1989
ANNUAL REPORT

Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

March 28, 1990

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

Dear Mrs. President:

I have the honor to submit the Forty-first Annual Report (1989) 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 1989, 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 L. CUISIA, 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: and,

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

Section 2, Article 1,
Republic Act No. 265, as amended

CENTRAL BANK OF THE PHILIPPINES

Monetary Board Members

JOSE L. CUISIA, JR.
Chairman
Governor, Central Bank of the Philippines

JESUS P. ESTANISLAO
Secretary of Finance

JOSE S. CONCEPCION, JR.
Chairman, Board of Investments

GUILLERMO N. CARAGUE
Secretary of Budget and Management

CAYETANO W. PADERANGA, JR.
Acting Director-General, National Economic and Development Authority

LUIS F. LORENZO[1]
Private Sector Representative

JESUS V. AYALA[2]
Private Sector Representative

Principal Officers

JOSE L. CUISIA, JR.
Governor

GABRIEL C. SINGSON
Senior Deputy Governor

JUAN QUINTOS, JR.[3]
Deputy Governor
International Operations Sector

EDGARDO P. ZIALCITA
Deputy Governor
Research Sector

ARNULFO B. AURELLANO
Deputy Governor
Supervision and Examination Sector

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[1] President and Chairman, Lapanday Group of Companies, Pepsi Cola Products Phil. Inc., Sterling Tobacco Corporation
[2] President and Chairman, Davao Fruits Corporation; Presidential Adviser on Legislative Affairs; and President and Chairman of the Board of several other companies
[3] Concurrently Officer-in-Charge of Security Printing, Gold Refinery and Mint Operations Sector

This listing of Monetary Board Members and Principal Officers is as of February 21, 1990.

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

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

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 superscript)
r	Revised (Set up as a superscript)

Rounding off 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 rounding off of figures.

1
The Philippine Economy

SUSTAINING ECONOMIC recovery continued to be the major challenge to the Philippine government in 1989. That task was complicated by serious political factors particularly toward the end of the year. However, the economic fundamentals—nurtured by four years of uninterrupted growth—speak of overall viability.

The Philippine economy achieved further headway in several key areas in 1989. The growth of real GNP, although lower than the decade high 6.6 percent achieved in 1988, was still a creditable 5.6 percent. In per capita terms, the growth in GNP was recorded at 3.1 percent. On the supply side, the industry sector remained as the primary source of growth with an increase of 7.1 percent, compared to 6.4 percent from services and 4.0 percent from agriculture. Moreover, the quality of economic growth has improved in the sense that investments have now clearly assumed the locomotive role. Structural reform has also achieved rapid strides, particularly in the areas of trade liberalization, public finance and the restructuring of the financial system and of public corporations, including the privatization program.

However, signs of financial imbalances surfaced during the year which the Government addressed with greater attention. Domestic liquidity grew by 27.5 percent in nominal terms, an acceleration from the 22.6 percent expansion during 1988. This development was traced to the substantial growth in base money particularly toward the yearend. In the fiscal sector, the National Government incurred an overall cash budget deficit of P19.0 billion, equivalent to 2.0 percent of GNP, as against 2.8 percent in the previous year. The deficit was financed largely by the flotation of Treasury bills at market rates. Meanwhile, the inflation rate at 10.6 percent hit the double-digit level for the first time in more than three years. The rise in inflation, albeit attributable also to the excess liquidity in the system, essentially emanated from the hike in the legislated minimum wage in July, the Government budget deficit, the upward adjustments in the prices of some petroleum products in August and November and the supply bottlenecks arising from weather-related causes.

The monetary authorities responded by implementing monetary restraint measures beginning in the middle part of the year. The interest rate charged by the Central Bank on borrowings from its rediscounting window was raised from 10 percent to 12 percent in June. In the same month, the reserve requirement on long-term deposit instruments of banks and non-banks with quasi-banking functions was gradually raised from 5 percent to reach 20 percent by November 1989, while that on short-term deposit instruments was lowered by a percentage point from 21 percent, in line with the long-run policy thrust of achieving a uniform reserve requirement structure across all maturities of deposits. The above measures, which reflected the cautious stance of the monetary authorities to contain the acceleration in domestic inflation, together with the sustained increase in the demand for funds by both the public and private sectors, however, exerted pressure on domestic interest rates. Nonetheless, the rise in nominal interest rates moderated toward the close of the year due to the combined efforts of the CB and the banking system to keep interest rates supportive of investment activities. In real terms, all instruments, except savings deposits, yielded higher positive returns.

In the external sector, the overall balance of payments yielded a smaller surplus due mainly to a larger current account deficit. The current account deficit widened as the upsurge in imports, in response to strong business activity, overshadowed the favorable performance of exports. The surge in imports was also traced to the need to upgrade and modernize existing capital equipment and—to a limited extent—the Import Liberalization Program as quantitative restrictions on imports were further reduced in preparation for the introduction of a more tariff-based protection system which would support the country's export drive and help build an internationally competitive industrial sector. It should, however, be noted that the expansion in raw materials and intermediate goods—used partly as inputs for the manufacture of exports—accounted for the bulk of the increase in the import of liberalized items. On the other hand, the non-monetary capital account performed strongly due to the significant increase in medium- and long-term capital inflows. The Philippine government has also strongly encouraged foreign investments to augment domestic capital resources and raise productive capacity. As a result, the cumulative total of direct foreign equity investments approved by the CB rose to $3,542.4 million at end-1989 or by 8.4 percent relative to the end-1988 level.

The country also achieved significant progress in the management of its large external debt recorded at $27,616 million as of end-December 1989. Important agreements were reached with various creditors during the year. In May, the IMF approved the SDR 660.6 million Extended Fund Facility and SDR 286.3 million Contingency and Compensatory Financing Facility request of the Philippine government to support its economic adjustment program. This was soon followed by a third round restructuring of past due and maturing obligations with the Paris Club, amounting to $2.3 billion. In July, the Philippine Assistance Program, a program to mobilize external official financing to support the country's economic recovery, received firm pledges totalling about $3.5 billion in the form of concessional loans and grants. In August, the country reached an understanding with its creditor banks for a new financing package that would help cover the country's external financing gap through 1990 and, at the same time, provide debt relief in the form of debt restructuring, interest rate reduction and substantial debt reduction. The first phase of that commercial bank financing package was completed with the cash buyback in early January 1990 of $1.34 billion in commercial debts at 50 percent discount. The second phase involved the amendment of existing loan agreements to reschedule principal repayments on the 1985 New Money falling due during the 1990-93 period and to reduce the interest rate spread on the remaining 1985 New Money and public sector restructured commercial bank debt. These amendments were opened for signature on January 22, 1990. The third and final element in the 1989/90 financing package was signed on February 28, 1990. This will provide the country with more than $700 million in new long-term financing from commercial banks over the next twelve months mainly via subscription to new Philippine bonds.

The country's international reserves reached $2.3 billion by end-December 1989, equivalent to nearly two months imports of goods and services. This exceeded last year's level by about $265.3 million or about 12.9 percent. Meanwhile, the volatility of the peso was kept under control even as the monetary authorities continued to maintain its alignment with market fundamentals. The peso closed at P22.44 to the dollar at end-December 1989, depreciating by 5.2 percent from its level a year ago.

Beyond the purely economic factors, toward the end of 1989, the road to recovery was interrupted by a political crisis. The adverse impact of the abortive coup attempt will not likely be reflected in the 1989 performance but it may have serious repercussions in early 1990, particularly on investments.

Still, the sound economic fundamentals that have been painstakingly set up since 1986 will not so easily be wiped away. The economy is resilient and flexible. Moreover, even now the Government has implemented a comprehensive package of economic and political measures to temper the adverse impact of the recent disburbance.

INTERNATIONAL SECTOR

REFLECTING the continued improvement and sustained viability of the external economy in 1989 were the overall balance of payments surplus of $448 million, inclusive of rescheduling, the higher level of international reserves and the relative stability of the peso-dollar exchange rate. The BOP surplus was, however, considerably lower than the surplus recorded in the previous year as the higher growth of imports, in response to strong business activity, outperformed the favorable showing of exports and resulted in a significantly higher merchandise trade gap (Table 1). The non-monetary capital account strengthened considerably during the year, primarily due to increased net inflows of medium- and long-term loans but this was not enough to compensate for the larger shortfall in the current account. Foreign investments, however, reflected a modest contraction owing to the slowdown in debt conversions and higher capital withdrawals. Without rescheduling, the overall BOP position would have shifted to a deficit of $938 million.

CURRENT ACCOUNT DEVELOPMENTS

Merchandise Trade

The merchandise trade gap widened significantly to $2,598 million in 1989 from $1,085 million in the previous year as imports expanded at a pace more than double that of exports. As a percentage of GNP, the merchandise trade gap rose to 5.9 percent from 2.8 percent in 1988. Aggregate exports advanced by 10.6 percent to $7,821 million during the year, reflecting in part a number of favorable developments in the international market and the Government's continuing efforts at export promotion (Table 2). The two top foreign exchange earners remained to be electronics and garments, which registered the highest gains of $275 million and $258 million, respectively. These uptrends emanated from such factors as sustained strong world demand and the successful penetration of both quota and non-quota markets, particularly for garments. Earnings from copper concentrates and copper metal likewise expanded mainly on account of higher world prices, while sugar exports rose on account of increased shipments to the US as the quota allocation for the Philippines in 1989 expanded considerably to counteract decreased production in other major sugar producing countries. Appreciable increments were likewise recorded in machinery and transport equipment, iron and steel, footwear, processed food and beverages, furniture and fixtures and chemicals. The continued implementation of a flexible exchange rate policy as well as increased production of these goods partly as a result of the lowering of quantitative restrictions on imported inputs under the Import Liberalization Program provided an environment conducive to export growth. These positive developments more than offset the downtrends in the foreign sales of coconut oil, which were adversely affected by protectionist policies in some major buying countries; shrimps and prawns, as a result of the glut in the Japanese market; and lumber and plywood, which were affected by the partial ban on lumber exports and the diversion of supply to the local market owing to the construction boom in the country.

Meanwhile, a more detailed listing of the country's exports indicated that the ten principal exports (namely, semi-conductor devices, coconut oil, copper metal, electronic microcircuits, consigned children's and infants' wear, consigned finished electronics and electrical machinery equipment and parts, copper concentrates, consigned women's wear, shrimps and prawns and consigned men's wear) grew by only 4.8 percent during the period under review and accounted for only 41.1 percent of total exports in 1989 as compared with 43.4 percent in the previous year. These developments indicated that policies aimed at product diversification have been moderately successful during the past year and that the forward thrust of exports in 1989 had become more broadly-based across a wider range of commodities.

Total imports exceeded the $10 billion mark in 1989, growing by a hefty 27.7 percent to $10,419 million (Table 3). Strong business activity and the need to upgrade and modernize existing capital equipment were primarily responsible for the expansion in all the major categories of imports. The expansion in the purchase of capital goods (higher by $787 million) and raw materials and intermediate goods ($973 million) accounted for nearly four-fifths of the gain in imports. The rise in capital goods was traced to the increased purchases of power generating and specialized machines, telecommunications equipment and land transport equipment, reflecting the need for expanded infrastructural facilities, the move by some firms to replace and modernize capital equipment and the rationalization of the country's power and transportation industry. The expansion in raw materials and intermediate goods, on the other hand, was attributed primarily to the increased purchases of inputs necessary for the production of iron and steel, textile yarns and fabrics, non-ferrous metals as well as synthetic fibers. Mineral fuels and lubricants similarly advanced by $301 million due mainly to the increased delivery of petroleum crude, bunker fuel and naphtha as well as to the hike in the average price of petroleum crude from $13.31 per barrel in the previous year to $15.64 per barrel in 1989. Consumer good imports likewise rose by $301 million particularly as arrivals of passenger cars, food items and miscellaneous manufactures registered uptrends.

Meanwhile, a listing of the country's ten principal imports showed that mineral fuels and lubricants, machinery other than electric and base metals continued to maintain the top three positions. In 1989, the ten principal imports accounted for 60.6 percent of aggregate imports in contrast to only 55.4 percent in the previous year.

There were no significant changes in the geographical pattern of Philippine trade in 1989, as the US, Japan, and the European Economic Community remained the country's leading trade partners, jointly accounting for more than three-fifths of total exports and imports. The destination pattern of the country's exports closely approximated that of the previous year, with the US establishing a firmer foothold as the top destination of Philippine-made goods. In the case of imports, Japan replaced the US as the primary source of imported goods while the ASEAN grew in importance in this respect, surpassing the performance of the Middle East countries.

The net terms of trade weakened by 8.2 percent in 1989 as import prices grew by 5.2 index points and export prices dropped by 2.6 index points (Table 4).

Table 1. **BALANCE OF PAYMENTS**
1988-1989
(In Million US Dollars)

Item	**1989P**	**1988**
I. Current Transactions		
A. Merchandise Trade	-2,598	-1,085
Exports	7,821	7,074
Imports	10,419	8,159
B. Non-Merchandise Trade	369	-93
Inflow	4,586	3,590
Outflow	4,217	3,683
C. Transfers	675	789
Inflow	676	791
Outflow	1	2
Current Account, Total	**-1,554**	**-389**
II. Non-Monetary Capital		
D. Long-Term Loans	367	-329
Inflow	2,787	2,372
Outflow	2,420	2,701
E. Foreign Investments	854	986
Inflow	972	1,077
Outflow	118	91
F. Short-Term Capital, (Net)	-33	-205
G. Errors and Omissions	425	190
Non-Monetary Capital, Total	1,613	642
H. Monetization of Gold	288	314
I. Allocation of SDR	0	0
J. Revaluation Adjustments	101	83
Of which: Debt Reduction	223	73
III. Overall Surplus/Deficit (-)	**448**	**650**

PPreliminary

Figure 1. **Current Account and Merchandise Trade Surplus/Deficit 1975-1989**

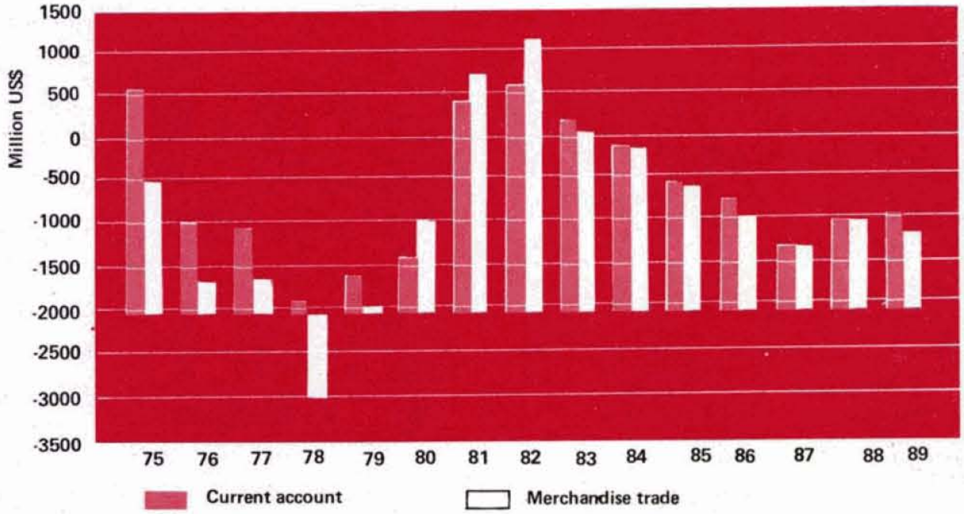


Table 2. EXPORTS BY MAJOR COMMODITY GROUP 1988-1989 (Volume in 000 MT; Unit Price in US$/MT; FOB Value in US$M)

Commodities	1989 Volume	1989 Price	1989 Value	1988 Volume	1988 Price	1988 Value
Coconut Products			541			582
Copra	79	317	25	80	349	28
Coconut Oil	763	494	377	793	515	408
Desiccated Coconut	95	802	76	88	889	78
Copra Meal/Cake	477	112	53	531	120	64
Others			10			4
Sugar & Products			113			74
Centrifugal & Refined	210	422	89	143	422	60
Molasses	413	57	24	191	74	14
Others			0			0
Fruits & Vegetables			319			306
Canned Pineapple	193	472	91	183	455	83
Pineapple Juice	84	206	7	28	198	6
Pineapple Concentrates	83	542	18	29	589	17
Bananas	851	172	146	867	168	146
Mangoes	14	1,193	17	14	1,258	17
Others			40			37
Other Agro-Based Products			454			480
Fish, Fresh or Preserved	54	5,497	296	50	6,178	307
Of which: Shrimps & Prawns	26	8,875	231	24	10,605	250
Coffee, Raw not roasted	25	1,681	42	26	1,841	48
Abaca Fibers	23	776	18	24	673	16
Tobacco Unmanufactured	10	1,712	17	13	1,441	19
Natural Rubber	13	762	10	15	975	15
Ramie Fibers, Raw or Roasted	4	2,355	10	9	2,719	24
Seaweeds, Dried	31	1,202	37	27	1,010	27
Rice	16	168	3	0	0	0
Others			21			24
Forest Products[1]			197			261
Logs	6	51	0[a]	0	0	0
Lumber	438	311	136	629	249	157
Plywood	113	326	37	242	325	79
Veneer Sheets/Corestocks	64	271	17	79	267	21
Others			7			4
Mineral Products			829			764
Copper Concentrates	426	557	237	450	480	216
Copper Metal	114	2,891	330	127	2,331	295
Gold	295	371	109	274	430	118
Iron Ore Agglomerates	4,352	17	76	4,874	18	86
Chromium Ore	182	102	19	147	87	13
Nickel	0	0	0	0	0	0
Others			58			36

Table 2 continued

Commodities	1989 Volume	1989 Price	1989 Value	1988 Volume	1988 Price	1988 Value
Petroleum Products			95			162
Manufactures			5,192			4,338
Elect. & Elect. Eqpt./Parts & Telecom.			1,751			1,476
Garments			1,575			1,317
Textile Yarns/Fabrics			87			71
Footwear			96			77
Travel Goods & Handbags			41			22
Wood Manufactures			88			79
Furniture & Fixtures			204			184
Chemicals			279			256
Non-metallic Mineral Manufactures			45			33
Machinery & Transport Equipment			115			54
Processed Food & Beverages			206			184
Iron & Steel			76			64
Baby Carr., Toys, Games & Sporting Goods			51			31
Basketwork, Wickerwork & Other Articles of Plaiting Materials			134			115
Misc. Mftrd. Articles, n.e.s.			124			102
Others			320			273
Special Transactions			10			27
Re-Exports			71			80
Total			**7,821**			**7,074**

*Less than one million U.S.$
[1]Volume in 000 cubic meters; unit price in US$/cu.m.
[2]Volume in 000 ounces; unit price in US$/oz.

Non-Merchandise Trade

The balance of the non-merchandise trade account shifted to a surplus of $369 million from a deficit of $93 million a year ago. Receipts from services grew by 27.7 percent to $4,586 million in 1989 due largely to higher operating expenses of foreign companies in the country (up by $319 million); availments of the Economic Support Fund from the US government ($216 million); and workers' remittances ($128 million), even as the number of contract workers deployed abroad decreased by 2.6 percent to 458,626. There was also a significant increase in invisible receipts arising from withdrawals in pesos of Circulars 343/547 deposits as investors were encouraged by the various opportunities for profitable investments in the country, particularly before the occurrence of the December political disturbance. Increases were likewise recorded in the interest income of commercial banks, in response to higher foreign interest rates; travel, owing to the growing tourist traffic; and, commissions and fees. Meanwhile, invisible disbursements rose by 14.5 percent to $4,217 million as the hike in foreign interest rates caused interest payments on the country's foreign debt to rise by 11.8 percent to $2,413 million. Payments for freight and merchandise insurance likewise grew by $180 million along with the rise in merchandise imports. There were also noticeable increases in payments for profits, earnings and dividends (up by $61 million); reinvested earnings ($39 million); and commissions and fees ($37 million).

Transfers

Net inward transfers amounted to $675 million in 1989, 14.4 percent lower than the year-ago level. This developed as grants and aids from official sources as well as inflows from personal and institutional remittances registered decreases.

NON-MONETARY CAPITAL ACCOUNT

Net inflows of non-monetary capital in 1989 more than doubled to $1,613 million from $642 million in 1988 following the improvement in both medium- and long-term (MLT) and short-term capital accounts.

During the year in review, a net inflow of $367 million was recorded in the MLT loan account in sharp contrast to the $329 million net outflow recorded a year ago. This emerged following the increase in MLT loan availments by 17.5 percent to $2,787 million as well as the contraction in MLT loan repayments by 10.4 percent to $2,420 million. The rise in the former was attributed largely to the greater infusion of new money from official sources, the total of which rose by 48.2 percent to $1,021 million. Of this amount, about two-fifths or $402 million was obtained from the Japanese government mostly through the OECF Finance Sector Adjustment Loan ($139 million), Eximbank-EFF Parallel Financing Facility ($107 million) and the Eximbank Co-Financing Economic Recovery Loan ($50 million). The next largest source of new money was the IBRD which disbursed $350 million during the year, nearly twice the amount released in 1988. Most of the releases from the IBRD were made through the Finance Sector Loan ($150 million), Economic Recovery Loan ($97 million) and the Housing Sector Loan ($89 million). Other large sources of new money were the ADB ($90 million), and the governments of Brunei ($75 million), Indonesia ($30 million) and the US ($22 million). Releases of loans in the pipeline, used entirely to fund ongoing projects, similarly rose by 13.1 percent to $293 million, primarily due to higher inflows from multilateral agencies such as the ADB and the IBRD. Meanwhile, loans deemed rescheduled during the year at $1,386 million were lower by 2.7 percent. Of this amount, 55.5 percent were owed to foreign commercial banks and the remainder, to the Paris Club. Of the total Paris Club rescheduled debt, $421 million consisted of principal repayments and the remainder, interest payments.

The short-term capital account also improved considerably as net outflows contracted from $205 million a year ago to only $33 million this year. The growth in imports led to increased use of the Trade Facility which yielded a net utilization of $61 million this year compared to a net repayment of $153 million in 1988. The improvement in the short-term capital account was also due to the more than doubling of export advances. In contrast, there was a modest decline in foreign investments by 13.4 percent to $854 million following the slowdown in debt conversions and higher capital withdrawals from the Philippines. Of the $95 million capital withdrawn during the year, nearly 13 percent was recorded after the coup attempt in December. These negative developments more than offset the impact of significantly higher portfolio investments reacting to the generally bullish activity in the stock market as well as increased inflows from reinvested earnings and technical fees converted into equity.

Meanwhile, revaluation gains rose to $101 million compared to $83 million a year ago as discounts earned through the various debt reduction schemes increased from the previous year's level. This partly neutralized the decline in the monetization of gold by 8.3 percent to $288 million brought about by the contraction in the average price of the precious metal even as volume purchases improved.

Table 3. IMPORTS BY MAJOR COMMODITY GROUP 1988-1989 (Volume in 000 MT; Price in US$/MT; FOB Value in US$M)

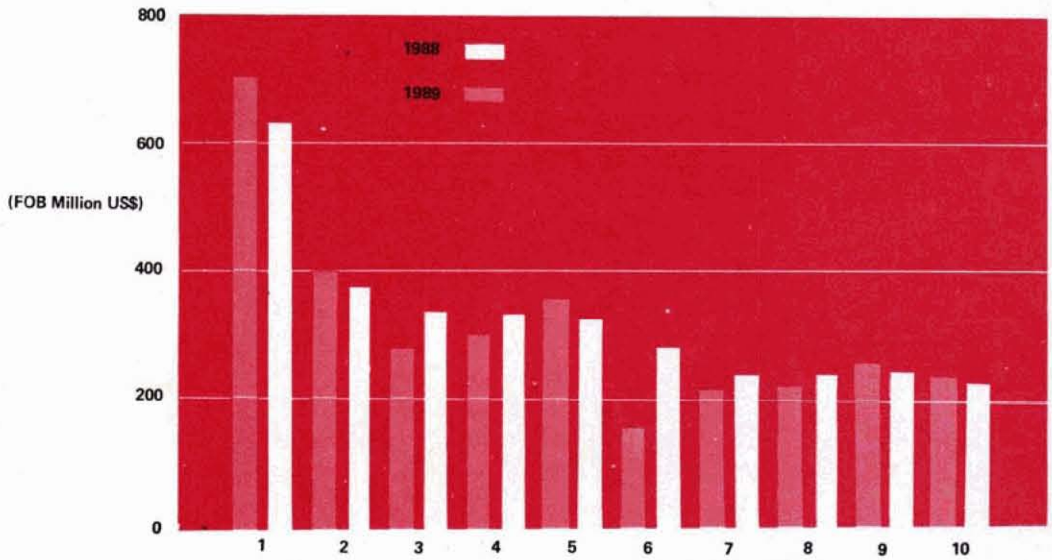
Commodity Group	1989 Volume	1989 Price	1989 Value	1988 Volume	1988 Price	1988 Value
I. Capital Goods			2,424			1,637
Power Generating & Specialized Mach.			987			639
Office & EDP Machines			104			69
Telecommunication Eqpt. & Elect Mach.			761			571
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			253			144
Aircraft, Ships & Boats			195			123
Prof. Sci. & Cont. Inst.; Photographic Eqpt. & Optical Goods			124			91
II. Raw Materials & Intermediate Goods			5,388			4,415
Unprocessed Raw Materials			807			624
Wheat	1,195	165	197	1,075	127	136
Corn	154	125	19	25	103	3
Unmilled cereals excl. rice & corn			1			0
Crude materials, inedible			529			413
Pulp & waste paper			52			46
Cotton	54	1,296	70	57	1,259	72
Synthetic fibers	48	1,990	95	49	1,725	84
Metalliferous ores			157			102
Others			155			109
Tobacco, unmanufactured			61			72
Semi-Processed Raw Materials			4,581			3,791
Feeding stuffs for animals	668	265	177	650	255	166
Animal & vegetable oils & fats			24			18
Chemical			1,215			1,039
Chemical compounds			410			367
Medicinal & pharmaceutical chem.			123			113
Urea	391	123	48	608	119	72
Fertilizers urea	403	138	56	409	86	35
Artificial resins			289			230
Others			289			222
Manufactured goods			1,787			1,238
Paper & paper products	222	592	131	205	544	111
Textile yarn, fabrics & made-up articles			152			324
Non-metallic mineral manufactures			74			55
Iron & steel	1,923	386	743	1,475	347	475
Non-ferrous metals			174			124
Metal products			116			85
Others			97			64
Embroideries			437			377
Mat/Acc for the mftr. of elect. eqpt.			885			910
Iron ore, not agglomerated	3,847	15	56	3,055	14	43

Table 3 continued

Commodity Group	1989 Volume	1989 Price	1989 Value	1988 Volume	1988 Price	1988 Value
III. Mineral Fuels & Lubricant[1]			1,397			1,096
Coal, Coke	993	39	39	1,345	33	45
Petroleum Crude	71.09	15.64	1,112	69.07	13.31	919
Others	14.56	16.87	246	8.57	15.40	132
IV. Consumer Goods			898			597
Durable			365			190
Passenger cars & motorized cycle			223			90
Home appliances			13			8
Miscellaneous manufactures			129			92
Non-Durable			533			407
Food & live animals chiefly for food			492			379
Dairy products	140	1,552	217	134	1,211	161
Fish & fish preparation	141	263	37	116	303	35
Rice	195	263	51	119	309	37
Fruits & vegetables			51			37
Others			136			109
Beverages & tobacco manufacture			29			22
Articles of apparel, accessories			12			6
V. Special Transactions			312			414
Articles temporarily imptd. & exptd.			138			218
Others			174			196
Total Imports			10,419			8,159

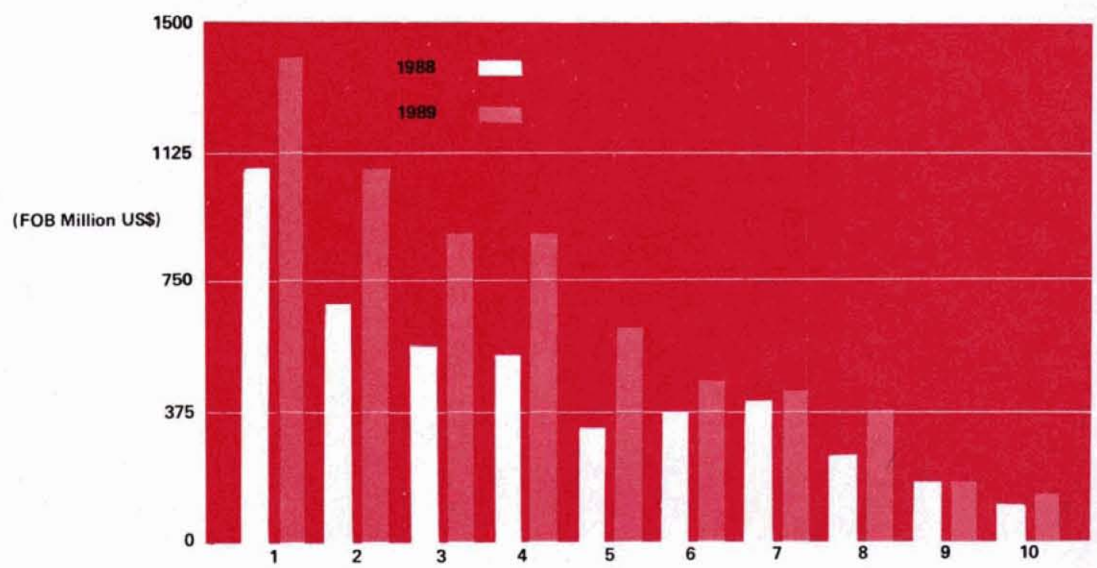
[1]Volume in million barrels; Price in US$/barrel

Figure 2. **Ten Leading Exports 1988-1989**



1. Semi-conductor devices
2. Coconut oil
3. Consigned children's & infants' wear
4. Copper metal
5. Electronic microcircuits
6. Consigned finished electronic and elect. mach. eqpt. & parts
7. Copper concentrates
8. Consigned women's wear
9. Shrimps and prawns, fresh or frozen
10. Consigned men's wear

Figure 2A. **Ten Leading Imports 1988-1989**



1. Mineral fuels
2. Machinery other than electric
3. Base metals
4. Elect. mach., apparatus & appliances
5. Transport equipment
6. Explosives, misc. chemical materials & products
7. Chemical elements & compounds
8. Cereal & cereal prep.
9. Textile fibers not manufactured into thread & yarn
10. Manufactures of metal

Figure 3. **Direction of Exports By Areas and Countries, 1989**

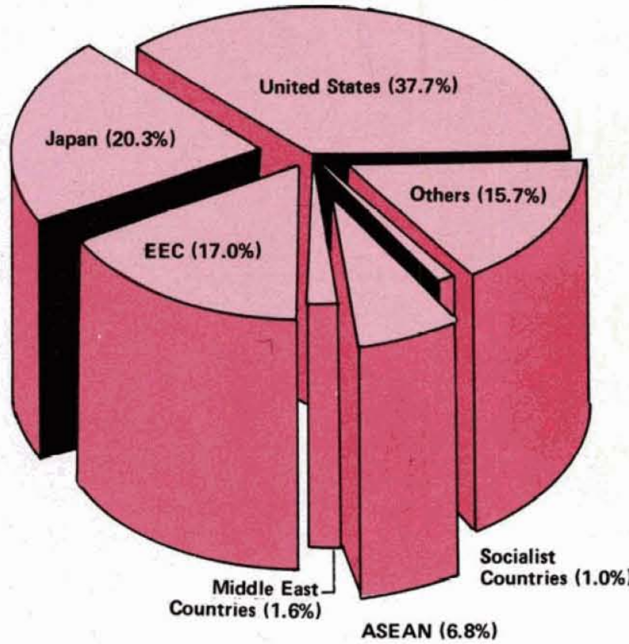


Figure 3A. **Direction of Imports By Areas and Countries, 1989**

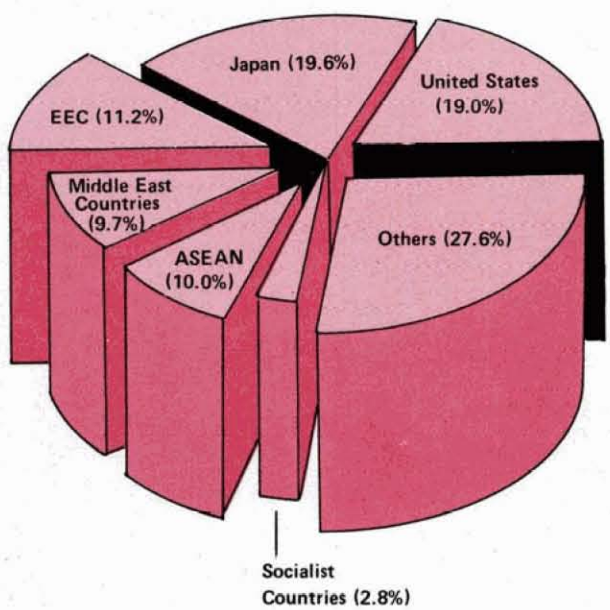


Table 4. **INDICES OF FOREIGN TRADE**
1984 - 1989
(1985=100)

Period	Exports		Imports		Net Terms of Trade	Purchasing Power of Exports
	Volume	Prices[1]	Volume	Prices[2]		
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	138.2	107.7	191.3	82.1	131.2	181.3
1989[p]	157.5	105.1	229.3	87.3	120.4	189.6

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

INTERNATIONAL RESERVES

During the first three quarters of the year, the level of gross international reserves of the Central Bank (CB) was generally on the downtrend, with the lowest level recorded during the third quarter, specifically at end-July, when reserves were equivalent to about 1.2 months imports of goods and services. However, toward the close of the year, official reserves recorded a substantial improvement, increasing by $265.3 million (or approximately 12.9 percent) from the end-1988 level to $2,324.2 million at end-December. At this level, reserves were equivalent to 1.9 months imports of goods and services.

