher prices of meat and fish, particularly during the September-October period when supply lines were affected by adverse weather conditions. Similarly, the housing and repairs index scaled up by a large 13.9 percent as compared to the 5.4 percent increase registered for regions outside the NCR (Table A-28).

Flow of Funds

Advance estimates of national income accounts prepared by the National Economic and Development Authority showed that gross national savings increased by 25.6 percent in 1986 to P119.9 billion or 19.5 percent of nominal GNP. During the same period, real investment also increased but at a smaller amount of P86.0 billion. Thus, the economy realized a financial surplus (or a positive net financial investment) of P33.4 billion, a five-fold increase over the 1985 surplus of P6.3 billion. The financial surplus of the economy means that the country attained a surplus in the current account of its balance of payments, which was due mainly to the growth in service and major merchandise export receipts as well as reduced imports and interest payments.

Based on preliminary data, the non-financial sector, which consists of households and non-corporate business entities, the national and local governments including government corporations, and private corporations engaged in non-financial activities, posted an aggregate financial surplus of P42.4 billion, up by P15.9 billion from 1985. Except for private corporations which incurred a P7.0 billion deficit, non-financial institutions realized surpluses, with the households and non-corporate sector remaining the biggest surplus sector. Financial institutions, on the other hand, incurred a financial deficit of P9.0 billion, as the combined deficit of banks and monetary authorities of P11.7 billion more than offset the surpluses of the other financial institutions.

Total funds supplied by the non-financial sector amounted to P56.8 billion largely through increases in bank deposits and purchases of bank promissory notes (P31.3 billion) and investments/securities P21.1 billion) particularly by households and government institutions as real yields on these instruments improved following the further slowdown in the inflation rate. Currency holdings of the sector also increased by P4.4 billion due to the unusually strong demand for cash towards the close of the year.

Meanwhile, total funds raised by the non-financial sector amounted to P14.5 billion, mainly through the net flotation of securities by the National Government and availment of domestic loans by private corporations. Foreign loans of the sector dropped by P21.1 billion mainly on account of the assumption by the

Central Bank of the rescheduled liabilities of the non-financial corporate sector and the National Government under the various restructuring schemes for foreign loans.

Funds raised by financial intermediaries rose by 28.9 percent to P83.9 billion. Of this total, P51.5 billion or 61.4 percent was accounted for by monetary authorities and P22.4 billion or 26.7 percent by banks. Despite the substantial increase in the external indebtedness of the financial sector due mainly to its availment of the New Money Facility, a larger amount of funds was raised from domestic sources in the form of deposit and deposit substitute liabilities, currency issue and sale of securities.

On the other hand, the financial sector used the bulk of its borrowed funds of P83.9 billion to build up its holdings of international reserves and to increase its credits in the form of direct loans and purchases of domestic securities. There was also a marked increase in banks' cash in vault partly as a precautionary measure to meet unexpected withdrawals in times of political and economic uncertainty (Tables A-29 and A-30).

Economic activity is expected to accelerate in 1987 as the process of political normalization continues and the impact of stabilization and growth-stimulating measures becomes more fully felt. Monetary policy would continue to be supportive of the national effort to boost production and improve efficiency, productivity and incomes. Despite the expansive thrust of policy, a single-digit inflation would still be expected since the rise in consumer demand would be absorbed by the utilization of idle production capacity.

Meanwhile, earlier moves taken to enhance efficiency and competitiveness would continue during the year. For one, the divestment program for government-owned corporations is expected to encourage greater private sector participation in the recovery efforts while the phased liberalization of imports would improve the availability of vital productive inputs to local business, remove excessive protection provided domestic industries that have remained costly and inefficient and improve external competitiveness by exposing local industries to the external markets. The government would continue to adhere to a consistent set of tax, financial and regulatory incentives which will make investment and production attractive.

For its part, monetary policy would continue the thrust towards market orientation, deregulation and competition to promote efficiency in financial intermediation. With the overwhelming approval of the New Constitution in early February 1987 contributing to the country's stability as an investment area, the increasing participation of foreign investment noted in the preceding period should continue to augment domestic resources. Through a new program for the conversion of debt into equity investments, some \$46.0 million out of \$239.0 million applications have been approved in 1986 representing important investments in such key areas as exports, agriculture, construction and other priorities.

The effective implementation of the Land Reform program as an important aspect of the economic recovery plan is expected to boost production further and directly provide lasting economic benefits to a large number of the poorest members of society.

A positive development in the external sector is the growing international awareness of the need for constructive support of growth-oriented economic adjustment of developing countries. Given the debt burden, continued support from foreign resources will be crucial in restoring the viability of the country's external payments position and achieving a sustainable rate of growth. External debt management strategy will move toward a more growth-oriented approach. Capital requirements will have to be met largely through concessionary official loans and additional debt rescheduling. Negotiations for multi-year debt restructuring based on longer grace and repayment period and lower interest spread will be pursued and appropriate domestic policies to encourage foreign investments and exports will be adopted.

On external transactions, the country's current account balance is anticipated to post another surplus although not as high as that of 1986 in view of the scheduled interest payments on external obligations and the higher level of imports required to achieve a real growth of 6-7 percent.

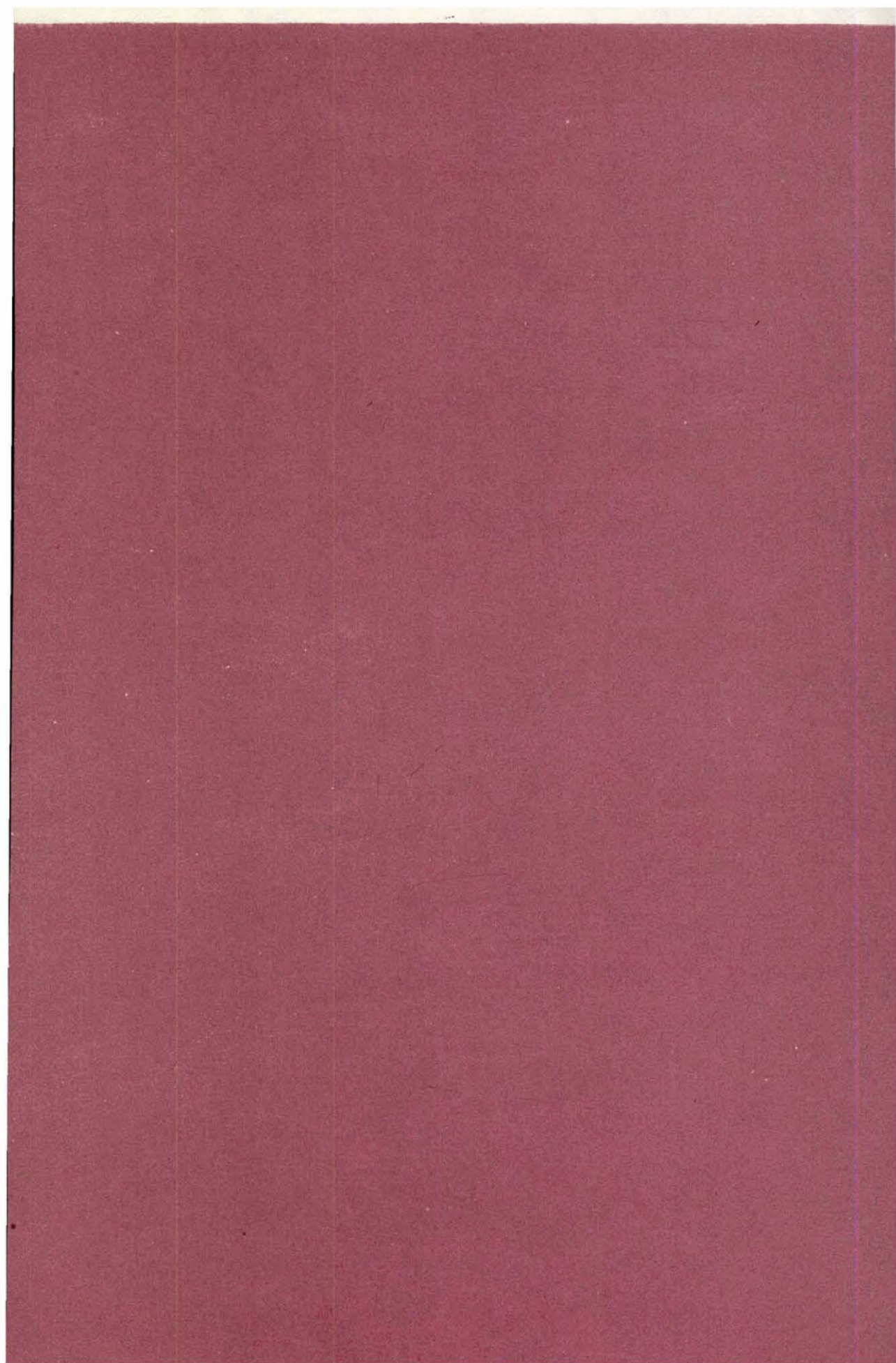
With higher import growth, the trade balance is expected to remain negative even as total exports are projected to increase on the strength of improved demand in major industrial countries and higher commodity prices. Likewise, before exceptional financing, the capital account balance is expected to remain

negative due mainly to substantial loan maturities in 1987. Following these developments, projections for the whole of 1987 point to a higher BOP deficit although the country's external position is expected to shift to a positive balance as a result of the rescheduling of foreign obligations under the Paris Club and with commercial banks as well as continued inflows of new money during the year.

In December 1986, the country was able to reschedule official credits amounting to about \$906 million under the Paris Club covering maturities falling due in January 1987 to June 1988. Negotiations for the rescheduling of obligations owed to commercial banks maturing in 1987 to 1992 would be resumed during the first quarter of 1987.

With the initial progress manifested in the 1986 economic performance, hopes for higher growth rates in 1987 appear realistic when viewed against public response to recent events although other factors related to developments here and abroad, including the country's external debt restructuring, would continue to influence the economic future of the country.

Part Two:
THE CENTRAL BANK
OF THE PHILIPPINES



MONETARY AND CREDIT POLICIES

The monetary and credit policies adopted in 1986 aimed at increasing the availability of funds at lower interest rates for working capital and new investments to encourage private sector activity and accelerate the pace of economic recovery under conditions of price stability. Thus, monetary and credit policy was relaxed while at the same time adhering to the year's financial program designed to achieve growth and stability objectives for the period. The allowable increase in monetary aggregates in 1986 was directed at providing for the credit needs of agriculture as well as to reduce further interest rate levels. Greater market orientation for improving the institutional structure and the efficiency of intermediation also marked policy changes in reserve requirement, rediscounting, interest rate and open market operations.

Reserve Requirement

One of the measures taken to ease credit restraint was the gradual reduction in the reserve requirement on banks' deposit liabilities. The reserve requirement on short-term deposit instruments of banks was reduced by a total of two percentage points from 23 percent to 21 percent in May and August 1986. The reserve requirement on long-term deposit instruments was likewise reduced from 6 percent to 5 percent on December 1, 1986 (Table 13). The reduction of the reserve requirement not only enhanced the availability of loanable funds but also reduced the intermediation cost of banks, which contributed to a further lowering of interest rates to help spur investments.

Table 13. REQUIRED RESERVES ON DEPOSIT AND
DEPOSIT SUBSTITUTE LIABILITIES OF COMMERCIAL BANKS
1985-1986
(In Percent)

Type	1986 December	1986 August	1986 May	1985 September
Deposits				
Demand	21.0	21.0	22.0	23.0
Savings	21.0	21.0	22.0	23.0
NOW Accounts	21.0	21.0	22.0	23.0
Time Deposits				
(Less than 730 days)	21.0	21.0	22.0	23.0
(More than 730 days)	5.0	6.0	6.0	6.0
Deposit Substitutes				
(Less than 730 days)	21.0	21.0	22.0	23.0
(More than 730 days)	5.0	6.0	6.0	6.0
Source: Department of Economic Research-Domestic, Central Bank of the Philippines				

Open Market Operations

In 1986, open market operations continued to be the principal instrument through which the Central Bank regulated liquidity growth consistent with programmed objectives. During the early part of 1986 when there was a need to mop up the excess liquidity generated as a result of the February election spending, the Central Bank stepped up sales of its open market instruments at relatively higher rates. With the installation of the new government and adoption of a new program to hasten economic recovery, monetary policy was relaxed including the flotation of Central Bank instruments.

Beginning October 20, 1986, the Central Bank embarked on a major change in the conduct of its open market operations with the gradual phase-out of CB Bills on maturity dates and the revitalization of the auction method for Treasury issues to be absorbed by the market in an orderly and competitive environment.

Rediscount Window

In line with the policy of credit ease and the market orientation of Central Bank rates, the rediscount rate was reduced from 12.75 percent in November 1985 to 11.75 percent in September 1986 and 10.0 percent in December 1986 or a cumulative reduction of 2.75 percentage points during the year. Despite the decline in the rediscount rate, outstanding rediscount credit continued to decline from P12.3 billion in 1985 to P10.7 billion in 1986 since banks remained liquid following the successive reduction in legal reserve requirements and the continued slack in credit demand.

Interest Rate

Supportive of the economic recovery effort, interest rate policy continued to be market oriented. This was seen in the reduction of the interest rate in the regular rediscounting window as mentioned above. Moreover, the interest rate on loans under the Agricultural Loan Fund (ALF) facility, a source of medium- and long-term financing for the agricultural sector which was opened in August 1985, was likewise adjusted during the year. From an average of 16.7 percent during the fourth quarter of 1985, the ALF rate was reduced gradually to 12.8 percent in the third quarter and eventually to 11.3 percent in the fourth quarter of 1986. The downtrend in the ALF rate reflected the decline in market rates, particularly the average borrowing cost of banks.

As means of enhancing further the market-orientation of interest rates, the auction system of selling government securities (Treasury bills and Treasury notes) was resumed starting October 24, 1986. Previous to this, government securities were sold on a negotiated basis whereby rates were unilaterally determined by the monetary authorities. As a complementary move, the sale of Central Bank bills was phased out starting October 20 of the same year.

FOREIGN EXCHANGE POLICIES Exchange Rate

In 1986, the Central Bank continued to implement a policy of flexible exchange rates which allowed the full interplay of market forces to determine the rate. Under this system which can be characterized as an independent float of the peso,

the monetary authorities did away with setting a guiding rate for the exchange of the peso vis-a-vis the US dollar, and instead allowed commercial banks to trade in foreign currencies among themselves and to freely quote their buying and selling rates. The nominal exchange rate was determined from day to day on the basis of the demand for and supply of foreign exchange. As a rule, the Central Bank would intervene only when necessary to smoothen out fluctuations brought about by speculative factors in the market. Essentially, a market-oriented exchange rate was considered of primary importance to reflect economic fundamentals and support export competitiveness.

Under a flexible exchange rate policy, and even with the implementation of a program of import liberalization, the nominal peso-US dollar exchange rate was stable throughout the year from March. The parallel market for foreign exchange was largely contained and no longer offered a significant premium over the official exchange rate.

