

1987 Annual Report



CENTRAL BANK OF THE PHILIPPINES
Manila, Philippines

Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

March 31, 1988

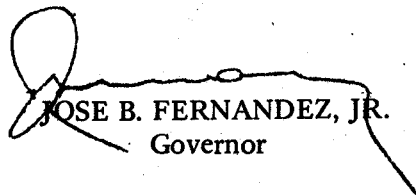
Her Excellency Corazon C. Aquino
The President of the Philippines
Malacañang Palace, Manila

Dear Mrs. President:

I have the honor to submit the Thirty-ninth Annual Report (1987) 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 1987, 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

VICENTE R. JAYME

Secretary of Finance

JOSE S. CONCEPCION, JR.

Chairman, Board of Investments

GUILLERMO N. CARAGUE

*Secretary of Budget
and Management*

SOLITA C. MONSOD

*Secretary of Economic Planning
and Director-General, National
Economic and Development Authority*

LUIS F. LORENZO

President

*Lapanday Agricultural and
Development Corporation,
Guthing Agricultural and
Development Corporation,
Callawa Agricultural and
Development Corporation and
Silk Mountain Corporation*

JESUS V. AYALA

Chairman and President

*Davao Fruits Corporation and
Hijo 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, 1988.

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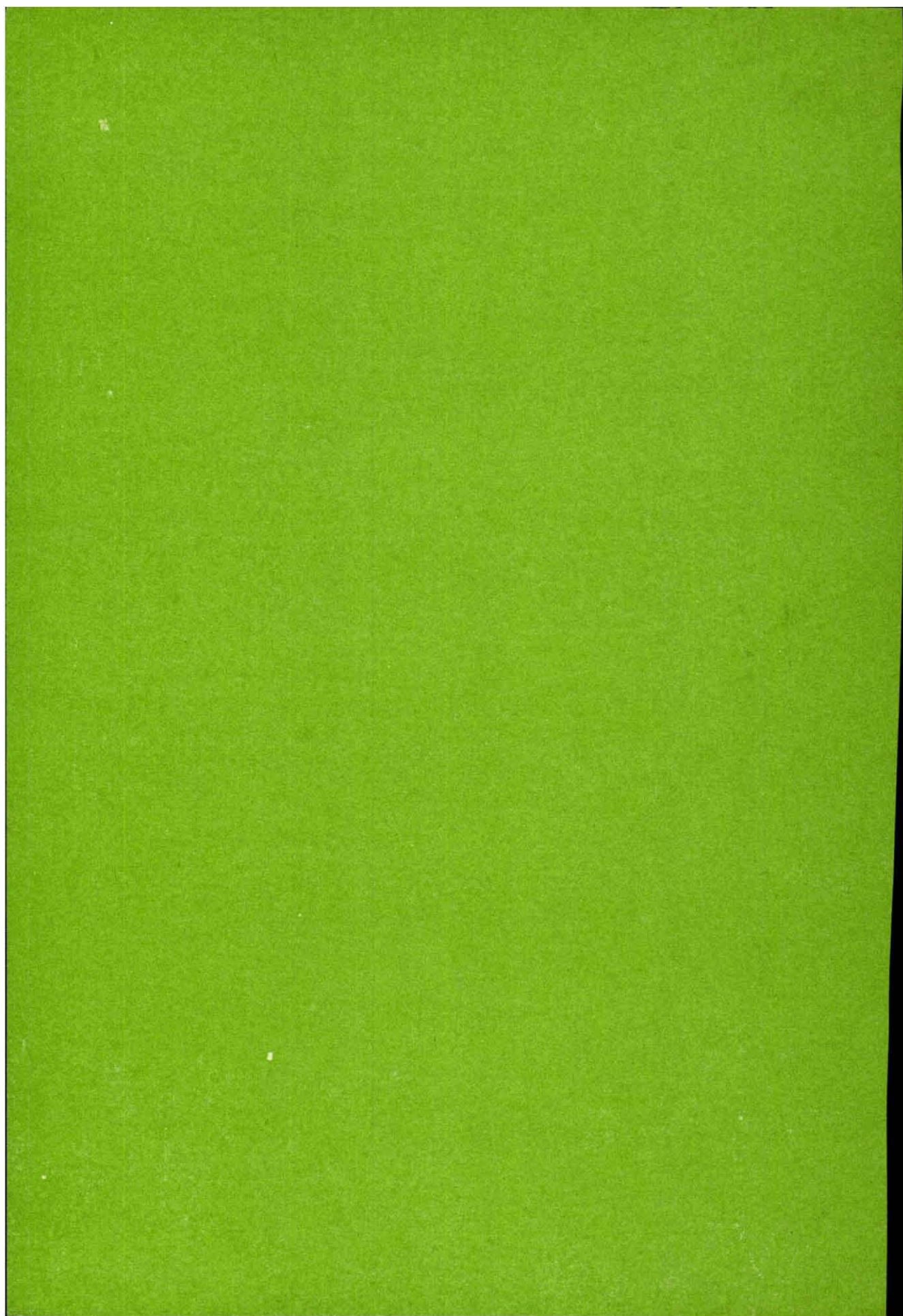
Definitions. The series are defined in general and specific terms in the "Notes on the Series Used" of the Statistical Bulletin, Volume II, of the Annual Report. Changes made in each table are also explained briefly, including clarifications on the elimination of certain footnotes under the old tables.

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 pace of economic activity accelerated during the year in a climate of financial stability and significantly improved industrial peace. The main impetus for growth came from domestic demand. Household spending rose steadily, encouraged by relatively low inflation and interest rates as well as gains in employment and income. Government expenditures including those on rural-based projects under the Community Employment and Development Program (CEDP) and on salary hikes for government workers, contributed importantly to the increase in jobs and incomes. Moreover, real domestic investments showed a rebound from successive declines in prior years, as the business sector, especially industry, experienced strong profitability, helped by the stable financial environment and resurgence in consumer demand. For 1987 as a whole, the country's GNP grew by 5.1 percent, a significant increase compared to the 1.5 percent expansion in 1986 and the negative growth rates experienced in the two preceding years. This meant an increase in real per capita GNP of 2.6 percent in 1987, a turnaround from the real per capita declines in the previous five years. With the improved business climate, the unemployment rate dropped to 11.3 percent, from 11.8 percent in 1986. Meanwhile, the inflation rate was kept under control, averaging 3.8 percent in 1987, although there were indications that inflationary pressures were beginning to revive toward the end of the year.

In the external sector, despite a deterioration in the current account, the balance of payments yielded an overall surplus of \$264 million. This owed mainly to the strong performance of the non-monetary capital account which, during the year, posted a large net inflow brought about by an expansion in direct foreign investments, higher utilization of the Trade Facility, significant availments of short-term credits under Documents against Acceptance (DAs) and Open Account (OA) arrangements, and the restructuring of the country's external liabilities. There was also a marked increase in exports, reflecting success in pushing garments, electronics, shrimps, lumber, coconut oil, furniture and fixtures, and miscellaneous manufactured articles in the world market. However, the merchandise trade gap widened as the surge in imports, principally of capital goods and raw materials, outpaced the increase in exports. At the same time, non-merchandise trade shifted to a deficit position due to the contraction in service receipts and the expansion in service payments, mostly on account of interest. As a result of these developments, the country's net international reserves, computed as the difference between gross foreign assets of both the Central Bank and the commercial banking system, and their aggregate short-term foreign liabilities, improved by \$264 million. The gross international reserves of the Central Bank, on the other hand, declined by 20.3 percent to \$1,959 million at end-December, equivalent to about 2.3 months of imports of goods and services. The peso-dollar rate during the year remained in line with market conditions and reflected external competitiveness, depreciating slightly in real effective terms against the currencies of major trading partners and competing neighboring countries.

An accommodative yet cautious monetary and credit policy was pursued during the year in line with the objective of sustaining growth without rekindling inflation. Both base money and reserve money increased significantly from their end-1986 levels. The loan portfolio of commercial banks expanded by 10.8 percent, reversing the decline in the previous year, with the manufacturing, trade and agriculture sectors absorbing the bulk of outstanding credits.

Measures to strengthen the financial system were also adopted not only to facilitate the flow of credit to vital sectors of the economy but also to increase the system's viability. During the year, the Central Bank pursued the reform of government banking institutions and the privatization of government-acquired banks. As of end-1987, agreements on the sale of one bank and 40 percent of the equity of another to the private sector were finalized. On the other hand, the restructuring of the balance sheets of two major government banks was completed with the transfer of non-performing assets to the Asset Privatization Trust (APT) and of identified liabilities to the National Government. By end-December 1987, the two banks' share in the total resources of the banking system was reduced to 15 percent, from 40 percent in 1985. The Central Bank, furthermore, launched in April 1987 a rural bank rehabilitation program to help strengthen the rural banking system so that it could resume its role in servicing the banking requirements of the rural sector. As of end-1987, some 483 rural banks applied for assistance under the program of which 78 applications were approved for rehabilitation, 5 were not eligible and the rest were undergoing thorough and detailed evaluation.

The cash operations of the National Government in 1987 featured a sizable contraction in the size of the budgetary deficit from P31.2 billion in 1986 to P19.6 billion in 1987, or by 37 percent. The deficit also fell below the program level by P5.9 billion or by 23 percent. The deficit/GNP ratio thus dropped to 2.8 percent, from the 5.1 percent ratio in 1986. Total revenues exceeded the previous year's collection by P23.8 billion or 30 percent and surpassed the program target by P19 billion. Contributing to the expansion in revenues were higher income and production levels, increased personal consumption expenditures, and the withdrawal of tax exemption privileges of government and private entities under Executive Order No. 93. On the other hand, government expenditures rose by 11 percent from the 1986 level but fell below the program level, due primarily to underspending on capital outlays and maintenance and operating expenses as a result of the delayed implementation of the Comprehensive Agrarian Reform Program (CARP) and some operational difficulties connected with the new disbursement scheme. The budgetary deficit was basically non-inflationary, being financed largely from domestic sources, particularly from the sale of Treasury bills to the non-bank public.

In the external sector, authorities continued to pursue market-oriented policies established in earlier years with a view to improving efficiency and productivity and enhancing the country's international competitiveness. The exchange rate policy was fully flexible with the peso/US dollar rate remaining in line with market conditions. The implementation of the Import Liberalization Program proceeded as scheduled. During the year, the Central Bank lifted controls on 171 commodities, comprising mostly raw materials and intermediate and capital goods. Liberalization of the remaining 129 items will be effected by end-April 1988.

External debt management continued to support efforts to restore the viability of the country's external payments position and creditworthiness. A new debt accord on the country's foreign debt was reached with the 12-Bank Advisory Committee in March 1987 and signed by commercial bank creditors on December 21, 1987. The terms of this new rescheduling agreement embodied the most advantageous concessions obtainable by the country at that time. The country was able to "fold in" the first restructuring under a new agreement

which provided for longer maturities (that is, 17 years with a grace period of 7-1/2 years), lower spreads (7/8 percent over LIBOR), and a retroactivity feature exclusively granted to the Philippines. The lower spreads would enable the country to save \$931 million in foreign exchange outflow for the next 17 years. Moreover, the implementation of the debt-to-equity conversion program not only eased the debt burden but also was able to channel some of the country's external debt into preferred long-term equity investments such as in export-oriented activities, agricultural production, privatization transactions involving government assets, and new equity for banking institutions.

**INTERNATIONAL
SECTOR**

The country's overall balance of payments in 1987 recorded a surplus of \$264 million (inclusive of rescheduling) due mainly to the improvement in the non-monetary capital account even as the current account weakened. Compared to 1986, the overall surplus was lower by \$978 million as a result of the widening of the merchandise trade gap and the reversal from surplus to deficit of the services account. Furthermore, the recognition of revaluation losses in third currency-denominated assets and liabilities contributed to a lower overall surplus. In contrast, short-term trade credits and direct foreign investments, together with gold monetization, showed substantially higher inflows. Without rescheduling, the balance of payments would have registered a deficit of \$1,192 million.

CURRENT ACCOUNT

From a surplus of \$996 million in 1986, the current account reversed to a deficit of \$539 million notwithstanding the strong performance of exports which was offset by the considerable rise in imports, the contraction in service receipts and the expansion in service payments.

Merchandise Trade

Exports grew by 18.1 percent to \$5,720 million in 1987. Earnings from key products such as garments, electronics, fish, lumber, coconut oil, furnitures and fixtures, and miscellaneous manufactured articles rose significantly following a number of favorable developments in the international market (Table 2). These included the successful penetration of non-quota markets for garments, the turnaround in world demand for electronics, the recovery in construction activities abroad, increased demand for shrimps in the Japanese market and better prices for coconut products. On the domestic side, excess supply of locally produced petroleum products resulted in higher exports of naphtha, while the continued implementation of a flexible exchange rate policy, introduction of export promotion measures, granting of financial assistance to exporters through the Export Credit Program for Small and Medium Industries, and streamlining of export procedures provided an environment conducive to export growth. In contrast, the uncertainty in the market arising from the failure of the International Coffee Organization to restore quotas led to lower shipments of coffee while the low extraction of gold from domestically mined copper ore resulted in reduced exports of this precious metal. There was also a contraction in sugar exports owing to the drop in the sugar quota to the United States and the continuing depressed conditions in the world market. Moreover, the production setbacks suffered by the Philippine Associated Smelting and Refinery (PASAR) led to a decline in copper metal exports.

After five years of continuous decline, imports soared by 33.6 percent to \$6,737 million in 1987 as the pickup in domestic economic activity was translated into inventory build-ups and new capital investments (Table 3). All major import categories exceeded their previous year's levels. Around 44.6 percent of the growth in imports was accounted for by raw materials and intermediate goods, particularly chemicals, iron and steel, materials for the manufacture of electrical equipment and parts, and embroideries (a major input for the manufacture of garments), which were among the commodities liberalized during the period. Mineral fuels and lubricants similarly advanced by 43.7 percent due to

Table 1. BALANCE OF PAYMENTS
1986 & 1987
(In Million US Dollars)

| Item | 1987 ^P | 1986 |
|----------------------------------|-------------------|-------|
| I. Current Transactions | | |
| A. Merchandise Trade | -1,017 | -202 |
| Exports | 5,720 | 4,842 |
| Imports | 6,737 | 5,044 |
| B. Non-Merchandise Trade | -76 | 757 |
| Inflow | 3,497 | 3,791 |
| Outflow | 3,573 | 3,034 |
| C. Transfers | 554 | 441 |
| Inflow | 556 | 445 |
| Outflow | 2 | 4 |
| Current Transactions, Total | -539 | 996 |
| II. Non-Monetary Capital | | |
| D. Long-Term Loans | 242 | 815 |
| Inflow | 2,437 | 2,545 |
| Outflow | 2,195 | 1,730 |
| E. Direct Investment | 205 | 140 |
| Inflow | 318 | 186 |
| Outflow | 113 | 46 |
| F. Short-Term Capital, Net | 52 | -814 |
| G. Errors and Omissions | 89 | -102 |
| Non-Monetary Capital, Total | 588 | 39 |
| H. Monetization of Gold | 365 | 279 |
| I. Allocation of SDRs | 0 | 0 |
| J. Revaluation Adjustments | -150 | -72 |
| III. Overall BOP Position | 264 | 1,242 |

^PPreliminary

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

Table 2. EXPORTS BY MAJOR COMMODITY GROUP

1986 & 1987

(Volume in 000 MT; Unit Price in US\$/MT; FOB Value in US\$M)

| Commodity Group | 1 9 8 7 | | | 1 9 8 6 | | |
|--------------------------------------|---------|-------|-------|---------|-------|-------|
| | Volume | Price | Value | Volume | Price | Value |
| I. Traditional Exports | | | 1,367 | | | 1,275 |
| Coconut Products | | | 561 | | | 470 |
| Copra | 129 | 249 | 32 | 125 | 144 | 18 |
| Coconut Oil | 1,031 | 370 | 381 | 1,249 | 267 | 333 |
| Desiccated Coconut | 95 | 791 | 75 | 68 | 647 | 44 |
| Copra Meal/Cake | 743 | 98 | 73 | 822 | 91 | 75 |
| Sugar & Products | | | 71 | | | 103 |
| Centrifugal Refined | 163 | 370 | 60 | 222 | 392 | 87 |
| Molasses | 153 | 69 | 11 | 279 | 57 | 16 |
| Forest Products ¹ | | | 243 | | | 201 |
| Logs | 0 | 0 | 0 | 297 | 91 | 27 |
| Lumber | 645 | 239 | 154 | 495 | 210 | 104 |
| Plywood | 241 | 282 | 68 | 239 | 234 | 56 |
| Veneer Sheets/Corestocks | 64 | 230 | 15 | 50 | 180 | 9 |
| Others | | | 6 | | | 5 |
| Mineral Products | | | 224 | | | 267 |
| Copper Concentrates | 362 | 302 | 109 | 360 | 250 | 90 |
| Gold ² | 212 | 427 | 91 | 395 | 354 | 140 |
| Chromium Ore | 87 | 85 | 7 | 118 | 93 | 11 |
| Others | | | 17 | | | 26 |
| Fruits & Vegetables | | | 150 | | | 137 |
| Canned Pineapples | 184 | 470 | 86 | 172 | 483 | 83 |
| Pineapple Juice | 30 | 184 | 6 | 30 | 200 | 6 |
| Pineapple Concentrates | 32 | 623 | 20 | 30 | 600 | 18 |
| Others | | | 38 | | | 30 |
| Abaca Fibers | 23 | 508 | 12 | 25 | 520 | 13 |
| Tobacco Unmanufactured | 13 | 1,420 | 18 | 17 | 1,235 | 21 |
| Petroleum Products | | | 88 | | | 63 |
| II. Non-Traditional Exports | | | 4,197 | | | 3,447 |
| Non-Traditional Manufactures | | | 3,642 | | | 2,879 |
| Elec. & Elec. Eqpt./Parts & Telecom. | | | 1,119 | | | 919 |
| Garments | | | 1,078 | | | 751 |
| Textile Yarns/Fabrics | | | 68 | | | 44 |
| Footwear | | | 31 | | | 31 |
| Travel Goods & Handbags | | | 16 | | | 12 |
| Wood Manufactures | | | 62 | | | 49 |
| Furniture & Fixtures | | | 130 | | | 89 |
| Chemicals | | | 245 | | | 243 |

Table 2 Continuation

| Commodity Group | 1 9 8 7 | | | 1 9 8 6 | | |
|-----------------------------------|---------|-------|-------|---------|-------|-------|
| | Volume | Price | Value | Volume | Price | Value |
| Copper Metal | 106 | 1,525 | 162 | 130 | 1,323 | 172 |
| Non-Metallic Mineral Manufactures | | | 22 | | | 18 |
| Machinery & Transport Equipment | | | 78 | | | 45 |
| Processed Food & Beverages | | | 126 | | | 116 |
| Misc. Mftrd. Articles, N.E.S. | | | 199 | | | 159 |
| Others | | | 286 | | | 231 |
| Non-Traditional Unmanufactures | | | 555 | | | 568 |
| Nickel | 0 | 0 | 0 | 4 | 3,750 | 15 |
| Iron Ore Agglomerates | 4,017 | 19 | 76 | 3,587 | 24 | 85 |
| Bananas | 775 | 156 | 121 | 856 | 152 | 130 |
| Mangoes | 13 | 930 | 12 | 7 | 1,143 | 8 |
| Coffee, Raw not Roasted | 16 | 1,956 | 32 | 43 | 2,767 | 119 |
| Fish, Fresh/Simply Preserved | 41 | 4,996 | 207 | 33 | 4,333 | 143 |
| Rice | 111 | 221 | 25 | - | - | - |
| Others | | | 82 | | | 68 |
| III. Special Transactions | | | 7 | | | 8 |
| IV. Re-Exports | | | 149 | | | 112 |
| Total Exports | | | 5,720 | | | 4,842 |

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 Statistics Office

increased delivery of crude petroleum and bunker fuel to operate oil-fed power plants as the prolonged drought affected the operation of hydro-electric plants. This was compounded by the rise in crude oil prices by 15.3 percent to \$16.99 per barrel as a result of OPEC's efforts to maintain higher energy prices. Moreover, capital goods rose by 40.0 percent following the upsurge in capital investments particularly in the electronics industry. Lastly, increased demand for dairy products and tobacco triggered the rise in consumer goods.

As a result, the merchandise trade gap widened to \$1,017 million from \$202 million a year ago.

Non-merchandise Trade

The non-merchandise trade account shifted to a deficit of \$76 million after posting a surplus of \$757 million in 1986. Receipts fell by 7.8 percent to \$3,497 million owing to notable shortfalls in travel and in foreign government expenditures, as drawdowns from the Economic Support Fund declined by half to \$152 million from the 1986 level. Receipts from other services were also lower, particularly from freight and merchandise insurance (as the use of domestic carriers declined), withdrawal of foreign currency deposits in pesos, and commissions and fees. In contrast, personal income advanced along with the increase in the number of deployed workers (up by 18.8 percent to 449,271). Interest income also increased, helped by the rise in both commercial bank reserves and interest rates.

Invisible disbursements, on the other hand, surged by 17.8 percent to \$3,573 million on account of increased payments for interest as a result of the rise in the level of foreign debt and interest rates; for freight and merchandise insurance owing to higher imports; for travel due to the increase in the number of outbound Filipino travellers by 4.2 percent to 849,494, excluding Balikbayans; and for other services, particularly copyrights and patent royalties.

Transfers

Net inward transfers advanced by 25.6 percent to \$554 million, as significant inflows of grants and aids from the US government and voluntary relief agencies, and personal and institutional remittances more than offset the drop in inflows under other bilateral agreements.

NON-MONETARY CAPITAL ACCOUNT

In 1987, the aggregate net non-monetary capital inflow increased sharply to \$588 million, from \$39 million a year ago, due to the strong performance of the short-term capital and direct foreign investment accounts. Meanwhile, the net inflow of medium- and long-term (MLT) capital fell by 70.3 percent to \$242 million, as repayments accelerated by 26.9 percent to \$2,195 million and gross availments contracted by 4.2 percent to \$2,437 million. MLT loan repayments reflected amortizations on multilateral debt as well as conversions to equity of various debt papers under Circular 1111. The drop in MLT loan availments, on the other hand, reflected the lower inflows of pipeline loans (37.5 percent) and new money (26.6 percent). Pipeline loan availments in 1987 fell to \$415 million, from \$664 million a year ago, as loan releases from all major creditor groups

Table 3. IMPORTS BY COMMODITY GROUP

1986 & 1987

(Volume in 000 MT; Unit Price in US\$/MT; FOB Value in US\$M)

| Commodity Group | 1 9 8 7 | | | 1 9 8 6 | | |
|----------------------------------------|---------|-------|-------|---------|-------|-------|
| | Volume | Price | Value | Volume | Price | Value |
| I. Capital Goods | | | 1,210 | | | 864 |
| Non-electrical Machinery | | | 537 | | | 395 |
| Electrical Machinery | | | 451 | | | 333 |
| Transport Equipment | | | 116 | | | 54 |
| Aircraft, Ships & Boats | | | 33 | | | 24 |
| Prof., Scentfic. & Cont. Instrmnts. | | | 73 | | | 58 |
| II. Raw Materials & Intermediate Goods | | | 3,426 | | | 2,671 |
| Wheat | 672 | 122 | 82 | 960 | 134 | 129 |
| Crude Materials, Inedible | | | 290 | | | 229 |
| Cotton | 50 | 963 | 48 | 43 | 768 | 33 |
| Synthetic & Artificial Fibers | 54 | 1,441 | 77 | 42 | 1,368 | 57 |
| Others | | | 165 | | | 139 |
| Animal & Vegetable Oils & Fats | | | 13 | | | 13 |
| Chemicals | | | 924 | | | 711 |
| Chemical Compounds | | | 332 | | | 272 |
| Medicinal & Pharmaceutical | | | 104 | | | 71 |
| Urea | 618 | 96 | 59 | 540 | 100 | 54 |
| Fertilizer Excl. Urea | 352 | 85 | 30 | 320 | 91 | 29 |
| Others | | | 399 | | | 285 |
| Manufactures | | | 957 | | | 654 |
| Paper & Paper Products | 205 | 498 | 104 | 176 | 416 | 73 |
| Textile, Yarn, Fabric, Etc. | | | 279 | | | 207 |
| Iron & Steel | 1,188 | 286 | 340 | 677 | 301 | 204 |
| Metal Products | | | 63 | | | 58 |
| Others | | | 171 | | | 112 |
| Embroideries | | | 334 | | | 253 |
| Mat./Acc. for Mftr. of Elect. Eqpt. | | | 767 | | | 640 |
| Iron Ore Not Agglomerated | 3,483 | 17 | 59 | 2,407 | 17 | 42 |

Table 3 Continuation

| Commodity Group | 1 9 8 7 | | | 1 9 8 6 | | |
|------------------------------------------------|---------|-------|--------------|---------|-------|--------------|
| | Volume | Price | Value | Volume | Price | Value |
| III. Mineral Fuels and Lubricants ¹ | | | 1,249 | | | 869 |
| Coal, Coke and Briquettes | 560 | 37 | 20 | 1,045 | 40 | 42 |
| Petroleum Crude | 62.47 | 16.99 | 1,062 | 49.39 | 14.74 | 728 |
| Other Mineral Fuels & Lubricants | 10.04 | 16.64 | 167 | 6.71 | 14.79 | 99 |
| IV. Consumer Goods | | | 547 | | | 397 |
| Food & Live Animals for Food | | | 368 | | | 270 |
| Dairy Products | 172 | 872 | 150 | 106 | 928 | 98 |
| Fish & Fish Preparations | 67 | 232 | 16 | 33 | 265 | 9 |
| Rice | 0 | 0 | 0 | 0 | 0 | 0 |
| Corn | 56 | 97 | 5 | 0 | 0 | 0 |
| Others | | | 197 | | | 163 |
| Beverages & Tobacco | | | 107 | | | 72 |
| Miscellaneous Instruments | | | 72 | | | 55 |
| V. Special Transactions | | | 305 | | | 243 |
| Total Imports | | | 6,737 | | | 5,044 |

¹Volume in million barrels; unit price in US\$/barrel

Source of Basic Data: National Statistics Office

Figure 1. CURRENT ACCOUNT AND MERCHANDISE TRADE SURPLUS/DEFICIT
1975-1987

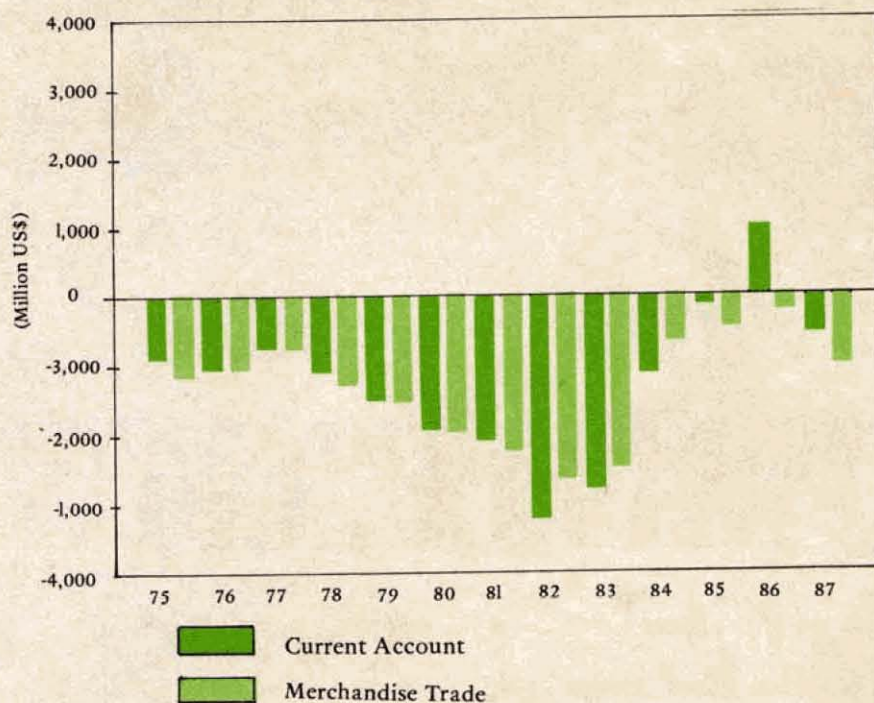
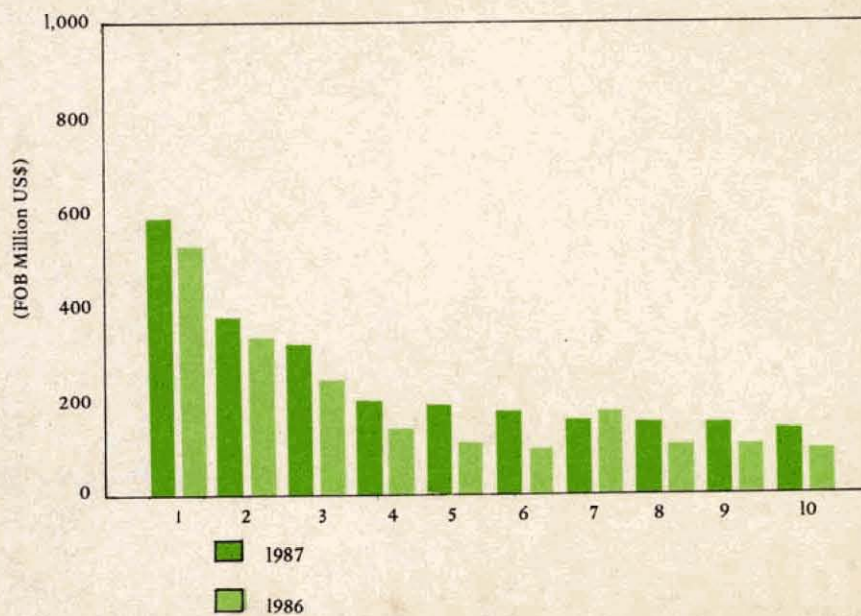


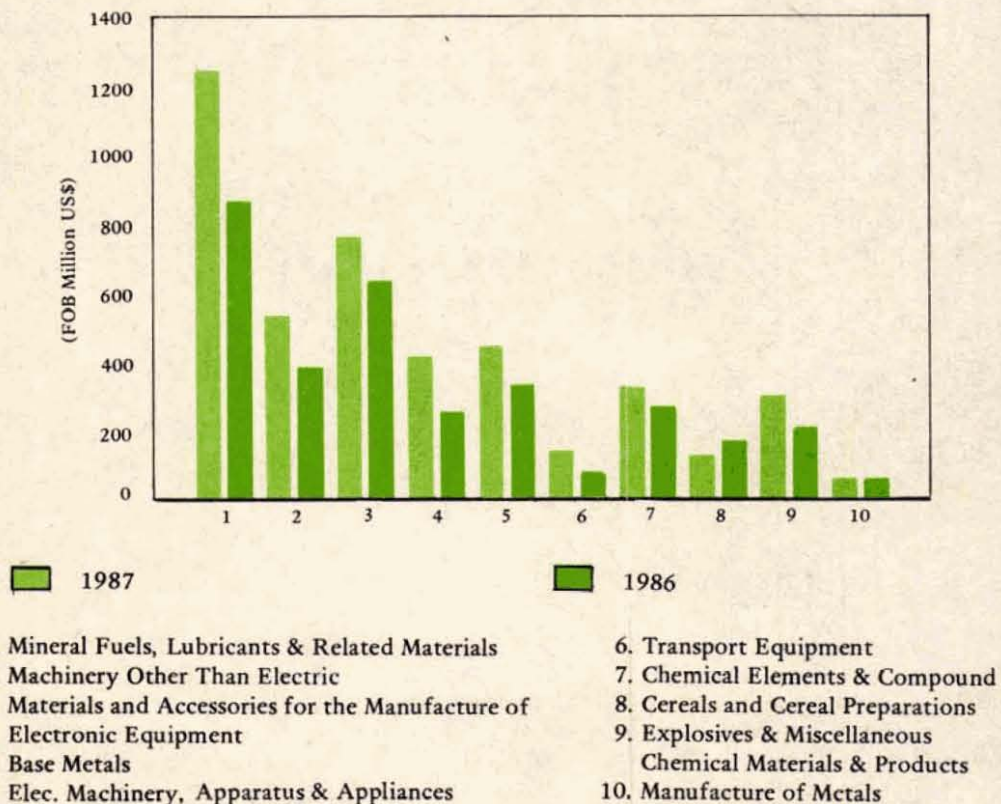
Figure 2. FOREIGN TRADE BY PRINCIPAL COMMODITIES
Ten Leading Exports
1986-1987



1. Semi-Conductor Devices
2. Coconut Oil
3. Electronic Microcircuits
4. Consigned Children's and Infants' Wear
5. Consigned Women's Wear
6. Consigned Men's Wear
7. Copper Metal
8. Shrimps and Prawns
9. Lumber
10. Outer Garments, knitted or crocheted

TEN PRINCIPAL IMPORTS

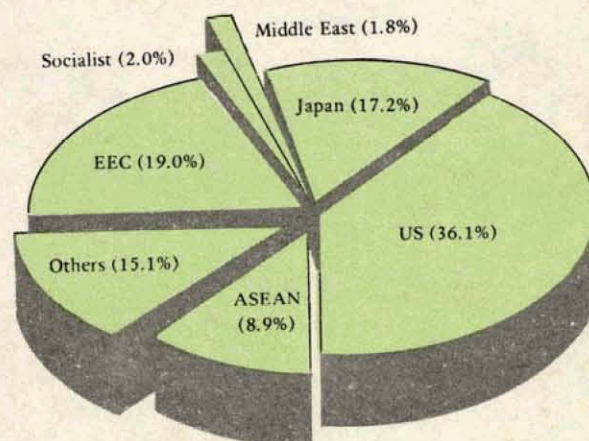
1986-1987



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, 1987
Merchandise Exports
1987



Merchandise Imports
1987

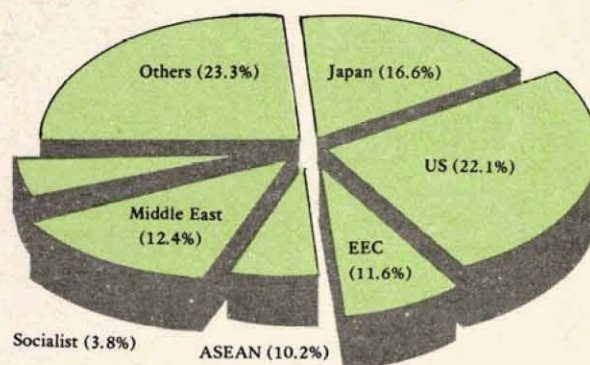


Table 4. INDICES OF FOREIGN TRADE
1983-1987
(1985=100)

| Period | Exports | | Imports | | Net Terms of Trade | Purchasing Power of Exports |
|--------|---------|---------------------|---------|---------------------|--------------------------|-----------------------------------|
| | Volume | Prices ¹ | Volume | Prices ² | | |
| 1983 | 128.2 | 82.9 | 155.8 | 92.7 | 89.4 | 114.6 |
| 1984 | 138.2 | 83.1 | 119.3 | 97.3 | 85.4 | 118.1 |
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 116.6 | 88.8 | 119.7 | 82.3 | 107.9 | 125.9 |
| 1987 | 124.2 | 97.7 | 157.8 | 82.8 | 118.0 | 146.5 |

¹Computed on F.O.B. basis

²Computed on C.I.F. basis

(i.e., multilateral, bilateral and foreign commercial banks) contracted. The drop was traced mainly to the failure of some project implementing agencies to meet construction schedules which in turn was due to weak project management and monitoring. In the case of new money, the drop was traced to the sharp reduction of new funding from commercial banks which amounted to only \$1 million compared to \$525 million that came in last year. The bulk or \$397 million of new money inflows were secured from bilateral sources (especially Japan), while \$167 million came from multilateral agencies such as the IBRD and the ADB. Meanwhile, a total of \$1,456 million in foreign loans were rescheduled during the year, of which \$857 million were owed to foreign commercial banks and \$599 million, to the Paris Club.