The drop in CB reserves during the first quarter was due mainly to the debt service requirements of both the CB ($322 million) and the National Government ($290 million) as well as to net withdrawals from the Trade Facility ($195 million). These were partially offset by inflows arising from net foreign exchange purchases from authorized agent banks ($352 million), the purchases by CB of primary and panned gold ($75 million) and the deposits by the Treasurer of the Philippines of the proceeds of various IBRD project loans ($64 million). Reserves continued to deteriorate during the two succeeding quarters mainly because of the large debt servicing requirements of the National Government ($583 million) and the CB ($479 million) which, however, were partially cushioned by (1) net foreign exchange purchases from authorized agent banks ($349 million); (2) deposits by the Treasurer of the Philippines of proceeds of various IBRD program loans ($193 million) and the Economic Support Fund ($129 million); and (3) the disbursement of the first tranche of the IMF-Extended Fund Facility ($88 million).

In the fourth quarter, reserves substantially improved due mainly to the availment of a number of official loans for the cash buyback operation scheduled for January 1990. Among the major inflows which boosted reserves were proceeds of a number of IBRD program loans and cofinancing from the Japan Eximbank ($443 million); net foreign exchange purchases from authorized agent banks ($307 million); and the disbursement of the second tranche of the IMF-Extended Fund Facility including 25 percent of the third and fourth tranches accelerated for the debt buyback ($216 million). These were offset to a large extent by the servicing of maturing obligations of the CB and the National Government.

The CB international reserves at yearend consisted of foreign investment (49 percent), gold (41 percent), and foreign exchange holdings and special drawing rights which together accounted for 10 percent (Table 5).

EXCHANGE RATE

The official exchange value of the peso vis-a-vis the US dollar, based on the Bankers Association of the Philippines (BAP) reference rate at end-December 1989 was recorded at P22.44, depreciating by 5.2 percent from the end-1988 level (Tables 6 and 6A). During the year, the month-to-month movement of the peso relative to the US dollar was moderate, ranging between an appreciation of 0.09 percent in March and a depreciation of 1.1 percent in April.

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

End of Period	Total	Gold	SDRs	Foreign Investments	Foreign Exchange
1988 Jan	1,803.80	1,070.10	17.61	642.11	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	120.40
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
1989 Jan	1,947.47	1,133.26	0.32	697.55	116.34
Feb	1,878.22	1,149.32	1.12	583.35	144.43
Mar	1,799.25	1,173.83	1.07	480.34	144.01
Apr	1,641.75	1,193.78	14.93	286.01	147.03
May	1,726.64	1,215.05	5.56	359.80	146.23
Jun	1,563.60	1,097.04	5.49	337.46	123.61
Jul	1,324.78	945.25	2.72	250.28	126.53
Aug	1,474.33	966.93	0.32	376.21	130.87
Sep	1,536.83	985.72	0.32	417.75	133.04
Oct	1,831.99	1,008.09	0.91	667.52	155.47
Nov	1,782.81	1,016.31	0.92	619.46	146.12
Dec	2,324.17	954.04	0.93	1,135.75	233.45

[1]With revaluation

Source: Treasury, Central Bank of the Philippines

Figure 4. **International Reserves of the Central Bank 1988-1989**

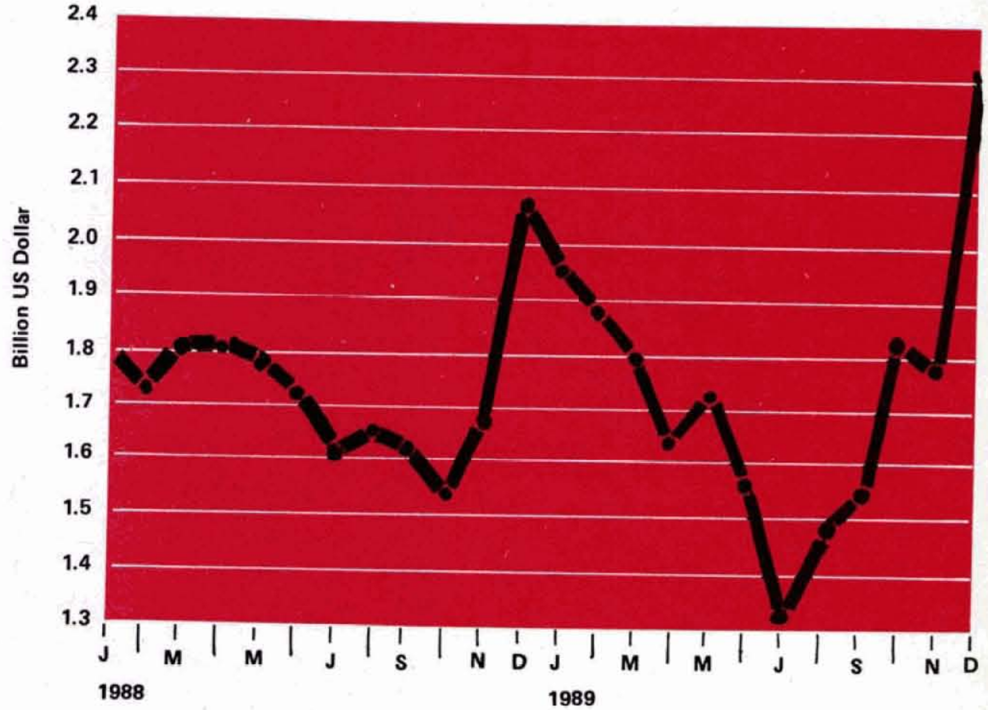


Table 6. EXCHANGE RATES OF THE PESO
End of Month, 1988-1989
(Pesos Per Unit of Foreign Currency)

Period	US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	Hongkong Dollar	NT Dollar	S. Korean Won	Singapore Dollar
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
1989 Jan	21.3500	0.1650	11.4798	37.6187	3.3754	13.5081	2.7370	0.7763	0.031726	11.0678
Feb	21.3500	0.1684	11.7126	37.1596	3.4394	13.7237	2.7370	0.7735	0.032046	11.0870
Mar	21.3300	0.1617	11.2899	35.9837	3.3424	12.9409	2.7387	0.7841	0.032037	10.8719
Apr	21.5640	0.1632	11.4914	36.4647	3.3963	12.9966	2.7709	0.8293	0.032734	11.0580
May	21.6080	0.1513	10.8169	33.8705	3.1915	12.4310	2.7766	0.8342	0.032779	10.8536
Jun	21.8070	0.1516	11.1019	33.6482	3.2710	12.9250	2.7978	0.8478	0.033081	11.1390
Jul	21.8800	0.1571	11.6357	36.1785	3.4373	13.5262	2.8028	0.8570	0.033170	11.1872
Aug	21.8800	0.1516	11.1959	34.5047	3.3235	12.9923	2.8006	0.8607	0.033060	11.1412
Sep	21.9450	0.1561	11.6637	35.3424	3.4409	13.4500	2.8111	0.8646	0.033115	11.1678
Oct	22.1000	0.1557	12.0467	34.9622	3.5470	13.7683	2.8288	0.8599	0.033260	11.3085
Nov	22.2340	0.1553	12.5221	34.8406	3.6619	14.0051	2.8459	0.8564	0.033417	11.3815
Dec	22.4400	0.1562	13.2889	36.0049	3.8888	14.5792	2.8745	0.8587	0.033480	11.8842

Source: Treasury, Central Bank of the Philippines

Table 6A. EXCHANGE RATES OF THE PESO
End of Month, 1988-1989
(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
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
1989 Jan	0.0468	6.0606	0.0871	0.0266	0.2963	0.0740	0.3654	1.2882	31.5199	0.0904
Feb	0.0468	5.9382	0.0854	0.0269	0.2907	0.0729	0.3654	1.2928	31.2051	0.0902
Mar	0.0469	6.1843	0.0886	0.0278	0.2992	0.0773	0.3651	1.2753	31.2139	0.0920
Apr	0.0464	6.1275	0.0870	0.0274	0.2944	0.0769	0.3609	1.2058	30.5493	0.0904
May	0.0463	6.6094	0.0924	0.0295	0.3133	0.0804	0.3602	1.1988	30.5073	0.0921
Jun	0.0459	6.5963	0.0901	0.0297	0.3057	0.0774	0.3574	1.1795	30.2288	0.0898
Jul	0.0457	6.3654	0.0859	0.0276	0.2909	0.0739	0.3568	1.1669	30.1477	0.0894
Aug	0.0457	6.5963	0.0893	0.0290	0.3009	0.0770	0.3571	1.1618	30.2480	0.0898
Sep	0.0456	6.4061	0.0857	0.0283	0.2906	0.0743	0.3557	1.1566	30.1978	0.0895
Oct	0.0452	6.4226	0.0830	0.0286	0.2819	0.0726	0.3535	1.1629	30.0661	0.0884
Nov	0.0450	6.4392	0.0799	0.0287	0.2731	0.0714	0.3514	1.1677	29.9249	0.0879
Dec	0.0446	6.4020	0.0753	0.0278	0.2571	0.0686	0.3479	1.1646	29.8686	0.0841

Source: Treasury, Central Bank of the Philippines

Figure 5. **Pesos Per U.S. Dollar**
1988-1989 (End of Period)

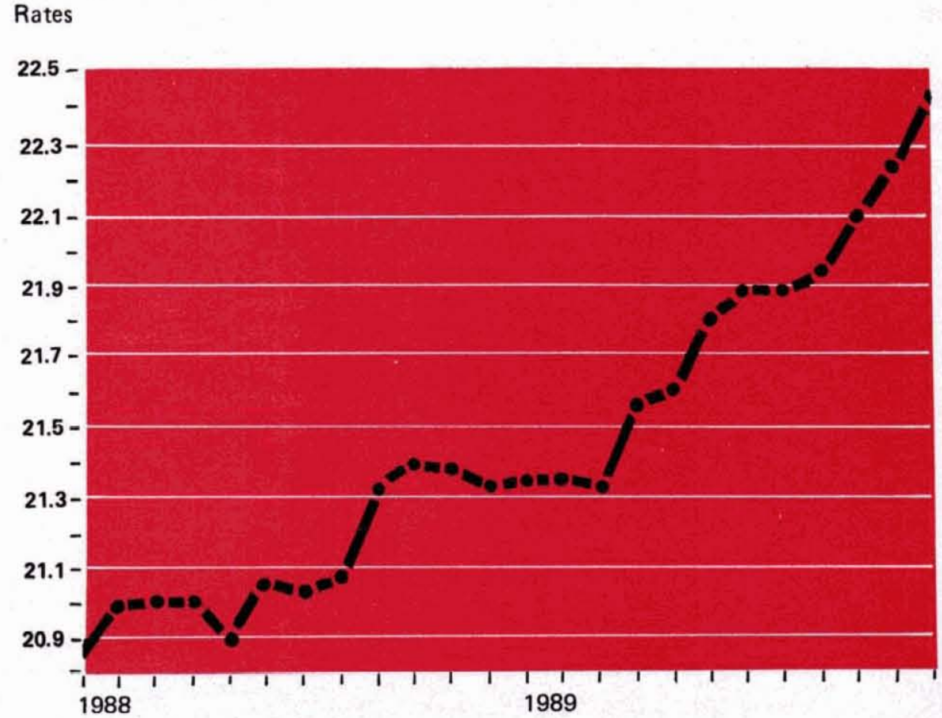
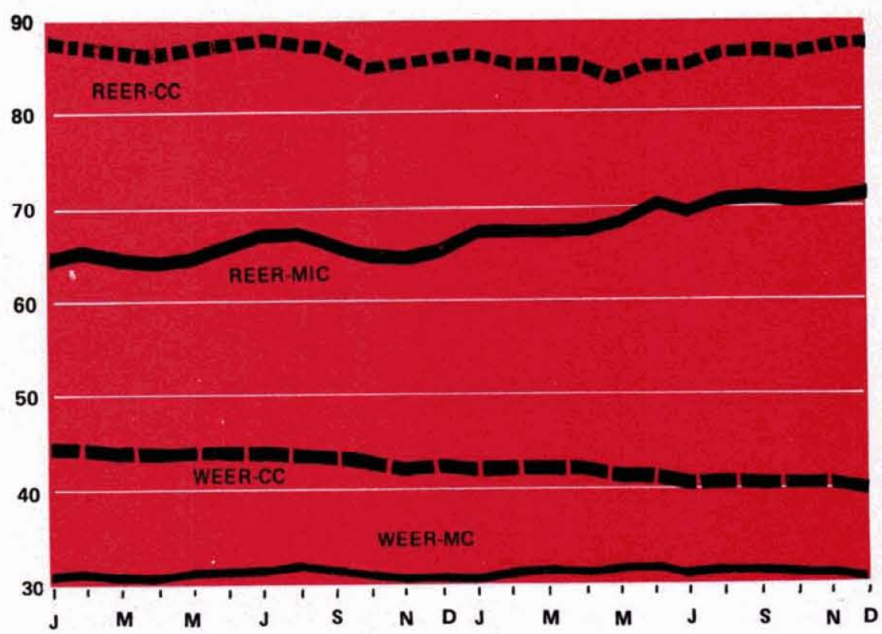


Figure 5A. **Peso Effective Exchange Rates**
1988-1989 (Monthly Average)



Relative to the currencies of other major industrial countries, the peso's performance was mixed. At yearend, gains were posted as follows: 8.0 percent vis-a-vis the Japanese yen and 5.7 percent relative to the pound sterling. On the other hand, depreciations were recorded as follows: 11.5 percent versus the French franc, 11.4 percent vis-a-vis the Deutschemark and 3.4 percent vis-a-vis the Swiss franc.

In contrast, the peso generally weakened relative to the currencies of newly industrializing economies as follows: 13.1 percent against the New Taiwan dollar, 8.4 percent against the Singapore dollar, 7.0 percent against the South Korean won, and 5.2 percent against the Hongkong dollar.

At end-1989, the peso's average exchange value against a total trade-weighted basket of currencies of major industrial countries, or its nominal effective exchange rate (NEER-MIC), appreciated by 0.5 percent over the year-ago level. Relative to currencies of competing countries over the same period, however, the peso's NEER depreciated by 5.6 percent. Adjusted for relative price levels, the peso recorded appreciations of 10.2 percent and 1.9 percent vis-a-vis the currencies of major industrial and competing countries, respectively.

The parallel market rate (based on the average of buying and selling rates of notes for bulk dealers) closed at P22.50 at end-1989, 4.6 percent higher than the end-1988 level.

FOREIGN EXCHANGE LIABILITIES

At end-December 1989, the country's total foreign exchange liabilities were recorded at \$27,616 million, \$299 million or 1.1 percent lower than the end-1988 level (Table 7). The decline was mainly accounted for by (1) the adjustment for foreign exchange rate fluctuations of \$752 million and (2) various debt reduction transactions, namely: debt-for-note swap of \$132 million, peso prepayment of \$118 million, debt-to-equity conversion of \$91 million, debt-for-debt swap of \$76 million, debt-for-asset swap of \$70 million, assignment of credits of foreign banks to locally-based FCDUs of \$46 million and debt write-offs amounting to \$8 million. These contractionary factors were partly offset, however, by net availments of MLT loans (exclusive of debt reduction schemes) of \$804 million and net inflows of short-term credits of \$190 million.

The bulk of foreign exchange liabilities, comprising 69.9 percent of the total, were debts of the non-banking sector while 28.5 percent and 1.6 percent were banking sector liabilities and export advances, respectively.

Classified by maturity, 85.7 percent of total foreign exchange liabilities were MLT debt while 14.3 percent were short-term obligations.

Classified by creditor type, 46.2 percent of total liabilities were owed to banks and financial institutions, 24.3 percent to bilateral creditors, 20.2 percent to multilateral sources, 8.0 percent to suppliers and 1.3 percent to other creditors.

As of end-December 1989, credits under the Trade Facility reached \$2,856 million, \$42 million lower than the commitment level of \$2,898 million. Of the total actual level, \$2,232 million consisted of direct trade credits while \$624 million were in the form of deposits with the CB.

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

Item	December 31, 1989				December 31, 1988			
	Short-Term Trade	Short-Term Non-Trade	Medium and Long Term	Total	Short-Term Trade	Short-Term Non-Trade	Medium and Long Term	Total
Grand Total	**3,806**	**144**	**23,666**	**27,616**	**3,537**	**224**	**24,154**	**27,915**
Commercial Banks and Central Bank	1,777	129	5,957	7,863	1,851	202	6,361	8,414
1. Commercial Banks	1,149	106	1,179	2,434	865	179	1,206	2,250
Government	305	75	112	492	185	98	110	393
Private	844	31	1,067	1,942	680	81	1,096	1,857
Foreign Banks	139	19	996	1,154	112	58	996	1,166
Domestic Banks	705	12	71	788	568	23	100	691
2. Central Bank of the Phils.	628	23	4,778	5,429	986	23	5,155	6,164
Public and Private	1,590	15	17,709	19,314	1,436	22	17,793	19,251
1. Public	500	3	15,798	16,301	521	10	15,580	16,111
2. Private	1,090	12	1,911	3,013	915	12	2,213	3,140
Red Clause Advances	439	-	-	439	250	-	-	250
1. Public	0	-	-	0	0	-	-	0
2. Private	439	-	-	439	250	-	-	250

Source: Information Management Department, Cemtral Bank of the Philippines

DEBT REDUCTION PROGRAM

A total of 51 debt conversion applications under the CB debt-to-equity conversion program (Circular No. 1111) amounting to $274.0 million were received during 1989. Of this amount, applications with an aggregate value of $242.3 million were approved for conversion, 76.2 percent of which were in the nature of Schedule 2 investments. Of the approved transactions during the year, 36 applications amounting to $142.1 million were closed or redeemed, 58.6 percent lower than the value posted in 1988 (Tables 8 and 8A). The decline was mainly accounted for by the 80.3 percent reduction in the value of CB debt paper used, reflecting the restraint exercised to counter its adverse impact on inflation.

On a cumulative basis, as of end-December 1989, a total of 456 applications involving an aggregate value of $2,100.7 million had been received by the CB under the debt-to-equity conversion program. A total of 401 applications with an aggregate amount of $1,485.2 million were approved for conversion. Of this amount, 78.7 percent were Schedule 2 or preferred areas of investments and the residual or 21.3 percent were Schedule 3 investments. Schedule 2 investments mainly involved investment in export-oriented industries as well as in government assets for privatization. Five applications amounting to $37.2 million remained pending with the CB as of end-1989, while others were either denied, withdrawn, outbidded or considered inactive.

A total of 245 applications with an aggregate value of $766 million were closed or redeemed as of end-1989. By type of debt paper converted, the closed transactions may be broken down as follows: CB debt paper of $533.2 million, private sector debt paper of $147.9 million and public sector debt paper of $54.2 million. Closed transactions also resulted in fresh money inflows of $30.8 million. Classified by nationality of investors, 44.0 percent of closed transactions were made by Filipino investors and 56.0 percent by foreigners, with the Americans representing the largest foreign investor group.

The debt-to-equity conversion program which started in 1986 has reduced foreign currency-denominated debt outstanding by $843 million. Meanwhile, debt reduction under other debt conversion schemes such as the payment in pesos to creditor's assignee who invested under Section 11 of Circular 1111 (Excluded Investments), debt-for-asset swaps, debt-for-debt swaps and other novation schemes together amounted to $1,249 million during the same period.

Another major debt reduction program, the debt cash buyback using official foreign funds, was finalized in November 1989. The deal, which was actually implemented on January 3-4, 1990, resulted in the cancellation of debts owed to foreign banks totalling about $1.34 billion.

PHILIPPINE ASSISTANCE PROGRAM

The Philippine Assistance Program (PAP), which was developed in June 1988 in response to the Multilateral Aid Initiative proposed by the US government, is a multilateral program of economic assistance which has received strong support from several industrialized nations and international financial institutions. The main objective of the PAP is to mobilize the goodwill of foreign governments for the Philippines and their interest in providing financial assistance to help sustain the recovery process and propel the economy to self-sustained growth essential

Table 8. STATUS REPORT: DEBT-TO-EQUITY CONVERSION PROGRAM
As of End-December 1989
(Value in Million US Dollars)

Item	Number of Applications	Value
I. Applications Received	456	2,100.697
By Investment Classification		
Preferred (Schedule 2)	402	1,638.416
Less Preferred (Schedule 3)	54	462.281
II. Approved Applications	401	1,485.214[1]
By Investment Classification		
Preferred (Schedule 2)	355	1,168.837
Less Preferred (Schedule 3)	46	316.377
By Type of Debt Paper		
CB Debt Paper	186	671.599
Private Sector Debt Paper	212	702.461[2]
Other Public/Private Sector Debt Paper	3	91.640[3]
Fresh Money	0	19.514
III. Closed Transactions (total)	244	765.971
CB Debt Paper	168	533.168
Private Sector Debt Paper	70	147.861
Public Sector Debt Paper	6	54.173
Fresh Money	0	30.769[4]
IV. Pending Applications	5	37.242
V. Denied Applications	14	220.288[5]
VI. Inactive Applications	13	19.107
VII. Withdrawn Applications	16	86.846[6]
VIII. Applications Outbidded	7	252.000

[1]Includes 138 applications and portions of 72 applications totalling US$586.852 million whose approval have elapsed.
[2]Includes US$37.286 million corresponding to the approved portion of 21 applications, to be funded out of the proceeds of private corporate sector non-trade debt.
[3]Portion of 47 applications which may be funded out of the proceeds of other public/private sector debt.
[4]Portion of 24 applications funded through foreign exchange inward remitted and sold to the Central Bank for pesos.
[5]Includes US$39.359 million corresponding to the disallowed portion of 15 applications.
[6]Applications which have been formally withdrawn prior to decision thereon by the Central Bank.

Source: Debt Restructuring Department, Central Bank of the Philippines

Table 8A. DEBT REDUCTION UNDER VARIOUS SCHEMES 1986-1989 (In Million US Dollars)

Scheme	1986	1987	1988	1989	Total
1. Debt-to-Equity Conversion	15	267	635	181	1,098
a. Registered[1]	15	267	456	105	843
b. Excluded Investment[2]			179	76	255
2. Debt-for-Asset Swap			109	122	231
3. Debt-for-Debt Swap		3	12	239	254
4. Other Novation Schemes (i.e., peso prepayment, offsets, donations)	66	180	175	88	509
Total	**81**	**450**	**931**	**630**	**2,092**

[1]Includes $110 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.

in strengthening the country's restored democratic institutions. Assistance is extended in the form of grants and credits as well as debt relief through debt rescheduling and debt reduction schemes. A total of about $3.5 billion in the form of loans and grants have so far been pledged by a number of bilateral and multilateral institutions. The financial assistance that can be generated through the PAP are to be used primarily to fund economically viable, catalytic projects that are self-sustaining, have high employment content and export potential and can provide long-term benefits to the economy.

DOMESTIC SECTOR

MONEY, CREDIT AND INTEREST RATES

Reserve Money

Reserve money (RM) growth during the year responded to the economy's increased credit demand but this had to be tempered in view of rising inflationary pressures.

In 1989, RM registered a net cumulative increase of P25.6 billion or 38.0 percent (Table 9). On the liability side, this arose from the expansion in both currency issue (net of cash in Treasury vault) of P13.5 billion and in deposit money banks' (DMBs') reserve balances with the CB of P12.1 billion.

For the first three quarters of the year, RM showed a net cumulative decline of P0.5 billion from the level obtained as of end-1988. This resulted from a confluence of factors affecting the demand for and supply of RM. During the first quarter, the seasonal reflow of currency holdings into the banking system effected a drop in RM from the demand side. On the other hand, during the second and third quarters, the monetary authorities adopted contractionary monetary measures to limit RM growth and thereby reduce inflationary pressures which threatened to undermine efforts to boost investments. These contractionary measures included the rise in the rediscount rate, upward changes in the reserve requirement on long-term deposit instruments starting in June 1989 and the slowdown of fund releases under the New Disbursement Scheme (NDS). These measures were complemented with the weekly auction of Treasury bills in the amount of P6 billion, which for a time was raised to P10 billion in August, and the continuance of CB's aggressive term and overnight borrowings through the reverse repurchase facility.

On the other hand, the fourth quarter of 1989 saw RM registering a record high quarter increase of P26.1 billion or 39.1 percent in contrast with the increases of P11.3 billion and P7.7 billion recorded during the same period in 1988 and 1987, respectively. The growth in RM in October and November totalled P13.3 billion and came mainly from the net drawdown in National Government deposits with CB to service maturing Treasury bills and meet the financing requirements of a relatively higher budget deficit, and CB's foreign exchange purchases from banks as the latter shifted their liquidity position to local currency in preparation for cash withdrawals for the holiday season. In December, RM recorded an even higher monthly increment of P12.8 billion to reach P92.9 billion by the end of the year. This increase, as reflected in the liability side of the CB balance sheet, was in the form of currency issue which rose by P13.0 billion due to greater demand for currency in view of uncertainties brought about by destabilizing political events in the early part of December and the seasonal increase in demand for cash during the holiday season. There was also an increased preference for more liquid assets in pursuance of yearend "window-dressing" activities which discouraged the rollover of maturing reverse RPs with CB.

Domestic Liquidity

Domestic liquidity or M3 reached P253 billion at end-1989 to post an annual increase of P54.5 billion or 27.5 percent which was an acceleration from the P36.6 billion or 22.6 percent expansion during 1988 (Table 10). Accounting

Table 9. SOURCES OF RESERVE MONEY MOVEMENTS
As of End 1988-1989
(In Million Pesos)

Item	December 1989	December 1988	Percent Change
I. Reserve Money	92,876	67,282	38.0
1.0 Currency Issued Net of Cash in Treasury Vault	59,747	46,281	29.1
2.0 Bank Deposit Balances with the Central Bank	33,129	21,001	57.7
II. Net Foreign Assets - Monetary Authorities (MA)	-108,236	-121,581	-11.0
1.0 Net International Reserves - MA	3,573	-7,999	-144.7
1.1 Gross International Reserves	53,228	45,041	18.2
1.2 Short-term Foreign Liabilities	-49,655	-53,040	-6.4
2.0 Medium- and Long-term Foreign Liabilities	-111,809	-113,582	-1.6
III. Net Domestic Assets - MA	201,112	188,863	6.5
Of Which:			
1.0 Net Credits to the National Government (MA)	-29,529	-17,300	70.7
of which:			
National Government Deposits	-69,556	-58,218	19.5
2.0 Assistance to Financial Institutions	14,980	15,011	-0.2
of which:			
Overdrafts	13,038	12,903	1.0
3.0 Regular Rediscounting	5,752	5,083	13.2
4.0 CB Bills/Reverse RPs	-4,460	-9,726	-54.1
5.0 Forward Cover Differential	22,594	22,574	0.1
Memo Items:			
Reserve-Eligible Government Securities	4,500	4,500	0.0
Base Money	97,360	71,782	35.6

Source: Accounting Department, Central Bank of the Philippines solely for the increase in M3 was the substantial growth in base money particularly towards yearend (base money is defined as reserve money plus reserve eligible government securities and any reserve deficiency of deposit money banks). On the other hand, the base money multiplier registered a decline from 2.765 in 1988 to 2.606 in 1989. This was due to the increase in the demand for currency relative to deposits and by the gradual upward adjustment in the required reserve ratio for long-term deposit instruments.

Component-wise, money supply (M1) expanded rapidly by 31.5 percent to outstrip the growth posted a year ago and reached P78.5 billion at yearend. The rapid expansion in M1 was traceable to the accelerated growth of both currency in circulation and demand deposits in the wake of the political uncertainties that developed toward the close of the year which prompted a greater preference for more liquid assets. Specifically, currency in circulation rose by 30.2 percent in 1989 compared to 14.9 percent in 1988. Similarly, demand deposits increased by a higher 34.2 percent during the year under review relative to 11.9 percent in 1988.

