1988 Annual Report

Bangko Sentral ng Pilipinas
MANILA

OFFICE OF THE GOVERNOR

March 17, 1989

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

Dear Mrs. President:

I have the honor to submit the Fortieth Annual Report (1988) 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 1988, 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

"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;

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[1]
Private Sector Representative

JESUS V. AYALA[2]
Private Sector Representative

Principal Officers

JOSE B. FERNANDEZ, JR.
Governor

GABRIEL C. SINGSON
Senior Deputy Governor

CARLOTA P. VALENZUELA[3]
Deputy Governor

JUAN QUINTOS, JR.
Deputy Governor

EDGARDO P. ZIALCITA
Deputy Governor

HONESTO G. NICANDRO
Deputy Governor

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[1] President and Chairman, Lapanday Group of Companies
[2] President and Chairman, Davao Fruits Corporation and Chairman, JVA Management Corporation
[3] Retired effective January 9, 1989

This listing of Monetary Board Members and Principal Officers is as of March 31, 1989.

Part One: THE PHILIPPINE ECONOMY

Part Two: THE CENTRAL BANK OF THE PHILIPPINES

TABLES

FIGURES

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

Definitions. The series are defined in general and specific terms in the "Notes on the Series Used" of the Statistical Bulletin, Volume II, of the Annual Report. Changes made in each table are also explained briefly, including clarifications on the eliminations 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
–	Nil or zero
p	Preliminary (Set up as a superior index)
r	Revised (Set up as a superior index)

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.

1
The Philippine Economy

An economic movement toward self sustaining growth was highly evident in 1988. Economic expansion further accelerated to 6.7 percent, with output in real terms recording the largest increase since 1979, as domestic demand spurred by the significant growth in fixed investments grew stronger under an environment of continued political stability and business optimism. Investment demand intensified to lead economic growth during the year, with consumption, particularly by the private sector, growing but at a decelerated pace. The rise in aggregate demand was generally accommodated by increased utilization of the industrial and services sectors. The upswing in private construction which could be traced to increased demand for residential and commercial centers and the greater availability of house financing, was the main source of growth in the industrial sector. The negative growth in agricultural output in the previous year was reversed in 1988, as the agricultural, fishery and forestry sector recovered sufficiently from the ill effects of the drought in 1987. Real per capita output improved from an annual growth of 2.6 percent in 1987 to 4.2 in 1988. With the improved investment climate, the unemployment rate dropped to 9.7 percent from 11.2 percent in 1987. Meanwhile, despite demand-push inflationary pressures, the inflation rate was contained at single-digit levels.

The National Government in 1988 recorded a budgetary deficit of P20.3 billion, equivalent to a higher ratio to GNP of 2.5 percent compared to the ratio of 2.4 percent in 1987. Despite the stronger economic performance, revenue collections fell below program targets while expenditures grew at a lower than programmed rate.

Signs of sustained economic growth were also evident in the external sector. The overall balance of payments (BOP) surplus in 1988 reflected an improvement of almost a hundred percent to $516 million following substantial gains realized in the transfers and direct investments accounts. The revival of investment activity was accompanied by a rapid increase in imports, mainly of capital goods, raw materials and intermediate goods. Since the absolute increment in imports exceeded that in exports, a deterioration in the merchandise trade account was recorded during the year. However, the increase in transfers, particularly inflows from private entities as well as aids and grants from major industrial powers, more than neutralized the deterioration in the merchandise and non-merchandise trade accounts and contributed to the narrowing of the deficit in the current account. Meanwhile, direct investments more than tripled following renewed foreign investors' confidence in the economy, the rationalization of investment incentives under the Omnibus Investment Code introduced last year and the conversion of debt into equity. The increase in direct investments helped to offset the shortfalls in medium- and long-term and short-term capital inflows, leading to a significant improvement in the non-monetary capital account. These favorable external developments resulted in the improvement of the net international reserves of both the monetary authorities and the commercial banking system. The gross international reserves of the Central Bank at $2,058.9 million as of end-1988, equivalent to 2.1 months of imports of goods and services, exceeded last year's level by almost $100 million. The peso-dollar exchange rate which continued to be market determined was recorded at P21.335/dollar at end-1988, marking a slight depreciation of 2.6 percent from the level posted in end-1987. The relative stability of the value of the peso reflected in part the moderation of domestic inflation and renewed foreign investors' confidence in the economy.

To achieve sustained growth while maintaining price stability, the monetary authorities continued to take an accommodative yet prudent stance in monetary management This stance was reflected in the annual growth rates of both reserve money and domestic liquidity which were higher in 1988 than in 1987. Bank credits to the private sector also continued to increase. Policy measures remained market-oriented to promote efficiency in resource use. Pricing policy was geared toward providing the correct signals for private investment decisions. In this regard, despite a perceived uptrend towards the end of the year, interest rate movements remained essentially moderate. To strengthen the financial system and make it more supportive of economic objectives, the privatization program intended to reduce the scope and size of government presence in banking continued. By end-1988, four out of six government banks were partly or wholly acquired by the private sector. Under the Central Bank's rehabilitation program for rural banks to enhance the servicing of the needs of the agricultural sector, 500 rural banks were approved for rehabilitation as of end-1988. At the same time the Central Bank moved to further strengthen its examination and supervisory functions by developing more effective early warning devices and seeking more speedy legal remedies whenever necessary. During the year substantial increases in capital were infused into the commercial banking system thereby increasing depositor protection and providing additional capacity to carry risk assets.

Policy measures in the external sector continued to be market-oriented and geared toward improving economic efficiency and enhancing the country's competitive position in the international market. The peso exchange rate, which was determined by the free interplay of market forces in the foreign exchange market, generally maintained export competitiveness while helping to contribute to domestic price stability. The continued implementation of the import liberalization program helped to assure local producers that their import requirements would be met and improved further the competitiveness of Philippine exports in the world market as a result of the reduction in the costs of imported inputs.

The basic thrust of the Government's external debt management strategy in 1988 continued to be the reduction of the debt service in order to provide room for continued economic growth. Debt reduction was accomplished through various market-oriented programs as the CB looked into the viability of schemes that could mitigate the debt burden through conversion to some of domestic financial and real assets. The debt-to-equity scheme was supplemented by debt-for-asset and debt-for-debt arrangements as well as other new schemes which reduced the debt stock and debt service payments.

INTERNATIONAL SECTOR

Signs of the restoration of the dynamics of growth in the economy were evident in the improvement of the BOP, the management of which continued to be one of the priority items of policymakers in 1988. Philippine external transactions in 1988 yielded an overall balance of payments surplus of $516 million, almost twice the surplus registered in the previous year (Table 1). Both the current and the non-monetary capital accounts recorded improvements relative to last year. Moreover, revaluation gains amounting to $83 million were realized in third currency-denominated assets and liabilities of the Central Bank and in discounts to residents arising from debt conversion/reduction schemes, in sharp contrast to the $78 million revaluation losses incurred in 1987. Meanwhile, monetization of gold declined by 14.0 percent to $314 million due to lower gold purchases by the CB. Without rescheduling, the overall payments position would have been a deficit of $908 million, 31.5 percent better than the comparable figure for the previous year.

CURRENT ACCOUNT

The deficit in the current account narrowed down significantly by 16.0 percent to $373 million owing to the increase in transfers which more than neutralized the deterioration of the merchandise and non-merchandise trade accounts.

Merchandise Trade

The merchandise trade gap widened from $1,017 million a year ago to $1,085 million due to the larger absolute increment of imports relative to exports. Aggregate exports advanced considerably by 23.7 percent to $7,074 million, helped by the strong performance of both traditional and non-traditional products (Table 2). As the domestic economy gained further momentum and as the international trade environment continued to be conducive to the growth of developing countries' exports, partly as a result of the removal of Generalized System of Preferences (GSP) privileges for some competing Asian countries, all categories of non-traditional exports, which accounted for more than three-fourths of total exports, with the exception of rice and machinery and transport equipment, reflected uptrends. Notable gains were registered in the shipments of electronic equipment and parts (up by $357 million), which were supported by the sustained world demand for such products as transistors, micro-circuits and semi-conductor devices; garments ($219 million) as strong demand persisted in both quota and non-quota markets; copper metal ($133 million) which was propelled by the sharp rise in metal prices abroad; and fish ($100 million), particularly shrimps and prawns, due to the sustained demand from Japan, the United States and the European Economic Community (EEC) as well as the penetration of new markets such as Belgium. Likewise, all major groupings of traditional exports, with the exception of fruits and vegetables, posted increases although on a more modest scale. Noteworthy, however, was the sharp upturn in the export of copper concentrates which rose by $107 million in response to strong demand and improved metal prices abroad. To a considerable extent, the impetus of export growth also emanated from the implementation of domestic exchange rate and trade policies which were supportive of trade. First, the flexible exchange rate policy helped maintain competitiveness with competing countries and trading partners. Second, the continuing implementation of the Import Liberalization Program help-

Table 1. **BALANCE OF PAYMENTS**
1987 - 1988
(In Million US Dollars)

Item	1988P	1987
I. Current Transactions		
A. Merchandise Trade	-1,085	-1,017
Exports	7,074	5,720
Imports	8,159	6,737
B. Non-Merchandise Trade	-77	0
Inflow	3,606	3,454
Outflow	3,683	3,454
C. Transfers	789	573
Inflow	791	575
Outflow	2	2
Current Account, Total	-373	-444
II. Non-Monetary Capital		
D. Long-Term Loans	-329	159
Inflow	2,372	2,598
Outflow	2,701	2,439
E. Foreign Investments	986	326
Inflow	1,077	439
Outflow	91	113
F. Short-Term Capital, Net	-205	80
G. Errors and Omissions	40	-144
Non-Monetary Capital, Total	492	421
H. Monetization of Gold	314	365
I. Allocation of SDR	0	0
J. Revaluation Adjustments	83	-78
Of which: Debt reduction	73	72
III. Overall Surplus/Deficit (-)	516	264

PPreliminary

Figure 1. **CURRENT ACCOUNT AND MERCHANDISE TRADE SURPLUS/DEFICIT**
1975-1988

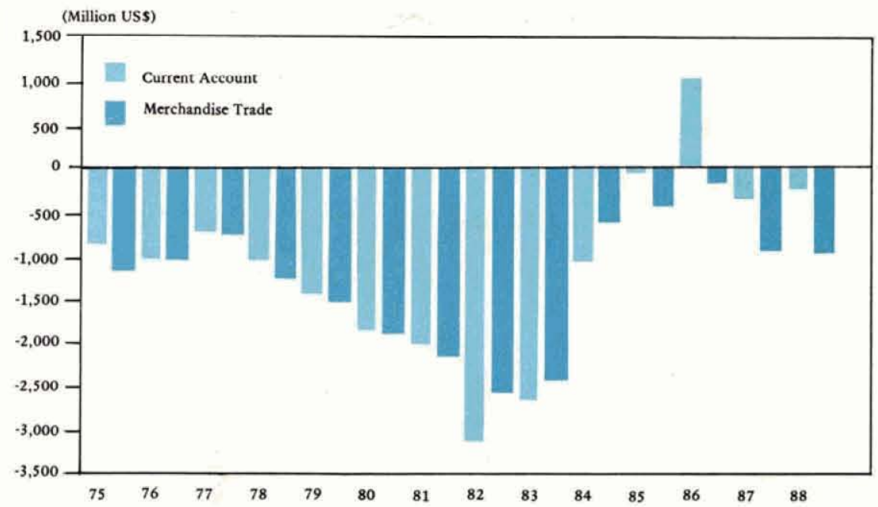


Table 2. **EXPORTS BY MAJOR COMMODITY GROUP**
1987 - 1988
(Volume in 000 MT; Unit Price in US$/MT; FOB Value in US$M)

Commodity Group	1988 Volume	1988 Price	1988 Value	1987 Volume	1987 Price	1987 Value
I. Traditional Exports			1,606			1,367
Coconut Products			578			561
Copra	80	349	28	129	249	32
Coconut Oil	793	515	408	1,031	370	381
Desiccated Coconut	88	889	78	95	791	75
Copra Meal/Cake	531	120	64	743	98	73
Sugar & Products			74			71
Centrifugal & Refined	143	422	60	163	370	60
Molasses	191	74	14	153	69	11
Forest Products[1]			261			243
Logs	0	0	0	0	0	0
Lumber	629	249	157	645	239	154
Plywood	242	325	79	241	282	68
Veneer Sheets/Corestocks	79	267	21	64	230	15
Others			4			6
Mineral Products			383			224
Copper Concentrates	450	480	216	362	302	109
Gold[2]	274	430	118	212	427	91
Chromium Ore	147	87	13	87	85	7
Others			36			17
Fruits & Vegetables			143			150
Canned Pineapple	183	455	83	184	470	86
Pineapple Juice	28	200	6	30	184	6
Pineapple Concentrates	29	589	17	32	623	20
Others			37			38
Abaca Fibers	24	673	16	23	508	12
Tobacco Unmanufactured	13	1,441	19	13	1,420	18
Petroleum Products			132			88
II. Non-Traditional Exports			5,361			4,197
Non-Traditional Manufactures			4,667			3,642
Electronic Equipment & Parts			1,476			1,119
Garments			1,317			1,098
Textile Yarns/Fabrics			71			68

Table 2 Continuation

Commodity Group	1988 Volume	1988 Price	1988 Value	1987 Volume	1987 Price	1987 Value
Footwear			45			31
Travel Goods & Handbags			22			16
Wood Manufactures			79			62
Furnitures & Fixtures			184			130
Chemicals			256			245
Copper Metal	127	2,331	295	106	1,525	162
Non-Metallic Mineral Manufactures			33			22
Machinery & Transport Equipment			54			78
Processed Food & Beverages			184			126
Misc. Mftrd. Articles, N.E.S.			248			199
Others			403			286
Non-Traditional Unmanufactures			694			555
Nickel	0	0	0	0	0	0
Iron Ore Agglomerates	4,874	18	86	4,017	19	76
Bananas	867	168	146	775	156	121
Mangoes	14	1,260	17	13	930	12
Coffee, Raw, not Roasted	26	1,841	48	16	1,956	32
Fish, Fresh or Preserved	50	6,178	307	41	4,996	207
Rice	0	0	0	111	221	25
Others			90			82
III. Special Transactions			27			7
IV. Re-Exports			80			149
Total Exports			**7,074**			**5,720**

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

ed reduce the cost of imported production inputs. Third, various export promotion measures designed to maximize foreign exchange earnings from the sale of Philippine-made commodities abroad remained in place during the year.

Imports were buoyed up by strong business activity particularly in the manufacturing sector, the stockpiling of raw materials and intermediate goods by industries taking advantage of favorable import prices and the relatively stable exchange rate as well as industry's need to replace and modernize capital equipment, especially in the electronics sector (Table 3). As expected, the Import Liberalization Program also contributed to higher imports. All of the 1,229 items lined up for liberalization under Phase Iof the Program had already been made freely importable by April of this year while Phase II was already underway by yearend. As a result, aggregate imports surged by 21.1 percent to $8,159 million, with all major commodity groupings, with the exception of mineral fuels and lubricants, displaying uptrends. The most pronounced absolute gains were posted in capital goods and raw materials and intermediate goods which advanced appreciably in response to renewed optimism regarding the investment potentials of the economy. Among capital goods, arrivals of electrical and non-electrical machinery and transport equipment expanded considerably while among raw materials and intermediate goods, purchases of materials and accessories for the manufacture of electrical equipment, manufactures of iron and steel, chemicals and crude inedible materials rose sharply, with absolute increases in all these products exceeding $100 million each. On the other hand, imports of mineral fuels and lubricants dropped by 12.2 percent mainly as a result of the softening of average petroleum crude prices from $16.99 per barrel in 1987 to $13.31 per barrel in 1988.

Net terms of trade improved by 6.1 percent from 118.0 index points (1985=100) to 125.2 index points this year (Table 4). Underlying this favorable development were the improving prices of almost all export commodities and the declining trend in petroleum prices.

Non-Merchandise Trade

The balance of the non-merchandise trade account deteriorated into a deficit of $77 million, as outflows accelerated at a faster rate than inflows. Receipts from services grew by 4.4 percent to $3,606 million in 1988, reflecting higher inward remittances of personal income (by $65 million) as the number of workers deployed overseas increased by 4.8 percent to 471,030; operating expenses of branches of foreign companies ($61 million); withdrawals of 343/547 deposits in pesos ($64 million), commissions and fees ($31 million); other transportation ($27 million); and freight and merchandise insurance ($25 million), following the expansion in exports. In contrast, drawdowns from the Economic Support Fund shrank considerably (by $128 million) as with inflows from travel ($53 million) in spite of the higher number of tourist arrivals. With the level of international reserves lower during the greater part of this year relative to last year, interest income of the Central Bank likewise dropped by $57 million. Meanwhile, invisible payments climbed by 6.6 percent to $3,683 million, with substantial gains reflected in freight and merchandise insurance (by $121 million) following the growth in imports, and other transportation ($56 million). With regard to

Table 3. **IMPORTS BY MAJOR COMMODITY GROUP**
1988 vs. 1987
(Volume in 000 MT; Unit Price in US$/MT; FOB Value in US$M)

Commodity Group	1988 **Volume**	1988 **Price**	1988 **Value**	1987 **Volume**	1987 **Price**	1987 **Value**
I. Capital Goods			1,735			1,210
Non-electrical Machinery			708			537
Electrical Machinery			579			451
Transport Equipment			234			116
Aircraft, Ships & Boats			123			33
Prof., Scntfic. & Cont. Instrmnts.			91			73
II. Raw Materials & Intermediate Goods			4,174			3,426
Wheat	1,075	127	136	672	122	82
Crude Materials, Inedible			413			290
Cotton	57	1,259	72	50	963	48
Synthetic & Artificial Fibers	49	1,725	84	54	1,441	77
Others			257			165
Animal & Vegetable Oils & Fats			18			13
Chemicals			1,039			924
Chemical Compounds			367			332
Medicinal & Pharmaceutical			113			104
Urea	608	119	72	618	96	59
Fertilizer Excl. Urea	409	86	35	352	85	30
Others			452			399
Manufactures			1,238			957
Paper & Paper Products	195	571	111	205	498	102
Textile, Yarn, Fabric, Etc.			324			279
Iron & Steel	1,368	347	475	1,188	286	340
Metal Products			85			63
Others			243			173
Embroideries			377			334
Mat./Acc. for Mftr. of Elect. Eqpt.			910			767
Iron Ore Not Agglomerated	3,055	14	43	3,791	15	59
III. Mineral Fuels and Lubricants[1]			1,096			1,249
Coal, Coke and Briquettes	1,345	33	45	560	37	20
Petroleum Crude	69.07	13.31	919	62.47	16.99	1,062
Other Mineral Fuels & Lubricants	8.57	15.40	132	10.04	16.64	167

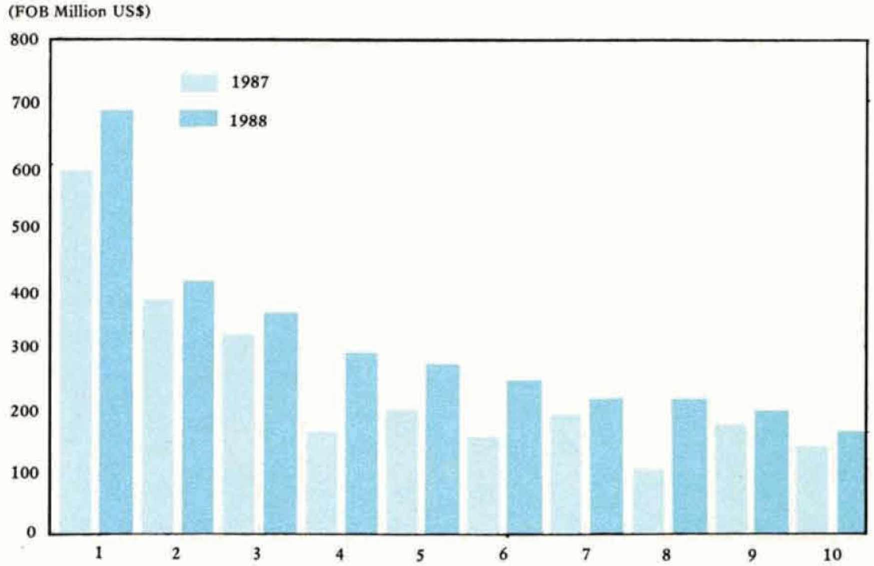
Table 3 Continuation

Commodity Group	1988 Volume	1988 Price	1988 Value	1987 Volume	1987 Price	1987 Value
IV. Consumer Goods			740			547
Food & Live Animals for Food			548			368
Dairy Products	141	1,141	161	172	872	150
Fish & Fish Preparations	117	303	35	67	232	16
Rice	119	309	37	0	0	0
Corn	25	103	3	56	97	5
Others			312			197
Beverages & Tobacco			94			107
Miscellaneous Instruments			98			72
V. Special Transactions			414			305
Total Imports			**8,159**			**6,737**

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

Source of Basic Data: National Statistics Office

Figure 2. **FOREIGN TRADE BY PRINCIPAL COMMODITIES**
Ten Leading Exports
1987-1988



1. Semi-conductor devices
2. Coconut oil (Crude and Refined)
3. Electronic microcircuits
4. Copper metal
5. Consigned children's and infants' wear
6. Shrimps and prawns, fresh or frozen
7. Consigned women's wear
8. Copper concentrates
9. Consigned men's wear
10. Outer garments, knitted or crocheted

Figure 2. **FOREIGN TRADE BY PRINCIPAL COMMODITIES**
Ten Leading Imports
1987-1988

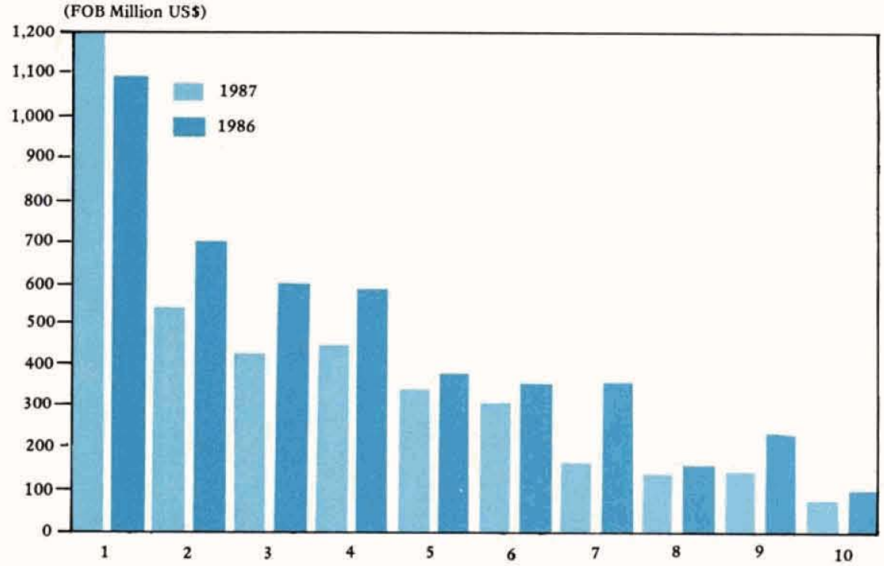
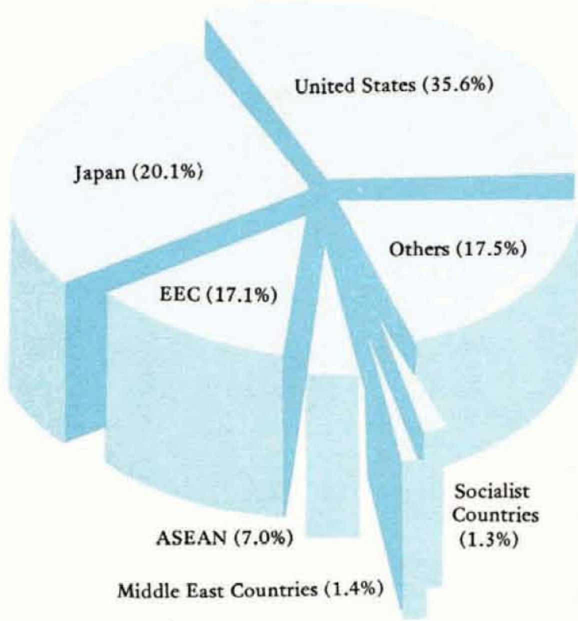


Figure 3. **FOREIGN TRADE BY AREAS AND COUNTRIES, 1988**

Merchandise Exports
1988



Merchandise Imports
1988

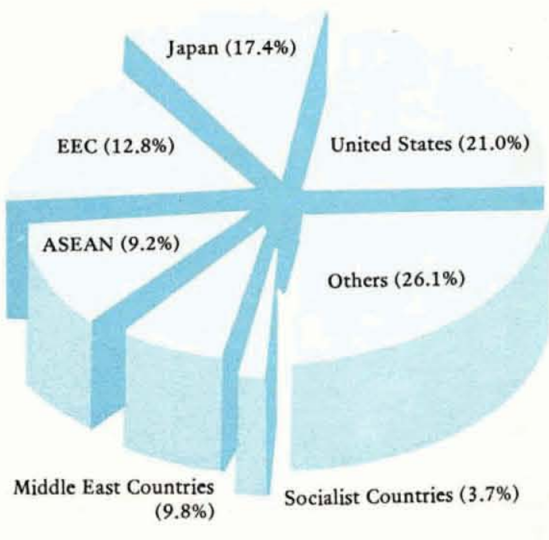


Table 4. **INDICES OF FOREIGN TRADE**
1984 - 1988
(1985=100)

	Exports		Imports		Net	Purchasing
Period	Volume	Prices[1]	Volume	Prices[2]	Terms of Trade	Power of Exports
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	125.8
1987	124.2	97.7	158.0	82.7	118.0	146.5
1988[P]	142.0	106.3	188.3	84.9	125.2	177.8

[1]Computed on F.O.B. basis
[2]Computed on C.I.F. basis
[P]Preliminary

interest expense, preliminary data revealed that it contracted by $52 million to $2,159 million and constituted 58.6 percent of total outflows in 1988 as against 61.0 percent in the previous year.

Transfers

Net inward transfers reached $789 million in 1988, 37.7 percent higher than the 1987 level. This came about as inflows from personal remittances as well as aids and grants from the U.S., Australia, Japan, Canada and the Netherlands advanced considerably.

NON-MONETARY CAPITAL

In 1988, there was a significant improvement in the balance of the non-monetary capital account to $492 million from $421 million in the previous year. The trebling of net direct investments was the principal reason behind this development. Net inflows of medium- and long-term (MLT) capital turned around from a surplus of $159 million last year to a deficit of $329 million this year as repayments accelerated by 10.7 percent and gross availments contracted by 8.7 percent. The latter dropped to $2,372 million as availments of both pipeline loans and the amount of rescheduled loans receded. Pipeline loans decreased substantially from $425 million to $259 million. Loans deemed rescheduled likewise contracted by 10.4 percent to $1,424 million. Of this, 43.9 percent were owed to the Paris Club and the remainder to foreign commercial banks. It must be noted, however, that the second round of rescheduling with the Paris Club expired last August 31, 1988. It was, therefore, assumed that maturities (100 percent of principal and 70 percent of interest) starting September 1, 1988 amounting to $249 million would be covered by the third round of rescheduling with the Paris Club. In contrast, new money inflows advanced by 18.2 percent. Meanwhile, repayments rose by $262 million to $2,701 million in 1988 primarily on account of higher payments stemming from the debt-equity conversion program.

The balance of the short-term capital account likewise deteriorated to a deficit of $205 million from a surplus of $80 million in the previous year. This development was traced mainly to the net repayments made under the Trade Facility which amounted to $153 million in 1988 as against the net utilization of $390 million last year. This more than neutralized the effects of greater export advances and higher availments under D/A and O/A arrangements.

Offsetting the unfavorable performances of both the MLT and short-term capital accounts was the remarkably strong showing of direct investments which more than trebled to $986 million, following renewed foreign investors' confidence in the economy and the rationalization of investment incentives under the Omnibus Investment Code introduced late last year. Inflows from new foreign investments in the country, foreign debt conversions and bank inter-branch operations registered substantial increases. Concomitantly, outflows of investments contracted by 19.5 percent to $91 million.

INTERNATIONAL RESERVES

The gross international reserves of the Central Bank reached US$2,058.9 million by year-end, reflecting an increase of US$100.2 million or 5.1 percent from the end-1987 level. At this current level, reserves were equivalent to 2.1 months imports of goods and services.

For three consecutive quarters during the year, the level of reserves was consistently on the downtrend, registering rates of change ranging from negative 4.6 percent to negative 7.8 percent. However, during the last quarter, particularly during the last two months of the year, gross reserves recovered dramatically posting an overall increase of 26.4 percent for the period.

The drop in Central Bank reserves during the first quarter was traceable mainly to spot sales of foreign exchange to the National Government for its debt servicing requirements ($296 million) as well as to Central Bank servicing of its own foreign exchange obligations ($278 million). These drawdowns were partially offset by (1) deposits of the Treasurer of the Philippines of the proceeds of the Economic Recovery Loan from the World Bank ($101 million) and the co-financing from the Export-Import Bank of Japan ($100 million) and (2) net purchases of foreign exchange from commercial banks (in the amount of $112 million). Reserves continued to decline during the second and third quarters of 1988 due principally to the debt servicing requirements of both the National Government and the Central Bank, cushioned only by inflows arising from net foreign exchange purchases from commercial banks, purchases of primary gold and US Treasury warrants, and the availment of the last two branches of the IMF Standby Facility.