Import-Export Regulations

The import liberalization program was pursued in 1986 to encourage the long-term growth and stability of local industries, particularly exports which would become more competitive because of the availability of cheaper and better quality inputs. A total of 1,232 commodities classified under the categories of non-essential consumer (NEC) and unclassified consumer (UC) items not yet liberalized and other regulated items were scheduled for liberalization in different stages beginning 1986. During the start of the implementation stage, however, the list of items scheduled to be liberalized was reduced to 1,229 after removing 3 high tariff items on sugar which would continue to be regulated. From April 30 to December 31, 1986, the government lifted controls on 936 items, as follows:

No. of Items	Issuance/Date	Effectivity Date
140 items	Circular No. 1100 dated April 30, 1986	April 30, 1986
437 items	Circular No. 1105 dated June 6, 1986	June 6, 1986
272 items	Circular No. 1109 dated July 18, 1986	July 18, 1986
80 items	Circular No. 1117 dated Sept. 26, 1986	Sept. 30, 1986
7 items	Circular No. 1128 dated Jan. 9, 1987	Dec. 1, 1986

Of the total items liberalized in 1986, 141 represented NEC/UC items and 795 represented regulated items. Liberalization of the remaining items will be pursued in 1987 until April 1988.

Meanwhile, on August 1, 1986, the requirement to seek foreign credit financing for the importation of machinery and equipment, aircraft and vessels exceeding \$50,000 in value was abolished. On the same date, the government

also lifted the requirement to seek prior Central Bank approval for the importation of machinery and equipment for agriculture and export-oriented enterprises registered with the CB, BOI/GTEB and EPZA.

The Comprehensive Import Supervision Scheme (CISS) was implemented on May 1, 1986, by the Societe Generale de Surveillance (SGS) pursuant to a joint agreement between the Ministry of Finance, Ministry of Trade and Industry and the Central Bank. Under this scheme, goods destined for importation to the Philippines shall be subject to inspection by the SGS in the countries of origin as to the quality, quantity, price (based on home consumption value or HCV) and conformity with tariff and customs code classification and tariff rates prior to shipment to the Philippines. Initially, goods sold and/or supplied from Japan, South Korea, Hongkong, Taiwan, Singapore, Indonesia, Thailand, Malaysia and Brunei were made subject to this inspection mechanism. The implementation of the CISS was temporarily suspended in July 1986 to re-evaluate the contract entered into by the Government with SGS. During the short span of time that the scheme was implemented, all the 1,352 requests to import without letters of credit endorsed by the Central Bank to SGS were evaluated, resulting in the appropriate commodity classification of imports amounting to \$80.6 million.

On the export side, a series of export-related measures were implemented by the Government during the year to further enhance the country's export earning capacity and maximize efficiency in the use of productive resources. The export ban on copra was abolished in March 1986 in line with the Government's policy on free enterprise and privatization. However, for ecological reasons, the export ban on logs was implemented starting August 21, 1986. Furthermore, all export taxes except those on logs were lifted effective July 1, 1986 to increase the competitiveness of the country's exports in the world market.

Export procedures for most commodities were further simplified through the elimination/consolidation of certain export documents. Moreover, the expiry dates of Export Declaration and Export Permits were extended from 15 to 30 days from issuance or from the date of delivery specified in the LC. The number of trade regulatory agencies of the government participating in the one-stop-shop trade facilitation center was increased during the year. This trade facilitation center which was organized in 1985 by the Ministry of Trade and Industry gathered trade regulatory agencies of the government under one roof to expedite the processing and release of import/export papers.

Lastly, the export marketing structure for coconut and sugar products was liberalized as the Government authorized all coconut and sugar millers and other exporters to ship their products directly to the world market. This measure effectively dismantled the marketing monopoly of the United Coconut Mills, Inc. (UNICOM) for coconut and the National Sugar Trading Corporation (NASUTRA) for sugar, thereby restoring free trade in these commodities.

Regulations on Invisibles

The monetary authorities instituted a number of incentives to encourage greater foreign exchange remittances through the banking system. In a move to expand the scope of Circular No. 960 which allowed OBUs to open and maintain peso deposit accounts with domestic agent banks for the servicing of foreign exchange inward remittances of Filipino overseas workers coursed through the OBUs correspondent banks abroad, Circular No. 1089 was issued on January 6, 1986 to include the servicing of remittances of multinational companies to recipient

corporations in the Philippines.

Similarly, Circular No. 1088 dated January 3, 1986 amended some portions of Circular No. 1028 on foreign exchange transactions and remittances and provided for the following changes:

1) Filipinos engaged in technical, professional and other services rendered either in the Philippines or abroad, who are paid in foreign exchange, shall sell for pesos their net foreign exchange receipts not later than three business days from actual receipt. Included in this conversion requirement are foreign exchange earnings derived from overseas construction and construction-related contracts, including contracts in US military bases in the Philippines. Non-compliance with the mandatory remittance requirements by these overseas construction and construction-related/service contractors, recruitment, placement, manning, crewing agencies shall be referred by the Central Bank either to the Philippine Overseas Construction Board or to the Ministry of Labor and Employment, for appropriate action.

2) All foreign investments in equity, whether in the form of cash or in kind (i.e., if in kind, it would cover only machinery and equipment, raw materials, supplies and spare parts and other items classified as EP, SEP, NEP, UP necessary for the operation of a domestic company in essential industries) or in CB-approved securities and reinvestments shall be registered with the Central Bank.

3) Investments in BOI-registered enterprises not engaged in the production of import substitute items may be repatriated in three equal annual installments starting one year after liquidation of investments.

4) Applications for remittance for the following purposes may be acted upon by AABs without prior authorization from the Central Bank (provided that they are supported by specific documents):

- a) Port disbursements abroad of aircraft and vessels of Philippine registry or chartered/leased by domestic operators;
- b) Mail fees;
- c) Salvage fees;
- d) Foreign advertising costs;
- e) International settlement of accounts for telegraph, telegram, cable, radio, satellite and other communication facilities;
- f) Commissions on exports due foreign agents;
- g) Membership dues and registration fees;
- h) Subscription to foreign magazines or periodicals;
- i) Real property taxes due to foreign governments; and
- j) Income taxes due to foreign governments.

5) With prior approval of the CB Export Department, exporters may remit abroad rebates, discounts and refund of export proceeds due to defective export shipments, and export traders duly registered with the BOI may remit foreign exchange for the establishment and maintenance of overseas trade offices of exporters.

To allow for greater accessibility to travel tickets and charge orders, international carriers selling passenger tickets for travel to and from the Philippines were authorized to accept either pesos or foreign exchange, for the sale of tickets to residents and non-residents under Circular No. 1120 dated November 7, 1986. Access to travel funds has also been liberalized through the sale of such funds by AABs not only in the Head Offices but also in their Metro Manila and provincial branches.

**SUPERVISION
AND
REGULATION
OF FINANCIAL
INSTITUTIONS**

Supervision of Banks

Regular examinations of 69 head offices of commercial banks, thrift banks, specialized government banks and foreign banks and 271 of their branches and other banking offices were conducted in 1986. Likewise, a total of 578 rural banks was examined.

Special examinations were also conducted for purposes of verification of deposit drawdowns, additional capital infusion, and holdings of reserve-eligible government securities, equity investments, past due loans and loan portfolio; evaluation of deposit accounts under complaints and asset accounts in connection with failure of the banks to service withdrawals; spot checking of tellering booths; looking into BIR collections and follow-up on corrective measures taken by banks on findings noted during the regular/special examinations.

Other supervisory functions performed during the year included the following: chartering/processing and evaluation of proposals to establish new bank/branches; approval/evaluation of applications for conversion/mergers and consolidations; placement of distressed/insolvent banks under receivership/liquidation; execution of conservator/comptrollership activities; monitoring and consolidation of supervisory reports on loan and investment portfolios, investment-deposit ratios and financial audits.

Regulation of Non-Bank Financial Intermediaries (NBFIs)

As of year-end, an aggregate of 316 examinations were conducted in the head offices and branches of non-bank financial institutions, of which 42.0 or 13.3 percent were regular examinations while 274 or 86.7 percent were special examinations that were confined mostly to head offices. Majority of the regular examinations were performed in head offices of non-stock savings and loan associations (NSSLA). The special examinations were undertaken mainly for purposes of reports verification, loan appraisal, data gathering, and determining unauthorized quasi-banking functions.

**MANAGEMENT
OF
INTERNATIONAL
OPERATIONS**

External Debt

External debt management was supportive of the policy goal to restore the viability of the country's external payments position and improve credit-worthiness. Efforts were geared towards achieving a reduction in the debt service burden so as to allow ample breathing space for a return to growth.

The IMF standby arrangement which was approved on December 14, 1984 and provided for scheduled releases of credit up to mid-1986 was terminated, with only 66 percent of the committed amount having been drawn. Negotiations for a new standby arrangement which would be supportive of the new Government's economic and financial program were initiated in July 1986, and the use of resources totalling the equivalent of SDR 422 million was approved by the IMF in October 1986. Of the total, the equivalent of SDR 224 million (\$269 million) was drawn immediately under the Compensatory Financing Facility to cover an export shortfall experienced during the 12 months ending June 1986. The government also availed itself of SDR 5 million (\$6 million) comprising the first tranche of the Standby Credit Facility, under which Fund resources aggregating SDR 198 million may be drawn over a period of 18 months from approval of the arrangement.

During the year, the country likewise availed itself of the last two drawdowns amounting to \$525 million from the New Money Facility with foreign commercial banks. In addition, fresh credits of \$246 million were obtained from official sources, consisting of \$54 million from the Asian Development Bank (ADB), \$160 million in commodity loans from Japan, and \$32 million under US Public Law 480.

The Government also negotiated with foreign creditor banks for the extension of the Trade Facility, as a result of which the availability of credit lines for the financing of trade was assured up to June 1987 from end-December 1986.

The country, moreover, concluded bilateral rescheduling agreements under the aegis of the Paris Club with 14 creditor countries, four of which (Japan, Australia, UK and Netherlands) were signed in 1986. Likewise, the government continued negotiating with Austria on the consolidation of its Paris Club loans, particularly those of Semirara Coal Corporation. A total of \$379 million was rescheduled with the Paris Club during the year; these rescheduled debts carried an average interest rate of 8 percent per annum and a maturity term of 10 years with 5 years grace.

Meanwhile, the restructuring agreements covering debts as of October 1983 to end-1986, drawn up with commercial banks in mid-1985, enabled the restructuring of \$866 million during the year, with terms providing for an annual interest rate of 1.625 percent over LIBOR and repayment within 10 years with 5 years grace.

To operationalize the restructuring agreements with creditors, the Central Bank devised specific programs for the repayment of foreign debt obligations of the various sectors.

Public Sector Debt Restructuring. The seven largest public sector borrowers, namely: PNB, DBP, NPC, NIDC, PNOC, PAL and CB, which accounted for 90 percent of total public sector debt to be rescheduled, signed separate restructuring agreements with creditors on January 10, 1986, while 5 other public sector borrowers, as Assuming Obligors of 14 government borrowers, signed their restructuring agreements on April 16, 1986. At end-1986 the total Specified Debts which entered the public sector restructuring program amounted to \$3,883.5 million.

Private Corporate Debt Restructuring. The Central Bank program for the repayment of private corporate debt, as outlined in Circular No. 1076, provided firms four repayment options depending on their cash flows. Under Option 1, a borrower pays the principal amortization when it falls due if the borrower does not find any need to restructure the loan. Under Option 2, a borrower with liquidity problems may restructure the loan for at least 6 months and up to 10 years. Under Option 3, a borrower with the same liquidity problem but prefers to obtain exchange risk protection may avail himself of foreign exchange cover from the Government of up to 75 percent of the debt. Under Option 4, a borrower in a state of financial distress, may restructure the debt for a 7-year term and obtain forward exchange cover for 100 percent of the debt. One hundred percent of eligible private corporate debt (US\$1.073 billion) was enrolled in the Program; of this total, 40 percent was restructured, with the longest amortization payable in 1994. By option, 60.0 percent was entered under Option 1; 33.8 percent under Option 2; 5.9 percent under Option 3; and less than half of one percent under Option 4. In terms of economic activity, the distribution of total enrolled debt is as follows: manufacturing, 45.0 percent;

643.8
362.7
63.3
3.2

NMLT - \$42.8M

7 Sep 1986 - \$ 244.9M
 8 - \$ 55.1M

public utility, 33.4 percent; mining, 13.1 percent; construction, 5.5 percent; business services, 1.6 percent; and agri-business, 1.4 percent.

Private Financial Sector Debt Restructuring. Circular No. 1091 issued on January 31, 1986 and amended by Circular No. 1116 dated September 22, 1986 outlined the program for the repayment of obligations of the private financial sector obligors. As of the deadline for submission of applications on September 30, 1986, 409 applications aggregating \$1,604.2 million were received. Of this amount, 383 applications totalling \$1,442.5 million were already restructured under the said Circular as of end-1986.

On August 4, 1986, the monetary authorities also implemented another avenue for achieving a more rational management of external debt via the program for the conversion of external debt into equity investments. This scheme has the twin major objectives of reducing the level of outstanding external debt and stimulating long-term equity investments in key sectors of the economy. At end-1986, 54 applications amounting to \$239 million had been received, out of which 23 applications with an aggregate value of \$46 million were approved for conversion.

Foreign Investments

The Government continued to pursue the policy of attracting foreign investments into the country as an alternative to foreign borrowings in financing economic activities.

On November 7, 1986, Executive Order No. 63 was issued granting incentives to foreign investments in tourist-related projects and tourist establishments. The issuance provided that any foreigner who invests an amount of at least \$50,000 in a tourist-related project or in any tourist establishment shall be given benefits/incentives such as a special investor resident visa, remittance of earnings, repatriation of proceeds and right to succession.

During the year, the CB evaluated/processed applications for approval of foreign investments and related transactions such as remittances of profits/dividends, technical and other fees, capital repatriation; and applications for outward investments and guarantee requirements of Philippine companies' overseas projects, mostly located in the Middle East, in accordance with the provisions of CB Circular Nos. 365, 375, 393, 652, 744, and 1028, and other policy guidelines set by the government and Monetary Board.

The CB also approved the resumption of stock arbitrage transactions after the promulgation of Memorandum to All Securities Dealers/Brokers and Transfer Agents dated May 19, 1986. Stock arbitrage transactions refer to the purchase/sale of shares of stock by a resident or non-resident either in the domestic or foreign market and their sale/purchase on the same value date in one or the other market, taking advantage of a price differential. During the period June to December 31, 1986, 40 applications were processed/evaluated authorizing the sale abroad of CB-approved securities amounting to \$1.7 million, from the proceeds of which purchases of CB-approved securities amounting to \$0.8 million were made, leaving a difference of \$0.9 million which was inwardly remitted.

Meanwhile, registered foreign investments in CB-approved Philippine securities aggregated \$30 million in 1986, or an increase of \$27 million from the 1985 figure of \$3 million. Classified by sector, the commercial/industrial sector

registered the highest level of investments in Philippine securities amounting to \$22 million, followed by the mining sector with \$7 million. By country, Hong-kong-based investors took the lead with investments amounting to 81.5 percent of the total, followed by the United States with 8.6 percent and England, with 6.1 percent while the remaining 3.8 percent was shared by Australia, Singapore and Spain. Repatriated investment on CB-approved Philippine securities amounted to \$9 million while a total of \$3 million cash dividend was remitted during the year.