Consistent with the shift to more liquid asset holdings, quasi-money, which remained as the major component of M3, posted a decelerated growth of 25.9 percent from a 28.7 percent growth in 1988 and amounted to P171.4 billion or 67.8 percent of M3 at yearend. In particular, savings deposit growth was slightly lower at 27.2 percent in 1989 compared to 27.9 percent in the previous year. Likewise, the rate at which time deposits grew fell to 23.3 percent from 30.2 percent. Meanwhile, deposit substitutes reversed its movement to record a positive annual growth of 13.8 percent to P2.8 billion.

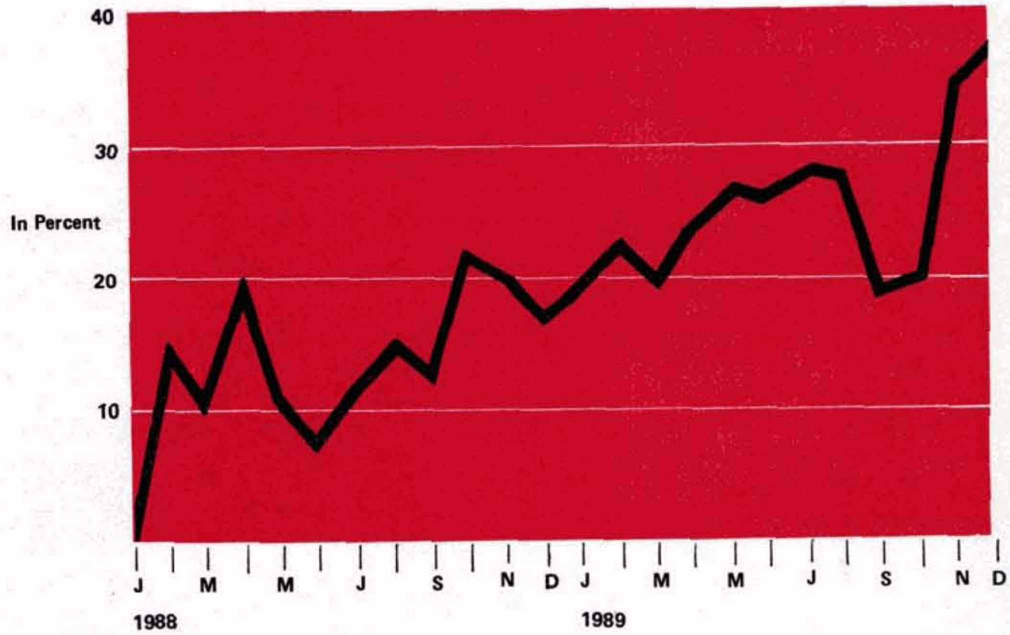
Net Domestic Assets of the Monetary System

The net domestic assets (NDA) of the monetary system continued to grow in 1989, at a rate twice the increment obtained in the previous year. Thus, at the end of December 1989, NDA reached P373.7 billion, an annual increase of P47.5 billion or 14.6 percent (Table 11). The current year's expansion in NDA came largely from increased bank lendings.

Net domestic credits of the monetary system which comprised more than one-half of total NDA grew by 21.3 percent. This marked an accelerated growth rate compared to last year's increment. The private sector absorbed the bulk of the system's domestic credits, with an outstanding level of P174 billion. This was P28.6 billion higher than the previous year's total, which movement reflected the increased financing requirements of the various sectors of the economy, particularly the manufacturing, wholesale and retail trade, agricultural, real estate and business services sectors. Similarly, credits to the public sector increased by P6.9 billion at yearend following the increased purchases of Treasury bills by deposit money banks.

By source, deposit money banks (DMBs) provided the bulk of credits, mainly in the form of loans and advances. DMBs' credits recorded a P46.2 billion increase during the year, surpassing the previous year's growth of P30.3 billion. The CB, which was the main source of credit of the public sector, experienced a decline in net credit by P10.7 billion on account of the build-up in National Government deposits with the CB.

Figure 6. **Reserve Money, 1988-1989**
(Monthly Annualized Growth Rate)



Net other assets, another component of NDA, stood at P171.7 billion as of end-December 1989 and accounted for 46.0 percent of total NDA. At this level, net other assets increased by P12.0 billion or 7.5 percent from last year. This could be traced partly to interest payments on CB's foreign and domestic obligations.

Reserve Position of Commercial Banks

Commercial banks were more liquid in 1989 than in 1988. On a monthly average basis, commercial banks' available reserves exceeded the required level throughout the year except in January when a deficiency of P0.1 billion was registered. Banks were most liquid in November and December when their average excess reserves reached peak levels. The notable rise in liquidity of banks during the last two months of 1989 was due to banks' preference for more liquid assets with the approach of the holiday season and to the need to meet withdrawals occasioned by the coup attempt. As of the end-December 1989, the excess reserve position of commercial banks stood at P2.8 billion as compared to P0.5 billion obtained as of end-1988 (Table 12). The relatively more liquid position of commercial banks in 1989 was also evident in the ratios of available and required reserves against their deposit liabilities. Available reserves as a ratio of reservable deposit liabilities were 21.3 percent as against the required reserve ratio of 19.9 percent or an excess reserve ratio of 1.4 percent. In 1988, the excess reserve ratio was only 0.3 percent.

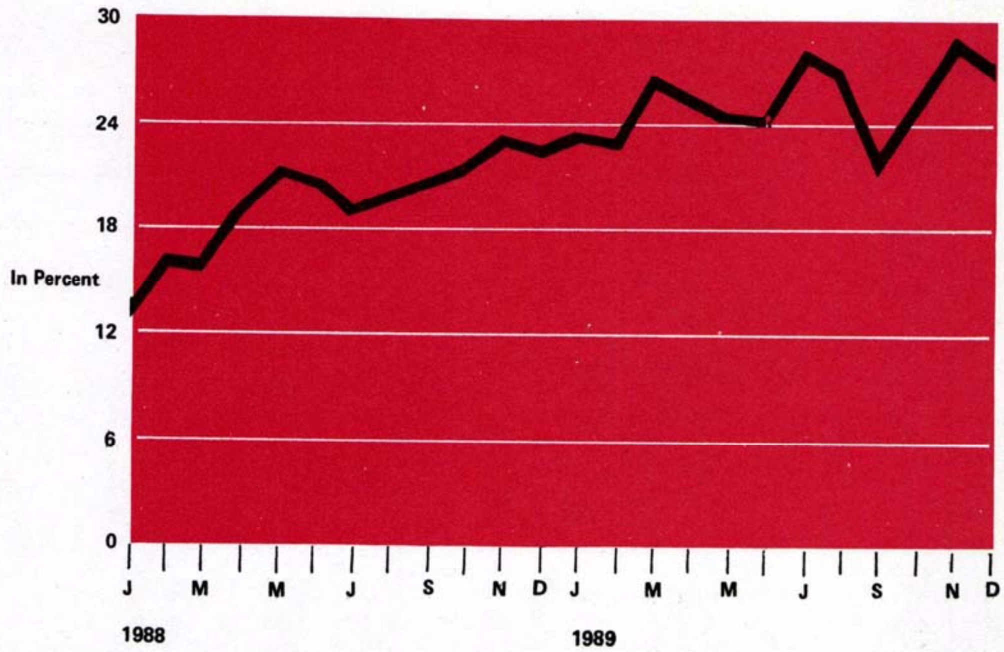
Table 10. **DOMESTIC LIQUIDITY**
As of End 1988-1989
(In Million Pesos)

Item	1989[P] Level	1989[P] Percent Share	1988 Level	1988 Percent Share	Percent Change 1989	Percent Change 1988
Domestic Liquidity	**252,998**	**100.0**	**198,472**	**100.0**	**27.5**	**22.6**
Money Supply	78,527	31.0	59,717	30.1	31.5	13.9
Currency in Circulation	52,924	20.9	40,637	20.5	30.2	14.9
Demand Deposits	25,603	10.1	19,080	9.6	34.2	11.9
Quasi-Money	171,639	67.8	136,267	68.7	26.0	28.7
Savings Deposits	117,386	46.4	92,253	46.5	27.2	27.9
Time Deposits	54,253	21.4	44,014	20.6	23.3	30.2
Deposit Substitutes	2,832	1.1	2,488	1.3	13.8	-30.0

[P]Preliminary

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

Figure 7. **Domestic Liquidity, 1988-1989 (Monthly Annualized Growth Rate)**



Meanwhile, the composition of reserves continued to reflect banks' preference to hold deposit balances with the CB which in 1989 comprised about 75 percent of their total available reserves, exceeding the previous year's 70.0 percent. Banks' deposit balances with the CB, which earn 4 percent interest, rose to P31.9 billion, up by P11 billion or 52.6 percent from P20.9 billion in 1988. Reserves held as cash in banks' vault similarly registered an increase of 37.3 percent to reach P6.9 billion and comprised 16.1 percent of total reserves.

Outstanding Loans/Credits

Central Bank. As of end-1989, outstanding CB credits amounted to P76.7 billion, higher by P0.8 billion or 1.0 percent than the outstanding level at end-1988. Loans and advances, which comprised 86.3 percent of total CB credits, increased by P1.4 billion or 2.3 percent to P66.1 billion. The expansion was largely attributed to increased advances to the public and private sectors under the various debt restructuring schemes (33.4 percent) even as credit accommodations under the other CB facilities declined such as APEX (by 29.4 percent), repurchase agreements (26.0 percent) and the IBRD (5.1 percent). On the other hand, CB investment in government securities, which accounted for the remaining 13.7 percent of outstanding credits, dropped by P0.7 billion or 6.1 percent to P10.5 billion on account of net sales and redemptions of Treasury bonds. Of the total

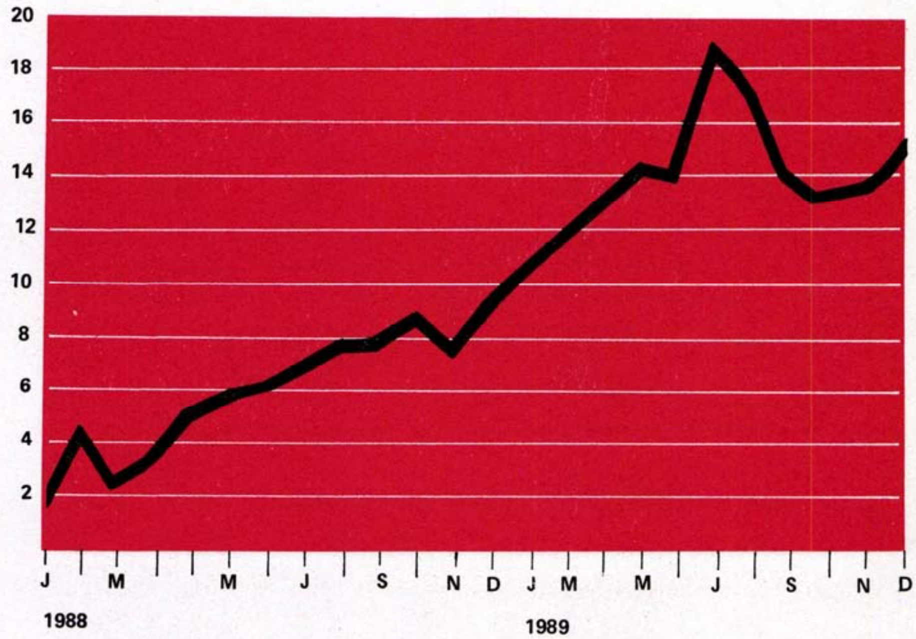
Table 11. NET DOMESTIC ASSETS OF THE MONETARY SYSTEM[1]
As of End 1988-1989
(In Million Pesos)

Item	1989[P]	1988	Percent Change
Net Domestic Assets	373,694	326,206	14.6
I. Net Domestic Credits	201,970	166,462	21.3
A. By Source			
1. Monetary Authorities	-14,786	-4,068	70.7
Loans and Advances	49,969	49,123	1.7
Domestic Securities	4,819	5,027	-4.1
Less: Government Deposits	-69,574	58,218	-219.5
2. Deposit Money Banks	216,756	170,530	27.1
Loans and Advances	171,954	141,812	21.3
Domestic Securities	59,472	42,665	39.4
Less: Government Deposits	-14,670	13,947	-205.2
B. By End-User			
1. Public	28,010	21,076	80.6
2. Private	173,960	145,386	19.7
II. Net Other Items	171,724	159,744	7.5
Of Which: Revaluation		124,986	-

[1]Data reflect the expanded coverage of deposit money banks and other changes in the classification of accounts.
[P]Preliminary

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

Figure 8. **Net Domestic Assets, 1988-1989 (Monthly Annualized Growth Rate)**



securities holdings, Treasury bonds accounted for 51 percent; Treasury notes, 31 percent; Treasury bills, 8.6 percent; and combined PW and ED bonds, Capital Treasury bonds and notes, and others, 9.4 percent.

The bulk or 67.7 percent of outstanding CB credits went to the public sector. At P51.9 billion, public sector credits fractionally dropped by 0.7 percent from the previous year's outstanding level. This was on account of the 2.9 percent reduction in outstanding credits to the National Government even as outstanding loans to government financial institutions and other government entities posted increases of 56.7 percent and 18.3 percent, respectively. Meanwhile, credits to the private sector, which accounted for the remaining 32.3 percent or P24.8 billion of total outstanding CB credits, grew by 4.9 percent over the end-1988 balance. Of the total, outstanding loans to private banking institutions accounted for 96.8 percent. These came in the form of rediscount loans and accommodations under other CB credit facilities. The remaining 3.2 percent of CB credits to the private sector went to corporations, representing advances made by the CB mainly for interest payments on restructured foreign obligations.

Commercial Banks. At P290.4 billion as of end-September 1989, outstanding loans of commercial banks rose by 125.5 percent from the previous year's level, reflecting the sustained increase in economic activity. Manufacturing remained the biggest recipient of commercial bank credits, absorbing 39.2 percent of total loans outstanding. Credits to the manufacturing sector posted an end-September 1989 balance of P113.8 billion, more than double their level the year

Table 12. **AVERAGE RESERVE POSITION OF COMMERCIAL BANKS**[1]
1988-1989
(In Million Pesos)

Item	1989	1988	Percent Change
Deposit Liabilities	**199,425.0**	**158,280.1**	**26.0**
Available Reserves	42,566.9	29,833.9	42.7
Deposit Balances with the Central Bank	31,908.9	20,916.2	52.6
Cash in Banks' Vaults	6,868.2	5,002.4	37.3
Government Securities	3,771.9	3,903.6	-3.4
Foreign Balances	17.9	11.7	53.0
Required Reserves	39,755.1	29,322.5	35.6
Excess/Deficiency (-)	2,811.8	511.4	
Liquidity Ratio (In Percent of Deposit Liabilities)			
Available Reserves	21.3	18.8	
Required Reserves	19.9	18.5	
Excess/Deficiency (-)	1.4	0.3	

[1]Simple average of weekly averages reflecting the expanded coverage of deposit money banks and other changes in the classification of accounts.

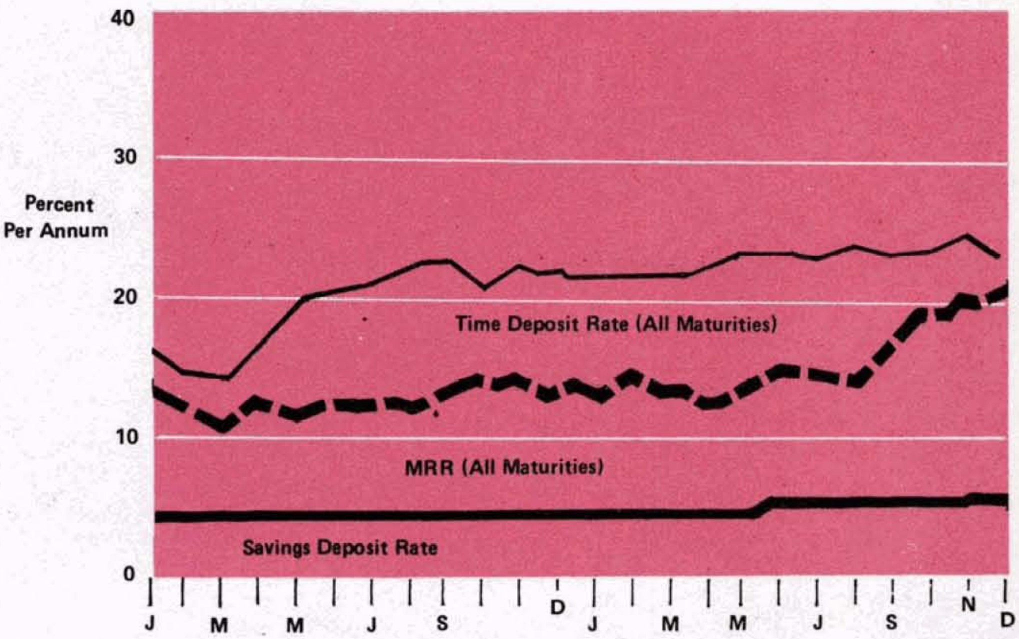
Source: Department of Economic Research-Domestic, Central Bank of the Philippines

before. The balance was distributed as follows: trade loans (16.2 percent); financing, insurance and business services (10.0 percent); past due items, items in litigation, domestic and foreign bills (7.8 percent); agriculture, fishery and forestry (7.3 percent); mining and quarrying (5.6 percent); community, social and personal services (4.5 percent); transport, storage and communication (3.5 percent); real estate (3.3 percent); and electricity, gas and water (0.9 percent).

Classified by region, the National Capital Region (NCR) absorbed the largest share or 83.9 percent of the total commercial banks' loans outstanding, increasing by 157.0 percent from the end-September 1988 level to P224.7 billion. The rest of the regions likewise posted notable increases except Regions I and V.

Thrift Banks. As of end-September 1989, outstanding loans of thrift banks stood at P19.1 billion, up by 39.5 percent or P5.4 billion from the end-September 1988 level. The expansion was largely accounted for by the growth in con-

Figure 9. **Borrowing Rates of Commercial Banks 1988-1989**

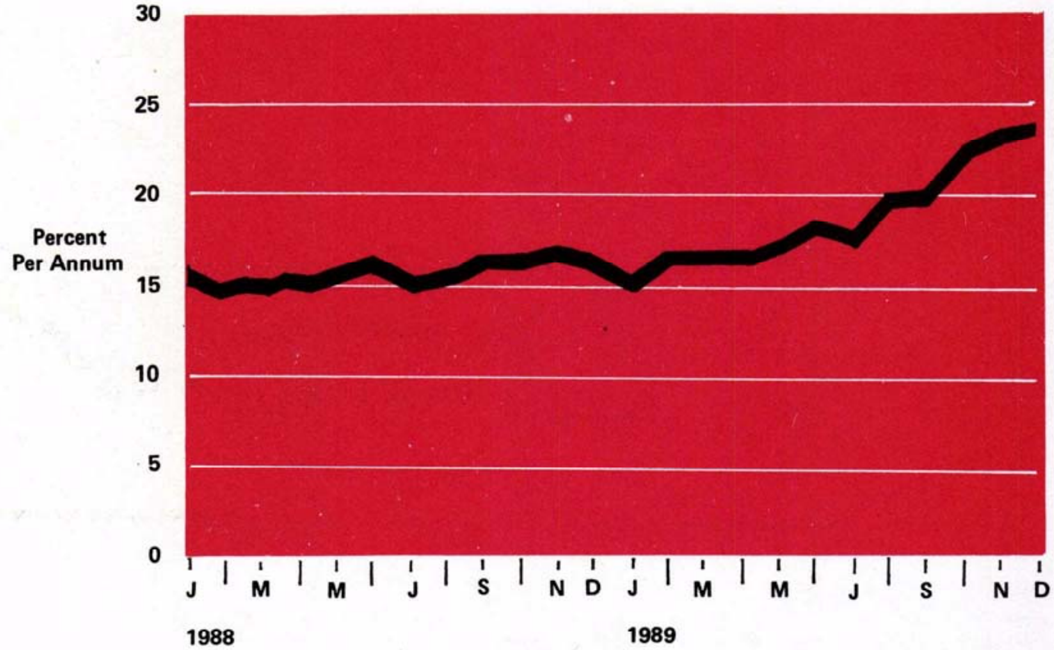


sumption loans which went up by 165.9 percent. This was followed by commercial loans which grew by 49.0 percent, industrial loans (37.8 percent), real estate loans (34.3 percent), trading account securities and past due loans (37.0 percent) and agricultural loans (0.8 percent).

Specialized Government Banks. Credits outstanding of specialized government banks posted an end-September 1989 balance of P13.0 billion, higher by P3.0 billion or 29.6 percent than their comparable level in 1988. Of this total, P4.7 billion (36.5 percent) were channelled to the industrial sector. The remaining P8.3 billion were distributed as follows: agricultural loans, P4.1 billion (31.5 percent); call loans, P3.4 billion (26.5 percent); commercial loans, P0.5 billion (4.0 percent); real estate loans, P0.1 billion (1.0 percent); and, consumption loans, P0.06 billion (0.5 percent).

Rural Banks. Loans outstanding of rural banks aggregated P8.7 billion at end-September 1989, up by P0.9 billion or 11.6 percent from the end-September 1988 level. The agricultural sector remained the major beneficiary, accounting for 69.4 percent of total rural bank credits while the industrial sector got the least share of 3.7 percent.

Figure 10. **Lending Rates on Secured Loans, 1988-1989 (All Maturities)**

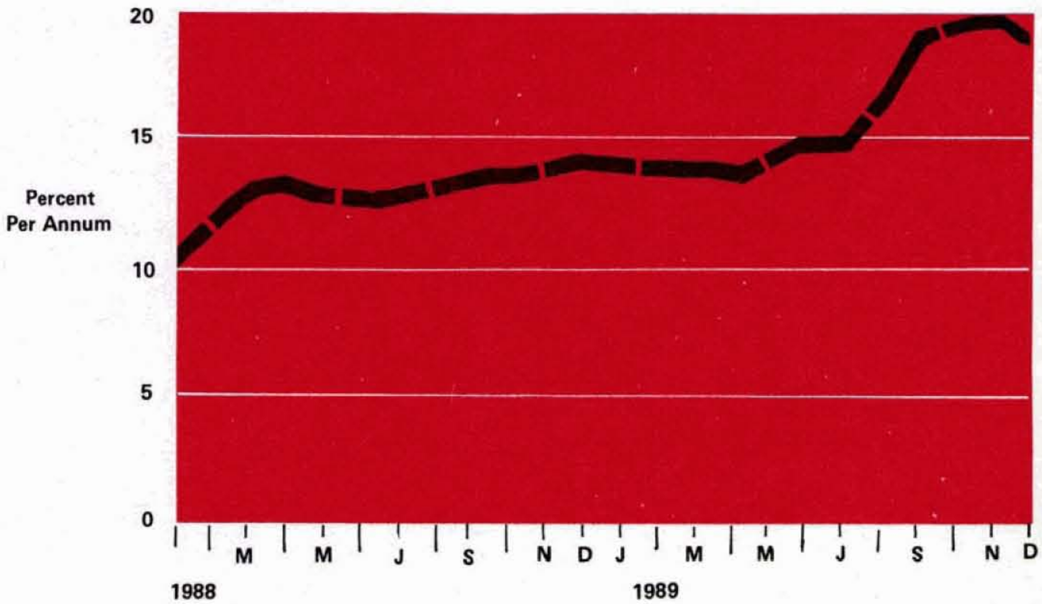


Domestic Interest Rates

The general uptrend in interest rates continued in 1989 reflecting the sustained increase in the demand for funds by both public and private sectors and the cautious stance of the monetary authorities particularly during the second half of the year to stem liquidity growth and contain the acceleration in domestic inflation. In real terms, all instruments, except savings deposits, yielded higher positive returns as the average rate of inflation hit the double-digit mark at 10.6 percent from 8.8 percent in 1988.

Commercial Bank Borrowings and Lending Rates. Compared to the previous year, nominal interest rates on all borrowing and lending instruments of commercial banks were higher in 1989. The borrowing rate on time deposits across all maturities substantially rose by 3.6 percentage points to 17.0 percent. Correspondingly, the new Manila Reference Rate (MRR) based on the banks' combined transactions in promissory notes and time deposits averaged 16.3 percent for all maturities, higher by 3.9 percentage points than the year-ago level of 12.4 percent. The interbank call loan rate (IBCL) which measures the cost of overnight funds in the market rose from 14.2 percent in the previous year to 15.4 percent. This movement followed the upsurge in the demand for overnight funds among banks particularly during the second half of the year largely as a result of the series of upward adjustments in the reserve requirement on long-term deposits and deposit substitutes. The average nominal yield on savings deposits, meanwhile, increased fractionally by 0.3 percentage point to 4.4 percent. On the lending side of the market, the strong demand for credit together with the similar uptrend in the average cost of funds pushed commercial banks' rates on secured loans across all maturities from 16.0 percent to 19.5 percent.

Figure 11. **Rates on Treasury Bills, 1988-1989**
(All Maturities)



Rates on Treasury bills/Central Bank bills. The average interest rate on Treasury bills for all maturities rose to 19.7 percent, up by 4.2 percentage points as the Government stepped up its flotation of securities not only to finance its deficit but also to support the CB's open market operations. Similarly, the nominal yield of CB bills primarily intended for the debt-to-equity conversion program rose significantly by 3.6 percentage points to 18.3 percent.

Central Bank Lending Rates. Reflective of the movement in the market rates, lending rates of the CB's credit facilities were higher than their comparable year-ago levels. Term repurchase agreements reached a high average rate of 31.3 percent, up by 10.8 percentage points from the previous year's 20.5 percent. Likewise, the nominal yield on term reverse repurchase agreements increased by 4.5 percentage points to 17.6 percent. The average rates on overdrafts at 22.5 percent and emergency loans and advances at 20.3 percent marked increases of 1.2 percentage points and 3.9 percentage points, respectively. The rediscount rate was raised to 12.0 percent in June 1989 from 10.0 percent to align it with market rates.

FINANCIAL SYSTEM

Number and Resources of Financial Institutions

The financial system of the Philippines continued to grow in size and in number under a policy environment of deregulation, liberalization and greater competition.

Table 13. TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM[1]
As of End 1988-1989
(In Million Pesos)

Institution	1989[p]	1988	Percent Change
Total	629,893.4	523,143.3	20.4
Commercial Banks*	420,410.0	342,312.0	22.8
Thrift Banks	32,519.6	24,932.7	30.4
Savings Banks	19,689.4	14,165.4	39.0
Private Development Banks	8,527.4[a]	6,698.6	27.3
Stock Savings & Loan Associations	4,302.8	4,068.7	5.8
Specialized Government Banks	13,688.6	13,790.8	-0.7
Rural Banks	12,269.1[b]	11,018.2	11.4
Non-Bank Financial Institutions	151,006.1	131,089.6	15.2

[1]Excluding Central Bank
*After transfer of selected assets and liabilities of one commercial bank and one specialized government bank to the National Government.
[a]As of November 1989
[b]As of September 1989
[p]Preliminary

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

Aggregate resources of the financial system grew by P106.8 billion or 20.4 percent over the previous year to reach P630.0 billion (Table 13). The major cause of the expansion was the P78.1 billion growth in the resources of commercial banks following the marked increase in their loans and investments. All major bank groups except for specialized government banks contributed to the annual increase in the financial system's total resources.

Commercial banks continued to comprise the bulk or 66.7 percent of the aggregate resources of the financial system, followed by non-bank financial institutions (24.0 percent), thrift banks (5.2 percent), specialized government banks (2.2 percent) and rural banks (1.9 percent).

The number of financial institutions (head offices, branches and extension offices) likewise increased by 241 units or 3.5 percent from end-December 1988 to reach a total of 7,157 units at the close of 1989. This was largely on account of the establishment of new non-bank offices and, to a lesser extent, of the increase in branches of commercial and thrift banks.

With the increase in the number of financial institutions, the total paid-up capital of the financial system rose to P48.0 billion at end-December 1989, P9.8 billion higher than the comparable level a year ago.

Deposit Liabilities of the Banking System

As of end-1989, total peso and foreign currency deposit liabilities of the banking system stood at P276.7 billion, P49.9 billion or 22 percent higher than the end-1988 level. The expansion in deposits was indicative of the marked improvement in income levels following the implementation of the Minimum Wage and Public Offices Salary Standardization Acts and the continuing confidence of the public in the banking system. On a monthly basis, demand and savings deposits showed fluctuating movements while time deposits consistently exhibited an uptrend during the first eleven months of the year largely due to the more attractive rates offered by banks on this type of deposit. On an annual basis, time deposits recorded an expansion of 30.3 percent (P22.7 billion), demand deposits, 24.8 percent (P6.0 billion) and savings deposits, 16.6 percent (P21.2 billion).

Commercial banks registered the highest expansion in deposit liabilities at P46.9 billion, followed by thrift banks and rural banks amounting to P3.3 billion and P0.8 billion, respectively. Meanwhile, specialized government banks' deposit liabilities declined by P1.2 billion.

Of the total deposit liabilities of the banking system, the bulk or 88.8 percent was accounted for by commercial banks, 8.1 percent by thrift banks, 2.2 percent by rural banks and 0.9 percent by specialized government banks.

Foreign Currency Deposit System

As of end-1989, the total resources of Foreign Currency Deposit Units (FCDUs) stood at US$3,655 million, an expansion of $311 million or 9.3 percent from the previous year's level.

Foreign currency deposits grew by $567 million or 38.3 percent to $2,049 million due to the increases in all types of deposits, namely, time deposits by $529 million, demand deposits, $28 million and savings deposits, $10 million. Bills payable rose to $429 million for the year, $50 million or 13.2 percent higher than the end-1988 level while interbank loan receivables registered a marked improvement of $223 million or 177.0 percent to reach $349 million.

Compared to end-1988, placements/lendings of FCDUs which stood at $3,307 million in end-1989 were higher by $793 million as a result mainly of the $765 million rise in placements with banks and the $28 million growth in placements with non-banks. Of the $2,378 million FCDU placements with banks, placements with foreign banks recorded a higher increment of $613 million compared with those of local banks ($152 million) in view of the higher deposit rates offered by foreign banks.

FCDUs' operations for the year resulted in net earnings after taxes amounting to $145 million, an improvement of $16 million or 12.4 percent from the end-1988 level.

Offshore Banking System

The year 1989 saw an expansion in the scope of onshore activities of offshore banking units (OBUs). Among other things, OBUs were allowed to accept deposit accounts to service inward foreign exchange remittances of overseas contract workers and to meet administrative expenses of foreign multinational companies.

Gross resources of the 21 OBUs which amounted to $2,749 million as of end-1989 dropped by $242 million or 8.1 percent from the previous year's $2,991 million. The decline was due primarily to the $267 million drop in interbank deposits/borrowings which was only partly offset by the increase in non-bank deposits of $18 million mostly from non-residents.

As of end-1989, outstanding placements and lendings of OBUs totalled $2,634 million reflecting an annual decline of $257 million due to decreases in placements with banks and non-banks by $176 million and $81 million, respectively.

Gross earnings of OBUs at $330 million fell by $88 million, reflecting the drop in offshore and onshore earnings amounting to $78 million and $10 million, respectively. Net income after tax at $59 million, however, rose by $20 million or 51.3 percent due to lower interest expenses.