In November, however, the level of gross reserves started to record positive growth and peaked at $2,058.9 million by the end of the quarter, the highest level achieved since reserves fell below $2 billion in October 1987. Accounting for this marked improvement were inflows arising from: loan proceeds of the Government Corporate Reform Program from World Bank ($75 million) and cofinancing from the Overseas Economic Cooperation Fund ($100 million); and proceeds of the OECF 15th Yen Package ($100 million); net deposits under the Trade Facility ($77 million); purchases of primary gold ($75 million); and purchases of US Treasury warrants ($58 million). The inflows, however, were offset to an important extent by debt service payments made during the quarter on maturing obligations of the National Government ($425 million) and of the Central Bank ($217 million).

The Central Bank's international reserves at year-end consisted of gold (53.8 percent), foreign investments (39.2 percent), and foreign exchange holdings and special drawing rights (SDRs) which together accounted for 7 percent (Table 5).

EXCHANGE RATE

The peso was generally stable in 1988. For the first eight months of the year, the peso-dollar rate was on a gradually depreciating trend, moving from the end-January level of P20.8700 to P21.0790 by end-August (Table 6 and Fig. 5). Thereafter, the exchange rate depreciated more rapidly, reflecting the seasonal demand for foreign exchange to finance business inventory requirements, and

Table 5. **INTERNATIONAL RESERVES OF THE CENTRAL BANK**[1]
As of Dates Indicated
(In Million US Dollars)

End of Period	Total	Gold	SDR s	Foreign Investments	Foreign Exchange
1987 Jan	2,577.96	831.35	6.23	1,702.98	37.4
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	39.7
Nov	1,772.52	1,047.16	0.18	679.38	45.8
Dec	1,958.68	1,045.65	0.19	835.37	77.47
1988 Jan	1,808.80	1,070.10	17.61	647.11	73.98
Feb	1,732.79	1,085.58	17.51	530.08	99.62
Mar	1,807.48	1,106.72	17.76	582.92	100.08
Apr	1,812.59	1,133.45	13.37	545.37	120.4
May	1,780.33	1,161.45	2.23	452.07	164.58
Jun	1,725.10	1,159.33	2.71	454.84	108.22
Jul	1,620.25	1,193.30	0.44	340.36	86.15
Aug	1,656.47	1,226.84	2.13	356.92	70.58
Sep	1,628.87	1,245.80	2.14	292.81	88.12
Oct	1,543.14	1,115.00	2.21	359.28	66.65
Nov	1,675.53	1,089.69	0.14	492.45	93.25
Dec	2,058.88	1,107.62	0.14	806.61	144.51

[1]With revaluation; SGV adjustments reflected

Source: Treasury, Central Bank of the Philippines

Figure 4. **INTERNATIONAL RESERVES OF THE CENTRAL BANK**
1987-1988

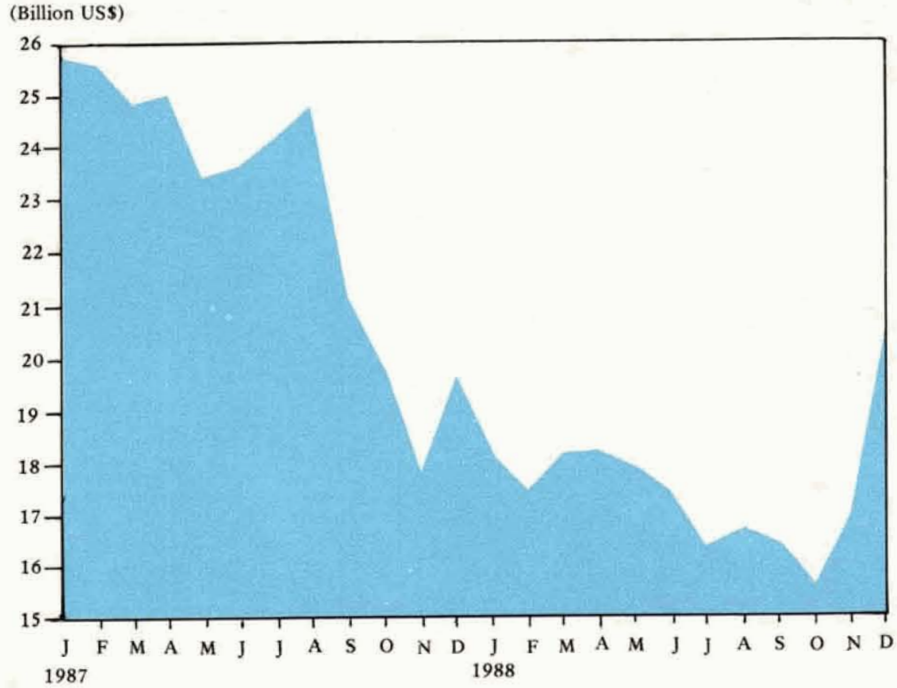


Table 6. EXCHANGE RATES OF THE PESO
End of Month, 1987-1988
(Peso Per Unit of Foreign Currency)

Period		US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	Hongkong Dollar	NT Dollar	S. Korean Won	Singapore Dollar
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
1988	Jan	20.8700	0.1641	12.5178	37.1799	3.7127	15.3791	2.6755	0.7374	0.026797	10.3452
	Feb	21.0100	0.1637	12.4379	37.2297	3.6725	15.1187	2.6934	0.7371	0.027691	10.4461
	Mar	21.0160	0.1679	12.5990	39.2158	3.7177	15.2492	2.6921	0.7350	0.028224	10.4890
	Apr	21.0180	0.1688	12.5876	39.3667	3.7033	15.1791	2.6882	0.7348	0.028500	10.5047
	May	20.9050	0.1674	12.1771	38.8101	3.6207	14.5728	2.6737	0.7316	0.028639	10.3563
	Jun	21.0620	0.1588	11.5756	36.1002	3.4288	13.9472	2.6980	0.7313	0.029023	10.2761
	Jul	21.0380	0.1587	11.2742	36.2169	3.3408	13.5379	2.6928	0.7360	0.029158	10.3338
	Aug	21.0790	0.1563	11.2920	35.5918	3.3262	13.3661	2.7002	0.7339	0.029299	10.3413
	Sep	21.3360	0.1587	11.3336	35.8764	3.3305	13.3883	2.7310	0.7387	0.029785	10.4610
	Oct	21.3920	0.1697	12.0308	37.8210	3.5232	14.2791	2.7381	0.7484	0.030761	10.7024
	Nov	21.3790	0.1747	12.3143	39.2946	3.6044	14.7066	2.7365	0.7621	0.031191	10.9930
	Dec	21.3350	0.1697	11.9241	38.1896	3.4882	14.1003	2.7330	0.7592	0.031277	10.9661

Source: Treasury, Central Bank of the Philippines

Table 6A. EXCHANGE RATES OF THE PESO
End of Month, 1987-1988
(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
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
1988	Jan	0.0479	6.0938	0.0799	0.0269	0.2693	0.0650	0.3738	1.3561	37.3176	0.0967
	Feb	0.0476	6.1087	0.0804	0.0269	0.2723	0.0661	0.3713	1.3567	36.1128	0.0957
	Mar	0.0476	5.9559	0.0794	0.0255	0.2690	0.0656	0.3715	1.3605	35.4308	0.0953
	Apr	0.0476	5.9242	0.0794	0.0254	0.2700	0.0659	0.3720	1.3609	35.0877	0.0952
	May	0.0478	5.9737	0.0821	0.0258	0.2762	0.0686	0.3740	1.3669	34.9174	0.0966
	Jun	0.0475	6.2972	0.0864	0.0277	0.2916	0.0717	0.3706	1.3674	34.4554	0.0973
	Jul	0.0475	6.3012	0.0887	0.0276	0.2993	0.0739	0.3714	1.3587	34.2959	0.0968
	Aug	0.0474	6.3980	0.0886	0.0281	0.3006	0.0748	0.3703	1.3626	34.1309	0.0967
	Sep	0.0469	6.3012	0.0882	0.0279	0.3003	0.0747	0.3662	1.3537	33.5739	0.0956
	Oct	0.0467	5.8928	0.0831	0.0264	0.2838	0.0700	0.3652	1.3362	32.5087	0.0934
	Nov	0.0468	5.7241	0.0812	0.0254	0.2774	0.0680	0.3654	1.3122	32.0605	0.0910
	Dec	0.0469	5.8928	0.0839	0.0262	0.2867	0.0709	0.3659	1.3172	31.9724	0.0912

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

Figure 5. **PESO PER U.S. DOLLAR**
1987-1988 (End of Period)

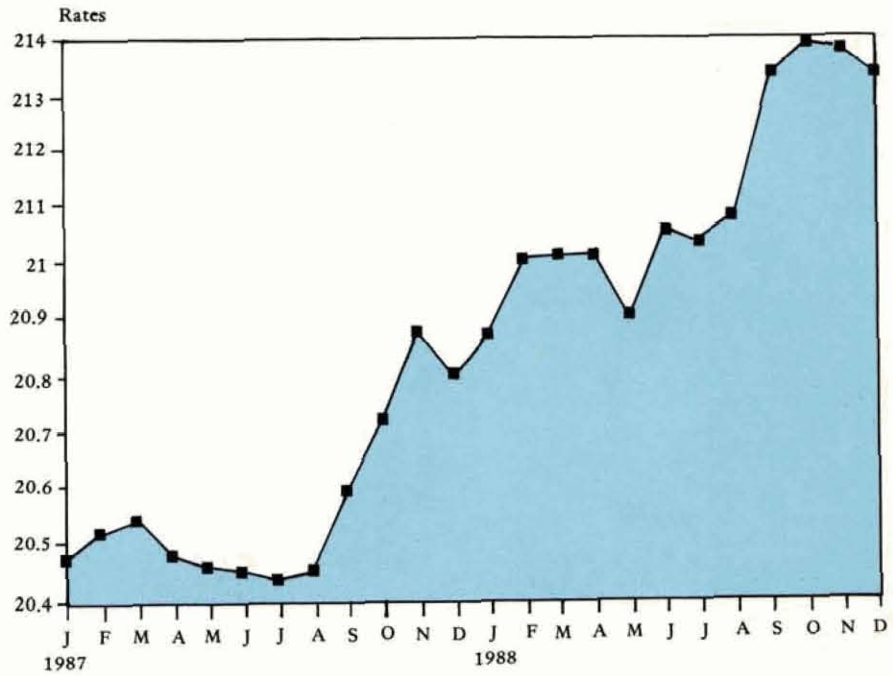
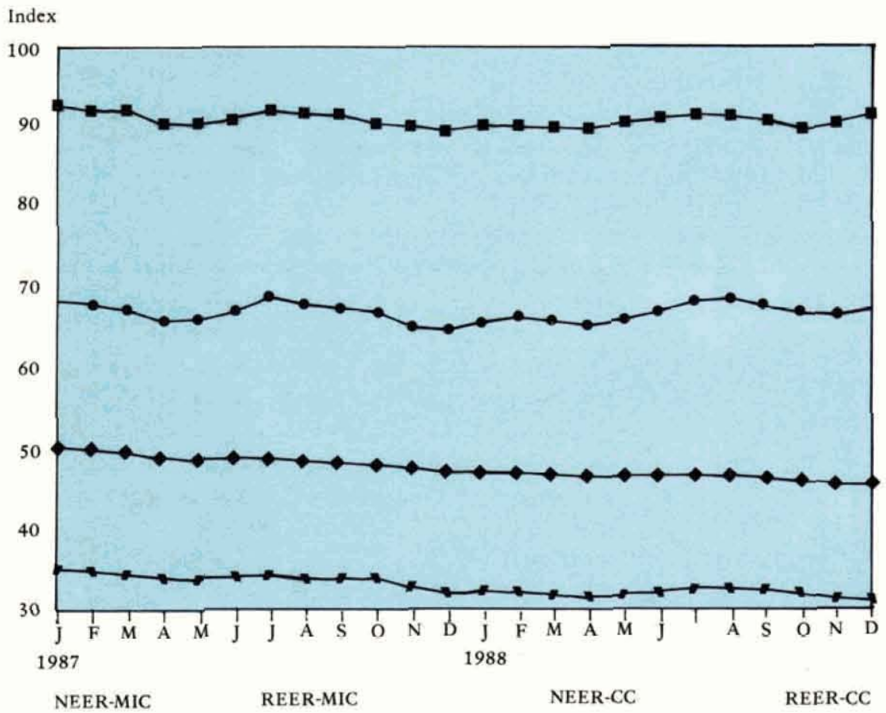


Figure 5A. **EFFECTIVE EXCHANGE RATES OF THE PESO**
1986-1987 (Monthly Averages)



peaked at P21.3920 by end-October. When the seasonal demand for foreign exchange eased in November and December, however, the peso levelled off and in fact appreciated to P21.3350 by the end of the year. At this level, the peso-dollar exchange rate recorded a depreciation of 2.6 percent from a year earlier.

In contrast, the peso reflected a general appreciation over the year relative to other major currencies except the Japanese yen, against which it registered a 0.8 percent depreciation. Gains relative to other major currencies were recorded as follows: 12.5 percent against the Swiss franc, 9.2 percent against the French franc, 8.5 percent against the Deutsche mark, and 1.4 percent against the pound sterling.

Over the same period, the peso weakened relative to the currencies of newly industrializing economies, as follows: 2.1 percent vis-a-vis the Hongkong dollar; 2.8 percent vis-a-vis the New Taiwan dollar; 5.1 percent vis-a-vis the Singapore dollar and 18.7 percent vis-a-vis the South Korean won.

Based on a total trade-weighted basket of currencies of major industrial countries (NEER-MIC), the peso at end-1988 indicated a 2.9 percent depreciation from its year-ago level. Relative to currencies of competing countries over the same period, the peso's NEER registered a 3.3 percent depreciation. Adjusted for relative price levels, however, the local currency recorded appreciations of 3.3 percent and 2.1 percent vis-a-vis the currencies of major industrial and competing countries, respectively.

The parallel market rate (based on the rate at which bulk dealers sell US currency notes) closed at P21.530 at end-1988. During the year, the differential between the parallel and official rates remained relatively narrow, indicating the general alignment of the official exchange rate with prevailing market conditions.

FOREIGN EXCHANGE LIABILITIES

At the close of December 1988, the country's total foreign exchange liabilities reached $27,915 million, dropping by $734 million or 2.6 percent from the level at end-1987 (Table 7). Accounting mainly for the decline were debt converted to equity amounting to $648 million, adjustments arising from audit of OA/DA credits of $194 million, peso prepayments of $175 million, debt for asset swap of $108 million and adjustments for foreign exchange fluctuations of $94 million. The contraction was partly offset by net availments of $286 million in medium- and long-term loans and $179 million in short-term trade credits, as well as by the capitalization of interest of $127 million under the Paris Club second round of rescheduling.

In large part, outstanding foreign exchange liabilities comprised debts of the non-banking sector (69.0 percent of the total), while 30.1 percent and 0.9 percent were banking sector liabilities and export advances, respectively.

Classified by maturity, short-term debt accounted for 13.5 percent of total foreign exchange liabilities, and medium- and long-term debt for the balance of 86.5 percent.

Classified by creditor type, 48.9 percent was owed to banks and financial institutions, 23.3 percent to bilateral sources, 18.2 percent to multilateral institutions, 7.5 percent to suppliers and 2.1 percent to other creditors.

Table 7. **PHILIPPINE TOTAL FOREIGN EXCHANGE LIABILITIES**
As of End-December 1987-1988
(In Million US Dollars)

Item	December 31, 1988				December 31, 1987			
	Short-Term		Medium and Long Term		Short-Term		Medium and Long Term	
	Trade	Non-Trade		Total	Trade	Non-Trade		Total
Grand Total	**3,537**	**224**	**24,154**	**27,915**	**3,552**	**240**	**24,857**	**28,649**
Commercial Banks and Central Bank	1,851	202	6,361	8,414	1,726	221	6,926	8,873
1. Commercial Banks	865	179	1,206	2,250	694	198	1,477	2,369
Government	185	98	110	393	109	164	190	463
Private	680	81	1,096	1,857	585	34	1,287	1,906
Foreign Banks	112	58	996	1,166	83	13	1,050	1,146
Domestic Banks	568	23	100	691	502	21	237	760
2. Central Bank of the Phils.	986	23	5,155	6,164	1,032	23	5,449	6,504
Public and Private	1,436	22	17,793	19,251	1,665	19	17,931	19,615
1. Public	521	10	15,580	16,111	582	4	15,198	15,784
2. Private	915	12	2,213	3,140	1,083	15	2,733	3,831
Red Clause Advances	250	-	-	250	161	-	-	161
1. Public	0	-	-	0	0	-	-	0
2. Private	250	-	-	250	161	-	-	161

Source: Information Management Department

Trade credits covered by the Trade Facility reached $2,891 million as of end-December 1988, $19 million lower than the commitment level of $2,910 million. Of the actual level, $1,914 million were direct trade credits and $977 million were deposits with the Central Bank.

DEBT REDUCTION PROGRAM

Total applications received under the debt-to-equity conversion program reached 405 as of end-December 1988 with an aggregate value of $1,826.7 million (Table 8). Of this total, 87.2 percent or 353 applications valued at $1,242.9 million were approved for conversion, and only four (4) applications amounting to $9.3 million are still being processed by the Central Bank. The other applications were either inactive, denied, outbidded, deferred by investors, or withdrawn by their proponents.

By type of investment, Schedule 2 or preferred investments comprised 79.2 percent of the value of approved debt-to-equity conversions; these mainly involved investments in export-oriented enterprises, government assets for privatization, agricultural production and in projects listed in the Investment Priorities Plan.

Of the transactions approved for conversion, 59.2 percent or 209 approvals valued at $623.8 million were closed or finally redeemed. These involved the prepayment in Philippine pesos of the following: Central Bank debt of $488.4 million, private sector obligations of $103.4 million, and public sector debt of $8.8 million and the infusion of $23.1 million of fresh money requirements.

Classified by nationality of investors, Filipino or resident investors accounted for 46 percent of the total value of actual conversions made. Among the foreign investor groups, the Americans, Chinese/Hongkong and Japanese were the most active participants, with a combined share of about 70 percent of total value of closed transactions with non-residents.

On the whole, the debt-to-equity conversion program reduced the country's outstanding debt by $738 million including those conversions made under the Philippine Long-Term Equity Fund since Circular 1111 was issued in August 1986.

Meanwhile, debt reduction under other schemes i.e., (1) payment of debt in pesos to the creditor's assignee who invested in a Philippine enterprise under CB Circular No. 1111 (Excluded Investment); or (2) payment of the debt in pesos to a creditor/assignee who accepted the pesos for its own account (Debt-for-Debt Swap, other Novations) amounted to $365 million. Similarly, a swap of debt for assets turned over to the Asset Privatization Trust Fund (APT) took place during the year amounting to $109 million (Table 8A).

Table 8. **STATUS REPORT: DEBT-TO-EQUITY CONVERSION PROGRAM**
As of End-December 1988
(Value in Million US Dollars)

Item	Number of Applications	Value
I. Applications Received (Total)	405	1,826.710
By Investment Classification		
Preferred (Schedule 2)	359	1,422.038
Less Preferred (Schedule 3)	46	404.672
II. Approved Applications (Total)	353	1,242.865
Preferred (Schedule 2)	315	984.097
Less Preferred (Schedule 3)	38	258.768
III. Closed Transactions (Total)	209	623.829
CB Debt Paper	158	488.437
Private Sector Debt Paper	47	103.443
Public Sector Debt Paper	4	8.802
Fresh Money	0	23.147[1]
IV. Pending Applications	4	9.329
V. Denied Applications	14	220.288[2]
VI. Inactive Applications	7	10.057
VII. Deferred Applications	6	9.050[3]
VIII. Withdrawn Applications	14	83.121[4]
IX. Applications Outbidded	7	252.000

[1] Portion of 18 applications funded through foreign exchange inward remitted and sold to the Central Bank for pesos.

[2] Includes US$39.359 million corresponding to the disallowed portion of 15 applications.

[3] Processing of applications deferred per request of applicants/investors.

[4] Applications which have been formally withdrawn prior to decision thereon by the Central Bank.

Source: Debt Restructuring Office, CBP.

Table 8A. **DEBT REDUCTION UNDER VARIOUS SCHEMES**
1986 - 1988
(In Million US Dollars)

Scheme	**1986**	**1987**	**1988**	**Total**
1. Debt-to-Equity Conversion	15	267	635	917
a. Registered[1]	15	267	456	738
b. Excluded Investment[2]	-	-	179	179
2. Debt-for-Asset Swap	-	-	109	109
3. Debt-for-Debt Swap	-	3	12	15
4. Other Novation Schemes (i.e. peso payment offsets, advances, donations, etc.)	66	180	174	420
Total	**81**	**450**	**930**	**1,461**

[1]Includes $137 million debt converted to equity for which investment is temporarily placed in CB bills.

[2]Equity investments under Sec. 11 of CB Circular No. 1111 which are not entitled to CB registration or to capital repatriation anytime in the future.

DOMESTIC SECTOR

MONEY, CREDIT AND INTEREST RATES

Reserve Money

Reserve money (RM) movements during 1988 reflected the accommodative yet cautious monetary policy stance in monetary management to support the objectives of growth and stability (Table 9).

At end-1988, RM stood at P66.5 billion, P9.6 billion or 17 percent higher than the end-1987 level. The expansion in RM was principally due to the rise in both currency issue and reserve balances of deposit money banks with the Central Bank by P4.8 billion and P4.9 billion, respectively.

For the first three quarters of the year, RM declined by only 3.3 percent or P1.9 billion to reach P55.0 billion at end-September 1988. This developed as National Government (NG) deposits with the Central Bank increased coming largely from the proceeds of auctioned Treasury bills and notes. The contractionary impact of increased NG deposits with CB was partly offset by expansionary developments resulting from the increase in CB's net other assets representing interest payments on domestic liabilities and the improvement in the net foreign asset position of CB.

During the last quarter, RM rose by P11.5 billion, a reversal of the decline in RM during the previous three quarters. The expansion in RM in the last quarter resulted mainly from the CB's net purchases of foreign exchange, the drawdown in NG deposits with CB and interest payments on CB domestic obligations. The seasonal shift in preference for transactional cash balances towards the last part of the fourth quarter was reflected in the increase of P11.4 billion in currency issue which accounted for the bulk of the increase in RM when viewed from the liabilities side of the CB balance sheet.

Consequently, base money (consisting of reserve money, reserve-eligible government securities holdings of deposit money banks (DMBs) and aggregate reserve deficiency of DMBs) increased by P9.4 billion to reach P70.7 billion at end-1988.

Domestic Liquidity

To accommodate the liquidity needs of a growing economy, total liquidity (M3) expanded by P36.2 billion or 22.7 percent during the year to reach P195.4 billion at end-December 1988. The current year's growth in M3 was almost double the annual growth rate obtained in 1987. The increase in M3 was mainly influenced by both the increase in the base money multiplier (i.e., the ratio of total liquidity to base money) from 2.597 at end-1987 to 2.763, and the higher growth in reserve money. The base money multiplier rose as the public's preference shifted from currency to deposit holdings with the normalization of the economic, financial and political environment and the strengthening of the banking public's confidence in the financial system.

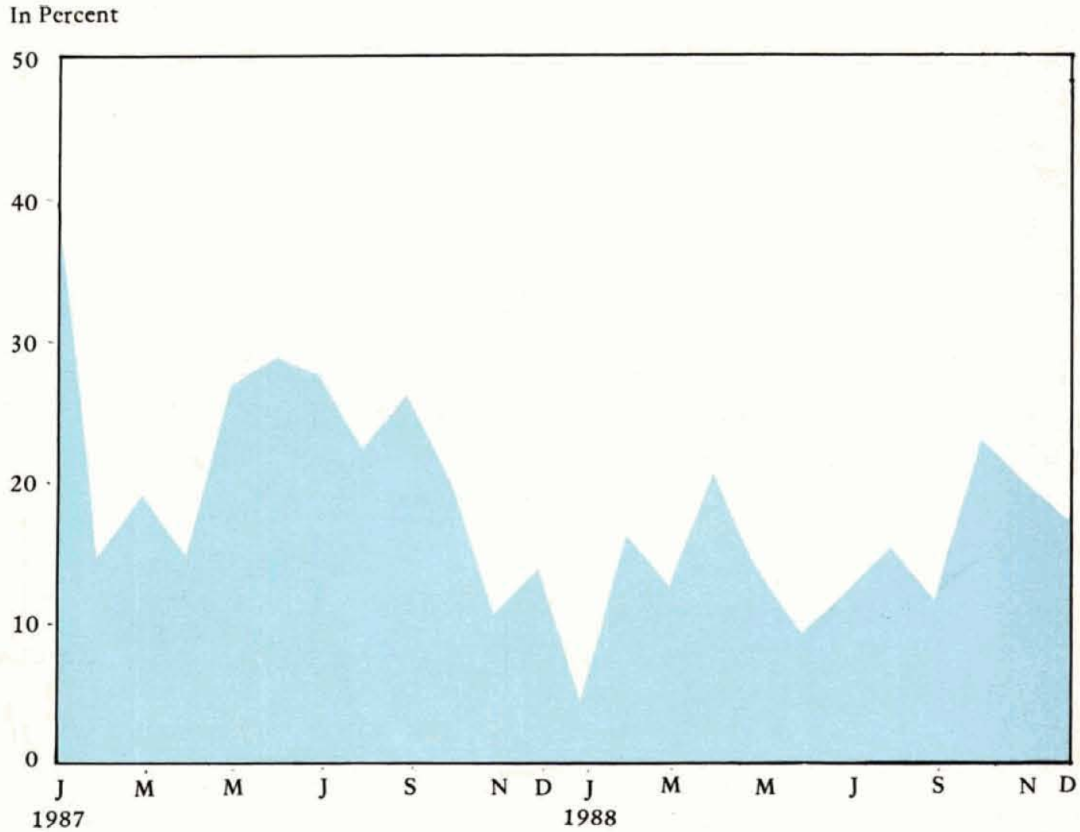
By component, quasi-money (or savings plus time deposits) which accounted for the bulk or 68.2 percent of M3, accounted for the growth in M3. Quasi-money grew by P29.8 billion or 28.8 percent during the year compared to a 10.6 percent growth in the previous year to reach P133.3 billion as of the end of 1988.

Table 9. SOURCES OF RESERVE MONEY MOVEMENTS
As of End 1987-1988
(In Million Pesos)

Item	December 1988	December 1987	Percent Change
I. Reserve Money	66,545	56,863	17.0
1.0 Currency Issued Net of Cash in Treasury Vault	46,281	41,518	11.5
2.0 Bank Deposit Balances with the Central Bank	20,264	15,345	32.1
II. Net Foreign Assets - Monetary Authorities (MA)	-90,287	-99,699	-9.4
1.0 Net International Reserves - MA	-10,768	-15,096	-28.7
1.1 Gross International Reserves	43,926	40,733	7.9
1.2 Short-term Foreign Liabilities	-54,694	-55,829	-2.0
2.0 Medium- and Long-Term Foreign Liabilities	-79,519	-84,603	-6.1
III. Net Domestic Assets - MA	156,832	156,562	0.2
Of Which:			
1.0 Net Credits to the National Government (MA)	-51,479	-32,216	59.8
of which:			
National Government Deposits	-58,218	-42,563	36.8
2.0 Assistance to Financial Institutions	15,011	15,405	-2.6
of which:			
Overdrafts	12,903	12,769	1.0
3.0 Regular Rediscounting	5,083	5,070	0.3
4.0 CB Bills/Reverse RPs	-9,726	-11,138	-12.7
5.0 Forward Cover Differential	22,574	22,558	0.1
Memo Items:			
Reserve-Eligible Government Securities	4,198	4,355	-3.6
Base Money	70,743	61,218	15.6

Source: Accounting Department, Central Bank of the Philippines

Figure 6. **RESERVE MONEY**
(Annual Growth Rates)



Specifically, time deposits increased by 31.2 percent in 1988 in contrast to its negative annual growth of 0.4 percent in 1987. Time deposits continued to yield positive real returns, a factor which made this deposit instrument attractive to savers. Similarly, savings deposits registered a higher growth of 27.6 percent during the year and aggregated P90.2 billion at the end of the period with such improvements in bank services as automated teller machines and credit cards, among others.

Meanwhile, money supply (M1), which comprised 30.5 percent of M3, grew by 14.4 percent and amounted to P59.6 billion at year-end. Currency in circulation, a component of M1, grew at a decelerated rate of 14.8 percent compared to the previous year's growth of 21.0 percent and reached P40.7 billion at end-1988. Demand deposits, the other component of M1, also grew at a lower rate of 13.6 percent during the year and totalled P18.9 billion at year-end. On the other hand, deposit substitutes which accounted for 1.3 percent of M3, declined by 29.7 percent or P1.1 billion and amounted to P2.5 billion at end-1988.

Net Domestic Assets of the Monetary System

Net domestic assets (NDA) of the monetary system aggregated P300.9 billion as of end-December 1988, reflecting an annual growth of P26.0 billion or 9.5 percent. The current year's expansion in NDA was relatively higher than the annual growth of 5.0 percent registered in 1987, as the monetary system expanded its credit portfolio to meet the increased financing requirements of the economy.