A large part of the improvement in non-monetary capital flows was derived from the short-term capital account, the balance of which shifted to positive \$52 million from negative \$814 million in 1986. This arose mainly from lower repayments of short-term loans, particularly under the Trade Facility, and higher availments of D/As and O/As. Transactions under the Trade Facility resulted in a net utilization of \$390 million compared to a net repayment of \$136 million in the previous year. Meanwhile, net direct investment inflows at \$205 million, were higher by 46.4 percent than in 1986, following the rise in foreign debts converted into equity (\$123 million) and in new foreign investments (\$17 million).

Monetization of gold reached \$365 million compared to \$279 million last year as gold prices and volume purchases by the Central Bank went up. This mitigated the revaluation loss in third currency-denominated assets and liabilities of the Central Bank in the amount of \$150 million compared to \$72 million in 1986.

INTERNATIONAL RESERVES

On a gross basis, the international reserves of the Central Bank declined from \$2,459 million at end-1986 to \$1,959 million at end-December 1987, or by 20.3 percent.

The downtrend was reflected in the quarterly movement of gross reserves. After gaining by \$25 million or 1 percent in the first quarter, the Central Bank gross international reserves declined by \$124.7 million, \$247.7 million, and \$153.1 million or by 5.0 percent, 10.5 percent, and 7.2 percent, respectively, during the succeeding quarters.

The slight improvement of the reserve level in the first quarter stemmed from the deposits of loan proceeds from the Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD), and Overseas Economic Cooperation Fund (OECF) by the Treasurer of the Philippines amounting to US\$108 million, net purchases of foreign exchange by Central Bank of \$225 million, and the RP-Japan and Apex loan proceeds of \$8 million which were partly offset by principal and interest payments of the Central Bank (\$286 million) and net withdrawals under the Trade Facility (\$68 million).

Reserves started to deteriorate during the last two months of the second quarter chiefly owing to increased withdrawals from the Trade Facility as well as spot sales of foreign exchange to the National Government for debt servicing. These outflows, however, were offset by the drawdown in April and June of the

third and fourth tranches of the IMF Standby Credit Facility, proceeds from the Economic Support Fund, and increased spot purchases of foreign exchange from commercial banks.

The reserve level deteriorated further towards the end of the third quarter as a result of the increased spot sales to authorized agent banks, principal and interest payments on CB obligations, and loans and advances to the public sector for interest payments on restructured loans.

Despite substantial inflows arising from proceeds of the Overseas Economic Cooperation Fund (OECF) 10th Commodity Loan, the Eximbank Co-financing on the Economic Recovery Loan (ERL), the Economic Support Fund (ESF) and drawings from the IMF Standby Credit Facility, gross international reserves declined further during the fourth quarter to reach \$1,959 million at end-year 1987 because of increased net foreign exchange spot sales to authorized agent banks, withdrawals from the Trade Facility and principal and interest payments of the Central Bank. At this level, reserves were equivalent to 2.3 months of imports of goods and services.

The Central Bank's international reserves at year-end consisted of gold (53.4 percent), foreign investments (42.6 percent), and foreign exchange holdings and special drawings rights (SDRs) which together accounted for 4 percent.

The country's net international reserves (NIR) position, computed as the difference between gross foreign assets of both the CB and the commercial banking system and their aggregate short-term foreign liabilities, improved by 13.1 percent or \$264.1 million, from -\$2,016.7 million at end-1986 to -\$1,752.6 million by the end of 1987. After the initial deterioration in the first quarter, the country's NIR continuously improved by 4.2 percent each in the second quarter and third quarters, and by 7.1 percent during the fourth quarter. Of the total improvement in the country's NIR, 71 percent was accounted for by the advance in CB's NIR and 29 percent was due to the increase in the NIR of commercial banks.

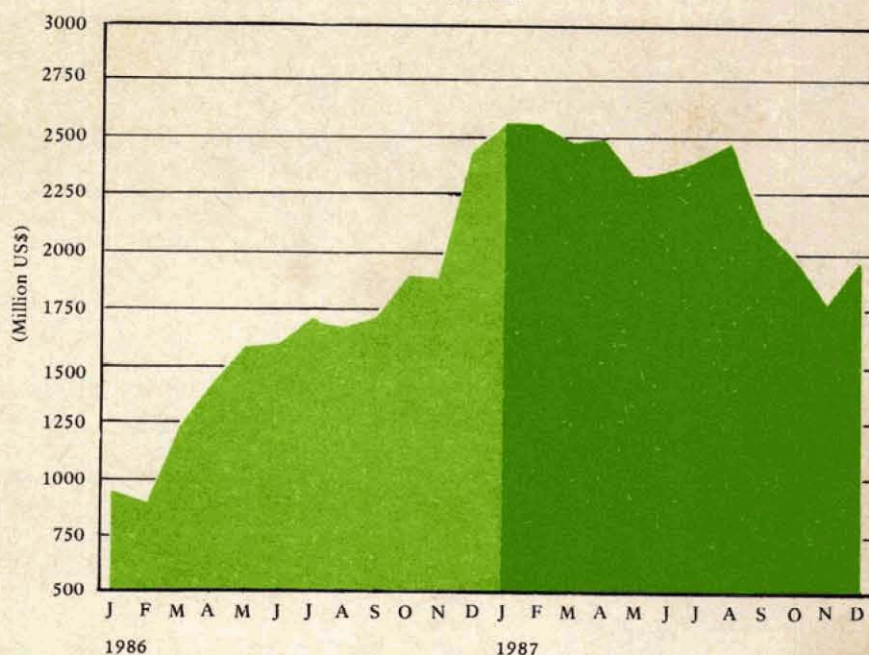
Table 5. INTERNATIONAL RESERVES OF THE CENTRAL BANK¹
As of Dates Indicated
(In Million US Dollars)

| End of Period | Total | Gold | SDR s | Foreign Investments | Foreign Exchange |
|------------------|----------|----------|-------|------------------------|---------------------|
| 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 |
| 1987 Jan | 2,577.96 | 831.35 | 6.23 | 1,702.98 | 37.40 |
| Feb | 2,566.47 | 858.17 | 12.97 | 1,603.32 | 92.01 |
| Mar | 2,484.29 | 888.18 | 13.19 | 1,519.07 | 63.85 |
| Apr | 2,508.09 | 907.16 | 14.90 | 1,534.16 | 51.87 |
| May | 2,335.55 | 938.97 | 0.15 | 1,329.84 | 66.59 |
| Jun | 2,359.57 | 976.05 | 15.01 | 1,322.59 | 45.92 |
| Jul | 2,411.58 | 1,016.62 | 14.77 | 1,328.96 | 51.23 |
| Aug | 2,481.48 | 1,042.44 | 3.65 | 1,388.10 | 47.29 |
| Sep | 2,111.83 | 1,071.21 | 3.62 | 978.59 | 58.41 |
| Oct | 1,978.28 | 1,088.71 | 13.95 | 835.92 | 39.70 |
| Nov | 1,772.52 | 1,047.16 | 0.18 | 679.38 | 45.80 |
| Dec | 1,958.69 | 1,045.65 | 0.19 | 835.37 | 77.48 |

¹With revaluation; SGV adjustments are reflected

Source: Treasury, Central Bank of the Philippines

Figure 4. INTERNATIONAL RESERVES OF THE CENTRAL BANK
1986-1987



EXCHANGE RATE

The peso was generally firm in 1987. From January to August the end-of-month peso-dollar exchange rate moved narrowly between P20.44 and P20.55 before rising to P20.60 in September, from which it continued to depreciate reaching P20.877 in November, its highest point during the year (Figure 5). Thereafter, it dropped to P20.80 in December, reflecting a 1.3 percent depreciation from the comparable figure in the previous year (Table 6). The greater volatility in the rate in the last four months of the year could be attributed to several factors, including the uncertainties following the August 28 coup attempt, the disturbances in the international financial markets after the October stock market crash, and the continued uptrend in the demand for foreign exchange to finance import requirements and purchases of Philippine debt papers by residents.

Relative to other major currencies, the peso recorded substantial depreciations as follows: 32.2 percent against the Japanese yen; 28.9 percent each vis-a-vis the Pound sterling and the Swiss franc; 24.8 percent against the Deutsche mark; and 21 percent against the French franc. Likewise, the peso cross rates vis-a-vis other Asian currencies weakened over the same period as follows: against the New Taiwan dollar by 29.9 percent; the Singapore dollar, 11.2 percent; the South Korean won, 10.4 percent; and the Hongkong dollar, 1.7 percent.

In general, the effective exchange rates of the peso as measured against a total trade-weighted basket of various currencies, reflected relative stability (Figure 5A). The external competitiveness of the Philippine currency improved as indicated by the slight depreciation in real effective terms against competing neighbor countries (2.7 percent) and the significant depreciation against the currencies of major trading partners (5.9 percent).

The parallel market rate closed at P21.95/\$ at end-1987, higher by P.526 against the equivalent effective cost to buyers of the official market rate of P21.424. This was a reversal of the situation obtaining from March 1986 to September 1987 when the parallel market rate had lagged behind the official rate.

Table 6. EXCHANGE RATES OF THE PESO
End of Month, 1986-1987
(Pesos Per Unit of Foreign Currency)

| Period | US Dollar | Japanese Yen | Deutsche Mark | Pound Sterling | French Franc | Swiss Franc | Hongkong Dollar | NT Dollar | S. Korean Won | Singapore Dollar |
|----------|-----------|--------------|---------------|----------------|--------------|-------------|-----------------|-----------|---------------|------------------|
| 1986 Jan | 19.1030 | 0.0992 | 8.0500 | 27.1931 | 2.6266 | 9.4846 | 2.4490 | 0.4871 | 0.02149 | 8.9478 |
| Feb | 21.9790 | 0.1218 | 9.9213 | 32.3091 | 3.2265 | 11.7389 | 2.8199 | 0.5670 | 0.02490 | 10.2312 |
| Mar | 20.6000 | 0.1146 | 8.8291 | 30.3850 | 2.8695 | 10.5739 | 2.6368 | 0.5335 | 0.02338 | 9.4924 |
| Apr | 20.5000 | 0.1220 | 9.4177 | 31.6827 | 2.9561 | 11.2504 | 2.6342 | 0.5330 | 0.02325 | 9.3603 |
| May | 20.5020 | 0.1191 | 8.8835 | 30.4762 | 2.7903 | 10.7450 | 2.6283 | 0.5371 | 0.02325 | 9.2156 |
| Jun | 20.5800 | 0.1244 | 9.3494 | 31.5388 | 2.9326 | 11.4260 | 2.6362 | 0.5453 | 0.02338 | 9.3762 |
| Jul | 20.4255 | 0.1317 | 9.7082 | 30.5259 | 2.9821 | 12.1102 | 2.6165 | 0.5392 | 0.02318 | 9.3916 |
| Aug | 20.4700 | 0.1311 | 9.9750 | 30.2444 | 3.0459 | 12.3741 | 2.6242 | 0.5526 | 0.02338 | 9.4919 |
| Sep | 20.4480 | 0.1331 | 10.1299 | 29.3940 | 3.0917 | 12.4896 | 2.6214 | 0.5582 | 0.02339 | 9.4224 |
| Oct | 20.4360 | 0.1277 | 10.0953 | 28.8760 | 3.0899 | 12.2248 | 2.6219 | 0.5619 | 0.02352 | 9.3617 |
| Nov | 20.4360 | 0.1253 | 10.2813 | 29.2541 | 3.1389 | 12.3331 | 2.6260 | 0.5640 | 0.02364 | 9.3331 |
| Dec | 20.5300 | 0.1273 | 10.4477 | 30.0559 | 3.1718 | 12.5089 | 2.6339 | 0.5686 | 0.02386 | 9.3822 |
| 1987 Jan | 20.4775 | 0.1342 | 11.4284 | 31.4534 | 3.4258 | 13.5970 | 2.6395 | 0.5836 | 0.023979 | 9.6367 |
| Feb | 20.5280 | 0.1342 | 11.2616 | 31.6336 | 3.3809 | 13.3760 | 2.6337 | 0.5871 | 0.024099 | 9.6420 |
| Mar | 20.5500 | 0.1410 | 11.4196 | 33.0135 | 3.4256 | 13.6904 | 2.7126 | 0.6000 | 0.024331 | 9.6338 |
| Apr | 20.4840 | 0.1474 | 11.4546 | 34.0546 | 3.4331 | 13.9659 | 2.6915 | 0.6186 | 0.024642 | 9.6356 |
| May | 20.4660 | 0.1427 | 11.2665 | 33.3391 | 3.3768 | 13.5894 | 2.6892 | 0.6487 | 0.024948 | 9.6722 |
| Jun | 20.4560 | 0.1394 | 11.1894 | 32.7500 | 3.3527 | 13.4559 | 2.6879 | 0.6586 | 0.025406 | 9.6490 |
| Jul | 20.4400 | 0.1367 | 11.0212 | 32.5711 | 3.3153 | 13.3023 | 2.6858 | 0.6622 | 0.025406 | 9.6865 |
| Aug | 20.4530 | 0.1441 | 11.2921 | 33.3997 | 3.3788 | 13.7035 | 2.6834 | 0.6810 | 0.025443 | 9.7213 |
| Sep | 20.6000 | 0.1405 | 11.1878 | 33.5265 | 3.3619 | 13.4621 | 2.6388 | 0.6880 | 0.025688 | 9.8859 |
| Oct | 20.7250 | 0.1494 | 11.9168 | 35.5019 | 3.5315 | 14.4121 | 2.6548 | 0.7017 | 0.025947 | 10.0163 |
| Nov | 20.8770 | 0.1548 | 12.4969 | 37.4220 | 3.6847 | 15.2255 | 2.6806 | 0.7077 | 0.026325 | 10.2589 |
| Dec | 20.8000 | 0.1683 | 13.0353 | 38.7296 | 3.8396 | 16.1220 | 2.6778 | 0.7388 | 0.026353 | 10.4339 |

Source: Treasury, Central Bank of the Philippines

Table 6A. EXCHANGE RATES OF THE PESO
End of Month, 1986-1987
(Units of Foreign Currency Per Peso)

| Period | US Dollar | Japanese Yen | Deutsche Mark | Pound Sterling | French Franc | Swiss Franc | Hongkong Dollar | NT Dollar | S. Korean Won | Singapore Dollar |
|----------|-----------|--------------|---------------|----------------|--------------|-------------|-----------------|-----------|---------------|------------------|
| 1986 Jan | 0.0523 | 10.0806 | 0.1242 | 0.0368 | 0.3807 | 0.1054 | 0.4083 | 2.0529 | 46.5314 | 0.1118 |
| Feb | 0.0455 | 8.2102 | 0.1008 | 0.0310 | 0.3099 | 0.0852 | 0.3546 | 1.7637 | 40.1571 | 0.0977 |
| Mar | 0.0485 | 8.7246 | 0.1133 | 0.0329 | 0.3485 | 0.0946 | 0.3792 | 1.8743 | 42.7698 | 0.1053 |
| Apr | 0.0488 | 8.1956 | 0.1062 | 0.0316 | 0.3383 | 0.0889 | 0.3796 | 1.8762 | 43.0108 | 0.1068 |
| May | 0.0488 | 8.3951 | 0.1126 | 0.0328 | 0.3584 | 0.0931 | 0.3805 | 1.8619 | 43.0108 | 0.1085 |
| Jun | 0.0486 | 8.0386 | 0.1070 | 0.0317 | 0.3410 | 0.0875 | 0.3793 | 1.8339 | 42.7716 | 0.1067 |
| Jul | 0.0490 | 7.5930 | 0.1030 | 0.0328 | 0.3353 | 0.0826 | 0.3822 | 1.8545 | 43.1352 | 0.1065 |
| Aug | 0.0489 | 7.6278 | 0.1003 | 0.0331 | 0.3283 | 0.0808 | 0.3811 | 1.8096 | 42.7716 | 0.1054 |
| Sep | 0.0489 | 7.5131 | 0.0987 | 0.0340 | 0.3234 | 0.0801 | 0.3815 | 1.7914 | 42.7487 | 0.1061 |
| Oct | 0.0489 | 7.8293 | 0.0991 | 0.0346 | 0.3236 | 0.0818 | 0.3814 | 1.7797 | 42.5137 | 0.1068 |
| Nov | 0.0489 | 7.9787 | 0.0973 | 0.0342 | 0.3186 | 0.0811 | 0.3808 | 1.7729 | 42.2932 | 0.1071 |
| Dec | 0.0487 | 7.8525 | 0.0957 | 0.0333 | 0.3153 | 0.0799 | 0.3797 | 1.7587 | 41.9111 | 0.1066 |
| 1987 Jan | 0.0488 | 7.4499 | 0.0875 | 0.0318 | 0.2919 | 0.0735 | 0.3789 | 1.7135 | 41.7032 | 0.1038 |
| Feb | 0.0487 | 7.4516 | 0.0888 | 0.0316 | 0.2958 | 0.0748 | 0.3797 | 1.7033 | 41.4955 | 0.1037 |
| Mar | 0.0487 | 7.0922 | 0.0876 | 0.0303 | 0.2919 | 0.0730 | 0.3687 | 1.6667 | 41.0998 | 0.1038 |
| Apr | 0.0488 | 6.7843 | 0.0873 | 0.0294 | 0.2913 | 0.0716 | 0.3715 | 1.6166 | 40.5811 | 0.1038 |
| May | 0.0489 | 7.0077 | 0.0888 | 0.0300 | 0.2961 | 0.0736 | 0.3719 | 1.5415 | 40.0834 | 0.1034 |
| Jun | 0.0489 | 7.1736 | 0.0894 | 0.0305 | 0.2983 | 0.0743 | 0.3720 | 1.5184 | 39.3608 | 0.1036 |
| Jul | 0.0489 | 7.3153 | 0.0907 | 0.0307 | 0.3016 | 0.0752 | 0.3723 | 1.5101 | 39.3608 | 0.1032 |
| Aug | 0.0489 | 6.9396 | 0.0886 | 0.0299 | 0.2960 | 0.0730 | 0.3727 | 1.4684 | 39.3035 | 0.1029 |
| Sep | 0.0485 | 7.1174 | 0.0894 | 0.0298 | 0.2975 | 0.0743 | 0.3790 | 1.4535 | 38.9287 | 0.1012 |
| Oct | 0.0483 | 6.6934 | 0.0839 | 0.0282 | 0.2832 | 0.0694 | 0.3767 | 1.4251 | 38.5401 | 0.0998 |
| Nov | 0.0479 | 6.4599 | 0.0800 | 0.0267 | 0.2714 | 0.0657 | 0.3731 | 1.4130 | 37.9867 | 0.0975 |
| Dec | 0.0481 | 5.9418 | 0.0767 | 0.0258 | 0.2604 | 0.0620 | 0.3734 | 1.3535 | 37.9463 | 0.0958 |

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

Figure 5A. EFFECTIVE EXCHANGE RATES OF THE PESO
1986-1987 (Monthly Averages)

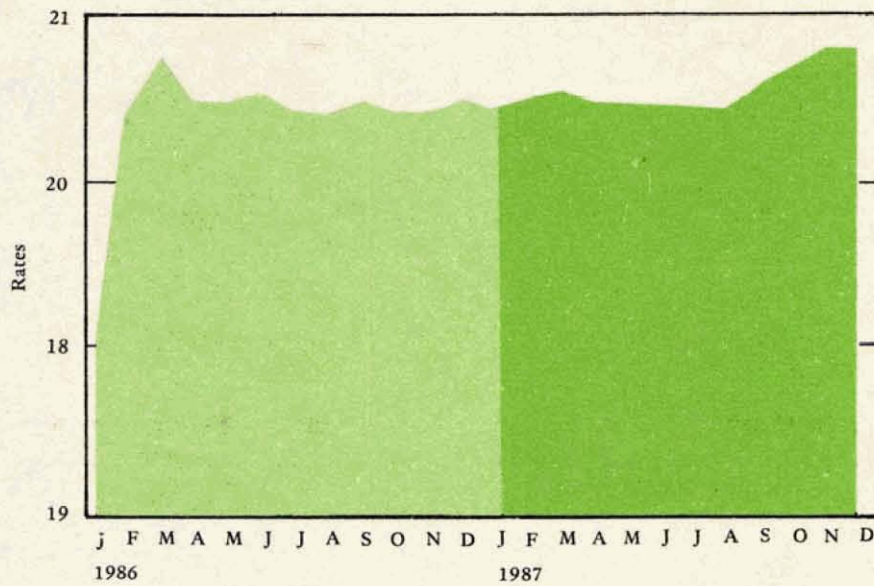
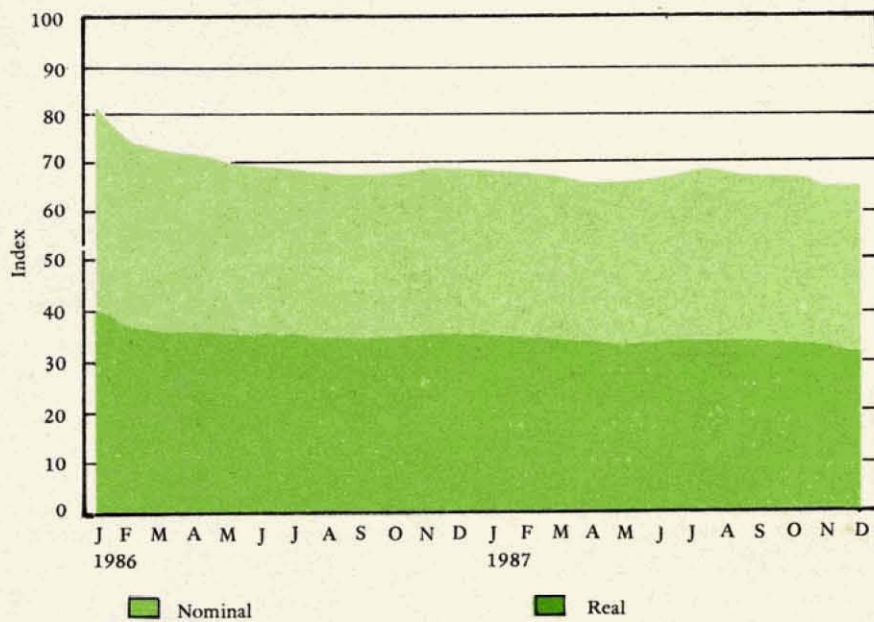


Figure 5. PESO PER U.S. DOLLAR
1986-1987 (Monthly Averages)



FOREIGN EXCHANGE LIABILITIES

Total foreign exchange liabilities at end-October 1987 stood at \$27,971 million, \$285 million lower than the end-1986 level. For the most part, the decline was accounted for by adjustments arising from the recently completed audit of DA/OA credits totalling \$625 million, by the decrease in export advances amounting to \$420 million, by adjustments arising from confirmation with debtors of \$200 million and by net repayments of short-term non-trade credits amounting to \$93 million.¹ These transactions were partly offset by net LC openings of \$191 million and net adjustments on account of exchange rate revaluation of third currency loans amounting to \$962 million.

Of the total foreign exchange liabilities, 66.6 percent represented obligations of the non-banking sector, 33.0 percent comprised those of the banking sector, and the residual of 0.4 percent were export advances. Classified by maturity, \$23,801 million or 85.1 percent were medium- and long-term debts while \$4,170 million or 14.9 percent were short-term liabilities.

Classified by creditor, more than half of total foreign exchange liabilities (55.0 percent) were owed to banks and financial institutions, 16.0 percent were owed to bilateral agencies, 17.8 percent to multilateral institutions, 8.1 percent to suppliers, and the balance of 3.1 percent were owed to other creditors.

It may also be noted that by the end of the year, creditor banks completed the signing of the country's debt rescheduling agreement. This implies that all terms of the agreement have become operative, the most significant of which is the reduction in spread for rescheduled loans, trade facility and new money and its retroactivity to January 1, 1987.

¹ If the end-December 1986 level of foreign exchange liabilities (FXL) were adjusted for the audited DA/OA credits, the end-October 1987 total FXL would show an increase of \$340 million. The significant adjustments on DA/OA credits for 1987 arose as a result of a discrepancy between CB's record on imports and the Authorized Agent Banks' (AABs) confirmed balances as of end-1986. The reason cited for the discrepancy was the failure to reflect the corresponding repayments for/cancellations of the following items:

- a. payments made by certain local importers directly to the foreign suppliers, the foreign exchange for which were sourced from the parallel market;
- b. remittances made by the CB to the suppliers/beneficiaries of the dollar-denominated CBCIs under CB Circular No. 1035;
- c. cancellations of obligations due to the failure of the importers to have these obligations included in the inventory of obligations past due as of October 15, 1983 or, if included in the inventory, the failure of importers to purchase \$CBCIs within the deadline;
- d. deliveries of foreign exchange for import payments with forward covers; and
- e. payments for certain critical imports remitted by the Central Bank during the foreign exchange crisis.

Table 7. PHILIPPINE TOTAL FOREIGN EXCHANGE LIABILITIES
As of Dates Indicated
(In Million US Dollars)

| Item | October 31, 1987* | | | | December 31, 1986 | | | | October 31, 1986 | | | |
|------------------------------------|-------------------|----------------------|----------------------|---------------|-------------------|----------------------|----------------------|---------------|------------------|----------------------|----------------------|---------------|
| | Trade | Short-Term Non-Trade | Medium and Long Term | Total | Trade | Short-Term Non-Trade | Medium and Long Term | Total | Trade | Short-Term Non-Trade | Medium and Long Term | Total |
| Total | 3,767 | 403 | 23,801 | 27,971 | 4,764 | 614 | 22,878 | 28,256 | 4,636 | 588 | 22,501 | 27,725 |
| Commercial Banks and Central Bank | 1,994 | 211 | 7,019 | 9,224 | 2,289 | 299 | 7,317 | 9,905 | 2,112 | 282 | 6,952 | 9,346 |
| 1. Commercial Bank | 797 | 188 | 1,507 | 2,492 | 533 | 277 | 1,934 | 2,744 | 434 | 260 | 1,942 | 2,636 |
| Government | 117 | 167 | 202 | 486 | 65 | 209 | 599 | 873 | 57 | 201 | 597 | 855 |
| Private | 680 | 21 | 1,305 | 2,006 | 468 | 68 | 1,335 | 1,871 | 377 | 59 | 1,345 | 1,781 |
| Foreign Banks | 77 | 12 | 1,048 | 1,137 | 57 | 45 | 1,042 | 1,144 | 73 | 38 | 1,042 | 1,153 |
| Domestic Banks | 603 | 9 | 257 | 869 | 411 | 23 | 293 | 727 | 304 | 21 | 303 | 628 |
| 2. Central Bank of the Philippines | 1,197 | 23 | 5,512 | 6,732 | 1,756 | 22 | 5,383 | 7,161 | 1,678 | 22 | 5,010 | 6,710 |
| Public and Private | 1,648 | 192 | 16,782 | 18,622 | 1,929 | 315 | 15,561 | 17,805 | 2,022 | 306 | 15,549 | 17,877 |
| 1. Public | 520 | 3 | 14,274 | 14,797 | 417 | 12 | 13,204 | 13,633 | 418 | 3 | 13,199 | 13,620 |
| 2. Private | 1,128 | 189 | 2,508 | 3,825 | 1,512 | 303 | 2,357 | 4,172 | 1,604 | 303 | 2,350 | 4,257 |
| Red Clause Advances | 125 | - | - | 125 | 546 | - | - | 546 | 502 | - | - | 502 |
| 1. Public | 0 | - | - | 0 | 162 | - | - | 162 | 162 | - | - | 162 |
| 2. Private | 125 | - | - | 125 | 384 | - | - | 384 | 340 | - | - | 340 |

*Reflects adjustments from the completed audit of DA/OA credits

Source: Financial Plan Data Center

DEBT-TO-EQUITY CONVERSION PROGRAM

The Central Bank's debt-to-equity conversion program had been in operation since August 1986. Essentially, the program sought to enhance external debt management through the simultaneous reduction in the level of outstanding external debt and the stimulation of long-term equity investments in priority areas of the economy. Under the program, applications for conversions to investment of Philippine debt paper purchased at a discount in the secondary market abroad were submitted to the Central Bank by potential resident and non-resident investors. Successful applicants were then able to repatriate the discounted notes and exchange them with the Central Bank for their full value in pesos to fund long-term investments in prescribed areas of economic activity in the country.

