Second ANNUAL REPORT 1994

BANGKO SENTRAL NG PILIPINAS
Manila, Philippines

SECOND
ANNUAL REPORT
1994

Economic Development

Bangko Sentral ng Pilipinas

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Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

March 31, 1995

His Excellency Fidel V. Ramos
President of the Philippines
Malacañang, Manila

Dear Mr. President:

I have the honor to submit the *1994 Annual Report of the Bangko Sentral ng Pilipinas (BSP)* pursuant to the provision of Section 40 of Republic Act No. 7653.

The report contains a review of economic and financial developments in 1994, the major policies and measures adopted by the monetary authorities and highlights of the BSP's operations and other activities.

Very truly yours,

GABRIEL C. SINGSON
Governor

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OVERVIEW

After two years of moderate economic expansion under the old economic stabilization program, the Philippine economy recovered strongly in 1994 showing signs of sustainable economic growth. This is on the strength of a resurgence in real GNP growth, internal political stability, a fiscal surplus attained for the first time in twenty years, achievement of a balance of payments surplus and a single-digit decelerating inflation rate.

The economy grew remarkably well during the first two quarters, even as an IMF program was still being negotiated. When the policy strategies attendant to the economy's desired direction became firm, the IMF finally approved on June 24, 1994 a three-year US$650 million Extended Fund Facility. The year 1994 thus became the first phase of a medium-term economic and policy framework for the country, one that could serve as an exit program with the Fund.

Objectives Of The Economic And Financial Program For 1994. The overall performance of the economy may then be assessed in terms of the three-fold objectives of the economic and financial program for 1994. First, economic growth was to accelerate to 3.5 up to 4.5 percent. Second, the annual inflation rate was to average 9.5 percent and the December-on-December inflation, 8.5 percent. Third, the external current account deficit was to be reduced from 5.9 percent in 1993 to 4.8 percent of GNP in 1994.

Resurgent Growth Performance. A 5.1 percent growth in real GNP was achieved, the highest since 1990, exceeding the previous year's performance of 2.6 percent and the 3.5 to 4.5 percent envisioned for the year. An accelerated inflow of net factor income from abroad and a 4.3 percent increase in real Gross Domestic Product spurred the growth. Judicious monetary management which led to relatively lower interest rates toward the second half of the year and stable inflation supported growth on the supply side and provided enough liquidity on the demand side.

Even as overall production recovered strongly, the average unemployment rate rose slightly to 9.5 percent from 9.3 percent in 1993 as a result of a faster growth in labor force relative to employment opportunities. With real GNP growth outpacing that of population, average per capita real GNP increased by 2.6

percent to ₱11,515 equivalent to US$436 in constant prices and US$960 in current prices.

Budgetary Surplus In The Fiscal Sector . The Philippines closed 1994 with a positive turnaround in fiscal performance. A surplus in the National Government (NG) budgetary position was achieved, the first ever after twenty years of deficit position. Major factors which contributed to the record performance of the fiscal sector were the upsurge in real GNP growth, lower interest rates toward the second half, intensive tax collection efforts, increased income from the privatization program and prudent expenditure and borrowing policy. As a result, the consolidated public sector deficit (CPSD) declined to 0.1 percent of GNP.

Prudent Monetary Policy And Favorable Monetary Developments. Consistent with the objective to attain macroeconomic stability through fiscal consolidation, monetary policy in 1994 sought to achieve an appropriate balance between attaining high economic growth and maintaining a single-digit inflation rate. Thus, the monetary authorities adhered as closely as possible to the programmed monetary aggregates, notwithstanding the expectations for higher growth arising from increased confidence and the lagged impact of recent financial sector reforms which raised the demand for money. Average domestic liquidity expanded by nearly 25 percent but growth did not spill over to the real sector in terms of higher inflation. Interest rates in 1994 were generally low, contributing further to modest cost structure and price movement.

Stable And Single-Digit Inflation Rate. Despite increased aggregate demand and high nominal domestic liquidity growth, annual inflation rate during the year remained at single-digit [illegible]0 percent, lower than the 9.5 percent target. The right mix of fiscal and monetary policies supported by a strong peso significantly contributed likewise to price stability. Its positive impact on the economy has been indicated through stable interest rates and competitive prices of exportable and domestic tradable goods.