Net domestic credits of the monetary system which comprised 40.6 percent of NDA increased by P13.6 billion or 12.6 percent and reached P122.0 billion at year's end. The expansion in the monetary system's domestic credits primarily benefited the private sector as net credits to this sector posted a net increment of P20.5 billion during the period. The bulk of private sector credits were sourced from deposit money banks (DMBs) mainly in the form of loans and advances. This was reflective of banks' response to increased demand for financing to support the sustained growth in entrepreneurial activities. Specifically, banks' lendings during the year were channelled mostly to wholesale and retail trade, manufacturing, real estate and business services and the agricultural sectors.

The monetary system's net credits to the public sector at negative P15.4 billion at year-end registered a full year decline of P6.9 billion. The contraction in public sector credits could be traced to the build-up in National Government's deposits with the monetary system from the net proceeds of Treasury bills and notes issued during the year.

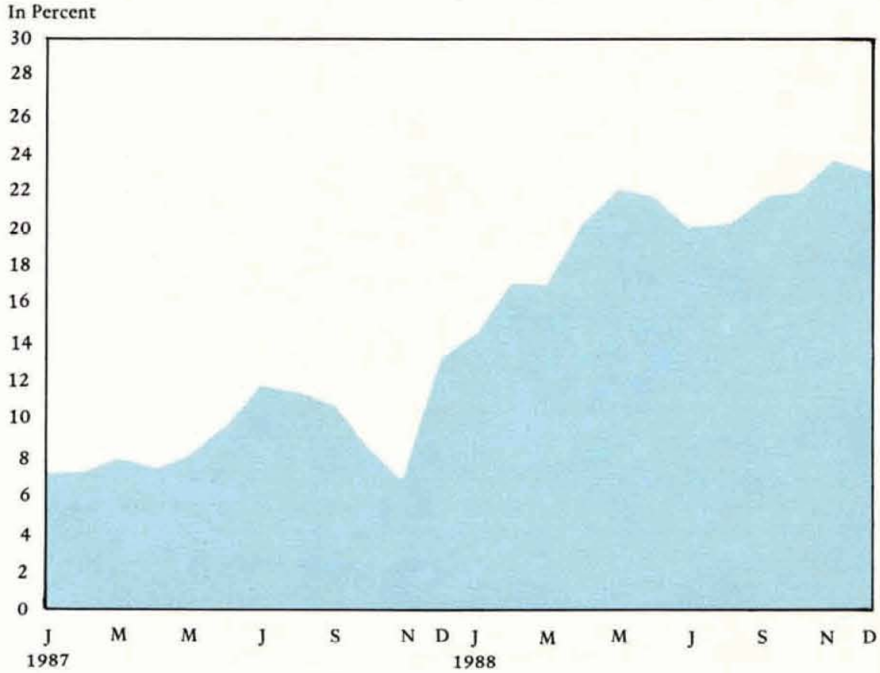
By institutional source, the bulk of the monetary system's credits were provided by DMBs, specifically the private commercial banks, in the form of loans and advances. The year's increase in DMBs' credits was recorded at P30.3 billion or 23.0 percent, surpassing the growth of P21.5 billion or 19.5 percent recorded in the previous year. On the other hand, net credits from the Monetary Authorities (MA) declined by P16.7 billion to negative P40.4 billion, following the substantial build-up in NG deposits with CB.

Table 10. **DOMESTIC LIQUIDITY**
As of End 1987-1988
(In Million Pesos)

Item	1988P Level	1988P Percent Share	1987r Level	1987r Percent Share	Percent Change 1988	Percent Change 1987
Domestic Liquidity	**195,443**	**100.0**	**159,232**	**100.0**	**22.7**	**12.8**
Money Supply	59,591	30.5	52,091	32.7	14.4	22.1
Currency in Circulation	40,696	20.8	35,452	22.3	14.8	21.0
Demand Deposits	18,895	9.7	16,639	10.4	13.6	24.7
Quasi-Money	133,318	68.2	103,536	65.0	28.8	10.6
Savings Deposits	90,159	46.1	70,632	44.4	27.6	16.6
Time Deposits	43,159	22.1	32,904	20.6	31.2	-0.4
Deposit Substitutes	2,534	1.3	3,605	2.3	-29.7	-26.0

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.

Meanwhile, the net other assets of the monetary system reached P178.8 billion at year's end, representing an increase of P12.4 billion or 7.4 percent from the previous year's level. This was due largely to interest payments on CB's obligations. The expansion arising from this transaction was partly offset by the additional issuances of special series CB bills in connection with the debt-to-equity conversion program.

Reserve Position of Commercial Banks

Commercial banks' average reserve position in December 1988 posted a surplus of P0.5 billion, an improvement of P0.2 billion from P0.3 billion in December 1987. On a monthly basis, commercial banks' reserve position reached a peak of P2.0 billion in January and gradually declined during the remaining months of the year, as banks accelerated lending activities to keep up with the increased financing requirements of economic activity.

With the maintenance of positive real interest rates on financial instruments during the year, total reservable deposit liabilities of commercial banks in December 1988 expanded by P34.2 billion or 28.7 percent from the previous year's level. Available reserves of banks likewise increased to P28.8 billion, up by P4.9 billion during the year while total required reserves amounted to P28.3 billion, resulting in an excess reserve position of P0.5 billion (Table 12).

The composition of reserves in 1988 reflected the banks' continued preference to hold deposit balances with CB, which earn 4 percent in interest, to reduce the cost of compliance with the reserve requirement. Deposit balances of banks with CB, at P20.2 billion at end-1988, constituted the bulk or 70.0 percent of available reserves, higher than the 68.6 percent share in 1987. Reserves held as cash in banks' vaults which amounted to P4.9 billion comprised about 17.2 percent of total reserves, higher than the previous year's share to total reserves of 16.8 percent in anticipation of greater demand for liquidity in day-to-day operations. Consistent with the policy of phasing-out reserve-eligible government securities (REGS), REGS held by banks amounted to P3.7 billion at end-1988 or 12.7 percent of total reserves, down from 14.6 percent in 1987.

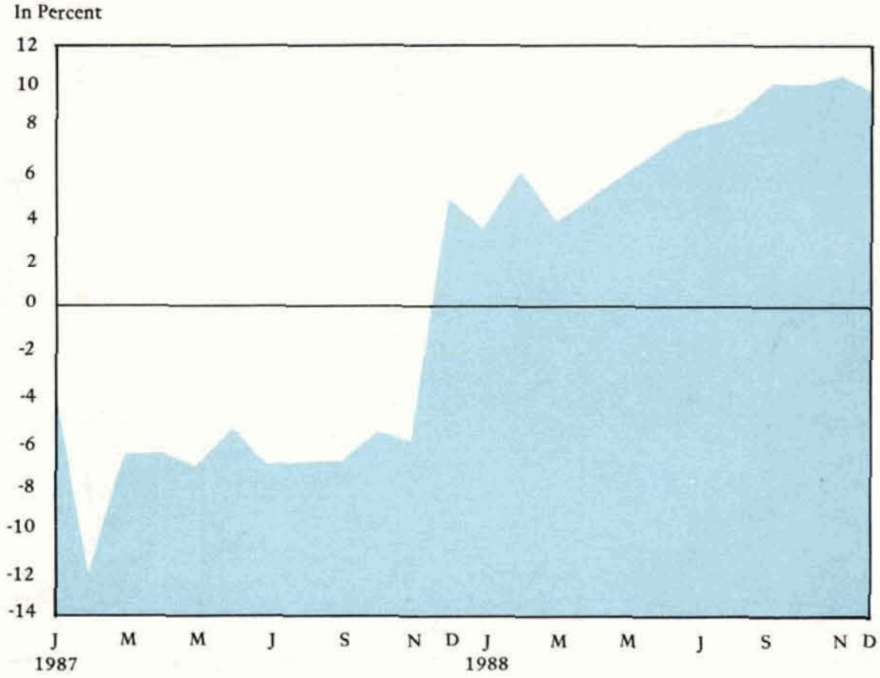
Expressed as a ratio to deposit liabilities, required reserves accounted for 18.4 percent, down from 18.6 percent in 1987. The ratio of available reserves to deposits was maintained at 18.8 percent as in 1987, but was still higher than the ratio of required reserves to total deposits for the same period.

Table 11. **NET DOMESTIC ASSETS OF THE MONETARY SYSTEM**
As of End 1987-1988
(In Million Pesos)

Item	1988P	1987r	Percent Change
Net Domestic Assets	**300,853**	**274,855**	**9.5**
I. Net Domestic Credits	122,013	108,381	12.6
A. By Source			
1. Monetary Authorities	-40,354	-23,642	70.7
Loans and Advances	17,019	14,908	14.2
Domestic Securities	1,150	4,013	-71.3
Less: Government Deposits	58,523	42,563	37.5
2. Deposit Money Banks	162,367	132,023	23.0
Loans and Advances	134,648	113,288	18.9
Domestic Securities	39,771	27,658	43.8
Less: Government Deposits	12,052	8,923	35.1
B. By End-User			
1. Public	-15,410	-8,532	80.6
2. Private	137,423	116,913	17.5
II. Net Other Items	178,840	166,474	7.4
Of Which: Revaluation	n.a.	121,897	n.a.

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

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.**

Outstanding Loans/Credits

Central Bank. Outstanding credits as of end-1988 reached P72.0 billion, about P2.7 billion or 3.7 percent lower than the outstanding level at the close of 1987. Loans and advances which accounted for the bulk or 90 percent of total CB credits, declined by 1.3 percent to P64.7 billion. The contraction was largely on account of the reduction in credit accommodations under the various credit facilities of CB such as repurchase agreements (26.6 percent), rediscounting (8.5 percent) and APEX (16.6 percent) as well as the repayments of advances to the NG which were used to cover subscription payments to multilateral organizations (Table A-06). Holdings of government securities which made up the remaining 10 percent of outstanding CB credits similarly dropped to P7.4 billion as of end-1988, 20.1 percent below the end-1987 outstanding level of P9.2 billion primarily due to net sales and redemptions of Treasury securities.

The public sector remained the major beneficiary of CB credits. CB net credit to the public sector, however, was 7.2 percent lower than the end-1987 level due to the reduction in CB holdings of government securities and the repay-

Table 12. **AVERAGE RESERVE POSITION OF COMMERCIAL BANKS[1]**
1987-1988
(In Million Pesos)

Item	1988	1987	Percent Change
Deposit Liabilities	**153,105.1**	**118,921.2**	**28.7**
Available Reserves	28,777.2	22,335.1	28.8
Deposit Balances with the Central Bank	20,157.3	15,312.8	31.6
Cash in Bank Vaults	4,943.9	3,749.9	31.8
Government Securities	3,665.8	3,265.7	12.3
Foreign Balances	10.2	6.7	52.2
Required Reserves	28,239.8	22,071.4	27.9
Excess/Deficiency (-)	537.4	263.7	
Liquidity Ratio (In Percent of Deposit Liabilities)			
Available Reserves	18.8	18.8	
Required Reserves	18.4	18.6	
Excess/Deficiency (-)	0.4	0.2	

[1]Simple average of weekly averages

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

ment of NG loans. Of the total public sector credits outstanding, 89.3 percent was absorbed by the NG while the remaining 10.7 percent went to government financial institutions and other government entities. On the other hand, credits outstanding of the private sector, which accounted for 32.8 percent or P23.6 billion of total CB portfolio credits as of end-1988, posted an annual growth rate of 4.6 percent.

By maturity, short-term credits continued to account for the bulk or 54.2 percent of total credits which to provide CB with flexibility in liquidity management. Loans payable on demand consisting of overdraft accommodations to commercial and thrift banks represented 19.1 percent of total. Long-term credits which were mostly in the form of government securities accounted for 11.5 percent while medium-term credits shared 6.2 percent. The remaining 9 percent of total portfolio credits was accounted for by past due loans.

Commercial Banks. Reflective of the continued acceleration in economic activity, outstanding loans of commercial banks posted a marked annual increase of 17.3 percent to P128.9 billion at end-September 1988 (Table A-09).

The sectoral distribution of commercial bank loans during the review period showed that the bulk or 36.7 percent of total outstanding credits went to the manufacturing sector, 32.0 percent higher than the level in 1987. This was followed by trade loans (14.1 percent of total) which grew by 27.1 percent. Real estate loans which accounted for only 4.3 percent of the total more than doubled to P5.6 billion while loans to the electricity, gas and water sector which had a fractional share of 0.8 percent substantially rose by 72.7 percent to P1.1 billion. Other sectors' loan availments which increased during the review period were transport, storage and communication (20.3 percent); community, social and personal services (18.8 percent); mining and quarrying (13.6 percent); and agriculture, fishery and forestry (5.3 percent). On the other hand, commercial banks' loans to the following sectors declined: construction by 32.5 percent and financing, insurance and business services by 2.6 percent. The sum of past due items, items in litigation and domestic and foreign bills at P13.4 billion similarly dropped by 10.3 percent.

On a regional basis, the National Capital Region (NCR) continued to account for the biggest share (75.6 percent) of total commercial bank loans outstanding, increasing by 8.7 percent over the comparable period a year ago to P87.4 billion at end-September 1988. Except for Regions IX and X which registered declines, all other regions posted increments, more notable of which were Regions V, I, VIII, XI, II and VII (Table A-10).

Thrift Banks. At P13.7 billion as of end-September 1988, outstanding credits of thrift banks rose by 34.7 percent or P3.5 billion from the end-September 1987 level as loans to all sectors posted upturns. Consumption loans rose by 130.1 percent; other loans (consisting of trading account securities, past due loans and discounts, items in litigation and bills purchased) by 51.8 percent; industrial loans by 29.6 percent; real estate loans by 23.3 percent; commercial loans by 7.4 percent; and agricultural loans by 2.5 percent.

Institution-wise, savings banks accounted for 48.5 percent of total loans outstanding of thrift banks; stock savings and loan associations, 28.1 percent and private development banks, 23.4 percent. Loans of savings banks were channelled largely to the National Capital Region (NCR) while loans of private development banks were extended mostly to Region III and the NCR.

Specialized Government Banks. Loans outstanding of specialized government banks (SGBs) aggregated P10.0 billion as of end-September 1988, an increase of 13.7 percent or P1.2 billion over the end-September 1987 level. Specialized government banks extended 39.4 percent or P3.9 billion of its total credits to the agricultural sector while the balance of P6.1 billion or 60.6 percent was distributed as follows: other loans, 22.4 percent; industrial loans, 21.0 percent; real estate loans, 12.7 percent; commercial loans, 3.6 percent; and consumption loans, 0.9 percent.

Rural Banks. Total loans outstanding at P7.8 billion of rural banks as of end-September 1988 increased by 9.7 percent or P0.7 billion from the year-ago level.

By purpose, agricultural loans continued to account for the bulk or 73.4 percent of total rural bank outstanding loans even as loans to this sector posted the lowest annual increment of 4.7 percent. The remaining 26.6 percent of outstanding loans consisted of commercial loans (10.8 percent), industrial loans (3.0 percent) and other loans (12.8 percent).

Domestic Interest Rates

Compared to the previous year, nominal interest rates were generally higher in 1988 reflecting the combined effects of the acceleration in the inflation rate, higher foreign interest rates and the increased domestic financing requirements of both the public and private sectors. Adjusted for inflation effects, however, interest rates generally declined but continued to yield positive real returns to savers.

Commercial Bank Borrowing and Lending Rates. Except for the average nominal yield on savings deposits which declined by 0.4 percentage point to 4.1 percent, nominal interest rates on other borrowing and lending instruments of banks generally exhibited an uptrend in 1988 (Table A-17). The borrowing rate on time deposits across maturities substantially rose by 3.6 percentage points to 13.4 percent which development contributed largely to the increase in time deposit liabilities of the banking system. The overnight interbank call loan rate likewise rose by 2.3 percentage points reflecting increased demand of banks for overnight funds to cover required reserves following the pick-up in their lending activities. Interest rates on promissory notes (MRRs) across all maturities averaged 12.4 percent, higher by 2.9 percentage points than the previous level of 9.4 percent. Following the uptrend in the cost of funds in the market, the average bank lending rates across all maturities similarly increased by 2.7 percentage points to 16.0 percent. Meanwhile, the term structure of interest rates on both borrowing and lending instruments of banks showed a positive slope as those with longer maturities fetched higher rates (Table A-18).

Rates on Central Bank bills/Treasury bills. The average interest rate on Treasury bills for all maturities significantly rose to 15.5 percent in 1988 from 12.9 percent in 1987 as the government increased its sale of securities. Similarly, interest rates on Central Bank bills primarily issued for the purpose of the debt-to-equity conversion program notably increased by 3.8 percent to 14.6 percent.

Central Bank Lending Rates. Except for the interest rate on overdraft accommodations which dropped by 0.2 percentage point to average 21.3 percent, Central Bank credit facilities fetched generally higher interest rates during the review period following the movement in market rates. The average rates on term regular repurchase agreements at 20.5 percent and on term reverse repurchase agreements at 13.1 percent increased by 6.8 percentage points and 1.5 percentage points, respectively, from the previous year. Following the rise in the average yield on Treasury bills, the prescribed rate on emergency loans and advances went up by 3.2 percentage points to 16.4 percent. The rediscount rate, however, remained unchanged at 10.0 percent.

Figure 9. **BORROWING RATES OF COMMERCIAL BANKS**
1987-1988

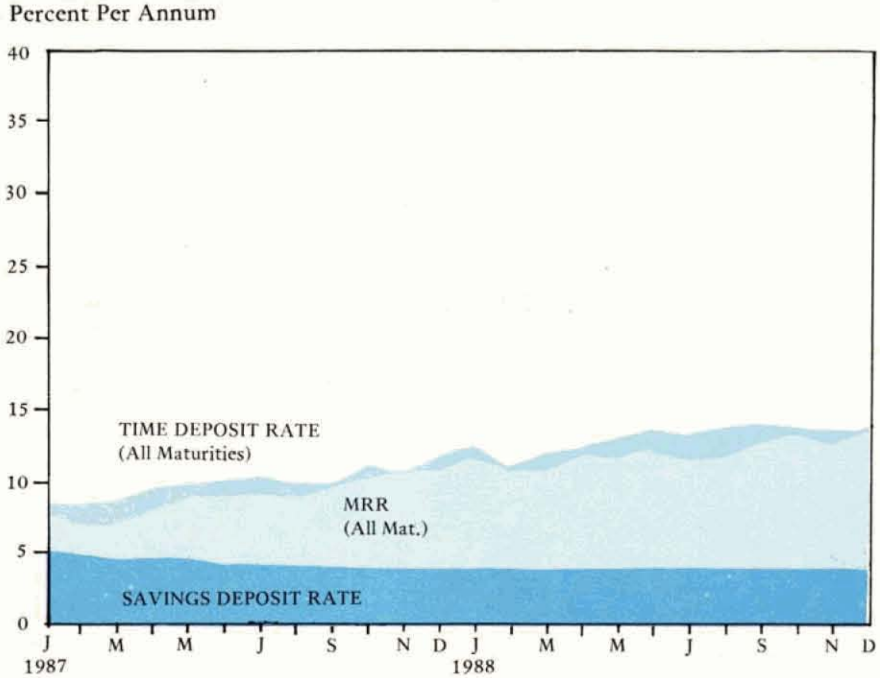


Figure 10. **LENDING RATES ON SECURED LOANS**
(All Maturities)

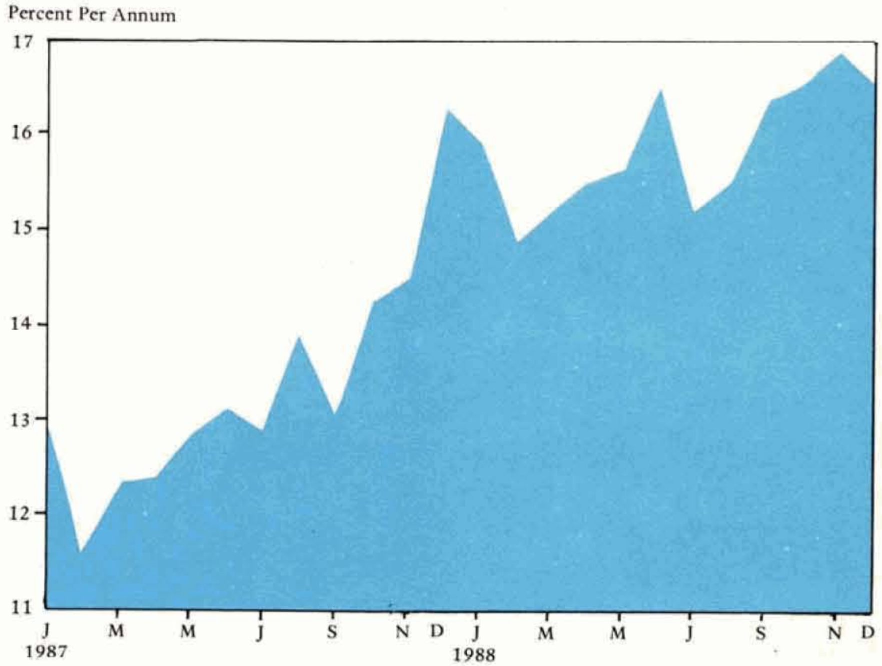
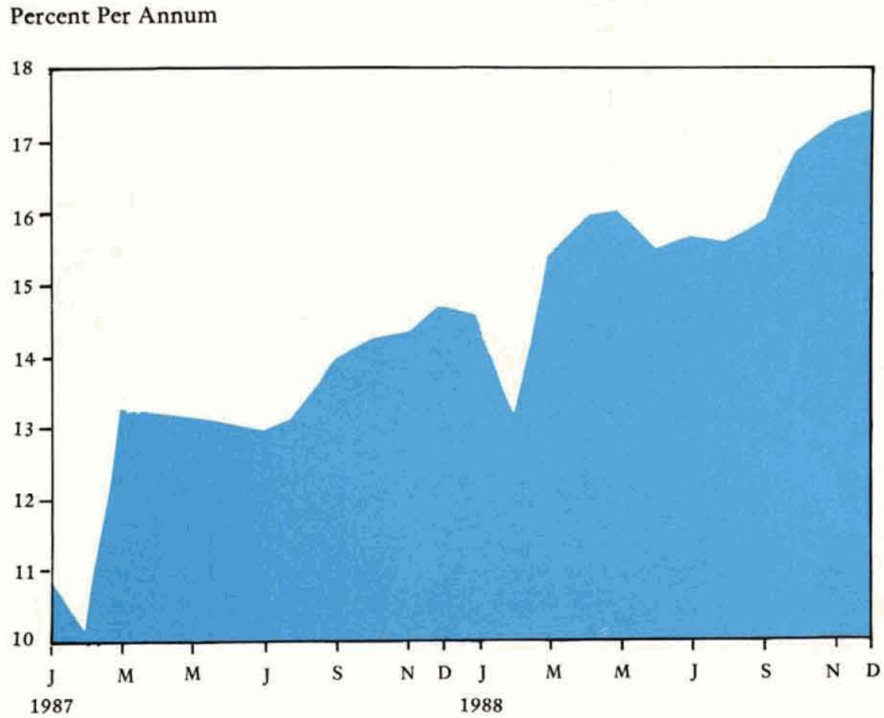


Figure 11. **RATES ON TREASURY BILLS**
(All Maturities)



FINANCIAL SYSTEM

Number and Resources of Financial Institutions

Total resources of the financial system aggregated P529.8 billion at end-December 1988, higher by P78.1 billion or 17.3 percent than the level a year ago. A major share of the increment was due to the P54.4 billion expansion in the resource base of commercial banks following the marked increase in the level of their deposit liabilities. Resources of non-banks and thrift banks also posted significant increases of P16.3 billion and P5.4 billion, respectively.

The number of financial institutions (head offices, branches and extension offices) rose by 6.3 percent from end-December 1987 to 6,916 units at end-December 1988 largely on account of the establishment of non-banks.

Commercial banks continued to comprise the bulk or 62.1 percent of the total resources of the financial system, followed by non-bank financial institutions (26.0 percent), specialized government banks (5.1 percent), thrift banks (4.7 percent) and rural banks (2.1 percent).

With the increase in the number of financial institutions, the total paid-up capital of the financial system rose by P3.0 billion to P38.0 billion at end-December 1988 from its comparable period a year ago. By institution, the increase was traced mainly to the hiked capital bases of non-banks (P1.5 billion) and commercial banks (P1.2 billion). Of the total paid-up capital of the financial system at end-December 1988, non-bank financial institutions accounted for 42.0 percent; commercial banks, 38.9 percent; specialized government banks, 11.5 percent; thrift banks, 4.6 percent; and rural banks, 3.0 percent.

Deposit Liabilities of the Banking System

Total peso and foreign currency deposit liabilities of the banking system grew by 25.7 percent from end-1987 to P225.5 billion at end-December 1988 (Table A-21). The accelerated growth in deposits reflected the overall improvement in income levels, the return of the public's preference for deposits and increased confidence in the banking system.

All financial institutions recorded increases in deposit liabilities with the highest expansion of P40.3 billion registered by commercial banks, followed by thrift banks (P4.1 billion), specialized government banks (P1.1 billion) and rural banks (P0.6 billion).

Deposit liabilities of commercial banks at P192.1 billion continued to comprise the bulk or 85.2 percent of the banking system's total. The remainder was accounted for by thrift banks, 8.5 percent; specialized government banks, 4.1 percent; and rural banks, 2.3 percent.

All components of the banking system's deposit liabilities showed marked improvements in 1988. Time, savings and demand deposits rose by 25.6 percent, 31.1 percent and 3.2 percent from their respective end-1987 levels.

Table 13. **TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM**[1]
As of End 1987-1988
(In Million Pesos)

Institution	December 1988[p]	December 1987	Percent Change
Total	529,532.3	451,685.1	17.2
Commercial Banks	328,874.5[a]	274,499.0[a]	19.8
Thrift Banks	24,932.7	19,557.4	27.5
Savings Banks	14,165.4	10,534.1	34.5
Private Development Banks	6,698.6	5,474.5	22.4
Stock Savings & Loan Associations	4,068.7	3,548.8	14.7
Specialized Government Banks	27,312.1[a]	26,287.5[a]	3.9
Rural Banks	10,716.8[b]	9,960.8	7.6
Non-Bank Financial Institutions	137,696.2	121,380.4	13.4

[1] Excluding Central Bank
[a] After transfer of selected assets and liabilities of one commercial bank and one specialized government bank to the National Government.
[b] As of September 1988

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

Foreign Currency Deposit System

Total gross resources of Foreign Currency Deposit Units (FCDUs) increased by \$582 million or 21.1 percent to reach \$3,336 million at end-1988 from a level of \$2,754 million in 1987.

Aggregate deposits and borrowings of FCDUs amounted to \$1,854 million, an increase of \$294 million or 18.9 percent from the previous year reflecting the impact of the implementation of Circular 1163 issued on November 23, 1987 allowing the deposit of foreign currency notes, coins and traveller checks in foreign currency accounts. Total deposits and borrowings from the non-banking sector expanded by \$390 million or 38.9 percent to \$1,392 million which more than offset the \$96 million decline in interbank deposits and borrowings.

With the increased resources of FCDUs, total placements and lendings of the system at end-1988 aggregated $2,997 million, reflecting an annual expansion of $502 million or 20.1 percent during the period as a result of the combined increases in placements with banks ($462 million) and non-banks ($38 million).

Net earnings of FCDUs after tax amounted to $128 million during the period reflecting a decline of $165 million from the end-1987 level due to lower interest income on loans and discounts (Table A-22).

Offshore Banking System

Following the decline in the number of operating Offshore Banking Units (OBUs), gross resources of OBUs dropped by 11.2 percent to $2,991 million during the year. The decline came from the reduction in deposit liabilities to and borrowings from banks as transactions with non-banks showed a slight increase. The major sources of funds of the offshore banking system, interbank deposits and borrowings at $2,886 million at end-1988 slid by 12.1 percent or $396 million.

Placements and lendings of OBUs at $2,891 million fell by $400 million in 1988 due to the $435 million decrease in placements with banks which more than offset the $35 million increment in placements with non-banks.

OBU operations during the year resulted in net earnings after tax of $39 million, a $1 million improvement from 1987 due mainly to increases in interest earnings, commissions and fees.

MONEY AND CAPITAL MARKETS

Money Market

The volume of money market transactions rose considerably in 1988 and stood at P780.1 billion at year-end, P319.2 billion or 69.3 percent higher than that of the preceding year. The increased demand for money market funds contrasted with the previous year's decline in the volume of money market transactions. The bulk of money market transactions during the year was done principally in the form of repurchase agreements through the use of government securities which served as collateral for this type of borrowings, outright sale of Treasury bills in the secondary market and interbank call loans.

Repurchase agreements on government securities increased by 313.4 percent to reach P3.5 billion at year-end from P0.9 billion last year. Interbank call loans at P303.5 billion rose by 75.7 percent to comprise 38.9 percent of total money market transactions this year. Following the same movement were commercial bank papers (financial) and other government securities which accelerated by 23.2 percent and 48.2 percent, respectively. Secondary trading in Treasury bills increased to P295.3 billion, up by 205.8 percent in 1988.

On the other hand, repurchase agreements on private sector securities dropped significantly to P0.8 billion at year-end from P2.9 billion in the previous year. Other money market instruments which traced decelerating trends were DBP bonds (47.9 percent), promissory notes (20.6 percent), and commercial papers (non-financial) (8.7 percent).