MONEY AND CAPITAL MARKETS

Money Market

Total volume of money market transactions in 1989 stood at P905.0 billion, higher by P124.9 billion or 16 percent over that of the previous year. The growth in money market transactions during the year, however, was not as high as that of the previous year which recorded a significant 69.3 percent increment.

Trading of Treasury bills in the secondary market and interbank call loans constituted the bulk of money market transactions, accounting for about 40 percent each of the total volume. In particular, the volume of Treasury bills transacted in the secondary market reached P361.1 billion while interbank call loans totalled P360.9 billion, representing increases of 22.3 percent and 18.9 percent, respectively. In the commercial paper (non-financial) market, the volume of transactions rose by 24.3 percent to P20.9 billion. The volume of other government securities transacted similarly increased by 40.4 percent to reach P78.3 billion.

On the other hand, transactions involving repurchase agreements with government securities as collateral dropped by 12.8 percent, a reversal of last year's increment of 313.4 percent. The slowdown in the utilization of repurchase agreements in the money market could be attributed to the rise in banks' deposit liabilities during the year which became their major source of funds for lendings and investments.

Meanwhile, transactions involving promissory notes as well as repurchase agreements on private securities continued to follow the same decelerating trends registered in the previous year.

Interest rates on the various money market instruments increased in 1989 following the general trend in market rates. Increments were recorded from a low of 0.6 percentage point (interbank call loan rate) to a high of 9.5 percentage points (rates on repurchase agreements on government securities). The WAIR of

Table 14. CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATIONS, BY INDUSTRY 1988-1989 (In Million Pesos)

Industry	1989	1988	Percent Change
Total	13,158.0	10,669.8	23.3
Agriculture, Fishery and Forestry	340.1	289.2	17.6
Mining and Quarrying	231.1	92.6	149.6
Manufacturing	2,616.7	1,933.3	35.3
Construction	736.1	709.0	3.8
Electricity, Gas and Water	2.8	9.6	-70.8
Wholesale and Retail Trade '	3,522.2	2,965.2	18.8
Financing, Insurance, Real Estate and Business Services	4,201.0	3,385.0	24.1
Transportation, Storage and Communication	593.3	441.2	34.5
Community, Social and Personal Services	914.7	844.7	8.3

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

repurchase agreements on government securities rose to 28.9 percent. Likewise, the rates on repurchase agreements on private securities reached 17.0 percent from 12.3 percent. The WAIR on commercial papers (non-financial) and Treasury bills posted increments of 3.4 percentage points and 3 percentage points, respectively, while rates on promissory notes and other government securities recorded increases of less than 3 percentage points each.

Capital Investments

Total capital investments of new business organizations as of end-1989 posted a 23.3 percent (or P2,488.2 million) increase over the end-1988 level to reach P13,158 million (Table 14). The growth this year, which followed a similar upturn during the previous year, reflected the incentive provided by the substantial increase in aggregate demand during the period. Corporations which represented

18.7 percent of the total number of newly-registered firms accounted for the bulk or 59 percent (P7,817.5 million) of aggregate paid-up capital. On the other hand, single proprietorships and partnerships which accounted for 78.5 percent and 2.8 percent of newly registered business organizations contributed 38.4 percent and 2.1 percent of total capital investments, respectively. In terms of annual growth, capital investments of corporations grew by 38.1 percent; partnerships by 19.7 percent; and single proprietorships by about 6.0 percent.

By nationality, Filipinos remained the principal investors, contributing P10,972 million or 83.4 percent of the total capital investments of newly-registered firms, followed by Chinese and Japanese investors who shared P728.2 million (or 5.5 percent) and P370.3 million (or 2.8 percent), respectively.

By region, the bulk or 87.6 percent of the new investments went to the National Capital Region which remained the center of business activity. It may be noted that Central Luzon which absorbed 3.1 percent of total capital investments in 1988 received a smaller share of 2.6 percent in 1989.

During the period under review, 58.7 percent of capital investments were channelled to the combined finance, insurance, real estate and business services sector and the wholesale and retail trade sector. In terms of growth, the mining and quarrying sector posted the highest increment (149.6 percent) due to the rise in world prices of metals. This was followed by the transportation, storage and communication sector which registered a 34.5 percent increase.

Stock Market

Stock market trading in 1989 was generally bullish as the combined transactions at the Makati and Manila Stock Exchanges registered a 68.9 percent growth in aggregate volume turnover from the previous year to 456.3 billion shares valued at P53.8 billion. The resurgence in investors' confidence brought about by strong corporate earnings in the business sector and the general upturn in metal prices during the year as well as the impetus drawn by the listing of a number of new issues in June at the local exchange and the listing of the \$60 million Philippine Fund in the New York Stock Exchange in November contributed largely to the brisk trading activity during the period. The growth in the total volume and value of stocks traded this year could have been much higher had it not been for the unsettling events that occurred during the first week of December which adversely affected stock trading toward the close of the year.

Commercial and industrial (CI) issues, while contributing only 0.5 percent or 2.3 million shares to total volume traded, accounted for the bulk or 60 percent of the total value of transactions. This year's aggregate volume and value of CI issues traded were threefold and twofold higher than the corresponding volume and value traded in 1988.

The mining sector which accounted for 133.4 million shares or 29.2 percent of total volume turnover registered an aggregate value of P13.0 billion. Trading in mining issues showed a 57.9 percent and 48.5 percent growth from the volume and value of mining issues traded a year ago as world prices of metal products rose steadily during the year.

Trading activities in oil issues remained active during the year. This was reflected in the 73.2 percent or 135.5 billion shares increase in issues traded in 1989 compared with those in 1988, which at 320.6 billion shares accounted for 70.3 percent of total volume transactions in 1989. The aggregate value of these stocks rose by 136 percent to P8.7 billion in 1989 as share prices surged following encouraging developments in oil drilling operations.

PUBLIC FINANCE

Cash Operations of the National Government

National Government cash operations for 1989 resulted in a budgetary deficit of P19.0 billion, P4.2 billion or 18.0 percent lower than the deficit in 1988. The deficit to GNP ratio dropped to 2.0 percent in 1989 from the 2.8 percent ratio in 1988 (Table 15).

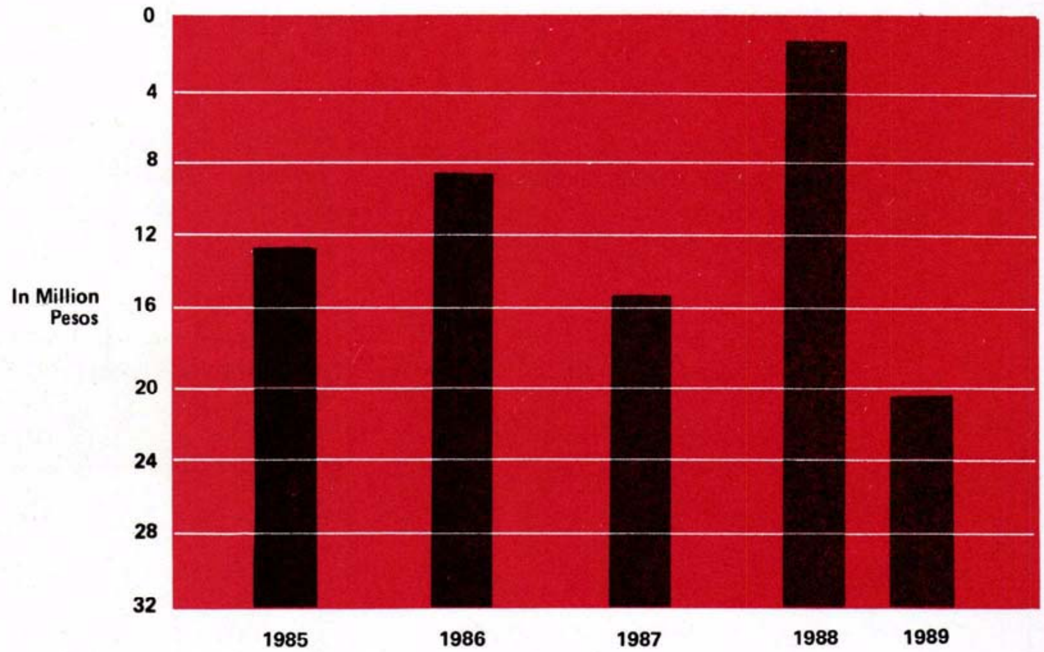
Table 15. **NATIONAL GOVERNMENT CASH OPERATIONS 1988-1989 (In Million Pesos)**

Item	1989[p]	1988
I. Revenues	152,690	112,861
Tax Revenues	122,393	90,352
Non-Tax Revenues	30,297	22,509
II. Expenditures	171,733	136,067
Current Expenditures	..	113,595
Capital Expenditures	..	15,233
Net Lending/Equity	5,868	7,239
III. Surplus/Deficit	-19,043	-23,206
Percent of GNP	-2.0	-2.8
IV. Financing	19,043	23,206
Net External Borrowing	7,765	4,242
Net Domestic Financing	11,278	18,964
Banking System	-62	-9,559
Monetary Authorities	-14,109	-19,462
Deposit Money Banks	14,047	9,903
Non-Banking System	11,340	28,523

[p]Preliminary

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

Figure 12. **National Government Deficit**
1985-1989



Total revenues at P152.7 billion was P39.8 billion or 35.3 percent higher than the previous year's collections. Tax revenues, which accounted for 80.2 percent of total revenues, grew by P32.0 billion or 35.5 percent. The improvement in tax collections was traced largely to the increase in excise taxes from fuel and oil resulting from higher oil prices, increased collections from the value added tax (VAT) on imported goods and the implementation of some revenue adjustment measures such as the broadening of the coverage of the fair market value pricing system for imports and the collection of suspended tax payments from copper mines. Non-tax revenues, accounting for 19.8 percent of total revenues, rose by P7.8 billion or 34.6 percent, primarily on account of increased releases from the Economic Support Fund and higher interest income from advances to the government corporations following payment of interest obligations.

Government expenditures during the year aggregated P171.7 billion, an increase of P35.7 billion or 26.2 percent over the 1988 level, reflecting essentially the rise in disbursements for personal services, interest payments and subsidy to government corporations.

During the year, the deficit was financed mainly from net domestic borrowings (P11.3 billion) particularly from the sale of Treasury bills to the nonbank sector. Meanwhile, external borrowings amounted to P7.8 billion, arising from substantial inflows from program loans which were partly offset by the principal payments on direct National Government and National Government-assumed foreign obligations.

Public Internal Debt

As of end-December 1989, the outstanding internal debt of the public sector stood at P237.3 billion, an increase of 14.5 percent from the end-1988 level. The expansion was due to the growth in domestic borrowings of the National Government and the monetary institutions of P30.2 billion and P2.1 billion, respectively.

The National Government's outstanding domestic borrowings at P225.2 billion rose by 15.5 percent due mainly to the increase in the issuance of Treasury securities to finance its budgetary deficit and to help achieve the objectives of the monetary program. Meanwhile, the P2.1 billion increase in domestic borrowings of monetary institutions resulted largely from the issuance of CB notes under the debt-for-notes scheme. The outstanding domestic debt of local governments was maintained at P0.1 billion while that of government corporations at P5.9 billion declined by P2.2 billion following the redemption of maturing security issues.

Of the total outstanding public internal debt at end-1989, the National Government continued to account for the bulk or 94.9 percent, followed by government corporations (2.5 percent), monetary institutions (2.5 percent) and local governments (0.1 percent).

REAL SECTOR

Production

The economy continued to expand in 1989 although at a pace slower than that of the previous year. Total output of goods and services as measured by real Gross Domestic Product (GDP) amounted to P107.5 billion, up by 6 percent from last year's level. Taking into account net factor income from the rest of the world, real Gross National Product (GNP) reached P106.7 billion, posting a 5.6 percent annual increase which was lower than 1988's 6.6 percent. With a 2.3 percent projected growth in population, real per capita GNP was estimated at P1,775, 3.1 percent higher than the previous year's figure.

The economy's decelerated growth in 1989 was a result partly of the higher-than-projected increases in the inflation and interest rates which dampened consumption and investments. On the supply side, declines in the forestry and mining subsectors, as well as the slower growth in the manufacturing sector, contributed to the general slowdown in national production.

Despite the substantial increments in construction (11.6 percent) and durable equipment (27.7 percent) resulting from ongoing expansion activities of various industries, an overall deceleration in the rate of investments from 17.5 percent to 15.6 percent was noted mainly because of the 12.9 percent decline in capital stock levels. Personal consumption expenditures slowed down from a 6.0 percent growth last year to 5.6 percent this year, while government consumption reflected a growth of 7.7 percent from 7.2 percent in 1988 due largely to the expansionary effects of the salary standardization law and other operating expenses. The impact of external trade on output was contractionary as import growth outpaced the rise in exports, resulting in a larger negative trade balance than that registered last year.

Figure 13. **Total Government Expenditures By Use, 1989**

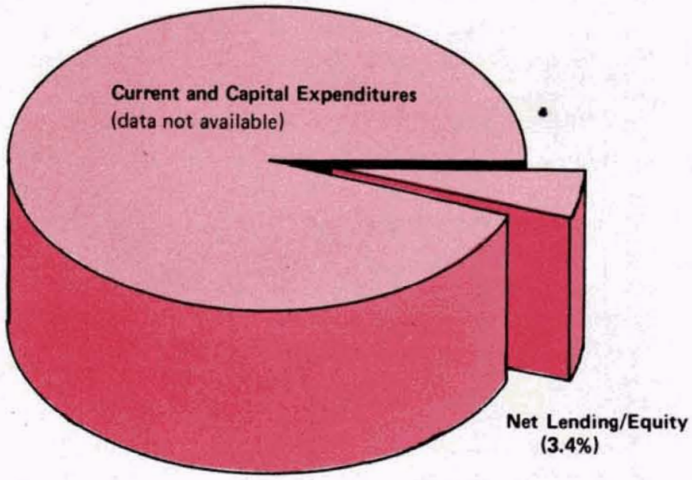


Figure 14. **Total Government Revenues By Source, 1989**

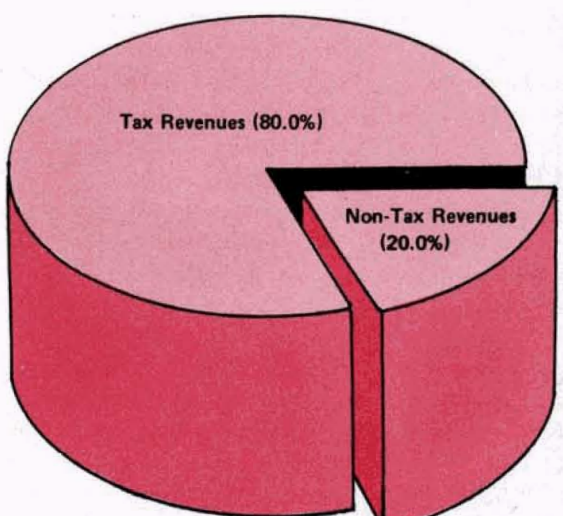
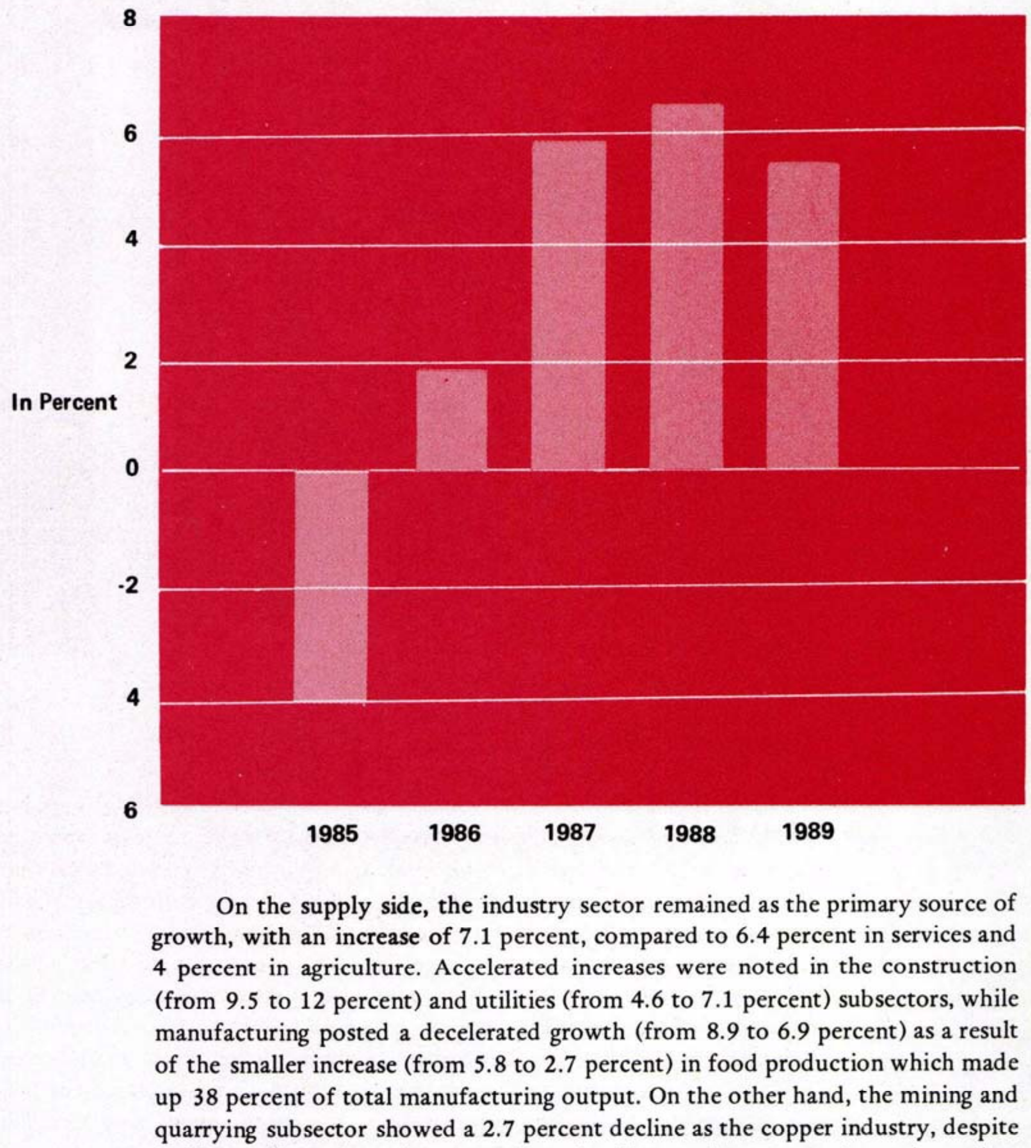


Figure 15. **Gross National Product**
Annual Growth Rates, 1985-1989
(At Constant 1972 Prices)

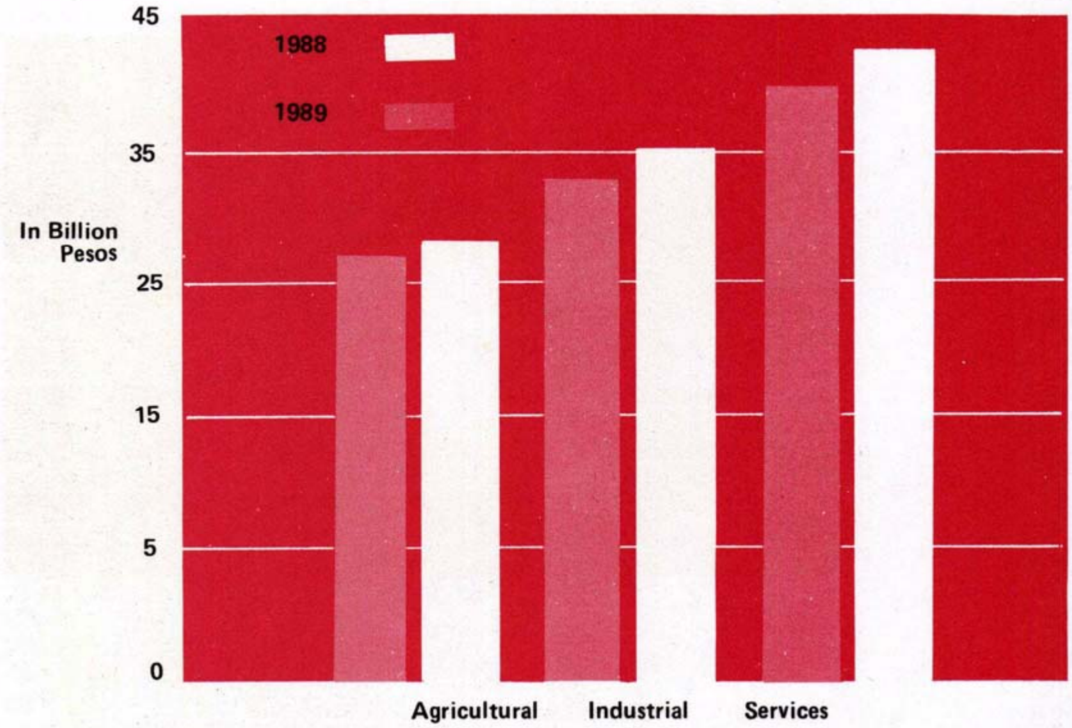


On the supply side, the industry sector remained as the primary source of growth, with an increase of 7.1 percent, compared to 6.4 percent in services and 4 percent in agriculture. Accelerated increases were noted in the construction (from 9.5 to 12 percent) and utilities (from 4.6 to 7.1 percent) subsectors, while manufacturing posted a decelerated growth (from 8.9 to 6.9 percent) as a result of the smaller increase (from 5.8 to 2.7 percent) in food production which made up 38 percent of total manufacturing output. On the other hand, the mining and quarrying subsector showed a 2.7 percent decline as the copper industry, despite stable world market prices, experienced a decrease in output volume due to low milling tonnage and ore recovery.

The services sector, which accounted for 40 percent of total domestic production, grew at a sustained pace of 6.4 percent compared to 6.3 percent last year. The finance and housing subsector led the sector with a 9.8 percent growth as construction demand remained high during the year. All other subsectors showed accelerated increases, except private and government services.

The agriculture, fishery, forestry sector also registered a sustained growth of 4 percent from 3.5 percent in 1988. The growth in the agriculture-fishery subsector was moderated by the 8.3 percent decline in the forestry subsector as logging restrictions continued to be enforced during the period.

Figure 16. **Gross National Product By Industrial Origin, 1988-1989 (Levels at Constant 1972 Prices)**



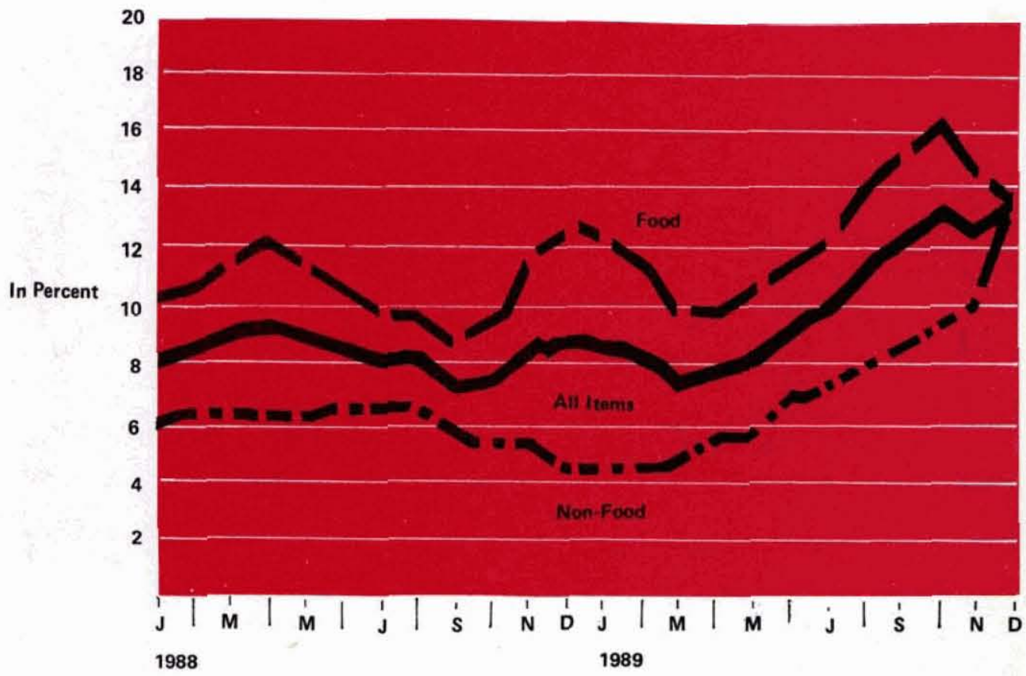
Employment and Wages

Available indicators for 1989 from the Department of Labor and Employment (DOLE) pointed to improved employment and wage rates. As of December 1989, the number of gainfully employed workers reached 21.9 million, raising the employment rate to 90.8 percent. Thus, the unemployment rate declined to 9.2 percent even as the labor force expanded by 677 thousand to 24.1 million.

Government infrastructure spending and private building construction together with manufacturing and trade activities bolstered employment in 1989. Industry-wise, the agricultural sector continued to be the main provider of employment with a share of 45.8 percent of the employed force as of September 1989. The Government livelihood program including self-employment projects was stepped-up to further generate domestic employment. Similarly, government-sponsored job promotion programs, apart from skill-development trainings such as the Shipboard Understudy Program, were revitalized to enhance the job competitiveness of overseas workers.

Another plus factor in domestic employment during 1989 was the sustained sharp drop in strike occurrences. This was due largely to the implementation of the Magna Carta of Labor (R.A. No. 6715) that fostered industrial peace by strengthening workers' rights and institutionalized tripartism as well as the timely settlement of labor disputes. Strike incidences decreased to 197 or 26 percent lower than the comparable level in 1988. Correspondingly, the number of workers involved dropped 25 percent to 57 thousand.

Figure 17. **Monthly Annualized Inflation Rates**
1988-1989



Meanwhile, overseas deployment during the year decreased by 2.6 percent to 458,626 workers, reflecting the slowdown in demand in foreign countries. The number of land-based overseas workers, which constituted 77.5 percent of total workers deployed, suffered a reduction of nearly 8 percent, which was offset nonetheless by the 20.2 percent upsurge in the number of sea-based workers.

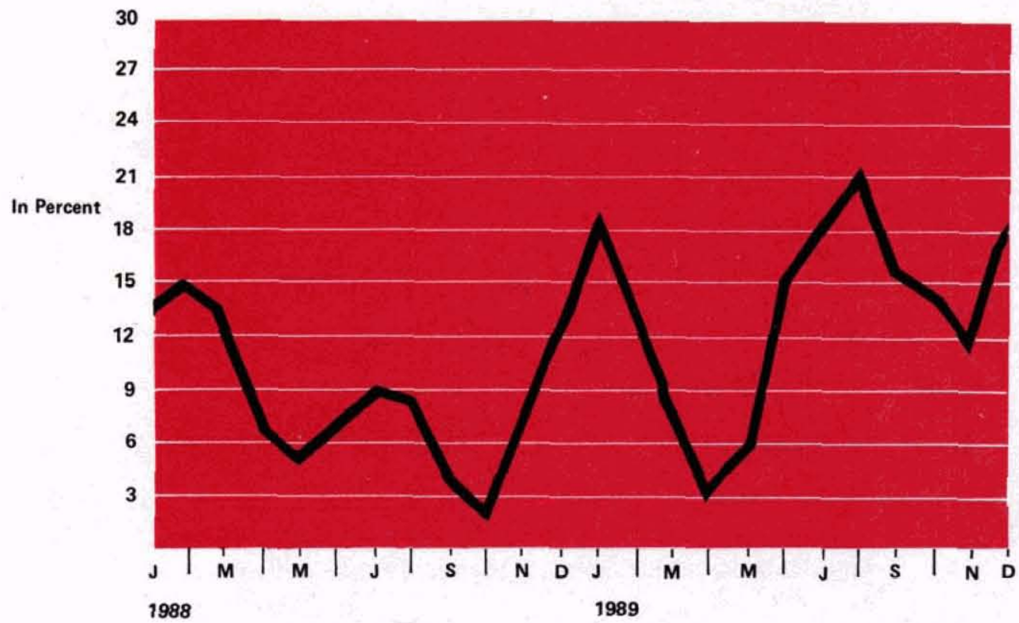
Under the upgraded legislated minimum wage, real wage rates improved in the countryside despite the uptrend in consumer prices. Real legislated wage rates at 1978 prices for 1989 averaged P16.49 for plantation workers and P12.64 for non-plantation workers as against P14.84 and P11.95 in 1988. Similarly, non-agricultural workers in the National Capital Region and outlying regions received correspondingly higher real wages averaging P17.37 and P18.97 as compared to P15.93 and P17.58, respectively, in 1988.

Prices

The annual domestic inflation rate, based on the Consumer Price Index in the Philippines (1978=100), accelerated to an average rate of 10.6 percent in 1989 as compared to 8.8 percent in 1988 and 3.8 percent in 1987. The current rate exceeded the targetted single-digit inflation rate for the year.

The price acceleration reflected the combined effects of food supply bottlenecks caused by adverse weather conditions during the year, the increase in legislated wage rates, hike in the prices of selected petroleum products in August

Figure 18. **Annualized Inflation Rates, 1988-1989**
(Three-Month Moving Basis)
(All Items)



and November which consequently increased transport fares and power rates, and the impact of heightened consumer spending in December due to uncertainties brought about by political events. Toward the end of the year, temporary price ceilings for basic commodities (e.g. rice, milk, sugar, chicken, LPG) were set as part of overall efforts to stabilize economic conditions and prevent further unwarranted price increases that may arise from speculative and profiteering activities of certain segments of the economy.

Viewed by component, the food-beverage-tobacco price index (which represented almost 60 percent of the consumer basket) rose to 12.9 percent from 10.9 percent last year. Except for the decelerated rise in the price index for fruits and vegetables, price accelerations were noted in all food items, namely, corn (30.6 percent); fish (16.9 percent); dairy products (15.1 percent); meat (11.7 percent); and eggs (8.2 percent).

Non-food prices likewise posted a 7.7 percent increase against 6.3 percent in 1988. In particular, the housing and repairs price index exhibited the highest increment at 12.1 percent mainly because of the high cost of construction materials and house rentals. Despite the increase in oil prices which drove up power rates and LPG prices, the fuel-light-water group posted an incremental rate of 4.3 percent, lower than the 6.2 percent last year. Other non-food components such as clothing, services and miscellaneous items registered price accelerations of 6.5 percent, 7.2 percent and 7.1 percent, respectively.

The annual average inflation rate in the National Capital Region (NCR) at 9.6 percent was lower than the 10.8 percent observed in the regions outside the NCR. This development could be attributed to more expensive food prices in the outlying regions.