In October 1987, major revisions to the program's implementation were approved through amendments to CB Circular No. 1111. Banks and non-performing assets (NPAs) of the government were included in the list of preferred areas of investments. The revisions likewise provided for options to investors which would enable the country to recapture a portion of the discounts realized while buying Philippine debt paper in the secondary market.

The Central Bank had received as of December 31, 1987 a total of 319 applications under the program valued at US\$1,492.6 million (Table 8). Of this amount, 85.7 percent representing 304 applications were deemed eligible for conversion transactions, involving debt totalling US\$1,278.5 million broken down as follows: Central Bank debt, 68.2 percent; combined public and private sector debt, 2.1 percent; and other unspecified debt, 29.7 percent. On the other hand, 15 applications and portions of 15 others amounting to US\$214.1 million were denied for failure to comply with the criteria established for qualified conversions under CB Circular No. 1111. Approved applications during the year totalled US\$421.0 million, representing 92.3 percent of total approvals since the program started. Total approvals as of December 31, 1987 channeled investments amounting to US\$431.5 million under Schedule 2, largely to export producers (36.7 percent), banks for privatization (22.9 percent), and other commercial banks (7.16 percent). Investments under Schedule 3 totalling US\$24.7 million were made mostly in hotels (34.9 percent).

From the start of the program to the end of 1987, closed or consummated transactions amounted to US\$280.9 million representing 92 applications. This involved the prepayment in Philippine pesos of: Central Bank obligations of US\$260.9 million, private sector debt amounting to US\$16.1 million, and other public sector debt paper amounting to US\$3.9 million. Furthermore, the program generated P3.2 million in application fees for the Central Bank and P280.5 million in conversion fees for the National Government.

Table 8. STATUS REPORT: DEBT-TO-EQUITY CONVERSION PROGRAM
As of End-December 1987
(Value in Million US Dollars)

| Item | Number of Applications | Value |
|--------------------------------------------------|------------------------|-----------|
| I. Applications Received ¹ (Total) | 319 | 1,492.567 |
| A. By Investment Classification | | |
| Schedule 2 | 291 | 1,257.971 |
| Schedule 3 | 28 | 234.596 |
| B. By Type of Paper to be Converted ² | 304 | 1,278.462 |
| CB Debt Paper | 242 | 872.530 |
| Public/Private Sector Debt Paper | 9 | 26.432 |
| Not Indicated | 53 | 379.500 |
| II. Approved Applications (Total) | 135 | 456.177 |
| Schedule 2 | 124 | 431.477 |
| Schedule 3 | 11 | 24.700 |
| III. Closed Transactions (Total) | 92 | 280.900 |
| CB Debt Paper | 85 | 260.888 |
| Private Sector Debt Paper | 4 | 16.109 |
| Public Sector Debt Paper | 3 | 3.903 |
| IV. Pending Applications | 154 | 556.920 |
| V. Denied Applications ³ | 15 | 214.105 |

¹Inclusive of applications filed but subsequently withdrawn, deferred and/or outbided (not shown in Table).

²Excluding US\$214.105 million corresponding to fifteen (15) applications denied under item V.

³Inclusive of US\$31.676 million denied portions of fifteen (15) applications.

Source: Debt Restructuring Office, CBP.

**DOMESTIC MONEY, CREDIT AND INTEREST RATES
SECTOR****Reserve Money**

Reserve money developments during the year reflected the accommodative yet cautious monetary policy stance pursued by the Monetary Authorities in keeping with the objective of sustained real output growth without refuelling undue inflationary pressures in the economy (Table 9).

At the close of the year, reserve money increased by P6.9 billion or 13.8 percent from the end-1986 level which increase was due solely to the rise in currency issue as reserve balances of deposit money banks with the Central Bank declined by P0.3 billion. This was indicative of the unusually high demand for currency by the public due to the uncertainties brought about by peace and order problems and the holding of national election.

During the first eight months of the year, reserve money levels were generally at levels lower than that of end-1986. During this period, reserve money posted a cumulative decline of P4.2 billion to reach P45.9 billion by end-August 1986. In October 1986, the policy of phasing out CB open market instruments to give way to auctioned Treasury bills was pursued. The policy called for the deposit of the proceeds of the auctioned issuances with the Central Bank to minimize or offset the expansionary impact of the phase-out of CB bills. Thus, from end-1986 to August 1987, the increase in National Government deposit with the Central Bank, together with the additional counterpart peso deposits under the blocked account for rescheduled public sector obligations helped keep reserve money levels within the program levels.

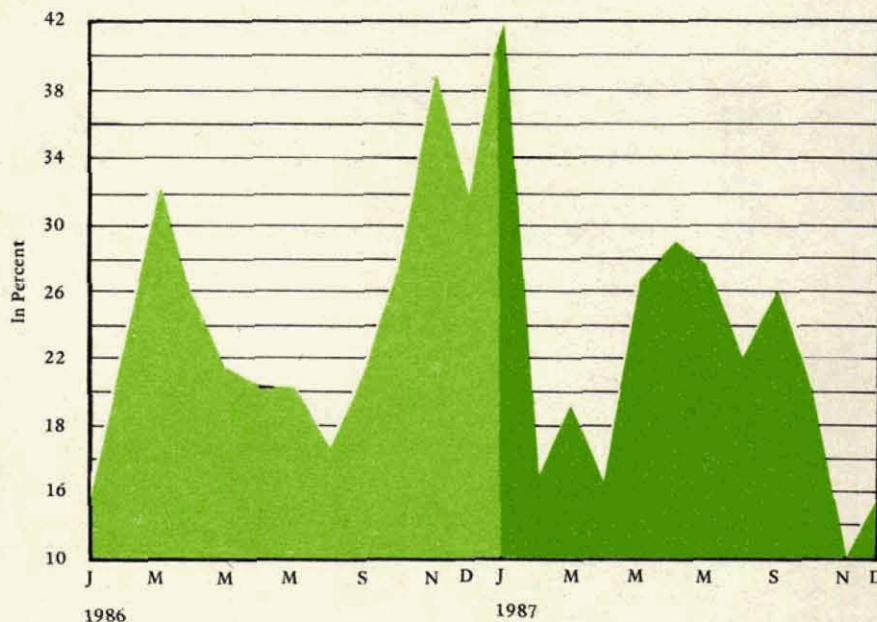
In September 1987, however, reserve money rose to P49.7 billion or by P3.9 billion from end-August 1987 and further by P7.1 billion during the next three months to reach P56.9 billion by end-1987. The increase in reserve money during September 1987-December 1987 was due primarily to the drawdown of P14.8 billion by the National Government from its deposit balances with the Central Bank following the shortfalls in expected net external inflows and the unprogrammed net lendings to government corporations. The National Government also utilized its deposits with the Central Bank to redeem maturing T-bills as T-bill auctions, particularly in September 1987 and December 1987, were characterized by undersubscriptions and high bid rates due to the persistence of increased preference for foreign exchange owing partly to speculation preference after the August 28 coup attempt and, partly to the need for servicing higher import payments by December 1987. To keep the reserve money level closer to the December 1987 limit, the Central Bank undertook active open market operations through its reverse RP facility.

Table 9. SOURCES OF RESERVE MONEY MOVEMENTS
As of End 1986-1987
(In Million Pesos)

| Item | December 1987 ^P | December 1986 | Percent Change |
|-----------------------------------------------------|-------------------------------|------------------|-------------------|
| I. Reserve Money | 56,865 | 49,983 | 13.8 |
| 1.0 Currency Issued Net of Cash in Treasury Vault | 41,520 | 34,290 | 21.1 |
| 2.0 Bank Deposit Balances with the Central Bank | 15,345 | 15,693 | -2.2 |
| II. Net Foreign Assets - Monetary Authorities (MA) | -99,702 | -99,018 | 0.7 |
| 1.0 Net International Reserves - MA | -15,096 | -18,744 | -19.5 |
| 1.1 Gross International Reserves | 40,733 | 50,446 | -19.3 |
| 1.2 Short-term Foreign Liabilities | -55,829 | -69,190 | -19.3 |
| 2.0 Medium- and Long-Term Foreign Liabilities (Net) | -84,606 | -80,274 | 5.4 |
| III. Net Domestic Assets - MA | 156,567 | 149,001 | 5.1 |
| Of Which: | | | |
| 1.0 Net Credits to the National Government (MA) | -31,999 | 5,194 | -716.1 |
| of which: | | | |
| National Government Deposits | -42,344 | -16,413 | 158.0 |
| 2.0 Assistance to Financial Institutions | 15,405 | 12,730 | 21.0 |
| of which: | | | |
| Overdrafts | 12,769 | 9,899 | 29.0 |
| 3.0 Regular Rediscounting | 5,070 | 4,732 | 7.1 |
| 4.0 CB Bills/Reverse RPs | -11,102 | -30,275 | -63.3 |
| 5.0 Forward Cover Differential | 22,558 | 22,435 | 0.5 |
| Memo Items: | | | |
| Reserve-Eligible Government Securities | 4,355 | 4,844 | -10.1 |
| Base Money | 61,220 | 54,827 | 11.7 |

Source: Accounting Department, Central Bank of the Philippines

Figure 6. RESERVE MONEY
(Annual Growth Rates)



Domestic Liquidity

From P141.1 billion as of end-December 1986, domestic liquidity (M3) increased by P18.8 billion or 13.3 percent to reach P159.9 billion at end-December 1987. This followed the growth of P6.9 billion in reserve money and the rise in the money multiplier (i.e., the ratio of domestic liquidity to base money) from 2.570 at end-1986 to 2.612 at end-1987. Despite the continued high demand for currency during the year, the money multiplier increased due to the reduction in banks' excess reserves from a peak level of P3.9 billion in March to P0.3 billion by the end of the year as banks extended additional credits to the private sector.

Reviewed by component, the rise in domestic liquidity was principally accounted for by the substantial 22.8 percent expansion in money supply (which aggregated P52.4 billion and comprised 32.8 percent of domestic liquidity as of end-1987) which growth was higher than the 19.1 percent growth registered a year ago. Currency-in-circulation, as a component of money supply, rose significantly by 21.0 percent and reached P35.5 billion at the end of the year. Except for the first quarter of the year when the demand for cash seasonally declines after the holidays, the public's currency holdings remained high through the rest of the year. This reflected essentially the increased preference for cash balances in view of the electoral exercises held during the year and the uncertainties brought about by certain destabilizing events. The preference for more liquid assets was likewise manifested in the increase in the volume of demand deposits, the other component of money supply. Demand deposits rose by 26.9 percent or twice its growth in 1986 and amounted to P16.9 billion.

Accounting for the bulk or 64.7 percent of total domestic liquidity, quasi-money (savings plus time deposits) likewise increased by 10.6 percent to reach a level of P103.5 billion at year's end. Savings deposits recorded an increment of 16.6 percent which offset the 0.4 percent decline in time deposits. Meanwhile, deposit substitutes, which shared the remaining 2.5 percent of domestic liquidity declined by 18.0 percent from P4.9 billion as of end-1986 to P4.0 billion as of end-1987 (Table 10).

The increment in savings deposits was reflective mainly of the public's preference for more liquid financial assets in times of uncertainty, particularly during the July to September period. On the other hand, preference for time deposits generally weakened as yields on government issues remained relatively higher, except during the fourth quarter when an increase in time deposits was registered following a rise in time deposit rates.

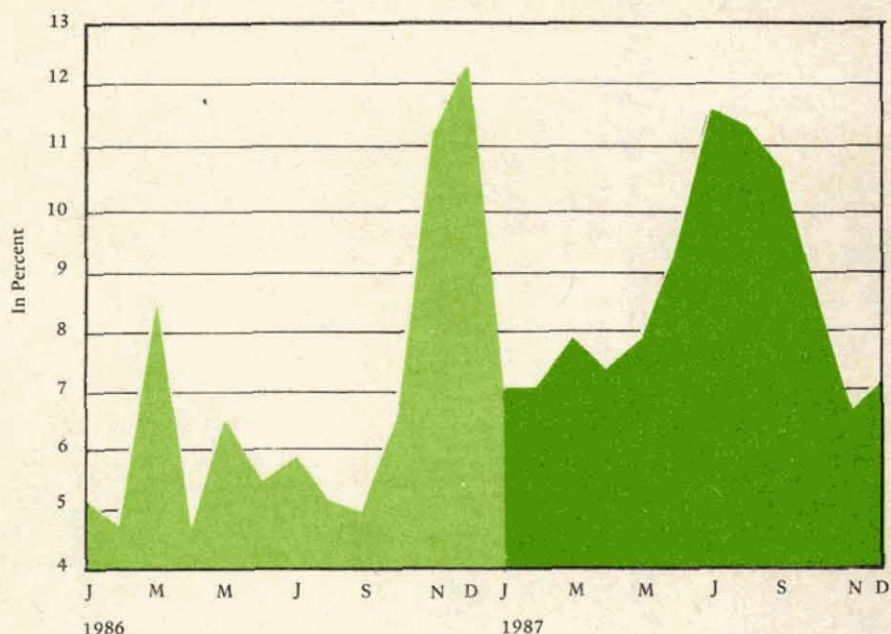
Table 10. DOMESTIC LIQUIDITY
As of End 1986-1987
(In Million Pesos)

| Item | 1987 | | 1986 ^r | | Percent Change | |
|-------------------------|---------|---------------|-------------------|---------------|----------------|-------|
| | Level | Percent Share | Level | Percent Share | 1987 | 1986 |
| Domestic Liquidity | 159,918 | 100.0 | 141,139 | 100.0 | 13.3 | 6.2 |
| Money Supply | 52,386 | 32.8 | 42,657 | 30.0 | 22.8 | 19.1 |
| Currency in Circulation | 35,454 | 22.2 | 29,311 | 21.0 | 21.0 | 21.8 |
| Demand Deposits | 16,932 | 10.6 | 13,346 | 9.0 | 26.9 | 13.5 |
| Quasi-Money | 103,536 | 64.7 | 93,608 | 66.0 | 10.6 | 5.8 |
| Savings Deposits | 70,632 | 44.1 | 60,557 | 43.0 | 16.6 | 30.5 |
| Time Deposits | 32,904 | 20.6 | 33,051 | 23.0 | -0.4 | -21.4 |
| Deposit Substitutes | 3,996 | 2.5 | 4,874 | 4.0 | -18.0 | -43.4 |

^rRevised. The rehabilitation of two government-owned financial institutions (GFIs) which culminated in the transfer of their non-performing assets and liabilities to the National Government in December 1986 changed the data on monetary aggregates, such as total domestic liquidity and net domestic assets of the monetary system as of December 1986 which differed significantly from those earlier reported prior to the transfer of accounts. The monetary system's data were affected because the transfer of assets and liabilities were from a government commercial bank (which is part of the monetary or banking system) to the National Government (which is not a bank).

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

Figure 7. DOMESTIC LIQUIDITY
(Annual Growth Rates)



Note: Starting end-December 1986, data reflect the transfer of selected assets and liabilities of certain government banks to the National Government.

Net Domestic Assets of the Monetary System

Total net domestic assets (NDA) of the monetary system reached P275.5 billion as of end-December 1987, reflecting an annual growth of P13.7 billion or 5.2 percent (Table 11).

Net domestic credits of the monetary system comprising 39.5 percent of NDA, declined by P15.9 billion or 12.7 percent to reach P108.9 billion at end-1987. The decline resulted from the P34.2 billion contraction in credits availed of by the public sector, particularly in the first three quarters of the year when the National Government (NG) repaid provisional advances with the Central Bank and built up its deposits with CB and deposit money banks (DMBs). Similarly, net credits to the government corporate sector declined by P0.6 billion.

The contractionary effects of these developments were partially offset by the increase in public credits of about P10.0 billion in the last quarter of the year following the net withdrawals of P8.3 billion by NG from its deposits with CB and DMBs to cover the budgetary deficit and to redeem maturing T-bills. Also exerting an expansionary impact on net public credits was the increase of about P2.0 billion in T-bill holdings of commercial banks.

The rise in public credits during the fourth quarter of the year partly dampened the decline recorded during the first three quarters (P44.0 billion), thus bringing the full year decline in public credits to P34.0 billion.

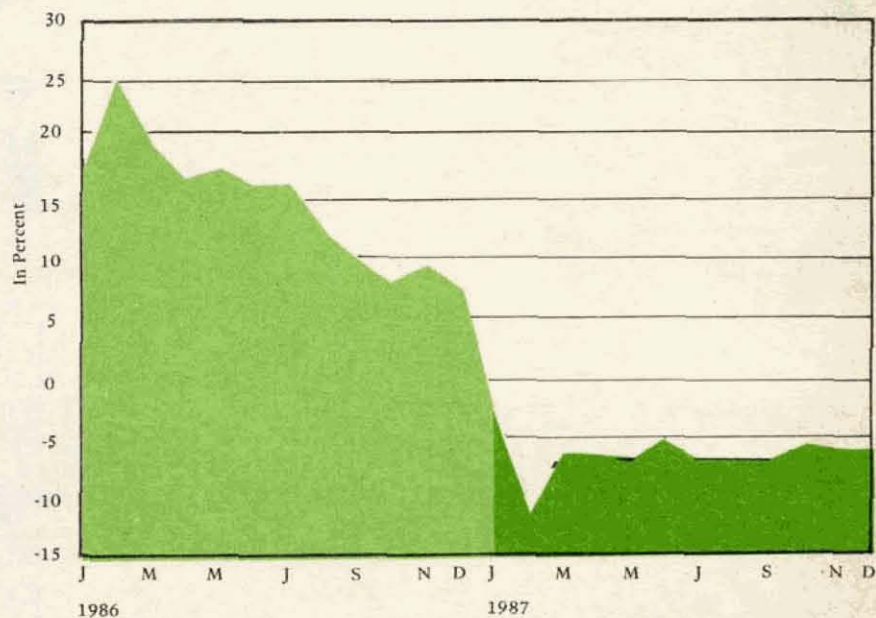
On the other hand, net credits to the private sector, which aggregated P116.9 billion at year-end, remained expansionary throughout the four quarters

of the year, registering a full year increment of P18.4 billion or 18.7 percent. The major portion or P18.7 billion of the year's increase in private credits was accounted for by DMBs, with P17.6 billion coming from private commercial banks. The bulk of this amount was channelled to manufacturing, trade, agriculture and business services. In contrast, CB credits to the sector declined by P0.6 billion, due mainly to the increase in reverse repurchase transactions of CB with non-DMBs as CB utilized its reverse repurchase facility to keep actual base money closer to its target level, particularly in December.

By institutional source, net credits extended by the monetary authorities to both the public and private sectors which stood at negative P23.4 billion at end-1987, declined by P37.6 billion from its end-1986 level of P14.2 billion, reflecting mainly the contractionary impact of the substantial build-up of NG deposits with the Central Bank and the payment by NG of its provisional advances from the Central Bank. In contrast, net credits extended by DMBs grew by P21.8 billion or 19.7 percent to P132.3 billion at year's end with the continued expansion in credits to the private sector, the bulk of which came from private commercial banks.

Meanwhile, other asset items rose by P29.5 billion or 21.6 percent to reach P166.6 billion at end-1987. Accounting for a major portion of the increase in net other asset items were the redemption of CB bills held by the non-bank sector, as the issuance of these instruments for open-market operations was being phased out, as well as the interest payments on CB's foreign and domestic liabilities.

Figure 8. NET DOMESTIC ASSETS
(Annual Growth Rates)



Note: Starting end-December 1986, data reflect the transfer of selected assets and liabilities of certain government banks to the National Government.

Table 11. NET DOMESTIC ASSETS OF THE MONETARY SYSTEM

| As of End 1986-1987 (In Million Pesos) | | | |
|-------------------------------------------|----------------|-------------------|-------------------|
| Item | 1987 | 1986 ¹ | Percent Change |
| Net Domestic Assets | 275,488 | 261,805 | 5.2 |
| I. Net Domestic Credits | 108,870 | 124,728 | -12.7 |
| A. By Source | | | |
| 1. Monetary Authorities | -23,422 | 14,224 | -264.7 |
| Loans and Advances | 14,909 | 23,556 | -36.7 |
| Domestic Securities | 4,013 | 7,081 | -43.3 |
| Less: Government Deposits | 42,344 | 16,413 | 158.0 |
| 2. Deposit Money Banks | 132,292 | 110,504 | 19.7 |
| Loans and Advances | 113,278 | 95,039 | 19.2 |
| Domestic Securities | 27,644 | 25,725 | 7.5 |
| Less: Government Deposits | 8,630 | 10,260 | -15.9 |
| B. By End-User | | | |
| 1. Public | -8,020 | 26,227 | -130.6 |
| 2. Private | 116,890 | 98,501 | 18.7 |
| II. Net Other Items | 166,618 | 137,077 | 21.6 |
| Of Which: Revaluation | | | |
| | n.a. | 106,340 | n.a. |

¹Revised to reflect the transfer of non-performing assets and liabilities of two government banks to the National Government

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

Reserve Position of Commercial Banks

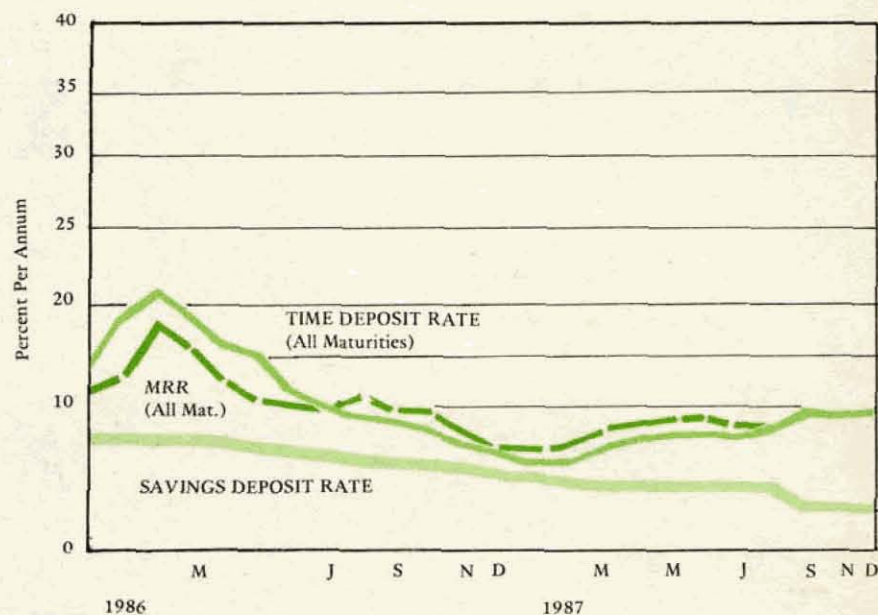
The overall reserve position of commercial banks posted an average surplus of P0.3 billion in December 1987, a marked improvement when compared with the average deficiency of P0.4 billion registered during the same period last year. However, on a monthly basis, banks' average excess reserves gradually went down from a peak level of about P0.6 billion in January to P0.3 billion by the end of the year as bank lending to the private sector increased with the acceleration in economic activity.

With real interest rates generally remaining positive during the year despite the gradual rise in the inflation rate, the total reservable deposit liabilities of commercial banks expanded by 1.3 percent to P118.9 billion. Banks' available reserves also increased by 3.0 percent to P22.3 billion at year's end, while total required reserves aggregated P22.0 billion, thus resulting in an excess reserve position of P0.3 billion (Table 12).

During the year, the bulk of commercial banks' reserve assets continued to be in the form of deposit balances with the Central Bank which, at P15.3 billion as of end-1987, comprised 68.6 percent of total available reserves. Reserve balances with the Central Bank earn four percent (4%) interest. Similarly, the proportionate share of reserve holdings of banks in the form of cash in vaults increased from 10.6 percent to 16.8 percent, reflective of the banks' cautious stance to meet any unexpected increase in deposit withdrawals due to prevailing uncertainties. On the other hand, the share of reserves in the form of government securities declined from 16.0 percent to 14.6 percent as a result of the policy adopted since March 1986 to gradually phase out the reserve-eligibility feature of all government securities.

Expressed in terms of ratios to deposit liabilities, required reserves accounted for 18.6 percent, while available reserves comprised 18.8 percent.

Figure 9. BORROWING RATES OF COMMERCIAL BANKS
1986-1987



Outstanding Loans/Credits

Central Bank. Outstanding portfolio credits of the Central Bank (CB) as of end-1987 were estimated at P74.7 billion, about 10.5 percent or P8.7 billion lower than the level of the previous year. Loans and advances which accounted for about 88.0 percent of total CB credits dropped by 9.4 percent to P65.5 billion due largely to the repayment of provisional advances to the National Government as well as decreases in loan accommodations to banks under the Consolidated Foreign Borrowings Program (CFBP), repurchase agreement and International Bank for Rural Development (IBRD) facilities (Table A-06).

Government security holdings of the Central Bank, which accounted for 12 percent of aggregate CB credits likewise dropped by 17.2 percent or P1.9 billion during the year to reach P9.2 billion at end-1987. The decline was principally due to the large redemptions of Treasury notes and bonds resulting from the phase out of low-yielding reserve-eligible government securities which started in 1986.

During the period in review, around 70 percent (P52.2 billion) of total CB credits outstanding went to the public sector, or 6.2 percentage points (P14.1 billion) lower than that of the previous year. Of the total public sector borrowings, about 90 percent was accounted for by the National Government while the remaining 10 percent went to government financial institutions and other government entities. Meanwhile, credits to the private sector constituted around 30 percent of aggregate CB credits and were largely in the form of overdraft and rediscount accommodations to commercial banks.

By maturity, short-term credits (with maturities of less than one year) accounted for the bulk or 55 percent of total CB credits and aggregated P40.9 billion at end-1987 or P10.5 billion lower than the level registered last year. Intermediate credits (with maturities of over 1 year but less than 5 years) fell by P0.2 billion to reach P2.7 billion while long-term credits (with maturities of more than 5 years) dropped from P10.7 billion to P9.8 billion.

The weighted average interest rate (WAIR) on outstanding CB credits as of end-December 1987 remained unchanged from the 9.6 percent average in 1986 suggestive of the relatively stable condition in market rates and the low inflation rate during the year.

Commercial Banks. Outstanding loans (excluding past due items, items in litigation and domestic and foreign bills) of commercial banks stood at P109.8 billion as of end-September 1987, an increase of 10.8 percent or P10.7 billion over the end-1986 level (Table A-09). The expansion in commercial bank loans was a complete reversal of the downtrend observed in 1986 and reflected the continued acceleration in economic activity which was partly encouraged by the reduction in nominal lending rates.

Loans to the manufacturing sector which accounted for the bulk or 32.6 percent of total loans outstanding rose by 64.3 percent or P14.0 billion from the end-1986 level to reach P35.8 billion at end-September 1987. Real estate loans likewise grew by 31.8 percent to P2.7 billion; construction loans by 0.2 percent to P3.7 billion; trade loans by 3.9 percent to P14.2 billion; transport, storage, and communication loans by 11.3 percent to P3.4 billion and loans to the community, social and services sector by 24.3 percent to P5.3 billion.

On the other hand, commercial bank loans to the following sectors declined: agriculture, fishery, and forestry (7.6 percent); financing, insurance and

business services (21.4 percent); electricity, gas and water (37.4 percent); and mining and quarrying (8.3 percent).

On a regional basis, loans to the National Capital Region continued to share the bulk or 84.8 percent of total loans outstanding and registered a growth of 16.1 percent over the nine-month period to reach P80.4 billion. Notable increases were likewise observed in loans to all other regions except Regions I, III, IV, VIII and XI which posted declines.

Thrift Banks. Outstanding loans of thrift banks at P11.9 billion as of end-1987 grew by 25.4 percent or P2.4 billion from the end-1986 level. Except for industrial loans and other loans (consisting of trading account securities, past due loans and discounts, items in litigation, bills purchased, and other loans and discounts) which dropped by 38.4 percent and 5.5 percent, respectively, thrift bank loans to all other sectors registered substantial increases. During the year, agricultural loans grew by 65.7 percent (P1.1 billion); commercial loans by 50.7 percent (P0.6 billion); real estate loans by 81.8 percent (P1.3 billion); and consumption loans by 12.2 percent (P0.04 billion). At end-1987, 25.0 percent of total loans outstanding of thrift banks comprised real estate loans and 22.4 percent agricultural loans, up from their respective shares of 17.2 percent and 17.0 percent in 1986 (Table A-11).

Of the total loans outstanding of thrift banks, 52.8 percent were accounted for by savings banks and were channelled largely to the National Capital Region. Loans of private development banks which accounted for 27.3 percent of the total were mostly extended to the National Capital Region, Central Luzon and the Southern Tagalog provinces while loans of stock and savings loans associations constituted 19.9 percent of the total and went largely to the Metro Manila area.

Specialized Government Banks. Total loans outstanding of specialized government banks (SGBs) reached P9.8 billion as of end-1987, a decline of about 18.1 percent or P2.2 billion from the end-1986 level. The decline was due mainly to the large repayments on matured loans, the temporary slowdown in the lending activities of one SGB which recently underwent rehabilitation and partly reflected the transfer of selected non-performing assets and liabilities of that specialized government bank (Table A-14).

Notwithstanding the 38.8 percent decline during the twelve-month period, loans extended to the National Capital Region continued to share the bulk or 60 percent of total loans outstanding of SGBs. Loans to the Central Luzon Region rose by more than two-fold and accounted for 16.0 percent of the total. Loans to the rest of the regions rose by 30.0 percent and posted a combined share of 23.6 percent, more than twice their share at end-1986.

Rural Banks. Total loans outstanding of rural banks rose by 5.2 percent or P3 billion from the end-1986 level to P7.1 billion as of end-September 1987 (Table A-16).

Loans to the agricultural sector rose by 0.4 percent or P0.02 billion over the nine-month period to reach P5.5 billion or 77 percent of total loans outstanding of rural banks. Commercial and industrial loans which made up for 9.7 and 3.0 percent of total loans likewise rose by 21.8 and 9.2 percent, respectively, while other loans which accounted for 10.6 percent of total loans grew by 34.0 percent.

Table 12. AVERAGE RESERVE POSITION OF COMMERCIAL BANKS¹
1986-1987
(In Million Pesos)

| Item | 1987 | 1986 | Percent Change |
|------------------------------------------------------------|------------------|------------------|----------------|
| Deposit Liabilities | 118,921.2 | 117,433.1 | 1.3 |
| Available Reserves | 22,335.1 | 21,677.8 | 3.0 |
| Deposit Balances with the Central Bank | 15,312.8 | 15,919.6 | -3.8 |
| Cash in Banks Vaults | 3,749.9 | 2,292.8 | 63.6 |
| Government Securities | 3,265.7 | 3,462.7 | -5.7 |
| Foreign Balances | 6.7 | 2.7 | 148.1 |
| Required Reserves | 22,071.4 | 22,067.6 | 0.02 |
| Excess/(Deficiency) (-) | 263.7 | -389.8 | |
| Liquidity Ratio (In Percent of Deposit Liabilities) | | | |
| Available Reserves | 18.8 | 18.5 | |
| Required Reserves | 18.6 | 18.8 | |
| Excess/(Deficiency) (-) | 0.2 | -0.3 | |

¹ Simple average of weekly averages

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

Domestic Interest Rates

In 1987, the average nominal interest rates on borrowing and lending instruments of banks posted substantial declines from their respective averages in 1986. The decline reflected the accommodative stance of monetary policy as well as the maintenance of a single-digit inflation rate throughout the year. Real interest rates declined but remained at positive levels. On a monthly basis, market rates showed gradual increases in response to the acceleration in the inflation rate and the uncertainties generated by the aborted coup attempt in August.