With the general rise in interest rates in 1988, the weighted average interest rate (WAIR) of all money market instruments rose to 13.7 percent or 2.6 percentage points higher than last year. Repurchase agreements (government) carried a WAIR of 19.4 percent, up by 5.6 percentage points from last year. Other money market issues which registered WAIRs higher than last year's were: interbank call loans, 14.6 percent; commercial papers (non-financial), 13.5 percent; Treasury bills, 13.3 percent and other government securities, 13.8 percent. Meanwhile, transactions on DBP bonds carried the lowest rate of 8.9 percent, a drop of 4.0 percentage points over last year's rate (Table A-24).

Capital Investments

In 1988, a total of 47,226 new business organizations were registered with the Securities and Exchange Commission (SEC), comprising of 7,809 corporations, 1,224 partnerships and 38,193 single proprietorships. These new business entrants put up a total of P10.7 billion in capital investments, about 32.5 percent more than the amount raised last year. Of this total, corporations contributed P5.7 billion, up by 90.6 percent from last year's capital investments, which expansion could be partly attributed to the 13.5 percent growth in the number of corporate firms registered during the period. Partnerships infused P0.2 billion in paid-up capital or 14.3 percent higher than the preceding year, with a corresponding increment in number of firms of 4.4 percent. Capital investments of single proprietorships, on the other hand, declined slightly by 2.1 percent to P4.8 billion from P4.9 billion in the preceding year.

By nationality, Filipinos contributed P9.8 billion or 91.7 percent of total capital investments, making them the leading investors in the country. The Chinese invested P0.3 billion (or 3.1 percent of total) in paid-up capital, or a substantial 437.7 percent increment from P0.06 billion in 1987. Setting a record, however, were Japanese investors whose capital investments increased to P0.2 billion from P0.02 billion in the previous year. The British likewise expanded their capital investments in the country to P0.2 billion or by 315.8 percent. Capital investments of other nationalities also rose by 383.4 percent. The increase in capital investments of both Filipinos and foreign nationals was reflective of renewed investor confidence in the domestic economy.

By regional distribution, new business enterprises in the National Capital Region (NCR) which is the center of trade and commerce accounted for 86.0 percent of total capital investments while Central Luzon and Southern Tagalog shared 3.2 percent and 2.7 percent, respectively. Meantime, appreciable expansions in new business activity was noted in the Central Visayas region with capital investments growing by 44.5 percent to P221.9 million from P153.5 million in the previous year. Central Visayas accounted for 2.1 percent of the total capital investments in the country.

By industry, 31.7 percent of capital investments were in financing, insurance, real estate and business services. Capital investments in this sector in 1988 amounted to P3,385.0 million, 115.2 percent more than last year's (Table 14). This development together with a higher rate of occupancy of prime properties in the metropolis indicated a "boom" in the real estate industry. A large amount of capital investments also went to wholesale and retail trade (27.8 percent) and manufacturing (18.1 percent). Other sectors which registered substantial increments in capital investments were electricity, gas and water which rose by 43.3 percent; manufacturing by 33.3 percent; and mining and quarrying by 26.8 percent.

Table 14. **CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATIONS, BY INDUSTRY 1987-1988 (In Million Pesos)**

Industry	1988	1987	Percent Change
Total	**10,669.8**	**8,050.9**	**32.5**
Agriculture, Fishery and Forestry	289.2	328.5	-12.0
Mining and Quarrying	92.6	73.0	26.8
Manufacturing	1,933.3	1,450.4	33.3
Construction	709.0	621.1	14.2
Electricity, Gas and Water	9.6	6.7	43.3
Wholesale and Retail Trade	2,965.2	2,811.2	5.5
Financing, Insurance, Real Estate and Business Services	3,385.0	1,572.8	115.2
Transportation, Storage and Communication	441.2	447.9	-1.5
Commnity, Social and Personal Services	844.7	739.3	14.3

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

Stock Market

Stock market activity was generally sluggish in 1988 as compared with the overall bullish performance of the market in 1987. Aggregate volume and value of shares traded at both the Manila and Makati Stock Exchanges declined by 14.4 percent and 24.3 percent from the previous year's levels and stood at P270.1 billion and P23.9 billion, respectively, at end-1988. The decline in volume and value of stock market transactions was reflective of market reaction to such erratic movements in metal prices as those of copper and gold in the world market and the negative results from oil exploration projects.

Commercial-industrial issues, while contributing only 0.2 percent or 572 million shares of the total volume traded, accounted for the bulk or 47.9 percent of the total peso value turnover. The value of commercial-industrial issues traded in 1988 was 18.6 percent more than the value of transactions in 1987 while the volume of transactions traded for the same sector declined from its level in 1987, indicating an improvement in the prices of commercial and industrial issues during the period in review.

Accounting for 31.3 percent of the aggregate volume of turnovers, the mining sector traded a total of 84.5 billion shares, 29.6 percent lower than the previous year's volume of 119.9 billion shares. Market speculation regarding the prices of metals in the world market affected transactions in mining shares for the rest of the year.

Meanwhile, the lack of positive results in the oil drilling explorations affected trading activity in the oil sector. In 1988, the oil sector accounted for 185.1 billion shares or 68.5 percent of the total volume of stocks traded as against 195.2 billion shares traded last year. Total value of these stocks amounted to P3.7 billion, or a decline of P2.9 billion (44.5 percent) from the P6.6 billion value traded in 1987 (Table A-25).

PUBLIC FINANCE

Cash Operations of the National Government

The National Government (NG) fiscal operations for the whole year of 1988 resulted in a budgetary deficit of P20.3 billion, P3.6 billion or 21.4 percent higher than the deficit in 1987 but P1.8 billion below the program level for the year of P22.1 billion. The deficit-to-GNP ratio was 2.5 percent, slightly higher than the 2.4 percent ratio in 1987 (Table 15).

Total revenues at P112.2 billion were P16.1 billion below the target for the year but P9.0 billion or 8.7 percent higher than the revenues in 1987. Tax revenues, which amounted to P90.4 billion or 80.5 percent of total revenues were P4.4 billion or 5.2 percent higher than the 1987 level but lower than the target level by P11.2 billion. The shortfall in tax collections was traced largely to the non-realization of expected revenues from the Bureau of Internal Revenue (BIR) incentive scheme, low value-added tax (VAT) collections, reduced import duty collections on oil resulting from the decline in oil prices and the continued deferred payment on imports. Similarly, non-tax revenues, which at P22.5 billion accounted for 20.1 percent of total revenues, rose by P5.3 billion or 30.4 percent from the 1987 level mainly as a result of the increase in income from bank deposits, asset-debt swaps and other revenue collections from Presidential Committee on Good Government (PCGG)/Asset Privatization Trust (APT)/Government Financial Institutions (GFIs). Compared to the program, however, non-tax revenues were P7.3 billion short due to lower than programmed Economic Support Fund (ESF) remittances with the renegotiation of the United States Bases Agreement, unrealized interest income on government corporations, and shortfall in APT and PCGG remittances to the National Treasury.

Government expenditures during the year reached P133.2 billion, an increase of P13.3 billion or 11.1 percent from the year-ago level as the rise in expenditures for interest payments, personal services and maintenance and operating expenditures more than offset the decline in capital expenditures and net lending to government corporations. Relative to program targets, however, actual expenditures for the year were P17.2 billion lower due to underspending for current operations (mainly personal services) and capital outlays largely as a result of bottlenecks in the implementation of programs and projects such as land reform.

Table 15. **NATIONAL GOVERNMENT CASH OPERATIONS[1]**
1987-1988
(In Million Pesos)

Item	1988P	1987
I. Revenues	112,903	103,214
Tax Revenues	90,359	85,923
Non-Tax Revenues	22,544	17,291
II. Expenditures of which:	133,175	119,907
Interest Payments	44,992	36,905
Net Lending	5,687	7,077
Equity	1,822	4,414
III. Surplus/Deficit (-)	(20,272)	(16,693)
Percent of GNP	-2.5	-2.4
IV. Financing	20,272	16,693
Net External Borrowing	1,822	6,781
Net Domestic Financing	18,450	9,912
Banking System	(7,750)	(29,886)
Monetary Authorities	(18,083)	(34,210)
Deposit Money Banks	10,333	4,324
Non-Banking System	26,200	39,798

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

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

Figure 12. **NATIONAL GOVERNMENT DEFICIT**

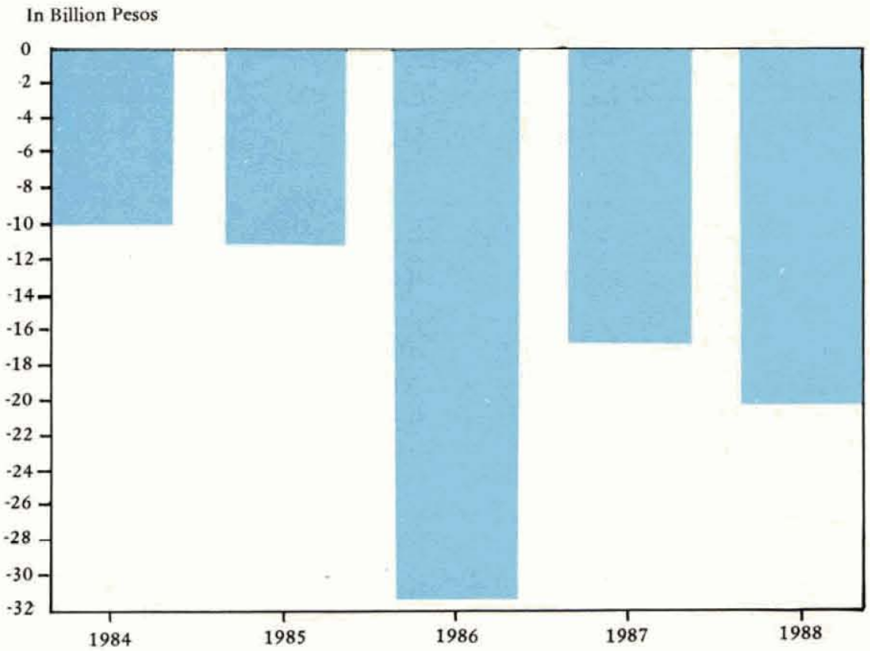


Figure 13. **TOTAL GOVERNMENT EXPENDITURES**
By Use, 1988

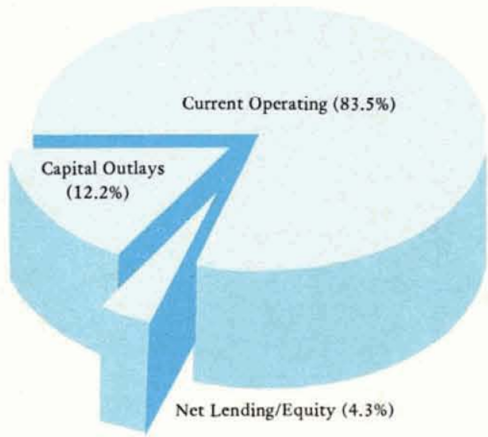
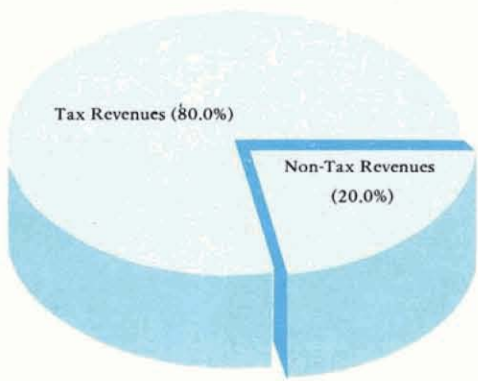


Figure 14. **TOTAL GOVERNMENT REVENUES**
By Source, 1988



The deficit for the year was financed primarily from net domestic borrowings (P18.5 billion) basically from the sale of Treasury securities. Meanwhile, external borrowings amounted to P1.8 billion as substantial loan inflows from bilateral and multilateral sources were only slightly higher than the principal payments on direct NG and NG assumed foreign liabilities.

Public Internal Debt

The outstanding internal debt of the public sector showed an annual increase of 28.9 percent or P46.6 billion from end-1987 to P207.7 billion at end-December 1988. The increase was accounted principally by the growth in domestic borrowings of the National Government and the monetary institutions of P44.7 billion and P3.0 billion, respectively.

The National Government's outstanding domestic borrowings at P195.5 billion grew by 29.7 percent due primarily to the net flotation of Treasury securities to help finance the budgetary deficit and to help achieve monetary management objectives. Meanwhile, the P3.0 billion expansion in domestic borrowings of monetary institutions resulted from the issuance of CB bills in connection with the debt-to-equity conversion program. The outstanding domestic debt of local governments was maintained at P0.1 billion while that of government corporations registered a P1.2 billion decline following the redemption of maturing security issues.

Of the total outstanding public internal debt at end-1988, the National Government continued to account for the bulk or 94.1 percent, followed by government corporations (3.9 percent), monetary institutions (1.9 percent) and local governments (0.1 percent) (Table A-26).

REAL SECTOR

Production

Domestic production of goods and services as measured by Gross Domestic Product (GDP) at 1972 prices stood at P101.8 billion in 1988 registering an accelerated annual growth of 6.6 percent compared to the 4.7 percent increase posted in 1987 (Table A-27). With net factor payments to the rest of the world reaching P0.6 billion, the country's total output or gross national product (GNP), in real terms, grew by 6.7 percent to P101.1 billion, which compared well with the 5.9 percent growth rate in 1987. The strong performance of the economy was supported by the expansion in personal and government expenditures as well as in government and private sector investments. The rise in aggregate economic demand was attended by higher production gains particularly in industrial and services sectors while the agricultural sector recorded a modest improvement despite adverse weather.

With the expansion in aggregate demand providing the stimuli to economic growth, real consumption expenditures of households and non-business sectors which comprised about three-fourths of total demand for goods and services rose at an annual rate of 5.1 percent, while government consumption expenditures

Figure 15. **GROSS NATIONAL PRODUCT**
(Annual Growth Rates)
(At Constant 1972 Prices)

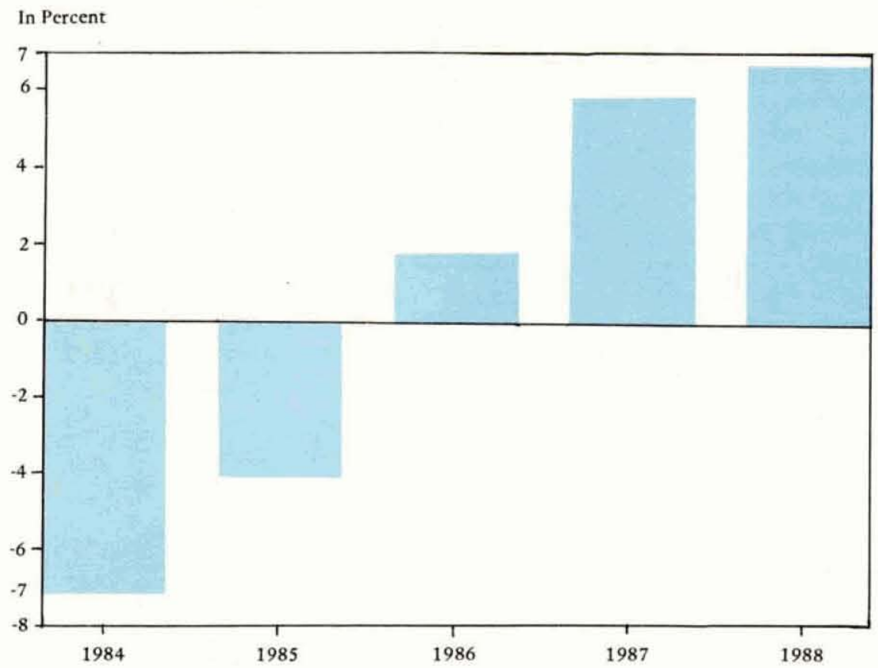
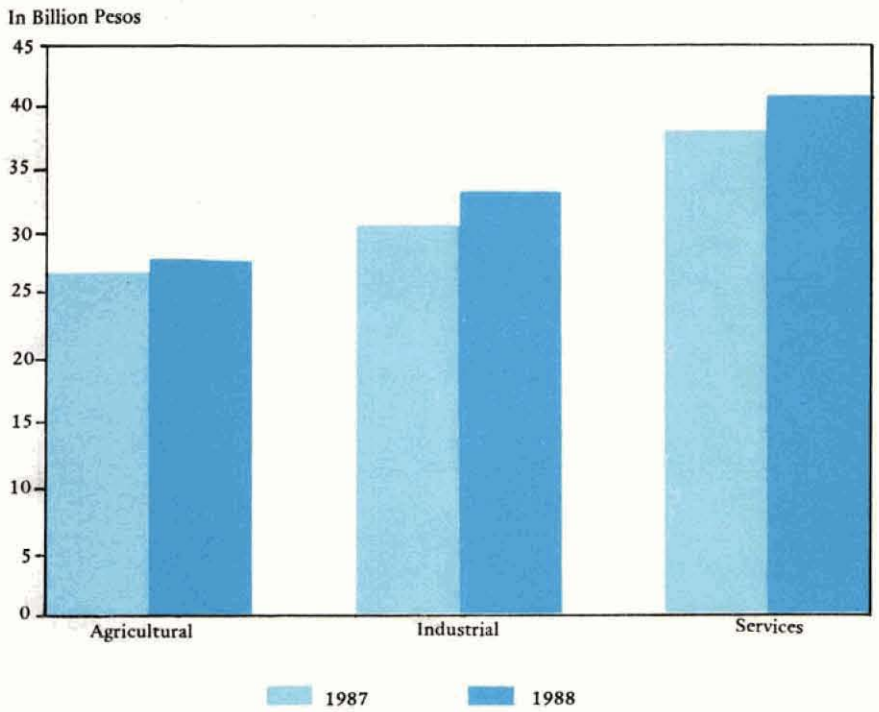


Figure 16. GROSS NATIONAL PRODUCT
By Industrial Origin 1987-1988
(Levels at Constant 1972 Prices)



grew at a higher rate of 10.5 percent, following the upgrading of compensation schemes for government employees/workers. Meanwhile, real investments also registered a significant increase of 25.9 percent, reflective of the growing optimism of the business community and the responsiveness of the government to the infrastructure requirements of the business sector.

Viewed from the supply side, the industrial sector which constituted close to 33 percent of GDP, posted an annual increment of 8.9 percent from 7.7 percent in 1987. Contributing substantially to this expansion was the manufacturing subsector as it posted a growth rate of 8.7 percent, reflected through the gains achieved in the manufacture of food products (7.8 percent), chemicals (11.4 percent), footwear and wearing apparel (11.3 percent) and wood and its products (13.4 percent). Favorable market conditions for metal (i.e., strong metal prices, higher demand) boosted the output of the mining and quarrying industry with an expansion of 5.9 percent, a turnaround from the decline of 2.4 percent in 1987. Construction was similarly on the uptrend registering an annual increment of 12.8 percent, although a deceleration from the 17.2 percent growth registered in the previous year.

Accounting for the largest share (40.3 percent) in GDP, real value-added in the services industry further picked up by 7.1 percent after increasing by 6.6 percent in 1987. Trade services exhibited a growth of 4.9 percent owing to the observed briskier activity in both domestic and foreign trade. Government services showed significant gains at an annual rate of 15.9 percent. Meanwhile, finance and housing as well as transportation-communications-storage services posted annual growth rates of about 8 percent and 6 percent compared to their respective year-ago levels.

Notwithstanding the heavy damages wrought by strong typhoons especially toward the latter part of 1988, the combined agriculture, fishery and forestry sector posted a positive growth of 3.4 percent after registering a decline of 1 percent in the preceding year. Production of agricultural crops was higher by 0.9 percent as improvements in the output of palay (6.1 percent), corn (2.8 percent), and sugarcane (10.1 percent) more than offset the production declines registered for coconut (8.5 percent), banana (3.9 percent) and other crops. Gains posted in livestock and poultry (8.8 percent), fishery (4.2 percent) and forestry (6.3 percent) likewise contributed to the improvement of the aggregate output in this sector.

Employment and Wages

Developments in the labor sector in 1988 reflected generally improved business climate and industrial peace situation prevailing in the country. Based on the quarterly Labor Force Survey of the National Statistics Office (NSO), the labor force which averaged 23.5 million during the year, increased by 4.1 percent over the 1987 level. Of this aggregate, the number employed reached 21.2 million, up by more than a million or nearly 6.0 percent as real investments, consumer demand, and production activities gained ground. On the other hand, the unemployed labor force decreased by 10.0 percent resulting in an unemployment rate of 9.6 percent, the lowest in recent years.

While government infrastructure and private building construction as well as manufacturing industries bolstered employment in 1988, the country's labor force continued to be predominantly agricultural. As of October 1988, this primary sector employed 45.8 percent of the country's labor force while a sizeable 18.1 percent were in social/personal services, 13.8 percent in trade, 10.5 percent in manufacturing, and the remaining 11.8 percent in various industries.

The government campaign to deploy workers abroad resulted in an increase in the number of overseas workers deployed in 1988 to 471.0 thousand, 4.8 percent higher than the 449.3 thousand workers deployed during the comparable period in 1987. Workers deployed in the sea-based category rose to 85.9 thousand or by 28.1 percent. On the other hand, the land-based group increased by only 0.7 percent which could be partly attributed to the temporary government ban on deployment of female domestic helpers abroad.

As reported by the Department of Labor and Employment, the number of business establishments which shut down during the January-November 1988 period dropped to 492 from 830 in the comparable period of 1987. About 70 percent of business closures were engaged in manufacturing, trade and services. Strike occurrences similarly decreased from 420 to 253 during the January-November period under continued favorable investment climate and improved labor-management relations.

Meanwhile, real wages (1978=100) of agricultural as well as non-agricultural workers throughout the country improved in 1988 over the 1987 level. In the agricultural sector, the real legislated wage rates of plantation and non-plantation workers averaged P14.83 and P11.95, respectively, during the year as against P13.21 and P10.13 in the previous year. Likewise, non-agricultural workers in provincial areas received higher wages in real terms from P15.85 to P17.58, and in the National Capital Region from P14.82 to P15.93 owing to the implementation of a new minimum wage law raising the nominal daily pay by P10 effective since mid-December 1987.

The uptrend in labor income was also reflected in the Index of Nominal Compensation of Key Manufacturing Enterprises (1985=100) during the January-November 1988 period which increased by an appreciable 34 percent over the comparable index level in 1987. The increase could be attributed to the growth in manufacturing production and income during the year.

Prices

Domestic inflation rate, as measured by the average annual change in the Consumer Price Index for the Philippines (1978=100), accelerated to 8.8 percent in 1988. The current rate was higher than the 3.8 percent recorded last year and 0.8 percent in 1986, but remained below the 10 percent legal benchmark.

The price upsurge was attributed to food supply bottlenecks caused by adverse weather conditions, rising cost of construction materials which raised house rentals, sustained consumer demand and the rise in legislated wage rates in the agricultural and non-agricultural sectors.

Efforts of the government to stabilize consumer prices were reflected via the three-fold oil price rollback in May, August and November 1988, the reduction in transport fares toward the end of the year, the importation of rice and corn to meet the consumers' demand for basic food commodities, and prudent liquidity management.

Figure 17. **ANNUAL INFLATION RATES**
1987-1988

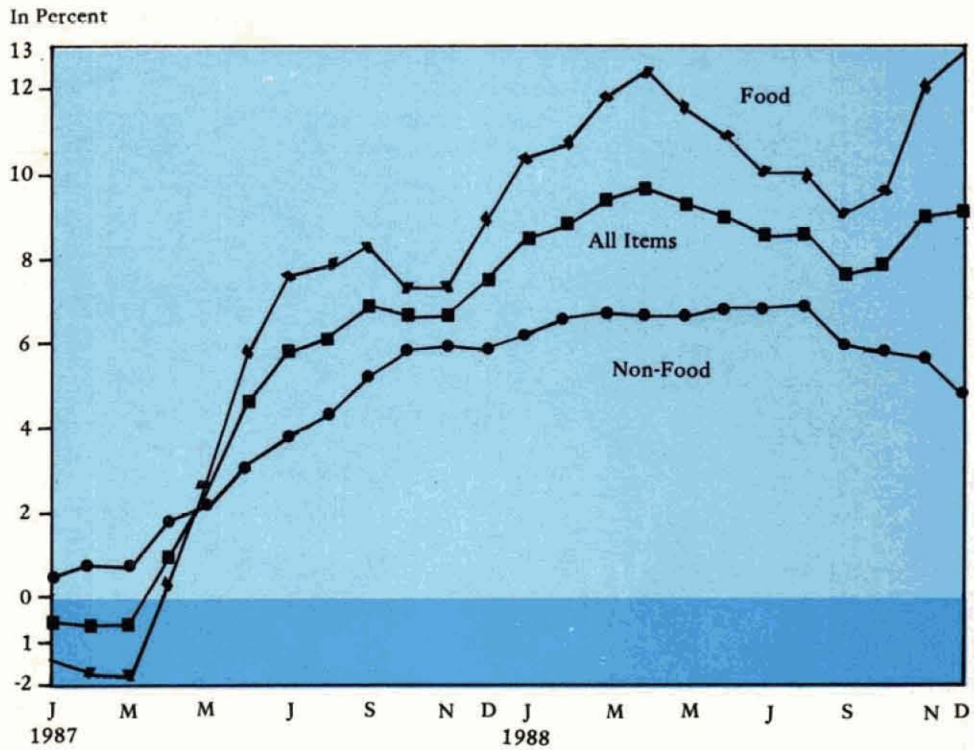
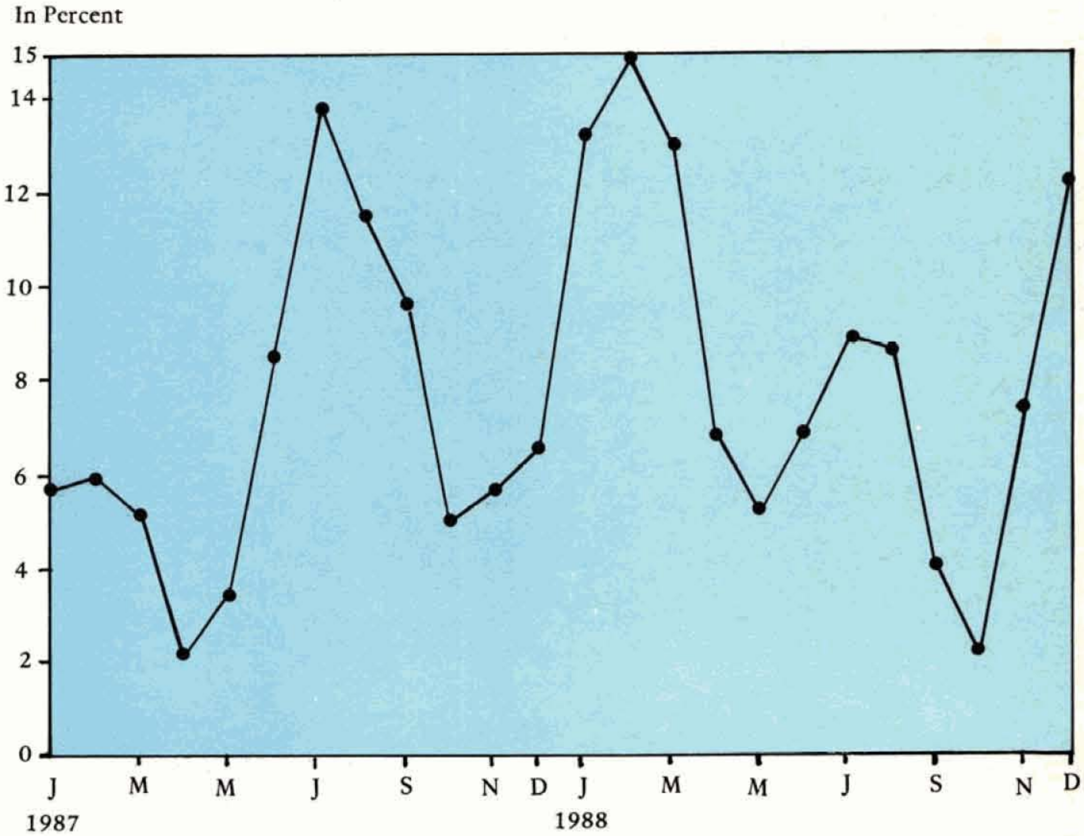


Figure 18. **ANNUALIZED INFLATION RATES**
(Three-Month Moving Basis)
(All Items)
1987-1988



The higher domestic inflation rate for the year was evident in the movements of the various components of the price indices. In particular, the food-beverage-tobacco price index, which represented almost 60 percent of the consumer basket, posted a 10.9 percent increase against 4.2 percent last year. Except for the price index for corn which declined, almost all food indices registered increments such as rice (7.5 percent); fish (10.1 percent); fruits and vegetables (23.4 percent); meat (8.6 percent); and miscellaneous food (19.6 percent).

Non-food prices likewise rose by 6.3 percent in 1988 compared to 3.3 percent in 1987. Despite the reduction in oil prices (a component of the transport and communications-services index), the overall price index for services moved up by 5.5 percent due to sharp increases in the educational (12.7 percent) and personal (32.6 percent) indices. Other non-food components registered price accelerations such as housing and repairs (7.7 percent); clothing (5.9 percent); fuel, light and water (6.2 percent); and miscellaneous items (5.8 percent).

In the National Capital Region (NCR), the annual average inflation rate at 10.1 percent was higher than the 8.5 percent observed in the regions outside the NCR. The differential could be attributed to more expensive food items, housing and repairs, and fuel-light-water in NCR.