Surplus In The Balance Of Payments. Reflective of the favorable impact of a deregulated foreign exchange environment, the country's external position improved substantially this year [illegible]h the attainment of a balance of payments surplus of US$168 million (including rescheduled debt) in 1994, a sharp contrast to the US$501 million deficit in 1993. Fuelled mainly by higher remittances of overseas contract workers' earnings, conversion into peso of FCDU deposits, and foreign investments, this encouraging development was rightly in step with the medium-term objective of attaining external viability within the framework of a market-determined floating exchange rate policy.

Healthy Level Of Gross International Reserves. A healthy and comfortable level of gross international reserves (GIR) of the BSP at US$6,995 million was accumulated at end-1994, compared to US$5,801 million in the previous year. The active participation of the BSP as a net purchaser of foreign exchange in the market to maintain stable foreign exchange conditions and the acquisition of foreign exchange proceeds from privatization efforts helped raise the GIR. This level could support 3.95 months of imports of goods or 3 months of imports of goods and services.

Market-Determined Peso-Dollar Exchange Rate. Market fundamentals basically determined the level of the peso-dollar rate as it strengthened on account of substantial foreign exchange inflows from overseas workers' remittances, foreign currency deposit withdrawals and conversion into pesos, and portfolio foreign investments. This development was consistent with the adoption of a floating exchange rate policy under a deregulated foreign exchange market. But in view of the large fluctuations in the daily rate, the BSP sought to stabilize the market by stepping up its foreign exchange purchases. Without such foreign exchange market intervention, the peso would have been stronger.

Lower External Debt-Service Ratio. External debt management policy during the year continued to be guided by the availment of borrowings at reasonable terms for financing productive and priority areas at amounts within the country's debt servicing capacity.

By end-September 1994, the country's foreign exchange liabilities increased by 8.8 percent from end-1993 to US$37.3 billion due principally to the rise in medium-and-long-term loans to finance public sector projects such as energy, communications and transportation, and increase in trade financing and revaluation losses mainly on account of the yen appreciation.

While the debt-service burden (DSB) rose to US$4,073 million in 1994 from US$3,533 million the previous year, the DSB ratio to exports of goods and services improved to 16.9 percent from 17.7 percent during the same period.

Development Of The Financial System. Complementing stable monetary conditions was the continued development of a strong and viable financial system. Its major function to intermediate funds between savers and the borrowers has been strengthened further by the increased capitalization of banks and nonbank financial intermediaries with quasi-banking functions.

As of end-December 1994, total resources of the financial system (excluding the BSP) at P1,587.4 billion rose by 19.1 percent. Commercial banks continued to account for a principal share of resources at 66.3 percent.

The impact of the policy liberalizing the establishment of bank branches continued to be felt as the number of total financial intermediaries including head offices and branches increased.

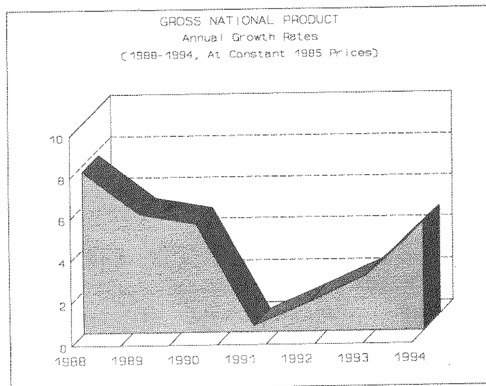
The year 1994 also saw the passage of R.A. 7721, "An Act Liberalizing the Entry and Scope of Operations of Foreign B[illegible]ks in the Philippines", on May 18, 1994 which the BSP acti[illegible]ly supported to engender increased foreign investments, compet[illegible]on in the banking sector, and growth of new financial instrumen[illegible]as domestic banks become more globally integrated.

Bullish Stock Market. Trading at the Philippine Stock Exc[illegible]ge remained bullish as sound economic fundamentals encou[illegible]ed confidence of domestic and foreign investors. The volum[illegible]d value of transactions accelerated by 10.2 and 99.6 percent[illegible]m last year's performance. The composite index (PHISIX) als[illegible]se by a higher 51.2 percent. As part of ongoing reforms [illegible]he capital market, the Manila and Makati Stock Exchanges were [illegible]y unified on March 4, 1994 to achieve uniform pricing of stoc[illegible]d eliminate arbitrage transactions.

Profitable Central Banking Operation. A year after the completion of its successful financial restructuring on December 20, 1993, the BSP registered a net income of P10.5 billion mainly on account of its higher income from foreign investments and domestic securities. This allowed the BSP greater flexibility in the conduct of monetary policy, amortize the outstanding losses of the Central Bank - Board of Liquidators and remit dividends to the National Government.