Direct foreign equity investments approved by the Central Bank, exclusive of investments arising from debt-to-equity conversions, aggregated \$66 million, about one-fourth of the foreign equity investments of \$254 million recorded in 1985.

Foreign Exchange Operations

Foreign exchange operations during the year continued to be oriented towards ensuring both the inward remittance to the banking system of proceeds generated from non-trade transactions and overall compliance with existing regulations on outward foreign exchange remittance, as well as on the exportation/importation of currencies, gold, silver and other precious metals.

An intensified campaign to identify new foreign exchange earners and encourage them to surrender their earnings to the banking system resulted in the identification of 1,028 new tourism-oriented foreign exchange earners. During the year, 55 were certified as non-trade foreign exchange earners under Circular No. 1028, and 52 certified as service exporters. Three foreign airline companies were also granted authorities to open/maintain/transfer Special Dollar Accounts (SDAs). The identification of new foreign exchange earners contributed substantially to receipts from tourism-oriented establishments which expanded from \$22.8 million in 1985 to \$89.8 million in 1986, or by \$67 million. Likewise, close monitoring of shipping companies, regional headquarters of foreign firms and indentors led to increases in amounts of foreign exchange receipts surrendered to the banking system by each of these categories of earners by 11.5 percent, 18.1 percent and 7.1 percent, respectively.

Applications for invisible disbursements acted upon during the year aggregated 2,094 broken down into: foreign exchange remittances (1,118); requests for film releases (663); and registration of management/service contracts and movie/TV distribution agreements (313). In 1986, passenger fees topped the list of invisible disbursements.

Foreign exchange proceeds from by-product gold exported abroad and sold to CB amounted to \$50.8 million in 1986, an increase of \$0.8 million from the year-ago level. Receipts from other foreign exchange transactions, such as acquisitions via telegraphic transfer, receipts for licenses and registration fees of OBUs and representative offices of foreign banks, and sales for pesos of OBUs, amounted to \$32.3 million during the year, down by 25.7 percent from the 1985 level.

Post-verification of outward remittances was also undertaken during the year to avoid unnecessary foreign exchange outflows. A total of 37,063 applications involving an outward remittance of \$736.2 million were post-audited. The examination of the books of accounts of non-trade earners and post-transaction

verification activities directly resulted in an increase of \$4.2 million in receipts from services.

In another development, the level of outstanding swap transactions of the CB declined by \$421.4 million from end-1985 to \$762.8 million at end-1986, mainly on account of the unwinding of swap contracts covered by Circular Nos. 1076 and 1091. Forward commitments (arising from contracts with oil companies, National Food Authority for grain importations, National Steel Corporation for hot rolled steel; from obligations under Circular Nos. 960/1012; and contracts for the public sector under Memo Circular dated December 5, 1983) exclusive of swaps, also fell by \$328.1 million due to increased delivery/payment of contracts during the year.

As the fiscal agent of the government, the CB administered the fiscal agency fund of the national government, its instrumentalities and agencies, and processed a total of 2,983 fiscal agency service (FAS) applications for various purposes, including the remittance of salaries, allowances, maintenance and operating expenses of overseas-based personnel and government offices abroad; disbursements for travel funds, and allowances of government officials/personnel; and payments of other miscellaneous invisible obligations. The amount involved disbursements of \$34.6 million, \$12.6 million lower than the comparable figure in 1985 for 4,192 FAS applications.

International Trade Operations

In 1986, the import licensing function of the Central Bank was greatly reduced with the relaxation of certain import rules and regulations in line with import liberalization. Nevertheless, the Central Bank continued to carry out its other duties and responsibilities in accordance with the provisions of CB Circular No. 1029.

CB monitoring of regular letters of credit (LCs) opened during the year showed a total of \$2,674 million. From August to December, there was a continuous upward movement in LCs opened, indicating the continued improvement in demand for imports for domestic production. In contrast, availments of documents against acceptance (DA) and open account arrangements (OA) dropped by almost 40 percent to \$763 million due mainly to the significant decline in oil imports. The movement of DAs and OAs as a mode of import payment has been closely linked to oil imports since nearly all oil imports by domestic oil companies are negotiated through these instruments.

Following the import liberalization program, the number of applications received to import banned/regulated items fell by more than two-fold to 254. Consequently, the value of banned/regulated commodities authorized by the Central Bank to be imported dwindled from \$36.6 million in 1985 to \$10.1 million in 1986. There was, however, a noticeable gain in applications received to import on a no-dollar basis. Applications received during the year reached 935 compared to 569 in 1985. The increase resulted mainly from the importation of motor vehicles by returning residents, items for demonstration/testing and display for PHILCITE. Value-wise, the total amount of approved no-dollar imports rose by 24.4 percent to \$5.1 million.

Proper commodity classification codes were likewise provided on all import authorizations referred to the Central Bank. Through these procedures, the Bank was able to assist the Bureau of Customs in the proper valuation of imports in

order that the correct amount of taxes and duties could be assessed. Relatedly, during the short period that the Comprehensive Import Supervision Scheme was enforced, the Bank evaluated and endorsed to Societe Generale de Surveillance (SGS) 1,352 requests to import without L/C and provided the proper commodity classification codes for such imports.

Meanwhile, the Bank continued to render consultative services to various government agencies, importers, manufacturers, banks, embassies/consulates, students and other individuals requesting information/clarification on the procedures involved in importations, and the interpretation and implementation of existing Central Bank import regulations and policies.

On the export side, Report of Foreign Sales (RFS), Export Declarations (EDs) and Export Permits (EPs) were verified, evaluated and reviewed to determine whether the declared prices of export commodities conformed with prevailing market prices, and whether the terms and conditions of the sale were in accordance with existing rules and regulations of the Bank. Exporters found to have declared low prices for their exports were advised to renegotiate with their foreign buyers; these renegotiations resulted in additional foreign exchange earnings from export sales of various commodities amounting to \$566,245.

The close monitoring of export declarations without foreign exchange proceeds, purportedly covering the shipments of household/personal effects of expatriates leaving the country, items for display in foreign trade fairs, replacement of export receipts, tourist purchases and samples, similarly generated additional foreign exchange income for the country amounting to \$1.5 million.

Applications to purchase foreign exchange to pay for commissions for the sale or distributorship by foreign agents abroad of Philippine products, especially non-traditional exports, to new markets were acted upon with dispatch. The applications, however, were subjected to verification to make sure that the agents' commissions were at market levels. For 1986, 49 applications with an aggregate value of \$530,000 were given favorable action.

For the purpose of assisting foreign buyers/agents, the Bank prepared a 1985 Directory of Philippine Exporters which was distributed free of charge to foreign embassies, authorized agent banks, various export associations and trade centers. Moreover, through the Central Bank Institute, seminars on Export Financing were held regularly to inform exporters of different financing facilities available to them. Regular meetings/dialogues were likewise conducted with various exporter groups to thresh out problems and points of differences with regard to rules and regulations affecting exports.

International Reserve Management

Considerable progress was achieved in strengthening the international reserve position after the February Revolution. After falling to \$898 million in February, reserves rose strongly to reach \$2,459 million at the end of 1986, the highest level in four years.

Underlying the marked improvement in reserves were the net purchases of foreign exchange from commercial banks (\$1,055 million); drawdowns under the Compensatory Financing Facility and the new standby arrangement with the International Monetary Fund (\$275 million) as well as from the New Money Facility from foreign commercial banks (\$525 million); foreign exchange sales and deposits of the Treasurer of the Philippines of proceeds from the Economic

Support Fund, and loans from official sources like ADB, IBRD, and the Eighth and Ninth RP-Japan Commodity Loans (\$664 million); and over-the-counter purchases of foreign currency notes and coins (\$190 million).

The bulk of international reserves were in liquid assets to enable the Central Bank to meet any foreseeable demand for foreign exchange. By currency composition, about three-fourths of reserve assets were denominated in US dollar to match the expected pattern of foreign exchange payments.

A significant development during the year was the active management of the foreign securities portfolio, as opportunities for realizing capital gains and riding the yield curve were taken advantage of. As a result, the Central Bank's holdings of foreign securities reached a peak level of \$856 million at the end of 1986, comprising 34.8 percent of total international reserves, a substantial increase from the year-ago level of \$38 million.

Gold purchases from mining companies and gold panners totalled \$298 million during the year, raising the year-end level of the Central Bank's gold holdings from \$501 million at end-1985 to \$799 million or 32.5 percent of total reserves at end-1986. Combined demand deposits and short-term placements accounted for 32.3 percent.

Drawdowns on the international reserves in 1986 were mostly for the repayments on the principal or multilateral loans of the Central Bank and the National Government amounting to \$800 million, and for payments of interest totalling \$1,171 million on the Central Bank's direct and assumed foreign obligations.

OPERATIONS AS FISCAL AGENT OF THE GOVERNMENT

Authorized Flotations

Government securities, authorized for flotation through and by the Central Bank during the year totalled P128.2 billion. This amount included new authorizations for 1986 (P51.8 billion), the balance of issues authorized in the previous year which was carried over in 1986 (P17.6 billion) and previously authorized flotations for Treasury Bills and Central Bank Bills (P58.8 billion). New authorizations during the year were for the issuance of Treasury Notes and Treasury Bills amounting to P34.4 billion by the National Government, the issuance of NPC Bonds and LRTA notes amounting to P2.0 billion and P0.4 billion, respectively, and the issuance by the Central Bank of its bills amounting to P15.0 billion.

Primary Sales of Securities

An active primary market for government securities was noted in 1986 as P310.8 billion in government securities were sold, an increase of 67.7 percent or P125.5 billion over the end-1985 level of P185.3 billion. Sales of these securities were largely through negotiation/direct subscription through most of the year until the last quarter when the auction system of selling securities was revived.

The National Government continued to be the major issuer of government securities in the primary market as gross issuances of P201.3 billion in 1986 significantly rose by 96 percent over their 1985 level. This was primarily due to the increased flotation of Treasury Bills as a more preferable means of financing the budget deficit.

The Central Bank was the second biggest issuer as gross CB Bills sold through negotiation during the year amounted to P107.0 billion or 34.4 percent of total

issues, representing a 31.0 percent increase over the previous year. However, starting October 1986, issuance of CB Bills has been stopped to give way to the flotation of Treasury issues.

Although constituting a minimal 0.8 percent share of total primary issues, government corporate issues amounting to P2.5 billion in 1986 increased by over 200 percent from the previous year's level.

About 99.4 percent or P309.0 billion of total primary issues were marketable securities in line with the policy being pursued by the monetary authorities towards market orientation of all government securities.

The banking system, composed of both public and private commercial and other banks, bought more than 77.5 percent or P240.9 billion of the total primary government issues. Private non-banks invested in about 11.5 percent or P35.8 billion of the total while public non-banks bought around P34.1 billion or 11.0 percent.

Premyo Savings Bonds

The gradual phase-out of the reserve-eligibility feature of Premyo Savings Bonds which started in July 1984 was completed on July 1, 1986. This policy resulted in the surrender of about P1.3 billion or 93 percent of the P1.4 billion outstanding issues, with about P0.1 billion still being held by a remaining number of rural banks, institutions and individuals mostly in the countryside.

The flotation of a new savings medium called "Kalayaan Bonds" to replace the Premyo Savings Bonds was recommended and approved in principle for tentative launching in late 1987.

OTHER ACTIVITIES

New Committees

In 1986, the Central Bank continued to set up and reconstitute committees/task forces in pursuance of its goals and objectives. During the year, four new committees and two task forces were organized to undertake policy review studies and to perform specified tasks as follows:

1. Inter-Agency Committee on Premyo Savings Bond (Office Order No. 5, effective January 8, 1986) - created to determine the actual status of the Premyo Savings Bond Flotation Program, devise an effective marketing strategy to resell the holdings of the CB Portfolio and Security Sinking Fund, and recommend measures related to the gradual phase-out of the reserve eligibility of the Premyo Savings Bond.

2. Ad hoc Committee for the 10th SEACEN Course on Inspection and Supervision of Financial Institutions (Office Order No. 13, effective March 13, 1986) - organized to lend staff support to handle the preparation for, and the conduct of the 10th SEACEN Course, hosted by the Central Bank.

3. Currency Stock Special Task Force (Office Order No. 37, effective May 15, 1986) - organized in lieu of the Currency Stock Work Group in the Cash Department to take custody of all unissued currency notes and coins of the Central Bank, take charge of the issuance of currency as may be needed/requisitioned, and to submit to the Monetary Board monthly report of unissued currency in stock indicating denomination, quantity and total amount.

4. Task Force on the Rationalization of the Central Bank Authorized Signatures Book (Office Order No. 80, effective September 3, 1986) - designated to

be responsible for the preparation of an updated Central Bank authorized signature book to reflect the consolidated changes since May 1979 in the Bank's organizational structure and composition of officers to sign on its behalf.

5. Working Committee for the Central Bank's Computer Acquisition Program (Office Order No. 81, effective September 1, 1986) - constituted to define the specific features of the computer application to be developed, including controls and security measures to be maintained; to develop a training program for user departments and coordinate with these offices the implementation of specific systems/programs; to develop reconciliation procedures and evaluate performance of the computer applications developed; and to coordinate the delivery, installation and operationalization of computers and other related activities.

6. Ad hoc Committee for the VIII Pacific Rim Banknote Printers/Conference (Office Order No. 122, effective December 17, 1986) - organized to take charge of the preparation for the forthcoming VIII Pacific Rim Banknote Printers Conference from November 9-19, 1987.

Gold Refinery and Mint

In 1986, the CB Gold Refinery produced 594,835.135 troy ounces (tr.oz.) of refined gold and 210,312.110 tr. oz. of refined silver out of 1,153,442.064 tr. oz. of total raw bullion valued at P5,653.8 million delivered and sold to the CB by primary gold mines, gold panners/traders and the Philippine Associated Smelting and Refining Corporation (PASAR).

Total refined gold output which exceeded the year's target by 13.3 percent increased by 10.4 percent from the 1985 level to 56,084.244 tr. oz. Panned gold which constituted 377,480.183 tr. oz. or more than 30 percent of the total purchases during 1986, rose by about 45 percent over the preceding year's level. In terms of fine gold content, panned gold exceeded primary gold by 7.8 percent. Of the aggregate gold production, 691 "good delivery" gold bars weighing 271,057.025 tr. oz. were sold to foreign traders through the CB Treasury.

Despite the temporary suspension for eight consecutive months starting in February 1986 in the operation of the silver refining facilities while undergoing start-up, commissioning and performance tests, the Refinery produced 210,312.110 tr. oz. of silver which, although falling short of the 1985 output level by 16.5 percent, exceeded the 1986 target by 7.8 percent.

With regard to the minting operations of the Bank, a total of 245.6 million circulation coins were turned out or 1.2 percent in excess of the revised 1986 coin order. Of the coins minted, 96.6 million pieces with face value of P24.7 million were delivered to and accepted by the CB Cash Department.

Security Printing Plant

In 1986, the Security Printing Plant produced a total of 293 million banknotes filling up close to 89 percent of the revised order for the year. Compared with the previous year's level, this output which included 20.4 million unfinished notes in 1985 dropped by 26.8 percent due to unavoidable production interruptions during the year including delays in arrival of printing materials. Of the banknotes finished, 261.5 million or 95.9 percent were delivered to the Cash Department including the new 5-peso and 10-peso series bearing the signature of President Corazon C. Aquino.