Flow of Funds

Following a marked increase in GNP, gross savings generated by the domestic economy amounted to P146.4 billion in 1988, an increase of P38.0 billion from 1987. However, with gross real investment rising at a higher amount (P41.7 billion), the domestic economy incurred a financial deficit (or net borrowing from the rest of the world) of P4.0 billion, up from P0.2 billion the previous year.

The government nonfinancial sector reported a dissaving of P58.3 billion in 1987 but managed to reverse the trend in 1988 by posting a surplus of P17.2 billion. The dissaving in 1987 was due largely to increased interest payments resulting from the transfer to the National Government of selected liabilities from two government banks which underwent rehabilitation. Despite the disposal of some transferred assets through the Asset Privatization Trust (APT) in 1988, government sector investments in real assets increased by P49.2 billion.

The corporate business sector which was disturbed intermittently by strikes and coup attempts in 1987 likewise improved operations in 1988. The sector's savings of P6.0 billion in 1987 almost tripled to P16.8 billion in 1988. Among the factors contributing to this significant improvement in corporate savings were the reduction in the domestic price of petroleum products, greater stability in the political and labor condition, the resurgence in consumer demand and accelerated capital expenditures in the business sector.

With substantially improved earnings, the households and noncorporate sector realized a P20.5 billion increase in gross savings to P98.4 billion in 1988.

As a major conduit of funds, the financial intermediaries sector consistently posted positive net savings of P36.9 billion in 1987 and P5.1 billion in 1988. Funds raised by this sector also increased significantly in 1988 after a decline in 1987.

Aggregate real investment amounted to P150.3 billion in 1988, an increase of P41.7 billion from the P108.5 billion investment in 1987. Of these totals, the households and noncorporate business sector accounted for the lion's share with P97.3 billion in 1987 and P65.9 billion in 1988. The government and private corporate sectors also recorded net increases in their capital stock during the year while financial intermediaries showed a slight expansion in real assets after a net contraction the previous year.

Funds raised and funds employed by the national economy expanded significantly. Total financial sources rose from P73.5 billion in 1987 to P229.0 billion in 1988. Total financial uses likewise increased from P73.3 billion in 1987 to P225.0 billion in 1988. Demand, savings and time deposits, securities and trade credits were the major instruments through which funds were raised or employed during the year.

The government sector borrowed heavily to finance the substantial excess of capital expenditures over savings. Government borrowings were mostly undertaken through the sale of Treasury securities to the domestic market. The private corporate sector, also a net borrower in 1988, posted a financial deficit of P9.4 billion after registering a large surplus of P59.0 billion in 1987. This was reflective of increased expenditures for capital expansion encouraged by the observed uptrend in domestic and external demand.

Meanwhile, the households and noncorporate business sector and the financial intermediaries were the surplus units, financing P32.3 billion and P5.1 billion, respectively, of the deficit incurred by the other domestic sectors. The remaining deficit of P4.0 billion was financed by the rest of the world, mainly through the extension of credits to private corporations.

Table 16. **SAVINGS AND INVESTMENTS BY SECTOR**
1987-1988
(In Billion Pesos)

Item	1988^{P}	1987
Gross Savings	**150.5**	**108.8**
Households and Non-Corporate Business	98.4	77.9
Private Sector	25.7	49.0
Government	17.2	-58.3
Financial Intermediaries	5.2	40.0
Rest of the World	4.0	0.2
Gross Investment	**150.3**	**108.7**
Households and Non-Corporate Business	98.2	77.8
Private Sector	25.7	49.0
Government	17.2	-58.3
Financial Intermediaries	5.2	40.0
Rest of the World	4.0	0.2
Real Investment	150.3	108.5
Households and Non-Corporate Business	65.9	97.3
Private Sector	35.1	-10.1
Government	49.2	32.7
Financial Intermediaries	0.1	-11.4
Rest of the World	-	-
Net Financial Investment		
Households and Non-Corporate Business	32.3	-19.5
Private Sector	-9.4	59.0
Government	-32.0	-91.0
Financial Intermediaries	5.1	51.3
Rest of the World	4.0	0.2

Sources: Department of Economic Research-Domestic, Central Bank of the Philippines and National Statistical Coordination Board (NSCB).

OUTLOOK FOR 1989

The outlook for 1989 is definitely positive. The continuous growth in real GNP from the second quarter of 1986 till 1988 strongly indicated that economic recovery which followed the trough experienced during 1984-1985 would be sustained in 1989. The expectation that real GNP would average 6.5 percent has been supported by the accelerated inflow of new investments, both foreign and domestic, and the continued optimism of businesses in the domestic economy as indicated in the results of a survey of businessmen's expectations and projections for operations and expansion and capital expenditures plans. The principal source of growth would be the industrial sector, as the construction boom which started in 1987 continues to 1989. Agricultural growth in 1989 is expected to be higher than that of 1988.

The prudent stance of monetary policy adopted in recent years, which has contained inflation and contributed to the improvement in business confidence, would continue to be pursued in 1989. Efficiency in financial intermediation would continue to be encouraged through market-oriented policies. To strengthen the financial system, further improvements in the Central Bank's supervision and regulation of financial institutions would continue to be implemented, including such measures as the continued restructuring and rehabilitation of major government financial institutions, the privatization of government-owned banks, the rehabilitation of the rural banking sector and the improvement of the organizational efficiency of the Central Bank. Consistent with these policy measures, a comprehensive review of commercial banking operations and financial reporting would be undertaken and completed during the year.

Another major policy thrust for 1989 is the management of debt. The present policy of seeking debt relief through various debt reduction programs and maximum flows at least cost from a wide range of creditors and donors would be continued. It is expected that an agreement can be reached with the International Monetary Fund early in 1989 which will enable the Philippines to pursue a debt management strategy that would restore its creditworthiness and ensure the viability of its external payments position. This would also lead to another round of debt rescheduling talks with bank creditors and the Paris Club that could lead to longer grace and repayment periods and lower spreads, availments of new capital inflows and creative and imaginative options for debt reduction that would link the country's huge foreign exchange liabilities to foreign investment inflows. At the same time, further relief from foreign exchange constraints is also expected to come from the benefits that the multilateral aid initiative would bring over the next five years or so starting 1989.

Meanwhile, partly as a result of the monetary authorities' commitment to a market-determined exchange rate, the prospects for expanding exports next year appear to be bright. Export growth is also likely to be aided by the upward trend in the international prices of the country's traditional exports and the lowering of tariffs on imported inputs under the import liberalization scheme.

Concomitantly, imports are expected to advance as both investment and consumption activities perk up in response to the surging economy. The continuing implementation of the Import Liberalization Program, now in its second phase, is likewise expected to contribute to higher imports.

The encouragement of foreign investments, which was pursued in 1988 with the rationalization of the investment environment, would remain to be one of the priorities of the Philippine government as it is committed to continue providing incentives to investments, maintaining a consistent set of investment policies and supplying necessary support services.

There are, however, certain major areas of concern in the international front which could impact on the Philippine economic performance in 1989. One of the most important factors that could impinge on the country's growth prospects is the expected economic performance of its major trading partners and the impact this would have on the directions of economic policies in these countries. Another major cause of concern is the uptrend in foreign interest rates. The London interbank offered rate (LIBOR), which is the basis for most of the interest payments on the country's external debt, is forecasted to increase in 1989 which would mean higher debt service payments on the country's external obligations.

These factors, which are mostly exogenous in nature and which relate primarily to developments and policy changes in the country's trading partners and neighboring countries, would require constant review and monitoring to assess their ultimate impact on the economy. Thus, depending on how the critical issues relating to foreign investments, foreign trade and the foreign debt are resolved, the economy could position itself for either faster or more moderate growth in the coming year.

2
Central Bank of the Philippines

MONETARY AND CREDIT POLICIES

In pursuing the objectives of stability and growth, Central Bank policies continued to be prudently accommodative. Measures to enhance efficiency in financial intermediation and strengthen the financial system continued to be pursued with market-oriented policies.

Reserve Requirement

The reserve requirement on deposit liabilities of banks remained at 21 percent for short-term and 5 percent for long-term set in August 1986. Monetary, credit and economic movements continued to be closely monitored for any changes that would call for the revision of the reserve requirement policy.

Open Market Operations

In 1988, the arrangement whereby the proceeds of Treasury bills issued in amounts in excess of the National Government's deficit financing requirements were deposited with the CB continued to be relied on as an instrument of monetary control. At P58.5 billion at year-end, NG deposits with CB rose by 37.5 percent or P15.9 billion from its end-1987 level. The increase in NG deposits with CB helped reduce the need for the issuance of the CB's own instruments to achieve monetary aggregate targets which could unduly compete with NG issues in the open market. As of end-1988, borrowings of the CB through the issuance of its own instruments amounted to P9.7 billion, a decline of P1.4 billion or 12.6 percent from its end-1987 level.

Rediscount Window

Notwithstanding the retention of the rediscount rate at 10.0 percent in 1988, outstanding rediscount loans at the end of the year was maintained at P5.1 billion, almost the same level registered at end-1987. This development indicated reduced reliance of banks on the rediscount window for financing due, among others, to the availability of alternative sources of financing, notably the Industrial Guarantee Loan Fund (IGLF) and Agricultural Loan Fund (ALF).

Interest Rate

Market-oriented policies continued to be adopted by the CB in the determination of interest rates on its various credit facilities. As such, rates on Central Bank's borrowing and credit windows i.e., repurchase, reverse repurchase, emergency loans followed the general trend of market rates in 1988. It may be noted that Central Bank rates are related to market-determined rates such as MRR and Treasury bills rates.

Table 17. **REQUIRED RESERVES ON DEPOSIT AND DEPOSIT SUBSTITUTE LIABILITIES OF COMMERCIAL BANKS 1986-1988**
(In Percent)

Type	1988	December 1987	1986	August 1986
Deposits	21.0	21.0	21.0	21.0
Demand	21.0	21.0	21.0	21.0
Savings	21.0	21.0	21.0	21.0
NOW				
Time Deposits				
(Less than 730 days)	21.0	21.0	21.0	21.0
(More than 730 days)	5.0	5.0	5.0	6.0
Deposit Substitutes				
(Less than 730 days)	21.0	21.0	21.0	21.0
(More than 730 days)	5.0	5.0	5.0	6.0

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

Strengthening the Financial System

Efforts to strengthen the financial system continued with the full scale implementation of the divestment program for the six government-owned/controlled banks, which resulted in the sale of four (4) government banks to the private sector. Negotiations for the sale of the two (2) remaining banks are still ongoing. The privatization program of government banks which is primarily intended to reduce the scope and size of government exposure in banking, continued to be pursued. Meanwhile, the rehabilitation program for rural banks, which began in late 1987 through a capital build-up program and conversion scheme and/or plan of payment for rural banks experiencing financial difficulties, was also carried out. As of end-1988, 500 rural banks were approved for rehabilitation. To increase depositor protection and further strengthen the financial system, substantial increases in capital were also infused into the commercial banking system.

To foster freer competition in the banking industry, the requirement to purchase special five-year government securities as condition in the opening of new branches was lifted effective October 28, 1988. The lifting of such requirement was also expected to provide banks with greater flexibility to channel more funds for initial operations and other credit purposes which otherwise would have been tied up in long-term investments on government securities.

FOREIGN EXCHANGE POLICIES

Exchange Rate

During the year, the Central Bank had consistently sought the maintenance of confidence in the Philippine peso, which was deemed crucial in preserving the gains of economic recovery. The peso exchange rate from day to day was determined by the interplay of market forces in the foreign exchange market. Wholesale purchases and sales of foreign exchange were freely conducted at the Foreign Exchange Trading Center of the Bankers Association of the Philippines (BAP) by the CB and the Authorized Agent Banks (AABs). The CB intervened over and above its requirements only when necessary to smoothen out unnecessary fluctuations brought about by speculative factors in the market.

Basically, the BAP reference rate was determined based on the weighted average of the exchange rates for all the sales made in the trading floor during the preceding day. This reference rate served as a guide to AABs for quoting on competitive basis their own selling and buying rates to and from the general public.

Under the current policy, the country's exchange rate remained in line with market conditions, generally maintaining export competitiveness while helping to contribute to continued domestic price stability.

Import-Export Regulations

The deregulation of the last batch under the first phase of the Import Liberalization Program (ILP) proceeded as scheduled in 1988 as the Central Bank lifted controls on the remaining 129 items through Circular No. 1174, dated April 25, 1988. Of these commodities, 97 consisted of raw materials and intermediate goods and 32 consumer goods and other products. Consequently, all of the 1,232 goods[1] programmed for liberalization in different stages starting April 1986 had been liberalized effective May 1, 1988.

Moreover, the second phase of the Import Liberalization Program was started in June 1988 to further assure the long-term growth, competitiveness and stability of local industries, particularly the export industry, by making available cheaper and high quality inputs. A total of 673 commodities are scheduled for liberalization in various stages under Phase II of the ILP. As of end-December 1988, the government already lifted controls on 94 additional items[2]. The decision on whether or not items falling under List B will be liberalized would be done in 1989 until 1990 while items under List C will continue to be regulated for health and security reasons.

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[1] The number of items subject to liberalization was reduced to 1,229 after the removal of three high tariff sugar products on the list of items to be deregulated.

[2] These commodities were liberalized out of a total of 104 items from List A of Phase II of the ILP. Two items from the end-June schedule (indoor games equipment and electricity supply meters) and one item from the end-December 1988 schedule (game cocks) were not liberalized pending tariff rate adjustments. Out of 20 commodities classified under brand-new trucks and engines scheduled for liberalization by end-June 1989, 13 were liberalized ahead of schedule while 7 were retained under the regulated list since these commodities could be produced locally.

During the year, the regulations governing the implementation of the Comprehensive Import Supervision Scheme (CISS) through the Societe Generale de Surveillance (SGS) were amended in August to include commercial importations of specific commodities in the certified list of the Bureau of Customs which shall be subject to prescribed pre-shipment inspection, irrespective of value. Originally, under this scheme, the SGS undertook to inspect importations valued at $5,000 and above originating from Hongkong, Taiwan and Japan to determine, among others, the quantity, quality and prices of commodities prior to shipment to the Philippines. In 1988, the Central Bank, upon request of the SGS, rendered appropriate commodity classification on 52,250 commodities with an aggregate value of $605.8 million.

With regard to exports, a series of export-related measures were implemented during the year to further enhance the country's export earning capacity. The Central Bank continued to evaluate, examine and review the Report of Foreign Sales (RFS), Export Declaration (ED)/Export Permit (EP) prior to registration by the authorized agent bank (AAB) to determine whether the declared price of the export commodity is in conformity with the prevailing market price on the date of sale, or whether the terms and conditions of the sale are in accordance with existing regulations/practices of the trade, as well as to preclude the exportation of commodities with short domestic supplies. The Central Bank received a total of 4,142 RFS/EDs/EPs from AABs for prior verification/approval, of which 3,630 or 88 percent were approved.

Regulation on Invisibles

Measures were implemented in 1988 to further improve the process of remitting foreign exchange, specifically by Filipino overseas contract workers. On October 4, 1988, the Monetary Board approved the designation of overseas construction companies and service contractors as well as Philippine Overseas Employment Administration (POEA)—accredited private employment agencies as Authorized Foreign Exchange Agents (AFXAs) of the CB. This arrangement would be permitted initially for a period of one (1) year, with Brunei and the Middle East countries as pilot areas, after which it would be reviewed and if found advantageous, would eventually be extended to other areas. Relatedly, the Central Bank sought the cooperation of local commercial banks as well as offshore banks, through the Offshore Bankers Association, to actively participate in the remittance program of the government.

Efforts were also made to streamline existing procedural requirements governing foreign investments. In December 1988, the required supporting documents covering the registration/approval and repatriation of investments and other investment-related accounts were reduced to a minimum. This was in keeping with the present strategy of the government to vigorously promote domestic and foreign investments in order to achieve an investment-led economic growth. Moreover, various CB issuances pertaining to the other types of invisible transactions, specifically those found in Circular No. 960 dated October 21, 1983 and Circular No. 1028 dated October 12, 1984 were reviewed to further liberalize/simplify the administration and implementation of regulations on foreign exchange operations. Revisions/amendments to some of the provisions of these circulars are expected to be approved and implemented in 1989.

SUPERVISION AND REGULATION OF FINANCIAL INSTITUTIONS

Supervision of Banks

In 1988, regular bank examinations were conducted on 85 head offices of commercial banks, foreign banks, specialized government banks and thrift banks and 540 of their branches and other banking offices. Likewise, a total of 655 rural banks were examined.

Special examinations were also performed on the following: 1) loan portfolio; 2) certain deposit accounts in connection with irregularities in the payment of taxes and custom duties; 3) efficiency of the banks allowed to participate in the New Disbursement Scheme of the Department of Budget and Management in the release of funds to various government offices; and 4) various supervisory problems on fund management operation, government securities and Treasury warrants. A total of 25 head offices of thrift banks and 340 rural banking units were covered by special bank examinations.

Other supervisory functions undertaken during the year included the following: chartering of banking offices, verification of periodic reports and foreign exchange transactions, processing of various requests of banks to carry out certain transactions needing prior CB authorization and comptrollership/conservatorship and receivership/liquidation functions.

Regulation of Non-Bank Financial Intermediaries (NBFIs)

As of end-December 1988, a total of 3,239 NBFIs composed of 2,714 head offices and 525 branches were registered with the Central Bank. Of the total, 15 head offices and 52 branches had authority to engage in quasi-banking functions. With the merger of a financing company and an investment house with quasi-banking functions, the number of head offices of non-banks with quasi-banking functions (NBQBs) declined by one unit from end-1987 to 15 units at end-1988. On the other hand, the number of non-banks without quasi-banking functions grew from 2,340 in 1987 to 2,699 head offices in 1988, essentially reflecting the establishment of 200 pawnshops and 197 lending investors which more than offset the total decline (47 units) in the number of non-quasi bank financing and investment companies and venture capital corporations.

During the year, 159 examinations were conducted on the head offices and branches of NBFIs including some of their subsidiaries/affiliates. Of the total, 53 or 33.3 percent were operational/regular examinations conducted mostly on non-stock savings and loan associations (NSSLAs) while 106 or 66.7 percent were special examinations, performed for such purposes as loan appraisal, financial audit, entity's determination of tie-up with related interests and status of operation.

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 Management

External debt management continued to pose a serious policy dilemma in 1988 given the need to secure substantial fresh borrowings from abroad to support the economic recovery program and the urgency to ease the immediate debt service burden and improve the overall external debt profile.

In spite of considerable pressure to adopt unilateral measures such as debt service capping, the government stood firm in its resolve to manage the debt problem through orderly negotiations with its various creditors. Underlying this moderate stance was the firm conviction that the country's longer run interests would be best served by securing the voluntary cooperation and support of creditors to enable the country to grow its way out of the debt problem. Corollarily, forced debt relief as a strategy was viewed as providing at best only transitory gains.

New financing totalling $689 million came in during the year from official multilateral and bilateral sources. In December alone, a total of $260 million was obtained as part of the OECF 15th Yen Credit Package. Disbursements from IBRD amounted to $186 million, of which $100 million were availed of under the Economic Recovery Loan (ERL) and $75 million under the Government Corporate Reform Loan (GCR) loan. Official borrowings were primarily on concessional terms.

As in immediately preceding years, maturing debt service obligations continued to be serviced, at a carefully regulated pace, through the ongoing debt rescheduling program. A total of $2,359 million in debt service obligations was rescheduled during the year, of which $1,734 million represented rescheduling of principal owed to commercial creditors and $625 million consisting of principal and interest payments owed to the Paris Club members. In 1988, however, no new financing packages were entered into with commercial creditors while negotiations for the third round of rescheduling through the Paris Club of official bilateral credits falling due from September 1988 was delayed pending conclusion of a new IMF agreement. As a result, the country has started accumulating arrears on maturing Paris Club obligations. These, however, would eventually be rescheduled.

A key element for the commencement of any new negotiations for a financing package in the future will be the conclusion of a new program with the IMF. The 1986 IMF Standby Agreement was successfully completed during the year with the drawdown of the last two tranches of SDR 35 million each. In November 1988, the government started the negotiations with the IMF for an extended fund facility and a contingency financing facility.

During the year, a major debt management initiative was the expanded implementation of various voluntary debt reduction schemes geared towards reducing the historical debt stock and the external debt burden of the country. The developments in the various schemes adopted are summarized below:

A. Debt-to-Equity Conversion Program (Circular No. 1111). The program, which is spelled out in Circular No. 1111 dated August 4, 1986 and last revised on October 20, 1987, permits the conversion of external debt instruments purchased at a discount into local currency in order to fund equity investments in local enterprises. The conversion transaction simultaneously reduces the country's external debt and encourages foreign investment because the investor can acquire the country's debt instruments in the secondary market at substantial discount from their face value. The Government captures part of the discount in the form of conversion fees.

As of December 31, 1988, total approved debt-to-equity applications aggregated US$1,242.9 million.[1]

B. Debt-for-Debt Scheme. The Central Bank approved several transactions involving the presentation of external debt paper to the Central Bank for redemption in pesos, pursuant to Section 5.11 of the CB Restructuring Agreement, as amended, at a 30 percent-35 percent discount to the Central Bank. The peso proceeds arising from the redemption are applied to outstanding loans and advances of the Central Bank to the end-user borrower who has presented the Central Bank external debt paper for redemption. No pesos are thus released by the Central Bank.

As of December 31, 1988, the Central Bank has closed US$15.0 million debt-for-debt transactions of which US$2.4 million represents CB's share of the discount.

C. Debt-for-Asset Swaps. Another debt reduction measure involves the redemption of National Government debt paper (specifically PNB, DBP and NIDC credits transferred to the National Government) in exchange for an asset being disposed by the Asset Privatization Trust (APT) with the Bureau of Treasury, with the Government sharing a discount of about 30 percent-35 percent of the face value.

As of December 1988, the CB approved 17 debt-for-asset swap applications amounting to US$ equivalent of P2.4 billion, of which 16 transactions totalling P2.37 billion or approximately US$109.43 million, inclusive of 50.94 percent premium, have been closed.

D. Peso Prepayments and Offsets and Other Reduction Schemes. In addition to the above schemes, public sector, private financial sector and private corporate sector debt papers were used for peso prepayment, offset and other reduction schemes, which contributed to the reduction of the country's external debt stock.

1. Public Sector Debts. Section 5.11 of each Public Sector Restructuring Agreement provides for optional repayment in Philippine currency subject to the prior consent of the Central Bank and the Republic of the Philippines as Guarantor. To date, public sector restructured as well as unrestructured debts totalling US$121.5 million (consisting of US$87.3 million CB debt paper and US$34.2 million other public sector debt paper) have been prepaid in pesos. Some creditors have offset their liabilities to the Central Bank against CB debts totalling US$47.6 million.
2. Private Financial Sector Debts. Private financial sector debts owed to commercial banks which have been prepaid in peso amounted to US$73.4 million while US$30.0 million was converted into assigned capital and US$34.5 million was automatically set off against the collateral or other public sector debt papers. A number of requests for peso prepayment amounting to US$29.1 million, for conversion into public sector debt amounting to US$50.0 million and for conversion into assigned capital amounting to US$6.0 million are pending with the Central Bank.

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[1]Excludes $137 million debt converted to equity for which investment is temporarily placed in CB bills.

3. Private Corporate Sector Debts. Private corporate sector debts owed to commercial banks amounting to US$178.7 million were prepaid in pesos, the proceeds of which were invested outside of Circular No. 1111, with the investor waiving its repatriation and remittance privilege. Likewise, private corporate sector debts aggregating US$155.6 million were swapped with or offset against public sector debt instruments/dollar denominated Government debt securities acquired by the borrowers from the secondary market at a discount.

E. Relending Scheme. Section 5.12 of the CB Restructuring Agreement, as amended, allows the withdrawal of CB credits from restructuring for relending to private and public corporate sector to finance importation and refinance existing foreign obligations. Although the scheme involves a reduction in the CB restructured debt, it has no effect on the country's total external debt level since the loan merely involves a change of obligor from CB to a private or public sector borrower. However, the use of the relending facility to refinance existing foreign debts earlier secured under onerous terms can lead to foreign exchange savings since the terms of the relent credit are more favorable than the original loans. An example is the relending facility to the Philippine Long Distance Telephone Co. The US$235 million PLDT relending facility resulted in a reduction of the average interest margin of 1.62 percent per annum on existing loans to 1.2 percent per annum (including the management fee) on the relent credit. This translates into projected interest savings of US$116.0 million up to year 2003, equivalent to an estimated US$83.8 million in savings on a net present value basis. In addition, about 18 percent of a US$17 million 12-year loan under the CB relending scheme to a local mining company to refinance its outstanding Y2.8 billion debt has been condoned.

With regard to the restructuring of private corporate external debt with commercial banks and Paris Club creditors, recent developments regarding the specific prepayment programs which had been devised by the CB to operationalize the restructuring agreements are summarized below:

As of December 31, 1988, total enrolled debt under CB Circular No. 1076, covering the repayment program of private corporate debts outstanding as of October 17, 1983 and maturing between October 17, 1983 and December 31, 1986, stood at $837.4 million.

Classified according to repayment options, 66.3 percent were enrolled under Option 1 where the borrower pays in accordance with the original maturity schedule; 29.9 percent under Option 2 where the borrower may reschedule the debt for at least 6 months; 3.1 percent under Option 3 where the borrower may reschedule the debt and avail of forward exchange protection for not more than 75 percent of the debt; and 0.7 percent under Option 4 where the borrower experiencing severe financial difficulties may reschedule the debt over a seven-year period and avail itself of foreign exchange protection for the full amount.

Viewed from the economic activity of debtors, 46.8 percent of the total enrolled debts were debts of the manufacturing sector; 35.2 percent, public utilities; 8.4 percent, mining; 7.0 percent, construction; 1.8 percent, business services; and 0.8 percent, agri-business.

On August 12, 1988, CB Circular No. 1178 was issued to cover the repayment program of private corporate debts outstanding as of October 17, 1983 and maturing between January 1, 1987 and December 31, 1992. The program provides for repayment options similar to those provided in CB Circular No. 1076. About

$547.6 million of eligible debts were expected to be enrolled under this program by end-1988. Of these, $200.9 million were actually enrolled, all under Option 1.

During the year, foreign loans of the private corporate debtors aggregating $318.9 million were paid/settled by the borrowers outside of the Repayment Programs thereby reducing the country's debt stock. These were done through exchange of promissory note held by foreign creditors with Central Bank Credit Schedules or US dollar-denominated Treasury Bills acquired in the secondary market; conversion into equity/peso loans; peso payment to creditors' assignees who in turn invested the pesos in Philippine enterprises as approved equity investments under CB Circular No. 1111 and/or excluded investments, i.e., no repatriation privileges.

These alternative repayment methods actually benefitted the country by reducing the external debt stock without any foreign exchange outflow nor reserve money increase. The private corporate borrowers also benefitted from discounts ranging from 10 percent to 40 percent of the face value of their outstanding debt. Moreover, the Central Bank was relieved of the debt assumption and its attendant cost and risk.

Foreign Investments

In addition to foreign investments made under Circular No. 1111, the Central Bank has approved foreign equity investments amounting to $3.3 billion as of end-December 1988. During the year, approved foreign equity investments totalled $77.3 million. Major investors during the year were the United States, Japan and Hongkong, which together accounted for 82.4 percent of approved investments, followed by the Netherlands, Germany and Singapore. Industry-wise, 48.2 percent of total approved investments were channelled to manufacturing, 22.1 percent to mining, 19.4 percent to services, and the remaining 10.3 percent to other economic activities such as banking, commerce, public utilities and agriculture. Meanwhile, registered foreign equity investments as of end-December 1988 aggregated $2.9 billion. Foreign exchange outward remittances from equity investments in the Philippines aggregated $223.2 million in 1988, slightly lower than the 1987 level of $249.0 million. These comprised cash dividend payments of $104.2 million, remittances of branch profits in the amount of $38.6 million, remittances from capital oil exploration aggregating $49.2 million, technical service fees of $29.6 million and others (i.e., royalties, repatriation) of $1.7 million.

Outward investments were also undertaken during the year, amounting to $4.4 million. Most of these transactions were undertaken by government financial institutions (e.g., Land Bank, Social Security System, Philippine National Bank, Government Service Insurance System) in relation to their investments in Century Bank, which is based in San Francisco, USA, and by communications firms (e.g., Philippine Long Distance and Telephone Co., Phil. Global Communications and Eastern Telecommunications) on account of their cable expansion programs.

Meanwhile, foreign investments in Philippine securities aggregated $61.8 million or 44.5 percent less than in 1987. Hongkong-based dealers accounted for the biggest block of foreign investors in Philippine securities with a share of 64.1 percent of the total volume of portfolio investments. Other important investors in

Philippine securities during the year were the United States with a share of 23.6 percent, United Kingdom (5.0 percent), Luxembourg (4.8 percent), followed by Australia, Canada, Singapore, Ireland and others (which together accounted for the remaining 2.5 percent). Portfolio investments were placed primarily in commercial sector securities (68.2 percent of the total), with the rest invested in mining sector issues (16.8 percent), financial sector securities (11.1 percent), and oil and manufacturing shares (3.9 percent). Portfolio investments repatriated during the year amounted to $73.7 million, 42.5 percent higher than in 1987.

With regard to stock arbitrage transactions, 13 applications were processed and approved authorizing the sale of Philippine securities amounting to $2.2 million. From these proceeds, $0.1 million was used to purchase Philippine securities abroad, and the difference of $2.1 million was inwardly remitted. Meanwhile, a total of 252,611,501 shares covering various Philippine securities duly registered with the Central Bank as foreign portfolio investments were authorized for transfer inward from foreign to local registry.