Table 16. SAVINGS AND INVESTMENTS BY SECTOR
1988-1989
(In Billion Pesos)

Item	1989P	1988
I. Gross Domestic Savings	162.3	146.7
A. Households and Non-Corporate Business	55.8	41.0
B. Private Corporations	93.1	39.6
C. Government	-4.3	48.9
D. Financial Intermediaries	17.7	17.2
II. Less: Real Investment		
A. Including Statistical discrepancy	183.1	141.2
1. Households and Non-Corporate Business	-0.6	76.1
2. Private Corporations	135.5	52.0
3. Government[1]	47.6	12.4
4. Financial Intermediaries	0.3	0.5
5. Statistical discrepancy	0.3	0.2
B. Excluding Statistical discrepancy	182.8	141.0
III. Net Domestic Financial Investment (I-II)	-20.8	5.5
A. Households and Non-Corporate Business	56.0	-35.3
1. Financial Uses/Claims	100.5	-82.2
2. Less: Financial Sources/Liabilities	44.5	-46.9
B. Private Corporations	-42.5	-12.4
1. Financial Uses/Claims	58.2	45.0
2. Less: Financial Sources/Liabilities	100.7	57.4
C. Government[1]	-51.9	36.5
1. Financial Uses/Claims	-35.1	146.6
2. Less: Financial Sources/Liabilities	16.8	110.1
D. Financial Intermediaries	17.5	16.7
1. Financial Uses/Claims	154.1	96.9
2. Less: Financial Sources/Liabilities	136.6	80.2
IV. Rest of the World	20.8	-5.5

[1]National and local governments and government-owned and controlled corporations
P Preliminary

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

Flow of Funds

Based on preliminary estimated figures for 1989, flow-of-funds accounts showed that the momentum for economic recovery and growth which started in the third quarter of 1986 raised investment in real assets to a nominal amount of P182.8 billion in 1989, higher by 29.7 percent than that registered in 1988. Gross domestic savings generated in 1989 at P162.3 billion partly financed real investments; while the net financial deficit or savings - investments gap of P20.8 billion (inclusive of statistical discrepancy) was financed by external borrowings (Table 16).

Out of gross domestic savings in 1989, private corporations generated P93.1 billion, households and non-corporate business, P55.8 billion, and financial intermediaries, P17.7 billion. Preliminary data indicated that after realizing substantial gross savings in 1988, the government non-financial sector (national and local governments and government-owned and controlled corporations) posted a dissaving of P4.3 billion in 1989 as the sector withdrew its deposits and unloaded its investment in securities to repay domestic loans and trade credits (payables arising from purchases of goods and services) of government corporations.

Investment in real assets of households and non-corporate business sector declined in 1989, while that of financial intermediaries increased moderately, resulting in surplus positions or net financial investments of P56.0 billion for households/non-corporate business sector, and P17.5 billion for the financial intermediaries. Spurred by an environment of continued business optimism during the greater part of the year, the private corporate business sector increased its investment by 160.7 percent to P135.5 billion, ending in a net financial deficit of P42.5 billion. Similarly, real investments of the government sector rose by 281.9 percent to P47.6 billion. Lack of government financial resources resulted in a net deficit in financial investment of P51.8 billion, financed largely by an increase in foreign loans and by flotation of securities.

Surplus funds in 1989 at P56.0 billion for households/non-corporate business went primarily to domestic currency and deposits as well as investment in securities. These financial assets financed the domestic loans and trade credits of private corporations and the deficit expenditures of the government. Meanwhile, financial intermediaries as major conduits of funds realized a financial investment surplus of P17.5 billion. Incremental savings deposited principally by the households/non-corporate business provided the loan requirements of private corporations and non-corporate business units. Investment in securities of financial intermediaries and the other domestic sectors likewise helped finance the deficit of the government sector.

Domestic funds raised and funds employed by the domestic economy increased considerably. Total funds employed reached P277.7 billion in 1989, up by 34.6 percent from P206.3 billion in 1988. Total funds raised, on the other hand, rose by 48.7 percent from P200.8 billion in 1988 to P298.5 billion in 1989. Net borrowings at P20.8 billion in 1989 from the rest of the world were incurred by the Government and the private corporations to finance the net financial deficit of P20.8 billion.

OUTLOOK FOR 1990

ECONOMIC performance in the coming year is viewed with guarded optimism. Although it is too early to assess fully the impact of the latest threat to the democratic institutions of the country, the prospects for continued growth in 1990 are good considering the strong growth momentum and sound economic fundamentals in the country. Moreover, there are clear indications that the economy is returning to normal after the backslides occasioned by the December political disturbance. Interest rates have started to decline and the stock market has steadied after an initial slide. In addition, the Philippines continues to attract strong support from multilateral institutions and other governments and the flow of foreign loans and grants to the country remains uninterrupted.

The temporary setbacks have imparted invaluable lessons in the management and reform of the economy. First, they underscored the need to harness and focus investments as well as the country's other resources toward more directed growth. Second, they highlighted the need for local entrepreneurs to provide the stimulus needed by the economy since they have the most to benefit from the economy's recovery and continuing growth. Third, they stressed the need for the Government to redouble its efforts to accelerate the delivery of basic services to the people.

The authorities are assiduously working to bring the economy back on track to recovery and to create a climate of economic stability and growth. Fiscal, monetary and foreign exchange policies supportive of growth and greater equity will continue to be pursued. These include narrowing the budget deficit through improved tax collection as well as increased efficiency in the utilization of public funds, and continuing the economic reforms meant to increase investments and employment and make the country's industries and exports more competitive internationally. Moreover, since economic growth requires an environment in which financial institutions are part of the market process for mobilizing and allocating resources, the further strengthening of the foundations of the financial system remains an important objective to allow for the increased flow of credit to productive activities and make the system more responsive to the needs of the growing economy. These will be achieved through a policy environment of deregulation, improved prudential regulation and supervision and greater competition. The Government also intends to pursue policies aimed at reducing its direct involvement in credit allocation and allowing the market-pricing of government-supported credit programs. Money and credit growth will be closely monitored as the CB works toward the maintenance of price stability as the economy pursues its growth objectives. Interest rates will continue to be determined by the interplay of market forces. In 1990, the monetary program is expected to result in the gradual decline of interest rates on loans and on government securities as a result of the reduced domestic financing of the fiscal deficit. The general level of interest rates is, however, expected to remain positive in real terms.

To catalyze the growth process, foreign and local investments will continue to be encouraged by providing an appropriate economic-financial policy climate. Toward this end, efforts are currently being undertaken to enhance the Government's capacity to effectively promote foreign investments and to develop a system for the collection and analysis of foreign investment data. Meanwhile, the operation of the First Philippine Fund, which intends to actively invest in Philippine securities, is expected to invigorate the growth of the local capital market.

Exports are expected to be propelled by the increased international prices of and higher demand for certain commodities of export interest to the country as well as by the market-determined exchange rate which will help maintain the international competitiveness of locally-made products. Concomitantly, however, strong business activity and the modernization of capital equipment as well as the continuing implementation of the Import Liberalization Program are anticipated to lead to higher imports.

The country's external debt management strategy in 1990 will continue to use a moderate approach based on negotiations with creditors in a cooperative framework to enable the country to reduce its debt stock and debt service obligations while tapping foreign sources of funds to help finance development projects and programs. Moreover, the Philippine Assistance Program which has received substantial support from several nations is expected to provide further relief from foreign exchange constraints facing the country during the coming years.

In viewing the probable performance of the Philippine economy in 1990, events in the international front will be considered alongside domestic developments and policy responses. Some of the more important external developments that could impinge on the Philippine economy in 1990 include the direction of monetary policy in the US and the subsequent movement in US interest rates, the anticipated slowdown in economic growth in the developed countries as well as in world trade, the movements in the price of oil and the possible rise in protectionist tendencies in the country's more important trading partners. These developments will, therefore, be constantly monitored and assessed to enable Philippine authorities to come up with appropriate and timely policy responses to minimize whatever deleterious effects these may have, as well as to capitalize on the opportunities that these may present to the domestic economy.

2
Central Bank of the Philippines

MONETARY AND CREDIT POLICIES

THE GENERAL thrust of monetary and credit policies in 1989 continued to be the maintenance of stable conditions essential in sustaining positive growth. Specific policy responses included the prudent management of monetary aggregates and the development of a sound and stable financial environment by adhering to principles of market-orientation, deregulation, competition and institutional efficiency. In particular, monetary and credit policies were formulated to realign domestic demand with prevailing supply conditions. In response to the rapid expansion in money supply and inflationary pressures at the start of the second semester resulting from increased demand, supply bottlenecks and expectations of further price increases, the CB closely monitored developments in the financial markets and took measures to control the growth of monetary variables and relieve the pressure on the overall price level.

Reserve Requirement

With domestic liquidity, both in real and nominal terms, growing in excess of that required to achieve real GNP and inflation targets, the reserve requirement on long-term deposits of banks was raised gradually to a level that unified the reserve ratio for both long- and short-term deposits of commercial banks. In addition to mopping up excess liquidity, the unification of the reserve requirement was intended to enhance its effectiveness as a monetary tool.

Within a span of less than five (5) months, from June 23 to November 5, 1989, the reserve requirement on deposits and deposit substitute with original maturities of more than 730 days was gradually increased by 15 percentage points, from 5 percent to 20 percent (Table 17).

On the other hand, on September 1 and October 5, 1989, the reserve requirement on deposits and deposit substitutes with original maturities of 730 days or less was reduced by 0.5 percentage point from 21 percent to 20 percent. On a net basis, the changes in the reserve requirements were estimated to reduce banks' loanable funds by P3.0 billion. The policy move also achieved a more standardized reserve structure across bank types and deposit types, thus reducing the implicit subsidies related to a differentiated rate structure.

Open Market Operations

During the year under review, open market operations played a pivotal role in monetary management. The issuance of auctioned Treasury bills in excess of the National Government's financing requirements, the proceeds of which were deposited with the CB, continued to be the major component of this monetary instrument. The programmed weekly offering of Treasury bills was adjusted depending on the varying degrees of excess liquidity in the system. To supplement Treasury bills auctions, reverse repurchases were resorted to in order to contain liquidity growth although at a lesser scale and primarily for finetuning purposes.

Rediscounting

Consistent with the policy thrust of market-oriented interest rates, the rediscount rate was raised from 10.0 percent to 12.0 percent in June 1989. This increase

Table 17. **REQUIRED RESERVES ON DEPOSIT AND DEPOSIT SUBSTITUTE LIABILITIES OF COMMERCIAL BANKS 1987-1989 (In Percent)**

Type	Dec 1989	Dec 1988	Dec 1987
Deposits			
Demand	20.0	21.0	21.0
Savings	20.0	21.0	21.0
NOW Accounts	20.0	21.0	21.0
Time Deposits			
(Less than 730 days)	20.0	21.0	21.0
(More than 730 days)	20.0	5.0	5.0
Deposit Substitutes			
(Less than 730 days)	20.0	21.0	21.0
(More than 730 days)	20.0	5.0	5.0

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

was also part of the package of contractionary measures adopted during the first half of the year. Notwithstanding the upward adjustment in the rediscount rate, as well as the availability of alternative sources of financing, notably the Industrial Guarantee Loan Fund (IGLF) and the Agricultural Loan Fund (ALF), CB rediscounts to banks increased by P0.6 billion to reach P5.7 billion at the end of the period as compared with the minimal increase in the previous year. This development was reflective of the generally strong demand for credit during the year.

Interest Rate Policy

A market-oriented interest rate policy continued to be pursued with interest rates charged on the various CB borrowing and lending facilities adjusted during the year. Nominal interest rates generally exhibited an uptrend, reflecting the combined effects of higher demand for funds and the acceleration of inflation, but they started to decline in November following the lead provided by rates on auctioned Treasury bills. Adjusted for inflation effects, deposit rates, except on savings deposits, continued to yield positive real returns.

Financial Structure Development

During the year, measures to strengthen the financial system continued with the increase in the required capital accounts of expanded commercial banks and commercial banks, including those already in operation as well as those to be established, to P1 billion and P0.5 billion, respectively. The increase was also in line with the policies of developing a financial system composed of larger and stronger commercial banks in preparation for the expected increase in the demand for credit and other banking services resulting from economic growth and of supporting risk exposure arising from off-balance sheet transactions.

Efforts to promote larger and stronger commercial banks during the year were reflected in the conversion of two commercial banks into universal banks (unibanks) bringing to eleven the total number of unibanks in operation. The year also saw two mergers involving five thrift banks and three rural banks.

Meanwhile, the divestment and rehabilitation programs of government-owned and -controlled banks continued to be pursued. Likewise, the rehabilitation program for rural banks also continued to be implemented. As of end-1989, 524 rural banks have applied for the rehabilitation program, of which 484 applications had been approved.

Measures were also adopted in 1989 to enhance competition in the banking sector. These included the removal of all restrictions on the opening of new branches in priority rural areas categorized as service areas and the adoption of a unified reserve requirement for banks.

Reporting requirements from banks were also streamlined and submission deadlines were revised to enhance accuracy of reports.

FOREIGN EXCHANGE POLICIES

Exchange Rate

Along with a progressively more liberal trade regulatory environment, the CB in 1989 generally refrained from direct intervention in the foreign exchange market, allowing the exchange rate to seek its market level from day to day. 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 directly intervened over and above its requirements only to smoothen steep, short-term fluctuations stemming from speculative factors.

The banks were generally allowed to set their own buying and selling prices for foreign exchange to the public. For this purpose, they used as basis the BAP reference rate which was determined based on the weighted average of the exchange rates for all the sales made in the trading floor during the preceding day.

On the whole, the current policy minimized the volatility of the exchange rate, thereby reducing uncertainty, and kept the rate broadly in line with market fundamentals.

External Debt Policy

External debt policy remained supportive of the goal to restore the viability of the country's external payments position. Efforts were geared toward raising the required foreign exchange resources crucial to sustaining economic recovery and obtaining payments relief on debts already outstanding.

Debt relief measures included the conventional process of (1) restructuring maturing obligations at terms better than those of previous agreements, and (2) securing new money for general balance of payments financing from both commercial and official creditors to alleviate the burden of interest servicing. Debt relief was further achieved through aggressive voluntary debt reduction to cut down debt stock and debt servicing. The debt conversion process, involving conversion of foreign currency-denominated liabilities to a substantially less than equal amount of peso-denominated liabilities, continued to be pursued. Typical examples were debt-to-equity and debt-for-notes transactions. A major debt buyback operation was also arranged in order to achieve a significant amount of principal debt reduction at a deep discount without inflationary risk. Specifically, the country finalized a deal with creditor banks to buy public sector debt at 50 cents per dollar face amount on November 10, 1989. The buyback was funded out of new official borrowings allocated for the purpose.

To sustain economic development, the country negotiated for additional official loans to support specific projects, particularly in power development and public works. The Philippine Assistance Program (PAP) was also launched which provided the framework for the optimum employment of official foreign financial assistance for the achievement of growth as well as of equity in the distribution of income and opportunities.

Import-Export Regulations

The Import Liberalization Program (ILP) proceeded as scheduled with the start of the deregulation of List B of Phase II of the program. In accordance with the Memorandum of Economic Policy submitted to the IMF, 92 items from List B were added to the liberalized list by end-September 1989. These items, consisting of portland cement, hydraulic cement, cement and clinker other than for white cement, radiation-emitting apparatus and related products and spare parts for use in the iron and steel industries, newsprint, electricity supply meters and shipping vessels and appurtenances, were liberalized pursuant to CB Circular Nos. 1195, 1205, 1210 and 1212.

During the end of the year, 43 other items under List B were deregulated. These items, consisting of automotive spare parts and components and two items of lignite, were liberalized pursuant to Circular No. 1219. However, the actual liberalization of 4 spare part items was deferred pending adjustment of tariff rates although the decision to liberalize had already been made.

Pursuant to its commitment to local industries and as a complementary measure to the ILP, the CB monitored the import performances of all liberalized items. Items exhibiting import surges beyond benchmark levels were referred to the industry sector concerned to determine the possible assistance that could be provided. Normally, the assistance took the form of the imposition of specific tariff rates or the inclusion of the item in the sensitive list, the importation of which will be rigidly monitored so as to counter instances of undervaluation/technical smuggling.

Implementation of the Comprehensive Imports Supervision Scheme (CISS) was started in 1987 and pursued further in 1989 with the Societe Generale de Surveillance (SGS) as the designated inspector. Changes were, however, made in the scheme in order to have wider commodity and country coverages. These were made following observations that importers resorted to effecting piecemeal importations of certain sensitive items (that is, to keep the value at below \$5,000) to evade SGS inspection while others resorted to transhipments through other ASEAN countries which are not covered by the scheme. Thus, effective September 1, 1989, an additional 169 sensitive items were made subject to pre-shipment inspection regardless of value, while a month later the country coverage was expanded to include Singapore, Malaysia, Indonesia, Thailand, South Korea and Brunei.

Preliminary data on SGS pre-shipment inspection on the additional six countries produced satisfactory results. For the last three months of the year, the declared dutiable value of 894 shipments inspected was upgraded to \$9.9 million. This upgrading resulted in an increase in duties and taxes equivalent to \$3.2 million payable to the Government.

Under Resolution No. 924 dated October 27, 1989, the Monetary Board approved the adoption by the CB of the Revised Philippine Standard Commodity Classification Manual (PSCCM) effective January 1, 1990. All banks were henceforth instructed to use this manual in classifying import commodities. The Revised PSCCM details the classification of commodities that are part of Philippine trade in accordance with the UN Standard International Trade Classification (Revised 3) as aligned with the Harmonized System (HS) which the Philippine tariff and customs authorities adopted in October 1988. Unlike the HS tariff heading which is implemented by the Tariff Commission and the Bureau of Customs for tariff and revenue collection purposes, the PSCC scheme is used for compiling foreign trade statistics and reporting and documenting trade transactions.

With regard to exports, various promotional measures were implemented during the year in line with the objective of maximizing foreign exchange earnings. One of these was the country- and product-specific national export strategy which was formulated in cooperation with the private sector. Under this strategy, the Government promoted the marketing and sales of the country's top export products to leading export markets. To provide financial assistance to exporters, the credit facilities of the CB remained open for the rediscounting of non-traditional and traditional export papers. Of the total credit availments of commercial banks in 1989 of P13,323 million, nearly 95 percent or P12,655 million was availed of by the export sector.

New quota rules and regulations for garments and coffee exports were formulated in consultation with the private sector to achieve greater transparency and improve the viability of the small- and medium-scale exporters in the countryside. Moreover, to facilitate the shipment of commodity exports without foreign exchange proceeds, procedural requirements in the processing of export documents of such exports were simplified. The requirement of prior CB approval was eliminated for shipments covering unaccompanied household and personal effects of diplomats holding diplomatic passports, professional instruments and implements and tools of trade of foreigners or Philippine emigrants leaving for abroad, tourist purchases not exceeding $1,000 in total value, and gifts not exceeding $250 in value. To come up with a more efficient monitoring process for the shipment of exports, reporting requirements imposed by the CB on commercial banks were likewise modified and streamlined.

Pursuant to the Government's thrust of forest conservation and to ensure the continued availability of raw material supply to lumber-dependent industries, the export of lumber was banned effective June 30, 1989. Exempted from this ban were lumber products, wood manufactures and other wood finished products which are further manufactured from wood or lumber including, but not limited to, wooden furniture and toys, packing cases and parquet floors, doors and other builder woodworks, picture frames, among other items.

Regulation on Invisibles

Measures were implemented in 1989 to further improve and maximize the receipts of foreign exchange from invisibles. By enforcing strict compliance with existing foreign exchange regulations, the CB recommended the revocation of the license to operate of Authorized Foreign Exchange Agents (AFXAs) which failed to generate substantial foreign exchange and/or comply with the submission of prescribed monthly reports. The CB likewise closed the Foreign Currency Deposit (FCD) accounts of foreign exchange earners whose deposits were sourced from invisible transactions. Moreover, the CB pursued a more vigorous identification of foreign exchange earners from available sources through coordination with other government agencies like the Department of Finance, Philippine Overseas Employment Administration and Board of Investments. Relatedly, the Bank intensified coordination with other regulating government agencies to exact compliance by AFXAs/invisible earners with the mandatory remittance requirements and sale for pesos to AABs of their foreign exchange receipts. These measures resulted in the surrender of dollars for pesos to the banking system.

To facilitate the remittance of the earnings of overseas contract workers (OCWs), the Monetary Board in its Resolution No. 161 dated February 24, 1989 designated the Overseas Workers Welfare Administration (OWWA) as an AFXA and approved its proposal to establish remittance collection centers in OWWA workers' centers abroad to service remittance applications of Filipino OCWs.

With this approval, OWWA's remittance program was launched in April on an experimental basis, with the United Arab Emirates as the pilot area. The CB also continued to apply moral suasion on banks to improve the efficiency of their remittance systems and to put in place more creative and attractive schemes to draw OCW remittances into the banking system.

In the same year, the Government pursued its efforts to simplify existing procedural requirements governing foreign investments. Under Circular Letter dated February 13, 1989, the CB listed the minimum documentary requirements for the registration/approval and repatriation of investments and other investment-related accounts. 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.

SUPERVISION AND REGULATION OF FINANCIAL INSTITUTIONS

Supervision of Banks

A total of 111 head offices and 725 branches and other banking offices of expanded commercial banks, commercial banks, specialized government banks and thrift banks were covered by regular bank examinations in 1989. Regular examinations were also conducted on 720 rural banks.

Special examinations were also undertaken to: 1) study and review selected banks' loan portfolios, deposit accounts, collections/sales, losses and capital accounts; 2) examine compliance with agreements and regulations; and 3) resolve various supervisory problems on fund management operations, government securities and Treasury warrants. Special examinations were performed on 18 thrift banks and 237 rural banks during the year.

Other supervisory functions undertaken in 1989 included the processing/evaluation of bank applications for branching and relocation of banking offices, monitoring and consolidation of periodic supervisory reports and foreign exchange transactions, analysis of banks' financial performance, processing of various requests to effect certain transactions needing prior CB authorization and rendering assistance with regard to comptrollership/conservatorship and receivership/liquidation problems.

Regulation of Non-Bank Financial Intermediaries (NBFIs)

A total of 3,553 non-bank financial intermediaries (NBFIs) consisting of 2,943 head offices and 610 branches and other units were registered with the Central Bank of the Philippines as of December 31, 1989. Of the total, 15 head offices and 53 branches were authorized to engage in quasi-banking functions. Meanwhile, non-bank financial institutions without quasi-banking functions increased to 3,485 units from the previous year's 3,172 units. The growth was reflective of the rise in the number of pawnshops and lending investors by 275 and 116 units, respectively, which more than offset the decreases in the number of securities dealers, investment companies and financing companies.

During the year, an aggregate of 130 examinations were conducted on the head offices and branches of NBFIs, 32 or 24.6 percent of which were regular examinations and 98 or 75.4 percent, special examinations. The regular examinations were performed mostly on non-stock savings and loan associations, while majority of the special examinations were conducted on pawnshops. The special examinations were undertaken mainly for purposes of data gathering, loan appraisals, complaints, verification of status of operations and compliance with CB rules and regulations and directives pertaining to branching and capital deficiency.

Aside from the usual examination and supervisory functions, the Bank closely monitored activities pertaining to comptrollership and receivership/liquidation of non-banks with quasi-banking functions and non-stock savings and loan associations.

MANAGEMENT OF INTERNATIONAL OPERATIONS

External Debt

In managing the country's external debt, the Government continued to pursue a negotiated solution to the debt problem in the context of the current international debt strategy. In 1989, government negotiations led to the successful conclusion of a number of significant agreements with the country's various creditors. Substantial pledges of assistance were also received from official donors within the framework of the PAP.

On May 23, 1989, the Executive Board of the IMF approved the Philippines' request for a three-year Extended Fund Facility (EFF) arrangement in an amount equivalent to SDR 660.6 million together with possible access to contingency financing up to a maximum amount equivalent to SDR 286.3 million under a Compensatory and Contingency Financing Facility (CCFF). In addition, the IMF accepted the request by the Philippine authorities that 25 percent of each purchase under the EFF be set aside for financing debt reduction. Furthermore, the IMF agreed to consider an additional amount, equivalent to up to 40 percent of the Philippines' quota in the IMF, to finance appropriate debt service reduction operations.

Shortly following the EFF approval, the Philippines concluded negotiations with representatives of 13 creditor governments under the aegis of the Paris Club on the general terms governing the third round rescheduling of still unrestructured borrowings owed to foreign governments and their related agencies. The agreement that emerged from these negotiations carried more favorable terms to the Philippines in several respects than its previous Paris Club agreements. In particular, the coverage of existing debts to be rescheduled (or consolidation period) excluding arrears was lengthened to two years (from June 1, 1989 to June 30, 1991), with a goodwill clause to cover debts falling due between July 1, 1991 to June 30, 1992. The terms of the coverage of the goodwill clause will be reviewed in 1991. Previously, the consolidation periods under the 1984 and 1987 Paris Club agreements for the Philippines each had covered only 18 months. Moreover, the proportion of maturing interest to be rescheduled was increased to 100 percent from 60 percent and 70 percent, respectively, under the earlier two agreements. Accumulated arrearages of approximately $420 million in principal and interest which had fallen due from September 1988 to May 1989 were also rescheduled with an extended maturity of nine years and 5-1/2 years grace. As a result of these improvements, the Philippines was able to secure debt relief on official debts totalling about $2.2 billion compared to only $1.1 billion in 1987 and $1.0 billion in 1984.

The World Bank paralleled the IMF move to set aside funds for debt and debt service reduction. It agreed to set aside for this purpose either around 25 percent of its adjustment lending program to the Philippines over a three-year period, or around 10 percent of its overall lending program depending on the financial requirements.

The PAP was also formally launched last July 3, 1989 in Tokyo. It provides a concrete framework on how official foreign financial assistance in the form of concessional loans and grants could be optimally employed to assist in promoting broadly based sustainable economic growth in the country. The PAP will play a crucial role in poverty alleviation. Resources will be directed to support public programs for the socially disadvantaged and address the sectoral requirements of the economy. Production-oriented activities in the countryside with short gestation period, high employment content and export potentials will be supported in coordination with the activities of the private sector.

Formal negotiations with the country's Bank Advisory Committee which commenced in August 1989 in new York led to substantive agreement on the general features of the Philippine Commercial Bank Financing Program for 1989-90. Specifically, the creditor banks agreed to put up a substantial amount of new money to help cover the country's financing gap mainly through subscription in New Money Bonds at an interest rate of 13/16 of one percent over LIBOR and final maturity of 15 years with 8 years grace period. In addition, they agreed to restructure the principal repayments on the 1985 New Money loan maturing during 1990-93 at pricing and repayment terms exactly similar to the New Money Bonds. The financing program also included a 1/4 of one percent downward adjustment in the interest rate spread on outstanding medium- and long-term restructured public debt with commercial banks. The novel feature of the package, however, was a debt reduction component in the form of a debt buyback. The Philippines offered to pay 50 cents for every dollar face value of public sector owed to commercial banks and financial institutions in return for full cancellation. The buyback would be funded from official borrowings. In November, the buyback deal was finalized when the Philippines committed to buy back on January 3-4, 1990 debts tendered by creditor banks totalling about $1.34 billion.

As part of overall debt management, the rescheduling of private sector debt continued to be implemented. As of December 31, 1989, total enrolled debt under repayment programs embodied in CB Circular Nos. 1076 and 1178 stood at $1,212.7 million. Classified according to repayment options chosen by the private corporate debtors, US$983.9 million or 81.1 percent (including exchange rate differential of US$316.6 million directly assumed by the CB on unwinding of peso-based swaps with hold-out/continuing foreign exchange contract) were enrolled under Option 1; US$209.4 million or 17.3 percent under Option 2; US$13.9 million or 1.1 percent under Option 3; and US$5.5 million or 0.5 percent under Option 4.

With respect to the restructuring of public sector debt owed to commercial banks, which as of end-December 1989 amounted to $6,942.6 million, a total of 880 credit schedules and supplements representing Tranche C, D and E credits as well as Assumed Credits were duly verified and executed during the year. Closing documents for twelve (12) public sector obligors were also prepared for the occurrence of the Tranche D Effective Date under the Public Sector Restructuring Agreements. In relation to the Third Round of Paris Club Bilateral Rescheduling Agreements, the Government, as of December 31, 1989, had successfully negotiated the rescheduling of official credits aggregating US$545.62 million. A bilateral agreement was signed with each of the following creditor countries: Spain (CESCE), USA, Canada, France, Switzerland and Belgium (Government). Negotiations are still going on with other countries such as Japan, the Netherlands, Denmark, Germany, Belgium (OND), the United Kingdom, Finland, Spain (ICO), Austria and Italy.

Selected debt indicators improved as a result of these developments. The estimated debt-to-GNP ratio declined to 62.8 percent in 1989, from 72.8 percent in 1983. The ratio of debt to exports of goods and services similarly showed a significant decrease, from 305.2 percent in 1983 to 222.6 percent in 1989. Likewise, the ratio of debt service burden to exports of goods and services, or the debt service ratio, fell from 33.5 percent to 25.1 percent over the same period. These developments also led to the lengthening of the maturity structure of outstanding debts. As of end-December 1989, 14.3 percent were short-term liabilities (that s, due and payable within one year), markedly lower than the 37.9 percent posted in 1983. By creditor, the share of multilateral and bilateral sources increased from 24.7 percent to 44.5 percent of total debt outstanding. Meanwhile, debts owed to banks which carry floating rates declined from 64.1 percent to 46.2 percent of total debt as of December 31, 1989.

Meanwhile, day-to-day debt management operations continued to ensure that foreign loans approved were used for productive and priority projects and carried the best possible terms. New medium- and long-term foreign loans approved in 1989 amounted to $2,604.4 million consisting of 23 private sector loans and 38 public sector loans. This represented an increase of 26.9 percent over the loans approved in 1988 which amounted to $2,052.8 million consisting of 49 accounts. In addition, $686 million in short-term foreign loans from FCDUs and other offshore sources were authorized, of which 60 percent represented utilization under the $3 billion Revolving Trade Credit Facility.

In keeping with the commitments to maintain foreign obligations on current status, the remittance of $2,334.8 million in principal, interest and other charges were authorized during the year. These represented amounts due on public and publicly guaranteed loans owed to multilateral and bilateral creditors as well as those due on loans owed to commercial banks for which peso deposits had been made with the CB pursuant to Circulars No. 1202 and No. 1138. The remittance of principal and interest on debts covered by the buyback scheme which had corresponding peso deposits was also authorized. The latter involved an amount of $25.8 million, of which $25.0 million were for principal and the balance for interest due up to January 3, 1990.

Foreign Investments

Apart from debt-to-equity program investments under Circular No. 1111, the CB in 1989 approved regular foreign equity investments amounting to $275.8 million, up by 256.6 percent from the 1988 aggregate. The US, Japan, and Hongkong continued to top the list of investor countries with their contributions comprising 69 percent of total approved investments. Industry-wise, 45.8 percent of total approved investments were channelled to manufacturing, 22.9 percent to the commercial sector, 21.5 percent to mining, and the residual 9.8 percent to other economic activities such as banking, commerce, public utilities and agriculture.