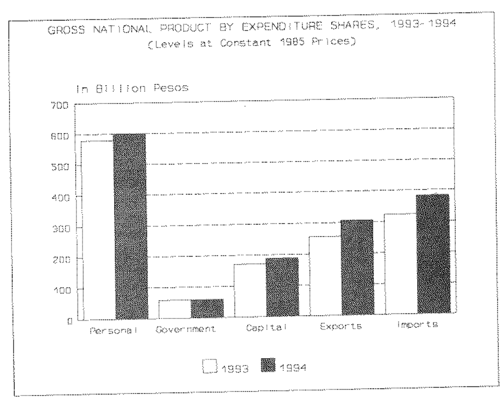
REAL SECTOR

Continued confidence and optimism among investors, together with improved supply situation resulting from the normalization of power supply, sustained higher economic performance for the third consecutive year since 1991. Real Gross Domestic Product (GDP) registered a 4.3 percent expansion, the highest achieved since 1990. Factoring in the increased remittances from abroad, real Gross National Product (GNP) registered a 5.1 percent growth for the year, compared to the 2.6 percent expansion in 1993.



Aggregate Demand

On the demand side, the major impetus to growth came from exports of goods and non-factor services. Despite the appreciation of the peso vis-a-vis the U.S. dollar, exports accelerated from a mere 6.2 percent in 1993 to 19.5 percent in 1994. Imports likewise expanded in line with economic growth but at a slower pace than exports. Next to exports, capital formation continued to boost aggregate demand although slower than its 1993 pace. Meanwhile, private consumption continued to supplement a large part of the expansion

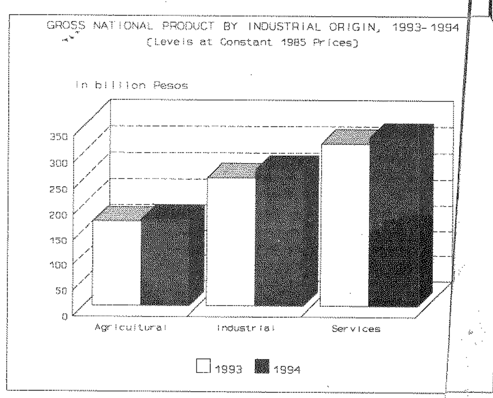


in aggregate demand, with the inflow in overseas remittances and the improvement in household income translating to increased consumption expenditures. Partly explaining the improved fiscal position in 1994 was the reduction in the public sector's consumption expenditures (Table 1a).

Sectoral Conditions

On the supply side,this year's output expansion was led by industry which grew by 6.1 percent, a substantial improvement over the 1993 level, as all subsectors performed favorably, with the exception of mining and quarrying, which was severely affected by water seepage in many oil wells, as well as the slump in world metal prices. Meanwhile, manufacturing showed a substantial gain, especially in food (specifically processed meat and fish, vegetables, and animal oils and fats, milk and dairy products, and bakery products). Construction also rose by nearly 11.0 percent as large infrastructure projects were put in place. Likewise, utilities expanded as the power sector boosted its activities with 16 power-generating plants mostly under the build-operate-transfer (BOT) scheme of the government and the rehabilitation of the existing power plants to meet the rising demand for electricity.

Services, with its 3.8 percent growth, continued to support the expansion in economic activities, led by trade; transport, communication and storage; and finance, in that order.

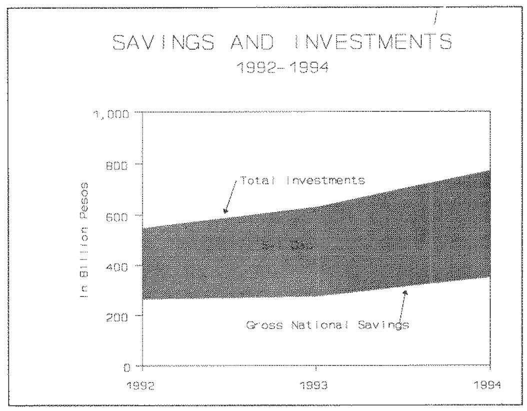


The combined agriculture, fishery, and forestry sector sustained the previous year's creditable performance. Palay production provided the major source of growth, with the increase in harvest areas and continued rehabilitation of irrigation systems. Positive growth was likewise recorded for the rest of the agricultural crops. Meanwhile, livestock expanded while poultry decelerated. Dwindling marine resources limited the growth of commercial fishing and aquaculture. The forestry sub-sector continued its downtrend as the government maintained its conservation efforts through the log ban (Table 1b).