Commercial Bank Borrowing and Lending Rates. Nominal interest rates on traditional savings and time deposits (all maturities) dropped by an average of 3.5 and 5.0 percentage points respectively over the previous year to average at 4.5 and 9.8 percent. Similarly, rates on short-term promissory issues of banks (MRRs) across all maturities dropped by 3.1 percentage points to 9.3 percent. The general decline in the borrowing rates of banks was indicative of the relative ease in market conditions and the continued improvement in banks' reserve position during the year. On a monthly basis, however, the nominal rates on time deposits and short-term promissory issues of banks registered gradual increases mainly in response to the uptrend in inflation rate.

The average nominal rate in the interbank call loan market (IBCL) likewise dropped by 0.4 percentage point from the previous year's level to 12.0 percent in 1987 reflective of the generally liquid condition of banks during the period.

With lower cost of borrowings, banks' average nominal lending rates dropped during the year which development helped encouraged the growth in private sector credits. The average nominal lending rate on secured loans for all maturities at 13.3 percent in 1987 was lower by 4.1 percentage points than the 1986 level. On a monthly-average basis, the nominal lending rate on secured loans dropped during the first nine (9) months but rose thereafter to reach 16.8 percent in December 1987 consistent with the increase in borrowing costs during the period.

Rates on Central Bank/Treasury Bills. Nominal yields on both Central Bank and Treasury bills, two important instruments used in managing liquidity, exhibited substantial declines during the period. The average yield on CB bills for all maturities dropped to 10.8 percent in 1987 from 19.1 percent in 1986. Similarly, the average yield on Treasury bills (all maturities) was reduced to 12.9 percent from 16.0 percent even as the government stepped up its flotation of securities to finance its budgetary deficit and support open market operations.

Central Bank Lending Rates. Except for the rates on overdraft and rediscount windows which remained relatively stable at 21.5 and 10.0 percent, nominal lending rates on Central Bank credit facilities declined consistent with the movement in market rates. Rates on regular term and reverse repurchase agreements at 13.7 and 11.6 percent fell by 6.4 and 1.6 percentage points, respectively while the rate on emergency loans and advances which averaged at 18.4 percent in 1986 dropped to 13.2 percent in 1987 (Table A-17).

Figure 10. **LENDING RATES ON SECURED LOANS**
(All Maturities)

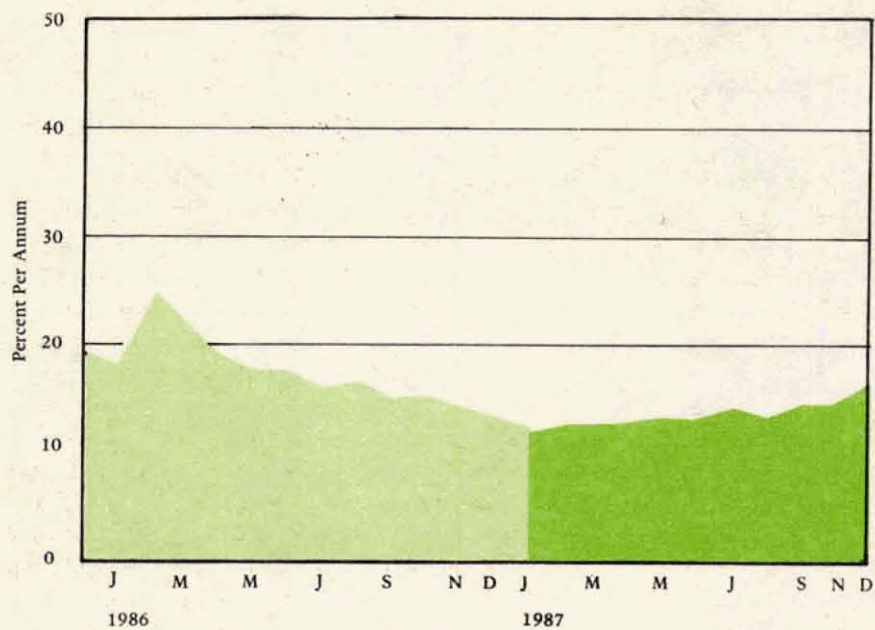
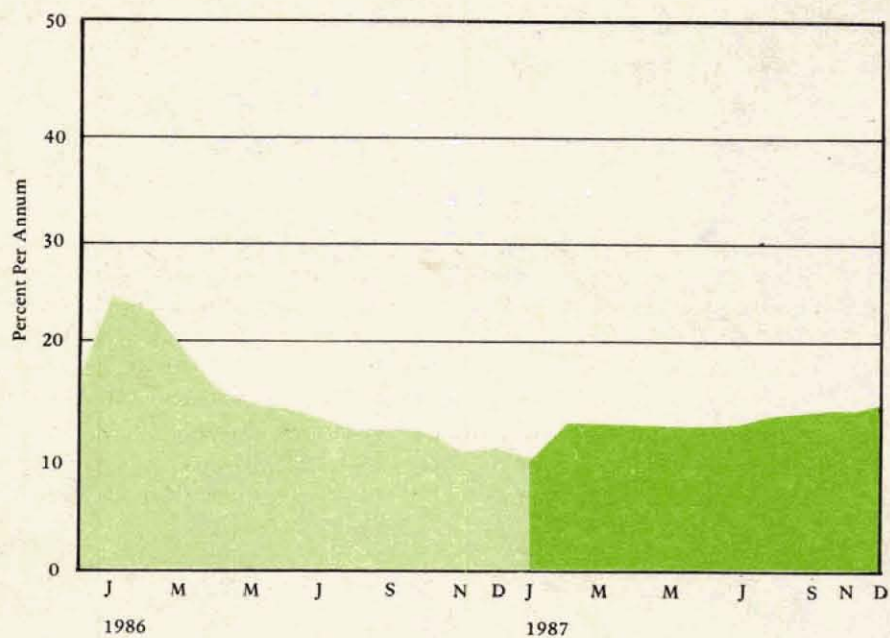


Figure 11. **RATES ON TREASURY BILLS**
(All Maturities)



FINANCIAL SYSTEM

Number and Resources of Financial Institutions

In 1987, the number of financial institutions (head offices, branches and extension offices) rose by 397 units or by 6.5 percent to 6,506 units at end-1987 (Table A-20). The increase was principally due to the establishment of non-banking institutions, particularly finance companies, lending investors and pawnshops which offset the closure of one commercial bank, a number of thrift banks and rural banks. Of the total number of financial institutions at end-1987, 54.6 percent were banks, mostly commercial banks and rural banks, while 45.4 percent were non-banks.

Total resources of the financial system amounted to P450.1 billion at end-1987, up by P33.0 billion or 7.9 percent from the end-1986 level (Table 13). The growth in resources was attributed largely to the P26.0 billion expansion in the resource base of commercial banks as credits rose markedly particularly to the private sector. Increases were likewise recorded in the resource bases of non-banks (P6.5 billion) and thrift banks (P1.9 billion) due respectively to the growth in investments and in loans and discounts. Similarly, the aggregate resources of rural banks rose by P0.4 billion with the infusion of the additional capital required from participating institutions under the rehabilitation program for rural banks. Meanwhile, specialized government banks registered a P1.8 billion decline in resource base reflecting essentially the reduction in National Government deposits with these institutions following the gradual implementation of the policy limiting the deposits of the National Government with banks other than the Central Bank to working balances.

Commercial banks comprised the bulk or 61.0 percent of the total resource base of the financial system, followed by non-bank financial institutions (26.5 percent), specialized government banks (5.9 percent), thrift banks (4.4 percent) and rural banks (2.2 percent).

With the increase in the number of financial institutions, the total paid-in capital of the financial system grew by P0.8 billion to P34.5 billion at end-1987 due mainly to the P9.6 billion expansion in the paid-up capital of commercial banks. Of the total paid-up capital of the financial system at end-1987, non-bank financial institutions accounted for 40.0 percent; commercial banks, 39.4 percent; specialized government banks, 12.8 percent; thrift banks, 4.6 percent and rural banks, 3.2 percent.

Table 13. TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM¹
As of End 1986-1987
(In Million Pesos)

| Institution | 1987 | 1986 | Percent Change |
|-----------------------------------|------------------------------|------------------------|----------------|
| Total | 450,121.1^P | 417,083.3 | 7.9 |
| Commercial Banks | 274,562.2 ^a | 248,526.5 ^a | 10.5 |
| Thrift Banks | 19,557.4 | 17,652.3 | 10.8 |
| Savings Banks | 10,534.1 | 8,124.4 | 29.7 |
| Private Development Banks | 5,474.5 | 5,624.5 | -2.7 |
| Stock Savings & Loan Associations | 3,548.8 | 3,903.4 | -9.1 |
| Specialized Government Banks | 26,743.1 ^{aP} | 28,555.7 ^a | -6.3 |
| Rural Banks | 9,791.0 ^b | 9,350.5 | 4.7 |
| Non-Bank Financial Institutions | 119,467.4 ^P | 112,998.3 | 5.7 |

¹Excluding the Central Bank

^aAfter transfer of selected assets and liabilities of one commercial bank and one specialized government bank to the National Government.

^bAs of September 1987

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

Deposit Liabilities of the Banking System

Total peso and foreign currency deposit liabilities of the banking system as of end-1987 aggregated P179.2 billion, 7.8 percent higher than the end-1986 level (Table A-21). The slowdown in deposit growth despite the improvement in national income was indicative of the public's preference for currency and other forms of financial assets such as government securities, which offered relatively higher yields.

Despite the closure of one commercial bank, commercial banks as a whole recorded the highest increment in deposit liabilities of P13.8 billion followed by thrift banks and rural banks, registering increases of P2.1 billion and P0.6 billion, respectively. On the other hand, total deposit liabilities of specialized government banks declined by P3.5 billion due to the drawdown in National Government deposits following the issuance of CB Circular No. 1121 dated November 14, 1986 which provided that National Government funds placed with authorized government and private banks be limited to working balances in accordance with the policies of the Ministry of Finance. Funds in excess of working balances were required to be deposited with the Central Bank.

Of the total deposit liabilities of the banking system, 84.7 percent were accounted for by commercial banks; 8.4 percent by thrift banks and the balance of 6.9 percent by specialized government banks and rural banks.

By component, savings and demand deposit liabilities of the banking system grew by P12.8 billion and P3.1 billion, respectively. In contrast, time deposits fell by P3.0 billion, reflecting the shift in depositors' preference towards more liquid financial assets and holdings of government securities.

Foreign Currency Deposit System

Despite the closure of one commercial bank and one development bank, the total resource base of Foreign Currency Deposit Units (FCDUs) after transfer of selected accounts of one commercial bank to the National Government amounted to \$2,754 million at end-1987, an increase of 1.5 percent or \$40 million than its previous year's level. The improvement was accounted for by the increase in deposits received by the FCDUs of \$93 million during the latter part of the year following the issuance of Circular 1163 on November 23, 1987 allowing the deposit of foreign currency notes, coins and traveller checks in foreign currency accounts.

Placements/lendings of FCDUs grew by \$141 million to \$2,547 million due to the \$200 million increase in placements with banks which more than offset the \$59 million decline in placements with non-banks.

Net earnings after taxes of FCDUs amounted to \$149 million reflecting a considerable gain of \$137 million from the 1986 level (Table A-22).

Offshore Banking System

As of end-1987, gross resources of the 22 operating Offshore Banking Units (OBUs) aggregated \$3,367 million, a decline of 13.7 percent or \$533 million from \$3,900 million at end-1986. The downtrend in resources of OBUs was due to the contraction in deposits and borrowings of \$555 million, particularly from the OBUs' head offices and branches abroad.

Placements and lendings of OBUs dropped by \$533 million to \$3,291 million. Placements with banks which accounted for the bulk or 65.7 percent of the total fell by \$528 million while placements with non-banks dropped by \$5 million.

OBU operations during the year resulted in net earnings after tax of \$38 million, a \$27 million improvement compared with the previous year. Gross earnings dropped by \$20 million but expenses posted a higher decline of \$47 million (Table A-23).

MONEY AND CAPITAL MARKETS

Money Market

During the year, the volume of money market transactions declined to P460.9 billion, P62.6 billion lower than the previous year's level. This is a reversal of the uptrend in money market transactions in 1986. Developments in the money market may be traced to the continued relaxation in monetary policy and the increase in direct lendings by deposit money banks which reduced the demand

for money market funds. In particular, interbank call loans, which comprised the bulk or 37.5 percent of total volume of transactions, declined by 14.2 percent, reflective of the generally liquid condition of banks during the year. Private repurchase agreements registered a 93.7 percent drop in the volume of transactions from P46.1 billion in 1986 to P2.9 billion in 1987. This was in contrast to the significant increments registered during the past two years. Similarly, volume of government repurchase agreements posted a decline of 89.2 percent from P7.9 billion in 1986 to P0.9 billion in 1987. Transactions on promissory notes also decreased by 17.4 percent from P158.7 billion to P131.1 billion. Trading in CBCIs posted the lowest volume of transactions of only P2 million vis-a-vis P23 million in 1986 with the continuing efforts of the Central Bank to phase out its own issues and to give way to Treasury issues as primary instruments for open market operations. Consequently, the volume of transactions in Treasury bills amounted to P96.6 billion, 73.4 percent higher than in 1986.

Meanwhile, the weighted average interest rate of all money market instruments, except for commercial papers (financial) and DBP bonds registered declines ranging from 0.394 percentage point for interbank call loans to 11.7 percentage points for Central Bank Certificates of Indebtedness (CBCIs) (Table A-24).

With the phase out of CBCIs, these open market instruments CBCIs were traded at a relatively low WAIR of 5.3 percent. Repurchase agreements (government), on the other hand, registered the highest rate at 13.7 percent. The WAIRs for interbank call loans dropped from 12.572 percent in 1986 to 12.178 percent in 1987; Treasury bills from 13.741 percent to 10.597 percent; and promissory notes, from 13.581 percent to 9.562 percent, respectively.

Capital Investments

In 1987, 53,307 new business organizations were registered. The total capital investments of the new registrants amounted to P8,050.9 million or 49.3 percent higher than in the past year. The improvements may be attributed to better business climate and the resurgence in consumer demand. Single proprietorships, accounting for 84.9 percent of the total number of firms, infused P4,875.5 million in paid-up capital. Corporations and partnerships contributed P2,970.3 million and P205.1 million, respectively. Capital investments of single proprietorships, partnerships and corporations posted respective increments of 28.5 percent, 32.5 percent and 105.7 percent from 1986.

By nationality, Filipinos continued to be the prime investors, contributing P7,852.3 million or 97.5 percent of total capital investments. The Chinese and the British investors contributed P61.8 million and P37.3 million, respectively, with a combined share of 1.1 percent. A significant development was that, all investments classified by nationality increased, suggesting the positive impact of government efforts to attract foreign investments, one of which was the signing of the Omnibus Investments Code during the third quarter. This code aligned incentives extended to foreign investors with those provided by other ASEAN countries.

By regional distribution, 72.9 percent of capital investments were accounted for by new enterprises located in the National Capital Region, 8.1 percent from Southern Tagalog and 6.1 percent from Central Luzon, showing that the NCR and nearby regions continued to be the centers of business activity.

Capital investments were mostly channelled to wholesale and retail trade (34.9 percent), financing, insurance, real estate and business services (19.5 percent), and manufacturing (18.0 percent). The largest increments in investments were attributed to mining and quarrying (94.1 percent), manufacturing (99.8 percent), electricity, gas and water services (97.1 percent), financing, insurance, real estate and business services (96.1 percent). These may have been brought about by the continued rise in world prices of gold and copper, robust consumer spending and renewed confidence in the economy (Table 14).

**Table 14. CAPITAL INVESTMENTS OF NEWLY REGISTERED
BUSINESS ORGANIZATIONS, BY INDUSTRY
1986-1987
(In Million Pesos)**

| Industry | 1987 | 1986 | Percent Change |
|------------------------------------------------------------|----------------|----------------|-------------------|
| Total | 8,050.9 | 5,393.8 | 49.3 |
| Agriculture, Fishery and Forestry | 328.5 | 253.6 | 29.5 |
| Mining and Quarrying | 73.0 | 37.6 | 94.1 |
| Manufacturing | 1,450.4 | 726.1 | 99.8 |
| Construction | 621.1 | 553.3 | 12.3 |
| Electricity, Gas and Water | 6.7 | 3.4 | 97.1 |
| Wholesale and Retail Trade | 2,811.2 | 2,071.8 | 35.7 |
| Financing, Insurance, Real Estate and Business Services | 1,572.9 | 802.1 | 96.1 |
| Transportation, Storage and Communication | 447.8 | 292.9 | 52.9 |
| Community, Social and Personal Services | 739.3 | 653.0 | 13.2 |

Sources: Securities and Exchange Commission and Department of Trade and Industry

Stock Market

Stock Market activity during 1987 was bullish in general as the political situation improved with the ratification of the Constitution in February and the holding of the congressional and senatorial elections in May. However, during the latter part of the year, stock market transactions plunged after the August 28 coup attempt and the global impact of the "Black Monday" crash in the U.S. in mid-October. In December, however, the stock market rallied anew as a result of improved copper and gold prices, expectations of higher corporate profits, better peace and order conditions and improved international economies. As a whole, total stock market transactions for 1987 increased by 438.7 percent and amounted to 315.7 billion shares valued at P31.5 billion.

Commercial and industrial issues, while registering a share of only 0.2 percent or 594 million shares of total volume traded, accounted for 30.6 percent of total value of transactions and represented an increase of P1.7 billion or 22.0 percent over its value in 1986.

The mining sector, with a share of 38.0 percent or 119.9 billion shares of the aggregate volume traded, accounted for the bulk of the total value of stock market transactions. This represented a five-fold increase from 1986 in terms of both volume and value of transactions as the world prices of copper and gold showed marked improvements.

Trading activities in oil shares remained relatively active during the year. This was reflected in the more than five-fold or 161.4 billion shares increase in stocks traded in 1987 as compared with those in 1986, which, at 195.2 billion shares, comprised the bulk or 61.8 percent of the total volume of transactions in 1987. Total value of these stocks amounted to P6.6 billion, representing an almost 18-fold increase over the P358 million peso value traded in 1986. This resulted from the expected increases in drilling activities lined up for the coming year by the various oil drilling consortia (Table A-25).

PUBLIC FINANCE

Cash Operations of the National Government

Cash operations of the National Government in 1987 resulted in a budgetary deficit of P19.6 billion, P11.7 billion or 37 percent lower than the deficit in 1986 and P5.9 billion or 23 percent below the program level for the year of P25.5 billion. The deficit/GNP ratio was 2.8 percent, a decline from the 5.1 percent ratio in 1986 (Table 15).

Total revenues at P103.1 billion were P23.8 billion or 30 percent higher than those in the previous year and exceeded the program target by P1.1 billion. Higher revenues were recorded from income taxes (P2.6 billion), taxes on domestic goods and services (P9.3 billion) and taxes and duties on importations (P9.0 billion) as the general improvement in the economy was reflected in higher income levels, increased personal consumption expenditures on both domestic and imported goods and services and higher industrial production levels. Also contributing to the increase in tax revenues was the withdrawal of tax exemption privileges of government and private entities under Executive Order No. 93. On the other hand, non-tax revenues fell short of the target by

P3.4 billion primarily due to lower-than-program proceeds from foreign grants and receipts/collections of fees from government offices

Expenditures totalled P122.7 billion, an increase of P12.2 billion or 11 percent over the 1986 level but lower than the program level by P4.8 billion. This was due primarily to the lower spending on capital outlays, particularly infrastructure and other capital outlays (P1.2 billion and P1.3 billion, respectively) and current operating expenditures, particularly maintenance and other operating expenses (P2.5 billion) and tax expenditures (P2.3 billion), which offset the overspending for equity. The underspending in capital outlays and maintenance and operating expenditures may be traced to the delayed implementation of the Comprehensive Agrarian Reform Program (CARP), the underutilization of funds in government depository banks due to procedural difficulties with the new disbursement scheme, the slowdown in the execution of foreign

Table 15. NATIONAL GOVERNMENT CASH OPERATIONS¹
1986-1987
(In Million Pesos)

| Item | 1987 ^P | 1986 |
|--------------------------|-------------------|---------|
| I. Revenues | 103,097 | 79,245 |
| Tax Revenues | 85,821 | 65,491 |
| Non-Tax Revenues | 17,276 | 13,754 |
| II. Expenditures | 122,682 | 110,497 |
| Current Expenditures | 98,697 | 66,921 |
| Capital Expenditures | 12,551 | 11,715 |
| Net Lending/Equity | 11,434 | 27,452 |
| Transferred Accounts | - | 4,409 |
| III. Surplus/Deficit (-) | -19,585 | -31,252 |
| Percent of GNP | -2.8 | -5.1 |
| IV. Financing | 19,585 | 31,252 |
| Net External Borrowing | 6,129 | 3,580 |
| Net Domestic Financing | 13,456 | 27,672 |
| Banking System | -29,054 | -3 |
| Monetary Authorities | -34,067 | -5,217 |
| Deposit Money Banks | 5,013 | 5,214 |
| Non-Banking System | 42,510 | 27,675 |

¹Per IMF definition, after transfer of selected accounts of PNB and DBP

^PPreliminary; based on the February 23, 1988 report of the Bureau of Treasury

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

assisted projects due to bottlenecks in implementation and fund reimbursement, and the election ban on new construction projects which took effect in December. On the other hand, the higher-than-program level of equity resulted mainly from higher equity releases to two major non-financial government corporations.

The National Government deficit was financed largely from domestic sources, particularly from the sale of Treasury bills to the non-bank public.

Figure 12. NATIONAL GOVERNMENT DEFICIT

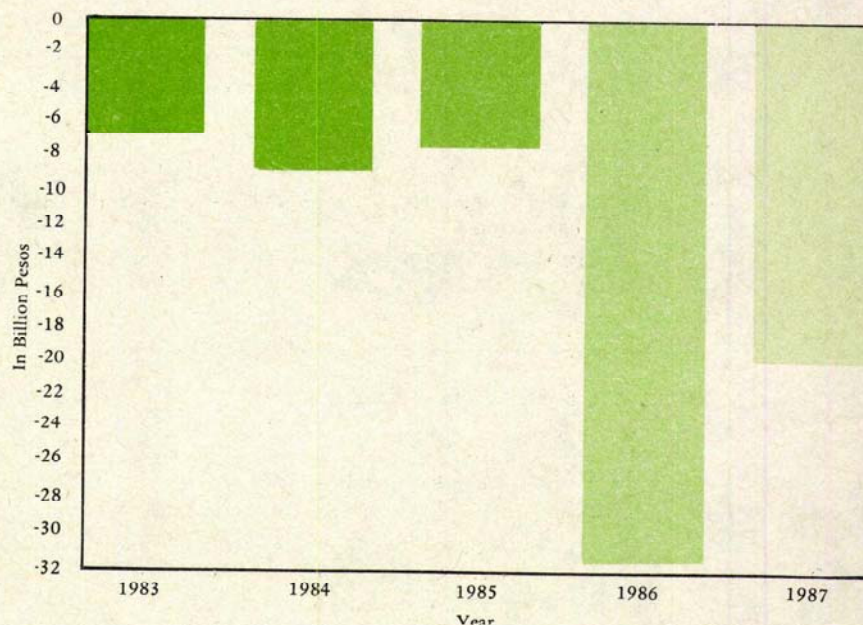


Figure 13. TOTAL GOVERNMENT EXPENDITURES
By Use, 1987

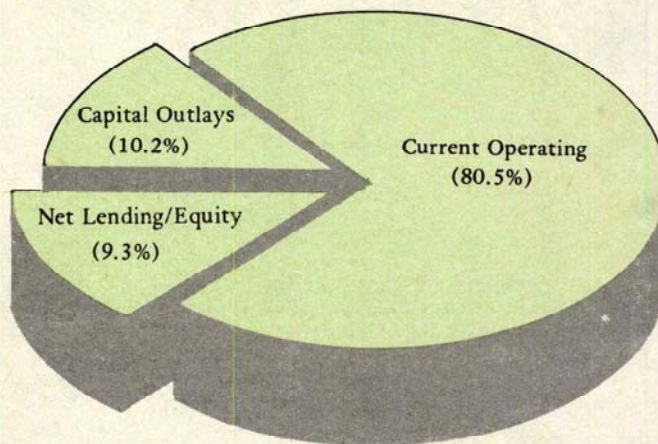
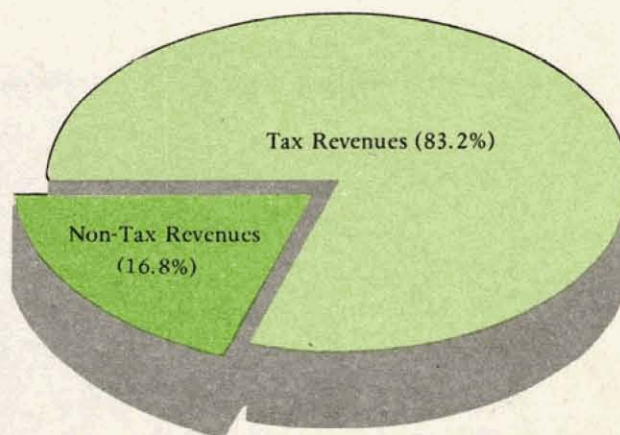


Figure 14. TOTAL GOVERNMENT REVENUES
By Source, 1987



Public Internal Debt

As of end-December 1987, the outstanding internal debt of the public sector stood at P162.6 billion, an increase of 12.7 percent from the end-1986 level.

The National Government's share to total outstanding public internal debt at end-1987 rose to 94 percent from 75 percent at end-1986, due primarily to the increase in the issuance of Treasury securities to finance its budgetary deficit and to build up its deposit balances with the CB in support of the monetary program. On the other hand, the share of monetary institutions declined to 0.4 percent from 16.4 percent at end-1986 due mainly to the phase out of CB bills. Likewise, the share of government corporations declined slightly to 6 percent from 8.6 percent at end-1986 following the assumption by the National Government of loans of government financial institutions which underwent rehabilitation and the redemption of certain guaranteed government corporate securities (Table A-26).

REAL SECTOR

Production

The Philippine economy showed an accelerated growth performance in 1987. Gross domestic product (GDP) at 1972 prices, as a measure of the value of final goods and services produced in the country, amounted to P94.9 billion growing by 4.6 percent annually compared to 1.1 percent in 1986 and -4.4 percent in 1985. With net factor payments of P1.3 billion taken into account, the resulting gross national product (GNP) registered an expansion of 5.1 percent in real

terms during the year compared to the 1.5 percent increase in 1986 (Table A-27). All major segments of the economy posted positive growths with industry emerging as the lead sector in responding positively to the policy measures pursued to induce economic demand. The gains achieved by the productive sectors were reflective of favorable developments during the year, specifically, the renewed confidence in government by private investors and the relative stability in exchange, inflation and interest rates.

In terms of sectoral performance, industry which comprised about 32 percent of GDP recovered significantly at the rate of 7.9 percent following two years of consecutive declines. Except for mining and quarrying, all other industrial components posted marked output expansion as in construction (15.9 percent), electricity-gas-water (8.3 percent) and manufacturing (7.4 percent). Production of the mineral industry declined though at a much slower rate of 2.4 percent than the 11.9 percent slump registered a year ago.

Comprising the bulk of domestic production with 39 percent share to GDP, the services sector similarly showed a creditable performance with an annual rate of growth of 4.8 percent in 1987 or more than twice the increment posted in the preceding year. All its subsectors charted gains with relatively higher increments achieved in government services (8.4 percent) and housing and finance (6.6 percent).

In 1987, the agriculture, fishery and forestry group showed a decelerated growth rate of 0.7 percent as compared to the 3.7 percent increase in the preceding year. The slowdown was mainly attributed to the reduced food crop production of more than 1 percent due to the prolonged dry spell and the typhoons that occurred in the third quarter of 1987 in the outlying regions of the country. The adverse weather as well as the intensified implementation of log cutting regulations likewise affected forestry output which dropped by 0.9 percent during the same period. The continuing decline in forestry activity more than offset the gains registered in livestock, poultry and fishery.

Figure 15. GROSS NATIONAL PRODUCT
(Annual Growth Rates)
(At Constant 1972 Prices)
1983-1987

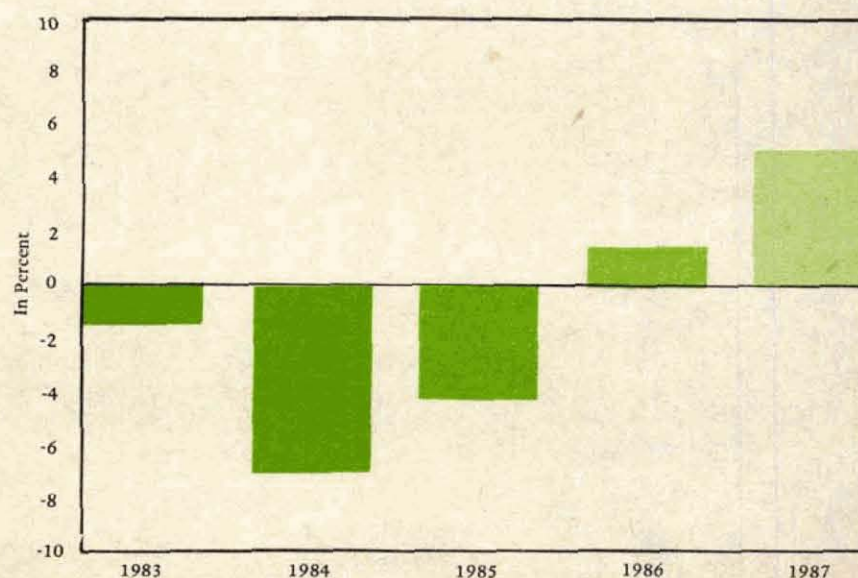
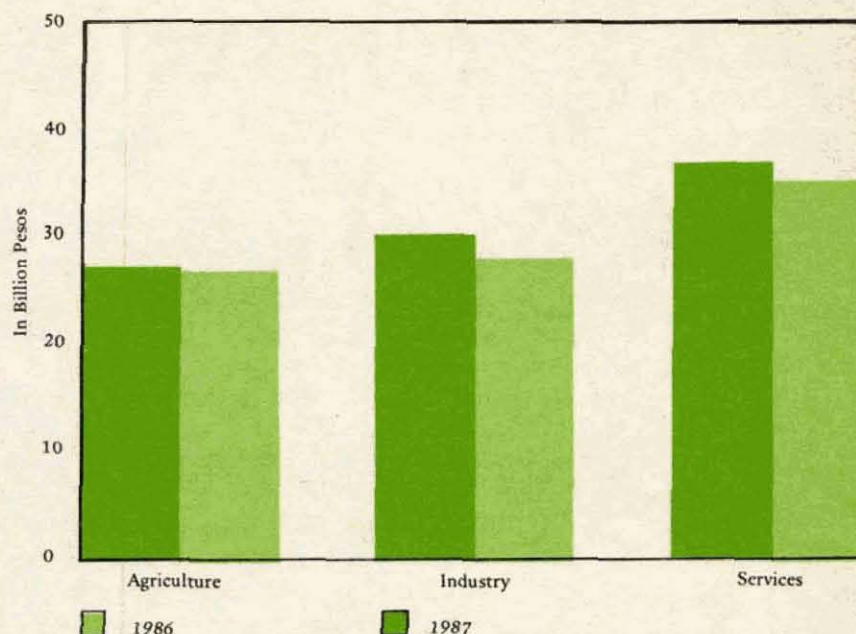


Figure 16. GROSS NATIONAL PRODUCT
By Industrial Origin, 1986-1987
(Levels at Constant 1972 Prices)



Employment

Developments in the labor front as indicated by the labor force survey of the Department of Labor and Employment and National Statistics Office for 1987 showed the country's workforce reaching close to 23 million, an increase of 4.6 percent over the 1986 level. Out of this total, the number employed reach 20.1 million, up by about a million or 5.1 percent from that of the previous year thereby, outpacing the 4.6 percent expansion of the labor force in 1987. With the improved business climate and industrial peace efforts in 1987, the employment rate rose to 88.7 percent from 88.2 percent; and consequently, reduced the unemployment rate to 11.3 percent from 11.8 percent in 1986.