Foreign Exchange Operations

Foreign exchange operations in 1988 continued to function smoothly given the improvement and streamlining of the remittance procedures for non-trade transactions.

To closely monitor compliance with existing foreign exchange regulations, the Central Bank reviewed and evaluated monthly reports on foreign exchange cash receipts and disbursements submitted by 253 authorized foreign exchange agents and 2,131 foreign exchange earners including overseas workers and banks. Moreover, the books of accounts and related records of 332 entities, including 8 commercial banks, were examined. Results of the examination disclosed some violations of existing CB regulations such as (a) non-compliance with the mandatory remittance requirement, (b) offsetting of foreign exchange receivables against payables or vice-versa without prior CB approval, (c) unauthorized deposits of non-trade receipts in foreign currency accounts, and (d) non-renewal of authority to maintain Special Deposit Accounts and unauthorized deposit of foreign exchange receipts from invisibles to said account. Discovery of these violations led to the inward remittance of an additional $42.9 million which was sold for pesos to the banking system.

Meanwhile, applications for invisible disbursements acted upon during the year totalled 3,796 broken down into: foreign exchange remittances (2,427), request for film releases (891) and registration of contracts/agreements (478). Remittances for passenger revenues of airlines topped the list of invisible disbursements in 1988 with $94.8 million followed by freight charges/collections with $39.0 million.

As part of its public assistance program, the Special Services Unit of the Central Bank located at the Ninoy Aquino International Airport assisted tourists, non-residents and returning Filipino contract workers in the declaration of their foreign exchange holdings as well as in the conversion and reconversion of unspent pesos to foreign currencies. This Unit, which is also charged with the responsibility of implementing currency regulations, confiscated from its owners

$1.1 million worth of foreign currency notes, an undetermined amount of local currency and various precious metals for violating existing currency regulations.

As the fiscal agent of the government, the CB administered the fiscal agency fund of the national government, its instrumentalities and agencies. A total of 2,983 fiscal agency service (FAS) applications for various purposes, including the remittance of salaries, allowances, maintenance and operating expenses of overseas-based personnel and government offices abroad, disbursements for travel funds and allowances of government officials/personnel and payments of other miscellaneous invisible obligations were processed during the year. Purchases of foreign exchange to service the FAS requirements of the government for 1988 totalled $36.6 million, down by 12.4 percent from the 1987 level.

In another development, the level of outstanding swaps (inclusive of MEDD-approved loans under swap basis) dropped to $1,129.6 million from the previous year's level of $1,251.3 million owing to the unwinding of swap contracts of the private corporate sector. Swap transactions during the year were limited to renewals since guidelines for unwinding of swap contracts funded by foreign exchange obligations (not covered by any Restructuring Program) have not been issued. Swap contracts were renewed at an average discount rate of 0.2 percent instead of a premium. Thus, contracted rates for swap renewals in 1988 were generally lower than the CB buying rates.

Foreign exchange proceeds of by-product gold exported abroad and sold to the Central Bank amounted to $108.1 million or an increase of 56.0 percent from the 1987 level. Receipts from other foreign exchange transactions, such as acquisitions via telegraphic transfers, foreign exchange sold for pesos by OBUs and receipts for license and registration fees of OBUs and representative offices of foreign banks, dropped by 24.5 percent to $47.6 million during the year.

International Trade Operations

International trade operations in 1988 continued to be directed, on one hand, toward the promotion and development of exports and the maximization of foreign exchange receipts generated from the sales of Philippine commodities abroad and, on the other hand, toward the monitoring of imports in order to ensure that pertinent import rules and regulations were observed and that the expansion in import levels which might be brought about by the continuing Import Liberalization Program did not cause undue disruptions in domestic production.

Significant steps were undertaken by the CB in 1988 to liberalize imports. All of the 1,229 items slated for liberalization starting April 30, 1986 under Phase I of the Import Liberalization Program had been made freely importable effective May 1, 1988. Phase II was subsequently started in the middle of the year and another 94 items were deregulated in December. Thus, while the CB continued the monitoring and the verification of all import transactions as part of its responsibility of enforcing CB import regulations, its import licensing function was reduced to a significant extent due to the continuing implementation of the Import Liberalization Program.

Partly as a result of this Program, the value of importations financed through L/Cs, D/As and O/As in 1988 expanded to $6,255.1 million, 22.8 percent higher than the level posted a year ago. This upturn followed the upsurge in investment and consumption activities in response to the domestic economic rebound. Regular L/C openings advanced to $5,155.9 million from $3,994.6 million in 1987. In contrast, imports financed under D/A and O/A arrangements dropped slightly to $1,099.2 million from $1,100.9 million a year earlier. This downtrend could be attributed to the contraction in mineral fuel and lubricant imports which are normally financed under such arrangements.

During 1988, a total of 237 applications to import banned items were received compared to only 140 a year ago. However, the value of banned items authorized by the Central Bank to be imported contracted by almost half to $10.2 million from $18.2 million. In contrast, importations carried out under the no-dollar basis almost trebled from $25.6 million last year to $75.0 million. This developed even as the number of received applications to import on a no-dollar basis fell to 1,614 from 2,094 in the previous year. About 80.0 percent of the amount of no-dollar importations in 1988 were in the form of donations and grants/aids in contrast to only 48.8 percent last year. In addition, the CB also authorized the issuance of release certificates for importations involving violations of Central Bank import rules and regulations subject to the payment of special time deposit penalties.

The CB-GTEB unit at the Department of Trade and Industry, which was reactivated on June 9, 1987, was subsequently recalled in September 1988 following the issuance of Circular No. 1174 on April 25, 1988 which liberalized the importation of fabrics and textile products. As a result, CB's servicing of the import requirements of garment exporters was minimized.

During the year, the CB in implementing the Import Liberalization Program in coordination with other government agencies, continued to review the coverage of commodities slated to be covered by the Program and to monitor upsurges in import levels based on established benchmarks. It likewise studied requests from the private sector for protection against unfair competition from imported products.

On the export side, the Bank's operations in 1988 were geared toward export promotion, maximization of foreign exchange earnings generated from export sales, correct declaration of foreign exchange proceeds, acceleration of inward remittance of foreign exchange receipts and information dissemination. In terms of export promotion and assistance, a 1987 Directory of Philippine Exporters, together with other listings of exporters under various classifications, was distributed free of charge to interested parties. Moreover, applications for the remittance of commissions resulting from the sale or distributorship by foreign agents abroad of Philippine-made products, especially non-traditional exports, to new markets were readily acted upon during the year.

To maximize foreign exchange receipts from exports, exporters were advised by the Central Bank to renegotiate their contracts with their foreign buyers if the declared prices of their export commodities as reflected in their Request for Foreign Sales (RFS) and Export Declaration (ED) were below benchmark prices based on international trends and quotations regularly monitored by the Bank. These renegotiations resulted in incremental foreign exchange earnings from export sales of various commodities totalling $36,921.9 in 1988. Exporters were similarly advised to renegotiate their processing agreements with their buyers if the processing fees were found to be unrealistically low. The Bank also monitored closely export declarations without foreign exchange proceeds such as shipments of households/personal effects of expatriates leaving the country, display items for international trade fairs, tourist purchases and samples.

With respect to the acceleration of the inward remittance of export receipts, exceptions to the sixty (60)-day repatriation rule were limited to a maximum of ninety (90) days from shipment date. Payment of exports extending beyond ninety (90) days were permitted only in very meritorious cases.

Partly as a result of these factors, export negotiations in 1988 amounted to $5,300.5 million, 23.9 percent higher than the level recorded last year. Export payments likewise climbed to $4,362.4 million, 20.7 percent greater than in 1987. The gap between export payments and negotiations was traced primarily to the offsetting of export proceeds against foreign obligations under intercompany open arrangements.

In 1988, continuing meetings, dialogues, seminars and conferences on foreign trade were conducted and participated in, by representatives from the Central Bank. These provided occasions for information dissemination, close consultative discussions and coordination with inter-agency groups and other interested parties on available export/import trade facilities, existing Central Bank rules and regulations and developments and problems affecting imports and the export industry.

International Reserve Management

In 1988, international reserve management continued to be geared towards ensuring that the official international reserve was kept at an adequate level and in a suitable asset-currency-maturity mix that would allow the Central Bank to meet any foreseeable demand for foreign exchange while accessing the best available yields on financial investments.

The international reserve was mainly invested in fixed deposits, fixed income foreign securities, and precious metals. Investments in US dollar fixed deposits were positively influenced by the substantial rise in US dollar interest rates and the predominance of dollar-denominated funding requirements. The Central Bank undertook dollar/yen swaps to raise dollars while preserving the level of dollar/yen-denominated assets and maintaining the present currency composition of the international reserves. In addition, the relatively strong performance of the Australian dollar and its higher yield compared to the US dollar provided a new venue for the Central Bank's fixed deposits in the form of Australian dollar time deposits.

On the other hand, investments in fixed income foreign securities were mainly focused on Canadian dollar Treasury Bills in the face of uncertainties in the US financial markets in 1988. This served as a logical alternative investment, considering that Canadian dollar T-bills bear a credit risk similar to that of US dollar T-bills while providing a 300 basis-point yield advantage. Substantial dealings were also undertaken in repurchase agreements in yen markets *(gensakis)*. However, liquidity requirements during the year necessitated the unloading of several investments resulting in the reduction of fixed income securities to about $40 million by yearend.

Outright sales of precious metals generated an income of around $18.532 million even as the Central Bank remained active in locational swaps. In addition, the Central Bank continued to deal in gold options.

Overall, the expansion in the international reserve during the year was brought about by: 1) net purchases from AABs (US$904 million); 2) deposits of the Treasurer of the Philippines of the proceeds of the Economic Recovery Loan and the Government Corporate Reform Program Loan from the World Bank ($101 million and $75 million, respectively), the Overseas Economic Cooperation Fund (OECF) and Eximbank of Japan co-financing ($100 million each) and the OECF 15th Yen Package (also $100 million); 3) purchases of primary gold ($313 million); 4) purchases of US Treasury Warrants ($235 million); 5) deposits under the Trade Facility ($203 million); and 6) proceeds of the last two (2) tranches under the IMF Standby Facility ($91 million). On the other hand, drawdowns on the international reserves were made to cover debt servicing requirements of both the National Government ($1,259 million) and the Central Bank ($932 million) in 1988.

OPERATIONS AS FISCAL AGENT OF THE GOVERNMENT

Authorized Flotations

In 1988, total government securities authorized for flotation through and by the Central Bank amounted to P241.4 billion as compared to last year's P225.2 billion. This aggregate included new authorizations (P71.1 billion), the balance of previously authorized ceiling for Treasury bills and Central Bank bills (P151.3 billion), and previously authorized issues carried over in 1988 (P19.0 billion).

Transactions during the year for new authorizations included issuances of additional blocks of T-bills and T-Notes, with the initial issues of Kalayaan Savings Bonds and 7-year Philippine Estate Authority Bonds, medium-term CB notes and special series of CB bills for the debt-to-equity conversion program. Of the total authorized flotations, T-bills accounted for P50.0 billion which would be used to finance the government's funding requirement and at the same time serve as instrument for the Central Bank's open market operations. The 5-year Kalayaan Savings Bonds, which was designed as a mass-based savings instrument to be initially launched in June 1989 accounted for P2.0 billion. Meanwhile, the authorized flotation of the 7-year Philippine Estate Authority Bonds amounting to P0.2 billion was the only government corporate bond authorized during the year and will be used to finance the completion of the R-1 Expressway Project (or the Manila-Cavite Coastal Road).

Primary Sales of Securities

During the year, government securities sold in the primary market aggregated P237.4 billion, reflecting an expansion of 23 percent from last year's P195.4 billion. Primary issues of the National Government were largely sold through the auction method, and amounted to P226.4 billion while CB issues for the debt-to-equity conversion program worth P11.0 billion were sold on a negotiated basis. In 1988, 52 auctions of T-bills were conducted that offered amounts ranging from P3.0 billion to P6.0 billion each week in three maturities of 91-, 182- and 364-day bills. Other National Government issues that were likewise sold through auction were the three-year 12 percent Treasury Notes amounting to P11.2 billion which were higher than last year's P7.0 billion.

Accounting for about 5.0 percent of total government issues, Central Bank issues consisting of CB bills and CB Notes aggregated P11.0 billion, an improvement of over 300 percent from last year's P2.3 billion. Of this amount, short-term special series CB bills amounted to P10.5 billion while the medium-term CB Notes fetched P0.4 billion.

As in the previous year, no government corporate securities were sold in 1988. This was due to the NG's policy to limit the extension of government guarantees on corporate borrowings (including the sale of securities) and make these corporations rely more on internally generated funds.

Of the total securities sold in the primary market, P221.5 billion were marketable while the rest amounting to P15.9 billion or 7.0 percent of total were non-marketable issues. Compared to last year's level, the share of marketable securities to total dropped by 6.0 percentage points from 99.0 percent while the share of non-marketable issues improved by 6.0 percentage points from 1.0 percent due to the issuance of special series T-bills and notes for tax-exempt institutions and increments in special series CB bills for debt-to-equity transactions.

The banking system (consisting primarily of public and private commercial banks, thrift banks and other banks) absorbed 75.0 percent or P178.7 billion of primary issues while private non-banks took 18.0 percent or P42.1 billion; and public non-banks, the remaining 7.0 percent of primary issues.

The Status of Premyo Savings Bond Flotation Program

The phasing out and pretermination of Premyo Savings Bonds (PSBs), both regular and special series, began on March 1, 1987 in line with the government policy of making government security issues market-oriented. As of December 1988, total PSBs held by CB-administered funds (Bond Sinking Fund and Securities Stabilization Fund) amounted to P1.1 billion as compared with the P1.4 billion at end-1987. Holdings of investors outside abovementioned CB-administered funds further shrank to P25.97 million from P36.79 million in December 1987, with the implementation of the phase-out program.

OTHER ACTIVITIES

New Committees

In response to new developments the Central Bank in 1988 set up/reconstituted committees/task forces to help facilitate and enhance the Bank's pursuance of its objectives and responsibilities. During the year, eight (8) new committees/task forces were formed and two (2) existing ones were reconstituted/extended as follows:

1. Intra-Central Bank Task Force (Office Order No. 32, April 8, 1988)—constituted to look into the study of the SGV Consortium on "Strategies for the Expansion of Banking Services in the Rural Areas" and to determine which of the proposals can be immediately implemented by CB. For proposals which are

acceptable but require legislation, a draft of the necessary legislation shall be prepared by the Task Force.

2. Congressional Liaison Committee (Office Order No. 62, May 19, 1988)—organized to coordinate with Congress on matters affecting Central Bank functions and activities as well as to represent the Bank in hearings of various committees in Congress.

3. Currency Retirement Committee (Office Order No. 70, May 30, 1988)—constituted to provide for additional security measures and internal control safeguards on retirement of mutilated, perforated or unfit currency notes.

4. Ad Hoc Joint Central Bank-Board of Investments Committee (Office Order No. 85, June 27, 1988)—constituted to review interrelated agreements of the Philippine Sinter Corporation with Kawasaki Steel Corporation of Japan and the Kawasaki Steel International of Panama relative to the manufacture and sale of sintered ore covering the 10-year period from April 1, 1987 to December 31, 1997. The Cor .nittee is expected to set up a procedure for the proper valuation of imports of iron ore and exports of sintered ore under the said agreements.

5. Ad Hoc Committee on Bank Asset Valuation Review (Office Order No. 135, November 18, 1988)—organized to review guidelines for the qualitative appraisal of bank assets and provisioning for loan losses.

6. Ad Hoc Multisectoral Committee on Commercial Banks Reports Review (Office Order No. 136, November 18, 1988)—organized to undertake a comprehensive study and review of reports of commercial banks required by CB with a view to improving the transparency and consistency of bank financial data.

7. Financial Reporting Review Committee (Office Order No. 137, November 18, 1988)—created to undertake a comprehensive review of the published financial statement of banks to ensure transparency and consistency of reported information.

8. Ad Hoc Committee on Trust Department Accounts Review Committee (Office Order No. 138, November 18, 1988)—constituted to undertake a comprehensive study and review of the trust department accounts of banks.

Reconstituted/Extended Committees/Task Forces

1. Inter-Agency Committee on No-Dollar Imports (Office Order No. 24, April 4, 1988)—extended its term of operation to end-April 1988 or until the approval of new guidelines on no-dollar importation of motor vehicles.

2. Prequalification, Bids and Awards Committee (Office Order No. 58, May 19, 1988)—further reconstituted to take charge of CB building/construction program and prepare schedule of implementation of approved projects. The Committee is also tasked to evaluate bids and approve awards to qualified bidders.

In addition, three (3) other ad hoc committees were organized to take charge of the necessary preparatory arrangements relating to the conduct of special events/activities such as the celebration of the 40th Anniversary of the Central Bank in January 1988 and the hosting of the Southeast Asian Central Banks (SEACEN) Seminar on Open Market Operations as a Monetary Instrument on July 13-15, 1988, and SEACEN-IMF Course on Financial Analysis and Programming from February 15- March 31, 1989. Meanwhile, an ad hoc committee to screen applicants for CB security guards and to draw up measures involving the assignment of guards in the CB complex was also constituted.

Gold Refinery and Mint

In 1988, the Central Bank Gold Refinery's aggregate output of 786.6 thousand troy ounces of refined gold exceeded the year's target by 15.7 percent and the previous year's production by 0.4 percent, despite the decline of about 10 percent in raw bullion purchases during the year. Total production of refined silver expanded by 16.4 percent to 1122.1 thousand troy ounces and surpassed the target by 45.7 percent by year-end. The aggregate raw bullion which were purchased by the Bank from the primary gold producers, gold panners and the Philippine Associated Smelting and Refinery Corporation (PASAR) weighed 1633.1 thousand troy ounces valued at P6.8 billion.

During the year, the Central Bank Mint turned out 380.3 million circulation coins and 500 sets 1988 brilliant uncirculated coins. Coin deliveries to the Cash Department aggregated 637.3 million with a face value of P318.1 million. The Mint also packed for release two million pieces of People Power nickel coins in presentation folders.

Security Printing Plant

In 1988, the Security Printing Plant (SPP) produced a total of 518.2 million banknotes, a substantial increase of 26.8 percent over the 408.7 million banknotes in 1987. Delivery of banknotes to the Cash Department constituted 78.2 percent of the 1988 revised order of 610 million notes, including 1,000 sets of specimen banknotes in presentation albums. Other deliveries from the previous year's output consisted of 500 uncut sheets of 5-Piso and 20-Piso denominations.

In the same year, the Plant printed security documents (regular and special checks, and non-check instruments) which aggregated 114.8 million pieces, higher by 8.8 percent from the 1987 output.

In comparison, the combined production of chewing tobacco stamps, documentary stamps and wine labels totalling 319.3 million pieces decreased to nearly half of the 632 million pieces produced in the previous year due partly to late receipt of additional orders for documentary stamps. Delivery was completed for the order of 35 million pieces of chewing tobacco strips while 239.5 million pieces or about 80 percent of the total order for wine labels were served.

Additionally, 1.1 million passport booklets were printed and delivered to the Department of Foreign Affairs in 1988. The Plant also completed 35 thousand Seaman's Service Record Books.

Currency Issue

As of December 31, 1988, the Central Bank's net outstanding liability for currency notes and coins issued amounted to P46.6 billion, up by 11.4 percent over the 1987 level. During the year, the Bank maintained an average level of currency issue of P37.0 billion except in December when the level rose to P46.6 billion in response to the higher demand for currency during the Christmas season.

Clearing Operations

With forty-six clearing participants including the Central Bank and National Government, a total of 33.1 million checks (local and out-of-town) valued at P479.4 billion were cleared in 1988 through the facilities of the Manila Clearing Center and twenty-nine regional clearing units. Compared to the 1987 level, the aggregate volume of checks cleared increased by 16.1 percent with a corresponding rise of 22.2 percent in face value. Meanwhile, in line with the Central Bank's program of expanding the geographic coverage of its regional clearing operations in support of the growing trade and commerce, Tuba in Benguet was added to the clearing areas of Baguio Regional Clearing Unit.

Training Programs/Technical Assistance

The CB Institute continued to implement in 1988 program on career development, supervisory and managerial techniques as well as attitude enrichment and skills development for personnel of CB and of financial institutions under its supervision as well as participants from other countries. During the year, the CB Institute conducted a total of 64 courses consisting of 152 offerings attended by 8,603 participants, 3,246 of which were CB employees.

For Central Bank personnel, various management, technical and computer courses were offered such as the Management Development Program, Computer Audit Course for Bank Examiners, Seminar on Treasury Operations with Foreign Exchange Course, Seminar on Export Financing and Print and Design Seminar Workshop. Likewise, lectures/symposia on health care, integrity, ethics in government as well as specialized courses on self-help livelihood programs were conducted for CB employees.

As in previous years, the CB conducted programs to respond to the training needs of CB supervised banks and non-bank financial institutions in the light of changes/developments in the financial system. In particular, courses covering all aspects of the implementation of the Agricultural Loan Fund (ALF), from familiarization to evaluation phase, were offered to ALF implementors. Training programs for Rural Bank personnel were also offered such as the Rural Lending Management Credit.

Course offerings with foreign participation from Sri Lanka, Nepal, China, Indonesia, Thailand and India included the SEACEN-sponsored seminar on open market operations, management training, human relations and personnel policies, technical know-how on loan monitoring and evaluation, project appraisals and bank supervision.

In the same year, the CB Scholarship Program extended assistance to deserving CB employees in pursuing masteral academic courses, five of which were in local universities and six in foreign schools. Administrative and financial support were also given to eight grantees under the National Scholarship for Development (NSFD) program's Study-Now-Pay-Later-Plan, 10 deserving children of CB employees, 72 grantees in different local non-degree programs sponsored by the government/private sector as well as to 24 grantees to workshops and seminars in foreign countries either as participants or resource persons.

Loans and Credit Operations

As of end-1988, outstanding loans of the Central Bank stood at P14.7 billion, a decline of P0.7 billion from the end-1987 level of P15.4 billion mainly due to loan repayments made by the various borrower institutions notably NG, government banks and non-banks with quasi-banking functions. Delinquent accounts at P4.7 billion were lower by 33 percent over the 1987 level due to decreases in the arrearages of commercial banks under receivership and/or liquidation, thrift banks and rural banks following the implementation of a rehabilitation program for rural banks. Meanwhile, outstanding regular rediscount credits at P5.8 billion as of end-1988 remained almost unchanged from the end-1987 level. Rediscount loans granted however increased by P6.6 billion from P4.4 billion in 1987 to P11.0 billion in 1988 indicative of good collection and higher turnover of rediscount loans. The rediscount rate remained unchanged at 10 percent.

Gross earnings of CB from its lending operations in 1988 reached P1.2 billion representing collection of interest payments from borrower institutions and miscellaneous income from past due loans, overdrafts and penalties for violations of rediscounting regulations.

Regional Operations

With the rise in economic activity in the regional areas of the country, CB, through its four regional offices (Cebu, Davao, La Union, Tacloban) and 13 regional units (6 in Luzon, 4 in Visayas, 3 in Mindanao) continued to extend and expand services to local financial communities.

Cash and Banking Operations. As of end-1988, total receipts from 17 operating cash units throughout the country amounted to P30.9 billion reflecting an increase of 22.1 percent over the 1987 level. These receipts emanated from cash and checking deposits, cash requisitions, incoming cash shipments, income from sales of foreign currencies, and proceeds from sales of government securities. On the other hand, disbursements which ensued from cash withdrawals by banks, outgoing cash shipments and encashments of government securities, registered a total of P30.6 billion, higher by 34.9 percent than last year's figures. Total cash deposits and withdrawals aggregated P29.3 billion and P19.7 billion, respectively, while foreign currency receipts from purchases from banks and telegraphic transfer swap totalled $112.8 million or P2.4 billion in 1988.

Rediscounting Operations. Total rediscount loans granted to rural banks by CB regional offices in Cebu, Davao and La Union registered a total of P139.3 million, higher by 4.1 percent or P5.5 million than last year's figures. On the other hand, total loan repayments amounted to P167.3 million in 1988, posting a decline of 12.3 percent from last year's P190.6 million. Past due loans amounted to P1.1 billion, a slight increase of 0.4 percent.

Securities Marketing and Servicing. Sales of government securities amounted to P1.2 million in 1988 which reflected a 77.0 percent decline from 1987's P5.15 million due to the phase-out of regular CB bills and the pretermination of the Premyo Savings and Biglang Bahay Bonds. Encashment of government securities and bonds amounted to P19 million, lower by P5.3 million or 21.9 percent as compared to P24.4 million last year.

Gold Buying Operations. Gold purchases of the CB Regional Office in Davao aggregated 5,985 kilos, a decline of 8 percent from 6,500 in 1987. This downtrend in gold purchases which started during the last quarter of 1987 was traced to the sale of gold by traders to other buyers. Likewise, silver purchases declined by 5.8 percent from 1,440 kilos in 1987 to 1,357.8 in 1988.

Clearing Operations. A total of 26,165,781 checks valued at P366.34 billion were cleared in 1988 by Regional Clearing Units in 17 CB Regional Offices/ Units. Checks for local clearing comprised 52.8 percent of the total, while out-of-town and inter-regional clearing represented 41.2 percent and 6.0 percent, respectively. The number of checks cleared during the year in review was higher by 18.1 percent or P51.9 billion than last year's P314.5 billion.

International Economic Cooperation

The Central Bank continued to involve itself in regional and international cooperation through active participation in the various activities of international associations and organizations. The year began with the Central Bank participation in the 23rd Conference of the Governors of South East Asian Central Banks (SEACEN) held in Singapore. In this meeting, recent economic and monetary developments in member countries as well as the world economic outlook and its impact on the SEACEN region were analyzed. Moreover, the proposed program of activities and the budget of the SEACEN Research and Training Centre for the year 1988/89 were approved. The highlight of the meeting was, however, the signing by the SEACEN Board of Governors of the Trust Deed for the establishment of a SEACEN Trust Fund. Proceeds from this Trust Fund will be used to shoulder the expenses to be incurred in carrying out the scholarship program of the SEACEN Centre. As part of its commitment to the SEACEN Centre, the Central Bank hosted a region-wide seminar on Open Market Operations as a Monetary Instrument in July.

Upon invitation of the South East Asia, New Zealand and Australia (SEANZA) Central Bank Council of Governors, the Central Bank participated in the SEANZA Governors' Symposium held in Sydney, Australia in November. Discussions in this gathering of heads of central banks/monetary authorities centered on the problems and pressures confronting a central bank given the changing world economic environment. A month earlier, the Central Bank was involved in the 17th SEANZA Central Banking Course also held in Sydney through the designation of one of its officials as member of the directing staff and another as participant in the course.

The Central Bank also took 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. Since the seat of the training arm of APRACA, the Center for Training and Research in Agricultural Banking (CENTRAB), is located in the Philippines, most of its training programs conducted during the year were held in the Central Bank Institute. An important development during the year was the designation of a Central Bank official as Program Director of the CENTRAB by the Executive Board of APRACA.

In the ASEAN, the Central Bank focused its activities towards the implementation as well as the monitoring of economic agreements reached during the Third Meeting of the ASEAN Heads of State in Manila in December 1987. Aside from attending meetings and activities of the Philippine Council for ASEAN Cooperation (PCAC), of which the Central Bank is a member, the Central Bank participated in a number of studies, workshops and consultations in order to discuss ways and means to concretize the proposals enumerated in the Plan of Action of the Third ASEAN Summit. One of the major accomplishments of the Central Bank during the year was the implementation of the use of ASEAN currencies for intra-ASEAN trade. Relatedly, studies were undertaken to expand the scope of the use of ASEAN currencies to promote intra-ASEAN investments.

In the area of international monetary cooperation, the Central Bank was an active participant in the meetings and other activities of the International Monetary Fund (IMF), the World Bank and its affiliates and the Asian Development Bank (ADB). Aside from participating in the annual meetings of these institutions, the Central Bank was able to avail itself of different financing arrangements of these institutions and training programs offered by them.

With regard to trade cooperation, the Central Bank continued to be actively involved in the ongoing Uruguay Round of Multilateral Trade Negotiations (URMTN) of the General Agreement on Tariffs and Trade (GATT). The Central Bank was able to provide the necessary inputs to Philippine positions on various negotiating topics such as those on the Functioning of the GATT System, the GATT Articles and Trade in Services. In October, upon the request of the Council of Contracting Parties to the GATT, the Philippine government, represented by the Central Bank, undertook balance of payments consultations with the GATT Committee on Balance of Payments Restrictions. This consultation was held essentially to justify the remaining trade restrictive measures being imposed by the government for balance of payments purposes.

In coordination with other concerned government agencies, the Central Bank continued to revise the Philippine Standard Commodity Classification Code (PSCC) to conform with the Harmonized Commodity Code and Classification System (HS). The HS is a new international product nomenclature that is now used internationally 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. Revision of the PSCC is expected to be completed in the early part of 1989 and will be ready for use by concerned agencies by midyear.

FINANCIAL CONDITION OF THE CENTRAL BANK

Total assets of the Central Bank amounted to P349.9 billion as of end-December 1988 increasing by 7.6 percent or P24.7 billion from end-December 1987. The improvement in CB's total resources during the period was due largely to the increment in the Exchange Stabilization Account, the Monetary Adjustment Account and the revaluation of international reserves which represented valuation adjustments of foreign-currency denominated accounts for exchange rate movements. CB international reserves improved by 7.3 percent or P3.0 billion from December 1987 to reach P43.5 billion at end-December 1988. On the other hand, government securities held by CB declined by P1.8 billion following the policy of phasing out low-yielding government securities on maturity dates.