Savings and Investments

A much-improved tax effort, prudence in fiscal spending, lower consumption propensities of the private sector at both the national and household level and improved real income levels resulted in higher gross national savings in both absolute terms and in relation to GNP (Table 2).

National savings measure a country's own efforts, whether at home or abroad, to mobilize resources for investments. While the bulk of savings continued to come from the private sector, the public sector solely accounted for the increase in the savings rate in 1994. With the National Government posting a budgetary surplus for the first time in several years as a result of improved revenue collections and privatization receipts and better fiscal management of other public sector entities, the overall public sector performance improved during the year. Meanwhile, private sector savings were reflected in higher profits of businesses generated during the period and increased availability of funding from the financial system. Much has been done in the financial sector to encourage savings in banks -the widening of financial services network, rehabilitation and capability build-up of financial institutions, as well as the promotion of use of automated teller machines (ATMs).



National savings is channeled to investment either directly when businesses engage in expansionary activities by using their own savings or through financial intermediaries, when businesses borrow from banks to finance their investment undertakings. In 1994, credits from the banking system helped finance a higher rate of investments. Investments registered a growth of 18.0 percent, most of which came from private investments. This development revealed the private sector's bigger participation in investment spending via infrastructure building and business expansion.

An indication of lower dependence on foreign savings, the savings-investment gap dropped to 4.5 percent of GNP from 5.9 percent in the previous year. This was consistent with a lower current account deficit in 1994 as export growth outweighed import growth.

Labor, Employment and Wages

Economic growth was felt by the labor sector in terms of improved wages in real terms and the rise in the number of new jobs created. However, the growth of the total labor force of the country (2.9 percent) exceeded the growth of the number of new jobs created (2.7 percent). As a result, the unemployment rate increased slightly from 9.3 percent a year earlier to 9.5 percent (Table 3).

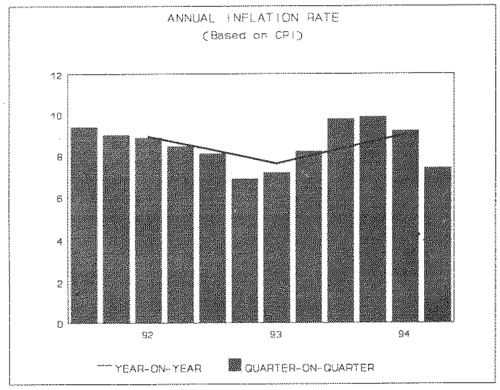
Meanwhile, a significant increase (5.1 percent) in the number of workers deployed overseas was observed during the year. This was attributed to continuous demand for Filipino workers abroad on account of continued vigorous economic activities in other countries. The number of new strikes slowed down to 93 in 1994 from 122 in 1993, even as the number of workers involved rose to 49,000 in 1994.

Daily nominal wage rates in the NCR and regions outside NCR posted major increases relative to the 1993 levels. In the NCR, daily wage rates for non-agricultural-related jobs increased by 21.4 percent to ₱145.00 per day in 1994 from ₱119.42 in 1993. Meanwhile, agricultural-related jobs (plantation and non-plantation) rose to ₱135.00. This was attributed to legislated nominal wage rate adjustments effected during the year for non-agricultural and agricultural (plantation and non-plantation) workers in the NCR. Increases in daily nominal wage rates, although slightly lower than in the NCR, were registered in regions outside NCR.

In real terms, daily wage rates based on 1988 prices improved from ₱62.75 to ₱68.04 in the NCR. Meanwhile, real wages in the regions outside the NCR registered from ₱44.63-₱70.81. Per capita income likewise improved in 1994 relative to the previous year.

Prices

Despite inflationary pressures during the early part of the year, inflation continuously decelerated in the second half even as economic analysts warned that the rise in liquidity would exert upward pressure on prices. The 1994 inflation rate based on the Consumer Price Index of the Philippines (1988 = 100) was higher at 9.0 percent compared to 7.6 percent in 1993 but lower than the 9.5 percent target for the year (Table 4). On a quarterly basis, annual inflation stood at 9.8 percent and 9.9 percent during the first two quarters and slowed down to 9.2 percent and 7.4 percent during the third and fourth quarters, respectively.