Total registered foreign investments in 1989 amounted to $203.2 million, 182.1 percent higher than the level a year ago. The three countries topping the list of registered investments were the US, Japan, and the Netherlands, which together accounted for more than two-thirds of equity investments registered with the CB in 1989.

Foreign exchange outward remittances arising from foreign equity investments in the Philippines aggregated $257.7 million, 15.5 percent more than the 1988 level of $223.2 million. These comprised cash dividends of $137.6 million, remittances of oil and geothermal exploration companies of $54.3 million, remittances of branch profits of $52.3 million and other outflows (i.e., divestment proceeds, royalties, share in head office expenses) of $13.5 million. The CB also approved during the year a total amount of $22.3 million for lease payment rentals and $1.5 million for traffic payouts of domestic telephone companies for their participation in telecommunications network systems offshore.

Remittances of previously approved outward investments amounted to $0.4 million in 1989, $4.0 million less than those undertaken in 1988. Outward investments of the following firms were also approved during the year: (1) the PLDT for the Trans-Atlantic (TAT-9) Fiber Optic Cable System Construction; (2) the Philippine Air Lines (PAL) for its participation in a computerized reservations system Asiawide; and (3) the Philippine Global Communications, Inc. (Philcom) in Hongkong-Japan-Korea (HJK) Submarine Cable System.

Total portfolio investments in various Philippine securities reached $433.2 million in 1989, about seven times the 1988 level of $60.4 million. Hongkong was the leading country-investor, accounting for 70.7 percent of the total volume of portfolio investments during the year. The commercial/industrial sector was the top area of investment with a share of 46.7 percent of total portfolio investments. Banks also showed a favored position with a share of 33.9 percent due mainly to substantial investments in PNB shares which were listed only in 1989. The repatriation of capital in Philippine securities, however, reached $121.3 million, 76.4 percent higher than in 1988. On the other hand, cash dividends declared for 1989 amounted to $3.9 million, slightly less than the 1988 level of $4.9 million. Reinvestments (trading of one security for another but without changing the amount of investment) increased by 149.0 percent to $3.6 million from the previous year's figure.

Foreign Exchange Operations

Foreign exchange operations in 1989 were marked by the close monitoring of the operations of AFXAs and foreign exchange dealers to ensure their compliance with existing guidelines covering non-merchandise trade transactions. During the year, monthly reports on foreign exchange cash receipts and disbursements submitted by 239 AFXAs and 1,893 foreign exchange dealers were reviewed and evaluated. This resulted in the cancellation of the license to operate of 50 AFXAs and the closure of the FCD accounts of 14 foreign exchange earners for failure to generate substantial foreign exchange and/or submit prescribed reports.

Relatedly, the books of accounts and records of 256 foreign exchange earners were examined to determine compliance with existing foreign exchange regulations on invisibles. Results of the examination showed some violations of existing CB regulations such as (1) non-compliance with the mandatory remittance and sale of foreign exchange receipts for pesos to banks, (2) offsetting of foreign exchange receivables against payables or vice-versa without prior CB approval, (3) unauthorized deposits of non-trade receipts in foreign currency accounts abroad, (4) deposits of foreign exchange receipts from invisibles to special dollar accounts in excess of authorized amounts and (5) non-registration with CB of investments abroad. Discovery of these violations led to the inward remittance of an additional $12.5 million which were sold for pesos to the banking system. Moreover, post-verification work was likewise undertaken on 105,739 applications to purchase foreign exchange for various purposes from AABs. As a result of this, $131 thousand were returned and sold for pesos to the banking system.

As requested by the business community, 79 firms which were certified as export-oriented under the provisions of Circular No. 1028 were extended incentives through the granting of authority to open and maintain special dollar accounts to cover their operating expenses abroad and other contingencies. Likewise, 16 business entities, including insurance and airline companies were granted authority to open and maintain special deposit accounts outside Circular No. 1028. Licenses were likewise given to 10 banks/non-banks to act as foreign exchange agents of the CB while one foreign bank was allowed to establish a representative office in the country.

To assist the Department of Finance in its tax collection effort, the CB strictly enforced the regulations governing tax and customs duty payments. Consequently, a total of P331.0 million in taxes and customs duties were collected by AABs from airline companies and local film distribution/importers in 1989. This represented an increase of P120.7 million or 57.4 percent from last year's collection of P210.3 million.

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 4,931 fiscal agency service (FAS) applications with an aggregate amount of $65.2 million filed by government agencies and units for the purchase of foreign exchange covering invisible payments were processed and approved during the year. This represented an increase of $24.2 million compared to the 1988 figure of $41.0 million covering 3,978 applications. FAS applications serviced by the Philippine National Bank and the Land Bank of the Philippines and other banks pursuant to Circular Letters dated November 11, 1983 and September 17, 1987 totalled $64.6 million, up by 44 percent from the previous year's level.

Meanwhile, swap transactions in 1989 were limited by the CB to renewals. Thus, outstanding swaps as of end-December 1989 stood at $1,060 million, down by 6.2 percent from the 1988 yearend level of $1,129.6 million. The decline was traced to the termination of swap contracts of the private sector pursuant to Circular No. 1076, as amended by Circular No. 1178.

As part of its public assistance program, the Special Services Unit (SSU) of the CB detailed at the Ninoy Aquino International Airport rendered assistance to tourists, non-residents, *balikbayans* and returning Filipino contract workers in foreign exchange declaration procedures 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 CB currency regulations provided under Circular No. 1028, confiscated from alleged owners $147.5 thousand worth of foreign currency notes, an undetermined amount of local currency and various precious metals and jewelry for violation of existing regulations.

International Trade Operations

In the field of international trade, the two major thrusts of the CB were (1) the development and promotion of the country's exports and (2) the monitoring of imports to ensure compliance with import rules and regulations as well as to react in a timely fashion to possible surges in import levels as a result of the implementation of the Import Liberalization Program.

To maximize foreign exchange receipts from exports, the CB pre-verified prices declared in the Report of Foreign Sales (RFS) and Export Declaration (ED)/Export Permit (EP) of selected commodities to determine whether such prices were in conformity with those prevailing in the market on the date of sale, or whether the terms and conditions of the sale were in accordance with existing regulations and practices of the trade as well as to preclude the exportation of commodities in short domestic supply. Prices of commodities found to have been underpriced were required to be renegotiated with their buyers for higher prices. During the year, a total of 5,148 RFS/ED/EPs were received by the CB from AABs for pre-shipment verification. Out of this number, 4,914 RFS/ED/EPs with an aggregate value of $1,069 million were found to be in order.

Close monitoring of about 2,477 export declarations without foreign exchange proceeds such as shipments of household/personal effects of expatriates leaving the country, display items for international trade fairs, tourist purchases and samples were likewise conducted during the year. As a result, six firms were ordered to course their shipments using ED with foreign exchange proceeds, giving rise to additional foreign exchange earnings of $67,346. Also subjected to stringent examination procedures were the processing fees/export billings indicated in the Mark-up Computation Report (MCR) covering exports of manufactured goods processed out of materials imported on consignment basis. Processing fees/export bills discovered to be too low were required to be renegotiated for higher fees.

Simplification of export procedures and documentations was undertaken during the year. As a result, AABs were given authority to evaluate and give due course to export permits for some export products without these being coursed through the CB. Export rules and regulations were likewise reviewed and those found to be redundant and obsolete were abolished. With these changes, processing time for export documents was reduced to a minimum.

As part of its export promotion program, the CB prepared the 1988 Directory of Philippine Exporters, copies of which were distributed free of charge to foreign embassies, banks, export associations, prospective foreign buyers/suppliers and other concerned government agencies. To keep the public informed of prevailing world market prices, price indices for certain export commodities such as sugar, coconut products, mineral products, falcatta, mangoes, tuna and petroleum products were prepared on a regular basis and made available to interested parties. To assist exporters based in the Visayas area, operations of the Export Extension Unit in the CB Cebu Regional Office were expanded to include acceptance, evaluation and approval of exporters' Mark-up Computation Report (MCR) applications. In addition, various problems and queries of exporters and AABs regarding current export rules and regulations were also discussed in meetings, dialogues and seminars convened by the CB and participated in by various government agencies, exporter groups and commercial banks.

On the import side, CB operations were concentrated 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 was triggered partly by the continued implementation of the Import Liberalization Program did not cause undue disruptions on domestic production.

The CB in 1989 received and evaluated 6,248 import applications of which 4,472 were approved. Nearly two-fifths of the applications approved consisted of importations on consignment basis with an aggregate amount of $502.2 million. Approved applications to import through LCs totalled 1,397 with an aggregate value of $227.7 million, while 1,114 applications for no-dollar importations were approved with a total value of $266.9 million. Moreover, a total of 21,722 applications/transactions involving imports through DA/OA arrangements were verified and formally registered. Transactions using this mode of payment amounted to $1,573.6 million this year, up by 43.2 percent from the previous year's level.

In view of its strict monitoring system, a total of 1,277 import applications in 1989 were discovered to have violated existing import rules and regulations such as shipment without the required LCs, shipments on consignment basis without prior CB approval, shipments without the Clean Report of Findings (CRF) issued by the SGS. These importations were, however, released to their respective owners after being subjected to special time deposit penalties.

Consultative services on commodity classification matters were also rendered during the year. A total of 11,394 queries were received from banks, government agencies, foreign embassies, the private sector and other interested parties for the classification/reclassification of imported commodities. The correct classification of imported commodities is important to ensure that the right amount of taxes and customs duties are levied on the import items. Moreover, to serve as reference for commodity classification and as data base for technical studies, 2,543 commodities were indexed in 1989.

Assistance was likewise provided to the SGS to help the agency carry out its pre-shipment inspection function. Some 2,793 applications to import without LC were evaluated and endorsed to the SGS-Manila Liaison Office for pre-shipment inspection. The CB also participated on a regular basis in the meetings of the Bureau of Customs-SGS Valuation and Classification Committee to resolve cases involving appeals on SGS CRF decisions on valuation/classification as well as shipments not covered by SGS CRF.

International Reserve Management

During the year, the CB sought to ensure that the official international reserve was kept not only at a level that would be adequate to meet contingencies but also in an appropriate asset-currency-maturity mix that would cover foreseeable net demands for foreign exchange while maximizing the yields on financial investments. The international reserve was mainly invested in fixed deposits, foreign securities and precious metals.

Investments in fixed deposits shifted toward yen deposits and away from US dollar deposits, due largely to the drop in US interest rates of about 200 basis points from the 1988 levels and the significant rise in yen interest rates. These developments in international interest rates also led to savings on premiums paid for swapping yen into dollars to fund the country's predominantly dollar-denominated payments. In general, investments in fixed deposits carried short maturities to meet programmed disbursements.

Meanwhile, investments in foreign securities centered on short-term trading of US Treasuries in view of the volatility of the longer-term bond market. Active trading was also done in Canadian and yen bonds; trading on the latter however subsided when the outlook on the yen turned bleak in August 1989. Like investments in fixed deposits, liquidity requirements during the year necessitated a short holding period for all these bonds.

Outright conversions of gold into yen were also undertaken in the light of deteriorating gold prices and an appreciating yen. The CB, moreover, continued writing gold call options as a means of securing additional income while hedging on gold prices. More traditional transactions for gold and silver were also undertaken.

The overall expansion in the international reserve during the year was brought about by: 1) increased spot purchases from commercial banks ($2,834.1 million); 2) compensating deposits under the Trade Facility ($1,953.9 million); 3) outright foreign exchange sales to and deposits with the CB by the Treasurer of the Philippines of loan/grant proceeds from the IBRD, ADB, OECF, Japan Eximbank, and USAID ($1,184.1 million); 4) disbursement to CB of direct borrowings from the IMF and IBRD ($318.0 million); 5) domestic gold purchases by CB ($289.7 million); 6) purchases of US Treasury warrants ($233.5 million); 7) payment orders ($115.3 million); and 8) other receipts ($203.6 million).

On the other hand, major drawdowns on the international reserves were made for the repayments on the principal of multilateral loans of the National Government and the CB aggregating $1,035.0 million and for payments of interest on CB's direct and assumed obligations amounting to $778.3 million. In addition, other major disbursements were on account of the following: spot sales to authorized agent banks ($1,849.6 million) and extraordinary withdrawals/ trade excess under the Trade Facility ($2,305.0 million).

OPERATIONS AS FISCAL AGENT OF THE GOVERNMENT

Authorized Flotations of Government Securities

In 1989, total government securities authorized for flotation amounted to P255.3 billion, higher than the P241.4 billion recorded in the previous year This aggregate included new authorizations (P7.9 billion), the balance of previously authorized ceiling for Treasury bills and CB bills (P223.2 billion) and previously authorized issues carried over in 1989 (P24.2 billion).

New authorizations during the year included issuances of Metropolitan Water and Sewerage System (MWSS) Bonds, National Home Mortgage Financing Corporation (NHMFC) Bahayan Certificates and National Power Corporation (NPC) Bonds, as well as traditional blocks of CB Notes. In particular, the flotation of P2.3 billion MWSS Bonds was authorized to finance the local cost component of the Angat Water Supply Optimization Project. The authorized flotation of NHMFC Bahayan Certificates amounting to P0.6 billion would be for the redemption of maturing National Government-guaranteed Bahayan Mortgage Participation Certificates. Meanwhile, flotation of NPC Bonds amounting to P3 billion was authorized to finance power expansion projects.

Three series of peso-denominated CB notes totalling P2.0 billion were authorized for flotation to serve as instruments for conversion transactions under the Debt Reduction Program.

Meanwhile, the launching of Kalayaan Savings Bonds during the year was deferred in view of the need to redesign the features of the bond in the light of changes in market conditions.

Primary Sales of Government Securities

Sales of government securities in the primary market aggregated P328.4 billion, an increase of 38 percent from the P237.4 billion registered in the previous year. The bulk of primary issues took the form of National Government securities totalling P303.8 billion, sold mainly through the auction system. The balance was accounted for by CB issues (P24.4 billion) and government corporate bonds P0.2 billion) which were sold through negotiations.

In 1989, 51 auctions of Treasury bills were conducted, offering amounts ranging from P3.0 billion to P10.5 billion weekly with 91-, 182- and 364-day maturities. Other National Government issues auctioned included medium-term Treasury notes aggregating P4.8 billion, down by 57.1 percent from the previous year's level of P11.2 billion.

CB issues consisting of CB bills and notes reached P24.4 billion or 7 percent of total issues. This was higher than the P11.0 billion sales recorded in the previous year. Of this amount, short-term special series CB bills accounted for P22.4 billion while medium-term CB notes netted P2.0 billion. These instruments are now used for various conversion schemes under the Debt Reduction Program in view of the policy of the CB not to use CB bills and notes as instruments of open market operations.

Of the P2.3 billion authorized flotation, MWSS Bonds actually sold in 1989 amounted to P0.2 billion. MWSS was the lone government corporation issuer of securities during the year.

Over 80 percent of the total securities sold in the primary market were marketable while less than 20 percent were non-marketable issues. Marketable government securities are so designated in view of their negotiability and transferability. Non-marketable issues are those whose negotiability is restricted. Viewed against last year's proportion, marketable securities declined from 93 percent while non-marketable issues improved from 7 percent. This rise in the share of non-marketable government securities was due mainly to increased sales of special series Treasury bills and notes.

By type of investor, the banking sector held 62 percent or P85.4 billion while public non-banks acquired 12 percent or P39.4 billion.

Premyo Savings Bond

The phasing out and pretermination of Premyo Savings Bonds (PSB) which began on March 1, 1987 continued in line with the market-orientation policy of the Government for its securities. As of end-1989, PSB holdings of investors other than the CB declined to P24.67 million from P26.0 million. The amount of CB-administered funds (Bond Sinking Fund and Securities Stabilization Fund) invested in PSB reached P846.8 million, lower than the P1.1 billion recorded in the previous year due to redemptions of the National Government.

OTHER ACTIVITIES

Gold Refining and Minting

In 1989, the CB Mint and Gold Refinery Department (MGRD) produced 746.2 thousand troy ounces of refined gold and 928.4 thousand troy ounces of refined silver. These output levels exceeded annual production goals for the year by 6.6 percent for gold and 20.6 percent for silver.

Panned gold delivered to and purchased by the CB through the buying stations in Davao and the MGRD increased by 18.1 percent to 271.2 troy ounces. However, the raw bullion deliveries of primary producers which comprised the bulk or 41.8 percent of aggregate gold purchases decreased by 7.4 percent or 24.6 thousand troy ounces. This resulted in a production shortfall of refined gold during the year. Similarly, refined silver production excluding ungraded output dropped markedly by 17 percent from its previous year level.

Apart from gold and silver refining, the MGRD produced 331.6 million circulation coins which exceeded the output target for 1989 by 6.3 percent. Special coins were also minted. These included the 3,000 pieces commemorative medals for the Department of Environment and Natural Resources, 5,000 B.U. 1-Piso Coins commemorating the Decade of Philippine Culture, first 1,200 pieces of gold commemoratives ordered by Equitable Banking Corporation for its 40th anniversary this year and 1,000 sets of 1989 B.U. coins. Meanwhile, coin deliveries to the Cash Department during the review period aggregated 350.3 million pieces with a face value of P260.8 million.

Notes and Securities Printing

Banknote deliveries by the Security Printing Department (SPD) to the CB Cash Department aggregated 515.1 million pieces in 1989, higher by nearly 8 percent than the 477.0 million banknotes delivered in 1988. Likewise delivered during the year were 151 commemorative folders (each containing eight uncut 5-Piso notes) for the 40th anniversary of the CB of the Philippines. However, production of banknotes totalled 471.2 million or 61.6 percent of the 764.8 million orders of the CB Cash Department. The output shortfall against demand was largely attributed to production delays brought about by mechanical breakdowns and manpower shortages.

With regard to the production of securities (regular checks, special checks, and non-check documents), overall production in 1989, inclusive of the processing of the previous year's unfinished jobs, rose by 15 percent from the 1988 level to 132.0 million pieces this year. For 1989 orders alone, however, the rates of production were 91.9 percent for regular checks, 53.7 percent for special checks and 61.4 percent for non-check documents, or an average completion rate of 84.6 percent as against 87.6 percent in 1988. The decline in the completion rate vis-a-vis 1989 orders was due to the processing of 1988 unfinished orders for checks and non-check documents.

Other documents produced by the SPD included the Seaman's Service Record booklets, Philippine Tourism Authority forms, BIR payment orders, confirmation and residence certificates, and judicial title forms.

Currency Issuance

As of December 31, 1989, the CB's net outstanding liability for currency notes and coins issued* amounted to P60 billion, up by 29.0 percent over the 1988 level of P46.6 billion, the highest rate of increase thus far in the last five years. During the first three quarters of 1989, currency issue averaged P42 billion. This subsequently rose to P50.3 billion in the last quarter of the year. The substantial increase in currency issue during the last quarter was mainly due to the seasonal increase in the demand for currency compounded by the heavy cash withdrawals due to uncertainties brought about by political events in the early part of December.

Clearing Operations

In 1989, a total of 45.0 million checks (local and out-of-town) amounting to P558.1 million was cleared through the facilities of the Manila Clearing Operations Division and 29 regional clearing units. With 46 clearing participants, inclusive of the CB and the National Government, the aggregate volume and amount of checks cleared during the year posted respective increases of 36 percent and 16.4 percent over the 1988 levels. Meanwhile, inter-regional clearing operations continued in 19 clearing units throughout the country.

Loans and Credit Operations

Credit assistance from the rediscount window of the CB was extended to exporters as well as agricultural producers in 1989. Total rediscounts during the year reached P14,406 million surpassing the year-ago releases by around 30.5 percent, notwithstanding the adjustment in the rediscount rate from 10.0 percent to 12.0 percent in June 1989.

Outstanding rediscounting balances stood at P15.3 billion as of end-1989 exceeding the level of P14.7 billion of the preceding year. With the improvement in the collection rate and the conversion of arrearages of some rural banks into current accounts following the active pursuit of the rehabilitation program for rural banks, delinquent accounts were reduced by 3.7 percent to P4,491 million by the end of the review period.

Gross earnings from the aforementioned lending operations aggregated P1,192 million which was P19.8 million higher than the previous year's income. The bulk of this year's income represented the interest paid by commercial banks as well as the payments of the National Government on the loans it assumed from the two major government banks which underwent rehabilitation.

Meanwhile, loans of various maturities were likewise granted for financing eligible agricultural and manufacturing projects under the facilities of the Industrial Guarantee and Loan Fund (IGLF) and the Agricultural Loan Fund (ALF). IGLF total releases of P1,221 million assisted 440 cottage industries but this amount represented a decline of 18.5 percent from the P1,499 million worth of loans granted last year. On the other hand, the ALF, a foreign-assisted project which transfer to the Land Bank of the Philippines is expected in 1990, advanced a total of P2,243 million to participating institutions for the propagation of agricultural crops during the year.

Regional Operations

Central banking services continued to be extended to financial institutions and to the populace in the regions through the 17 regional offices/units which consist of four full-blown regional offices in Cebu, Davao, La Union and Tacloban; six additional regional branches in Luzon: Angeles, Cabanatuan, Dagupan, Legaspi, Lucena and Naga; four in the Visayas: Bacolod, Dumaguete, Iloilo and Kalibo; and three in Mindanao: Cagayan de Oro, Cotabato and Zamboanga. The CB branch in Tuguegarao, Cagayan which was approved for construction in 1988 has not opened for operation.

Cash and Banking Operations. As of end-December 1989, total cash receipts of P37.9 billion increased by 22.7 percent over the receipts in 1988. This arose mainly from higher cash deposits with Luzon regional branches. Other receipts were in the form of checking deposits, cash requisitions, incoming cash shipments and proceeds from the sale of government securities. Cash disbursements, meanwhile, rose by 18.3 percent to P36.2 billion as of end-1989, due largely to cash withdrawals from the Cebu and Angeles regional branches. Other disbursements arose from outgoing cash shipments and encashment of government securities.

Meanwhile, foreign currency receipts surged to $1.6 billion from the $112.8 million receipts in 1988. The marked increase in receipts was traceable to foreign currency purchases from banks and telegraphic transfer swaps.

Rediscounting Operations. Through the CB regional offices in La Union, Davao and Cebu, rediscount loans granted in 1989 registered an increase of P18.5 million to a level of P157.8 million, while repayments rose by P37 million to P204.3 million. The improvement in repayment/collections may be attributed to the full-scale implementation of the rural bank rehabilitation program. Consequently, outstanding loans which aggregated P1.2 billion in 1989 manifested a reduction of P55 million from the level a year ago.

Securities Marketing and Servicing. Proceeds from the sale of securities in 1989 went up to P3.3 million or 175 percent more than the P1.2 million posted in 1988. This development was traced to the increased sale of securities at the La Union regional office. Meanwhile, the encashment/redemption of government securities/bonds declined in 1989 by P14 million to a level of P5.2 million.

Gold Buying Operations. In view of the bigger volume of deliveries to the CB Regional Office in Davao, purchases of panned gold increased markedly by 22.6 percent to 7,339.5 kilograms in 1989 from the level in 1988. Similarly, silver purchases rose even more sharply by 149.6 percent to 3,389.5 kilograms in the same period.

Clearing Operations. A total of 34.2 million checks (30.6 percent more than the number last year) valued at P439.2 billion were cleared by the regional clearing units in 1989. Checks for local clearing constituted 38.6 percent of the total checks cleared, while out-of-town checks and interregional checks shared 56.3 percent and 5.1 percent, respectively.

International Economic Cooperation

The CB participated actively in various activities and programs of international associations and organizations whose main tasks focused on the promotion of regional and international cooperation.

The first activity in which the CB participated during the year was the 24th Annual Conference of the Governors of South East Asian Central Banks (SEACEN) held in Thailand. In this meeting, major world economic developments and their impact on the SEACEN region as well as recent economic and monetary developments in member countries were discussed. Other important topics considered during the meeting were (1) the formulation of possible criteria for accepting new members given the desire of other countries in the region to join the SEACEN and (2) the establishment of a new formula for determining the annual contribution of member countries to the SEACEN Research and Training Centre. As part of its commitment to the SEACEN Centre, the CB hosted a one-month course on Financial Analysis, Programming and Policy for member countries and it was also involved in a collaborative research project on "Reserve Requirement as a Monetary Instrument in the SEACEN Countries."

The CB also participated in the 18th Meeting of the Council of Governors of the Central Banks of South East Asia, New Zealand and Australia (SEANZA) held in India. The more important matters agreed upon during the meeting pertained to the changes in the conduct of the central banking course such as the restructuring of the course syllabus to reflect recent financial developments including a greater emphasis on financial supervision and payments issues as well as the introduction of a management leadership training program.

Another important organization in the Southeast Asia region of which the CB is an active member is the Asian and Pacific Regional Agricultural Credit Association (APRACA). During the year, the CB was involved in some of the studies, workshops, seminars and training programs conducted by the Centre for Training and Research in Agricultural Banking (CENTRAB), the training and research arm of APRACA. A number of CB officials particularly those involved in the extension of credit and rural banking were invited as resource persons and/or lecturers in the training programs hosted by CENTRAB.

In the ASEAN, the CB extended its full support in carrying out projects aimed at enhancing economic cooperation in the region. In the field of banking, studies were undertaken to evaluate the use of ASEAN currencies in intra-ASEAN trade. Together with the Department of Finance, the CB was tasked to monitor the utilization in the Philippines of the ASEAN-Japan Development Fund (AJDF), a program of financial assistance extended by the Japanese government to support the development of the private sector by providing long-term market-oriented credit through financial intermediaries for production and investment projects. In the field of trade, the CB committed itself to further enhance the country's participation in the ASEAN Preferential Trading Arrangement (PTA). Toward this end, the CB assisted the Department of Trade and Industry in identifying (1) Philippine products which are currently subjected to non-tariff measures (NTMs) in other ASEAN countries for rollback negotiations and (2) products under the ASEAN-PTA whose margin of preference could still be subjected to further deepening. In the area of industrial development, the CB supported Thailand's proposal to establish a potash mining project as part of the ASEAN Industrial Project.

With regard to international monetary cooperation, the CB participated in meetings and other activities of the IMF, the World Bank and its affiliates and the Asian Development Bank (ADB). Aside from attending regular meetings of these institutions, the CB was able to negotiate for the availment of some credit financing arrangements offered by these institutions.

In the area of international trade cooperation, the CB continued to be actively involved in the ongoing Uruguay Round of Multilateral Trade Negotiation (URMTN) under the auspices of the General Agreements on Tariffs and Trade (GATT). The Bank provided inputs to Philippine positions on various negotiating topics such as Non-Tariff Measures, Functioning of the GATT System, the GATT Articles and Trade in Services. Moreover, the Philippine negotiating team to the URMTN is currently negotiating with other GATT contracting parties to credit the unilateral trade liberalization measures instituted by the country under the tariff reform and import liberalization programs as the country's contribution to the URMTN.

One of the more important developments during the year was the entry into force of the agreement establishing the Common Fund for Commodities. The Common Fund is an international financial institution envisioned to bring about stability and strength to international commodity markets, particularly in the interest of developing countries. The Philippines, which acceded to the agreement in 1981, is expected to benefit from its membership in this organization through participation in research and development projects aimed at stabilizing supply and prices of agricultural commodities of export interest to the country.

In coordination with other concerned agencies, the CB was able to complete the revision of the Philippine Standard Commodity Classification Manual (PSCCM) 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. The use of the PSCCM by the CB will start on January 1, 1990.

Training Programs/Technical Assistance

In 1989, the CB Institute implemented a continuing program on career development, supervisory and managerial techniques, as well as attitude enrichment and skill development for CB personnel as well as for participants from financial institutions under the Bank's supervision and from other countries. During the year, the CB Institute conducted a total of 54 training courses consisting of 266 offerings and attended by 8,402 participants, of which 4,429 were CB personnel.

Aside from the various management, technical and computer courses offered for CB personnel, the Institute conducted specialized lecture series on current issues affecting the country as well as specialized courses on self-help livelihood programs. Courses were also offered for regional office personnel to enhance their work efficiency.

Programs geared toward assisting banks and non-bank financial intermediaries cope with the changes and developments in the financial system were likewise conducted. In particular, the Introduction to Computer Course and the Microbanker Course were offered to help increase the efficiency of the rural banks by familiarizing the participants with the different computer languages and operations. The Basic Management Skills Course was also conducted with top-level executives of rural banks as participants in order to enhance their management skills.

The Institute continued its training assistance to other countries by mounting courses on agricultural credit, credit guarantee operations and the microbanker system of rural banks. Benefitting from these courses were 25 bank officers from Nepal, Kenya, Indonesia, the US, Sri Lanka and Yugoslavia.

Under the CB Scholarship Program, the Institute extended assistance to deserving CB employees in pursuing masteral academic courses, 14 of which were in local universities and two in foreign schools. Administrative and financial support was also given to 12 grantees under the National Scholarship for Development (NSFD) Program Study-Now-Pay-Later Plan, 11 deserving children of CB employees, 153 grantees in different local non-degree programs sponsored by the Government and the private sector, and 39 grantees in workshops and seminars in foreign countries either as participants or resource persons.

As a continuing program of the Institute to help generate foreign currency through exports, a seminar on Expanded Export Financing attended by 649 exporters and potential exporters was held in 1989.

The Institute was also able to develop and publish new lecture materials/ handouts on such varied subject matters as fund management, pricing of bank services, liquidity management, bank risk management and rural bank financial analysis. Corresponding to these new lecture/training materials, ready-to-use simple and applicatory bank operating forms were likewise designed for eventual use by the operating departments of the Bank.

New Committees

The CB during the year constituted fourteen new committees, a number of which were ad-hoc in nature to help carry out increasing activities of the Bank as required by new developments. These are:

1. Ad-Hoc Preparatory Committee (Office Order No. 11, January 26, 1989)—created to undertake the necessary arrangements for the conduct of the SEACEN-IMF Course on Financial Analysis, Programming and Policy on February 14 - March 31, 1989 hosted by the CB.

2. Multivision Review Panel and Coordinating Staff (Office Order No. 14, January 26, 1989)—organized to take charge of the programming of the full color multivision presentation of the history of the Philippines to be used for educational purposes by the general public, upon proper representation with the Philippine International Convention Center as custodian.

3. Placement Committee in the Bank (Office Order No. 15, February 8, 1989)—constituted pursuant to R.A. No. 6656 to assist the Governor in the implementation of the reorganization of the CB particularly in the selection and placement of personnel based on the criteria provided for in Section 6 of the Rules on Reorganization of the Civil Service Commission.

4. Inter-Agency Committee to Study and Review Existing Laws and Procedures Governing Debt Recovery and Procedure (Office Order No. 20, February 10, 1989)—created pursuant to M.B. Resolution No. 8 dated January 6, 1989 to study and review existing laws and procedures governing debt recovery and insolvency, and to draft appropriate amendments for submission to Congress, and to the Monetary Board not later than December 1989.