The improved employment situation in 1987 was boosted by the substantial drop in the number of establishment shutdowns to 742 in the January-November period or more than 25 percent lower than the 1,013 closures recorded a year ago. Workers laid-off correspondingly decreased by 43.6 percent to 26,031 from 46,159 in 1986. In the same period, the number of strikes reported fell by 20.8 percent to 473 thus reducing by nearly 50 percent to 88,000 the number of workers involved.

Intensified government efforts to bolster domestic employment particularly in rural areas were reflected in the vigorous implementation of the Community Employment Development Program (CEDP) which as of December 1987 generated 16,145,222 man-days equivalent to 259,062 new jobs from 18,353 completed and 10,462 on-going projects. The government campaign to deploy workers abroad during January-November 1987, likewise, raised placements to 416,177 or an increase of 10.0 percent over the corresponding level of 378,214

in 1986. The deployed land-based group that constituted more than 85 percent of the aggregate increased by 9.9 percent to 335,451, while the sea-based category upped by 11.0 percent to 60,726 during the same period.

In 1987, information from the National Economic and Development Authority (NEDA) showed that the agricultural sector remained the major employer of the country absorbing nearly half of the total employed force, followed by the service group with 37.3 percent. While the share of the industry sector was only 14.1 percent, it, nonetheless, posted the highest growth of 7.9 percent in the number employed during the period.

Prices

Domestic inflation, as measured by the annual change in the Consumer Price Index for the Philippines (1978=100), averaged 3.8 percent in 1987. This was higher than the 0.8 percent obtained in 1986 when the deflationary trend in consumer prices prevailed in the second half of the year through the first quarter of 1987. Thereafter, inflationary pressures began to build up reaching a peak of 7.5 percent in December 1987. Prices rose more in the metropolitan area at 6.7 percent compared to 3.2 percent in outlying areas (Table A-28).

The rise in consumer prices was attributed to factors such as: (a) the resurgence of consumer demand brought about by increased purchasing power; (b) food supply bottlenecks resulting from the prolonged drought and adverse weather conditions; (c) the hike in domestic oil prices in August 1987; (d) speculative activities following the failed coup attempt in late August; and (3) the weakening of the peso in the latter part of the year.

The food-beverage-tobacco index, which comprised the bulk or about three-fifths of the consumer basket, increased by 4.2 percent during the year in contrast to the 0.9 percent decline registered in 1986. The drought-related shortfall in agricultural harvests, particularly of the heavily-weighted rice and corn, contributed to this upsurge. Meanwhile, the cost of non-food items rose by 3.3 percent, or slightly higher than the previous year's 2.8 percent, with the largest increment accruing to housing and repairs and rentals (5.0 percent); services (3.2 percent); clothing (3.1 percent); miscellaneous items (3.0 percent); and utilities (1.8 percent).

The average annual inflation rate for 1987 was well within the programmed level of 4.5 percent which may be attributed to a number of measures undertaken by the government to keep domestic inflation as low as possible such as: (a) the reduction in the rates of import duties on imported crude oil from 20 percent to 10 percent *ad valorem* and of excise taxes on indigenous petroleum from 22 percent to 10 percent of its fair international market price; (b) the importation of rice together with the institution of a Rice Production Enhancement Program to beef up buffer stocks in the wake of the drought-induced shortfall in rice harvest; (c) cautious liquidity management by the Central Bank; and (d) the revision of rules relating to foreign exchange transactions such as the prohibition of off-floor trading transactions, and of the regulation covering purchases of Philippine debt paper by commercial banks to help quell the speculative pressures on the exchange rate.

Figure 17. ANNUAL INFLATION RATES
1986-1987

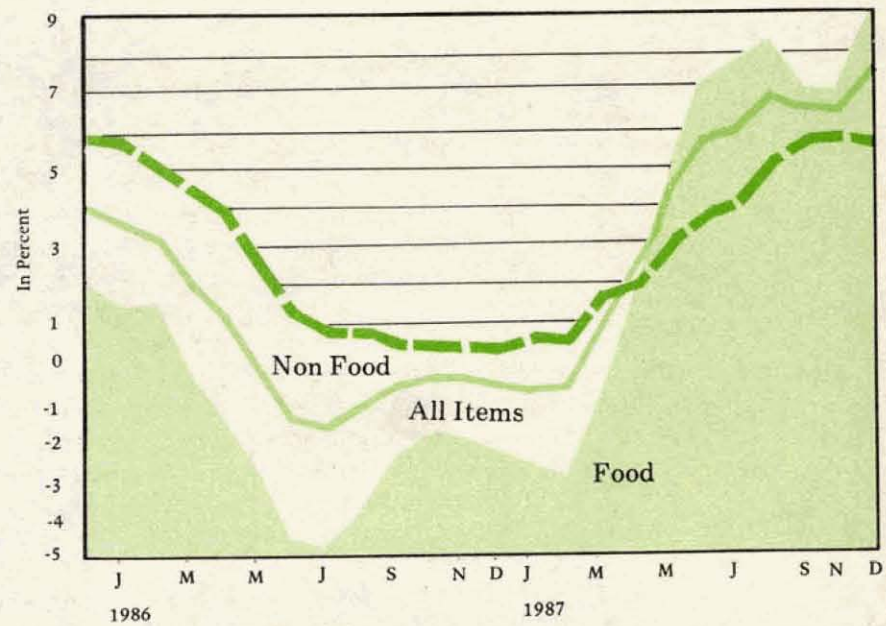
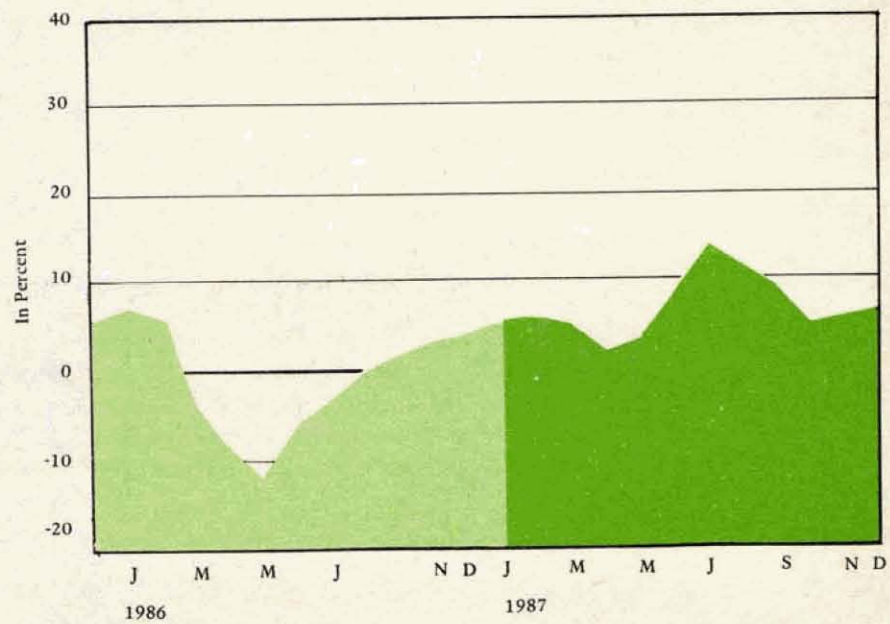


Figure 18. ANNUALIZED INFLATION RATES
(Three Month Moving Basis)
(All Items)
1986-1987



Given a relatively favorable external environment, the prospects are good for sustained economic growth in the coming year. All the vital economic sectors such as manufacturing, agriculture, mining, construction and services are expected to register impressive gains in investment which in turn will lead to increased productivity and higher levels of employment and income. GNP growth rate for 1988 is projected at 6.2 percent.

As the atmosphere of crisis dissipates with the strong upturn in economic activity, business confidence is expected to strengthen. A Central Bank Survey of Business Expectations conducted on some 386 firms in Metro Manila in September 1987 indicated that, along with the expectation of generally stable interest and peso/dollar rates, businessmen expected continuing increases in sales revenues, profitability, employment and capital utilization during the first semester of 1988. About 42 percent of respondent firms are expected to carry out expansion plans, 40 percent had no expansion plans because they are either undertaking a major replacement program or are planning to merge with other companies, and the remaining 18 percent had no definite answer. The large percentage of surveyed firms with expansion/merger plans points to accelerated investment activity by the private sector in the forthcoming year.

For 1988, the Central Bank will continue to foster a climate of financial stability that will sustain economic expansion. It will continue to implement appropriate exchange rate, interest rate and credit policies that will encourage a shift to an investment-led recovery after the consumption-led growth of the previous year.

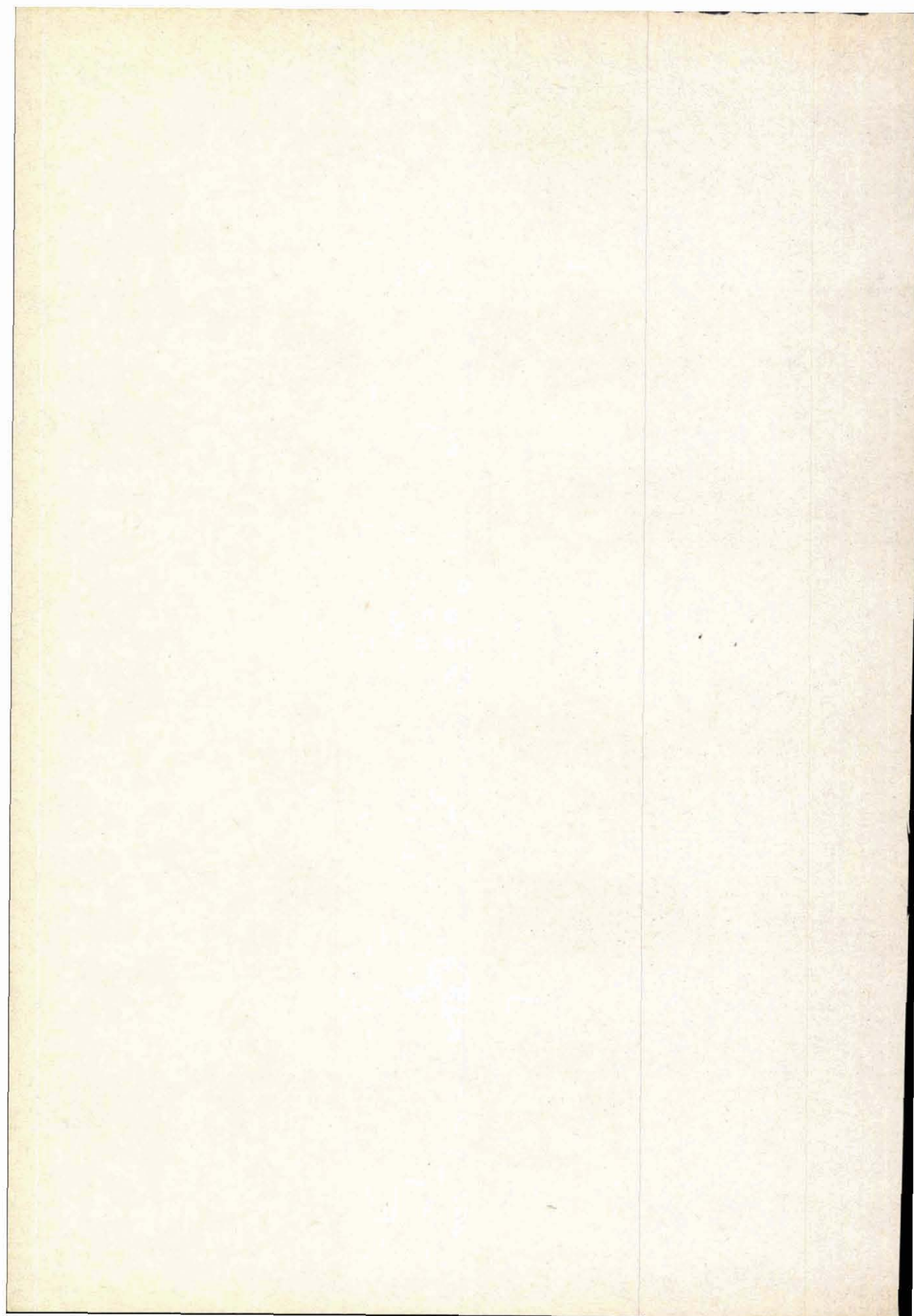
Monetary and credit policies will aim to provide positive rates to savers in order to mobilize domestic savings and favor deregulation, competition and market orientation to increase the efficiency of financial intermediaries. The accommodative policy stance will maintain lending rates at affordable levels in order to assure the flow of credit resources to the various sectors of the economy. Monetary policy will continue to be cautious with some flexibility in respect to the achievement of monetary targets given the inflationary effect of debt-to-equity conversions. The debt-to-equity program will be the subject of continuous evaluation and review to minimize its monetary impact while enhancing its usefulness in easing the debt service burden and providing incremental spark to domestic economic activity. The close monitoring of monetary aggregates will continue to keep inflation at single-digit levels within the year.

In the external sector, foreign exchange policies will continue to maintain a sustainable external payments position. A competitive exchange rate will be maintained in support of exports. Gross international reserves of the Central Bank are projected to be kept at a comfortable level relative to the country's import requirements.

External debt management will continue to be directed at improving the country's creditworthiness and reducing the debt service burden. The second round of rescheduling would bring about amendments to the guidelines covering the rescheduling/consolidation to incorporate the better terms of the agreement. The Philippine authorities will negotiate for a new round of rescheduling of debts under the Paris Club since the current agreement covers only debt maturing up to June 30, 1988. In this third round of rescheduling, it is expected that better if not similar terms will be availed of by the country.

The implementation of the first phase of the Import Liberalization Program will end in April 1988 with the liberalization of the last 129 scheduled items. With regard to the second phase of the program which is proposed to start in 1988, a comprehensive review of 673 items has already been undertaken and specific listings made. Items recommended for liberalization include brand new trucks and engines, spare parts, machinery and equipment for the pulp and paper industry, glassware/dinnerware/silverware, radio telecommunications equipment, and live animals for breeding and scientific purposes.

The balance of payments is projected to have a higher overall surplus position. The export sector is expected to perform well partly offsetting the projected increase in imports which are expected to be buoyant given the strength of domestic demand. The expansion in exports would be brought about by non-traditional manufactures, particularly garments and electronic and electrical equipment and parts. Minerals, coconut oil and forest products are likewise projected to perform well. Meanwhile, capital goods and raw material imports are likely to increase substantially in response to the expected growth in domestic investments. The non-monetary capital account is projected to post a higher surplus mainly due to net availments of short-term loans, specifically DAs and OAs and under the Trade Facility. Inflows of fresh credits from official sources as well as direct foreign investments are expected to come in 1988. Negotiations for a new economic and financial program supported by the IMF will also be undertaken.



**Part Two :
THE CENTRAL BANK
OF THE PHILIPPINES**

**MONETARY
AND CREDIT
POLICIES**

Monetary and credit policies of the Central Bank in 1987 continued to be accommodative yet cautious, maintaining liquidity at levels necessary for sustaining growth in the economy while preserving price and exchange rate stability. Policies that favored deregulation, competition and market orientation were maintained to improve financial intermediation. Measures to strengthen the financial system were also adopted to facilitate the flow of credit resources to vital sectors of the economy.

Reform of Government Financial Institutions

During the year, efforts to strengthen the financial system included principally the pursuit of a divestment program of government-acquired banks and the reform of government financial institutions. As of end-1987, agreements on the sale of one bank and 40 percent of the equity of another to the private sector were finalized and consummated while the sale of the rest of the government-acquired banks were still under negotiations.

The rehabilitation of government financial institutions (GFIs) began with the revision of their respective charters and the installation of new management teams in two major government banks and was completed with the restructuring of their balance sheets which involved the transfer of accounts generally classified as non-performing to the National Government. Booked on December 31, 1986, the transfers resulted in the reduction in the two banks' share to the total resources of the banking system from 40 percent in 1985 to only 15 percent by end-December 1987.

As of end-1987, transferred assets from the two banks totalled P121 billion while about P134 billion worth of their liabilities were assumed by the National Government. On a net basis, therefore, the total combined reduction in liabilities of the two banks amounted to P13 billion, thereby contributing to the improvement in the financial position of these government banks.

Reserve Requirement

Throughout 1987, continuous review of monetary measures including reserve requirement ratios was undertaken. After a series of reductions in the reserve ratio that followed the adoption of an expansionary policy stance by the Central Bank early in 1986, the reserve requirements were maintained at their August 1986 level, i.e., 21 percent for short-term deposit instruments and 5 percent for long-term as banks continued to post substantial excess reserves. This move notwithstanding, the banks' intermediation index in 1987 declined from 1.871 percent to 0.908 percent due to the downtrend in nominal interest rates.

Open Market Operations

Open market operations continued to be a major instrument in the pursuit of overall monetary policy. The flotations of auctioned T-bills became the primary instruments in the Central Bank's open market operations following the full implementation of the policy of phasing out CB bills. To minimize or offset the expansionary impact of the phase-out of CB issuances, the policy called for the deposit of an equivalent amount of the proceeds of the auctioned issuances with the Central Bank.

Rediscount Window

In contrast to a series of downward adjustments made in 1986, the rediscount rate remained unchanged at 10 percent in 1987. Despite the relatively low rediscount rate, total outstanding rediscount credits of the Central Bank increased by only P0.1 billion during the year to P7.7 billion at end-1987. This was due partly to the improvement in the liquidity position of banks following the relaxation in monetary policy as well as the availability of alternative sources of financing such as the IGLF and the ALF which have enabled them to reduce reliance on the rediscount facility for financing.

Interest Rate

The thrust toward market orientation of interest rates and the elimination of credit subsidies continued to be pursued with low-yielding reserve-eligible government securities gradually being phased-out and replaced with market bearing issues.

During the year, average nominal interest rates on borrowing and lending instruments of banks posted general declines under relatively stable market conditions. In keeping with market rates, the interest rate charged on loan availments under the Agricultural Loan Fund (ALF) window which was set at 10.0 percent in the fourth quarter of 1987 while the rate on loans under the Industrial Guarantee Loan Fund (IGLF) facility dropped from 10.2 percent in March 1987 to 10.0 percent in September 1987.

**Table 16. REQUIRED RESERVES ON DEPOSIT AND
DEPOSIT SUBSTITUTE LIABILITIES OF COMMERCIAL BANKS
1986-1987
(In Percent)**

| Type | December 1987 | December 1986 | August 1986 | May 1986 |
|----------------------------|------------------|------------------|----------------|-------------|
| Deposits | | | | |
| Demand | 21.0 | 21.0 | 21.0 | 22.0 |
| Savings | 21.0 | 21.0 | 21.0 | 22.0 |
| NOW | 21.0 | 21.0 | 21.0 | 22.0 |
| Time Deposits | | | | |
| (Less than 730 days) | 21.0 | 21.0 | 21.0 | 22.0 |
| (More than 730 days) | 5.0 | 5.0 | 6.0 | 6.0 |
| Deposit Substitutes | | | | |
| (Less than 730 days) | 21.0 | 21.0 | 21.0 | 22.0 |
| (More than 730 days) | 5.0 | 5.0 | 6.0 | 6.0 |

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

Strengthening the Financial System

The more important measures adopted included the amendment of rules governing officer interlocks to avoid conflict of interest transactions between banks/quasi-banks and their DOSRI (directors, officers, stockholders and other related interests) accounts and the amendment of existing rules and regulations on financial audits of banks including their trust operations to strengthen internal control of banks/quasi-banks.

In a related move, a rural bank rehabilitation program, involving options that included a capital build-up and conversion scheme and/or a plan of payment for rural banks experiencing financial difficulties, was launched in April 1987 to strengthen the rural banking system and place them in a more viable position to adequately service the banking requirements of the rural sector. As of end-December 1987, some 483 rural banks applied for assistance under the program of which 78 applications were approved for rehabilitation, 5 were not eligible and the rest were undergoing thorough and detailed evaluation and examination.

FOREIGN EXCHANGE POLICIES

Exchange Rate

In support of the economic recovery effort, the Central Bank continued to implement a policy of basically allowing the exchange rate to seek its level from day to day in the foreign exchange market. Under this system, commercial banks were left free to quote their buying and selling rates, and exchange rates determined in negotiations among themselves on the trading floor were openly published. For greater transparency of transactions, the Central Bank recently allowed all interbank sales and purchases of foreign exchange to be conducted on the trading floor starting November 23, in line with the revised rules and regulations of the Bankers Association of the Philippines (BAP) governing foreign exchange trading by commercial banks. The supply of foreign exchange in the market was assured as all receipts from exports of goods and services were to be surrendered to commercial banks, which were free to manage their foreign exchange holdings. On the other hand, all demand for foreign exchange including those of the public sector, were met at the prevailing exchange rates.

During the year, the Central Bank intervened in foreign exchange trading to smoothen steep short-term movements stemming from speculation. The record for 1987 showed that while foreign exchange sales were heavy after August, the Bank had been, on balance, a net purchaser of foreign exchange in the market in the amount of \$419 million.

On the whole, the present system paved the way for a relatively stable peso and minimized the gap between official and curb market rates. The exchange rate of the peso in 1987 remained in line with market conditions, and helped in maintaining equilibrium in the balance of payments.

Import-Export Regulations

The implementation of the Import Liberalization Program (ILP) proceeded as scheduled. Of the 1,232 commodities² programmed for liberalization in different stages starting January 1986 to April 1988, a total of 1,100 items had been liberalized as of end-December 1987. For 1987 alone, the Central Bank lifted controls on 171 items, as follows:

| No. of Items | Issuance | Date |
|--------------|-------------------|-----------------|
| 7 | Circular No. 1128 | January 9, 1987 |
| 12 | Circular No. 1149 | July 1, 1987 |
| 21 | Circular No. 1150 | July 22, 1987 |
| 73 | Circular No. 1161 | Nov. 1, 1987 |
| 58 | Circular No. 1167 | Dec. 24, 1987 |

Of the total commodities liberalized in 1987, 91 consisted of raw materials, 78 intermediate and capital goods, and 2 consumer goods. Liberalization of the remaining 129 items will be effected by end-April 1988.

In addition to the lifting of the requirement that import permits be obtained from the Central Bank or the Board of Investments, the ILP also aimed to achieve a uniform and moderate tariff structure on imports. Thus, last December 29, 1987, Congress submitted to the President for her approval House Bill No. 992³ which proposed tariff adjustments on 209 tariff lines, majority of which were commodities included in the import liberalization program such as agricultural products, iron and steel, artificial resin and plastic materials, and garments.

Safeguards against unfair trade practices were also established in support of the ILP. These included the monitoring of importations of items liberalized since 1986 by requiring commercial banks to submit a daily report on L/Cs opened for such commodities. This procedure allowed the Central Bank to detect any extraordinary surge in the importation of liberalized items and if necessary, immediately adopt corrective measures to quell the surge.

Effective April 1, 1987, the Comprehensive Import Supervision Scheme (CISS) was finally implemented with the hiring of Societe Generale de Surveillance (SGS). Under this scheme, SGS undertook to inspect importations valued at \$5,000 and over originating from Hongkong, Taiwan and Japan to determine, among others, the quantity, quality and prices of commodities prior to shipment to the Philippines. The scheme was initially implemented on May 1, 1986 but was suspended two months later for further re-evaluation. In 1987, the Central Bank upon request by the SGS rendered appropriate commodity classification to 5,107 commodities with an aggregate value of \$104.8 million.

² The list of items subject to liberalization was reduced to 1,229 after removing three high tariff items on sugar which will continue to be regulated.

³ The Bill was signed into law by the President on January 29, 1988; however, proposed tariff adjustments on 73 tariff lines composed of products such as garments, paper and paperboard, matches and ethylene glycol were vetoed.

With regard to exports, a number of promotion measures were implemented in line with the objective of maximizing foreign exchange earnings. One of these was the country- and product-specific national export strategy which was formulated in coordination with the private sector. Under this strategy, the government promoted the marketing and sales of the country's top export product groups to the top 20 export markets. The top export products included garments, electronics, fresh and processed food, toys and housewares, furniture, footwear, leather goods and construction materials. On the other hand, the top 20 markets included the US, Japan, the EEC, the ASEAN, Canada, Australia, Saudi Arabia, and Korea.

To provide financial assistance to exporters, an Export Credit Program for Small and Medium Industries was established in May 1987 in cooperation with five commercial banks. This financing facility made available an aggregate credit line amounting to P34.5 million, together with guarantee coverage amounting to 70 percent or about P24 million.

New quota rules and regulations for garments and coffee exports were formulated in consultation with the private sector to achieve greater transparency and a bias for the small- and medium-scale exporters in the countryside. Moreover, to enable exports to compete more effectively in the world market, exemptions to the 60-day repatriation rule on export proceeds were granted, and the repatriation requirement in these cases extended up to a maximum of 90 days from shipment date. Payment for exports beyond 90 days was allowed only in very meritorious cases. The 1986 Directory of Philippine exporters was also prepared and distributed free of charge to foreign embassies, authorized agent banks, various export associations and prospective foreign buyers. Lastly, the Central Bank certified various firms as export-oriented to qualify them to certain incentives.

Regulation on Invisibles

In 1987, measures were undertaken to further liberalize foreign exchange regulations and simplify/streamline the administration and implementation of regulations on foreign exchange operations.

The proposal to use ASEAN currencies for the purpose of promoting greater intra-ASEAN trade was approved by the Monetary Board through the issuance of Circular No. 1154 dated September 4, 1987. Under this Circular, the list of currencies acceptable as proceeds of and payment for exports was expanded to include the Brunei dollar, Indonesian rupiah and Thai baht. The Singapore dollar and the Malaysian ringgit were earlier included as acceptable currencies. With regard to the use of the Philippine peso, such may be received in payment of exports only if it has been used earlier as payment for imports from any of the ASEAN countries.

To support the policy of the government to create an environment conducive to foreign investments, the Central Bank relaxed the rules governing the minimum initial inward remittance to finance operations of multinational area headquarters based in the Philippines. Under Circular No. 1157 dated September 28, 1987, the minimum amount of foreign exchange to be inwardly remitted within thirty calendar days after the issuance of the certificate of registration by the Securities and Exchange Commission (SEC) was reduced to \$30,000 from \$50,000. However, thirty days after the anniversary date of the approval of the

certificate of registration by the SEC, the aggregate amount of foreign exchange inwardly remitted by the subject multinational company should not be less than \$50,000. Moreover, the requirement that executives of multinationals operating in the Philippines shall convert into pesos a minimum of \$1,000 per month through AABs was revoked. Effective October 6, 1987, the Monetary Board through Circular No. 1159 also revoked the authority granted to the CB Cash Department and regional cash units to exchange for pesos foreign currencies of tourists, balikbayans, etc., including the authority to buy foreign currencies from foreign exchange agents. Authorized Agent Banks (AABs) and Authorized Foreign Exchange Agents (AFXAs) were given exclusive authority to perform such function.

It was also in 1987 when the foreign currency deposit scheme was further liberalized by making eligible for deposit foreign currency notes, coins and traveler's checks (Circular No. 1163 dated November 23, 1987). The move was made to encourage residents especially contract workers and their dependents to surrender their foreign exchange earnings or holdings to the banking system.

SUPERVISION AND REGULATION OF FINANCIAL INSTITUTIONS

Supervision of Banks

A total of 71 head offices of commercial banks, foreign banks, specialized government banks and thrift banks and 253 of their branches and other banking offices were covered by regular bank examinations in 1987. Likewise, regular bank examination on 559 rural banking units were conducted during the year.

Special examinations were also conducted on the following: 1) loan portfolio, 2) credit card operations, 3) computerized application systems, 4) verification of NOW accounts, 5) verification of capital accounts in connection with additional equity investment, and 6) verification of government deposits/funds held and unbooked valuation reserves. A total of 26 head offices and 2 branches of thrift banks and 207 rural banking units were subjected to special examinations.

In addition to these examination functions, the Central Bank performed other general supervisory functions which included: chartering of banking offices, verification of periodical reports, and comptrollership/conservatorship and receivership/liquidation of problem banks.

Regulation of Non-Bank Financial Intermediaries (NBFIs)

A total of 2,724 NBFIs composed of 2,274 head offices and 450 branches were registered with the Central Bank as of December 31, 1987. Of the total, 16 head offices and their 47 branches were licensed to perform quasi-banking functions. As of end-1987, the number of head offices of non-banks with quasi-banking functions (NBQBs) was reduced by two from 18 in the previous year due to the liquidation of one investment house and one financing company. On the other hand, the number of non-banks without quasi-banking functions rose from 1,879 in 1986 to 2,258 head offices in 1987 with the addition of 230 pawnshops, 173 lending investors, five securities dealers/brokers and one investment house.

During the year, 109 examinations were conducted on the head offices and branches of NBFIs including some of their subsidiaries/affiliates. Of these,

52 or 47.7 percent were regular examinations while 57 or 52.3 percent were special examinations which were conducted for purposes of determining the linkages with banks; propriety of dividends declared and investments; and status of operations, among others.

Close monitoring and other activities pertaining to comptrollership, conservatorship, receivership and/or liquidation of problem NBQBs were also pursued during the year.

MANAGEMENT OF INTERNATIONAL OPERATIONS

External Debt

External debt management continued to aim at restoring the viability of the country's external payments position, reducing the debt service burden and improving the country's creditworthiness.

During the year, the Philippine authorities successfully concluded a new debt restructuring agreement with the Advisory Committee of commercial bank creditors. This involved a restructuring of both original maturities falling due during 1987 to 1992 and previously restructured maturities for a period of 17 years, including a grace period of 7-1/2 years; an extension of the \$3 billion Trade Facility to June 30, 1991; and a repricing of the 1985 New Money Facility at an interest margin of 7/8 of one percent over LIBOR, provided the country prepays 4 percent of the New Money Facility during 1987 to 1989 and pays scheduled amortizations from 1990 onwards. The Philippines made its first token payment under the New Money Facility in November 1987 equivalent to 4 percent of the total outstanding amount of \$925 million; and by the end of the year, creditor banks had completed the signing of the restructuring agreement. This implied that all terms of the agreement became operative—the most significant of which was the retroactivity of the reduction in spread for rescheduled debt and new money—thus paving the way for the realization of projected foreign exchange savings from interest rate cuts.

The Philippine government likewise reached an agreement with Paris Club creditors for a second round of rescheduling. This involved the deferment of payment for 10 years, inclusive of a five-year grace period, of 100 percent of principal amortizations and 70 percent of interest on official credits maturing in 1987 and in the first semester of 1988.

With the restructuring of external debt with commercial banks and Paris Club creditors, revisions to the statistical monitoring system were made not only to capture adjustments resulting from the shifting of accounts but also to present comprehensive and updated data. Recent developments regarding the specific prepayment programs which had been devised by the Central Bank since 1985 to operationalize these restructuring agreements are outlined below:

Public Debt Restructuring. Under the Central Bank Restructuring Agreement dated January 10, 1986, as amended, the CB would assume foreign obligations of private corporate sector borrowers under CB Circular No. 1076 and private financial sector borrowers under CB Circular No. 1091, upon delivery of pesos to the CB. When the CB assumes a foreign obligation, the debt is converted to a public sector liability since the CB is a public sector entity. For the year 1987, the Central Bank assumed obligations of \$43.3 million from private corporate borrowers and \$10.7 million from private financial debtors or a total of \$54.0 million.

A couple of issuances were promulgated governing the settlement of foreign exchange liabilities of government corporations whose debt maturities would fall within the period covered by the second round of debt restructuring (January 1, 1987 to December 31, 1992). These issuances were Circular No. 1138 dated April 6, 1987 and Circular No. 1144 dated May 2, 1987. Among the more important provisions of these issuances were the setting up of a payments mechanism for the maturing foreign debt of the National Government and government corporations subject to rescheduling, and the extension by the Central Bank of the necessary forward exchange cover.

Private Financial Sector Debt Restructuring. During the year, a total of \$10.7 million in private financial sector debt was assumed by the CB. This was in accordance with Option 3 of Circular No. 1091, which provides CB assumption of liabilities upon receipt of the peso equivalent of the principal amount of the loan.