Several cost-push factors tended to raise inflationary pressures during the first half of the year. These included the temporary agricultural shortages spawned by the series of typhoons in December 1993, phased increase in minimum wages in December 1993 and April 1994, some speculation about the temporary fuel price increases early in the year and the impending implementation of the expanded value-added tax. A depreciating peso (relative to the January to May 1993 peso-dollar exchange rate), the uptrend in interest rates and in domestic liquidity growth also partly pushed prices upward during the period. In the third and fourth quarters, the growth in prices finally moderated due to an improvement in agricultural production particularly of palay, a stronger peso, relatively lower interest rates and prudent liquidity management.

BOX 1: MEASURING LONG-TERM PRICE TREND OR 'UNDERLYING' INFLATION

When the inflation rate, as measured by the Consumer Price Index (CPI), jumps as a result of say weather-related supply bottlenecks, monetary authorities may initially react by squeezing liquidity to stabilize prices, even as the long-term economic implications of this action could be substantial. It is possible, however, that this unanticipated rise in inflation could just be a "once-off" increase in prices with the long-run trend in inflation actually continuing to decelerate.

The dependence of monetary policy therefore on just the regular concept of inflation, i.e., change in the consumer price index (CPI), may sometimes lead to an inaccurate assessment of the impact of events on the long-term trend of the price level and result in inappropriate policy responses. The concept of "core" or "underlying" inflation becomes important since it aims to capture only the movement in prices related to long-run economic fundamentals, e.g., productivity, efficiency and competitiveness in the domestic economy.

Core Inflation - The Concept

The core or underlying inflation measures the long-run trend in the general price level. The items that are usually excluded from the computation of core inflation are (1) prices subject to government policy such as taxes and changes in the price of oil, and in some countries, interest rates, and (2) components which are volatile and/or seasonal. Excluding these items in determining core inflation can help policymakers distinguish the "once-off" movements in the price level from the more permanent, long-run changes in the price level - changes that are directly attributable to more fundamental economic conditions. This task of distinguishing between temporary and permanent price changes may not be simple and straightforward, since a single event or policy change could have influences on both. The effect of a government decision to increase oil prices to stem aggregate demand, for example, could have a lasting impact on the general price level through its effect on inflationary expectations.

Measures of Core Inflation

There are several measures or ways of computing the core or underlying inflation. The choice of a specific measure to adopt should depend on the specific conditions of a country, the objective or policy, and the events in particular periods of analysis. Some of the measures currently used by other countries include:

1. **CPI net of volatile items**

Some countries remove the prices of food items and petrol from the computation of the CPI. The prices of food items such as fresh fruit and vegetables are greatly volatile since they are affected by weather conditions and/or seasonal demand and supply conditions and therefore are not representative of changes in the long-run trend in the general price level. Prices of oil, moreover, are subject to government price setting for some countries and, in the same vein, not usually related to basic economic fundamentals.

2. **Prices for privately-provided goods and services**

This measure excludes goods and services that are provided by the public sector and/or directly controlled or administered by government. This measure was introduced in 1992 by the Reserve Bank of Australia. It may be noted, however, that for (1) and (2) above, the choice of which components to exclude and when, is arbitrary, and depends on the objectives of the user and the events in the particular periods covered.

3. **CPI, net of all extreme movements from whatever source**

a."Trimmed" Mean Inflation Rate

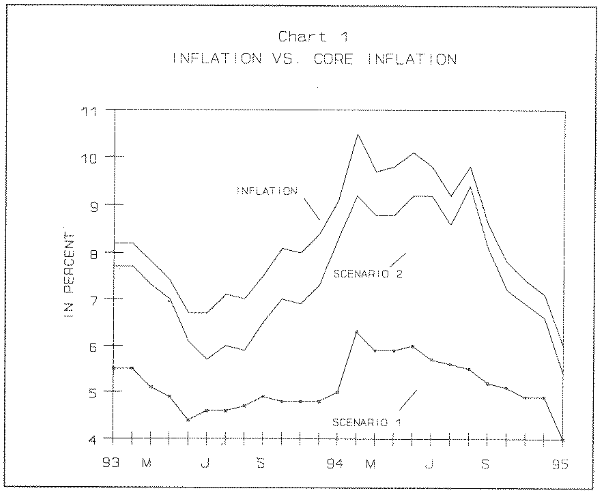
Another method of measuring core inflation is the trimmed mean method which gives a measure of the weighted mean of price movements in the central core of the whole range of price changes. For each month, the central 70 percent of the distribution is maintained from which the mean inflation is derived. The key feature of this method is that extreme price changes in any item are dropped or not included in the mean. In one month, it may be food items, and in the next, fuel prices may be excluded. What is arbitrary is the setting of 70 percent as the size of the central core.