5. Integrity Board (Office Order No. 21, January 31, 1989)—set up with authority to hear administrative complaints/cases against officers and employees of the CB involving the commission of crimes punishable under the Anti-Graft and Corrupt Practices Act (R.A. No. 3019 as amended), Title 7 of the Revised Penal Code, CB Charter (R.A. No. 265 as amended) Sections 15, 23 and 27, and Civil Service Rules and Regulations.

6. Congressional Liaison Committee (Office Order No. 22, February 10, 1989)—constituted to coordinate with both houses of Congress on matters affecting CB functions and activities as well as to represent the Bank in hearings of appropriate congressional committees and lend support to such committees as the need arises.

7. Ad-Hoc Inter-Agency Committee to Review the Accounts in the Central Bank Net Income Position (Office Order No. 38, March 29, 1989)—created to review the various CB accounts in terms of their contribution to CB income and to make recommendations on how to improve its income position.

8. Ad-Hoc Steering Committee for the Fourth Technical Meeting of Mints in ASEAN (TEMAN) (Office Order No. 42, March 30, 1989)—constituted to take charge of the necessary preparation and arrangement for the aforesaid meeting hosted by the CBP in October/November 1989.

9. Special Committee on Staff Publication of the Staff Papers and Technical Papers Series of the Central Bank (Office Order No. 61, May 11, 1989)—organized for the greater public dissemination of information on the financial system and to encourage CB officials to write technical papers.

10. Ad-Hoc Committee for the Transfer of the Apex Fund to Development Bank of the Philippines (Office Order No. 63, May 11, 1989)—created pursuant to M.B. Resolution No. 246 dated March 27, 1989 to take all necessary actions to implement the transfer of the Apex fund to the Development Bank of the Philippines.

11. Ad-Hoc CB-PICC Committee on Prequalification, Bids and Awards (Office Order No. 71, June 14, 1989)—set up to take charge of the bidding for a new food concessionaire of the Philippine International Convention Center. The Committee is expected to have complied with its terms of reference by end-August 1989, before the advent of the peak season for meetings, conferences and conventions.

12. Ad-Hoc Committee on Bidding of the Central Bank Vacant Lots near the Cebu Plaza Hotel, Cebu City (Office Order No. 73, June 23, 1989)—organized to conduct biddings on CB vacant lots near the Cebu Plaza Hotel in Cebu City in accordance with the guidelines as may be presented by the Prequalification, Bids and Awards Committee and Monetary Board.

13. Ad-Hoc Committee on the Transfer of the Agricultural Loan Fund (ALF) to the Land Bank of the Philippines (Office Order No. 74, June 27, 1989)—set-up on July 31, 1989 to take all courses of action as may be necessary for the expeditious and smooth implementation of said transfer by September 30, 1989.

14. Ad-Hoc Committee to Take Charge of the Preparations for the Inauguration of the New Premises of the Money Museum (Office Order No. 107, September 1, 1989)—to undertake the necessary preparations for the inauguration of the new premises of the Money Museum at the Museo ng Bangko Sentral in December 1989 as the concluding activity of the 40th anniversary celebration of the CB.

Reconstituted/Extended Committees. During the year, the reorganization of twenty-two existing committees were also undertaken largely involving changes in membership in response to personnel movement in the CB and to effect the smooth implementation of the terms of reference of these committees.

FINANCIAL CONDITION OF THE CENTRAL BANK

TOTAL ASSETS of the CB at P385.9 billion as of the end of 1989 rose at an annual rate of 10.3 percent or P36.0 billion (Table 18). The increment reflected mainly an increase of P14.4 billion in the Exchange Stabilization Adjustment Account and P6.1 billion in the Monetary Adjustment Account. Revaluation adjustments effected an increase in international reserves of P8.1 billion. Despite the repayments made by the National Government under the Consolidated Foreign Borrowings Program (CFBP), loans and advances of the CB recorded a P1.5 billion increase due largely to the increased credits extended under the rediscounting window. The CB holdings of government securities declined by P0.7 billion, due mainly to the redemption of Treasury bonds.

On the other hand, outstanding liabilities of the CB reached P385.0 billion, up by 10.3 percent from P349.1 billion in 1988. About three-fourths of this increase was traced to the build-up in deposits which may be partly explained by the 15 percentage point increase in the reserve requirement on long-term deposits and by the surplus reserve position of commercial banks towards yearend. A significant portion of these deposits consisted of National Government deposits which rose from P58.2 billion to P69.6 billion, representing proceeds from Treasury issues. The build-up in National Government deposits was the policy instrument used to control liquidity expansion. Another source of increase in liabilities was the P13.5 billion expansion in currency issued.

The CB's net worth improved by 11.6 percent over the 1988 level to P873.2 million in 1989. This growth largely reflected the substantial improvement in capital reserves and surplus by P86.5 million and P4.8 million respectively, offsetting the P0.7 million decline in net earnings from foreign investments, holdings of government securities and all other income during the year.

Table 18. STATEMENT OF CONDITION OF THE CENTRAL BANK
As of End 1988-1989
(In Million Pesos)

Account	1989	1988	Changes Amount	Changes Percent
Total Assets	385,889.7	349,932.7	35,957.0	10.3
International Reserves	51,591.5	43,485.6	8,105.9	18.6
Domestic Securities[1]	10,520.9	11,200.3	-679.4	-6.1
Loans and Advances	66,146.6	64,672.5	1,474.1	2.3
Revaluation of International Reserves	127,768.3	125,255.5	2,512.8	2.0
Monetary Adjustment Account	40,805.6	34,688.1	6,117.5	17.6
Bank Premises and Other Fixed Assets	2,167.4	2,121.0	46.0	2.2
Exchange Stabilization Adjustment Account	64,254.4	49,819.9	14,434.5	29.0
Other Assets	22,635.0	18,689.8	3,945.2	21.1
Total Liabilities and Net Worth	385,889.7	349,932.7	35,957.0	10.3
Total Liabilities	385,016.5	349,150.1	35,866.4	10.3
Currency Issued	60,027.3	46,551.7	13,475.6	28.9
Deposits	186,915.3	160,608.8	26,306.5	16.4
Foreign Loans Payable	117,766.7	119,470.3	-1,703.6	-1.4
Allocation of Special Drawing Rights	3,433.8	3,347.5	86.3	2.6
CB Certificates of Indebtedness	42.2	169.4	-127.2	-75.1
Other Liabilities	16,831.2	19,002.4	-2,171.2	-11.4
Total Net Worth	873.2	782.6	90.6	11.6
Capital	10.0	10.0	-	-
Surplus	377.6	372.8	4.8	1.3
Donated Surplus	0.4	0.4	-	-
Capital Reserves	466.4	379.9	86.5	22.8
Undivided Profits	18.8	19.5	-0.7	-3.6

[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**
1988-1989
(FOB Value in Million US Dollars)

Commodity	1989 Value	1989 Percent Distribution	1988 Value	1988 Percent Distribution
Total Exports	**7,821**	**100.0**	**7,074**	**100.0**
Semi-Conductor Devices	648	8.3	693	9.8
Coconut Oil	377	4.8	408	5.8
Consigned Children's & Infants' Wear	336	4.3	276	3.9
Copper Metal	330	4.2	295	4.2
Electronic Microcircuits	320	4.1	358	5.1
Consigned Finished Electronic and Electrical Mach. Equipment & Parts	278	3.6	159	2.2
Copper Concentrates	237	3.0	216	3.1
Consigned Women's Wear	235	3.0	219	3.1
Shrimps and Prawns	231	3.0	250	3.5
Consigned Men's Wear	226	2.9	197	2.8
Total Ten Principal Exports	3,218	41.1	3,071	43.4
Others	4,603	58.9	4,003	56.6

Source: National Statistics Office

Table A-02. **TEN PRINCIPAL IMPORTS**
1988-1989
(FOB Value in Million US Dollars)

Commodity	**1989** Value	**1989** Percent Distribution	**1988** Value	**1988** Percent Distribution
Total Imports	**10,419**	**100.0**	**8,159**	**100.0**
Mineral Fuels, Lubricants & Related Materials	1,396	13.4	1,096	13.4
Machinery Other than Electric	1,091	10.5	708	8.7
Base Metals	917	8.8	599	7.3
Electrical Machinery, Apparatus & Appliances	774	7.4	579	7.1
Transport Equipment	671	6.4	357	4.4
Explosive, Miscellaneous Chemical Materials & Products	433	4.2	344	4.2
Chemical Elements & Compounds	410	3.9	367	4.5
Cereal & Cereal Preparation	339	3.3	228	2.8
Textile Fibers Not Manufactured Into Thread & Yarn	165	1.6	156	1.9
Manufactures of Metal	117	1.1	85	1.0
Total Ten Principal Imports	6,313	60.6	4,519	55.4
Others	4,106	39.4	3,640	44.6

Source: National Statistics Office

Table A-03. **MONTHLY VALUES OF EXPORTS AND IMPORTS 1988-1989 (FOB Value in Million US Dollars)**

Month	1989 Exports	1989 Imports	1988 Exports	1988 Imports
Total	**7,821**	**10,419**	**7,074**	**8,159**
January	576	704	492	605
February	566	661	527	585
March	636	855	532	595
April	648	938	534	632
May	677	885	560	679
June	659	870	619	713
July	707	929	618	712
August	666	999	640	809
September	677	862	628	756
October	676	969	592	731
November	651	894	610	700
December	682	853	722	642

Source: National Statistics Office

Table A-04. **DIRECTION OF TRADE**
1988-1989
(FOB Value in Million US Dollars)

Country	1989 Imports	1989 Percent Distribution	1989 Exports	1989 Percent Distribution	1988 Imports	1988 Percent Distribution	1988 Exports	1988 Percent Distribution
Total	**10,419**	**100.0**	**7,821**	**100.0**	**8,159**	**100.0**	**7,074**	**100.0**
United States	1,979	19.0	2,946	37.7	1,715	21.0	2,516	35.6
Japan	2,043	19.6	1,586	20.3	1,421	17.4	1,420	20.1
European Economic Community	1,172	11.2	1,327	17.0	1,040	12.7	1,212	17.1
Middle East Countries	1,010	9.7	123	1.6	797	9.8	100	1.4
ASEAN	1,047	10.0	532	6.8	754	9.2	492	7.0
Socialist Countries	289	2.8	76	1.0	302	3.7	91	1.3
Other Countries	2,879	27.6	1,231	15.7	2,130	26.1	1,243	17.6

Source: National Statistics Office

Table A-05. **PURCHASES AND SALES OF FOREIGN EXCHANGE BY THE CENTRAL BANK 1989 (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)
1989								
Jan	250.85	243.70	-	7.15	163.30	144.23	-	19.07
Feb	220.10	208.68	-	11.42	118.81	118.50	-	0.31
Mar	268.93	256.25	-	12.68	120.20	120.03	-	0.17
Apr	213.41	204.36	-	9.05	165.92	163.62	-	2.30
May	223.52	211.84	-	11.68	182.79	182.39	-	0.40
Jun	210.08	205.10	-	4.98	177.96	177.34	-	0.62
Jul	200.09	189.29	-	10.80	203.68	195.77	-	7.91
Aug	192.75	183.41	-	9.34	163.38	163.38	-	-
Sep	345.20	336.35	-	8.85	139.29	139.29	-	-
Oct	348.61	334.32	-	14.29	139.38	139.38	-	-
Nov	206.38	203.48	-	2.90	138.32	136.70	-	1.62
Dec	202.81	199.28	-	3.53	170.04	169.68	-	0.36

[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 1988-1989 (In Million Pesos)

Item	1989[p]	1988
Total	**76,667.6**	**75,872.8**
1. Loans and Advances	66,146.7	64,672.5
A. Budgetary & Subscription Payment Loans	2,490.7	2,523.6
B. Rediscounting[1]	10,177.4	9,945.7
C. Repurchase Agreements	331.8	448.4
D. CFBP Loans[2]	30,988.5	31,296.1
E. APEX Loans	568.8	802.2
F. IBRD Loans[3]	251.6	265.0
G. Overdrafts[4]	13,016.2	12,881.7
H. Advances Under Various Debt Restructuring Schemes	5,629.9	4,218.9
I. Others	2,691.8	2,290.9
2. Domestic Securities[5]	10,520.9	11,200.3
A. PW and ED Bonds[6]	62.5	68.5
B. Treasury Notes	3,245.0	3,195.3
C. Treasury Bonds	5,350.5	7,055.6
D. Capital/Treasury Bonds	400.0	400.0
E. Capital/Treasury Notes	302.3	237.0
F. Treasury Capital Bonds	75.0	38.5
G. Treasury Bills	906.7	21.5
H. Others	178.9	183.9

[1] Includes rediscount loans 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] Including Treasury Notes and Bonds issued against RP-Japan Commodity Loan Agreement
[6] Public Works and Economic Development Bonds
[p] Preliminary

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

Table A-07. **OUTSTANDING CENTRAL BANK REDISCOUNT LOANS, BY INSTITUTION**[1]
As of End 1988-1989
(In Million Pesos)

Institution	1989P	1988	Percent Distribution 1989	Percent Distribution 1988
Total	**7,693**	**7,191**	**100.0**	**100.0**
1. Commercial Banks	4,459	3,678	58.0	51.1
2. Specialized Banks	-	-	-	-
3. Thrift Banks	263	321	3.4	4.5
4. Rural Banks	2,601	2,721	33.8	37.8
5. Non-Banks	370	471	4.8	6.5

[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.

[p]Preliminary

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 1988-1989
(In Million Pesos)

Institution	1989[P]	1988	Percent Distribution 1989	Percent Distribution 1988
Total	**7,060**	**6,399**	**100.0**	**100.0**
1. Commercial Banks	4,459	3,678	63.2	57.5
a. Rice and Corn	-	-	-	-
b. Exports	2,688	1,999	38.1	31.2
c. Emergency	1,402	1,445	19.9	22.6
d. Others	369	234	5.2	3.7
2. Rural Banks	2,601	2,721	36.8	42.5
a. Masagana 99	253	259	3.6	4.0
b. Supervised Credit	1,000	1,054	17.3	16.5
c. Non-Supervised Credit	1,109	1,127	17.2	17.6
d. Emergency	5	5	0.1	0.1
e. Others	234	276	3.3	4.3

[P]Preliminary

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

Table A-09. **LOANS OUTSTANDING OF COMMERCIAL BANKS[1]**
BY INDUSTRY
As of End-September 1988-1989
(In Million Pesos)

Sector	1989	1988	Changes Amount	Changes Percent
Total[2]	**290,437.0**	**128,785.9**	**161,651.1**	**125.5**
Agriculture, Fishery and Forestry	21,260.1	12,907.0	8,353.1	64.7
Mining and Quarrying	16,279.3	7,714.4	8,564.9	111.0
Manufacturing	113,830.3	47,207.2	66,623.1	141.1
Electricity, Gas and Water	2,629.6	1,088.2	1,541.4	141.6
Construction	4,956.5	2,482.5	2,474.0	99.7
Trade	47,032.5	18,114.9	28,917.6	159.6
Transport, Storage and Communication	10,042.2	4,082.0	5,960.2	146.0
Financing, Insurance and Business Services	28,991.6	9,898.3	19,093.3	192.9
Real Estate	9,661.8	5,600.8	4,061.0	72.5
Community, Social and Personal Services	13,153.0	6,297.1	6,855.9	108.9
Others, n.e.c.[3]	22,600.1	13,393.5	9,206.6	68.7

[1]Based on the regular concept of "commercial banks" which excludes the Land Bank of the Philippines.
[2]Data reflected the transfer of non-performing assets of PNB
[3]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,[1] BY REGION As of End -September 1988-1989 (In Million Pesos)**

Region		1989	1988	Changes Amount	Changes Percent
Total[2]		267,836.9	115,392.4	152,444.5	132.1
National Capital Region		224,651.8	87,416.0	137,235.8	157.0
I	Ilocos & Mt. Province	2,176.7	2,433.3	-256.6	-10.5
II	Cagayan Valley	1,269.5	927.9	341.6	36.8
III	Central Luzon	4,542.3	2,873.9	1,668.4	58.1
IV	Southern Tagalog	4,502.1	1,286.5	3,215.6	249.9
V	Bicol Region	1,178.4	7,571.9	-6,393.5	-84.4
VI	Western Visayas	11,056.4	5,240.1	5,816.3	111.0
VII	Central Visayas	10,762.4	4,017.4	6,745.0	167.9
VIII	Eastern Visayas	876.0	643.9	232.1	36.0
IX	Western Mindanao	711.5	324.2	387.3	119.5
X	Northern Mindanao	2,204.1	710.5	1,493.6	210.2
XI	Southern Mindanao	2,933.9	1,431.6	1,502.3	104.9
XII	Central Mindanao	971.8	515.2	456.6	88.6

[1]Based on the regular concept of "commercial banks" which excludes the Land Bank of the Philippines.
[2]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 1988-1989
(In Million Pesos)

Sector	1989	1988	Percent Distribution 1989	Percent Distribution 1988
Total	**19,101.0**	**13,693.5**	**100.0**	**100.0**
Agriculture	2,629.5	2,608.5	13.8	19.1
Commercial	2,764.3	1,855.1	14.4	13.5
Industrial	1,136.0	824.5	5.9	6.0
Real Estate	4,925.1	3,666.7	25.8	26.8
Consumption	2,383.7	896.5	12.5	6.5
Others	5,262.4	3,842.2	27.6	28.1

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

Table A-12. **LOANS OUTSTANDING OF SAVINGS BANKS, BY REGION**
As of End-September 1988-1989
(In Million Pesos)

Region	1989	1988	Changes Amount	Changes Percent
Total	**11,892.4**	**6,643.3**	**5,249.1**	**79.0**
National Capital Region	11,683.6	6,557.2	5,126.4	78.2
I Ilocos & Mt. Province	-	-	-	-
II Cagayan Valley	-	-	-	-
III Central Luzon	88.7	77.3	11.4	14.7
IV Southern Tagalog	63.6	1.2	62.4	5,200.0
V Bicol Region	-	-	-	-
VI Western Visayas	-	-	-	-
VII Central Visayas	18.6	-	18.6	100.0
VIII Eastern Visayas	-	-	-	-
IX Western Mindanao	37.9	7.6	30.3	398.7
X Northern Mindanao	-	-	-	-
XI Southern Mindanao	-	-	-	-
XII Central Mindanao	-	-	-	-

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

Table A-13. **TOTAL LOANS OUTSTANDING OF PRIVATE DEVELOPMENT BANKS BY REGION**
As of End-September 1988-1989
(In Million Pesos)

Region	1989 Total	1989 Ratio	1988 Total	1988 Ratio	Changes Amount	Changes Percent
Total	**4,251.3**	**100.0**	**3,206.6**	**100.0**	**1,044.7**	**32.6**
National Capital Region	1,363.2	32.1	1,036.8	32.3	326.4	31.5
I Ilocos & Mt. Province	28.0	0.7	27.2	0.8	0.8	2.9
II Cagayan Valley	-	-	-	-	-	-
III Central Luzon	1,420.6	33.4	1,065.4	33.3	355.2	33.3
IV Southern Tagalog	984.1	23.1	766.4	23.9	217.7	28.4
V Bicol Region	27.2	0.6	24.6	0.8	2.6	10.6
VI Western Visayas	122.0	2.9	109.2	3.4	12.8	11.7
VII Central Visayas	81.5	1.9	65.6	2.0	15.9	24.2
VIII Eastern Visayas	0.8	0.0	1.2	0.0	(0.4)	-33.3
IX Western Mindanao		-	-	-	-	-
X Northern Mindanao	164.0	3.9	69.4	2.2	94.6	136.3
XI Southern Mindanao	59.9	1.4	40.8	1.3	19.1	46.8
XII Central Mindanao	-	-	-	-	-	-

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

Table A-14. **LOANS OUTSTANDING OF SPECIALIZED GOVERNMENT BANKS[1], BY PURPOSE**
As of End-September 1988-1989[a]
(In Million Pesos)

Item	1989	1988	Percent Distribution 1989	Percent Distribution 1988
Total	**12,971.4**	**10,006.6**	**100.0**	**100.0**
Agriculture	4,084.4	3,947.4	31.5	39.4
Commercial	514.1	363.9	4.0	3.6
Industrial	4,736.4	2,101.7	36.5	21.0
Real Estate	125.0	1,266.0	1.0	12.7
Consumption	68.0	88.0	0.5	0.9
Others[2]	3,443.5	2,239.6	26.5	22.4

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

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

Table A-15. **LOANS OUTSTANDING OF SPECIALIZED GOVERNMENT BANKS[1], BY REGION**
As of End 1988-1989
(In Million Pesos)

Region	1989	1988	Changes Amount	Changes Percent
Total	**6,082.9**	**4,458.6**	**1,624.3**	**36.4**
National Capital Region	3,232.6	2,531.6	701.0	27.7
I Ilocos & Mt. Province	247.4	76.3	171.1	224.2
II Cagayan Valley	505.4	393.8	111.6	28.3
III Central Luzon	1,212.8	832.1	380.7	45.8
IV Southern Tagalog	207.1	93.3	113.8	122.0
V Bicol Region	205.6	154.8	50.8	32.8
VI Western Visayas	30.0	30.7	-0.7	-2.3
VII Central Visayas	113.1	90.7	22.4	24.7
VIII Eastern Visayas	89.4	67.3	22.1	32.8
IX Western Mindanao	76.6	75.8	0.8	1.1
X Northern Mindanao	43.0	41.1	1.9	4.6
XI Southern Mindanao	106.0	52.9	53.1	100.4
XII Central Mindanao	13.9	18.2	-4.3	-23.6

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

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 1988-1989
(In Million Pesos)

Item	1989	1988	Percent Distribution 1989	Percent Distribution 1988
Total	**8,742.5**	**7,833.3**	**100.0**	**100.0**
Agriculture	6,071.6	5,752.8	69.4	73.4
Commercial	1,050.8	844.7	12.0	10.8
Industrial	320.5	235.6	3.7	3.0
Others	1,299.6	1,000.2	14.9	12.8

Source: Supervisory Reports Office, Central Bank of the Philippines

Table A-17. **WEIGHTED AVERAGE INTEREST RATES**
1988-1989
(In Percent Per Annum)

Type	Nominal 1989	Nominal 1988	Real[4] 1989	Real[4] 1988
I. Borrowing Rates of Banks				
a. WAIR on Interbank[1]	15.362	14.239	4.762	5.439
b. Savings Deposits	4.374	4.100	-6.226	-4.700
c. Time Deposits (All Maturities)	16.982	13.392	6.382	4.592
d. Manila Reference Rate (MRR)				
60 Days	16.125	12.812	5.525	4.012
90 Days	15.688	10.688	5.088	1.888
180 Days	15.688	14.750	5.088	5.950
All Maturities	16.312	12.375	5.712	3.575
II. Lending Rates				
e. Secured Loans (All Maturities)	19.457	15.998	8.857	7.198
III. Central Bank Rates				
f. Repurchase (Term)	31.253	20.494	20.653	11.694
g. Reverse R/P (Term)	17.607	13.114	7.007	4.314
h. Overdrafts[2]	22.493	21.320	11.893	12.520
i. Emergency Loans and Advances[2]	20.337	16.404	9.737	7.604
j. Rediscounts[3]	10.0, 12.0	10.000	-0.6, 1.4	1.200
IV. Central Bank Bills/Treasury Bills				
k. CB Bills (All Maturities)	18.251	14.633	7.651	5.833
l. Treasury Bills (All Maturities)	19.678	15.510	9.078	6.710

[1]Data furnished by CB Treasury Office
[2]Average prescribed rates
[3]The prescribed rediscount rate was reduced to 10.0 percent on December 15, 1986 but increased to 12.0 percent on June 23, 1989.
[4]Nominal rates less the average inflation rate for the year

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

Table A-18. **WEIGHTED AVERAGE INTEREST RATES ON DEPOSITS/ SECURED LOANS OF SAMPLE COMMERCIAL BANKS, 1988-1989**
(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
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
1989 Jan	4.054	11.136	10.142	15.785	16.929	17.931	16.989
Feb	4.081	11.766	14.967	14.806	16.763	17.508	17.883
Mar	4.102	11.516	11.985	15.653	16.541	17.090	17.858
Apr	4.080	11.776	9.660	14.835	16.818	17.567	17.706
May	4.104	12.194	15.000	14.946	17.407	17.235	16.713
Jun	4.480	13.353	11.330	14.526	18.284	19.519	18.386
Jul	4.521	13.947	11.984	15.110	17.736	20.009	19.016
Aug	4.578	14.834	12.919	15.837	19.857	17.681	20.825
Sep	4.540	18.082	13.563	17.524	20.085	23.776	22.171
Oct	4.483	18.403	12.888	21.252	22.544	25.098	24.102
Nov	4.667	18.085	15.368	20.585	23.463	25.889	24.334
Dec	4.798	18.509	10.755	18.636	23.948	21.780	22.611

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

Table A-19. **REAL INTEREST RATES**[1]
1989
(In Percent Per Annum)

Month	Lending Rate Secured Loans (All Maturities)	Savings Deposit Rates	Time Deposit Rates (All Maturities)
January	6.051	-4.946	4.970
February	8.240	-4.519	4.540
March	8.939	-3.598	6.926
April	8.794	-4.020	4.366
May	8.629	-4.596	4.258
June	8.609	-5.220	4.409
July	7.595	-5.779	4.508
August	8.234	-7.122	3.627
September	7.712	-8.060	5.420
October	9.330	-8.917	7.258
November	10.735	-8.133	7.215
December	9.668	-9.302	4.491

[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 1988-1989

Institution	1989[p]	1988	Percent Change
Total	7,157	6,916	3.5
1. Commercial Banks	1,788	1,774	0.8
2. Thrift Banks	674	664	1.5
3. Specialized Government Banks	76	76	0.0
4. Rural Banks	1,040	1,048	-0.8
5. Non-Bank Financial Institutions	3,579[a]	3,354	6.7

[a]As of September 1989
[p]Preliminary, as of November 1989

Source: Supervisory Reports and Corporate Analysis Department, Central Bank of the Philippines

Table A-21. **OUTSTANDING DEPOSITS OF THE BANKING SYSTEM**
As of End 1988-1989
(In Million Pesos)

Item	1989p Total	1989p Demand	1989p Savings	1989p Time	1988 Total	1988 Demand	1988 Savings	1988 Time
I. By Institution	276,695.4	30,085.4	148,881.7	97,728.3	226,808.1	24,115.5	127,664.4	75,028.2
1. Commercial Banks*	245,688.0[c]	29,551.0	130,009.0	86,128.0	198,748.0	23,555.0	110,039.0	65,154.0
2. Thrift Banks	22,446.2[p]	487.1	14,378.0	7,581.1	19,106.8	487.8	12,620.0	5,999.0
A. Savings Banks	14,416.4[c]	334.5	10,040.6	4,041.3	12,196.1	266.4	8,898.8	3,030.9
B. Private Development Banks	5,133.0[b]	152.6	2,746.6	2,233.8	4,469.9	221.4	2,331.2	1,917.3
C. Stock Savings and Loan Associations	2,896.8[c]	-	1,590.8	1,306.0	2,440.8	-	1,390.0	1,050.8
3. Specialized Government Banks*	2,445.8[c]	19.8	394.6	2,031.4	3,684.3	41.4	1,486.3	2,156.6
4. Rural Banks	6,115.4[a]	27.5	4,100.1	1,987.8	5,269.0	31.3	3,519.1	1,718.6

*Commercial Banks - Including the Land Bank of the Philippines
Specialized Government Banks - Consisting of the Development Bank of the Philippines and the Philippine Amanah Bank
[a]As of September 1989
[b]As of October 1989
[c]As of November 1989
[p]Preliminary

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

Table A-22. **FOREIGN CURRENCY DEPOSIT SYSTEM 1988-1989 (In Million US Dollars)**

Item	1989	1988
Gross Resources	3,655	3,344
Of which:		
Deposit Liabilities	2,049	1,482
Demand	38	10
Savings	636	626
Time	1,375	846
Placements/Lendings	3,307	2,514
Banks	2,378	1,613
Non-Banks	929	901
Net Earnings After Tax	145	129

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines

Table A-23. **PHILIPPINE OFFSHORE BANKING SYSTEM 1988-1989 (In Million US Dollars)**

Item	1989	1988
Gross Resources	2,749	2,991
Of which:		
Deposits/Borrowings	2,637	2,886
A. Banks	2,594	2,861
B. Non-Banks	43	25
Placements/Lendings	2,634	2,891
A. Banks	1,552	1,728
B. Non-Banks	1,082	1,163
Earnings and Expenses		
A. Earnings	330	418
Onshore	126	136
Offshore	204	282
B. Expenses	269	375
C. Net Earnings After Tax	59	39

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines

Table A-24. **MONEY MARKET TRANSACTIONS, BY INSTRUMENT 1988-1989 (Volume in Million Pesos/WAIR in Percent Per Annum)**

Item	1989		1988		Percent Change (Volume)
	Volume	WAIR	Volume	WAIR	
Total	904,951	15.676	780,051	13.676	16.0
Interbank Call Loans	360,852	15.214	303,503	14.570	18.9
Promissory Notes[1]	80,651	14.023	104,076	11.996	-22.5
Repurchase Agreements (Private)[1]	11	16.989	817	12.311	-98.7
Repurchase Agreements (Government)[1]	3,074	28.906	3,526	19.379	-12.8
Commercial Paper (Non-Financial)	20,933	16.915	16,835	13.527	24.3
Commercial Paper (Financial)	-	-	117	12.461	-100.0
Treasury Bills	361,141	16.290	295,266	13.270	22.3
DBP Bonds	-	-	137	8.898	-100.0
Other Government Securities	78,289	15.524	55,774	13.820	40.4

[1]Including those with tax

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

Table A-25. STOCK MARKET TRANSACTIONS
1988-1989
(Volume in Million Shares/Value in Million Pesos)

Item	1989		1988		Percent Change	
	Volume	Value	Volume	Value	Volume	Value
Total	456,276	53,762	270, 129	23,859	68.9	125.3
Commercial and Industrial	2,340	32,074	572	11,431	309.1	180.6
Mining	133,353	12,992	84,464	8,746	57.9	48.5
Oil	320,583	8,696	185,093	3,682	73.2	136.2

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

Table A-26. **PUBLIC INTERNAL DEBT OUTSTANDING**[1]
As of End 1988-1989
(In Million Pesos)

Item	1989[P]	1988	Percent Change
Internal Debt	**237,250**	**207,179**	**14.5**
National Government	225,212	195,015	15.5
Local Governments	116	116	0.0
Government Corporations	5,879	8,082	-27.3
Guaranteed	2,866	5,540	-48.3
Non-Guaranteed	3,013	2,542	18.5
Monetary Institutions	6,043	3,966	52.4

[1] Excludes transferred debt of the Philippine National Bank and Development Bank of the Philippines to the National Government
[P] Preliminary

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

Table A-27. **GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN 1987-1989 (In Million Pesos, At Constant 1972 Prices)**