Similarly, production of Security instruments - encoded regular and special checks, and non-check documents in 1986 aggregating 89.5 million pieces (inclusive of 12.4 million unfinished 1985 production) decreased by 2.7 percent from the 1985 level with no orders placed for Treasury checks, BIR payment orders and confirmation receipts. Total orders received during the year reached 83.4 million pieces or a 10.0 percent decline from the 1985 level, of which 92.4 percent or 77.1 million pieces were completed in 1986. The combined production of strip stamps, wine labels and chewing tobacco stamps, totalling 1,372.2 million pieces in 1986 dropped sharply by more than two thirds of the preceding year's level which was attributed to the stoppage in the printing of strip stamps per order of the BIR.

For passport booklets, 146,499 pieces of the 1986 order and 663,000 pieces of unserved 1985 order were delivered to the Ministry of Foreign Affairs during the year. In 1986, the Plant also delivered 1,833 seaman's service record books out of the 1986 order of 35,000 booklets or only about 5.0 percent due to late placement of the order.

Currency Issue

The net outstanding liability of the Central Bank in the form of currency notes and coins issued reached P34.6 billion as of December 31, 1986, an expansion of P6.6 billion or 23.5 percent above the corresponding level of 1985 due to the public's increased preference to hold cash notably in February and December. The higher currency holding in February may be attributed to uncertainties brought about by the presidential election. Meanwhile, the strong demand for currency in December was the combined effect of seasonal factors and the release of bonuses to government employees. Except for the unusually high currency issuance of more than P30 billion during each of those two months, the level of monthly currency issue for the rest of 1986 averaged P26.3 billion, lower by 6.5 percent as compared with the P28.0 billion average monthly level in the previous year.

Clearing Operations

During 1986, a total of 26.9 million local and out-of-town checks and other demand items valued at P309.8 billion were cleared through the Manila Clearing Center, and twenty nine regional clearing units. Compared to prior-year levels, the total items cleared increased by 7.6 percent with a corresponding rise of 13.0 percent in face value. The total number of clearing participants was reduced from fifty to forty-nine following the merger of two commercial banks in 1986. Inter-regional clearing operations would, on the other hand, be expanded to include clearing units in Cotabato and Iligan which are being prepared for operation.

Training Programs/Technical Assistance

In 1986, the Central Bank Institute (CBI) conducted continuing programs of orientation and career development courses consisting of behavioral, leadership and executive development programs, technical training and skills improvement

for personnel of the Central Bank and other financial institutions under its supervision, including foreign nationals of Third World countries.

During the period, the Institute conducted 36 courses consisting of 117 offerings attended by a total of 6,025 participants. This included 7 new courses covering rural banking, seminar on Central Bank Circulars, and courses for participants from other Third World Countries on Organization and Management of Training Programs, Credit Guarantee Operations, Agricultural Credit, Rural Banking, Agricultural Banking and World-Bank Assisted Cottage and Small Scale Industries. Of the total number of participants, 2,457 were CB personnel, 3,509 were from local financial institutions and 59 from other countries. The CBI also assisted in undertaking the 10th SEACEN Course on Inspection and Supervision of Financial Institutions which activity was hosted by the Central Bank for the second time in November-December 1986 and attended by 55 participants from 8 countries.

As in previous years, the CBI assisted in the implementation of the Central Bank scholarship program and the National Scholarship for Development. Of the 34 scholars during the year, 27 took post-graduate courses in local universities and 7 in the US, Canada and Japan. In addition, there were 54 personnel studying in various non-degree programs as of December 31, 1986, such as Foreign Language, Junior Executive Training, International Business Machine, etc. Moreover, 38 staff members attended workshops, seminars and conferences in foreign countries either as participants or lecturers during the year.

Loans and Credit Operations

As of end-1986, outstanding Central Bank rediscounts and advances stood at P23.3 billion, a decline of P1.7 billion from the end-1985 level. The decline was accounted for by net collections from commercial banks (P1.2 billion), rural banks (P0.3 billion) and others (P0.2 billion). Of the total outstanding loans from the Central Bank, P6.9 billion or 29.6 percent were past due and were incurred mainly by commercial banks and rural banks. The level of arrearages rose by P1.0 billion from the previous year on account of arrears incurred by specialized government banks which offset payments by other financial institutions of their past due accounts.

Total loans granted by the Central Bank in 1986 rose by P1.8 billion to P21.2 billion. Around 51.0 percent or P10.8 billion of this amount went to the National Government mainly in the form of provisional advances, P2.8 billion of which was also repaid during the year while 45.0 percent or P9.5 billion went to commercial banks through rediscounts.

Regional Operations

As of December 31, 1986, 4 regional offices (La Union, Cebu City, Tacloban City and Davao City) and 11 regional units or a total of 15 operating units located throughout the various regions of the Philippines continued to perform Central Bank functions and services to the financial community and the people within their jurisdiction, thereby contributing to economic development efforts in these areas. In line with the decentralization policy of government, 2 additional regional units; one each in Cabanatuan and Cotabato were established and started operations in 1986.

Cash and Banking Operations. As of end 1986, total receipts comprising cash and check deposits, cash requisitions, incoming cash shipments, and proceeds from sale of government securities of the 15 operating units amounted to P19.2 billion increasing by P4.6 billion or 32.4 percent from the previous year's level. On the other hand, disbursements including cash withdrawals, outgoing cash shipments and encashment of government securities aggregated P20.1 billion or 41.5 percent higher than in 1985. During the same period, cash deposits and withdrawals by commercial banks, thrift banks and rural banks amounted to P14.9 billion and P11.0 billion, respectively; foreign currencies purchased totalled \$93.0 billion or an increase of 80.0 percent over prior-year transactions.

Securities Marketing and Servicing. Sales of government securities and bonds undertaken at the regional level through offices in La Union, Cebu, Davao and Tacloban amounted to P52.3 million in 1986, a four-fold increase when compared with the sales recorded in 1985. As in the past, the Cebu office accounted for the bulk or 97.0 percent of total sales during the period. On the other hand, the encashment of CBCIs/Treasury Notes and interest coupons amounted to P33.5 million while redemption of Premyo Savings Bonds which are being phased out reached P958.4 thousand.

Clearing Operations. A total of 19.19 million checks valued at P211.0 billion were cleared in 1986 by the clearing units of the different CB regional offices/units. Compared to the preceding year, the number of checks cleared was higher by 3.99 million or 26.0 percent.

Rediscounting Operations. Total loans granted to rural banks during 1986 by the CB regional offices with rediscounting functions (Cebu City, Davao City and La Union) declined to P146.1 million from P273.9 million a year ago. The decline was attributed to the increasing number of rural banks denied access to the rediscounting facility of the Central Bank due to arrearages. Loan repayments, likewise, dropped to P230.6 million or by 61.0 percent from 1985.

International Economic Cooperation

In 1986, the Central Bank continued to involve itself in regional and international cooperation. The year began with the Central Bank hosting the 21st Annual SEACEN Governors Meeting in Baguio City on January 22-25, 1986. In this meeting, recent economic and monetary developments in member countries as well as the world economic outlook and its impact on the SEACEN² region were taken up. Moreover, the work program of the SEACEN Centre for 1986 was approved for implementation. During the year, the Central Bank was an active participant in collaborative research projects undertaken by the Centre such as "The Financial Structure and Some Implications for Monetary Policy" and "Foreign Exchange Markets in the SEACEN Region".

Later during the year, the Central Bank participated in the annual meeting of the South-East Asian Countries, New Zealand and Australian Central Bank Association (SEANZA) held in Bangladesh. One of the more important agreements reached during the meeting was to develop projects which would further

²The members of the SEACEN are Burma, Indonesia, Malaysia, Nepal, Philippines, Singapore, Sri-Lanka and Thailand.

strengthen monetary cooperation in the Pacific Rim Basin. In view of this, a working group was formed to review project proposals which could be adopted in the region.

The Central Bank was likewise involved in the activities of the Asian and Pacific Regional Agricultural Credit Association (APRACA) through active participation in the meetings of its Executive Committee. The Central Bank also supported the proposal advanced by other developing countries in the region to expand the lending activities of the Asian Development Bank (ADB). In this regard, developed member countries of the ADB were requested to increase their contribution to the lending fund of the Bank.

In the ASEAN, the Central Bank which is an institutional member of the Committee on ASEAN Economic Cooperation responded to a proposal of the ASEAN Banking Council, communicated to it by the Bankers Association of the Philippines, to permit the use of ASEAN currencies as a medium of exchange in intra-ASEAN trade. The Monetary Board in a resolution passed on August 22, 1986, permitted the payment of Philippine exports and imports in ASEAN currencies in line with the proposed scheme, subject to the reciprocal endorsement by other ASEAN Central Banks/Monetary Authorities of the same scheme and their commitment not to impose any impediments on the use of ASEAN currencies in regional trade. This decision was noted by the Committee on Finance and Banking which agreed to recommend the proposal to the ASEAN Economic Ministers (AEM). The AEM which is scheduled to meet in mid-1987 is expected to request Heads and Governors of the Monetary Authorities and Central Banks of other ASEAN countries to consider the use of ASEAN currencies for the purpose of promoting intra-ASEAN trade. The Central Bank also continued to support the ASEAN Swap Arrangement. However, in 1986 no ASEAN country used the facility.

In the international scene, the Central Bank was an active participant in the meetings and other activities of the International Monetary Fund (IMF), the World Bank (WB), and the International Finance Corporation (IFC) in promoting international monetary cooperation. Aside from participating in the annual meetings of these institutions, the Central Bank was able to negotiate the use of some credit financing facilities offered by these institutions.

In the area of trade, the Central Bank was involved in the negotiations for and adoption of the country's position on various issues currently being discussed in the General Agreement on Tariffs and Trade (GATT) new round of multilateral trade negotiations in Geneva. In December 1986, the Central Bank participated in the GATT BOP consultation on the Philippines essentially to justify the restrictive trade measures as well as related monetary and fiscal measures introduced by the government to restore balance of payments equilibrium, following the foreign exchange crisis in 1983. In conjunction with the decision of the government to participate in the first round of trade negotiations under the Global System of Trade Preference (GSTP), the Central Bank together with other concerned government agencies assisted the Ministry of Trade and Industry in drawing up the list of commodities to form the request list of the country for submission to the trade negotiating group.

Total assets of the Central Bank at P313.9 billion at end-December 1986 registered an increase of P62.3 billion or 24.8 percent from the end-December 1985 level of P251.6 billion. The increment was traced partly to the build-up in gross international reserves by about P30.2 billion or 148.5 percent to P50.5 billion as a result of foreign exchange purchases of the Central Bank, the inflow of new money from foreign commercial banks and primary gold purchases. The revaluation of international reserves, arising from valuation adjustments of foreign currency-denominated accounts due to foreign exchange rate movements, contributed P19.3 billion to the expansion in Central Bank assets and reached P105.5 billion at end-December 1986. Also part of total assets are the Monetary Adjustment Account and the Exchange Stabilization Adjustment Account, which increased by P6.5 billion and P9.2 billion, respectively, representing interest payments for domestic and foreign obligations of the Central Bank.

Meanwhile, loans and advances which made up about one fourth of total assets decreased by P2.4 billion or 3.3 percent from a level of P74.8 billion a year ago as additional budgetary loans to the National Government was partly offset by the loan repayment of commercial banks under the CB rediscount window.

Total outstanding liabilities of the Central Bank as of end-December 1986 likewise posted an increase of P62.2 billion or 24.8 percent compared with the end-1985 level. This was due primarily to the increase in foreign loans payable of CB by P45.0 billion or 60.8 percent following the availment of the new money facility. Notwithstanding the reductions in reserve requirement during the year which led to a drop in required deposit balances of banks with CB, total deposit liabilities of CB increased as banks continued to maintain an increasing portion of their reserves in the form of deposit balances with CB since these are paid interest of 4.0 percent. Moreover, there was a build-up in National Government deposits with CB.

Net worth improved by 5.6 percent to reach P677.0 million as of end-1986 from P641.3 million at end-1985 and was traced primarily to the increase in capital reserves and capital surplus by P30.0 million and P6.2 million, respectively (Table 14).

Table 14. STATEMENT OF CONDITION OF THE CENTRAL BANK
As of End 1985-1986
(In Million Pesos)

Account	1986	1985	Changes	
			Amount	Percent
Total Assets	313,892.0	251,611.9	62,280.1	24.8
International Reserves	50,480.9	20,315.8	30,165.1	148.5
Domestic Securities ¹	14,948.7	14,495.8	452.9	3.1
Loans and Advances	72,364.1	74,796.1	-2,432.0	-3.3
Revaluation of International Reserves	105,453.7	86,127.5	19,326.2	22.4
Monetary Adjustment Account	25,358.1	18,855.2	6,502.9	34.5
Bank Premises and Other Fixed Assets	2,181.1	2,033.6	147.5	7.3
Exchange Stabilization Adjustment Account	26,121.2	16,872.4	9,248.8	54.8
Other Assets	16,984.2	18,115.5	-1,131.3	-6.2
Total Liabilities and Net Worth	313,892.0	251,611.9	62,280.1	24.8
Total Liabilities	313,215.0	250,970.6	62,244.4	24.8
Currency Issued	34,607.4	28,016.4	6,591.0	23.5
Deposits	119,963.6	106,752.0	13,211.6	12.4
Foreign Loans Payable	118,958.3	73,971.5	44,986.8	60.8
Allocation of Special Drawing Rights	2,925.8	2,433.5	492.3	20.2
CB Certificates of Indebtedness	1,539.3	2,649.0	-1,109.7	-41.9
Other Liabilities	35,220.6	37,148.2	-1,927.6	-5.2
Total Net Worth	677.0	641.3	35.7	5.6
Capital	10.0	10.0	-	-
Surplus	360.7	354.5	6.2	1.7
Donated Surplus	0.2	0.2	-	-
Capital Reserves	281.7	251.7	30.0	11.9
Undivided Profits	24.4	24.9	-0.5	-2.0

¹Including Treasury Notes and Bonds issued against RP-Japan Commodity Loan Agreement