Private Corporate Debt Restructuring. Under CB Circular No. 1076, a program for the repayment of foreign currency obligations of private corporations to banks and financial institutions, total eligible debt enrolled under the Program stood at \$1,048.8 million as of December 31, 1987. Classified as to repayment options chosen, these loans were broken down as follows: 59.0 percent enrolled under option 1, where borrower pays the principal amortization when it falls due without a need to restructure the loans; 37.3 percent under option 2, where a borrower with liquidity problems may restructure the loan for at least six months and up to ten years; 3.2 percent under option 3, where a borrower with liquidity problems who prefers to obtain exchange risk protection may avail himself of foreign exchange cover from the Government of up to 75 percent of the debt; and 0.5 percent under option 4 where a financially distressed borrower may restructure the debt for a seven-year term and obtain 100 percent forward exchange cover for the debt. In terms of the economic activity of the private corporate debtors, debts enrolled under the program consisted of the following: manufacturing, 44.5 percent; public utilities, 33.9 percent; mining, 12.9 percent; construction, 5.6 percent; business services, 1.6 percent; and agribusiness, 1.5 percent. From December 1, 1985, the effectivity date of CB Circular No. 1076, to December 31, 1987, 64.0 percent of total eligible debts had matured while 36.0 percent remained outstanding.

An aggregate of SDR 123 million comprising the second to the fifth tranches of the 1986 IMF Standby Credit Arrangement was drawn during the year. Under this facility, aggregating SDR 198 million, drawdowns may be made over a period of 18 months until March 1988. However, by end-1987 two scheduled drawdowns had yet to take place and there were some performance criteria still to be observed. At the start of 1988, the monetary authorities deemed it necessary to request for an extension of the facility up to August 1988.

The country likewise availed itself of fresh credits aggregating \$566 million, mostly from official sources. The bulk of these inflows were obtained from Japan (\$397 million) particularly the Eximbank and OECF.

On the other hand, amortizations on principal totalling \$914 million were made to creditors during the year. Multilateral institutions received \$313 million (IBRD, \$198 million; ADB, \$59 million; and others, \$56 million). Payments to bilateral sources amounted to \$176 million, banks and financial institutions, \$30 million, and suppliers and other creditors, \$279 million. Meanwhile, a total of \$166 million of outstanding debt were converted to equity under CB Circular No. 1111.

Foreign Investments

Total foreign investments in 1987 rose substantially compared to the 1986 level due mainly to the significant increase in portfolio investments and debt-to-equity conversion transactions.

Direct foreign equity investments, exclusive of investments pursuant to Circular No. 1111, amounted to \$97.9 million, down by 16 percent from the \$116.0 million registered in 1986. Nearly 50 percent of these direct foreign equity investments were channeled to the manufacturing sector, 35 percent to the mining sector, 6 percent to financial institutions, and the residual 9 percent to other sectors of the economy. Classified by country, the United States took the lead with investments amounting to 69.7 percent of the total, followed by Hongkong and Japan with 14.1 percent and 5.8 percent shares, respectively.

On the other hand, closed transactions arising from debt-to-equity conversions pursuant to Circular No. 1111 aggregated \$266 million during the year. Of this amount, \$166 million were made by non-residents and the remaining \$100 million by residents. Closed transactions channeled investments largely to export producers, banks for privatization and other commercial banks.

Meanwhile, there was a significant overall increase by 271 percent in portfolio investments,⁴ from \$29.8 million in 1986 to \$110.6 million in 1987. Hongkong-based dealers comprised the largest bloc of foreign investors in Philippine securities, with a share of 91.2 percent of the total volume of investments during the year; they were followed by U.S.A. with 5.1 percent and England, with 1.7 percent, while the remaining 2.0 percent were shared by Australia, Canada, Malaysia and Singapore. Of the total portfolio investments, 52 percent were placed in commercial issues; 44 percent, in mining; and the remaining 4 percent, in financial and manufacturing issues.

Foreign exchange outward remittances from equity investments for cash dividends, branch profits, capitalized oil explorations and geothermal expenditure, and technical service fees, *et. al.* totalled \$249 million. With regard to investments in securities, repatriated portfolio investments amounted to \$48.5 million while cash dividends aggregated \$3.2 million or a total foreign exchange outflow of \$51.7 million.

With regard to stock arbitrage transactions, 27 applications were processed and approved authorizing the sale abroad of Philippine securities amounting to \$3.1 million. From these proceeds, \$0.3 million were used to purchase Philippine securities abroad, and the difference of \$2.8 million was inwardly remitted. The total inward remittance in 1987 was \$2 million more than the 1986 aggregate. Meanwhile, a total of 115,831,008 shares covering various securities duly registered with the CB as foreign portfolio investment were authorized for transfer inward from foreign to local registry.

⁴Based on reports of registered sale of Philippine securities to non-residents filed with the Foreign Exchange Operations and Investment Department (FEOID) by securities dealers and brokers.

Foreign Exchange Operations

In 1987, the authorities continued to undertake measures toward greater market orientation and decentralization of its functions. On September 17, a circular letter was issued allowing the servicing of foreign exchange requirements for fiscal agency service to be made not only by Land Bank and PNB but also by other government-owned and/or -controlled commercial banks. In addition, the teller authority of the CB Cash Department at the CB Main Office, South Harbor, Ninoy Aquino International Airport (NAIA) and regional cash units was phased out pursuant to MB Resolution No. 886 dated September 11, effectively transferring the handling of retail commercial banking operations wholly to commercial banks. However, the Special Services Unit (SSU) of Foreign Exchange Operations and Investments Department (FEOID) implementing the currency regulations of the Central Bank was retained in NAIA.

Based on bank reports, foreign exchange acquisitions from nontrade (invisibles) transactions aggregated to \$2,876.1 million during the year, 1.5 percent or \$41.9 million higher than the 1986 level. Foreign exchange receipts of resident shipowners and operators from passenger and charter fees increased by 41.0 percent from the previous year's level to \$61.69 million. Investment income rose appreciably by 36.8 percent to \$226.3 million on account of the rise in interest earnings on loans granted, regular foreign currency deposits and 343/547 accounts and on debt papers purchased. Personal income also showed an uptrend as earnings of land-based workers increased by 17.3 percent from \$571.8 million in 1986. Furthermore, the maintenance of diplomatic and consular offices in the country resulted in an inflow of \$226.9 million, 5.6 percent higher than in the previous year. Meanwhile, receipts from freight and insurance and travel declined by 57.8 percent and 22.4 percent, respectively, while those from miscellaneous services (e.g., premium payments to local insurance companies, postage and communication facilities) contracted by 4.4 percent from the preceding year's level.

On the other hand, invisible disbursements during the year totalled \$1,641.2 million, up by 13.2 percent from 1986. The increase was mainly accounted for by the rise in travel expenditures by residents. Interest payments through commercial banks⁵ which comprise the bulk of invisible disbursements amounted to \$952.3 million, 1.4 percent lower than the previous year's level.

In another development, the level of outstanding swap transactions of the CB declined by \$3.8 million to \$759.0 million at end-1987. Swap transactions were mostly renewals and were contracted at an average discount rate of 1.3 percent during the year, instead of at a premium. The contracted rates were lower than the CB buying rates which resulted in an increase of \$538.0 million in blocked peso differentials under MAAB No. 43 during the year. Forward exchange commitments, exclusive of swaps, also declined by \$23.7 million mainly on account of the full delivery of NFA contracts and conversion of peso deposits with forward cover under Circular No. 970 to CB deposits for inclusion in outstanding CB foreign liabilities.

⁵ Excluding interest payments on CB loans

Foreign exchange proceeds from by-product gold exported abroad which were sold to CB rose by \$18.5 million to \$69.3 million in 1987. Meanwhile, foreign exchange acquisitions from other transactions, including foreign exchange sold for pesos to CB and receipts for license and registration fees of OBUs and representative offices of foreign banks, amounted to \$63.1 million in 1987, an increase of 94.8 percent over the 1986 level of \$32.4 million.

As a fiscal agent of the government, the CB administered the fiscal agency working funds of the National Government, its instrumentalities and agencies, which had an aggregate outstanding value of \$7.3 million at end-1986. Deposits/funding in 1987 amounted to \$20.4 million while disbursements aggregated \$19.0 million, bringing the total deposits outstanding as of end-1987 to \$8.7 million.

The CB received and processed a total of 3,771 fiscal agency service (FAS) applications for the purchase of foreign exchange for invisible payments, involving an amount of \$42.1 million, \$7.5 million higher than the comparable figure in 1986 for 2,983 applications. Approved FAS applications serviced by PNB, LBP and other banks in 1987 amounted to \$15.0 million, up by \$1.0 million from 1986.

International Trade Operations

In the area of international trade, Central Bank activities were geared on the one hand, towards the development and growth of exports and maximization of foreign exchange benefits from export sales, and on the other, to a close watch of imports, not only to ensure compliance with applicable import rules and regulations, but also to monitor importations of liberalized and deregulated items so as to be able to assist in the anti-import surge mechanism mandated under E.O. No. 1073 providing safeguards on the Import Liberalization Program.

To maximize receipts from exports, the Central Bank pre-verified prices declared in the Report of Foreign Sales (RFS) and Export Declaration (ED)/Export Permit (EP) of selected commodities to determine if they reflected the current value in the international market. If found to be underpriced, exporters were advised to renegotiate with their buyers for higher prices. The Central Bank similarly evaluated the processing fees/export billings indicated in the Mark-up Computation Report (MCR) covering exports of manufactured goods processed out of materials imported on consignment basis. If the reported processing fee/export bill was deemed too low, exporters were advised to renegotiate for a higher fee.

In support of the export promotion activities of the government, export procedures were further simplified. In particular, a One-Stop Action Center was set up at the Philippine Ports Authority (PPA) to assist exporters with problems pertaining to cargo handling. Various problems of exporters and AABs regarding existing export rules and regulations were also threshed out in meetings, dialogues and seminars convened by the Central Bank and participated in by various government agencies, exporter groups and commercial banks.

On the import side, CB monitoring of regular letters of credit (LCs) opened reached \$3,994.7 million, up by nearly half the previous year's level. During the first half of 1987, the monthly growth of LCs opened averaged 8.3 percent but dropped to around 3 percent in the second half of the year. The higher level of LCs opened in the first semester was traced to the building-up of

inventories following expectations of further increases in business activities in the second half of the year. Imports under document against acceptance (DA) and open account (OA) arrangements at \$1,100.9 million similarly rose at an accelerated pace of 44.2 percent in 1987 owing to the rise in oil imports which were normally negotiated through these instruments.

The number of received applications to import banned items fell to 140 in 1987 from 254 in the previous year as a result of the import liberalization program. However, the value of banned commodities authorized by the Central Bank to be imported rose by 80.2 percent to \$18.2 million. Meanwhile, applications received to import on a no-dollar basis advanced to 2,094 from 935 in 1986. The uptrend stemmed mainly from the higher number of requests received to import motor vehicles, replacement items, samples, promotional items and donations by foreign countries (e.g. Japan, Canada and Netherlands) of commodities such as fertilizer and chemicals. No-dollar imports approved during the year rose fivefold to \$25.6 million.

The Central Bank also monitored compliance with the special time deposit requirement imposed on shipments effected in violation of existing import rules and regulations as well as on no-dollar shipments of motor vehicles for purposes of registration with the Land Transportation Commission (LTC). Assistance on the appropriate commodity classification of imports was also provided in particular to the Bureau of Customs to enable it to assess the correct amount of taxes and duties for imported goods. Furthermore, some 1,807 applications to import without L/C were evaluated and endorsed to the SGS Manila Liaison Office during the year.

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 import procedures, regulations and policies. Efforts were further directed at improving import procedures, especially for raw materials used in the manufacture of export products. In particular, the number of signatures required for the release of imported goods from the custody of the Bureau of Customs was reduced. The Central Bank together with other concerned government agencies also participated in raids and on the spot inspections of establishments suspected of selling smuggled goods.

International Reserve Management

International reserve management during the year was generally geared towards maintaining an adequate level of reserves and keeping them in a mix that would allow the country to meet any foreseeable demand for foreign exchange. In addition, given the highly volatile market environment in 1987, the Central Bank monitored closely international financial developments in order to protect the value of reserve assets, prevent their unnecessary diminution, and where possible, invest available reserves at the best market rates.

The composition of international reserves changed markedly in 1987 in the wake of the shocks to the financial market that occurred during the year. With the decline in the US dollar vis-a-vis other currencies and the consequent fall in the prices of US dollar securities, the Central Bank started to unload its foreign securities portfolio as early as March, and this continued to the end of the year, bringing about a drop in its holdings of this type of foreign asset from a

high level of \$986 million in February to \$116 million by the end of December. Reserve assets were first shifted to time deposits to take advantage of the relatively high interest rates, and time deposits reached a peak of \$1,219 million in April. Subsequently, in a move to improve the quality of reserve assets, time deposit holdings were shifted to Treasury Bills around mid-year. Reserve management flexibility also involved upgrading yields on paper from low to high coupon rates and paring down the foreign securities portfolio as funding requirements increased.

Gold, which constituted the bulk (53 percent) of the Central Bank's international reserves in 1987, had its highest level at US\$1,089 million in October when precious metal trading experienced wild volatility in both directions as a result of the stock market crash on October 19. The Black Monday event pushed up the prices of gold and silver. The shift to precious metals was undertaken to minimize risk exposure to foreign counterparties and to maintain an optimal share of precious metals in the international reserves. During the year, in addition to the more conventional transaction modules of outright sales, location swaps and gold leasing/deposit arrangements, gold and silver call options were written, the premiums on which effectively increased income without unduly generating additional risk exposure.

In large part, additions to reserves were derived from foreign exchange sales and deposits of the Treasurer of the Philippines of proceeds from the Economic Support Fund, ADB, IBRD, Eximbank of Japan, and USAID (\$827 million); net purchases from commercial banks (\$419 million); IMF credit drawdowns (\$161 million), and over-the-counter purchases of foreign currency notes and coins (\$119 million). On the other hand, drawdowns on the international reserves in 1987 were made to cover repayments on the principal of multilateral loans of the Central Bank and the National Government aggregating US\$1,101 million as well as payments of interest on the Central Bank's direct and assumed foreign obligations amounting to US\$848 million.

**OPERATIONS
AS FISCAL
AGENT OF THE
GOVERNMENT**

Authorized Flotations

Total government securities authorized for flotation through and by the Central Bank in 1987 increased by P97.0 billion or 76 percent and amounted to P225.2 billion. This amount included principally new authorizations (P118.4 billion), the balance of previously authorized issues carried over in 1987 (P7.4 billion), and the previously authorized flotations for Treasury Bills and Central Bank bills (P99.4 billion). During the year, new authorizations included the flotation of short- and medium-term National Government securities (mainly T-bills and T-notes), new blocks of NPC bonds and Central Bank issues, specifically related to the implementation of the Debt-to-Equity Conversion Program.

Total authorized flotations of Treasury issues for the year increased by P97.0 billion from the previous year's authorization and was intended to cover the funding requirement of the National Government in connection with its assumption of certain assets/liabilities of two government financial institutions which underwent rehabilitation in 1986 and to serve as the staple for CB open market operations.

Primary Sales of Securities

During the year, government securities sold in the primary market totalled P195.4 billion, lower by 37.1 percent than the previous year's P310.8 billion following the phase-out policy on CB bills.

Of the total, the bulk or P193.1 billion were National Government securities sold through auction. In 1987, Treasury bill issues reached P184.8 billion or 95.7 percent of total National Government issues sold. It may be noted that a new Treasury bill program was implemented starting in October 1986 which involved the shift in the manner of T-bills sale from negotiated to auction. Under this program, some 50 auctions have been conducted since October 1986 with weekly offerings that ranged from P4.0 billion to P6.5 billion in maturities of 91-, 182- and 364-day bills.

Central Bank issues in the form of regular and special series of CB bills amounted to only P2.34 billion. A negotiated sale of regular CB bills worth P1.26 billion was registered in the first quarter of 1987, after which time, the Central Bank continuously pursued the phase-out program for regular CB bills to give way to the orderly flotation of auctioned Treasury bills for open market operations. Meanwhile, some P1.08 billion new CB bills, special series, were issued starting January 1987 to service the requirements of investors under the debt-to-equity conversion program.

Meanwhile, no government corporate issues were sold in 1987. This was due to the National Government's policy of limiting extension of guarantees to corporate issues and stricter monitoring of corporate operations in an effort to improve the government corporations' internal generation of funds and thereby make them more efficient and viable.

About 98.8 percent or P193.0 billion of total primary issues were marketable in line with the policy of market orientation in government issuances.

The banking system (composed of public and private commercial banks, thrift banks, and other banks), purchased 83.7 percent or P163.7 billion of total primary issues; while public non-banks bought P14.4 billion; and private non-banks, the remaining 9.0 percent or P17.3 billion.

Status of Premyo Savings Bond Flotation Program

In line with the government policy of making government security issues market-oriented, the phasing out and pretermination of Premyo Savings Bonds (PSBs), both regular and special series, began in March 1, 1987, starting from the reglementary announcements, cessation of daily lottery draws, and actual redemption and retirement of PSBs for a period of five years beginning September 1, 1987. At end-1987, total PSBs held by the CB-administered funds (Bond Sinking Fund and Securities Stabilization Fund) amounted to P1.361 billion or about 97.4 percent of the total issues, leaving only about P0.04 billion or 2.6 percent still being held by investors and accredited agencies.

OTHER ACTIVITIES

New Committees

In the pursuit of its goals and objectives and in response to changes and development affecting its operations, the Central Bank set up and reconstituted the following committees, task forces and similar groups in 1987.

1. Inter-Agency Committee on Premyo Savings Bond created under Monetary Board Resolution No. 19 dated January 3, 1986—redesignated as an Inter-Agency Committee on Government Securities (Office Order No. 10, effective February 16, 1987) to broaden its functions and responsibilities, serve as a coordinating committee on priority items, pertinent studies, policy developments and key operational matters affecting government securities.

2. Inter-Agency Study Group on External Trade Statistics and Projections (Office Order No. 14, effective February 19, 1987)—created under the umbrella of the Central Bank's Foreign Operations Committee with functions primarily to construct a trade and payments model which shall be the analytical framework of medium-trade projections.

3. Ad Hoc Committee on Productivity Improvement (Office Order No. 19, effective March 4, 1987)—constituted to identify organizational and operational problems affecting productivity, develop strategies and alternative solutions to solve these problems and submit recommendations to management on specific programs designed to improve efficiency and effectiveness in the bank. The function of the Committee was however redefined when Office Order No. 24 dated March 24, 1987 was issued superseding Office Order No. 19. Under Office Order No. 24, the Ad Hoc Committee on Productivity Improvement was tasked with the preparation and implementation of a systematic plan of action to ensure continuity of critical CB operations and services in case of contingency.

4. Ad Hoc Committee on Space Allocation (Office Order No. 22, effective March 17, 1987)—organized to study, evaluate space requirements in the bank and make appropriate recommendations to the Governor/Senior Deputy Governor to promote efficiency in the operations of the various departments/offices.

5. Task Force on the Rehabilitation Program for the Development Bank of the Philippines (DBP) (Office Order No. 31, effective April 27, 1987)—created to undertake the reconciliation of the balance of the DBP loan obligations with this Bank as of June 30, 1986, documentation of accounts transferred to, and assumed by the National Government as well as other tasks related to such transfer.

6. Committee on Rural Bank Rehabilitation was constituted for the effective supervision, direction and control in the implementation of Monetary Board Resolution No. 410 dated April 14, 1987 approving a program to assist rural banks and to provide and achieve the necessary coordination among Departments concerned and the Land Bank of the Philippines (Office Order No. 34, effective May 1, 1987).

7. Integrity Board (Office Order No. 40, effective May 19, 1987)—authorized to hear and decide administrative complaints/charges against officers and employees of the Central Bank in cases falling within its jurisdiction.

8. Ad Hoc Committee for Budget Review and Hearing (Office Order No. 61, effective July 17, 1987)—reconstituted to draft the rules and guidelines in the preparation of budget estimates by various departments/offices and standing committees in the Bank for the calendar year, subject to the approval of management.

9. Ad Hoc Committee on Personnel Matters (Office Order No. 83, effective August 31, 1987)—constituted to review proposals for appointment, promotion, transfer, assignment or reassignment and detail of personnel in the Bank.

10. Ad Hoc Group tasked to coordinate with the Quezon City government in the ejection/relocation of the illegal occupants at the Central Bank's vacant lot in that city (Office Order No. 102, effective December 29, 1987).

Gold Refinery and Mint

In 1987, the gold refinery of the Central Bank produced 680,002 troy ounces of gold out of raw bullions weighing 1.8 million troy ounces purchased from primary gold producers, gold panners and the Philippine Associated Smelting and Refining Corporation (PASAR). The total refined gold production including 1,849 troy ounces of carat gold with varied fineness, exceeded the year's output target by nearly 8 percent and the 1986 production by 14.3 percent owing to the hefty increase of 482.1 percent in gold contents of deliveries from PASAR. The refined silver, likewise, surpassed the output target of 170,000 troy ounces by 12.3 percent to 190,973 troy ounces following the marked increase of 403.4 percent in silver contents of the deliveries from PASAR notwithstanding problems normally encountered during the first year of full operation of the silver refining facilities.

In the same year, the Mint turned out 198.4 million circulation coins exceeding the target of 191.9 million coins by 6.5 million coins or 3.4 percent. Nonetheless, the 1987 coin output dropped by 19.2 percent from the corresponding level in 1986. About half of the coins minted consisted of 10-sentimo coins while 5-sentimo coins made up 40 percent. Coin deliveries to the Cash Department which included the 1986 undelivered finished coins aggregated 235.1 million pieces with a face value of about P53 million. In addition, the Mint produced 500 sets each of the 1986 and 1987 Brilliant Uncirculated (B.U.) coins, 4.7 million tokens for the Philippine Amusement and Gaming Corporation (PAGCOR) and 3,215 pieces of commemorative medals featuring people power design for the Social Security System.

Security Printing Plant

The Security Printing Plant (SPP) turned out 408.7 million banknotes including 50-Piso, 100-Piso and 500-Piso denominations with the new design bearing the signature of President Corazon C. Aquino during the year. Of the total number of banknotes finished, 4.25 million awaited withdrawal by the Cash Department as of end-1987.

The 1987 orders received for all security documents—regular checks, special checks and non-checks—increased markedly to 110.2 million pieces or 35.8 percent more than the 1986 level. From these orders, production reached 103.8 million checks and non-checks or 16 percent more than that of a year ago. In addition, the SPP completed the 1986 unfinished orders of 1.7 million pieces regular checks, 3.8 million pieces special checks, and 3.4 million pieces non-checks.

On the other hand, the 1987 total output of 632 million pieces of strip stamps, chewing tobacco stamps, documentary stamps and wine labels decreased sharply by 49.2 percent from the previous year level of 1,243.2 million pieces. A

total of 2.9 million passport booklets including official passports were also produced during 1987, or more than a three-fold increase of the 1986 production level. For the Philippine Coast Guard, the SPP produced 115,789 pieces of Seaman's Service Record Books against only 1,833 pieces in 1986.

The 1987 performance of the SPP was capped by the successful hosting of the VIII Pacific Rim Banknote Printers' Conference in November 9-17, 1987 in which 14 foreign countries were represented. Through that Conference, the members exchanged views, discussed mutual problems and presented technical papers relative to new developments and innovations on banknote printing including improvements in security and life of banknotes.

Currency Issue

As of December 1987, the net outstanding liability of the Central Bank for currency notes and coins issued reached P41.8 billion, a marked increase of P7.2 billion or 20.8 percent over the P34.6 billion level in 1986. In the first quarter of 1987, the monthly net currency issued averaged P30.9 billion followed by bigger monthly currency issuances ranging from P31.2 billion in July to P41.8 billion in December. This accelerated pace reflected CB's response to meet the public's increased preference to hold cash during the year.

Clearing Operations

In 1987, the Manila Clearing Center and 29 regional clearing units cleared a total of 28.5 million local and out-of-town checks and other demand items valued at P392.3 billion. Compared to the preceding year level of 26.9 million cleared items valued at P308.8 billion, the 1987 volume and value of clearings increased by 5.9 percent and 26.6 percent, correspondingly, despite the exclusion of one commercial and one thrift bank from the clearing operation. The net clearing results of thrift banks and their conduit commercial banks were consolidated since January 19, 1987 pursuant to the Monetary Board Resolution No. 131 issued February 14, 1986.

Regional clearing operations would expand further with the approval of Ormoc City, and the proposed inclusion of Vigan, Ilocos Sur as clearing units. Starting 1987, the towns of Gapan and Carmen were added, respectively, to the clearing areas of Cabanatuan and Dagupan regional clearing units. Similarly, the inter-regional clearing operation was expanded bringing the number of participating units from 17 to 19 in 1987 with the inclusion of Baguio and La Union.

Training Programs/Technical Assistance

In 1987, the Central Bank Institute implemented a continuing program on career development, computer training, supervision and management courses as well as technical training and skills development for personnel of Central Bank and financial institutions under its supervision, including foreign participants from Third World countries.

The Institute conducted 27 courses consisting of 181 offerings and attended by 15,046 participants of which 6,250 were CB personnel. The rest of the participants came from local financial institutions and Third World countries, inclu-

ding those who attended the CB Information Dissemination Program held in 21 cities and capital towns.

During the year, the Institute introduced five new courses to meet the immediate needs of the banking system. The courses are Familiarization on Banking Laws, Rules and Regulations; Microcomputer Systems; Bomb Detection and Prevention; Self-Help Livelihood Projects; and Value Reorientation. In addition, the seminar on Counterfeit Detection and Currency Redemption was intensified in provincial areas to check the proliferation of fake bills.

Under the CB Scholarship Program for 1987, the Institute provided training assistance and administrative support to 12 scholars in masteral academic courses in both local and foreign universities. During the year, there were also 11 grantees under the National Scholarship for Development (NSFD) and 5 under the CB Scholarship for Deserving Children Program. In addition, 115 bank personnel attended various local non-degree programs, while 32 attended workshops and seminars in foreign countries either as participants or resource persons.

For offerings with foreign participation, courses on credit guarantee operation, improvement of balance sheet preparation, and maintenance of international reserves, note issue, agricultural credit, and agro industries were conducted by the Institute for 41 bank officers from Sri Lanka, Nepal, India and Bangladesh.

As a continuing program of the Institute to develop and aid exporters of the country, eleven sessions on Export Financing of Non-Traditional Products attended by 894 participants were held in 1987.

Loans and Credit Operations

The aggregate outstanding loans of the Central Bank as of end-1987 stood at P15.4 billion or 34 percent lower than that of December 1986 following the repayment of advances by the National Government of its provisional loans and advances. Delinquent accounts were reduced to P4.8 billion or 30 percent lower than the arrearages in 1986 as some accounts of two government financial institutions which were transferred to and assumed by the National Government were subsequently restructured and also on account of the implementation of the Central Bank rehabilitation program for rural banks. Total rediscount loans and advances granted reached P6.6 billion, a decline of P14.5 billion or 69 percent from the end-1986 level which was indicative of the liquid conditions of most commercial and thrift banks and the availability of alternative sources of funds from the Industrial Guarantee and Loan Fund (IGLF) and the Agricultural Loan Fund (ALF) through accredited financial institutions.

Income from lending operations in 1987 amounted to P1.3 billion or a decline of 57 percent as compared to 1986 due to the generally lower market rates in 1987 on which the rediscount rate was based.

Regional Operations

The Central Bank, thru its four regional offices (Cebu, Davao, La Union, Tacloban) and 12 regional units (5 in Luzon, 4 in the Visayas, 3 in Mindanao) continued to extend vital services to the banking and local communities within their respective areal jurisdiction.

Cash and Banking Operations. During 1987, receipts composed of cash and check deposits, cash requisitions and incoming shipments, and proceeds

from sale of government securities reached P25 billion, an increase of P6 billion or 32 percent above the preceding year level. Contributing to this expansion was the opening of the Cabanatuan and Bacolod Cash Units during the year. On the other hand, disbursements, comprising of cash withdrawals, outgoing shipments and encashment of government securities aggregated P22.7 billion, an increase of P2.6 billion or 13 percent over the 1986 figure. Cash deposits and withdrawals as of end-1987 aggregated P21 million and P15 million, respectively while foreign currency inflows amounted to \$52 million.

Government Securities Marketing and Servicing. Total sales of government securities and bonds amounted to P5 million while encashment of treasury notes, CBCIs and interest coupons totalled P19 million in 1987. Sales dropped substantially by 60 percent compared to 1986 with the phasing out of CB bills and the termination of Premyo Savings Bonds including the Biglang Bahay Series.

Clearing Operations. In 1987, a total of 22.15 million checks valued at P314 billion were cleared by the regional clearing units throughout the country. Volumewise, about 20 percent or 4.4 million checks with face value of P72 billion went through the Cebu Regional Clearing Unit followed by the Davao Regional Clearing Unit which cleared 2.6 million checks valued at P41 billion.

Rediscounting Operations. During the year, the aggregate loans granted amounted to P127 million and repayments amounted to P217 million. These were lower than the 1986 figures by 13 percent and 6 percent, respectively, as a significant number of rural banks were not eligible for the rediscounting facilities of the Central Bank. Past due loans decreased from P1.155 billion in 1986 to P1.082 billion in 1987.

International Economic Cooperation

The Central Bank continued to involve itself in the activities of various international associations and organizations. In January, the Central Bank participated in the 22nd Conference of the Governors of South East Asian Central Banks (SEACEN) held in Kathmandu, Nepal. In this meeting, the world economic outlook and its impact on the SEACEN region and the recent economic and monetary developments in member countries were discussed. The proposed program of activities and the budget of the SEACEN Research and Training Centre for the year 1987/88 was likewise approved during the meeting. The country's cooperation with its South East Asian neighbors was further enhanced by the appointment of the former Philippine Planning Minister as Director of the SEACEN Research and Training Centre for a period of three years.

The Central Bank also participated toward the latter part of the year in the 17th Council of Governors' Meeting of central banks of South-East Asia, New Zealand and Australia (SEANZA) held in Sydney, Australia. Among the more significant matters agreed upon during the meeting were the acceptance of the People's Bank of China's application for membership and the holding of a central banking course in Australia in 1988.

The Central Bank also took an active part in the activities of the Asian and Pacific Regional Agricultural Credit Association (APRACA) whose main objective is to stimulate cooperation in the improvement and planning of financial credits for agricultural development in the region as well as organize training programs on agricultural credit. During the year, the Central Bank was chosen

by the Executive Committee of the organization as the seat of the Center for Training and Research in Agricultural Banking (CENTRAB). To launch the operation of the Center, the Central Bank Institute hosted a course on agricultural credit which was attended by bankers from various member countries of APRACA.

In the ASEAN, the Central Bank was involved in the technical preparatory work for the 3rd ASEAN Summit Meeting held in Manila last December. In this meeting, the Heads of Government of the ASEAN countries were able to forge four economic agreements as follows: (1) Revision of the Basic Agreement on ASEAN Industrial Joint Ventures; (2) Improvement of the ASEAN Preferential Trading Agreement; (3) Promotion and Protection of Investments in ASEAN; and (4) Memorandum of Understanding on the Standstill and Rollback of Non-Tariff Barriers among ASEAN countries. In addition, agreements were reached on new initiatives covering the area of banking and finance such as the easing of restrictions on the use of ASEAN currencies in regional trade and investment, and the establishment of an ASEAN reinsurance corporation to be administered by the private sector.

In the area of international monetary cooperation, the Central Bank participated in meetings and other activities of the International Monetary Fund (IMF), the World Bank (WB), the International Finance Corporation (IFC) and the Asian Development Bank (ADB). In addition, the Central Bank negotiated for the utilization of some credit financing facilities offered by these institutions.

With regard to the country's participation in the Uruguay Round of Multilateral Trade Negotiations (URMTN) of the General Agreement on Tariffs and Trade (GATT), the Central Bank provided input to Philippine positions on various negotiating topics such as those on the Functioning of the GATT System, the GATT Articles, and Trade in Services. Moreover, dialogues conducted with other GATT contracting parties resulted in their expressed willingness to consider the unilateral trade liberalization measures instituted by the Philippines under the tariff reform and import liberalization program as the country's contribution to the URMTN.