Item	1987	1988[1]	1989[2]	Growth Rates 1988-87	Growth Rates 1989-88
1. Agriculture, Fishery & Forestry	26,834	27,771	28,887	3.5	4.0
a. Agriculture and Fishery	26,186	27,082	28,255	3.4	4.3
b. Forestry	648	689	632	6.3	-8.3
2. Industrial Sector	30,608	33,205	35,562	8.5	7.1
a. Mining & Quarrying	1,547	1,615	1,571	4.4	-2.7
b. Manufacturing	23,186	25,251	26,990	8.9	6.9
c. Construction	3,967	4,344	4,865	9.5	12.0
d. Electricity, Gas & Water	1,908	1,995	2,136	4.6	7.1
3. Services (Tertiary Sector)	38,039	40,422	43,017	6.3	6.4
a. Transportation	5,251	5,487	5,764	4.5	5.0
b. Trade	15,153	15,998	17,006	5.6	6.3
c. Finance	5,832	6,250	6,862	7.2	9.8
d. Other Services	11,803	12,687	13,385	7.5	5.5
Private	6,106	6,445	6,775	5.6	5.1
Government	5,697	6,242	6,610	9.6	5.9
Gross Domestic Product	95,481	101,398	107,466	6.2	6.0
Net Factor Income from Abroad	(666)	(348)	(807)	-47.7	131.9
Gross National Product	94,815	101,050	106,659	6.6	5.6

[1] Revised as of December 1989
[2] Advanced estimates

Source: National Statistical Coordination Board (NSCB)

Table A-28. **SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS 1987-1989**

	1987	1988	1989
Employment Status			
Labor Force ('000)	22,563	23,449	24,126
Employed	20,040	21,205	21,905
Unemployed	2,523	2,244	2,221
Unemployment Rate	11.2	9.6	9.2
Overseas Employment (deployed)	449,271	471,030	458,626
Land-based	382,229	385,117	355,346
Sea-based	67,042	85,913	103,280
Strikes			
Number of New Strikes	436	267	197
Number of Workers Involved ('000)	90	76	57
Real Legislated Wage Rates (In Pesos at 1978 Prices)			
Agricultural			
Plantation	13.11	14.84	16.49
Non-Plantation	10.04	11.95	12.64
Non-agricultural			
National Capital Region (NCR)	14.73	15.93	17.37
Areas Outside NCR	15.74	17.58	18.97

Source of Data: Department of Labor and Employment (DOLE)

Table A-29. **CONSUMER PRICE INDEX IN THE PHILIPINES, NATIONAL CAPITAL REGION (NCR) AND ALL AREAS OUTSIDE NCR 1988-1989 (1978=100)**

Commodity Group	Philippines 1989	Philippines 1988	Philippines Percent Change	National Capital Region 1989	National Capital Region 1988	National Capital Region Percent Change	All Areas Outside the NCR 1989	All Areas Outside the NCR 1988	All Areas Outside the NCR Percent Change
All Items	443.5	401.0	10.6	477.2	435.3	9.6	437.0	394.4	10.8
Food, Beverages & Tobacco	429.5	380.4	12.9	454.3	409.7	10.9	425.6	375.8	13.3
Non-Food	462.9	429.7	7.7	498.4	459.1	8.6	454.0	422.3	7.5
Clothing	470.3	441.5	6.5	516.3	491.5	5.0	461.0	431.4	6.9
Housing & Repairs	454.6	405.7	12.1	513.1	449.5	14.1	436.3	392.1	11.3
Fuel, Light & Water	576.2	552.2	4.3	722.8	682.2	6.0	549.0	528.2	3.9
Services	440.2	410.6	7.2	439.7	409.9	7.3	440.4	410.8	7.2
Miscellaneous	420.7	392.8	7.1	420.5	396.0	6.2	420.7	392.2	7.3

Source: National Statistics Office (NSO)

Table A-30. FLOW OF FUNDS SUMMARY MATRIX BY SECTOR, 1988[p]
(In Million Pesos)

Sectors	WHOLE ECONOMY — 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		40,984		39,562		48,927		17,206		146,679		-5,465
Capital Consumption		35,580		22,812		16,630		-103		74,919		-
Net Savings		5,404		16,750		32,297		17,309		71,760		-5,465
Gross Investments	40,758		39,562		48,927		17,206		146,453		-5,465	
Real Investments	76,067		51,996		12,453		472		140,988			
Consumer Durables	-2,268		-		-		-		-2,268			
Real Estate/Fixed Assets	90,942		27,192		7,465		814		126,413		-	
Inventory	-12,607		24,804		4,988		-342		16,843			
Net Financial Investment	-35,309		-12,434		36,474		16,734		5,465		-5,465	
Total Financial Uses	-82,210		44,997		146,584		96,930		206,301		9,295	
Total Financial Sources		-46,901		57,431		110,110		80,196		200,836		14,760
Gold & Foreign Exchange Holdings							298		298		-	298
Foreign Currency Deposits							771	15,432	771	15,432	15,432	771
Foreign Loans				-10,432		4,114	2,420	-1,991	2,420	-8,309	-8,309	2,420
Other Foreign Claims							11,271	2,172	11,271	2,172	2,172	11,271
Domestic Currency	-17,032		49		21,105		591	4,713	4,713	4,713		
Demand Deposits	-33,702		1,898		39,126		-380	6,942	6,942	6,942		
Savings & Time Deposits	32,468		1,271		2,982		-1,462	35,259	35,259	35,259		
Deposit Substitutes	-10,681		1,359		7,365		515	-1,442	-1,442	-1,442		
Domestic Loans		-66,807	-1,200	23,492	-6,685	34,510	1,375	2,295	-6,510	-6,510		
Investments/Securities	-55,107		15,743	12,228	51,420	26,007	35,078	8,899	47,134	47,134		
Government Securities	6,819		284		1,249	34,352	22,941	-1,047	31,293	35,399		
Others	-61,926		15,459	12,228	50,171	-8,345	12,137	7,852	15,841	11,735		
Insurance Reserves	1,176		49					1,225	1,225	1,225		
Trust Funds	668		275				4	947	947	947		
Trade Credits		-63,932	9,818	25,795	6,557	55,409	-196	-1,093	16,179	16,179		
Taxes Payable			900	6,457	7,216			1,659	8,116	8,116		
Inter-Financial Claims							32,384	32,384	32,384	32,384		
Inter-Governmental Claims					-25,308	-25,308			-25,308	-25,308		
Miscellaneous	-	83,838	14,835	-109	42,806	15,378	14,261	-27,205	71,902	71,902		
Statistical Discrepancy	226								226			

[p]Preliminary
*National and Local Governments and Government Owned or Controlled Corporations.

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

Table A-30. FLOW OF FUNDS SUMMARY MATRIX BY SECTOR, 1989P
(In Million Pesos)

Sectors	WHOLE ECONOMY											
	Domestic Economy											
	Household & 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		55,798		93,064		-4,281		17,744		162,325		20,835
Capital Consumption		13,892		69,223		2,626		1,694		87,435		-
Net Savings		41,906		23,841		-6,907		16,050		74,890		20,835
Gross Investments	55,464		93,064		-4,281		17,744		161,991		20,835	
Real Investments	-556		135,538		47,552		292		182,826			
Consumer Durables	2,227		-		-		-		2,227			
Real Estate/Fixed Assets	2,537		117,987		43,725		360		164,609		-	
Inventory	-5,320		17,551		3,827		-68		15,990			
Net Financial Investment	56,020		-42,474		-51,833		17,452		-20,835		20,835	
Total Financial Uses	100,523		58,177		-35,056		154,064		277,708		36,301	
Total Financial Sources		44,503		100,651		16,777		136,612		298,543		15,466
Gold & Foreign Exchange Holdings							424		424			424
Foreign Currency Deposits							6,044	11,328	6,044	11,328	11,328	6,044
Foreign Loans				2,353		25,966	4,107	-416	4,107	27,903	27,903	4,107
Other Foreign Claims							4,891	-2,930	4,891	-2,930	-2,930	4,891
Domestic Currency	-4,355		4		9,995		1,109	6,753	6,753	6,753		
Demand Deposits	35,688		1,073		-27,690		-2,940	6,131	6,131	6,131		
Savings & Time Deposits	31,218		2,857		9,164		70	43,309	43,309	43,309		
Deposit Substitutes	4,284		5,498		-4,058			5,724	5,724	5,724		
Domestic Loans		31,137	11,360	45,005	1,706	-29,455	36,251	2,630	49,317	49,317		
Investments/Securities	31,469		12,895	19,415	-30,648	11,305	24,925	7,921	38,641	38,641		
Government Securities	18,139		1,663		-248	24,757	8,789	1,946	28,307	26,703		
Others	13,330		11,232		-30,364	-13,452	16,136	5,975	10,334	11,938		
Insurance Reserves	2,306		78				6	2,390	2,390	2,390		
Trust Funds	-87		208				3	124	124	124		
Trade Credits		10,391	18,228	22,760	-189	-15,136	233	257	18,272	18,272		
Taxes Payable			592	2,657	3,230		1,027	2,192	4,849	4,849		
Inter-Financial Claims							45,015	45,015	45,015	45,015		
Inter-Governmental Claims					36,111	36,111			36,111	36,111		
Miscellaneous		2,975	5,384	8,461	-32,677	-12,014	32,899	6,184	5,606	5,606		
Statistical Discrepancy	334								334			

PPreliminary
*National and Local Governments and Government Owned or Controlled Corporations.

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

AGRICULTURAL LOAN FUND

1. *Circular Letter, July 10, 1989.* Stipulates that the applicable interest rate on ALF special time deposits/deposit substitutes with participating financial institutions (PFIs) for the third quarter of 1989 shall be 11.80 percent per annum and that said PFIs shall be allowed to set their own lending rates to borrowers which shall be monitored to ensure that these are reasonable and consistent with market rates.

BANK OPERATIONS

1. *Circular Letter, January 16, 1989.* Provides for the listing of (1) approved applications for new banking offices/relocations and (2) banking offices opened during the fourth quarter of 1988.
2. *Circular Letter to All Banking Institutions, March 20, 1989.* Enjoins all banking institutions and their branches to undertake during the observance of the Credit Consciousness Week on April 24-30, 1989 (per P.D. No. 1837 dated March 20, 1979) such activities as raffles, distributions of give-aways, putting-up of window or counter displays, streamers, ad placements and the use of the other promotional devices and appropriate incentives for the occasion. Banks were also requested to incorporate the words "Credit Consciousness Week" in all their promotional materials and print ads during the period. The theme for this year's campaign is "Responsible Use of Credit for Growth and Prosperity."
3. *Circular No. 1199, May 15, 1989.* Amends existing regulations governing security requirements for domestic standby letters of credit so as to lift the requirement of full security. Accordingly, item "f" of Sections 1347 and 2347 of Books I and II, respectively, of the *Manual of Regulations for Banks and Other Financial Intermediaries* relevant to this matter is deleted. However, until further notice, the submission of monthly reports of domestic standby letters of credit required from commercial and thrift banks shall be continued.
4. *Circular No. 1200, May 16, 1989.* Spells out the CB policy of fostering competition among banks, particularly on (1) the consolidation of the banking industry, (2) licensing of new banks and branches, (3) uniformity of treatment of banks and (4) maintenance of conditions of competition.
5. *Circular Letter, May 31, 1989.* Enjoins all banks and NBQBs to disseminate information and act accordingly with the requirement of Section 18 of P.D. No. 957 dated July 12, 1976, otherwise known as the Subdivision and Condominium Buyers' Decree, in order to safeguard the interest of condominium and subdivision lot buyers.
6. *Circular Letter, June 6, 1989.* Enjoins all banking institutions to participate actively in the observance of the Savings Consciousness Week. For purposes of a unified campaign, banks are also requested to incorporate the theme "Savers are achievers. Open a bank account today." and "Savings Consciousness Week" in their promotional materials and print advertisements from June 25 to July 1, 1989.
7. *Circular No. 1203, June 23, 1989.* Amends pertinent provisions of Books I to III of the *Manual of Regulations for Banks and Other Financial Intermediaries* governing the rediscounting of eligible papers under the rediscount window. The loan value and rediscount rate per annum for the rediscount facility shall be 80 percent and 12 percent, respectively, for eligible papers involving agricultural production, cottage and small industries credits, general purpose working capital financing and other short-term credits.
8. *Circular No. 1204, June 23, 1989.* Amends pertinent provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries*

to increase the reserve requirement on deposit and deposit substitute liabilities with original maturities of more than 730 days from 5 percent to 7 percent.

9. *Circular No. 1206, July 17, 1989.* Amends pertinent provisions of the *Manual of Regulations for Banks and Other Financial Intermediaries* on the rules and regulations governing fines for willful delays in the submission of reports.

10. *Memorandum to Authorized Agent Banks, July 24, 1989.* Advises all authorized agent banks that effective August 1, 1989, all foreign currency notes swapped with the CB for telegraphic transfer (T/T) under MAAB No. 12 dated November 26, 1987 shall be subject to a handling fee of 0.2 percent of the gross amount. This fee shall be payable in the currency of denomination of the notes being swapped and deducted from the T/T proceeds.

11. *Cricular Letter, July 31, 1989.* Informs all concerned that pursuant to the agreement reached by the Foreign Exchange Regulations Department with the Bureau of Patents, Trademarks and Technology Transfer (BPTTT), the following contracts/agreements shall be filed directly with BPTTT for approval/registration: (1) all types of contracts involving technology transfer and technical assistance/knowhow, whether on a continuing basis or not regardless of the amount of outflow involved; (2) computer software licensing contracts; (3) marketing/distributorship agreements and (4) management contracts.

12. *Circular No. 1207, August 4, 1989.* Amends pertinent provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* pursuant to Monetary Board, Resolution No. 654 dated August 4, 1989, increasing the reserve requirement on deposit liabilities and deposit substitutes with original maturities of more than 730 days from 7 percent to 9 percent.

13. *Circular No. 1209, September 1, 1989.* Amends pertinent provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* pursuant to Monetary Board Resolution No. 760 dated September 1, 1989, reducing on a staggered basis the reserve requirement on deposit and deposit substitute liabilities with original maturities of 730 days or less from 21 percent to 20 percent, and increasing on a staggered basis the reserve requirement on deposit and deposit substitute liabilities with original maturities of more than 730 days from 9 percent to 20 percent.

14. *Circular No. 1213, October 23, 1989.* Amends Section 3314 of Book III of the *Manual of Regulations for Banks and Other Financial Intermediaries* pursuant to Monetary Board Resolution No. 879 dated October 6, 1989, exempting from publication requirements those cases of foreclosure of mortgages and executions of judgment on real estate loans granted by rural banks where the total amount of the loan, including interests due and unpaid, does not exceed P50,000.

15. *Circular No. 1214, November 8, 1989.* Requires all commercial banks and expanded commercial banks, including those already in operation as well as those to be established hereafter to have capital accounts of at least P500 million and P1 billion each, respectively. It further allows banks that do not meet the above minimum capital requirements to submit a plan within three months from the date of approval of these policies by which to increase their capitalization within a period of one year.

16. *Circular No. 1216, December 20, 1989.* Amends item C of Subsections 1161.4, 2161.4 and 3161.4 (Reports on crimes/losses) of Books I, II and III, respectively; item 3 of Section 4161 N (d) of Book IV; item b of Subsections 1161.1, 2161.1 and 3161.1 (categories of, and signatories to bank reports) of

Books I, II and III, respectively of the *Manual of Regulations for Banks and Other Financial Intermediaries.*

17. *Circular No. 1217, December 20, 1989.* Repeals Circular No. 1058 dated May 19, 1976 prohibiting banks from requiring the maintenance of compensating deposits, now incorporated in the *Manual of Regulations for Banks and Other Financial Intermediaries* (Section 1302.1 in Book I, Section 2302.1 in Book II and Section 3302.1 in Book III).

18. *Circular No. 1218, December 26, 1989.* Amends Sections 4144 N, 4171 N, 4304 N.1 and 4327 N and subsections 4161 N.a and 4261 N.5 of Book IV of the *Manual of Regulations for Banks and Other Financial Intermediaries.*

EXPORTS

1. *Memorandum to Authorized Agent Banks No. 3, March 21, 1989.* Amends CB Export Department Memorandum to Authorized Agent Banks No. 71 dated January 8, 1962, allowing Philippine copra export shipments to be paid either on "landed weight/quality final" or "shipped weight/quality final" basis. In either case, a copy of the survey report by an independent surveyor shall be submitted by the exporter to the Export Department of the CB through an authorized agent bank. It shall be also understood that all applications for copra export shipments shall be referred to the Export Department for approval.

2. *Circular No. 1198, April 26, 1989.* Prescribes the rules governing commodity exports without foreign exchange proceeds. This circular requires every export shipment on no-dollar basis to be covered by an Export Declaration (Without Foreign Exchange Proceeds) issued by an Authorized Agent Bank (AAB) using CBP Form No. 6-21-04, except for shipments of household and personal effects, forming part of the accompanied baggage of an outgoing passenger leaving the Philippines which are not in commercial quantity. In addition, Section 3 of this circular shows the list of certain categories of export shipments on no-dollar basis which may be given due course by AABs without the required approval of the CB Export Department prior to their shipment.

3. *Circular Letter, July 18, 1989.* Encloses copies of Administrative Order No. 19, Circular No. 03, Memorandum Circular Nos. 09 and 10 dated March 17, May 5, June 26 and 28, 1989, respectively, all issued by the Department of Environment and Natural Resources (DENR), concerning the guidelines on the DENR ban on lumber exports and certain clarifications thereon.

4. *Circular Letter, August 22, 1989.* Provides a list of exporters that have been registered with the Board of Investments under the Omnibus Investments Code of 1987, as amended by Batas Blg. 391.

EXTERNAL DEBT

1. *Circular No. 1202, June 13, 1989.* Prescribes the guidelines regarding the rescheduling/consolidation of debts of the Philippines, in line with the agreement reached by the Philippine government on May 26, 1989 with representatives of creditor countries participating within the Paris Club framework.

GOVERNMENT SECURITIES

1. *Memorandum, June 6, 1989.* Enjoins all banks and all concerned to strictly observe pertinent rules and regulations contained in Circular No. 28, as revised and amended, particularly Section 9, Subsection E thereof which governs overdue securities. This relates also to the Circular-Letter of the Domestic Operations Sector dated April 12, 1988 which calls for a tightening of the internal control system for government securities operations.

IMPORT REGULATIONS

1. *Circular Letter, January 30, 1989.* Provides for the approved revised guidelines regarding the importation of replacement parts. The processing of such applications for importation is thereby transferred from the BOI to the Bureau of Import Services (BIS) of the Department of Trade and Industry.

2. *Circular No. 1193, February 2, 1989.* Provides for the regulations on the importation through letters of credit of completely built-up (CBU) second-hand vehicles for use in taxi cab operations. Under this circular, importation shall be allowed only up to December 31, 1989 and corresponding LCs must be opened on or before such date. In addition, those units which have already been approved for importation must arrive at designated Philippine ports before March 31, 1990. Only bona fide franchise holders of taxi and public utility cabs duly registered with the Land Transportation Franchise and Regulatory Board (LTFRB)/ Land Transportation Office (LTO) and operating as such as of October 31, 1988 and accredited traders/taxi associations may be allowed to import CBU second-hand vehicles with prior approval from the Department of Trade and Industry-Bureau of Import Services.

3. *Memorandum Order No. 218, February 10, 1989.* Allows the importation in semi-knocked down (SKD) condition of passenger cars under the Car Development Program (CDP) and of vehicles under Categories I and II of the Commercial Vehicle Development Program (CVDP) for a limited period.

4. *Circular No. 1194, February 20, 1989.* Approves the removal of the 3 percent interest per annum imposed on total collections of customs duties, export/premium duties and import processing fees in excess of P40 million a month by each authorized agent bank. Accordingly, Subsections 1602.11 and 2602.11 of Books I and II, respectively, of the *Manual of Regulations for Banks and Other Financial Intermediaries* relevant to this matter are thereby deleted.

5. *Memorandum to Authorized Agent Banks (AABs), February 28, 1989.* Requires all AABs to submit to the Societe Generale de Surveillance (SGS) Manila Liaison Office copies of the letters of credit together with the corresponding proforma invoice for importations with a value below US$5,000 coming from Hongkong, Taiwan and Japan. This memorandum applies to LCs opened on March 1, 1989 and thereafter.

6. *Memorandum to Authorized Agent Banks No. 2, March 13, 1989.* Advises AABs that all applications to open LCs and/or to purchase foreign exchange for whatever purpose under any mode or terms of payment, including no-dollar imports, as well as applications for the issuance of release certificates filed by GTC Trading Corporation and its officers/incorporators, shall be referred to the CB thru CICCD for appropriate action.

7. *Memorandum to Authorized Agent Banks No. 4, March 21, 1989.* Discontinues the submission of separate reports covering the following import transactions to the CB Current Imports and Commodity Classification Department: liberalized banned items (NEC-14) included in the import liberalization program, CBP Form No. 6-15-03; regulated/deregulated items, CBP Form No. 6-15-08; and banned items, CBP Form No. 6-15-11.

8. *Circular No. 1195, March 31, 1989.* Provides that the importation of portland cement, cement clinker other than for white cement and hydraulic cement no longer requires the prior approval of the Philippine Cement Industry Authority as discharged by the Board of Investments.

9. *Circular Letter, April 4, 1989.* Provides a list of traders in spare parts and end-users that have been accredited by the Inter-Agency Committee on Replacement

Parts to import replacement parts. Pursuant to the guidelines on the importation of said parts implemented by the Committee, only accredited firms are issued authority to import replacement parts by the Bureau of Import Services.

10. *Memorandum Order No. 230, April 10, 1989.* Approves the guidelines for the no-dollar importation of second-hand motor vehicles of returning residents/immigrants/qualified donees in order to regulate the importation of said second-hand motor vehicles for the establishment of a viable motor vehicle industry.

11. *Circular No. 1196, April 17, 1989.* Allows the utilization of the Open Account (OA) and Documents Against Acceptance (DA) import arrangements on a trial basis for six months for the importation of fertilizers (Division 56 of the PSCC Manual) by importers duly authorized by the Fertilizer and Pesticides Authority (FPA), and importation of the following raw materials for the manufacture of fertilizer by FPA-licensed local fertilizer manufacturers: phosphate rock, ammonia, murriate of potash, sulfate of potash, ammonium sulfate, urea, and sulfuric acid. All existing CB rules and regulations on OA/DA imports shall apply to these importations.

12. *Circular Letter, June 7, 1989.* Advises all authorized agent banks and all concerned that the Inter-Agency Committee on Used Trucks and Engines, under its Memorandum Order No. 3 dated May 26, 1989, has decided to allow the importation of "used agricultural, marine and other gasoline/diesel engines not intended for transport use" listed therein without its prior approval, pursuant to Executive Order No. 354 dated March 29, 1989, subject to strict compliance with the specified conditions. Likewise, a copy of the "Guidelines for the Importation of Used Trucks and Engines" approved on May 19, 1989 was attached.

13. *Circular Letter, June 15, 1989.* Clarifies that item (c) of Section 14 of Circular No. 1029, series of 1984 refers to imports valued at $1,000 or less bearing shipment dates indicated in the pertinent bills of lading that are within 30 days of each other, whereby letters of credit shall be required.

14. *Circular No. 1208, August 18, 1989.* Provides a list of commodities (169 items) approved by the Comprehensive Import Supervision Scheme Committee for inclusion in the list subject to pre-shipment inspection regardless of import value.

15. *Memorandum, September 19, 1989.* Encloses a copy of the amendment to Joint Order No. 1-87, indicating among others, expansion of the country coverage of the SGS-Comprehensive Import Supervision Scheme (CISS) and implementing guidelines thereto.

16. *Circular Letter, October 13, 1989.* Instructs all authorized agent banks and all concerned to require the submission of the original Certificate of Authority to Import (CAI) issued by the Inter-agency Committee on Replacement Parts when opening letters of credit for the importation of spare parts.

17. *Memorandum to Authorized Agent Banks (MAAB) No. 9, November 23, 1989.* Instructs all authorized agent banks in line with Monetary Board Resolution No. 926 dated October 27, 1989 approving the implementation by the CB effective January 1, 1990 of the *1989 Revised Philippine Standard Commodity Classification Manual (PSCCM)*; to use the revised classification code indicated in the said PSCCM in classifying the commodity imports of their clients effective said date.

18. *Memorandum to Authorized Agent Banks (MAAB) No. 10, December 14, 1989.* Directs all authorized agent banks pursuant to Monetary Board Resolution No. 989 dated November 17, 1989 and in accordance with the request of the

Department of Trade and Industry, that all applications to open LCs and/or to purchase foreign exchange for whatever purpose/s and under any mode of payment, including no-dollar imports as well as application, for the issuance of release certificate that may be filed by Johannesburg Packaging Corporation including its officers/incorporators, shall be referred to the CB thru the Current Imports and Commodity Classification Department for appropriate action.

IMPORT LIBERALIZATION

1. *Circular No. 1205, July 14, 1989.* Provides that the importation of certain commodities listed in Annex 1 (38) no longer requires the prior approval of the Board of Investments, while the importation of the commodities listed in Annex 2 (21 items) no longer requires the prior approval of the Radiological Health Service, Department of Health. Moreover, "cigarette paper cut to size in leaves, booklets or tubes" may now be imported without prior approval of the CB.
2. *Circular No. 1210, September 14, 1989.* Provides that the importation of commodities (13 items) listed in the Annex attached thereto shall no longer require the approval of the concerned regulating agency likewise indicated therein.
3. *Circular No. 1212, October 6, 1989.* Provides that the importation of commodities (17) listed in the Annex attached thereto shall no longer require the approval of the concerned regulating agency likewise indicated therein.
4. *Circular No. 1219, December 29, 1989.* Provides that the importation of commodities (39) listed in the Annex attached thereto shall no longer require the approval of the concerned regulating agency likewise indicated therein.

INDUSTRIAL GUARANTEE LOAN FUND

1. *Circular Letter No. 89-01, January 16, 1989.* Instructs all commercial, thrift and rural banks and non-bank financial intermediaries that the applicable interest rates on Industrial Guarantee Loan Fund (IGLF) special time deposits/deposit substitutes with participating financial institutions (PFIs) in Regions I-XII including the National Capital Region (NCR) and the Cordillera Autonomous Region (CAR) for the period January 23, 1989 to June 30, 1989 shall have fixed and variable interest rates. Fixed interest rates are subject to adjustment every five years. However, the PFI, at its option, may convert a fixed rate to a variable rate on the date of adjustment. A variable interest rate shall not be increased more than 1 percent during any particular six-month period.

Likewise, the PFIs are allowed to set their respective lending rates to their borrowers. These rates shall be monitored by the IGLF Review Committee to ensure that such rates are reasonable and consistent with market rates. In addition, a 10 percent participation on all IGLF-funded loans to sub-borrowers shall be assumed by PFIs starting January 23 to June 30, 1989.

INVISIBLE RECEIPTS/ PAYMENTS

1. *Circular No. 1201, May 16, 1989.* Amends Section 64, Chapter 4 of Circular No. 1028 dated October 15, 1984, such that the rules governing the amount of Philippine currency, checks, money orders and other bills of exchange that an individual may import or export or bring with him out of the country, have been liberalized by raising the maximum amount from P500 to P1,000. Any amount in excess of P1,000 shall require authorization from the CB.

LOANS AND INVESTMENTS

1. *Circular Letter, February 13, 1989.* Provides for the list of Minimum Documentary Requirements regarding applications for CB approval and registration of foreign equity investments and other investment-related accounts.
2. *Circular Letter, March 3, 1989.* Provides for the approval by the Asian Development Bank (ADB) Board of Directors effective December 29, 1988 of the issuance of irrevocable commitments to be unaffected by loan cancellation or suspension. Moreover, all qualified commitments (QC) issued since this date are to be treated as irrevocable by deletion of paragraph 4(E) of these QC letters.
3. *Circular Letter, April 21, 1989.* Authorizes the CB to accept peso deposits covering maturities on amortizations falling due after June 30, 1988, on accounts subject to Paris Club rescheduling as defined in Section 1 of Circular No. 1139.
4. *Circular Letter, June 9, 1989.* Provides that sales proceeds of CB-registered foreign investments in a domestic company whose shares of stocks are not listed and traded in the local stock exchanges when investments were made, but which company shares were subsequently listed/traded in the local stock exchanges at the time of their sale, are repatriable and remittable in full, net of taxes and charges, subject to prior approval of the CB thru the Foreign Exchange Operations and Investments Department.
5. *Circular Letter, August 22, 1989.* Advises all authorized agent banks of the cancellation by the Board of Investments of the Certificate of Registration of Papercon (Phil.), Inc. and East Indies Mercantile Co., Inc. under the Omnibus Investments Code of 1987, otherwise known as E.O. No. 226.

RESERVE REQUIREMENT

1. *Circular No. 1204, June 23, 1989.* Amends pertinent provisions of Books I and IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* to increase the reserve requirement on deposit and deposit substitute liabilities with original maturities of more than 730 days from 5 percent to 7 percent.
2. *Amended Circular No. 1204, June 30, 1989.* Further corrects the amendment on Section 6 of Circular No. 1204 dated June 23, 1989 to increase the required reserves against deposit substitute liabilities with original maturities of more than 730 days from 5 percent to 7 percent.
3. *Circular No. 1207, August 4, 1989.* Amends pertinent provisions of Books I to IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* pursuant to Monetary Board Resolution No. 654 dated August 4, 1989, increasing the reserve requirement on deposit and deposit substitute liabilities with original maturities of more than 730 days from 7 percent to 9 percent.
4. *Circular No. 1209, September 1, 1989.* Amends pertinent provisions of Books I and IV of the *Manual of Regulations for Banks and Other Financial Intermediaries* pursuant to Monetary Board Resolution No. 760 dated September 1, 1989, reducing on a staggered basis the reserve requirement on deposit and deposit substitute liabilities with original maturities of 730 days or less from 21 percent to 20 percent, and increasing on a staggered basis the reserve requirement on deposit and deposit substitute liabilities with original maturities of more than 730 days from 9 percent to 20 percent.
5. *Circular No. 1211, September 22, 1989.* Clarifies that Circular Nos. 1204, 1207 and 1209 changing the reserve requirements against deposit and deposit substitute liabilities of banks apply to or include negotiable certificates of time deposits.

6. *Circular Letter, December 19, 1989.* Informs all banks and non-bank financial intermediaries performing quasi-banking functions that the Monetary Board, in its Resolution No. 1021, dated December 12, 1989, decided to set aside the reserve deficiency penalties of banks and non-bank financial intermediaries performing quasi-banking functions, as well as interest and penalties on temporary overdrawings in their CB accounts, arising from the disruption in the clearing operations of commercial banks for the weeks November 27 to 29, 1989 and December 4 to 8, 1989.

RURAL BANKS

1. *Memorandum, June 20, 1989.* Requires all rural banks beginning the first quarter of 1989 and every quarter thereafter to submit within 10 days after the end of reference quarter the Quarterly Statement of Income and Expenses which shall show the provision for income taxes.