Source: Accounting Department, Central Bank of the Philippines

Part Three:
APPENDICES

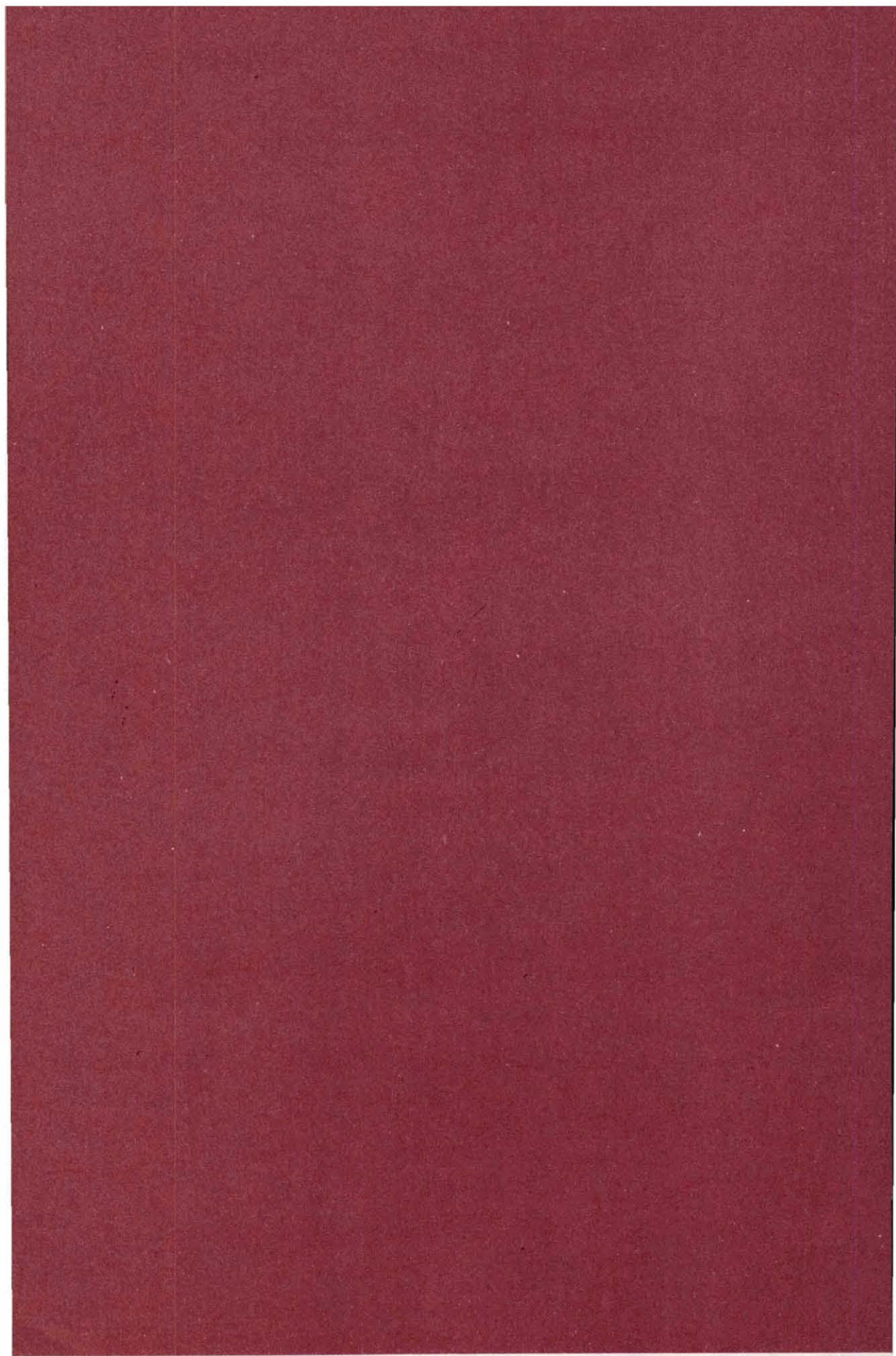


Table A-01. TEN PRINCIPAL EXPORTS¹
 1985 & 1986
 (FOB Value in Million US Dollars)

Commodity	1986		1985	
	Value	Percent Distribution	Value	Percent Distribution
Total Exports	4,842	100.0	4,629	100.0
1. Semi-Conductor Devices	523	10.8	711	15.4
2. Coconut Oil	333	6.9	347	7.5
3. Electronic Microcircuits	243	5.0	177	3.8
4. Copper Metal	172	3.6	168	3.6
5. Gold	140	2.9	100	2.2
6. Consigned Children's & Infants' Wear	133	2.7	100	2.2
7. Bananas	130	2.7	113	2.4
8. Coffee, Raw Not Roasted	119	2.5	70	1.5
9. Lumber	104	2.1	91	2.0
10. Consigned Womens' Wear	103	2.1	67	1.4
Total Ten Principal Exports	2,000	41.3	1,944	42.0
Others	2,842	58.7	2,685	58.0

¹Composition of the ten principal exports is based on 1986 ranking

Source: National Census and Statistics Office

Table A-02. TEN PRINCIPAL IMPORTS
1985 & 1986
(FOB Value in Million US Dollars)

Commodity	1986		1985	
	Value	Percent Distribution	Value	Percent Distribution
Total Imports	5,044	100.0	5,111	100.0
1. Mineral Fuels, Lubricants & Related Materials	869	17.2	1,452	28.4
2. Machinery Other than Electric	395	7.8	366	7.2
3. Materials & Accessories for the Manufacture of Elec. Equipment	640	12.7	585	11.4
4. Base Metals	257	5.1	179	3.5
5. Electrical Machinery, Apparatus & Appliances	333	6.6	293	5.7
6. Transport Equipment	78	1.5	68	1.3
7. Chemical Elements & Compounds	272	5.4	219	4.3
8. Cereals & Cereal Preparations	168	3.3	278	5.4
9. Explosives & Miscellaneous Chemical Materials & Products	210	4.2	150	2.9
10. Manufacture of Metals	58	1.2	75	1.5
Total Ten Principal Imports	3,280	65.0	3,665	71.7
Others	1,764	35.0	1,446	28.3

Source: National Census and Statistics Office

Table A-03. MONTHLY VALUES OF EXPORTS AND IMPORTS
1985 & 1986
(FOB Value in Million US Dollars)

Month	1986		1985	
	Exports	Imports	Exports	Imports
Total	4,842	5,044	4,629	5,111
January	319	383	398	419
February	367	368	350	343
March	417	508	390	439
April	397	435	387	534
May	433	419	401	424
June	395	406	398	441
July	411	400	400	434
August	441	420	393	411
September	410	419	384	484
October	422	463	376	371
November	409	409	375	423
December	421	414	377	388

Source: Department of Economic Research-International, Central Bank of the Philippines

Table A-04. DIRECTION OF TRADE
1985 & 1986
 (FOB Value in Million US Dollars)

Country	1 9 8 6				1 9 8 5			
	Imports	Percent Distribution	Exports	Percent Distribution	Imports	Percent Distribution	Exports	Percent Distribution
Total	5,044	100.0	4,842	100.0	5,111	100.0	4,629	100.0
United States	1,256	24.9	1,717	35.5	1,282	25.1	1,654	35.7
Japan	868	17.2	851	17.6	735	14.4	875	18.9
European Economic Community	569	11.3	914	18.9	425	8.3	629	13.6
Middle East Countries	502	10.0	97	2.0	634	12.4	71	1.5
ASEAN	511	10.1	351	7.2	754	14.8	531	11.5
Socialist Countries	134	2.7	123	2.5	301	5.9	123	2.7
Other Countries	1,204	23.8	789	16.3	980	19.1	746	16.1

Source: National Census and Statistics Office

**Table A-05. PURCHASES AND SALES OF FOREIGN EXCHANGE BY CENTRAL BANK
1986
(In Million US Dollars)**

Period	Purchases From Commercial Banks				Sales To Commercial Banks			
	Total (1)=(2+3+4)	Spot (2)	Swap (3)	Others ¹ (4)	Total (5)=(6+7+8)	Spot (6)	Swap (7)	Others ² (8)
1986 Total	3,155.81	2,042.49	-	1,113.32	2,428.59	886.21	325.32	1,217.06
Jan	269.99	135.27	-	134.72	422.67	256.51	7.46	158.70
Feb	334.63	241.38	-	93.25	305.46	204.57	2.29	98.60
Mar	493.57	385.01	-	108.56	165.52	59.10	2.57	103.85
Apr	465.83	333.07	-	132.76	177.86	28.14	1.50	148.22
May	274.28	177.02	-	97.26	134.98	13.40	23.04	98.54
Jun	303.29	224.20	-	79.09	226.12	99.73	36.82	89.57
Jul	219.11	113.61	-	105.50	193.66	13.87	40.60	139.19
Aug	126.97	59.99	-	66.98	147.52	13.25	58.13	76.14
Sep	278.50	193.96	-	84.54	284.96	105.00	77.40	102.56
Oct	196.72	100.42	-	96.30	193.86	46.53	49.33	98.00
Nov	96.43	44.44	-	51.99	66.15	18.76	6.91	40.48
Dec	96.49	34.12	-	62.37	109.83	27.35	19.27	63.21

¹Includes transactions relative to (a) foreign currency deposits of commercial banks; and (b) exports of secondary gold per Circular No. 602

²Includes transactions relative to (a) withdrawal from foreign currency deposits of commercial banks; and (b) deliveries of forward commitments (i.e., Oil, NSC, NFA, Circular No. 970, etc.)

Source: Treasury, Central Bank of the Philippines

**Table A-06. CENTRAL BANK PORTFOLIO
CREDITS OUTSTANDING
As of End 1985-1986
(In Million Pesos)**

Item	1986 ^P	1985
Total	83,292.6	87,016.8
1. Loans and Advances	72,185.7	74,796.1
A. Budgetary & Subscription Payment Loans	11,605.0	11,583.8
B. Rediscounting	10,738.2	12,292.8
C. Repurchase Agreements	745.3	772.0
D. CFBP Loans ¹	34,270.8	33,532.5
E. APEX Loans	979.2	815.1
F. IBRD Loans ²	273.3	292.2
G. Overdrafts ³	9,865.0	9,721.2
H. Trade Facility	1,954.1	4,548.3
I. Others	1,754.8	1,238.2
2. Domestic Securities⁴	11,106.9	12,220.7
A. PW and ED Bonds ⁵	52.8	63.0
B. Treasury Notes	486.5	1,018.8
C. Treasury Bonds	8,374.7	8,479.4
D. Capital/Treasury Notes	400.0	400.0
E. Premyo Savings/ Biglang Bahay Bonds	353.1	979.6
F. Capital/Treasury Notes	308.6	215.1
G. Treasury Capital Bonds	28.7	28.6
H. Treasury Bills	17.3	-
I. Others	1,085.2	1,036.2

¹Consolidated Foreign Borrowings Program

²International Bank for Reconstruction and Development

³Net of Special Account Balances

⁴Excluding Treasury Notes and Bonds issued against RP-Japan Commodity Loan Agreement

⁵Public Works and Economic Development Bond

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

**Table A-07. OUTSTANDING CENTRAL BANK REDISCOUNT LOANS,
BY INSTITUTION¹**
As of End 1985-1986
(In Million Pesos)

Institution	1986 ^P	1985	Percent Distribution	
			1986	1985
Total	10,738	12,293	100.0	100.0
1. Commercial Banks	3,873	5,121	36.1	41.6
2. Specialized Banks	2,790	2,797	26.0	22.8
3. Thrift Banks	376	356	3.5	2.9
4. Rural Banks	2,963	3,231	27.6	26.3
5. Non-Banks	736	788	6.8	6.4

¹Excluding loans to the National Government (budgetary loans) and subscription payments to international financial institutions

Source: Department of Loans and Credit, Central Bank of the Philippines

**Table A-08. OUTSTANDING CENTRAL BANK REDISCOUNT LOANS
TO COMMERCIAL & RURAL BANKS, BY INDUSTRY**
As of End 1985-1986
(In Million Pesos)

Institution	1986 ^P	1985	Percent Distribution	
			1986	1985
Total	6,836	8,352	100.0	100.0
1. Commercial Banks	3,873	5,121	56.7	61.3
a. Rice and Corn	-	-	-	-
b. Exports	1,174	2,162	17.2	25.9
c. Emergency	1,856	1,942	27.2	23.2
d. Others	843	1,017	12.3	12.2
2. Rural Banks	2,963	3,231	43.3	38.7
a. Masagana 99	283	294	4.1	3.5
b. Supervised Credit	1,231	1,513	18.0	18.1
c. Non-Supervised Credit	1,097	1,062	16.0	12.7
d. Emergency	6	6	0.1	0.1
e. Others	346	356	5.1	4.3

Source: Department of Loans and Credit, Central Bank of the Philippines

**Table A-09. LOANS OUTSTANDING OF COMMERCIAL BANKS,
BY INDUSTRY**
As of End 1985-September 1986
(In Million Pesos)

Sector	1986 ^P	1985	Changes	
			Amount	Percent
Total	104,616.4	106,184.9	-1,568.5	-1.5
Agriculture, Fishery and Forestry	9,944.2	9,452.9	491.3	5.2
Mining and Quarrying	8,418.2	9,238.4	-820.2	-8.9
Manufacturing	26,205.5	21,856.6	4,348.9	19.9
Electricity, Gas and Water	884.7	1,595.7	-711.0	-44.6
Construction	7,764.3	6,183.8	1,580.5	25.6
Trade	11,170.9	14,110.4	-2,939.5	-20.8
Transport, Storage and Communication	4,320.7	3,711.3	609.4	16.4
Financing, Insurance and Business Services	14,889.7	14,491.9	397.8	2.7
Real Estate	2,368.6	2,633.1	-264.5	-10.0
Community, Social and Personal Services	4,193.5	4,299.2	-105.7	-2.5
Others, n.e.c. ¹	14,456.1	18,611.6	-4,155.5	-22.3

¹Consists of past due items, items in litigation, domestic and foreign bills-clean.