Loans and advances of CB, which accounted for 18.5 percent of CB's resources, dropped by P0.9 billion or 1.3 percent to reach P64.7 billion at end-December 1988 as a result largely of repayments of loans under the various lending facilities of CB notably the Consolidated Foreign Borrowings Program (CFBP), and loans to APEX.

Compared with the level as of end-1987, total outstanding liabilities of the CB grew by 7.6 percent to reach P349.2 billion by end-December 1988. The increment in CB's deposit liabilities stemmed mainly from the substantial build-up in NG deposits with CB, a large portion of which represented proceeds from the flotation of Treasury bills.

The net worth of the CB showed an improvement of P70.3 million or 9.9 percent from the end-1987 level to reach P782.6 million at end-1988. The increase in CB's net worth was accounted for by the growth in capital reserves and undivided profits by P60.2 million and P4.2 million, respectively (Table 18).

Table 18. **STATEMENT OF CONDITION OF THE CENTRAL BANK**
As of End 1987-1988
(In Million Pesos)

Account	December 1988	December 1987	Changes Amount	Changes Percent
Total Assets	**349,932.7**	**325,185.1**	**24,747.6**	**7.6**
International Reserves	43,485.6	40,525.1	2,960.5	7.3
Domestic Securities[1]	11,200.3	13,039.8	-1,839.5	-14.1
Loans and Advances	64,672.5	65,543.4	-870.9	-1.3
Revaluation of International Reserves	125,255.5	119,688.2	5,567.3	4.7
Monetary Adjustment Account	34,688.2	28,616.3	6,071.9	21.2
Bank Premises and Other Fixed Assets	2,121.0	2,190.9	-69.9	-3.2
Exchange Stabilization Adjustment Account	49,819.8	37,554.1	12,265.7	32.7
Other Assets	18,689.8	18,027.3	662.5	3.7
Total Liabilities and Net Worth	**349,932.7**	**325,185.1**	**24,747.6**	**7.6**
Total Liabilities	349,150.1	324,472.8	24,677.3	7.6
Currency Issued	46,551.7	41,798.7	4,753.0	11.4
Deposits	160,608.8	136,342.3	24,266.5	17.8
Foreign Loans Payable	119,470.3	123,296.8	-3,826.5	-3.1
Allocation of Special Drawing Rights	3,347.5	3,439.8	-92.3	-2.7
CB Certificates of Indebtedness	169.5	732.5	-563.0	-76.9
Other Liabilities	19,002.3	18,862.7	139.6	0.7
Total Net Worth	782.6	712.3	70.3	9.9
Capital	10.0	10.0	0.0	0.0
Surplus	372.8	366.9	5.9	1.6
Donated Surplus	0.4	0.4	0.0	0.0
Capital Reserves	379.9	319.7	60.2	18.8
Undivided Profits	19.5	15.3	4.2	27.4

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

Source: Accounting Department, Central Bank of the Philippines

3
Appendices

Table A-01. **TEN PRINCIPAL EXPORTS**
1987-1988
(FOB Value in Million US Dollars)

Commodity	**1988 Value**	**1988 Percent Distribution**	**1987 Value**	**1987 Percent Distribution**
Total Exports	**7,074**	**100.0**	**5,720**	**100.0**
Semi-Conductor Devices	693	9.8	586	10.2
Coconut Oil	408	5.8	381	6.7
Electronic Microcircuits	358	5.1	322	5.6
Copper Metal	295	4.2	162	2.8
Consigned Children's & Infants' Wear	276	3.9	201	3.5
Shrimps and Prawns	250	3.5	155	2.7
Consigned Women's Wear	219	3.1	191	3.3
Copper Concentrates	216	3.1	179	3.1
Consigned Men's Wear	197	2.8	109	1.9
Outer Garments, Knitted or Crocheted	168	2.4	143	2.5
Total Ten Principal Exports	3,080	43.5	2,429	42.5
Others	3,994	56.5	3,291	57.5

Table A-02. **TEN PRINCIPAL IMPORTS**
1987-1988
(FOB Value in Million US Dollars)

Commodity	1988 Value	1988 Percent Distribution	1987 Value	1987 Percent Distribution
Total Imports	**8,159**	**100.0**	**6,737**	**100.0**
Mineral Fuels, Lubricants & Related Materials	1,096	13.4	1,249	18.5
Machinery Other than Electric	708	8.7	537	8.0
Base Metals	599	7.3	427	6.3
Cereal & Cereal Preparation	228	2.8	135	2.0
Transport Equipment	357	4.4	149	2.2
Electrical Machinery, Apparatus & Appliances	579	7.1	451	6.7
Explosive, Miscellaneous Chemical Materials & Products	344	4.2	303	4.5
Chemical Elements & Compounds	377	4.6	332	4.9
Textile Fibers Not Manufactured Into Thread & Yarn	156	1.9	126	1.9
Manufactures of Metal	85	1.0	63	0.9
Total Ten Principal Imports	4,529	55.5	3,772	56.0
Others	3,630	44.5	2,965	44.0

Source: National Statistics Office

Table A-03. **MONTHLY VALUES OF EXPORTS AND IMPORTS 1987 & 1988**
(FOB Value in Million US Dollars)

Month	1988 Exports	1988 Imports	1987 Exports	1987 Imports
Total	**7,074**	**8,159**	**5,720**	**6,737**
January	492	605	369	451
February	527	585	396	440
March	532	595	453	546
April	534	632	415	509
May	560	679	479	580
June	619	713	479	506
July	618	712	502	626
August	640	809	503	604
September	628	756	504	651
October	592	731	524	633
November	610	700	525	565
December	722	642	571	626

Table A-04. **DIRECTION OF TRADE**
1987 & 1988
(FOB Value in Million US Dollars)

Country	1988 Imports	1988 Percent Distribution	1988 Exports	1988 Percent Distribution	1987 Imports	1987 Percent Distribution	1987 Exports	1987 Percent Distribution
Total	**8,159**	**100.0**	**7,074**	**100.0**	**6,737**	**100.0**	**5,720**	**100.0**
United States	1,715	21.0	2,516	35.6	1,488	22.1	2,064	36.1
Japan	1,421	17.4	1,420	20.1	1,121	16.6	981	17.2
European Economic Community	1,040	12.7	1,212	17.1	782	11.6	1,089	19.0
Middle East Countries	797	9.8	100	1.4	834	12.4	101	1.8
ASEAN	754	9.2	492	7.0	687	10.2	507	8.9
Socialist Countries	302	3.7	91	1.3	257	3.8	116	2.0
Other Countries	2,130	26.2	1,243	17.5	1,568	23.3	862	15.1

Table A-05. **PURCHASES AND SALES OF FOREIGN EXCHANGE BY THE CENTRAL BANK 1988**
(In Million US Dollars)

End of Period	Total (1)=(2 to 4)	Purchases From Commercial Banks Spot (2)	Swap (3)	Others[1] (4)	Total (5)=(6 to 8)	Sales To Commercial Banks Spot (6)	Swap (7)	Others[2] (8)
1988								
Jan	217.06	131.48	-	85.58	237.22	144.23	-	92.99
Feb	165.07	112.95	-	52.12	142.03	100.54	-	41.49
Mar	274.25	206.67	-	67.58	171.29	122.11	-	49.18
Apr	229.83	181.59	-	48.24	136.05	95.68	-	40.37
May	294.57	226.53	-	68.04	104.83	104.01	-	0.82
Jun	272.78	172.82	-	99.96	209.64	117.31	-	92.33
Jul	172.95	163.19	-	9.76	123.93	114.64	-	9.29
Aug	243.06	165.09	-	77.97	189.18	114.92	-	74.26
Sep	232.21	155.01	-	77.20	222.00	158.36	-	63.64
Oct	147.06	136.25	-	10.81	117.90	115.53	-	2.37
Nov	197.40	191.21	-	6.19	131.68	129.90	-	1.78
Dec	405.89	393.50	-	12.39	133.02	133.02	-	-

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

[2]Includes 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 1987-1988
(In Million Pesos)

Item	1988	1987
Total	**72,024.1**	**74,738.8**
1. Loans and Advances	64,672.5	65,543.4
A. Budgetary & Subscription Payment Loans	2,523.6	3,043.5
B. Rediscounting[1]	9,945.7	10,865.0
C. Repurchase Agreements	448.4	611.3
D. CFBP Loans[2]	31,296.1	32,555.3
E. APEX Loans	802.2	961.9
F. IBRD Loans[3]	265.0	277.9
G. Overdrafts[4]	12,881.7	12,753.4
H. Advances Under Various Debt Restructuring Schemes	4,218.9	2,911.4
I. Others	2,290.9	1,563.7
2. Domestic Securities[5]	7,351.6	9,195.4
A. PW and ED Bonds[6]	68.5	58.1
B. Treasury Notes	162.2	269.3
C. Treasury Bonds	6,242.0	7,416.1
D. Capital Treasury Bonds	400.0	400.0
E. Premyo Savings/ Biglang Bahay Bonds	-	-
F. Capital/Treasury Notes	237.0	312.0
G. Treasury Capital Bonds	38.5	35.7
H. Treasury Bills	21.5	109.7
I. Others	181.9	594.5

[1]Includes rediscount loans and loans under repurchase agreements to PNB and DBP transferred to the National Government.
[2]Consolidated Foreign Borrowings Program
[3]International Bank for Reconstruction and Development
[4]Net of Special Account Balances
[5]Excluding Treasury Notes and Bonds issued against RP-Japan Commodity Loan Agreement
[6]Public Works and Economic Development Bonds

Source: DER-Domestic, Central Bank of the Philippines

Table A-07. **OUTSTANDING CENTRAL BANK REDISCOUNT LOANS, BY INSTITUTION**[1]
As of End 1987-1988
(In Million Pesos)

Institution	1988	1987	Percent Distribution 1988	Percent Distribution 1987
Total	**7,191**	**7,706**	**100.0**	**100.0**
1. Commercial Banks	3,559	3,609	49.5	46.8
2. Specialized Banks	119	334	1.7	4.3
3. Thrift Banks	321	356	4.5	4.6
4. Rural Banks	2,721	2,757	37.8	35.8
5. Non-Banks	471	650	6.5	8.4

[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 1987-1988
(In Million Pesos)

Institution	1988	1987	Percent Distribution 1988	Percent Distribution 1987
Total	**6,280**	**6,366**	**100.0**	**100.0**
1. Commercial Banks	3,559	3,609	56.7	56.7
a. Rice and Corn	-	-	-	-
b. Exports	1,983	1,736	31.6	27.3
c. Emergency	1,445	1,768	23.0	27.8
d. Others	131	105	2.1	1.6
2. Rural Banks	2,721	2,757	43.3	43.3
a. Masagana 99	259	266	4.1	4.2
b. Supervised Credit	1,054	1,102	16.8	17.3
c. Non-Supervised Credit	1,127	1,099	17.9	17.3
d. Emergency	5	5	0.1	0.1
e. Others	276	285	4.4	4.5

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

Table A-09. **LOANS OUTSTANDING OF COMMERCIAL BANKS, BY INDUSTRY**
As of End-September 1987-1988
(In Million Pesos)

Sector	September 1988	September 1987	Changes Amount	Changes Percent
Total[1]	**128,785.9**	**109,813.6**	**18,972.3**	**17.3**
Agriculture, Fishery and Forestry	12,907.0	12,262.8	644.2	5.3
Mining and Quarrying	7,714.4	6,793.1	921.3	13.6
Manufacturing	47,207.2	35,765.1	11,442.1	32.0
Electricity, Gas and Water	1,088.2	630.2	458.0	72.7
Construction	2,482.5	3,679.7	-1,197.2	-32.5
Trade	18,114.9	14,247.1	3,867.8	27.1
Transport, Storage and Communication	4,082.0	3,391.9	690.1	20.3
Financing, Insurance and Business Services	9,898.3	10,158.8	-260.5	-2.6
Real Estate	5,600.8	2,657.2	2,943.6	110.8
Community, Social and Personal Services	6,297.1	5,301.4	995.7	18.8
Others, n.e.c.[2]	13,393.5	14,926.3	-1,532.8	-10.3

[1]Data reflected the transfer of non-performing assets of PNB
[2]Consists of past due items, items in litigation, domestic and foreign bills-clean.

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

Table A-10. **TOTAL LOANS OUTSTANDING OF COMMERCIAL BANKS, BY REGION**
As of End-September 1987-1988
(In Million Pesos)

Region	September 1988	September 1987	Changes Amount	Changes Percent
Total[1]	**115,392.4**	**94,887.3**	**20,505.1**	**21.6**
National Capital Region	87,416.0	80,426.2	6,989.8	8.7
I Ilocos & Mt. Province	2,433.3	458.8	1,974.5	430.4
II Cagayan Valley	927.9	482.5	445.4	92.3
III Central Luzon	2,873.9	1,675.0	1,198.9	71.6
IV Southern Tagalog	1,286.5	1,148.1	138.4	12.1
V Bicol Region	7,571.9	656.6	6,915.3	1,053.2
VI Western Visayas	5,240.1	4,908.1	332.0	6.8
VII Central Visayas	4,017.4	2,249.1	1,768.3	78.6
VIII Eastern Visayas	643.9	278.9	365.0	130.9
IX Western Mindanao	324.2	461.7	-137.5	-29.8
X Northern Mindanao	710.5	895.7	-185.2	-20.7
XI Southern Mindanao	1,431.6	742.3	689.3	92.9
XII Central Mindanao	515.2	504.3	10.9	2.2

[1]Data 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-September 1987-1988
(In Million Pesos)

Sector	September 1988	September 1987	Percent Distribution 1988	1987
Total	**13,693.5**	**10,166.9**	**100.0**	**100.0**
Agriculture	2,608.5	2,543.9	19.1	25.0
Commercial	1,855.1	1,724.1	13.5	17.0
Industrial	824.5	530.7	6.0	5.2
Real Estate	3,666.7	2,542.0	26.8	25.0
Consumption	896.5	389.6	6.5	3.8
Others	3,842.2	2,436.6	28.1	24.0

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

Table A-12. **LOANS OUTSTANDING OF SAVINGS BANKS, BY REGION**
As of End-September 1987-1988
(In Million Pesos)

	Region	September 1988	September 1987	Changes	
				Amount	Percent
Total		**6,643.3**	**4,998.1**	**1,645.2**	**32.9**
National Capital Region		6,557.2	4,828.5	1,728.7	35.8
I	Ilocos & Mt. Province	-	0.2	-0.2	100.0
II	Cagayan Valley	-	-	-	-
III	Central Luzon	77.3	73.6	3.7	5.0
IV	Southern Tagalog	1.2	60.3	-59.1	-98.0
V	Bicol Region	-	-	-	-
VI	Western Visayas	-	18.7	-18.7	-100.0
VII	Central Visayas	-	2.8	-2.8	-100.0
VIII	Eastern Visayas	-	-	-	-
IX	Western Mindanao	7.6	7.4	0.2	2.7
X	Northern Mindanao	-	-	-	-
XI	Southern Mindanao	-	6.6	-6.6	-100.0
XII	Central Mindanao	-	-	-	-

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

Table A-13. **LOANS OUTSTANDING OF PRIVATE DEVELOPMENT BANKS, BY REGION**
As of End-September 1987-1988
(In Million Pesos)

	Region	September 1988 Total	Ratio	September 1987 Total	Ratio	Changes Amount	Percent
Total		**3,206.6**	**100.1**	**2,757.8**	**100.0**	**448.8**	**16.3**
National Capital Region		1,036.8	32.3	779.0	28.2	257.8	33.1
I	Ilocos & Mt. Province	27.2	0.8	24.1	0.9	3.1	12.9
II	Cagayan Valley	-	-	-	-	-	-
III	Central Luzon	1,065.4	33.2	884.4	32.1	181.0	20.5
IV	Southern Tagalog	766.4	23.9	835.4	30.3	-69.0	-8.3
V	Bicol Region	24.6	0.8	20.3	0.7	4.3	21.2
VI	Western Visayas	109.2	3.4	98.1	3.6	11.1	11.3
VII	Central Visayas	65.6	2.0	56.4	2.0	9.2	16.3
VIII	Eastern Visayas	1.2	0.1	1.5	0.1	-0.3	-20.0
IX	Western Mindanao	-	-	-	-	-	-
X	Northern Mindanao	69.4	2.2	29.3	1.1	40.1	136.9
XI	Southern Mindanao	40.8	1.3	29.3	1.0	11.5	39.2
XII	Central Mindanao	-	-	-	-	-	-

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

Table A-14. **LOANS OUTSTANDING OF SPECIALIZED GOVERNMENT BANKS, BY PURPOSE**[1]
As of End-September 1987-1988
(In Million Pesos)

Item	September 1988	September 1987	Percent Distribution 1988	1987
Total	**10,006.6**	**8,803.5**	**100.0**	**100.1**
Agriculture	3,947.4	2,503.1	39.4	28.4
Commercial	364.3	431.2	3.6	4.9
Industrial	2,101.7	860.1	21.0	9.8
Real Estate	1,266.0	1,208.1	12.7	13.7
Consumption	88.0	74.6	0.9	0.9
Others[2]	2,239.2	3,726.4	22.4	42.3

[1]Consisting of the Development Bank of the Philippines, Philippine Amanah Bank and Land Bank of the Philippines after transfer of selected assets and liabilities of one specialized government bank to the National Government.
[2]Financing, insurance, business services and others

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

Table A-15. **LOANS OUTSTANDING OF SPECIALIZED GOVERNMENT BANKS, BY REGION**[1]
As of End-September 1987-1988
(In Million Pesos)

Region		September 1988	September 1987	Changes Amount	Changes Percent
Total		**4,458.6**	**3,797.8**	**660.8**	**17.4**
National Capital Region		2,531.6	1,939.0	592.6	30.6
I	Ilocos & Mt. Province	76.3	117.3	-41.0	-35.0
II	Cagayan Valley	393.8	310.0	83.8	27.0
III	Central Luzon	832.1	1,006.0	-173.9	-17.3
IV	Southern Tagalog	93.3	68.6	24.7	36.0
V	Bicol Region	154.8	56.5	98.3	174.0
VI	Western Visayas	30.7	87.8	-57.1	-65.0
VII	Central Visayas	90.7	-	90.7	100.0
VIII	Eastern Visayas	67.3	-	67.3	100.0
IX	Western Mindanao	75.8	74.1	1.7	2.3
X	Northern Mindanao	41.1	33.8	7.3	21.6
XI	Southern Mindanao	52.9	81.5	-28.6	-35.1
XII	Central Mindanao	18.2	23.2	-5.0	-21.6

[1]Consisting 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-September 1987-1988
(In Million Pesos)

Sector	September 1988	September 1987	Percent Distribution 1988	1987
Total	**7,833.3**	**7,143.0**	**100.0**	**99.9**
Agriculture	5,752.8	5,492.0	73.4	76.8
Commercial	844.7	690.0	10.8	9.7
Industrial	235.6	205.0	3.0	2.9
Others	1,000.2	756.0	12.8	10.6

Source: Supervisory Reports Office, Central Bank of the Philippines

Table A-17. **WEIGHTED AVERAGE INTEREST RATES**
1987-1988
(In Percent Per Annum)

Type	Nominal 1988	Nominal 1987	Real[4] 1988	Real[4] 1987
I. Borrowing Rates of Banks				
a. WAIR on Interbank[1]	14.239	11.965	5.439	8.165
b. Savings Deposits	4.100	4.530	-4.700	0.730
c. Time Deposits (All Maturities)	13.392	9.767	4.592	5.967
d. Manila Reference Rate (MRR)				
60 Days	12.812	9.500	4.012	5.700
90 Days	10.688	9.375	1.888	5.575
180 Days	14.750	9.375	5.950	5.575
All Maturities	12.375	9.438	3.575	5.638
II. Lending Rates				
e. Secured Loans (All Maturities)	15.998	13.295	7.198	9.495
III. Central Bank Rates				
f. R/P Rates (Term)	20.494	13.682	11.694	9.882
g. Reverse R/P (Term)	13.114	11.636	4.314	7.836
h. Overdrafts[2]	21.320	21.544	12.520	17.744
i. Emergency Loans and Advances[2]	16.404	13.172	7.604	9.372
j. Rediscounts[3]	10.000	10.000	1.200	6.200
IV. Central Bank Bills/Treasury Bills				
k. CB Bills (All Maturities)	14.633	10.812	5.833	7.012
l. Treasury Bills (All Maturities)	15.510	12.887	6.710	9.087

[1]Data furnished by CB Treasury Office
[2]Average prescribed rates
[3]The 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.
[4]Nominal 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

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Table A-18. **WEIGHTED AVERAGE INTEREST RATES ON DEPOSITS/ SECURED LOANS OF SAMPLE COMMERCIAL BANKS, 1986-1988**
(In Percent Per Annum)

Period	Savings Deposits	Time Deposits 1 Year & Below	Time Deposits >1 Year to 2 Years	Time Deposits Over 2 Years	Secured Loans 1 Year & Below	Secured Loans >1 Year to 2 Years	Secured Loans Over 2 Years
1986 Jan	8.795	12.574	13.744	14.388	18.308	24.000	22.086
Feb	8.780	14.123	15.542	19.728	17.721	42.000	20.204
Mar	8.778	16.019	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	13.170	11.203	15.973	16.747	30.000	18.376
Jul	8.202	11.329	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	10.169	9.911	13.194	16.258	20.115	16.108
Oct	7.009	9.447	11.183	11.956	14.467	18.517	15.789
Nov	6.809	9.713	12.442	11.782	14.686	17.785	14.726
Dec	6.352	8.364	8.580	9.858	13.879	16.631	15.909
1987 Jan	5.218	7.435	11.897	8.683	12.777	14.000	15.884
Feb	5.145	6.359	6.923	8.475	11.238	14.259	14.044
Mar	4.791	5.889	7.087	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	14.501
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	16.242	16.905	16.842
1988 Jan	4.106	9.960	10.424	12.944	15.928	19.077	16.090
Feb	4.121	9.846	10.959	12.098	14.890	14.556	15.606
Mar	4.100	9.708	10.928	12.539	15.205	17.795	15.767
Apr	4.099	11.443	12.858	12.870	15.326	16.266	16.788
May	4.099	11.788	8.624	13.366	15.591	17.110	16.065
Jun	4.102	12.062	12.522	14.050	16.552	19.961	15.471
Jul	4.167	10.914	13.542	13.965	15.203	19.300	15.758
Aug	4.101	10.847	10.650	14.351	15.251	18.628	17.234
Sep	4.087	10.709	13.000	14.545	16.318	18.444	16.883
Oct	4.102	12.118	12.750	14.352	16.261	17.255	17.157
Nov	4.048	11.503	12.500	14.470	16.904	19.154	17.092
Dec	4.063	11.520	10.073	14.882	16.430	18.604	17.939

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

Table A-19. **REAL INTEREST RATES**[1]
1988
(In Percent Per Annum)

Month	Lending Rate Secured Loans (All Maturities)	Savings Rates	Time Deposit (All Maturities)
January	7.45	-11.84	7.99
February	6.10	-10.78	7.12
March	5.83	-11.13	8.04
April	5.84	-11.45	8.42
May	6.45	-11.55	9.12
June	7.53	-12.43	9.79
July	6.72	-11.05	9.21
August	6.93	-11.43	9.75
September	8.80	-12.31	10.02
October	8.79	-12.49	9.90
November	7.95	-12.90	9.71
December	7.47	-12.50	9.68

[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 1987-1988

Institution	December 1988	December 1987	Percent Change
Total	**6,916**	**6,506**	**6.3**
1. Commercial Banks	1,746	1,733	0.8
2. Thrift Banks	664	658	0.9
3. Specialized Government Banks	104	104	0.0
4. Rural Banks	1,048	1,058	-0.9
5. Non-Bank Financial Institutions[1]	3,354	2,953	13.6

[1]Includes 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 1987-1988
(In Million Pesos)

Item	1988[p]				1987			
	Total	Demand	Savings	Time	Total	Demand	Savings	Time
1. By Institution	225,482.4	24,165.1	127,970.6	73,346.7	179,387.6	23,412.8	97,577.3	58,397.5
1. Commercial Banks	192,125.4	22,937.5	106,905.1	62,282.8	151,794.5	21,978.5	82,155.2	47,660.8
2. Thrift Banks	19,106.8	487.8	12,620.0	5,999.0	15,047.1	395.9	9,827.0	4,824.2
a. Savings Banks	12,196.1	266.4	8,898.8	3,030.9	9,170.7	218.2	6,617.6	2,334.9
b. Private Development Banks	4,469.9	221.4	2,331.2	1,917.3	3,596.8	177.7	1,918.6	1,500.5
c. Stock Savings and Loan Associations[1]	2,440.8	-	1,390.0	1,050.8	2,279.6	-	1,290.8	988.8
3. Specialized Government Banks	9,143.9	710.8	5,030.4	3,402.7	8,029.7	1,015.7	2,583.7	4,430.3
4. Rural Banks	5,106.3[a]	29.0	3,415.1	1,662.2	4,516.3	22.7	3,011.4	1,482.2

[a]As of September 1988

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-1987-1988
(In Million US Dollars)

Item	1988[p]	1987
Gross Resources	3,336	2,754
Of which:		
Deposits/Borrowings	1,854	1,560
A. Banks	462	558
B. Non-Banks	1,392	1,002
Placements/Lendings	2,997	2,495
A. Banks	2,099	1,635
B. Non-Banks	898	860
Earnings and Expenses		
A. Earnings	327	492
Onshore	161	243
Offshore	166	249
B. Expenses	197	285
Net Earnings After Tax	128	206

[p]Preliminary

Source: Foreign Exchange Department, Central Bank of the Philippines

Table A-23. **PHILIPPINE OFFSHORE BANKING SYSTEM 1987-1988 (In Million US Dollars)**

Item	1988	1987
Gross Resources	2,991	3,367
Of which:		
Deposits/Borrowings	2,886	3,282
A. Banks	2,861	3,271
B. Non-Banks	25	11
Placements/Lendings	2,891	3,291
A. Banks	1,728	2,163
B. Non-Banks	1,163	1,128
Earnings and Expenses		
A. Earnings	418	345
Onshore	136	109
Offshore	282	236
B. Expenses	375	305
C. Net Earnings After Tax	39	38

Source: Foreign Exchange Department, Central Bank of the Philippines

Table A-24. **MONEY MARKET TRANSACTIONS, BY INSTRUMENT**
1987-1988
(Volume in Million Pesos/WAIR in Percent Per Annum)

Item	1988 Volume	1988 WAIR	1987 Volume	1987 WAIR	Percent Change (Volume)
Total	**780,051**	**13.676**	**460,857**	**11.079**	**69.3**
Interbank Call Loans	303,503	14.570	172,786	12.178	75.7
Promissory Notes[1]	104,076	11.996	131,085	9.625	-20.6
Repurchase Agreements (Private)[1]	817	12.311	2,912	12.734	-71.9
Repurchase Agreements (Government)[1]	3,526	19.379	853	13.742	313.4
Certificates of Assignment (Private)[1]	-	-	-	-	-
Certificates of Participation (Private)[1]	-	-	237	8.954	-100.0
Commercial Paper (Non-Financial)	16,835	13.527	18,440	10.417	-8.7
Commercial Paper (Financial)	117	12.461	95	13.158	23.2
Central Bank Certificates of Indebtedness	-	-	2	11.625[r]	-100.0
Treasury Bills	295,266	13.270	96,561	10.596	205.8
DBP Bonds	137	8.898	263	12.922	-47.9
Other Government Securities	55,774	13.820	37,623	12.469	48.2

[1] Including those with tax

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

Table A-25. **STOCK MARKET TRANSACTIONS**
1987-1988
(Volume in Million Shares/Value in Million Pesos)

Item	1988		1987		Percent Changes	
	Volume	Value	Volume	Value	Volume	Value
Total	**270,129**	**23,859**	**315,703**	**31,523**	**-14.4**	**-24.3**
Commercial and Industrial	572	11,431	594	9,639	-3.7	18.6
Mining	84,464	8,746	119,927	15,251	-29.6	-42.7
Oil	185,093	3,682	195,182	6,633	-5.2	-44.5

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

Table A-26. **PUBLIC INTERNAL DEBT OUTSTANDING**[1]
As of End 1987-1988

Item	1988P	1987	Percent Change
Internal Debt (In Million Pesos)	207,658	161,100	28.9
National Government	195,494	150,751	29.7
Local Governments	116	116	0.0
Government Corporations	8,082	9,313	-13.2
Guaranteed	5,540	7,255	-23.6
Non-Guaranteed	2,542	2,058	23.5
Monetary Institutions	3,966	920	331.1

[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, 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 1987-1988**
(In Million Pesos, At Constant 1972 Prices)

Item	1988[e]	1987[r]
1. Agriculture, Fishery and Forestry	27,752	26,834
a. Agricultural Crops	16,527	16,374
b. Livestock and Poultry	5,702	5,174
c. Fishery	4,834	4,638
d. Forestry	689	648
2. Industrial Sector	33,281	30,561
a. Mining and Quarrying	1,610	1,521
b. Manufacturing	25,192	23,168
c. Construction	4,470	3,964
d. Electricity, Gas and Water	2,009	1,908
3. Services (Tertiary Sector)	40,725	38,039
a. Transportation	5,574	5,251
b. Trade	15,901	15,153
c. Finance	6,294	5,832
d. Other Services	12,956	11,803
Private	6,354	6,106
Government	6,602	5,697
Gross Domestic Product	101,758	95,434
Net Factor Income from Abroad	-646	-666
Gross National Product	101,112	94,768
GNP Growth Rate (In Percent)	6.7	5.9