As a prelude to the country's accession to and eventual participation in the Harmonized Commodity Coding and Classification System (HS), the Central Bank and other concerned government agencies were actively involved in the revision of the Philippine Standard Commodity Classification Code (PSCC) to conform with the US. The HS is a new international product nomenclature that will be used on an international basis in the classification, description and coding of goods for customs purposes, for the collection of statistical data on imports and exports and for the documentation of transactions in international trade. The Philippines intends to adopt the new system by mid-1988.

Total assets of the Central Bank as of end-November 1987 amounted to P318.2 billion, posting an increase of 1.4 percent or P4.3 billion compared to end-December 1986 level. The increase in CB's total assets during the period was traced largely to the valuation adjustments of foreign currency-denominated accounts of CB due to the depreciation in the exchange rate of the peso vis-a-vis the U.S. dollar during the period. It may be noted, however, that CB international reserves declined which may be traced largely to the repayments on the principal of multilateral loans of the Central Bank and the National Government, as well as interest payments on Central Bank's direct and assumed foreign obligations.

Also contributing to the increase in total assets were the exchange stabilization adjustment account and monetary adjustment account. On the other hand, loans and advances of the Central Bank declined by a significant P7.1 billion during the year to P65.3 billion at end-November 1987 following the repayment of the National Government's budgetary loan.

Total outstanding liabilities of the Central Bank likewise grew by 1.4 percent to reach P317.5 billion by end-November 1987. This was due mainly to increase registered in deposit liabilities (P22.0 billion) and foreign loans payable (P3.6 billion), and partly offset by the P21.0 billion decline in other liabilities account. The increment in CB's deposit liabilities stemmed mainly from the substantial build-up in National Government deposits with CB, a large portion of which represented proceeds from the flotation of T-bills, while the rise in foreign loans payable was due to additional foreign exchange inflows arising from the IMF Standby Credit Facility.

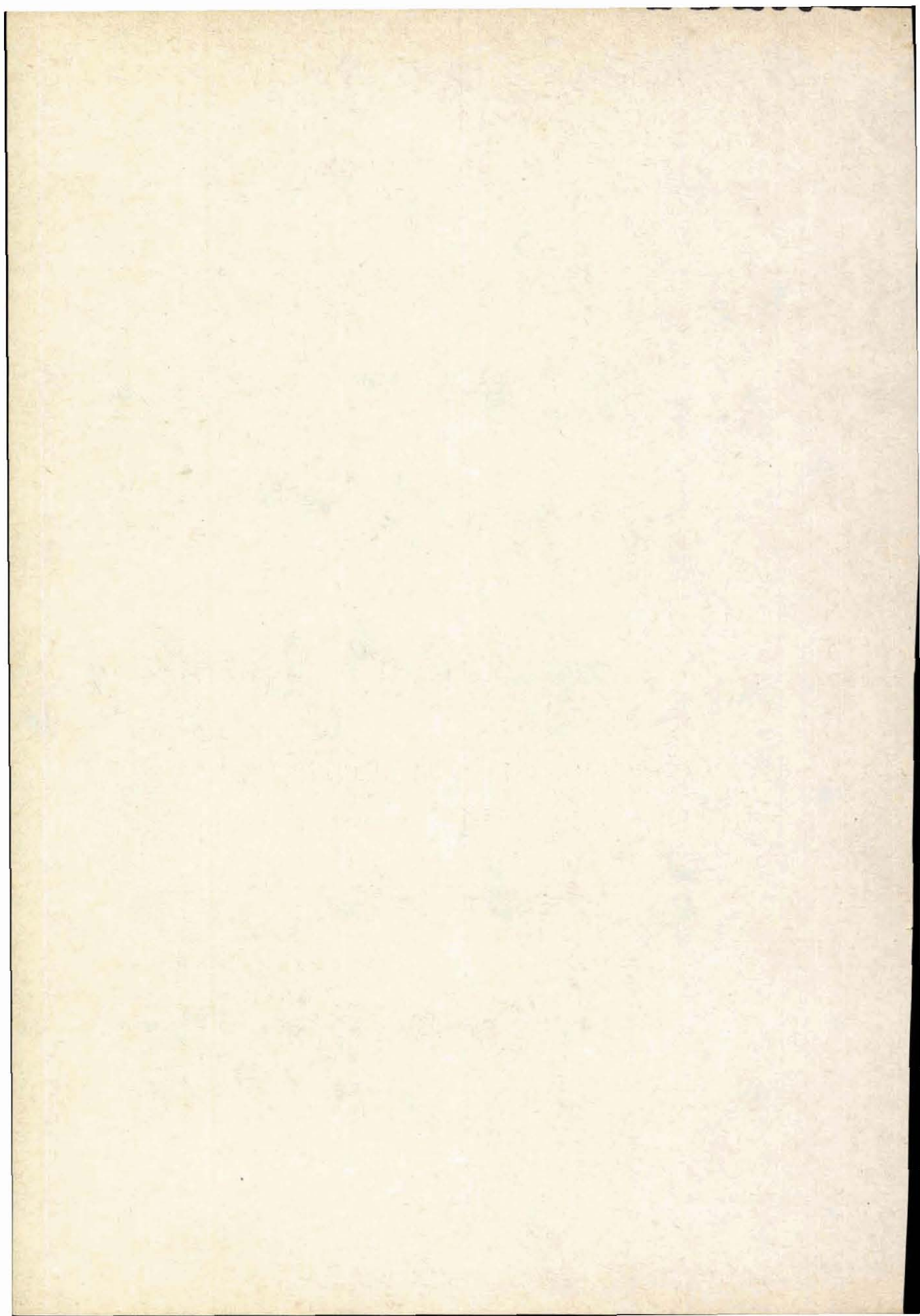
Networth amounted to P726.5 million, representing an improvement of P49.5 million or 7.3 percent from end-December 1986. Said increase was traced largely to the growth in capital reserves and undivided profits by P30.4 million and P12.7 million, respectively (Table 17).

Table 17. STATEMENT OF CONDITION OF THE CENTRAL BANK
As of End 1986-1987
(In Million Pesos)

| Account | November 1987 | December 1986 | Changes | |
|-------------------------------------------|------------------|------------------|-----------|---------|
| | | | Amount | Percent |
| Total Assets | 318,210.4 | 313,892.0 | 4,318.4 | 1.4 |
| International Reserves | 36,769.5 | 50,480.9 | -13,711.4 | -27.2 |
| Domestic Securities ¹ | 14,550.3 | 14,948.7 | -398.4 | -2.7 |
| Loans and Advances | 65,250.6 | 72,364.1 | -7,113.5 | -9.8 |
| Revaluation of International Reserves | 117,053.4 | 105,453.7 | 11,599.7 | 11.0 |
| Monetary Adjustment Account | 28,284.0 | 25,358.1 | 2,925.9 | 11.5 |
| Bank Premises and Other Fixed Assets | 2,099.1 | 2,181.1 | -82.0 | -3.8 |
| Exchange Stabilization Adjustment Account | 36,555.3 | 26,121.2 | 10,434.1 | 39.9 |
| Other Assets | 17,648.2 | 16,984.2 | 664.0 | 3.9 |
| Total Liabilities and Net Worth | 318,210.4 | 313,892.0 | 4,318.4 | 1.4 |
| Total Liabilities | 317,483.9 | 313,215.0 | 4,268.9 | 1.4 |
| Currency Issued | 34,642.2 | 34,607.4 | 34.8 | 0.1 |
| Deposits | 142,008.3 | 119,963.6 | 22,044.7 | 18.4 |
| Foreign Loans Payable | 122,536.0 | 118,958.3 | 3,577.7 | 3.0 |
| Allocation of Special Drawing Rights | 3,342.1 | 2,925.8 | 416.3 | 14.2 |
| CB Certificates of Indebtedness | 732.7 | 1,539.3 | -806.6 | -52.4 |
| Other Liabilities | 14,222.6 | 35,220.6 | -20,998.0 | -59.6 |
| Total Net Worth | 726.5 | 677.0 | 49.5 | 7.3 |
| Capital | 10.0 | 10.0 | 0.0 | 0.0 |
| Surplus | 366.9 | 360.7 | 6.2 | 1.7 |
| Donated Surplus | 0.4 | 0.2 | 0.2 | 100.0 |
| Capital Reserves | 312.1 | 281.7 | 30.4 | 10.8 |
| Undivided Profits | 37.1 | 24.4 | 12.7 | 52.0 |

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 EXPORTS
1986 & 1987
(FOB Value in Million US Dollars)

| Commodity | 1987 | | 1986 | |
|------------------------------------------|--------------|----------------------|--------------|----------------------|
| | Value | Percent Distribution | Value | Percent Distribution |
| Total Exports | 5,720 | 100.0 | 4,842 | 100.0 |
| 1. Semi-Conductor Devices | 586 | 10.2 | 523 | 10.8 |
| 2. Coconut Oil | 381 | 6.7 | 333 | 6.9 |
| 3. Electronic Microcircuits | 322 | 5.6 | 243 | 5.0 |
| 4. Consigned Children's & Infants' Wear | 201 | 3.5 | 133 | 2.7 |
| 5. Consigned Women's Wear | 191 | 3.3 | 103 | 2.1 |
| 6. Consigned Men's Wear | 179 | 3.1 | 92 | 1.9 |
| 7. Copper Metal | 162 | 2.8 | 172 | 3.6 |
| 8. Shrimps and Prawns | 155 | 2.7 | 104 | 2.1 |
| 9. Lumber | 154 | 2.7 | 104 | 2.1 |
| 10. Outer Garments, Knitted or Crocheted | 143 | 2.5 | 93 | 1.9 |
| Total Ten Principal Exports | 2,474 | 43.3 | 1,900 | 39.2 |
| Others | 3,246 | 56.7 | 2,942 | 60.8 |

Source: National Statistics Office

**Table A-02. TEN PRINCIPAL IMPORTS
1986 & 1987
(FOB Value in Million US Dollars)**

| Commodity | 1987 | | 1986 | |
|-------------------------------------------------------------------|--------------|-------------------------|--------------|-------------------------|
| | Value | Percent Distribution | Value | Percent Distribution |
| Total Imports | 6,737 | 100.0 | 5,044 | 100.0 |
| 1. Mineral Fuels, Lubricants & Related Materials | 1,249 | 18.5 | 869 | 17.2 |
| 2. Machinery Other than Electric | 537 | 8.0 | 395 | 7.8 |
| 3. Materials & Accessories for the Manufacture of Elec. Equipment | 767 | 11.4 | 640 | 12.7 |
| 4. Base Metals | 427 | 6.3 | 257 | 5.1 |
| 5. Electrical Machinery, Apparatus & Appliances | 451 | 6.7 | 333 | 6.6 |
| 6. Transport Equipment | 149 | 2.2 | 78 | 1.5 |
| 7. Chemical Elements & Compounds | 332 | 4.9 | 272 | 5.4 |
| 8. Cereals & Cereal Preparations | 134 | 2.0 | 168 | 3.3 |
| 9. Explosives & Miscellaneous Chemical Materials & Products | 303 | 4.5 | 210 | 4.2 |
| 10. Manufacture of Metals | 63 | 0.9 | 58 | 1.2 |
| Total Ten Principal Imports | 4,412 | 65.5 | 3,280 | 65.0 |
| Others | 2,325 | 34.5 | 1,764 | 35.0 |
| <i>Source: National Statistics Office</i> | | | | |

**Table A-03. MONTHLY VALUES OF EXPORTS AND IMPORTS
1986 & 1987
(FOB Value in Million US Dollars)**

| Month | 1987 | | 1986 | |
|-----------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| | Exports | Imports | Exports | Imports |
| Total | 5,720 | 6,737 | 4,842 | 5,044 |
| January | 369 | 451 | 319 | 383 |
| February | 396 | 440 | 367 | 368 |
| March | 453 | 546 | 417 | 508 |
| April | 415 | 509 | 397 | 435 |
| May | 479 | 580 | 433 | 419 |
| June | 479 | 506 | 395 | 406 |
| July | 502 | 626 | 411 | 400 |
| August | 503 | 604 | 441 | 420 |
| September | 504 | 651 | 410 | 419 |
| October | 524 | 633 | 422 | 463 |
| November | 525 | 565 | 409 | 409 |
| December | 571 | 626 | 421 | 414 |
| <i>Source: Department of Economic Research-International, Central Bank of the Philippines</i> | | | | |

**Table A-04. DIRECTION OF TRADE
1986 & 1987
(FOB Value in Million US Dollars)**

| Country | 1 9 8 7 | | | | 1 9 8 6 | | | |
|-----------------------------|--------------|-------------------------|--------------|-------------------------|--------------|-------------------------|--------------|-------------------------|
| | Imports | Percent Distribution | Exports | Percent Distribution | Imports | Percent Distribution | Exports | Percent Distribution |
| Total | 6,737 | 100.0 | 5,720 | 100.0 | 5,044 | 100.0 | 4,842 | 100.0 |
| United States | 1,488 | 22.1 | 2,064 | 36.1 | 1,256 | 24.9 | 1,717 | 35.5 |
| Japan | 1,121 | 16.6 | 981 | 17.1 | 868 | 17.2 | 851 | 17.6 |
| European Economic Community | 782 | 11.6 | 1,089 | 19.0 | 569 | 11.3 | 914 | 18.9 |
| Middle East Countries | 834 | 12.4 | 101 | 1.8 | 502 | 10.0 | 97 | 2.0 |
| ASEAN | 687 | 10.2 | 507 | 8.9 | 511 | 10.1 | 351 | 7.2 |
| Socialist Countries | 257 | 3.8 | 116 | 2.0 | 134 | 2.7 | 123 | 2.5 |
| Other Countries | 1,568 | 23.3 | 862 | 15.1 | 1,204 | 23.8 | 789 | 16.3 |

Source: National Statistics Office

**Table A-05. PURCHASES AND SALES OF FOREIGN EXCHANGE BY CENTRAL BANK
1987
(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) |
| 1987.Total | 1,620.90 | 966.89 | - | 654.01 | 1,265.04 | 579.67 | 0.00 | 685.37 |
| Jan | 242.47 | 173.22 | - | 69.25 | 81.94 | 1.76 | - | 80.18 |
| Feb | 66.34 | 17.28 | - | 49.06 | 107.70 | 53.77 | - | 53.93 |
| Mar | 123.72 | 74.15 | - | 49.57 | 100.18 | 51.11 | - | 49.07 |
| Apr | 141.54 | 86.37 | - | 55.17 | 80.23 | 17.40 | - | 62.83 |
| May | 94.75 | 57.92 | - | 36.83 | 35.49 | - | - | 35.49 |
| Jun | 190.95 | 131.56 | - | 59.39 | 64.09 | 2.73 | - | 61.36 |
| Jul | 236.81 | 144.84 | - | 91.97 | 107.04 | 4.44 | - | 102.60 |
| Aug | 113.03 | 61.14 | - | 51.89 | 59.15 | 2.66 | - | 56.49 |
| Sep | 109.46 | 56.40 | - | 53.06 | 201.56 | 138.39 | - | 63.17 |
| Oct | 86.79 | 32.42 | - | 54.37 | 140.77 | 85.42 | - | 55.35 |
| Nov | 62.22 | 28.43 | - | 33.79 | 185.05 | 156.01 | - | 29.04 |
| Dec | 152.82 | 103.16 | - | 49.66 | 101.84 | 65.98 | - | 35.86 |

¹ Include transactions relative to (a) Foreign Currency Deposits of Commercial Banks; and (b) Exports of Secondary Gold per Circular No. 602

² Include 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 1986-1987
(In Million Pesos)**

| Item | 1987 ^P | 1986 |
|-------------------------------------------|-------------------|-----------------|
| Total | 74,734.3 | 83,472.8 |
| 1. Loans and Advances | 65,539.0 | 72,364.1 |
| A. Budgetary & Subscription | | |
| Payment Loans | 3,043.5 | 11,605.0 |
| B. Rediscounting ¹ | 10,865.0 | 10,738.8 |
| C. Repurchase Agreements | 611.3 | 745.3 |
| D. CFBP Loans ² | 32,555.3 | 34,270.8 |
| E. APEX Loans | 959.5 | 979.2 |
| F. IBRD Loans ³ | 277.4 | 302.3 |
| G. Overdrafts ⁴ | 12,753.4 | 9,865.0 |
| H. Advances Under Various | | |
| Debt Restructuring Schemes | 2,909.9 | 2,921.4 |
| I. Others | 1,563.7 | 936.3 |
| 2. Domestic Securities⁵ | 9,195.3 | 11,108.7 |
| A. PW and ED Bonds ⁶ | 58.1 | 52.8 |
| B. Treasury Notes | 269.3 | 486.5 |
| C. Treasury Bonds | 7,416.1 | 8,374.7 |
| D. Capital/Treasury Bonds | 400.0 | 400.0 |
| E. Premyo Savings/ Biglang Bahay Bonds | - | 353.1 |
| F. Capital/Treasury Notes | 312.0 | 308.6 |
| G. Treasury Capital Bonds | 35.7 | 28.7 |
| H. Treasury Bills | 109.7 | 19.1 |
| I. Others | 594.4 | 1,085.2 |

¹Includes rediscount loans to PNB and DBP transferred to the National Government.

²Consolidated Foreign Borrowings Program

³International Bank for Reconstruction and Development

⁴Net of Special Account Balances

⁵Excluding Treasury Notes and Bonds issued against RP-Japan Commodity Loan Agreement

⁶Public Works and Economic Development Bonds

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

**Table A-07. OUTSTANDING CENTRAL BANK REDISCOUNT LOANS,
BY INSTITUTION¹
As of End 1986-1987
(In Million Pesos)**

| Institution | 1987 ^P | 1986 | Percent Distribution | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------|----------------------|--------------|
| | | | 1987 | 1986 |
| Total | 7,706 | 7,563 | 100.0 | 100.0 |
| 1. Commercial Banks | 3,609 | 3,167 | 46.8 | 41.9 |
| 2. Specialized Banks | 334 | 320 | 4.3 | 4.2 |
| 3. Thrift Banks | 356 | 376 | 4.6 | 5.0 |
| 4. Rural Banks | 2,757 | 2,963 | 35.8 | 39.2 |
| 5. Non-Banks | 650 | 737 | 8.5 | 9.7 |
| ¹ Excluding loans to the National Government (budgetary loans), subscription payments to international financial institutions and loans to PNB and DBP which were transferred to the National Government. 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 1986-1987
(In Million Pesos)

| Institution | 1987 ^P | 1986 | Percent Distribution | |
|--------------------------------------------------------------------------------|-------------------|--------------|----------------------|--------------|
| | | | 1987 ^P | 1986 |
| Total | 6,366 | 6,130 | 100.0 | 100.0 |
| 1. Commercial Banks | 3,609 | 3,167 | 56.7 | 51.7 |
| a. Rice and Corn | - | - | - | - |
| b. Exports | 1,736 | 1,174 | 27.3 | 19.2 |
| c. Emergency | 1,768 | 1,856 | 27.8 | 30.3 |
| d. Others | 105 | 137 | 1.6 | 2.2 |
| 2. Rural Banks | 2,757 | 2,963 | 43.3 | 48.3 |
| a. Masagana 99 | 266 | 283 | 4.2 | 4.6 |
| b. Supervised Credit | 1,102 | 1,231 | 17.3 | 20.1 |
| c. Non-Supervised Credit | 1,099 | 1,097 | 17.2 | 17.9 |
| d. Emergency | 5 | 6 | 0.1 | 0.1 |
| e. Others | 285 | 346 | 4.5 | 5.6 |
| <i>Source: Department of Loans and Credit, Central Bank of the Philippines</i> | | | | |

**Table A-09. LOANS OUTSTANDING OF COMMERCIAL BANKS,
BY INDUSTRY**
As of End 1986-September 1987
(In Million Pesos)

| Sector | September 1987 | 1986 | Changes | |
|--------------------------------------------|-------------------|-----------------|-----------------|-------------|
| | | | Amount | Percent |
| Total¹ | 109,813.6 | 99,111.2 | 10,702.4 | 10.8 |
| Agriculture, Fishery and Forestry | 12,262.8 | 13,267.6 | -1,004.8 | -7.6 |
| Mining and Quarrying | 6,793.1 | 7,411.1 | -618.0 | -8.3 |
| Manufacturing | 35,765.1 | 21,762.2 | 14,002.9 | 64.3 |
| Electricity, Gas and Water | 630.2 | 1,006.7 | -376.5 | -37.4 |
| Construction | 3,679.7 | 3,671.0 | 8.7 | 0.2 |
| Trade | 14,247.1 | 13,711.7 | 535.4 | 3.9 |
| Transport, Storage and Communication | 3,391.9 | 3,048.1 | 343.8 | 11.3 |
| Financing, Insurance and Business Services | 10,158.8 | 12,928.7 | -2,769.9 | -21.4 |
| Real Estate | 2,657.2 | 2,016.0 | 641.2 | 31.8 |
| Community, Social and Personal Services | 5,301.4 | 4,264.3 | 1,037.1 | 24.3 |
| Others, n.e.c. ² | 14,926.3 | 16,023.8 | -1,097.5 | -6.8 |

¹Data reflected the transfer of non-performing assets of PNB
²Consists 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 REGION¹**
As of End 1986-September 1987
(In Million Pesos)

| Region | September 1987 | 1986 | Changes | |
|--------------------------|-------------------|-----------------|-----------------|-------------|
| | | | Amount | Percent |
| Total¹ | 94,887.3 | 83,087.4 | 11,799.9 | 14.2 |
| National Capital Region | 80,426.2 | 69,277.6 | 11,148.6 | 16.1 |
| I Ilocos & Mt. Province | 458.8 | 783.6 | -324.8 | -41.4 |
| II Cagayan Valley | 482.5 | 447.5 | 35.0 | 7.8 |
| III Central Luzon | 1,675.0 | 1,897.3 | -222.3 | -11.7 |
| IV Southern Tagalog | 1,148.1 | 1,240.0 | -91.9 | -7.4 |
| V Bicol Region | 656.6 | 502.8 | 153.8 | 30.6 |
| VI Western Visayas | 4,908.1 | 4,113.2 | 794.9 | 19.3 |
| VII Central Visayas | 2,249.1 | 2,168.2 | 80.9 | 3.7 |
| VIII Eastern Visayas | 278.9 | 337.3 | -58.4 | -17.3 |
| IX Western Mindanao | 461.7 | 424.3 | 37.4 | 8.8 |
| X Northern Mindanao | 895.7 | 736.1 | 159.6 | 21.7 |
| XI Southern Mindanao | 742.3 | 800.9 | -58.6 | -7.3 |
| XII Central Mindanao | 504.3 | 358.6 | 145.7 | 40.6 |

¹Data reflected the transfer of non-performing assets of PNB; excludes past due items, items in litigation, domestic and foreign bills-clean

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

Table A-11. LOANS OUTSTANDING OF THRIFT BANKS, BY PURPOSE
As of End 1986-1987
(In Million Pesos)

| Sector | 1987 | 1986 | Percent Distribution | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|----------------------|--------------|
| | | | 1987 | 1986 |
| Total | 11,946.7 | 9,526.6 | 100.0 | 100.0 |
| Agriculture | 2,680.2 | 1,617.6 | 22.4 | 17.0 |
| Commercial | 1,727.6 | 1,146.5 | 14.5 | 12.0 |
| Industrial | 636.0 | 1,033.0 | 5.3 | 10.8 |
| Real Estate | 2,972.7 | 1,635.2 | 24.9 | 17.2 |
| Consumption | 388.8 | 346.5 | 3.3 | 3.6 |
| Others | 3,541.4 | 3,747.8 | 29.6 | 39.4 |
| <i>Source:</i> 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 1986-1987
(In Million Pesos)

| Region | 1987 ^a | 1986 | Changes | |
|-----------------------------------------------------------------------------------|-------------------|----------------|----------------|-------------|
| | | | Amount | Percent |
| Total | 4,998.1 | 3,550.0 | 1,448.1 | 40.8 |
| National Capital Region | 4,828.5 | 3,423.6 | 1,404.9 | 41.0 |
| I Ilocos & Mt. Province | 0.2 | - | 0.2 | 100.0 |
| II Cagayan Valley | - | 8.4 | -8.4 | -100.0 |
| III Central Luzon | 73.6 | 46.2 | 27.4 | 59.3 |
| IV Southern Tagalog | 60.3 | 43.4 | 16.9 | 38.9 |
| V Bicol Region | - | - | - | - |
| VI Western Visayas | 18.7 | 4.1 | 14.6 | 356.1 |
| VII Central Visayas | 2.8 | 13.1 | -10.3 | -78.6 |
| VIII Eastern Visayas | - | - | - | - |
| IX Western Mindanao | 7.4 | 6.9 | 0.5 | 7.2 |
| X Northern Mindanao | - | - | - | - |
| XI Southern Mindanao | 6.6 | 4.3 | 2.3 | 53.5 |
| XII Central Mindanao | - | - | - | - |
| ^a As of September 1987 | | | | |
| Source: Department of Economic Research-Domestic, Central Bank of the Philippines | | | | |

**Table A - 13. TOTAL LOANS OUTSTANDING OF PRIVATE DEVELOPMENT BANKS,
BY REGION
As of End 1986-1987
(In Million Pesos)**

| Region | 1987 | | 1986 | | Changes | |
|-------------------------|----------------|--------------|----------------|--------------|-------------|------------|
| | Total | Ratio | Total | Ratio | Amount | Percent |
| Total | 3,019.9 | 100.0 | 2,952.0 | 100.0 | 67.9 | 2.3 |
| National Capital Region | 983.6 | 32.6 | 1,457.3 | 49.4 | -473.7 | -32.5 |
| I Ilocos & Mt. Province | 23.2 | 0.8 | 21.9 | 0.7 | 1.3 | 5.9 |
| II Cagayan Valley | - | - | - | - | - | - |
| III Central Luzon | 979.7 | 32.4 | 780.3 | 26.4 | 199.4 | 25.5 |
| IV Southern Tagalog | 790.1 | 26.2 | 459.1 | 15.6 | 331.0 | 72.1 |
| V Bicol Region | 20.9 | 0.7 | 27.4 | 0.9 | -6.5 | -23.7 |
| VI Western Visayas | 101.3 | 3.3 | 103.1 | 3.5 | -1.8 | -1.7 |
| VII Central Visayas | 55.1 | 1.8 | 41.7 | 1.4 | 13.4 | 32.1 |
| VIII Eastern Visayas | 1.4 | 0.1 | 1.5 | 0.1 | -0.1 | -6.7 |
| IX Western Mindanao | - | - | - | - | - | - |
| X Northern Mindanao | 34.2 | 1.1 | 32.3 | 1.1 | 1.9 | 5.9 |
| XI Southern Mindanao | 30.4 | 1.0 | 27.4 | 0.9 | 3.0 | 10.9 |
| 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 1986-1987
(In Million Pesos)

| Item | 1987 ^a | 1986 ^a | Percent Distribution | |
|---------------------|-------------------|-------------------|----------------------|--------------|
| | | | 1987 | 1986 |
| Total | 9,768.2 | 11,928.2 | 100.0 | 100.0 |
| Agriculture | 2,561.2 | 2,986.5 | 26.2 | 25.0 |
| Commercial | 269.2 | 149.8 | 2.8 | 1.3 |
| Industrial | 1,330.2 | 393.3 | 13.6 | 3.3 |
| Real Estate | 1,215.1 | 1,331.2 | 12.4 | 11.2 |
| Consumption | 104.2 | 80.6 | 1.1 | 0.7 |
| Others ² | 4,288.3 | 6,986.8 | 43.9 | 58.5 |

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

²Financing, insurance, business services and others

^aAfter transfer of selected assets and liabilities of one specialized government bank to the National Government.

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

**Table A-15. LOANS OUTSTANDING OF SPECIALIZED
GOVERNMENT BANKS,¹ BY REGION**
As of End 1986-1987
(In Million Pesos)

| Region | 1987 | 1986 | Changes | |
|-------------------------|----------------|----------------|-----------------|--------------|
| | | | Amount | Percent |
| Total | 4,345.4 | 5,363.9 | -1,018.5 | -19.0 |
| National Capital Region | 2,624.4 | 4,287.0 | -1,662.6 | -38.8 |
| I Ilocos & Mt. Province | 185.1 | 61.8 | 123.3 | 199.5 |
| II Cagayan Valley | 324.6 | 267.4 | 57.2 | 21.4 |
| III Central Luzon | 694.3 | 287.2 | 407.1 | 141.7 |
| IV Southern Tagalog | 67.6 | 53.2 | 14.4 | 27.1 |
| V Bicol Region | 154.6 | 116.1 | 38.5 | 33.2 |
| VI Western Visayas | 90.8 | 71.2 | 19.6 | 27.5 |
| VII Central Visayas | - | 47.6 | -47.6 | -100.0 |
| VIII Eastern Visayas | - | - | - | - |
| IX Western Mindanao | 73.7 | 76.5 | -2.8 | -3.7 |
| X Northern Mindanao | 38.6 | 28.2 | 10.4 | 36.9 |
| XI Southern Mindanao | 78.8 | 60.6 | 18.2 | 30.0 |
| XII Central Mindanao | 12.9 | 7.1 | 5.8 | 81.7 |

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 1986-1987
(In Million Pesos)

| Sector | 1987 ^a | 1986 | Percent Distribution | |
|---------------------------------------------------------------------|-------------------|----------------|----------------------|--------------|
| | | | 1987 | 1986 |
| Total | 7,143.0 | 6,790.5 | 100.0 | 100.0 |
| Agriculture | 5,492.0 | 5,471.7 | 76.8 | 80.6 |
| Commercial | 690.0 | 566.6 | 9.7 | 8.3 |
| Industrial | 205.0 | 187.7 | 2.9 | 2.8 |
| Others | 756.0 | 564.5 | 10.6 | 8.3 |
| ^a As of September 1987 | | | | |
| Source: Supervisory Reports Office, Central Bank of the Philippines | | | | |

**Table A-17. WEIGHTED AVERAGE INTEREST RATES
1986-1987
(In Percent Per Annum)**

| Type | Nominal | | Real ⁴ | |
|----------------------------------------------|---------|--------------------|-------------------|--------|
| | 1987 | 1986 | 1987 | 1986 |
| I. Borrowing Rates of Banks | | | | |
| a. -WAIR on Interbank ¹ | 11.965 | 12.387 | 8.165 | 11.587 |
| b. Savings Deposits | 4.530 | 7.993 ^r | 0.730 | 7.193 |
| c. Time Deposits (All Maturities) | 9.767 | 14.770 | 5.967 | 13.970 |
| d. Manila Reference Rate (MRR) | | | | |
| 60 Days | 9.380 | 12.380 | 5.580 | 11.580 |
| 90 Days | 9.000 | 12.620 | 5.200 | 11.820 |
| 180 Days | 9.750 | 13.310 | 5.950 | 12.510 |
| All Maturities | 9.310 | 12.380 | 5.510 | 11.580 |
| II. Lending Rates | | | | |
| e. Secured Loans (All Maturities) | 13.295 | 17.348 | 9.495 | 16.548 |
| III. Central Bank Rates | | | | |
| f. R/P Rates (Term) | 13.682 | 20.091 | 9.882 | 19.291 |
| g. Reverse R/P (Term) | 11.636 | 13.247 | 7.836 | 12.447 |
| h. Overdrafts ² | 21.544 | 21.515 | 17.744 | 20.715 |
| i. Emergency Loans and Advances ² | 13.172 | 18.410 | 9.372 | 17.610 |
| j. Rediscounts ³ | 10.000 | 10.000 | 6.200 | 9.200 |
| IV. Central Bank Bills/Treasury Bills | | | | |
| k. CB Bills (All Maturities) | 10.812 | 19.082 | 7.012 | 18.282 |
| l. Treasury Bills (All Maturities) | 12.887 | 16.040 | 9.087 | 15.240 |

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, 1986-1987**
(In Percent Per Annum)

| Period | Savings Deposits ¹ | 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 |
| 1986 Jan | 8.795 | 12.573 | 13.744 | 14.388 | 18.308 | 24.000 | 22.086 |
| Feb | 8.780 | 14.122 | 15.542 | 19.728 | 17.721 | 42.000 | 20.204 |
| Mar | 8.778 | 16.018 | 15.892 | 21.247 | 24.521 | 26.000 | 23.642 |
| Apr | 8.775 | 14.376 | 13.068 | 20.099 | 21.724 | 32.629 | 20.190 |
| May | 8.847 | 14.438 | 15.663 | 17.160 | 18.328 | 26.000 | 20.751 |
| Jun | 8.509 | 11.170 | 11.203 | 15.973 | 16.747 | 30.000 | 18.376 |
| Jul | 8.202 | 11.328 | 11.685 | 13.410 | 16.512 | 22.559 | 20.897 |
| Aug | 7.928 | 10.853 | 12.839 | 11.542 | 15.383 | 21.454 | 22.101 |
| Sep | 7.131 | 10.168 | 9.912 | 13.194 | 16.258 | 20.115 | 16.108 |
| Oct | 7.009 | 9.447 | 11.183 | 11.956 | 14.468 | 18.517 | 15.789 |
| Nov | 6.809 | 9.712 | 12.442 | 11.782 | 14.686 | 17.785 | 14.727 |
| Dec | 6.352 | 8.365 | 8.580 | 9.858 | 13.879 | 16.631 | 15.910 |
| 1987 Jan | 5.218 | 7.435 | 11.987 | 8.683 | 12.777 | 14.000 | 14.884 |
| Feb | 5.145 | 6.359 | 6.923 | 8.475 | 11.238 | 14.259 | 14.044 |
| Mar | 4.791 | 5.889 | 7.088 | 8.877 | 12.173 | 13.945 | 13.220 |
| Apr | 4.807 | 7.259 | 11.987 | 9.924 | 12.371 | 11.732 | 12.590 |
| May | 4.866 | 7.321 | 9.077 | 10.257 | 12.676 | 14.114 | 13.828 |
| Jun | 4.366 | 8.008 | 5.437 | 10.447 | 12.864 | 19.559 | 13.159 |
| Jul | 4.315 | 9.316 | 7.534 | 10.800 | 12.793 | 15.310 | 14.502 |
| Aug | 4.307 | 7.626 | 7.310 | 10.288 | 13.830 | 16.437 | 14.016 |
| Sep | 4.251 | 8.672 | 8.701 | 10.289 | 12.943 | 14.508 | 14.634 |
| Oct | 4.154 | 9.037 | 9.658 | 11.463 | 14.006 | 15.809 | 16.297 |
| Nov | 4.061 | 9.549 | 8.667 | 11.727 | 14.467 | 15.548 | 15.099 |
| Dec | 4.074 | 10.798 | 8.130 | 11.217 | 16.241 | 16.905 | 16.842 |

¹From January 1986 to November 1987 rates on savings deposits were revised due to the amended report submitted by one commercial bank dated January 7, 1988.