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

**Table A-10. TOTAL LOANS OUTSTANDING OF COMMERCIAL BANKS,
BY REGION
As of End 1985-September 1986
(In Million Pesos)**

Region	1986P	1985	Changes	
			Amount	Percent
Total	104,616.4	106,184.9	-1,568.5	-1.5
National Capital Region	91,610.0	93,755.8	-2,145.8	-2.3
I Ilocos & Mt. Province	848.0	546.6	301.4	55.1
II Cagayan Valley	420.1	358.4	61.7	17.2
III Central Luzon	1,200.6	1,371.7	-171.1	-12.5
IV Southern Tagalog	1,188.1	1,078.3	109.8	10.2
V Bicol Region	646.8	513.3	133.5	26.0
VI Western Visayas	3,790.5	3,532.7	257.8	7.3
VII Central Visayas	2,049.8	2,071.7	-21.9	-1.1
VIII Eastern Visayas	434.3	425.0	9.3	2.2
IX Western Mindanao	384.9	376.9	8.0	2.1
X Northern Mindanao	608.7	588.6	20.1	3.4
XI Southern Mindanao	1,099.8	1,196.4	-96.6	-8.1
XII Central Mindanao	334.8	369.5	-34.7	-9.4

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-11. LOANS OUTSTANDING OF THRIFT BANKS, BY PURPOSE
As of End 1985-1986
(In Million Pesos)

Sector	1986 ^P	1985	Percent Distribution	
			1986	1985
Total	9,526.6	8,004.5	100.0	100.0
Agriculture	1,617.6	1,102.5	17.0	13.8
Commercial	1,146.5	694.8	12.0	8.7
Industrial	1,033.0	1,127.5	10.8	14.1
Real Estate	1,635.2	1,370.0	17.2	17.1
Consumption	346.5	356.3	3.6	4.4
Others	3,747.8	3,353.4	39.4	41.9

Source: Department of Economic Research-Domestic, Central Bank of the Philippines and Supervisory Reports Office, Central Bank of the Philippines

Table A-12. LOANS OUTSTANDING OF SAVINGS BANKS, BY REGION
As of End 1985-1986
(In Million Pesos)

Region	1986 ^P	1985	Changes	
			Amount	Percent
Total	3,550.0	2,086.3	1,463.7	70.2
National Capital Region	3,423.6	2,005.0	1,418.6	70.8
I Ilocos & Mt. Province	-	-	-	-
II Cagayan Valley	8.4	13.0	-4.6	-35.4
III Central Luzon	46.2	10.1	36.1	357.4
IV Southern Tagalog	43.4	22.2	21.2	95.5
V Bicol Region	-	-	-	-
VI Western Visayas	4.1	9.1	-5.0	-54.9
VII Central Visayas	13.1	17.3	-4.2	-24.3
VIII Eastern Visayas	-	-	-	-
IX Western Mindanao	6.9	9.5	-2.6	-27.4
X Northern Mindanao	-	0.1	-0.1	-100.0
XI Southern Mindanao	4.3	-	4.3	100.0
XII Central Mindanao	-	-	-	-

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

**Table A-13. LOANS OUTSTANDING OF PRIVATE DEVELOPMENT BANKS,
BY REGION
As of End 1985-1986
(In Million Pesos)**

Region	1986 ^P		1985		Changes	
	Total	Ratio	Total	Ratio	Amount	Percent
Total	2,952.0	100.0	2,357.4	100.0	594.6	25.2
National Capital Region	1,457.3	49.4	1,180.8	50.1	276.5	23.4
I Ilocos & Mt. Province	21.9	0.7	23.2	1.0	-1.3	-5.6
II Cagayan Valley	-	-	-	-	-	-
III Central Luzon	780.3	26.4	492.3	20.9	288.0	58.5
IV Southern Tagalog	459.1	15.6	453.0	19.2	6.1	1.3
V Bicol Region	27.4	0.9	12.5	0.5	14.9	119.2
VI Western Visayas	103.1	3.5	106.3	4.5	-3.2	-3.0
VII Central Visayas	41.7	1.4	33.0	1.4	8.7	26.4
VIII Eastern Visayas	1.5	0.1	1.8	0.1	-0.3	-16.7
IX Western Mindanao	-	-	-	-	-	-
X Northern Mindanao	32.3	1.1	20.4	0.9	11.9	58.3
XI Southern Mindanao	27.4	0.9	34.1	1.4	-6.7	-19.6
XII Central Mindanao	-	-	-	-	-	-

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

**Table A-14. LOANS OUTSTANDING OF SPECIALIZED
GOVERNMENT BANKS¹, BY PURPOSE**
As of End 1985-1986
(In Million Pesos)

Item	1986 ^P	1985	Percent Distribution	
			1986	1985
Total	45,451.8	32,876.9	100.0	100.0
Agriculture	3,179.0	1,461.3	7.0	4.4
Commercial	149.8	1,034.4	0.3	3.2
Industrial	393.3	14,954.1	0.9	45.5
Real Estate	1,331.2	2,026.9	2.9	6.2
Consumption	80.6	44.2	0.2	0.1
Others ²	40,317.9	13,356.0	88.7	40.6

¹Consisting of the Development Bank of the Philippines, Philippine Amanah Bank and Land Bank of the Philippines

²Financing, insurance, business services and others

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

**Table A-15. LOANS OUTSTANDING OF SPECIALIZED
GOVERNMENT BANKS, BY REGION**
As of End 1985-1986
(In Million Pesos)

Region	1986 ^P	1985	Changes	
			Amount	Percent
Total	5,363.9	4,293.0	1,070.9	24.9
National Capital Region	4,287.0	2,826.7	1,460.3	51.7
I Ilocos & Mt. Province	61.8	155.7	-93.9	-60.3
II Cagayan Valley	267.4	345.7	-78.3	-22.6
III Central Luzon	287.2	471.3	-184.1	-39.1
IV Southern Tagalog	53.2	54.1	-0.9	-1.7
V Bicol Region	116.1	143.6	-27.5	-19.2
VI Western Visayas	71.2	70.8	0.4	0.6
VII Central Visayas	47.6	32.8	14.8	45.1
VIII Eastern Visayas	-	-	-	-
IX Western Mindanao	76.5	83.5	-7.0	-8.4
X Northern Mindanao	28.2	28.2	-	-
XI Southern Mindanao	60.6	73.2	-12.6	-17.2
XII Central Mindanao	7.1	7.4	-0.3	-4.1

¹Consisting of Land Bank of the Philippines and Philippine Amanah Bank

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-16. LOANS OUTSTANDING OF RURAL BANKS, BY PURPOSE
As of End 1985-1986
(In Million Pesos)

Item	1986 ^P	1985	Percent Distribution	
			1986	1985
Total	6,790.5	6,636.3	100.0	100.0
Agriculture	5,471.7	5,555.7	80.6	83.7
Commercial	566.6	449.0	8.3	6.8
Industrial	187.7	160.5	2.8	2.4
Others	564.5	471.1	8.3	7.1

Source: Supervisory Reports Office, Central Bank of the Philippines

**Table A-17. WEIGHTED AVERAGE INTEREST RATES
1985-1986
(In Percent Per Annum)**

Type	Nominal		Real ⁴	
	1986	1985	1986	1985
I. Borrowing Rates of Banks				
a. WAIR on Interbank ¹	12.39	16.15	11.59	-6.95
b. Savings Deposits	8.62	10.84	7.82	-12.26
c. Time Deposits (All Maturities)	14.77	21.83	13.97	-1.27
d. Manila Reference Rate (MRR)				
60 Days	12.31	21.31	11.51	-1.79
90 Days	12.31	20.39	11.51	-2.71
180 Days	12.69	20.09	11.89	-3.01
All Maturities	12.31	21.14	11.51	-1.96
II. Lending Rates				
e. Secured Loans (All Maturities)	17.35	28.23	16.55	5.13
III. Central Bank Rates				
f. R/P Rates (Term)	20.85	31.00	20.05	7.90
g. Reverse R/P (Term)	13.99	24.18	13.19	1.08
h. Overdrafts ²	21.52	23.40	20.72	0.30
i. Emergency Loans and Advances ²	18.41	30.86	17.61	7.76
j. Rediscounts ³	10.00	12.75	10.30	7.05
IV. Central Bank Bills/Treasury Bills				
k. CB Bills (All Maturities)	19.08	26.97	18.28	3.87
l. Treasury Bills (All Maturities)	16.04	27.05	15.24	3.95

¹Data furnished by CB Treasury Office

²Average prescribed rates

³The prescribed rediscount rate was reduced to 10.0 percent in December 1986 from 11.75 percent in September 1986 and 12.75 percent in November 1985. In computing the real rediscount rate, the end-period inflation rate was used.

⁴Nominal rates less the average inflation rate for the year

Sources: Treasury, Central Bank of the Philippines and Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-18. WEIGHTED AVERAGE INTEREST RATES ON DEPOSITS/
SECURED LOANS OF SAMPLE COMMERCIAL BANKS, 1985-1986
(In Percent Per Annum)

Period	Savings Deposits	Time Deposits			Secured Loans		
		1 Year & Below	> 1 Year to 2 Years	Over 2 Years	1 Year & Below	> 1 Year to 2 Years	Over 2 Years
1985 Jan	11.62	29.73	27.95	26.67	38.00	38.00	42.00
Feb	10.96	24.10	28.26	27.15	33.79	32.44	40.67
Mar	11.06	24.31	20.00	26.95	33.17	40.94	N.T.
Apr	11.42	24.28	N.T.	27.19	33.74	36.08	36.28
May	11.44	23.66	31.04	26.67	32.88	36.00	36.00
Jun	11.50	23.29	25.61	26.14	31.65	42.05	32.00
Jul	11.73	18.48	22.21	23.56	29.05	N.T.	34.26
Aug	11.34	17.23	14.37	20.88	28.11	45.73	27.82
Sep	10.08	14.09	17.03	17.40	24.20	29.11	35.79
Oct	9.82	15.13	16.31	16.09	21.21	27.22	27.50
Nov	9.56	11.96	10.27	15.56	17.37	23.03	21.17
Dec	9.56	12.43	13.72	16.74	17.67	36.24	18.43
1986 Jan	9.61	12.57	13.74	14.39	18.31	24.00	22.09
Feb	9.55	14.12	15.54	19.73	17.72	42.00	20.20
Mar	9.53	16.02	15.89	21.25	24.52	26.00	23.64
Apr	9.49	14.38	13.07	20.10	21.72	32.63	20.19
May	9.29	14.44	15.66	17.16	18.33	26.00	20.75
Jun	9.01	13.17	11.20	15.97	16.75	30.00	18.38
Jul	8.59	11.33	11.69	13.41	16.51	22.56	20.90
Aug	8.28	10.85	12.84	11.54	15.38	21.45	22.10
Sep	7.88	10.17	9.91	13.19	16.26	20.12	16.11
Oct	7.65	9.45	11.18	11.96	14.47	18.52	15.79
Nov	7.33	9.71	12.44	11.78	14.69	17.78	14.73
Dec	7.19	8.36	8.58	9.86	13.88	16.63	15.91

N.T.—No Transaction

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-19. REAL INTEREST RATES¹
1986
(In Percent Per Annum)

Month	Lending Rate Secured Loans (All Maturities)	Savings Rates	Time Deposit (All Maturities)
January	14.94	5.61	10.14
February	14.42	5.95	14.79
March	21.09	6.13	16.82
April	19.36	7.39	16.39
May	17.14	7.99	14.86
June	17.04	8.98	15.44
July	18.34	9.99	14.01
August	17.05	9.88	12.90
September	17.34	8.98	13.54
October	15.07	8.15	11.73
November	15.16	7.63	11.39
December	14.22	7.49	9.49

¹ Real interest rates correspond to the difference between nominal interest rates (weighted average interest rates) and annual inflation rates.

Sources: Department of Economic Research-Domestic, Central Bank of the Philippines and National Census and Statistics Office

Table A-20. NUMBER OF FINANCIAL INSTITUTIONS
As of End 1985-1986

Institution	1986	1985	Percent Change
Total	6,109	5,780	5.7
1. Commercial Banks	1,765	1,752	0.7
2. Thrift Banks	665	661	0.6
3. Specialized Government Banks	100	100	-
4. Rural Banks	1,085	1,117	-2.9
5. Non-Bank Financial Institutions ¹	2,494	2,150	16.0

¹Includes non-stock savings and loan associations, mutual building and loan associations and private insurance companies

Source: Supervisory Reports Office, Central Bank of the Philippines

Table A-21. OUTSTANDING DEPOSITS OF THE BANKING SYSTEM
As of End 1985-1986
(In Million Pesos)

Item	Total	1 9 8 6 ^P			Total	1 9 8 5		
		Demand	Savings	Time		Demand	Savings	Time
I. By Institution	176,453.4	20,257.3	88,256.1	67,940.0	167,461.7	15,161.6	66,642.0	85,658.1
1. Commercial Banks	144,569.7	19,643.9	72,492.4	52,433.4	143,017.7	14,753.3	56,267.5	71,996.9
2. Thrift Banks	12,964.7	411.0	7,639.0	4,914.7	10,478.7	238.3	5,472.5	4,767.9
A. Savings Banks	7,021.9	166.8	4,538.4	2,316.7	5,734.8	98.3	3,137.3	2,499.2
B. Private Development Banks	3,315.5	213.2	1,583.4	1,518.9	2,765.4	130.1	1,249.8	1,385.5
C. Stock Savings and Loan Associations	2,627.3	31.0	1,517.2	1,079.1	1,978.5	9.9	1,085.4	883.2
3. Specialized Government Banks	15,293.4	184.6	5,819.3	9,289.5	10,838.3	152.9	2,935.1	7,750.3
4. Rural Banks	3,625.6 ^a	17.8	2,305.4	1,302.4	3,127.0	17.1	1,966.9	1,143.0

^aAs of September 1986

Source: Department of Economic Research-Domestic, Central Bank of the Philippines and Supervisory Reports Office, Central Bank of the Philippines

Table A-22. FOREIGN CURRENCY DEPOSIT SYSTEM
June 1985-1986
(In Million US Dollars)

Item	June 1986	June 1985
Gross Resources	5,669	6,686
Of which:		
Deposits/Borrowings	4,069	4,983
A. Banks ¹	3,263	3,493
B. Non-Banks	806	1,490
Placements/Lendings	5,245	5,953
A. Banks ¹	3,485	3,992
B. Non-Banks	1,760	1,961
Earnings and Expenses		
A. Earnings	210	204
Onshore	120	129
Offshore	90	75
B. Expenses	213	212
C. Net Earnings After Tax	-6	10

¹Adjusted to include gross figures on Due From/Due To head office/branches/agencies abroad

Source: Foreign Exchange Department, Central Bank of the Philippines

Table A-23. PHILIPPINE OFFSHORE BANKING SYSTEM
June 1985-1986
(In Million US Dollars)

Item	June 1986	June 1985
Gross Resources	3,914	4,158
Of which:		
Deposits/Borrowings	3,846	4,057
A. Banks	3,837	4,044
B. Non-Banks	9	13
Placements/Lendings	3,828	3,999
A. Banks	2,502	2,209
B. Non-Banks	1,326	1,790
Earnings and Expenses		
A. Earnings	176	219
Onshore	57	85
Offshore	119	134
B. Expenses	162	203
C. Net Earnings After Tax	13	15

Source: Foreign Exchange Department, Central Bank of the Philippines

Table A-24. MONEY MARKET TRANSACTIONS, BY INSTRUMENT
1985-1986
 (Volume in Million Pesos/WAIR in Percent Per Annum)

Item	1986		1985		Percent Change
	Volume	WAIR	Volume	WAIR	
Total	523,417	13.347	505,742	20.568	3.5
Interbank Call Loans	201,424	12.572	226,380	20.006	-11.0
Promissory Notes ¹	158,656	13.581	156,799	20.984	1.2
Repurchase Agreements (Private) ¹	46,146	13.882	14,185	16.364	225.3
Repurchase Agreements (Government) ¹	7,908	17.321	13,389	19.147	-40.9
Certificates of Assignment (Private) ¹	8	18.635	-	-	-
Certificates of Participation (Private) ¹	1,046	12.468	-	-	-
Commercial Paper (Non-Financial)	15,651	11.823	19,912	16.419	-21.4
Commercial Paper (Financial)	-	-	252	25.578	-100.0
Central Bank Certificates of Indebtedness	23	17.000	14	17.449	64.3
Treasury Bills	55,680	13.741	38,748	26.453	43.7
DBP Bonds	-	-	20	20.030	-100.0
Other Government Securities	36,875	15.128	36,043	20.404	2.3

¹Including those with tax

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-25. STOCK MARKET TRANSACTIONS
1985-1986
 (Volume in Million Shares/Value in Million Pesos)

Item	1986		1985		Percent Changes	
	Volume	Value	Volume	Value	Volume	Value
Total	58,601	11,470	11,694	2,059	401.1	457.1
Commercial and Industrial	379	7,901	76	1,719	398.7	359.6
Mining	24,394	3,211	4,283	293	469.6	995.9
Oil	33,828	358	7,335	47	361.2	661.7

Source: Department of Economic Research-Domestic, Central Bank of the Philippines