[e]Advance estimates as of December 1987

Source: National Statistical Coordination Board

Table A-28. CONSUMER PRICE INDEX IN THE PHILIPINES, NATIONAL CAPITAL REGION (NCR) AND ALL AREAS OUTSIDE NCR
1987-1988
(1978=100)

Commodity Group	Philippines 1988	Philippines 1987	Philippines Percent Change	National Capital Region 1988	National Capital Region 1987	National Capital Region Percent Change	All Areas Outside the NCR 1988	All Areas Outside the NCR 1987	All Areas Outside the NCR Percent Change
All Items	**401.0**	**368.7**	**8.8**	**435.3**	**395.5**	**10.1**	**394.4**	**363.6**	**8.5**
Food, Beverages & Tobacco	380.4	343.0	10.9	409.7	364.6	12.4	375.8	339.7	10.6
Non-Food	429.7	404.4	6.3	459.1	424.3	8.2	422.3	399.4	5.7
Clothing	441.5	416.9	5.9	491.5	468.8	4.8	431.4	406.4	6.2
Housing & Repairs	405.7	376.8	7.7	449.5	400.2	12.3	392.1	369.5	6.1
Fuel, Light & Water	552.2	520.1	6.2	682.2	593.0	15.0	528.2	506.6	4.3
Services	410.6	389.1	5.5	409.9	392.1	4.5	410.8	388.2	5.8
Miscellaneous	392.8	371.4	5.8	396.0	378.8	4.5	392.2	369.9	6.0

Source: National Statistics Office

Table A-29. **FLOW OF FUNDS SUMMARY MATRIX BY SECTOR, 1987**
(In Million Pesos)

Sectors / Transaction Categories	DOMESTIC ECONOMY: Households & Non-Corporate Business Uses	Households & Non-Corporate Business Sources	Private Corporations Uses	Private Corporations Sources	Government* Uses	Government* Sources	Financial Intermediaries Uses	Financial Intermediaries Sources	Total Uses	Total Sources	Rest of the World Uses	Rest of the World Sources
GROSS SAVINGS		77,906		48,864		-58,318		39,983		108,435		210
Capital Consumption		23,358		42,838		8,461		3,059		77,716		
Net Savings		54,548		6,026		-66,779		36,924		30,719		210
GROSS INVESTMENTS	77,805		48,864		-58,318		39,983		108,334		210	
Real Investments	97,321		-10,096		32,694		-11,375		108,544			
Consumer Durables	672		-		-		-		672			
Real Estate/Fixed Assets	96,626		-17,152		30,468		-11,395		98,547		-	
Inventory Change	23		7,056		2,226		20		9,325			
Net Financial Investment	-19,516		58,960		-91,012		51,358		-210		210	
Total Financial Uses	54,837		18,585		-2,966		2,842		73,308		-968	
Total Financial Sources		74,353		-40,365		88,046		-48,516		73,518		-1,178
Gold & For. Exch. Holdings							6,098		6,098		-	6,098
Foreign Currency Deposits							-589	-4,184	-589	-4,184	-4,184	-589
Foreign Loans				9,867		12,654	2,409	-20,252	2,409	2,269	2,269	2,409
Other Foreign Claims							-9,096	947	-9,096	947	947	-9,096
Domestic Currency	31,500		82		-23,614		-739	7,229	7,229	7,229		
Demand Deposits	19,330		-764		11,870		-55	30,381	30,381	30,381		
Savings & Time Deposits	-6,045		2,533		-571		2,524	-1,559	-1,559	-1,559		
Deposit Substitutes	-15,380		10,908		4,881		1,719	2,128	2,128	2,128		
Domestic Loans		27,981	-41,820	-64,806	7,722	-5,456	-26,120	-17,937	-60,218	-60,218		
Investments/Securities	22,905		19,861	5,208	23,382	57,702	1,634	-41,892	21,018	21,018		
Insurance Reserves	1,666		22				-2,889	-1,201	-1,201	-1,201		
Trust Funds	861		-610					251	251	251		
Trade Credits		-1,443	21,306	22,793	8,161	7,339	-37	741	29,430	29,430		
Taxes Payable			-401	808	-1,200		-1	-2,410	-1,602	-1,602		
Inter-Financial Claims							2,524	2,524	2,524	2,524		
Inter-Governmental Claims					8,646	8,646			8,646	8,646		
Miscellaneous		47,815	7,478	-14,235	4,521	7,161	25,460	-3,282	37,459	37,459		
STATISTICAL DISCREPANCY	101								101			

*National and Local Governments and Government Owned or Controlled Corporations

Sources of basic data: NSCB, SEC, COA, IC, CBP

Table A-29. FLOW OF FUNDS SUMMARY MATRIX BY SECTOR, 1988P (In Million Pesos)

Sectors	DOMESTIC ECONOMY											
	Households & Non-Corporate Business		Private Corporations		Government*		Financial Intermediaries		Total		Rest of the World	
Transaction Categories	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
GROSS SAVINGS		98,399		25,661		17,174		5,208		146,442		4,046
Capital Consumption		65,301		8,828		4,504		63		78,696		-
Net Savings		33,098		16,833		12,670		5,145		67,746		4,046
GROSS INVESTMENTS	98,173		25,661		17,174		5,208		146,216		4,046	
Real Investments	65,864		35,098		49,155		145		150,262			
Consumer Durables	1,509		-		-		-		1,509			
Real Estate/Fixed Assets	63,982		20,770		46,724		492		131,968			
Inventory Change	373		14,328		2,431		-347		16,785			
Net Financial Investment	32,309		-9,437		-31,981		5,063		-4,046		4,046	
Total Financial Uses	50,731		37,769		56,241		80,302		225,043		15,697	
Total Financial Sources		18,422		47,206		88,222		75,239		229,089		11,651
Gold & For. Exch. Holdings							3,346		3,346		-	3,346
Foreign Currency Deposits							509	6,286	509	6,286	6,286	509
Foreign Loans				-6,130		7,474	1,459	3,224	1,459	4,568	4,568	1,459
Other Foreign Claims							6,337	4,843	6,337	4,843	4,843	6,337
Domestic Currency	4,594		10		-1,181		1,340	4,763	4,763	4,763		
Demand Deposits	3,028		889		13,711		-544	17,084	17,084	17,084		
Savings & Time Deposits	25,922		2,542		3,272		1,931	33,667	33,667	33,667		
Deposit Substitutes	-14,969		11,616		1,589		-810	-2,574	-2,574	-2,574		
Domestic Loans		-136	180	24,484	18,375	11,091	23,531	6,647	42,086	42,086		
Investments/Securities	23,311		2,165	11,090	21,025	53,298	23,320	5,433	69,821	69,821		
Insurance Reserves	8,730		32					8,762	8,762	8,762		
Trust Funds	115		-60				4	59	59	59		
Trade Credits		3,682	16,139	11,599	24,588	25,771	-173	-498	40,554	40,554		
Taxes Payable			694	1,219	-71			-596	623	623		
Inter-Financial Claims							4,309	4,309	4,309	4,309		
Inter-Governmental Claims					15,076	15,076			15,076	15,076		
Miscellaneous		14,876	3,562	4,944	-40,143	-24,488	15,743	-16,170	-20,838	-20,838		
STATISTICAL DISCREPANCY	226								226			

*National and Local Government Owned or Controlled Corporations

Sources of basic data: NSCB, SEC, COA, IC, CBP

AGRICULTURAL LOAN FUND

1. *Circular Letter, July 8, 1988.* Informs all commercial, thrift and rural banks and non-bank financial intermediaries performing quasi-banking functions that the coverage of Section 3 of the Agricultural Loan and Fund Policy Manual (Circular 1075, Series of 1985) is further expanded to include the grant of working capital loans to "Quedan Guarantee Fund Board (QGFB) accredited businessmen and fishermen/farmers groups for the purchase and/or processing of agricultural, aqua, poultry and livestock produce provided that the loan is secured by a quedan or chattel mortgage with the guarantee of the QGFB."

BANK OPERATIONS

1. *Circular No. 1169, January 13, 1988.* Stipulates that the frequency for writing off loans and advances is left to the discretion of the bank's board of directors provided that charge-offs are made against allowance for probable losses, earnings during the year and/or retained earnings.
2. *Circular No. 1170, January 13, 1988.* Amends the section on dividend declaration and profit sharing program of the *Manual of Regulations for Banks and Other Financial Intermediaries,* so that accumulated profits not yet received but already recorded by a bank/NBQB representing its share in profits of its subsidiaries under the equity method of accounting, shall be included as among the deductible items from the amount available for purposes of dividend declaration and computing stock dividends.
3. *Circular No. 1171, March 29, 1988.* Amends the sections of Books I to III of the *Manual of Regulations for Banks and Other Financial Intermediaries* pertaining to the limits of stockholdings in a single bank such that the ceiling on the stockholdings of any banks of any two or more corporations which are wholly-owned or a majority of the voting stock are owned/controlled by the same group of persons (including their wholly or majority-owned subsidiaries) should not exceed thirty percent (30%) of the voting stock of the bank. On the other hand, the ceiling on the stockholdings in any bank of an individual, family group or corporation which are wholly-owned or a majority of the stock are owned by the aforementioned individual/groups shall be twenty percent (20%).
4. *Circular No. 1175, April 26, 1988.* Requires that banking institutions set a minimum of three specimen signatures from each of their depositors and to update the specimen signature of their depositors every five (5) years or sooner.
5. *Circular No. 1177, June 24, 1988.* Deletes Sections 1172 (Book I) and Section 2172 (Book II) of the *Manual of Regulations for Banks and Other Financial Intermediaries.*
6. *Circular No. 1185, October 10, 1988.* Amends Subsections 1304.7.b (Book I), 2304.7.b (Book II) and 3304.3.b (Book III) of the *Manual of Regulations for Banks and Other Financial Intermediaries* on writing-off loans as bad debts.
7. *Circular No. 1186, October 12, 1988.* Provides the designation of the Managing Director of the Domestic Operations Sector and certain personnel of the Cash Department to exclusively exercise the authority vested in the Central Bank under Section 52 of R.A. No. 265, as amended, to investigate, make arrests and conduct searches and seizures in cases adversely affecting the integrity of the currency.
8. *Circular No. 1190, November 10, 1988.* Amends the rules and regulations of the *Manual of Regulations for Banks and Other Financial Intermediaries* (Books I to IV) governing borrowings of banks/NBQBs from the Central Bank through

the sale of government securities under repurchase agreements.

9. *Circular Letter, January 4, 1988.* Revokes the eligibility of "Reverse Repurchase Agreement with the Central Bank" among others as liquidity floor with respect to deposits of, borrowings from, and all other liabilities to the Government and government entities provided in Circular Letter dated September 19, 1987.

10. *Circular Letter, February 11, 1988.* Announces the conversion of Asian Savings Bank from a stock savings and loan association to a savings and mortgage bank effective December 17, 1987.

11. *Circular Letter, March 25, 1988.* In line with the observance of Credit Consciousness Week on April 24-30, all banking institutions are enjoined to undertake promotional activities/incentives as may be appropriate for the occasion. In this connection, all banks for the duration of its observance shall be exempt from the provisions of the *Manual of Regulations for Banks and Other Financial Intermediaries* which limit the conduct of raffles/lottery to once every quarter.

12. *Circular Letter, March 29, 1988.* Announces the transfer of the examination and supervision of non-stock savings and loan associations and building and loan associations from SES Department II to SES Department IV of the Central Bank.

13. *Circular Letter, April 11, 1988.* In line with the observance of Credit Consciousness Week on April 24-30, all banks are enjoined to include the theme "Responsible Use of Credits – The Key to Economic Growth" in all promotional activities.

14. *Circular Letter, May 3, 1988.* Provides for the list of Clearing Centers showing respective clearing areas and the number of clearing days for exchanges of out-of-town checks between banks in Manila and those in the 29 regional clearing centers.

15. *Circular Letter, May 5, 1988.* Increases by one day the number of days to clear out-of-town checks between Manila and the aforecited nine regional clearing centers.

16. *Circular Letter, June 1, 1988.* Provides for the list of (1) applications for banking offices approved for new offices/relocations/conversions and (2) banking offices opened/relocated/converted during the first quarter of 1988.

17. *Circular Letter, June 3, 1988.* Corrects Circular Letter dated March 3, 1988 regarding the registered business name of the investment house accredited as dealer in government securities to read as "FEB Investments, Inc."

18. *Circular Letter, June 6, 1988.* Advises the change in corporate name of The Consolidated Bank and Trust Corp. to Solidbank Corporation effective February 22, 1988.

19. *Circular Letter, July 28, 1988.* Informs all commercial and thrift banks concerned that the Postal Service (Bureau of Posts) has agreed to use the Philippine National Bank as conduit bank for the clearing of negotiated Postal Money Orders and shall be charged against the PNB account with the Central Bank instead of the Bureau of Treasury account.

20. *Circular Letter, August 19, 1988.* Gives notice that the new corporate name of Commercial Bank of Manila effective July 27, 1988 is Boston Bank of the Philippines.

21. *Circular Letter, October 28, 1988.* Requires a form/schedule captioned "Aging of Past Due Loans and Items in Litigation" to be accomplished starting end-of-quarter December 31, 1988 and at the end of every quarter thereafter to enhance the reporting on the quality of loan portfolio of banks/NBFIs. It shall be attached to the Consolidated Statement of Condition submitted by banks/ NBFIs to the Central Bank.

22. *Circular Letter, December 1, 1988.* Enjoins all banking institutions to extensively undertake during the National Banking Week (the first full week of January) such appropriate promotional and publicity-generating activities under the theme "Working Together for Stability and Growth."

23. *Memorandum, December 15, 1988.* Requires the submission to the CB's Treasury Department the latest list of authorized officers and their signatures, and list of representatives and their pictures and signatures from all banks, accredited government securities dealers, non-banks and financial institutions to update Treasury's records in the processing/verification of transactions in government securities. An updated list is required henceforth every six months, on or before January 31 and July 31 every year, or everytime a change in the name of signatories occurs.

24. *Circular Letter, December 22, 1988.* In connection with the lifting of the prior import permit requirement from the Product Standards Agency for the importation of the Non-Metric Measuring Devices listed in Annex 2 (F) of Circular No. 1192, this issuance enjoins all AABs and all concerned to abide by the provision of BP Blg. 8 dated December 2, 1978 requiring that the metric system shall be the sole measurement system to be used in the country for all products, commodities, materials, utilities, services and commercial transactions in all contracts, deeds and other official and legal instruments and documents.

CURRENCY

1. *Circular No. 1176, May 25, 1988.* Amends the subsections on the withdrawal of currency from circulation of the *Manual of Regulations for Banks and Other Financial Intermediaries* so that notes and coins falling under certain classifications shall be withdrawn from circulation without compensation to the bearer, unless it is proved to the satisfaction of the Central Bank that they became unfit for circulation or were mutilated by accidental causes, and provided that one set of serial numbers of the mutilated notes which have lost more than two-fifths (2/5) of their surface or all of the signatures inscribed thereon is complete to preclude double redemption, in which case they shall be replaced by the Central Bank.

2. *Circular No. 1184, September 16, 1988.* Supersedes Circular 1141 and provides the guidelines and procedures to be observed by all banks including their provincial branches in expediting the withdrawal from circulation of unfit currency notes.

3. *Circular Letter, May 17, 1988.* Provides for the list of demonetized foreign exchange currencies from September 1985 to April 29, 1988.

4. *Circular Letter, May 25, 1988.* Advises about the issuance of four new Renminbi notes for general circulation by the Central Bank of China of the People's Republic of China starting on May 10, 1988.

EXPORTS

1. *Circular Letter, September 16, 1988.* Requires exporters of plantation logs and lumber to submit, in addition to the present documentation requirements, duly signed Verification Certificates from the Department of Environment and Natural Resources (DENR), as compulsory prerequisites to the issuance of the necessary Report of Foreign Sales/Export Declaration/Export Permit by the Central Bank/Authorized Agent Bank. This requirement was made to fully and effectively implement the regulations governing said forest products embodied under Administrative Order No.33, as amended by Administrative Order No. 72, Series of 1988 issued by DENR.
2. *Memorandum to Authorized Agent Banks No. 4, April 22, 1988.* Provides guidelines to govern the release and delivery of export declaration/permit copies covering shipments requiring government clearances.

FOREIGN EXCHANGE

1. *Circular No. 1178, August 19, 1988.* Sets the Central Bank's program for repayment of certain foreign currency debt obligations of Philippine private corporate sector borrowers originally maturing on January 1, 1987 to December 31, 1992. Applications for entry of eligible debt into the program must be submitted to the Private Debt Restructuring and Repayment Corporation from September 1, 1988 through February 28, 1989.
2. *Circular No. 1179, August 23, 1988.* Supersedes Circular No. 1091 and issues the guidelines for the restructuring and repayment of certain foreign currency obligations of Philippine private financial sector obligors.
3. *Memorandum to Authorized Agent Banks No. 3, April 20, 1988.* Provides that all spot or forward interbank foreign exchange transactions include cancellable forward contracts options and similar transactions.

GOVERNMENT SECURITIES

1. *Circular No. 1188, October 28, 1988.* Amends pertinent provisions of Books I to III of the *Manual of Regulations for Banks and Other Financial Intermediaries* to eliminate the prerequisite investment in government securities for purposes of establishing/opening branches and other banking offices by banks.
2. *Circular Letter, Feburary 24, 1988.* Reminds all banks, accredited government securities dealers and non-bank financial institutions that effective March 7, 1988, matured government securities presented for payment by check, received at the Government Securities Department, Debt Service Division after 12 noon will be taken up the following day.

IMPORT REGULATIONS

1. *Circular No. 1168, January 8, 1988.* Stipulates the guidelines on "no-dollar" imports of motor vehicles where said importations may only be allowed under the following conditions: a) that the foreign exchange funding of such importation will not be sourced from the foreign exchange reserves of the country, b) full payment of all taxes and duties, and c) that the engine displacement of gaso-

line-powered vehicles to be imported, manufactured or assembled, should not exceed 2,800 cubic centimeters or kerbweight over 1,500 kilograms, including accessories.

2. *Circular No. 1174, April 25, 1988.* Provides that the importation of commodities listed in the attached annex shall no longer require the prior approval of concerned government agencies.

3. *Circular No. 1181, August 30, 1988.* Amends the regulation on the implementation of the Societe Generale de Surveillance (SGS)—Comprehensive Import Supervision Scheme (CISS) so that commercial importations of certain commodities included in the certified list of the Bureau of Customs shall be subject to preshipment inspection and importations of the items in list, irrespective of import value, shall be covered by letters of credit.

4. *Circular No. 1187, October 19, 1988.* Provides for the lifting of the prior import permit for importation of "Meat of Bovine Animals" (EP 011.11-00/EP 011.12-00) issued by the NEDA. However, the prior import clearance requirements from the Bureau of Animal Industry/National Meat Inspection Commission shall remain in force.

5. *Circular No. 1189, November 10, 1988.* Further amends Section 22(a) of Circular No. 1029 as amended by Circular No. 1047 to reduce the prescribed minimum repayment terms for OA/DA importations from sixty (60) days to thirty (30) days.

6. *Circular No. 1192, December 22, 1988.* Provides that the importation of commodities listed in Annex 1 no longer requires prior approval of the Central Bank and the commodities listed in Annex 2 no longer requires prior approval of the concerned regulating agency. However, existing clearances/permits required from other agencies shall continue to be obtained in accordance with existing laws, PDs, LOIs and similar issuances.

7. *Circular Letter, January 27, 1988.* Enjoins all to observe strictly the provisions of Joint Order 1-87 implementing the Comprehensive Import Supervision Scheme and to extend full cooperation to the SGS-Manila Liaison Office in transmitting the copies of the Order of Payment as soon as possible.

8. *Circular Letter, February 5, 1988.* Reminds all authorized agent banks and financial institutions of the provisions of Circular No. 983, dated December 6, 1983 that the issuance by foreign banks and financial institutions of guarantees (e.g. standby letters of credit) to secure peso obligations of local firms requires the prior approval of the Central Bank through the Management of External Debt Department.

9. *Circular Letter, March 16, 1988.* Advises all to comply with the stated procedures in order to facilitate the post-verification of all import shipments.

10. *Circular Letter, April 11, 1988.* Provides a list of spare parts covered by MAAB No. 43 dated November 26, 1984, the importation of which requires prior clearance from the Board of Investments.

11. *Circular Letter, June 6, 1988.* Advises the prescribed clearance from the Bureau of Product Standards covering importation of "Non-Metric Measuring Devices."

12. *Circular Letter, June 13, 1988.* Reminds that any utilization from (1) the Revolving Short-term Trade Facility; and (2) short-term credits from foreign banks which are not signatories to the Revolving Short-term Trade Facility re-

quire prior Central Bank approval through the Management of External Debt Department.

13. *Circular Letter, June 16, 1988.* Clarifies that the liberalization of the listed meat and meat products pertains only to the lifting of the prior BOI import permit. Such importation still requires the prior quarantine clearance from the Bureau of Animal Industry (BAI). Moreover, importation of "Beef" or "Meat of Bovine Animals" (EP 011.11/EP 011.12-00) still requires the prior clearance of both the BAI and NEDA.

14. *Circular Letter, July 22, 1988.* Reminds all authorized agent banks and all concerned that CB Circular 1174 does not lift the requirement of securing a prior Veterinary Quarantine Clearance (VDC) from the Bureau of Animal Industry for the importation of various meat and meat products and only the Secretary of Agriculture is authorized to sign the said VQC.

15. *Circular Letter, August 15, 1988.* Provides a copy of regulations from the Bureau of Plant Industry on importation of fresh fruits and vegetables into the Philippines from countries and places infested with Mediterranean Fruitfly (Ceratitis Capitata); the Mexican Fruitfly (Anastrepha ludens); the Queensland Fruitfly (Dacus tryoni) and other fruitflies.

16. *Circular Letter, October 18, 1988.* Enjoins all authorized agent banks (AABs) and all concerned to use the Harmonized Commodity Description and Coding System (HS) Code in indicating the pertinent tariff heading in the accomplishment of the Import Entity Declaration required to be filled upon L/C opening. The classification code to be indicated shall still be based on the 1977 Philippine Standard Commodity Classification Manual (PSCCM), as amended, until the revised PSCCM becomes available.

17. *Circular Letter, November 2, 1988.* Requires the attachment of a copy of the IAC-UTE authority to the copy of the L/Cs (covering said importation) to be forwarded to the SGS Manila Liaison Office for close monitoring by SGS of the incoming shipments of used trucks, used engines and used special all purpose vehicles authorized for importation by the said committee.

18. *Memorandum to Authorized Agent Banks, No. 1, January 19, 1988.* Enjoins all Authorized Agent Banks to expedite the processing of import documents incident to the issuance of release certificates consistent with existing regulations.

19. *Memorandum to Authorized Agent Banks, No. 2, February 29, 1988.* Amends the 1977 Philippine Standard Commodity Classification Manual relative to old and out-of-date newspapers, periodicals, etc. (Classification Code 251,10.02) not saleable as such including those for packing imported by paper mill manufacturers. These items are reclassified from Semi-unclassified Producer Goods (SUP) to Essential Producer Goods (EP).

20. *Memorandum to Authorized Agent Banks, No. 5, April 25, 1988.* Directs all Authorized Agent Banks to transmit directly to the Current Imports and Commodity Classification Office (CICCO) weekly reports of L/Cs opened/DA-OA availments covering importations of commodities listed in Annex A to F of Circular No.1174 dated April 25, 1988, and daily report of L/Cs opened involving liberalized banned items listed at NEC-13 in the Annex of said Circular.

21. *Memorandum, June 6, 1988.* Encloses a copy of the amendment to Joint Order No. 1-87 implementing SGS-Comprehensive Import Supervision Scheme (CISS) so that the importation of raw materials and supplies for semi-conductor and allied enterprises, but not including capital equipment and spare parts; provided, that in the case of allied enterprises, prior approval of exemption by the Monetary Board is obtained, subject to certification by the Board of Investments.

INTEREST RATES

1. *Circular No. 1191, November 23, 1988.* Amends Subsections 1303.4 (Book I), 2303.4 (Book II), 3303.5 (Book III) and 4303Q.3 (Book IV) of the *Manual of Regulations* regarding floating rates of interest.

2. *Circular Letter No. 88-01, March 15, 1988.* Stipulates that the interest rate on special time deposits/deposit substitutes of the IGLF with participating financial institutions (PFIs) shall remain at 10 percent per annum up to March 31, 1988, and that said PFIs are allowed to set their lending rates which shall be monitored to ensure that these are reasonable.

3. *Circular Letter No. 88-05, July 21, 1988.* Stipulates that the applicable interest rate on IGLF special time deposits/deposit substitutes with participating financial institutions (PFIs) shall remain at 10 percent per annum up to September 1988 and that said PFIs are allowed to set their lending rates to their respective borrowers, which shall be monitored to ensure that these are reasonable and consistent with market rates.

4. *Circular Letter No. 88-06 (IGLF), October 17, 1988.* Provides that the interest rates on IGLF special time deposits/deposit substitutes with participating institutions effective October 24, 1988 shall be 10.7 percent per annum for projects of end-user borrowers located outside Metro Manila and 11.3 percent per annum for those located in Metro Manila. Moreover, a 10 percent participation by PFIs is required on loans to finance the medium-scale industries located in Metro Manila.

5. *Circular Letter No. 88-02 (ALF), October 29, 1988.* Stipulates that the applicable interest rate on ALF special time deposits/deposit substitutes with participating financial institutions for the fourth quarter of 1988 shall be 10.7 percent per annum.

LOANS AND INVESTMENTS

1. *Circular No. 1173, April 11, 1988.* Amends the subsections on the issuance of redeemable shares of the *Manual of Regulations for Banks and Other Financial Intermediaries* so that redemption of shares shall be allowed only upon prior approval of the Central Bank and only if such shares are replaced with at least equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption.

2. *Circular No. 1180, August 24, 1988.* Amends subsections of the *Manual of Regulations for Banks and other Financial Intermediaries* concerning the restructuring of loans by adding a paragraph referring to the delegation by the Board of Directors of a bank of its authority to approve restructuring of loans to a committee or officer(s) of the bank/non-bank with quasi-banking functions who are not the original approving committee or officer(s) of such loan.

3. *Circular No. 1182, August 30, 1988.* Adds a provision to Books I-IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* which states that the declaration of stock dividends shall be subject to the regulations on declaration of cash dividends, particularly the limitations on amount available as dividends and the requirements on reporting, verification and recording of dividends declared.

4. *Circular No. 1183, September 15, 1988.* Amends section on "Investment-Deposit Ratio" requirement which has been changed into "Loans-to-Deposits Ratio" requirement, the 12 regional groupings used as basis for the retention of funds

within the same region have been changed to 3 enlarged groupings, and investment in government securities as a form of compliance with the requirement has been scrapped.

5. *Circular Letter No. 88-02 (IGLF), March 15, 1988.* Instructs all banks and NBQBs that in order to simplify evaluation procedures of PFIs for loans funded under the IGLF programs, a proforma Project Summary Report for medium- and long-term credits of P4.0 million and below may be adopted by participating financial institutions in lieu of the long form project evaluation report.

6. *Circular Letter, September 27, 1988.* Amends the respective Manuals of Accounts of all Thrift Banks, Rural Banks, Investment Companies, Securities Dealers/Brokers and Financing Companies by incorporating the pertinent accounts pertaining to "Equity Investments", "Allowance for Probable Losses-Equity Investments", and "Other Investments".

RURAL BANKS

1. *Circular No. 1172, March 29, 1988.* Amends Circular No. 1143 pertaining to the implementation of the program of assistance for rural banks (RBs). The amendments refer mainly to the following: a) redefines the term "plan of payment" by extending the period of amortization on total arrearages of RBs as of December 31, 1986 from ten to fifteen years; b) clarifies the section pertaining to "Fresh Capital Infusion" such that for RBs with supervised credit arrearages and where the required capital infusion exceeds P500,000.00, the amount in excess of P500,000.00 may be covered by the rural banks availing themselves of the conversion scheme (which provides that all arrearages of supervised credit papers may be converted into paid-in capital in the name of the LBP while the accrued interest thereon may be covered by a plan of payment between the rural bank and the Central Bank on an equal annual amortization schedule over a period not exceeding fifteen (15) years. On the other hand, in the case of a rural bank without supervised credit arrearages and not deficient in capital, it may either increase its capital or pay the Central Bank an amount equivalent to ten (10) percent of the total of its arrearages and accrued interest at P500,000.00, whichever is lower. However, if it is deficient in capital, it shall be required to put in such capital as may be necessary to raise its risk asset ratio to ten percent (10%). Likewise, with regards to the purchase of government shares, under the conversion scheme the term of payment is extended from ten (10) to fifteen (15) years, inclusive of three years grace period and which payment shall be placed in escrow in a special deposit account with LBP by the private stockholders of the participating bank.

2. *Memorandum to All Rural Banks, September 21, 1988.* States that submission by the rural banks of the Progress Report on Short-term Loans (CBP7-19-86) is no longer necessary. This revokes CB Memorandum to All Rural Banks dated July 9, 1981.