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

Table A-19. REAL INTEREST RATES¹
1987
(In Percent Per Annum)

| Month | Lending Rate Secured Loans (All Maturities) | Savings Rates | Time Deposit (All Maturities) |
|-----------|---------------------------------------------------|------------------|-------------------------------------|
| January | 12.89 | 5.22 | 8.46 |
| February | 11.58 | 5.15 | 8.20 |
| March | 12.34 | 4.79 | 8.64 |
| April | 12.39 | 4.81 | 9.57 |
| May | 12.85 | 4.87 | 9.90 |
| June | 13.14 | 4.37 | 10.28 |
| July | 12.89 | 4.32 | 10.46 |
| August | 13.88 | 4.31 | 9.87 |
| September | 13.03 | 4.25 | 9.93 |
| October | 14.27 | 4.15 | 10.60 |
| November | 14.49 | 4.06 | 10.95 |
| December | 16.31 | 4.07 | 11.15 |

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 Statistics Office

Table A-20. NUMBER OF FINANCIAL INSTITUTIONS
As of End 1986-1987

| Institution | 1987 | 1986 | Percent Change |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|
| Total | 6,506 | 6,109 | 6.5 |
| 1. Commercial Banks | 1,733 | 1,765 | -1.8 |
| 2. Thrift Banks | 658 | 665 | -1.1 |
| 3. Specialized Government Banks | 104 | 100 | 4.0 |
| 4. Rural Banks | 1,058 | 1,085 | -2.5 |
| 5. Non-Bank Financial Institutions ¹ | 2,953 | 2,494 | 18.4 |
| ¹ Include 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 1986-1987
(In Million Pesos)

| Item | 1 9 8 7 ^P | | | | 1 9 8 6 | | | |
|----------------------------------------|----------------------|----------|----------|----------|-----------|----------|----------|----------|
| | Total | Demand | Savings | Time | Total | Demand | Savings | Time |
| I. By Institution | 179,230.9 | 23,413.1 | 97,431.2 | 58,386.6 | 166,277.7 | 20,266.7 | 84,609.6 | 61,401.4 |
| 1. Commercial Banks | 151,794.5 | 21,978.5 | 82,155.2 | 47,660.8 | 138,026.2 | 19,650.6 | 70,881.2 | 47,494.4 |
| 2. Thrift Banks | 15,047.1 | 395.9 | 9,827.0 | 4,824.2 | 12,964.7 | 411.0 | 7,639.0 | 4,914.7 |
| a. Savings Banks | 9,170.7 | 218.2 | 6,617.6 | 2,334.9 | 7,021.9 | 166.8 | 4,538.4 | 2,316.7 |
| b. Private Development Banks | 3,596.8 | 177.7 | 1,918.6 | 1,500.5 | 3,315.5 | 213.2 | 1,583.4 | 1,518.9 |
| c. Stock Savings and Loan Associations | 2,279.6 | - | 1,290.8 | 988.8 | 2,627.3 | 31.0 | 1,517.2 | 1,079.1 |
| 3. Specialized Government Banks | 8,025.3 ^P | 1,015.7 | 2,584.0 | 4,425.6 | 11,519.7 | 184.6 | 3,682.2 | 7,652.9 |
| 4. Rural Banks | 4,364.0 ^a | 23.0 | 2,865.0 | 1,476.0 | 3,767.1 | 20.5 | 2,407.2 | 1,339.4 |

^aAs of September 1987

Sources: 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
As of End 1986-1987
(In Million US Dollars)

| Item | 1987 | 1986 |
|----------------------------------------------------------------------------------|-------|-------|
| Gross Resources | 2,754 | 2,714 |
| Of which: | | |
| Deposit Liabilities | 1,173 | 1,080 |
| Demand | 19 | 10 |
| Savings | 550 | 446 |
| Time | 604 | 624 |
| Placements/Lendings | 2,547 | 2,406 |
| Banks | 1,687 | 1,487 |
| Non-Banks | 860 | 919 |
| Net Earnings After Tax | 149 | 12 |
| Source: Foreign Exchange Regulations Department, Central Bank of the Philippines | | |

Table A-23. PHILIPPINE OFFSHORE BANKING SYSTEM
As of End 1986-1987
(In Million US Dollars)

| Item | 1987 | 1986 |
|-----------------------------------------------------------------------------------------|-------|-------|
| Gross Resources | 3,367 | 3,900 |
| Of which: | | |
| Deposits/Borrowings | 3,282 | 3,837 |
| A. Banks | 3,271 | 3,829 |
| B. Non-Banks | 11 | 8 |
| Placements/Lendings | 3,291 | 3,824 |
| A. Banks | 2,163 | 2,691 |
| B. Non-Banks | 1,128 | 1,133 |
| Earnings and Expenses | | |
| A. Earnings | 345 | 365 |
| Onshore | 109 | 110 |
| Offshore | 236 | 255 |
| B. Expenses | 305 | 352 |
| C. Net Earnings After Tax | 38 | 11 |
| <i>Source:</i> Foreign Exchange Regulations Department, Central Bank of the Philippines | | |

Table A-24. MONEY MARKET TRANSACTIONS, BY INSTRUMENT
1986-1987
 (Volume in Million Pesos/WAIR in Percent Per Annum)

| Item | 1987 | | 1986 | | Percent Change |
|-----------------------------------------------------------------------------------|----------------|---------------|----------------|---------------|----------------|
| | Volume | WAIR | Volume | WAIR | |
| Total | 460,855 | 11.087 | 523,417 | 13.347 | -12.0 |
| Interbank Call Loans | 172,788 | 12.178 | 201,424 | 12.572 | -14.2 |
| Promissory Notes ¹ | 131,085 | 9.562 | 158,656 | 13.581 | -17.4 |
| Repurchase Agreements (Private) ¹ | 2,912 | 12.735 | 46,146 | 13.882 | -93.7 |
| Repurchase Agreements (Government) ¹ | 854 | 13.730 | 7,908 | 17.321 | -89.2 |
| Certificates of Assignment (Private) ¹ | - | - | 8 | 18.635 | -100.0 |
| Certificates of Participation (Private) ¹ | 237 | 8.958 | 1,046 | 12.468 | -77.3 |
| Commercial Paper (Non-Financial) | 18,440 | 10.417 | 15,651 | 11.823 | 17.8 |
| Commercial Paper (Financial) | 95 | 13.158 | - | - | - |
| Central Bank Certificates of Indebtedness | 2 | 5.306 | 23 | 17.000 | -91.3 |
| Treasury Bills | 96,560 | 10.597 | 55,680 | 13.741 | 73.4 |
| DBP Bonds | 262 | 12.922 | - | - | - |
| Other Government Securities | 37,620 | 12.469 | 36,875 | 15.128 | 2.0 |
| ¹ Including those with tax | | | | | |
| Source: Department of Economic Research-Domestic, Central Bank of the Philippines | | | | | |

**Table A-25. STOCK MARKET TRANSACTIONS
1986-1987**
(Volume in Million Shares/Value in Million Pesos)

| Item | 1 9 8 7 | | 1 9 8 6 | | Percent Changes | |
|---------------------------|---------|--------|---------|--------|-----------------|---------|
| | Volume | Value | Volume | Value | Volume | Value |
| Total | 315,703 | 31,523 | 58,601 | 11,470 | 438.7 | 174.8 |
| Commercial and Industrial | 594 | 9,638 | 379 | 7,901 | 56.7 | 22.0 |
| Mining | 119,929 | 15,251 | 24,394 | 3,211 | 391.6 | 375.0 |
| Oil | 195,180 | 6,634 | 33,828 | 358 | 477.0 | 1,752.8 |

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

Table A-26. PUBLIC DEBT OUTSTANDING¹
As of End 1986-1987

| Item | 1987 ^P | 1986 | Percent Change |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|----------------|
| Internal Debt (In Million Pesos) | 162,641 | 144,351 | 12.7 |
| National Government | 152,106 | 108,085 | 40.7 |
| Local Governments | 161 | 161 | 0.0 |
| Government Corporations | 9,707 | 12,411 | -21.8 |
| Guaranteed | 7,854 | 10,987 | -28.5 |
| Non-Guaranteed | 1,853 | 1,424 | 30.1 |
| Monetary Institutions | 667 | 23,694 | -97.2 |
| External Debt (In Million Pesos) | -- | 320,903 ^P | -- |
| External Debt (In Million US Dollars) | -- | 15,639 | -- |
| National Government | -- | 5,362 | -- |
| Local Governments | -- | 3 | -- |
| Government Corporations | -- | 5,561 | -- |
| Monetary Institutions | -- | 4,713 | -- |
| ¹ Excludes transferred debt of the Philippine National Bank and Development Bank of the Philippines to the National Government. 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
1986-1987**
(In Million Pesos, At Constant 1972 Prices)

| Item | 1987 ^c | 1986 ^r |
|----------------------------------------------------|-------------------|-------------------|
| 1. Agriculture, Fishery and Forestry | 27,430 | 27,233 |
| a. Agricultural Crops | 16,970 | 17,198 |
| b. Livestock and Poultry | 5,174 | 4,830 |
| c. Fishery | 4,638 | 4,551 |
| d. Forestry | 648 | 654 |
| 2. Industrial Sector | 30,433 | 28,204 |
| a. Mining and Quarrying | 1,521 | 1,558 |
| b. Manufacturing | 23,317 | 21,717 |
| c. Construction | 3,919 | 3,382 |
| d. Electricity, Gas and Water | 1,676 | 1,547 |
| 3. Services (Tertiary Sector) | 37,068 | 35,354 |
| a. Transportation | 5,265 | 5,105 |
| b. Trade | 15,112 | 14,337 |
| c. Finance | 4,329 | 4,062 |
| d. Other Services | 12,362 | 11,850 |
| Private | 6,065 | 6,039 |
| Government | 6,297 | 5,811 |
| Gross Domestic Product | 94,931 | 90,791 |
| Net Factor Income from Abroad | -1,314 | -1,676 |
| Gross National Product | 93,617 | 89,115 |
| GNP Growth Rate (In Percent) | 5.1 | 1.5 |
| ^c Advance estimates as of December 1987 | | |
| Source: National Statistical Coordination Board | | |

**Table A-28. CONSUMER PRICE INDEX IN THE PHILIPPINES, NATIONAL CAPITAL REGION (NCR)
AND ALL AREAS OUTSIDE NCR
1986-1987
(1978=100)**

| Commodity Group | Philippines | | | National Capital Region | | | All Areas Outside NCR | | |
|---------------------------|-------------|-------|----------------|-------------------------|-------|----------------|-----------------------|-------|----------------|
| | 1987 | 1986 | Percent Change | 1987 | 1986 | Percent Change | 1987 | 1986 | Percent Change |
| All Items | 368.7 | 355.3 | 3.8 | 395.5 | 370.5 | 6.7 | 363.6 | 352.3 | 3.2 |
| Food, Beverages & Tobacco | 343.0 | 329.1 | 4.2 | 364.6 | 342.4 | 6.5 | 339.6 | 327.1 | 3.8 |
| Non-Food | 404.4 | 391.4 | 3.3 | 424.3 | 396.6 | 7.0 | 399.4 | 390.1 | 2.4 |
| Clothing | 416.9 | 404.5 | 3.1 | 468.8 | 433.5 | 8.1 | 406.4 | 398.6 | 2.0 |
| Housing & Repairs | 376.8 | 358.9 | 5.0 | 400.2 | 362.1 | 10.5 | 369.5 | 357.9 | 3.2 |
| Fuel, Light & Water | 520.0 | 511.0 | 1.8 | 593.0 | 554.1 | 7.0 | 506.6 | 503.0 | 0.7 |
| Services | 389.1 | 376.9 | 3.2 | 392.1 | 375.3 | 4.5 | 388.2 | 377.4 | 2.9 |
| Miscellaneous | 371.4 | 360.5 | 3.0 | 378.8 | 365.6 | 3.6 | 369.9 | 359.5 | 2.9 |

Source: National Statistics Coordinating Board

- AGRICULTURAL
LOAN FUND**
1. *Circular No. 1151, August 27, 1987.* Amends certain sections of the Policy Manual which govern the availments of eligible banks from the Agricultural Loan Fund (ALF) issued under CB Circular 1075 on August 15, 1985.
- BANK
LIQUIDATION**
1. *Memorandum to All Banks, July 8, 1987.* Orders the liquidation of Piso Development Bank, by the Special Assistant to the Governor and Head, Supervision and Examination Sector V as its designated liquidator, in the manner indicated in the master liquidation plan for banks under liquidation, and in the implementing liquidation plan/rules approved under Monetary Board Resolution No. 364, dated April 12, 1985, as amended by Monetary Board Resolution No. 380, dated April 10, 1987.
- BANK
OPERATIONS**
1. *Circular No. 1131, January 30, 1987.* Provides deletion of a paragraph in various sections of Books I, II and III, respectively, of the Manual of Regulations for Banks and Other Financial Intermediaries in order to reflect the termination of the Cash-Held-In-Trust Agreement between the Central Bank and the Philippine National Bank pursuant to MBR No. 1146, dated December 12, 1986.
 2. *Circular No. 1134, February 11, 1987.* Sets a deadline on June 30, 1987 for the filing of claims for guarantee payment under Letter of Instructions (LOI) No. 1242 as implemented by Circular No. 876, dated May 28, 1982. The payment program applies to the Philippine National Bank (PNB) and all rural banks with Masagana 99 arrearages as defined in said implementing Circular No. 876.
 3. *Circular No. 1166, December 16, 1987.* Approves the amendment of paragraph 7 of Section 1161 (Book I) and Paragraph 1 of Subsection 3161.7 (Book III) and the addition of Item d to Section 2161 of Book II and Item 3 of Section 4166Q of Book IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* requiring the adoption of the uniform system of accounts prescribed in the Central Bank Manual.
 4. *Circular Letter to All Commercial Banks, Expanded Commercial Banks, Specialized Government Banks and Thrift Banks, February 1, 1987.* Sets forth general policies and procedural requirements as additional guidelines on the requests of banks to undertake deposit pick-up service in Metro-Manila and Metro-Cebu to supplement the requirements and conditions provided in existing regulations on the deposit pick-up service.
 5. *Memorandum to All Banks and NBQBs, May 25, 1987.* Requires banks and non-bank financial intermediaries performing quasi-banking functions (NBQBs): (a) to set up on a regular basis valuation reserves or allowances for probable losses against loans and other risk assets, in view of the need for these financial institutions to reflect the true asset value of their loans and other risk assets at any one time; and (b) to submit to the appropriate supervising and examining department of the Central Bank on or before June 30, 1987 a copy of such system and to submit thereafter any subsequent changes therein.

- CURRENCY**
1. *Circular No. 1141, April 13, 1987.* Provides guidelines and procedures for the expeditious withdrawal from circulation of unfit currency notes in order that the Central Bank could maintain a clean note policy.
 2. *Circular Letter, February 24, 1987.* Quotes the self-explanatory letter from the Philippine Embassy of Lima, Peru as endorsed by the Ministry of Foreign Affairs to the Governor advising of the change in the Bolivian currency.

- EXPORTS**
1. *Circular No. 1129, January 26, 1987.* Provides that proceeds and payments for exports shall be received in designated currencies.
 2. *Circular No. 1154, September 4, 1987.* Provides for the inclusion of the Brunei dollar, Indonesian rupiah, and Thai baht in the list of acceptable currencies for payments of exports.
 3. *Circular Letter, January 12, 1987.* Provides reporting requirements and procedures to be followed by banks regarding export transactions and forfaiting features.
 4. *Circular Letter, February 3, 1987.* Enumerates the names of firms registered with the BOI and under PD 1789 known as the Omnibus Investments Code.

- EXTERNAL DEBT**
1. *Circular No. 1138, April 6, 1987.* Provides for a scheme to govern the settlement of foreign exchange obligations of the National Government and fourteen non-financial public sector corporations.
 2. *Circular No. 1139, April 6, 1987.* Provides for the guidelines to govern the rescheduling and consolidation of debts of the Philippines with creditor countries participating in the Paris Club.
 3. *Circular No. 1148, June 29, 1987.* Deletes paragraph 9 and amended paragraphs 7, 8, 10, and 11 of Circular No. 1139 dated April 6, 1987.
 4. *Revised Circular No. 1111, October 20, 1987.* Provides for a program for the conversion of Philippine External Debt into Equity Investments.
 5. *Circular No. 1164, November 23, 1987.* Provides for rules and regulations governing the purchase in foreign exchange of Philippine Debt Paper by local banks.

- GOVERNMENT SECURITIES**
1. *Circular No. 1162, November 17, 1987.* Reiterates the policy adopted since October 1982 suspending the reserve eligibility of government securities under the reverse repurchase operations of the Central Bank subject to certain conditions.

- IMPORT LIBERALIZATION**
1. *Circular No. 1127, January 9, 1987.* Provides a schedule for the liberalization of the importation of particular commodities described in attached annexes.
 2. *Circular No. 1128, January 9, 1987.* Provides a schedule for the liberalization of the importation of particular commodities described in attached annexes.

3. *Circular No. 1149, June 29, 1987.* Provides that the importation of commodities listed in Annex A-1 hereof shall no longer require prior approval of concerned government agencies.
4. *Circular No. 1150, July 23, 1987.* Provides for the acceleration of the scheduled liberalization of commodities listed in the attached annexes.
5. *Circular No. 1161, November 5, 1987.* Provides a list of commodities that may now be imported without prior BOI approval.
6. *Circular No. 1167, December 24, 1987.* Provides a list of commodities that may now be imported without prior approval of concerned government agencies.
7. *Circular Letter, February 10, 1987.* Includes Corn (UP 044.01.00/EP 044.02.00) in the list of liberalized commodities under Circular 1109 dated July 18, 1986.
8. *Circular Letter, June 11, 1987.* Reminds authorized agent banks to strictly observe the provisions of Section 8, No. 35 of CB Circular No. 1029 dated October 12, 1984, requiring prior approval from the BOI of importations of liberalized consumer durable goods/electronic products under Appendix 21 of said circular.
9. *Memorandum to Authorized Agent Banks, January 12, 1987.* Provides that all Authorized Agent Banks (AABs) shall transmit directly to the CICC0 a daily report of LCs opened covering importations of liberalized (NEC 9) items listed in Annex 1 of Circular No. 1128 dated January 9, 1987.
10. *Memorandum to Authorized Agent Banks, July 1, 1987.* Requires all authorized agent banks to transmit directly to the CICC0 weekly and daily reports of LCs covering importations of liberalized commodities listed in CB Circular No. 1149 dated July 1, 1987.
11. *Memorandum to Authorized Agent Banks, July 23, 1987.* Requires all authorized agent banks to transmit directly to the CICC0 weekly and daily reports of LCs covering importations of liberalized and deregulated items listed in CB Circular No. 1150 dated July 23, 1987.

IMPORT REGULATIONS

1. *Circular No. 1136, February 27, 1987.* Amends Circular No. 968 dated November 2, 1963, such that reserve requirement on marginal deposits on import letters of credit is reduced from 100% to 50%.
2. *Circular No. 1142, April 10, 1987.* Repeals CB Circular No. 1136 dated February 27, 1987 on the reserve requirement on marginal deposits on import letters of credit.
3. *Circular No. 1165, December 4, 1987.* Provides that the importation of Toluene be subject to prior approval by the Philippine Constabulary Firearms and Explosives Unit.
4. *Circular Letter, May 20, 1987.* Provides for the termination of the submission requirement of the quarterly report on imports covered by letters of credit exempted from the 50% margin deposit requirement.
5. *Memorandum to All Banks, March 30, 1987.* Provides a copy of Joint Order No. 1-87 issued by the Department of Finance, Department of Trade and Industry and the CB on March 6, 1987, regarding the comprehensive import supervision scheme.
6. *Memorandum to All Banks, March 18, 1987.* Announces the availability of the 9th Commodity Loan of the Philippines from the Overseas Economic Coope-

ration Fund (OEFC) of Japan in the amount of Y1.0 billion to finance importation of eligible commodities. Also provides a list of said eligible commodities.

7. *Memorandum to All Banks, March 24, 1987.* Provides a copy of the supplement to paragraph 3 of Joint Order No. 1-87 promulgated pursuant to Memorandum Order No. 63 dated January 21, 1987 regarding the comprehensive import supervision scheme.

8. *Memorandum to Authorized Agent Banks, March 13, 1987.* Implements the Comprehensive Import Supervision Scheme (CISS) circularized through CBP Memorandum to All Commercial Banks and All Concerned dated March 10, 1987.

**INVISIBLE
RECEIPTS/
PAYMENTS**

1. *Circular No. 1157, September 28, 1987.* Provides for an amendment to Section 15 of Circular No. 1028 dated October 12, 1984.
2. *Circular No. 1159, October 6, 1987.* Revoked CB authority to exchange into pesos the foreign currencies of the general public (including tourists, transients, etc.) and to buy the same from foreign exchange agents; allowed commercial banks to extend tellering services to arriving/departing tourist cruise vessels only upon prior approval of the SES I.
3. *Circular No. 1163, November 23, 1987.* Provides for an amendment to Section 102 of Circular No. 960 on acceptance of foreign currency notes for deposit in foreign currency accounts.
4. *Circular Letter, February 24, 1987.* Quotes the self-explanatory letter from the Philippine Embassy of Lima, Peru as endorsed by the Department of Foreign Affairs to the Governor, regarding change in Bolivian currency.
5. *Circular Letter, March 10, 1987.* Quotes contents of self-explanatory message via Swift dated March 10, 1987, regarding CIC Paris Check letters lost or stolen in totally blank condition.
6. *Memorandum to Authorized Agent Banks, August 12, 1987.* Required that all applications to open letters of credit and/or to purchase foreign exchange for whatever purpose and under any mode or terms of payments by the enumerated firms/individuals (16 in all) be referred to the CB through CICC for appropriate action.

**LOANS AND
INVESTMENTS**

1. *Revised Circular No. 1111, October 10, 1987.* Contains the revised guidelines relating to the Philippine Government's program for the conversion of external debt into equity investments in Philippine enterprises. The implementing guidelines were amended to include government-acquired assets being managed by the Asset Privatization Trust, as well as government-acquired commercial banks as preferred areas of investment, and adjusted the fee structure based on a sliding scale depending on the amount of new money used to finance the debt-equity swap.
2. *Circular No. 1130, January 29, 1987.* Amends subsection 2301.1, Exclusions from Loan Limit, of Book II of the *Manual of Regulations for Banks and Other Financial Intermediaries* to add a new item which reads "e. The outstanding balance of deposit accounts of thrift banks with commercial banks in accordance with Monetary Board Resolution (MBR) No. 131, dated February 14, 1986."

The same paragraph is added to item "a" of Subsection 2116.2, Definitions/Explanations of Terms and Phrases.

3. *Circular No. 1132, February 3, 1987.* Amends portions of Books I, II and III of the *Manual of Regulations for Banks and Other Financial Intermediaries* in order to revise the bases for computing total demand deposit liabilities which are subject to reserves pursuant to MBR No. 33 dated January 9, 1987.

4. *Circular No. 1135, February 23, 1987.* Amends Item e of Section 1314, 2313 and 3315 of Books I, II and III, respectively, of the *Manual of Regulations for Banks and Other Financial Intermediaries* to read as follows:

"c. The lending bank shall keep a complete record of all pertinent loan documents, such as but not limited to the original copy of the Certificate of Time Deposits subject to assignment or hold-out; Deed of Assignment or hold-out agreement; and written waiver of the depositor required in item "f" below, which shall be made available for inspection and/or examination by the appropriate supervising and examining department of the Central Bank."

5. *Circular No. 1140, April 13, 1987.* Provides additional provision to subsections 1355.9b, 2357.9b and 3364.9b pertinent to loans covered by the Quedan Guarantee Fund of Books I, II and III, respectively, of the *Manual of Regulations for Banks and Other Financial Intermediaries*.

6. *Circular No. 1147, June 19, 1987.* Amends subsections 1303 5.a, 2303 5.a and 3303 3.a of Books I, II and III of the *Manual of Regulations for Banks and Other Financial Intermediaries*, respectively pertinent to "Accrual of Interest Earned on Loans" by providing for the non-accrual of interest income for unmatured loan/receivables with indications of doubtful collectibility; and "On Accounts Considered Past Due" as contained in subsections 1304 1.e, 2304 1.e, 3304.a and 4304Q 1.e of Books I to IV of same manual by considering the entire outstanding balance of the loan as past due when the total amount of arrearages, irrespective of the number of installments in arrears, reaches 20 percent of the total outstanding balance of said loan.

7. *Circular No. 1148, June 29, 1987.* Deletes paragraph 9 and amends paragraphs 7, 8, 10 and 11 of Circular No. 1139 dated April 6, 1987 relative to the regulations requiring all borrowers with accounts subject to Paris Club rescheduling to deposit the peso equivalent of principal and interest to the Central Bank which shall provide forward cover on these liabilities.

8. *Circular No. 1155, September 4, 1987.* Amends subsection 1304.6 (Book I), 2304.6 (Book II) and 4304Q6 (Book IV) of the *Manual of Regulations for Banks and Other Financial Intermediaries* pertaining to the restructuring of loans, such that restructured loans shall be defined as loans that were past due and whose terms and conditions of grant have been modified in accordance with a restructuring agreement.

9. *Circular No. 1156, September 22, 1987.* Deletes the section on schemes to attract Deposits and Promotional Campaigns designed to attract Placement of Funds from Books I-IV of the *Manual of Regulations for Banks and Other Financial Intermediaries*.

10. *Circular Letter, February 3, 1987.* Provides a list of firms registered with the Board of Investments (BOI) under Presidential Decree No. 1789 known as the Omnibus Investments Code.

11. *Circular Letter to All Commercial, Thrift and Rural Banks and Non-Bank Financial Intermediaries No. 87-01 (IGLF), January 12, 1987.* Redefines cottage,

small and medium industries as enterprises excluding agriculture whose total assets before financing are as follows: cottage industries—over P50,000 and up to P500,000; small industries—over P500,000 and up to P5 million; and medium industries—over P5 million and up to P20 million; and revises loan ceilings for each category as follows: cottage industries—P0.4 million; small industries—P4.0 million; medium industries—P16.0 million; or the maximum loan allowable based on an 80:20 debt-equity ratio, whichever is lower.

RESERVE REQUIREMENTS

1. *Circular No. 1132, February 3, 1987.* Amends portions of Books I, II and III of the *Manual of Regulations for Banks and Other Financial Intermediaries* in order to revise the bases for computing total demand deposit liabilities which are subject to reserves pursuant to MBR No. 33 dated January 9, 1987.
2. *Circular No. 1133, February 9, 1987.* Provides that pursuant to MBR No. 140 dated February 6, 1987, Special Time Deposits (STDs) and deposit substitutes arising from the lending operations of the Industrial Guarantee Loan Fund (IGLF) and the Agricultural Loan Fund (ALF) Programs shall be exempt from the legal reserve requirement provided under the pertinent provisions of Circular No. 1121, dated November 14, 1986.
3. *Circular No. 1136, March 3, 1987.* Reduces the reserve requirement on marginal deposits on import letters of credit from 100 percent to 50 percent.
4. *Circular No. 1142, April 10, 1987.* Reimposes the 100 percent reserve requirement on marginal deposits on import letters of credit effective April 15, 1987, thereby repealing Circular No. 1136 dated February 27, 1987, which lowered said requirement from 100 percent to 50 percent.
5. *Circular No. 1153, September 3, 1987.* Amends Section 1291 (Book I), 2291 (Book II), 3291 (Book III) and 4291 (Book IV) of the *Manual of Regulations for Banks and Other Financial Intermediaries* on CB regulation requiring that funds deposited for projects under the special financial program of the government and/or international financial institutions shall also be subject to legal reserve requirements similarly imposed on deposit substitutes.
6. *Circular Letter, July 24, 1987.* Amends Section 53 of Central Bank Circular No. 1062 dated May 28, 1985 pertaining to the provision on Technology Transfer under the subsection "Royalties and Fees or Rentals" and allows the remittance of royalties, fees or other forms of payments to a foreign company or foreign-owned company under technology transfer arrangements, net of taxes, provided the agreements are registered with the Bureau of Patents, Trademark and Technology Transfer of the Department of Trade and Industry (DTI) which assumed the function from the Technology Transfer Board.

RURAL BANKS

1. *Circular No. 1143, April 24, 1987.* Issues guidelines governing the implementation of the program to assist rural banks experiencing financial difficulties.
2. *Circular No. 1152, September 1, 1987.* Provides for the deletion of Subsection 3175.13 of Book III of the *Manual of Regulations for Banks and Other Financial Intermediaries* which requires CB-SES III approval prior to the acquisition of motor vehicles, office equipment and other commodities by rural banks.
3. *Circular No. 1158, October 5, 1987.* Amends Section 6, 10 and 16 of Circular

No. 1143 dated April 24, 1987 governing the implementation of the program to assist rural banks.

4. *Circular No. 1160, November 2, 1987.* Deletes Section 3149 and all its subsections in Book III of the *Manual of Regulations for Banks and Other Financial Intermediaries* which pertains to the salary and compensation benefit programs of rural banks.