Table A-26. PUBLIC DEBT OUTSTANDING
As of End 1985-1986

Item	1986 ^P	1985 ^F	Percent Change
Internal Debt (In Million Pesos)	144,754	117,667	23.0
National Government	105,295	77,353	36.1
Local Governments	179	182	-1.6
Government Corporations	14,881	14,004	6.3
Guaranteed	10,987	9,948	10.4
Non-Guaranteed	3,894	4,056	-4.0
Monetary Institutions	24,399	26,128	-6.6
External Debt (In Million Pesos)	320,903	289,397	10.9
External Debt (In Million US Dollars)	15,639	15,315	2.1
National Government	5,362	5,249	2.2
Local Governments	3	3	-
Government Corporations	5,561	5,947	-6.5
Monetary Institutions	4,713	4,116	14.5

Sources: Government Securities Department, Department of Loans and Credit, Cash Department, Management of External Debt Department, Central Bank of the Philippines; Development Bank of the Philippines; Land Bank of the Philippines and the Bureau of Treasury

Table A-27. GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN
1985-1986
(In Million Pesos, At Constant 1972 Prices)

Item	1986 ^e	1985 ^f
1. Agriculture, Fishery and Forestry	27,233	26,252
A. Agricultural Crops	17,198	16,434
B. Livestock and Poultry	4,830	4,690
C. Fishery	4,551	4,422
D. Forestry	654	706
2. Industrial Sector	28,204	29,000
A. Mining and Quarrying	1,558	1,768
B. Manufacturing	21,717	21,541
C. Construction	3,382	4,258
D. Electricity, Gas and Water	1,547	1,433
3. Services (Tertiary) Sector	35,333	34,551
A. Transportation	5,084	4,953
B. Trade	14,337	14,066
C. Finance	4,062	3,985
D. Other Services	11,850	11,547
Private	6,039	6,094
Government	5,811	5,453
Gross Domestic Product	90,770	89,803
Net Factor Income from Abroad	-1,676	-2,037
Gross National Product	89,094	87,766
GNP Growth Rate (In Percent)	1.51	-4.23

^eAdvance estimates as of May 1987

Source: National Economic and Development Authority

**Table A-28. CONSUMER PRICE INDEX IN THE PHILIPPINES,
NATIONAL CAPITAL REGION (NCR) AND ALL AREAS OUTSIDE NCR
1985-1986
(1978=100)**

Commodity Group	Philippines			National Capital Region			All Areas Outside the NCR		
	1986	1985	Percent Change	1986	1985	Percent Change	1986	1985	Percent Change
All Items	355.3	352.6	0.8	370.5	351.9	5.3	352.3	352.8	-0.1
Food, Beverages & Tobacco	329.1	332.2	-0.9	342.4	329.0	4.1	327.1	332.5	-1.6
Non-Food	391.4	380.8	2.8	396.6	373.2	6.3	390.1	383.2	1.8
Clothing	404.5	387.3	4.4	433.5	407.0	6.5	398.6	383.3	4.0
Housing & Repairs	358.9	334.3	7.4	362.1	317.9	13.9	357.9	339.5	5.4
Fuel, Light & Water	511.0	548.3	-6.8	554.1	556.5	-0.4	503.0	546.7	-8.0
Services	376.9	366.0	3.0	375.3	361.3	3.9	377.4	367.4	2.7
Miscellaneous	360.5	345.6	4.3	365.6	351.2	4.1	359.5	344.5	4.4

Source: National Census and Statistics Office

Table A-29. SUMMARY FLOW OF FUNDS MATRIX BY SECTOR: 1986^P
(In Million Pesos)

Transaction Categories	Household & Non-Corporate Business		Private Corporations		Government ¹		Financial Intermediaries		Total		Rest of the World	
	Uses		Uses		Uses		Uses		Uses		Uses	
	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Gross Savings		106,527		-19,928		33,958		-629		119,928		-33,414
Capital Consumption		71,903		-13,167		12,881		628		72,245		-
Net Savings		34,624		-6,761		21,077		-1,257		47,683		-33,414
Gross Investments	105,964		-19,928		33,958		-629		119,365		-33,414	
Real Investments	58,807		-12,934		31,755		8,323		85,951			
Consumer Durables	3,752		-				-		3,752			
Real Estate/Fixed Assets	47,589		-4,790		30,363		7,812		80,974			
Inventory	7,466		-8,144		1,392		511		1,225			
Net Financial Investment ²	47,157		-6,994		2,203		-8,952		33,414		-33,414	
Total Financial Uses	35,917		-11,165		32,088		74,981		131,821		4,785	
Total Financial Sources		-11,240		-4,171		29,885		83,933		98,407		38,199
Gold & Foreign Exchange Holdings							11,844		11,844		11,844	
Foreign Currency Deposits							-5,496	-23,134	-5,496	-23,134	-23,134	-5,496
Foreign Loans				-17,716		-3,383	-28	43,361	-28	22,262	22,262	-28
Other Foreign Claims							31,879	5,657	31,879	5,657	5,657	31,879
Domestic Currency	3,803		-12		635		2,165	6,591	6,591	6,591		
Demand Deposits	82		-711		14,458		1,188	15,017	15,017	15,017		
Savings & Time Deposits	12,904		-2,165		4,007		64	14,810	14,810	14,810		
Deposit Substitutes	4,515		-2,163		338			2,690	2,690	2,690		
Domestic Loans		-2,126	-4,439	28,121	493	-14,905	12,432	-2,604	8,486	8,486		
Investments/Securities	14,133		640	-133	6,343	30,628	14,737	5,358	35,853	35,853		
Insurance Reserves	-451		3,380				35	2,964	2,964	2,964		
Trust Funds	931		-32				-79	820	820	820		
Trade Credits		-17,987	-4,034	-5,879	4,048	23,880			14	14		
Taxes Payable			-488	-264	112		298	186	-78	-78		
Inter-Financial Claims							6,049	6,049	6,049	6,049		
Inter-Governmental Claims					586	586			586	586		
Miscellaneous		8,873	-1,141	-8,300	1,068	-6,921	-107	6,168	-180	-180		
Statistical Discrepancy	563								563			

¹Includes national and local governments and government-owned/controlled non-financial corporations

²The difference between total financial uses and total financial sources. A positive figure indicates a financial surplus while a negative figure implies a financial deficit.

Sources of basic data: National Economic and Development Authority and Central Bank of the Philippines

Table A-30. SUMMARY FLOW OF FUNDS MATRIX BY SECTOR: 1985
(In Million Pesos)

Transaction Categories	Sectors	W H O L E E C O N O M Y										Rest of the World	
		D o m e s t i c E c o n o m y								Total			
		Household & Non-Corporate Business		Private Corporations		Government ¹		Financial Intermediaries					
		Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Gross Savings		111,518		-45,688		35,885		-6,263			95,452		-6,272
Capital Consumption		92,531		-30,464		5,190		458			67,715		-
Net Savings		18,987		-15,224		30,695		-6,721			27,737		-6,272
Gross Investments	111,025		-45,688		35,885		-6,263			94,959		-6,272	
Real Investments	97,773		-53,097		30,063		13,948			88,687			
Consumer Durables	3,285		-		-		-			3,285			
Real Estate/Fixed Assets	111,619		-63,332		27,746		13,941			89,974			
Inventory	-17,131		10,235		2,317		7			-4,572			
Net Financial Investment ²	13,252		7,409		5,822		-20,211			6,272		-6,272	
Total Financial Uses	32,794		-145,838		22,923		44,909			-45,212		-4,711	
Total Financial Sources		19,542		-153,247		17,101		65,120			-51,484		1,561
Gold & Foreign Exchange Holdings							19,977			19,977			19,977
Foreign Currency Deposits							26,046	-2,346		26,046	-2,346	-2,346	26,046
Foreign Loans				-21,295		-3,145	-9,848	31,882		-9,848	7,442	7,442	-9,848
Other Foreign Claims							-34,614	-9,807		-34,614	-9,807	-9,807	-34,614
Domestic Currency	2,167		-19		538		-347	2,339		2,339	2,339		
Demand Deposits	-68		-2,596		168		-1,063	-3,559		-3,559	-3,559		
Savings & Time Deposits	23,021		-4,473		881		-126	19,303		19,303	19,303		
Deposit Substitutes	-5,591		2,582		-1,089			-4,098		-4,098	-4,098		
Domestic Loans		-37,657	-150,160	-119,250	-467	311	1,618	7,587	-149,009	-149,009			
Investments/Securities	13,479		2,418	-7,691	21,586	13,143	-2,891	29,140		34,592	34,592		
Insurance Reserves	-1,673		-12				-42	-1,727		-1,727	-1,727		
Trust Funds	1,459		-166				119	1,412		1,412	1,412		
Trade Credits		18,373	12,071	4,824	221	-10,905				12,292	12,292		
Taxes Payable			337	-428	-952		-448	-635		-1,063	-1,063		
Inter-Financial Claims							10,595	10,595		10,595	10,595		
Inter-Governmental Claims					8,933	8,933				8,933	8,933		
Miscellaneous		38,826	-5,820	-9,407	-6,896	8,764	35,933	-14,966		23,217	23,217		
Statistical Discrepancy	493									493			

¹Includes national and local governments and government-owned/controlled non-financial corporations

²The difference between total financial uses and total financial sources. A positive figure indicates a financial surplus while a negative figure implies a financial deficit.

Sources of basic data: National Economic and Development Authority, Commission on Audit and Central Bank of the Philippines

**AGRICULTURAL
CREDIT**

1. *Circular No. 1098, April 11, 1986.* Amends *Manual of Regulations for Banks and Other Financial Intermediaries* governing the implementation of the Philippine Aquaculture Development Project. The amendment liberalized the criteria for qualified beneficiaries under the program by scrapping the requirement on ownership of not more than thirty (30) hectares of fishponds and provides eligible borrowers with loans to finance a maximum of fifty (50) hectares, irrespective of fishpond-size holdings.
2. *Circular No. 1113, August 14, 1986.* Amends certain sections of Books I, II and III of the *Manual of Regulations for Banks and Other Financial Intermediaries* relating to the "Gulayan sa Kalusugan" Program, so that the program shall be renamed "Gulayan sa Kaunlaran." Moreover, the lending guidelines have been amended so that the creditor bank carries the option of requiring a marketing agreement between the farmer applicant, the creditor bank and the Food Terminal Market, Inc., prior to the approval of loan application.
3. *Circular No. 118, September 30, 1986.* Prescribes the revised rules and regulations governing the implementation of the Philippine Aquaculture Development Project to be carried out through commercial and thrift banks, thus superseding Circular No. 1108, dated June 20, 1986.
4. *Memorandum to Authorized Agent Banks, March 19, 1986.* Notifies all authorized agent banks that pursuant to an agreement reached with the Ministry of Finance and the International Bank for Reconstruction and Development (IBRD), the closing date for the availability of the peso credit line in the equivalent of US\$90.0 million funded by the Agricultural Sector/Inputs Project Loan Facility of the Republic of the Philippines from the IBRD has been extended from December 31, 1985 to December 31, 1986.

**BANK
OPERATIONS**

1. *Circular No. 1092, January 31, 1986.* Amends the subsection of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* pertaining to the declaration of cash dividends, so that the liability for cash dividends declared shall be taken up in the books upon receipt of Central Bank approval or if no approval is received, after 30 business days from the date the required report on cash dividend declaration was received by the appropriate supervising and examining department of the Central Bank, whichever comes earlier.
2. *Circular No. 1093, February 26, 1986.* Requires all rural banks to post within their bank premises a copy of their Quarterly Statement of Condition (starting with the December 1985 report), in lieu of its required publication in a newspaper of wide circulation.
3. *Circular No. 1094, March 17, 1986.* Amends subsection 3314 of Book III of the *Manual of Regulations for Banks and Other Financial Intermediaries*, raising the ceiling on the amount of real estate loans granted by rural banks exempted from publications requirement in cases of foreclosures of mortgages and execution of judgments thereon from P20,000 to P50,000.
4. *Circular No. 1095, March 17, 1986.* Amends the first paragraph of Section 4161 p. 1 of Book IV of the *Manual of Regulations for Banks and Other Financial Intermediaries*, requiring pawnshops to submit to Supervision and Examination Sector Department IV, Central Bank of the Philippines their consolidated

balance sheet (CBP 7-25-02-C) and Consolidated Statement of Income and Expenses (CBP 7-25-03 C) within the month following each quarter.

5. *Circular No. 1108, June 20, 1986.* Amends Books I, II and III of the *Manual of Regulations for Banks and Other Financial Intermediaries* by deleting the word "Rural" from the phrase "Rural Bank" of Appendix 37 of Book III, by defining a qualified bank in Item 31 of the same appendix as a private commercial bank, a thrift bank or a rural bank approved by the Central Bank of the Philippines to participate in the Philippine Aquaculture Development Project, and by including Section 1363 in Book I and Section I and Section 2367 in Book II which both pertain to the "Rules and Regulations Governing the Implementation of the Philippine Aquaculture Development Project."

6. *Circular No. 1124, December 5, 1986.* Amends Books I and II of the *Manual of Regulations for Banks and Other Financial Intermediaries* to specify that each bank, whether government-owned or controlled or private, shall cause an annual financial audit not later than 30 days after close of the calendar year and that an external, independent auditor shall conduct the said audit.

7. *Memorandum to Authorized Agent Banks, February 13, 1986.* Advises the establishment by the Central Bank of the Philippines Regional Cash Office in Cabanatuan City to perform specified functions starting February 17, 1986 such as the acceptance of deposits from certain banks to meet reserve requirements; the supply of the currency requirements of specified banks in the area; and the replacement under certain conditions of currency unfit for circulation.

DEBT REPAYMENT PROGRAM

1. *Circular No. 1101, May 2, 1986.* Extends the deadline of application for entry of eligible debt into the Central Bank's Debt Repayment Program for the Philippine private corporate sector from June 1, 1986 to September 30, 1986.

2. *Circular No. 1091, January 31, 1986.* Provides guidelines for the restructuring and repayment of certain foreign currency debt obligations of Philippine private financial sector obligors.

DEMONETIZATION

1. *Circular No. 1106, June 9, 1986.* Provides for the retirement of Central Bank coins which include the 10 Sentimo English series and all denominations of the Pilipino Ang Bagong Lipunan Series. This circular requires that said coins be surrendered to the Central Bank or to its authorized agent banks or to provincial, city and municipal treasurers, for replacement or exchange at par with the Central Bank coins belonging to the Flora and Fauna series starting July 1, 1986. The abovementioned coins will cease to be legal tender after June 30, 1987 but may be exchanged or replaced at par and without charge with legal tender currency until June 30, 1990, after which, said coins which have not been exchanged will cease to be a liability of the Central Bank and will be considered demonetized.

2. *Circular No. 1107, June 20, 1986.* Suspends until further notice the effectivity and implementation of Circular No. 1106, dated June 9, 1986 regarding the retirement of Central Bank coins in view of certain unforeseen administrative complications.

**DIRECTORS,
STOCKHOLDERS
AND OTHER
RELATED
INTERESTS (DOSRI)**

1. *Circular No. 1115, September 16, 1986.* Amends certain provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries*, particularly on the matter of concurrent officerships between banks or between a bank and a non-bank financial intermediary.

EXPORTS

1. *Memorandum to Authorized Agent Banks No. 2, February 12, 1986.* Notifies all authorized agent banks of the revised rules governing the expiry date of export declarations (Form No. CBP 6-21-02) and Export Permits (Form No. CBP 6-21-03), thus superseding MAAB No. 36 dated May 30, 1958.

**FOREIGN
EXCHANGE
TRANSACTIONS**

1. *Circular No. 1088, January 3, 1986.* Amends the foreign exchange regulations on non-trade transactions contained in Circular No. 1028 dated October 12, 1984, by redefining: 1) service exporters to include all those awarded service contracts for projects and supply contracts for non-construction projects; and 2) Philippine contractors earning foreign exchange to include only Philippine overseas construction and construction-related contractors and those inside US military bases in the Philippines.
2. *Circular No. 1089, January 6, 1986.* Provides that the peso equivalent of foreign exchange inward remittances of Filipino overseas workers or of Philippine or multinational companies coursed through offshore banking units' correspondent banks abroad, shall be paid to the designated persons or corporations in the Philippines.
3. *Circular No. 1099, April 18, 1986.* Amends Circular No. 1028, dated October 12, 1984, which pertains to the regulations on foreign exchange receipts and acquisition, so that instead of using Central Bank official receipts, authorized agent banks shall cover their purchases of foreign exchange for pesos with their own Bank official receipts, while authorized foreign exchange agents shall cover their own official receipts duly registered with the Bureau of Internal Revenue (BIR).
4. *Circular No. 1116, September 22, 1986.* Amends Section 12 of Circular No. 1091, dated January 31, 1986, governing swaps and forward exchange contracts of private financial sector borrowers such that these obligors who have maturities of short-term and medium-term specified debt which are covered by existing swap or forward exchange contract(s) entered into with the Central Bank for its own account may continue to benefit from the forward exchange rate set forth in the contract.
5. *Circular No. 1120, November 7, 1986.* Amends Section 38 (Sale of Travel Tickets and Charge Orders by Carriers) of Circular No. 1028 dated October 21, 1984 to provide that passenger tickets and miscellaneous charge orders may be sold to residents and non-residents in pesos or in foreign exchange subject to existing foreign-exchange regulations.
6. *Circular No. 1126, December 18, 1986.* Amends Section 36 (b) of Central Bank Circular No. 1028 to provide that authorized agent banks (AABs) may sell travel funds at their Head Office and their Metro Manila and provincial branches.
7. *Circular Letter, June 26, 1986.* Requires all authorized agent banks, in line with Circular Letter dated November 11, 1983 that all applications for foreign exchange invisible remittance of the National Government, its political subdivisions, agencies and instrumentalities including government-owned and/or con-

trolled corporations, universities and colleges shall be filed with the Fiscal Operations Group, Foreign Exchange Operations and Investments Department of the Central Bank for processing, evaluation and prior approval.

GOVERNMENT SECURITIES

1. *Memorandum to All Accredited Dealers and Financial Institutions of Investors Concerned, August 27, 1986.* Advises that starting August 28, 1986, P2.9 billion worth of Treasury Notes will be available for over-the-counter purchase at the Government Securities Department, Central Bank.
2. *Memorandum to All Banks, Non-Banks, Financial Institutions, Dealers and Others Concerned, September 16, 1986.* Sets forth guidelines for dealership in government securities in view of the revival of the auction system for Treasury Bills and other publicly-offered government securities.

IMPORT REGULATIONS

1. *Circular No. 1090, January 14, 1986.* Clarifies that "used clothing" which may be imported pursuant to Circular No. 1060 shall be limited to those which are allowed to be imported under Republic Act No. 4653.
2. *Circular No. 1096, March 24, 1986.* Amends certain sections of Circular No. 1029 dated October 12, 1984, so that the importation of wheat and wheat flour; soybean and soybean meal; and feed gains and feed substitutes shall no longer require prior approval by the National Food Authority. Moreover, the importation of "Wines and Liquors" listed in Annex A of Circular No. 1096 shall be allowed through letters of credit without prior approval of the Central Bank.
3. *Circular No. 1100, April 30, 1986.* Amends pertinent provisions of Section 8 of Circular No. 1029, dated October 12, 1984, in line with the import liberalization program of the government. The circular allows certain commodity groups to be imported without prior approval of the Board of Investments (BOI) and other government agencies.
4. *Circular No. 1103, May 8, 1986.* Amends Circular No. 1100, dated April 30, 1986 by requiring the prior approval of the Board of Investments (BOI) and the Garments and Textile Export Board (GTEB) for the importation of polyester staple fiber and filament yarn.
5. *Circular No. 1103, May 8, 1986.* Deletes polyester staple fiber and filament yarn from the list of commodities allowed for importation without approval of the concerned government agencies under Circular No. 1100 dated April 30, 1986.
6. *Circular No. 1105, June 6, 1986.* Stipulates that the importation of certain commodities will no longer require the prior approval of the Board of Investments (BOI) in line with the import liberalization program of the government. The circular also allows the importation of certain non-essential commodities through letters of credit without prior Central Bank approval.
7. *Circular No. 1109, July 18, 1986.* Provides a listing of an additional 272 commodities classified under: a) synthetic resins and resin products; b) sodium tripolyphosphate; c) fish and fish preparations; d) basic iron and steel; e) paper and paperboard products; and f) high tariff rate items (e.g., poultry, fish, etc.), that may henceforth be imported without prior approval of concerned government agencies.
8. *Circular No. 1110, August 1, 1986.* Amends Sections 12 and 13 of Chapter III of Circular No. 1029, dated October 12, 1984, regarding the "Importation

of Machinery and Equipment, Aircraft and Vessels" such that: a) the foreign credit financing requirement of importations of machinery and equipment, aircraft and vessels, regardless of value is deleted; and b) prior Central Bank approval and prior favorable endorsements of government agencies for importation of machinery and equipment for agriculture and for export-oriented enterprises registered with the Central Bank, Board of Investments, Garment and Textile Export Board, and Export Processing Zone Authority, are no longer required.

9. *Circular No. 1117, September 26, 1986.* Provides a listing of another 80 commodities classified under: a) synthetic resins; b) tires; c) paper and paper products; d) basic iron and steel products; e) synthetic fibers and yarns; f) high tariff rate items; g) vinyl-asbestos/asbestos-vinyl tiles; h) liquid caustic soda; and i) banned non-essential commodity (NEC) items, that may henceforth be imported without the prior approval of concerned government agencies.

10. *Circular Letter, August 11, 1986.* Enjoins all authorized agent banks and all concerned to observe strictly the provision of Section 16 of Circular No. 1029 dated October 12, 1984, pertinent to the requirements for L/C opening, particularly those on the prescribed information on the unit of quantity of the importation which are not specifically indicated in some reports and accompanying invoices submitted to the Central Bank.

11. *Circular Letter, October 13, 1986.* Specifies that the importation of "Toy Guns,.. classified under the said heading is still prohibited pursuant to the provisions of Letter of Instructions No. 1264 dated July 31, 1982.

12. *Circular Letter, November 7, 1986.* Provides, with exceptions, that in line with Circular No. 1110 dated August 1, 1986, all importations of spare parts in excess of US\$50,000 per month per importer need not be referred to the Central Bank for prior approval.

13. *Circular Letter, November 28, 1986.* Advises that imports not covered by Letters of Credit and Deferred Arrangement and Open Account should be properly reported under Schedule 5 of IOS Form I, and not under Schedule 8 of IOS Form I.

14. *Memorandum to All Banks, June 20, 1986.* Suspends the implementation of Memorandum to All Banks dated April 10 and 21, 1986 (Comprehensive Import Supervision Scheme) until further notice.

15. *Memorandum to Authorized Agent Banks, March 24, 1986.* Requires authorized agent banks to transmit directly to the Current Imports and Commodity Classification Office (CICCO) Central Bank of the Philippines, reports relative to the import liberalization program of the government in order to effectively implement the provisions of Central Bank Circular No. 1096 dated March 24, 1986.

16. *Memorandum to Authorized Agent Banks and All Concerned, April 10, 1986.* Amends Joint Order No. 1-86, dated February 21, 1986 through Joint Order No. 2-86, dated March 24, 1986 which provides for the implementation of subject inspection mechanism to the Comprehensive Import Supervision Scheme effective May 1, 1986.

17. *Memorandum to Authorized Agent Banks, April 21, 1986.* Stipulates the guidelines for the Central Bank of the Philippines/Ministry of Finance/Ministry of Trade and Industry Joint Order Nos. 1-86 and 2-86 on the implementation of the Comprehensive Import Supervision Scheme.

18. *Memorandum to Authorized Agent Banks No. 6, June 6, 1986.* Requires all authorized agent banks (AABs) to transmit directly to the Current Imports and Commodity Classification Office (CICCO) daily and weekly reports of letters of

credit opened on liberalized commodities listed in Circular No. 1105 dated June 6, 1986.

19. *Memorandum to Authorized Agent Banks No. 7, July 18, 1986.* Instructs all authorized agent banks to transmit directly to the Central Bank's Current Imports and Commodity Classification Office (CICCO) weekly and daily reports of letter of credit (L/C) openings in order to effectively implement the provisions of Circular No. 1109, dated July 18, 1986 relative to the import liberalization program of the Government.

20. *Memorandum to Authorized Agent Banks No. 8, September 26, 1986.* Requires all authorized agent banks to transmit directly to the Central Bank's Current Imports and Commodity Classification Office (CICCO) weekly and daily reports of L/C openings in order to effectively implement the provisions of Circular No. 1117, dated September 26, 1986, relative to the import liberalization program of the Government.

INTEREST RATES

1. *Circular No. 1097, April 14, 1986.* Amends Circular No. 1027, dated October 12, 1984, so that: 1) Special Time Deposits (STDs) under the Aromatic Tobacco Trading Loan Fund shall bear an interest rate equal to the prevailing rediscount rate at the time the said STD is granted; 2) trading loans granted under this program shall bear an interest rate equal to the rate of the corresponding STD plus an interest spread not exceeding six (6) percentage points per annum; and 3) a penalty rate equal to the prevailing rediscount rate at the time the default occurred shall be imposed over and above the existing STD rate on any portion of STDs that are not converted into trading loans and liquidated within thirty (30) days.

LOANS AND INVESTMENTS

1. *Circular No. 1102, May 5, 1986.* Amends Circular No. 1077, dated September 6, 1985, which stipulates the conditions for the grant of loans secured by hold-outs on and/or assignment of certificates of time deposits issued by banks by including a waiver on the depositor's rights under existing law on the confidentiality of deposits.

2. *Circular No. 1111, August 4, 1986.* Contains the Philippine Government's program and implementing guidelines for the conversion of public and private sector external debt into equity investments in Philippine enterprises.

3. *Circular No. 1123, December 5, 1986.* Amends Books I, II and IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* to 1) provide clarification that foreign as well as domestic standby and deferred letters of credit, less marginal deposits, shall be included in the determination of the single borrower's loan limit; 2) clarify and make explicit that guarantees mentioned refer to those the nature of which require the guarantor to assume the liabilities/obligations of third parties in case of their inability to pay; 3) rephrase exceptions to include those fully secured by cash, holdout on deposits/deposit substitutes or government securities; and 4) add counterpart subsections to Book IV regarding contingent liabilities included in loan limit and aggregate ceiling on issuance of guarantees.

4. *Circular Letter, July 15, 1986.* Issues the guidelines to all banks on the reporting to the Central Bank International Operations Sector (IOS)-I of transactions relative to Circular Nos. 1076 and 1091, particularly: a) dollar-collateralized loans for which foreign liability is assumed by the end-user under Circular No.

1076; b) swaps with hold-outs for which foreign liability is wholly/partially assumed by the Central Bank under the same circular; and c) commercial bank foreign liability assumed by the Central Bank under the same circular; and c) commercial bank foreign liability assumed by the Central Bank under Circular No. 1091.

NATIONAL GOVERNMENT DEPOSITS

1. *Circular No. 1121, November 14, 1986.* Amends various provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* to provide, among others, 1) that all National Government deposits in excess of working balances as determined by the Ministry of Finance shall be placed with the Central Bank; 2) that any special depository privilege enjoyed by government-acquired banks shall be withdrawn not later than June 30, 1986; 3) definition of terms; 4) liquidity floor requirement, with exceptions; 5) sanctions, transitory provision, required reports and others.

REDISCOUNTING

1. *Circular No. 1114, September 1, 1986.* Amends Section 1 of Books I, II and III of the *Manual of Regulations for Banks and other Financial Intermediaries* governing the rediscounting of eligible papers of agricultural production, cottage and small industry credits, general purpose working capital financing and other short-term credits, such that these eligible papers shall have a loan value of 80 percent and a rediscount rate of 11.75 percent per annum.

2. *Circular No. 1125, December 15, 1986.* Amends Book I to III of the *Manual of Regulations for Banks and Other Financial Intermediaries* to provide that the loan value of the various eligible papers under the rediscount window would be 80 percent and that the rediscount rate would be 10 percent per annum.

RESERVE REQUIREMENT

1. *Circular No. 1104, May 26, 1986.* Reduces the reserve requirements on demand, savings, NOW accounts and time deposits and deposit substitute liabilities with original maturities of 730 days or less of commercial banks, and demand deposits and short-term deposit substitute liabilities of thrift banks and non-bank financial intermediaries from 23.0 percent to 22.0 percent effective May 26, 1986.

2. *Circular No. 1112, August 4, 1986.* Reduces the reserve requirement on certain types of deposits and deposit substitute liabilities from 22.0 percent to 21.0 percent and amends accordingly specific provisions of Books I-IV of the *Manual of Regulations for Banks and Other Financial Intermediaries*.

3. *Circular No. 1119, October 10, 1986.* Amends Books I, II, and IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* governing reserve requirements on deposit substitute liabilities as well as interbank loan transactions of commercial banks, thrift banks and non-bank financial intermediaries authorized to perform quasi-banking functions.

4. *Circular No. 1122, November 28, 1986.* Amends Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* to implement reduction in reserve requirement on deposit liabilities and deposit substitutes with original maturities of more than 730 days from 6.0 percent to 5.0 percent.

**REVOLVING TRADE
FACILITY**

1. *Circular Letter, December 16, 1986.* Requires that all public sector and private sector borrowers concerned shall submit their short-term credit requirements for the year 1987 to the Management of External Debt Department (MEDD), copy furnished the Trade Facility Office in the case of trade credits to be obtained under the \$3.0 billion Revolving Trade Facility, Central Bank of the Philippines (CBP), not later than December 19, 1986, to form basis of the Central Bank of the Philippines to issue authority to borrow short-term debt under the \$4 billion Revolving Trade Facility with foreign banks.

**SMALL
AND MEDIUM
INDUSTRIES**

1. *Circular Letter, March 10, 1986.* Redefines the terms cottage, small and medium industries (CSMI) in line with NEDA Resolution No. 1, dated February 12, 1986, as follows: a) cottage industries—enterprises excluding agriculture with total assets after financing below P500,000; b) small industries—enterprises excluding agriculture with total assets after financing of over P500,000 but less than P5 million; and c) medium industries—enterprises excluding agriculture with total assets after financing of over P5 million but less than P20 million.