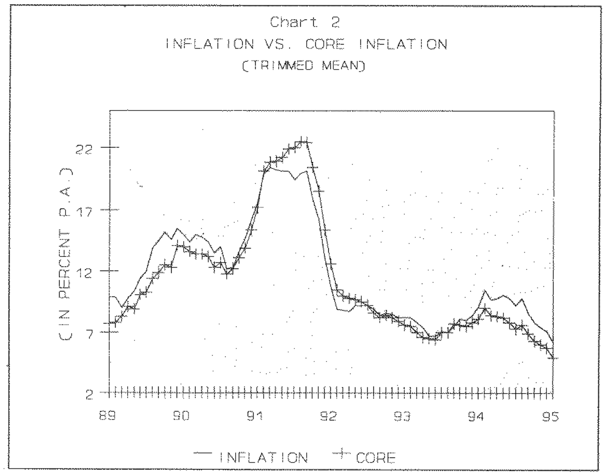
b.The weighted median inflation rate

The median inflation rate is in the middle of the total distribution of price changes - that is half of the price changes is on one side, and the other half on the other side. This is the 50th quartile in the distribution. The median, trimmed mean and reported inflation would be more or less within the same range if the distribution is symmetric or bell-shaped like the normal distribution. These measures will vary with the skewedness of the distribution.

Results

As an initial attempt to determine core inflation in the Philippines, the first definition of core inflation as discussed above, whereby the CPI is adjusted by excluding the most volatile items, was measured. Following the observation that the two most volatile components of the CPI are the food and energy-related items, the CPI was reconstructed by eliminating the impact of these two components on the price index over time. Chart 1 graphs the results of this exercise as "scenario 1". A variation of scenario 1 was also constructed by holding constant the top 2 components of the CPI which had the highest standard deviation. Monthly data on inflation rate from 1988 to 1994 showed the two CPI components - fuel, light, and water, and services, - as having the highest standard deviation of 7.4. Chart 1 also graphs the results of this second exercise as "scenario 2".





The two major observations can be made for the period 1993 - 1995 (Chart 1 and Table 1). First, both measures of core inflation fall below the reported inflation. Second, both core inflation figures computed under scenarios 1 and 2 generally follow the movements of reported inflation.

During the first three quarters of 1994, the elimination of the impact of the food, beverages and tobacco component on the changes in the price level resulted in a consistently declining inflation rate during the period. In contrast, when core inflation includes food items as in the second measure of core inflation, movements in core inflation closely followed reported inflation. In the second half of 1994, however, core inflation inclusive of food prices, exhibited a sharp fall compared to the measure of core inflation sans food prices.

Core inflation using the trimmed mean method followed closely the movement of regular inflation. It is also generally lower than regular inflation with the exception of the period February 1991 up to June 1992 (Table 2 and Chart 2). Galloping prices during this period were due to the after effects of the Gulf War in 1990 and the eruption of Mt. Pinatubo in 1991. In 1994, 1.6 percentage points of the average inflation rate of 9.1 percent was accounted for by extreme price movements of some items in the CPI. Using the "trimmed mean" method, the core inflation would average around 7.5 percent in 1994. Two general observations can be made from this exercise: (1) that removing the most volatile components from the CPI would give us a core inflation lower than the reported inflation; and (2) the resulting core inflation (scenario 1) is less volatile than the reported inflation.

Conclusion and Policy Implications

Core inflation is generally less volatile and closer to the long-run trend in the price level as it supposedly captures only those changes in the prices of goods that reflect economic fundamentals. The assessment of price conditions for purposes of policy formulation should abstract from prices which are basically seasonal and influenced by temporary market aberrations and focus also on the "underlying" inflation rate aside from the regular concept of inflation for a more accurate and balanced picture of the price situation. The regular measure of inflation captures the effects of seasonal changes in demand and supply of goods such as food and temporary government measures say of increasing the price of fuel to dampen demand pressures. These price movements may have only a "once-off" or temporary effect on prices but do not necessarily affect the long-run price trend. Stripping off the volatile items in the price index gives a figure that captures only the underlying trend in inflation. When monetary policy talks about limiting inflation to say, 5 percent, it is this concept of underlying rate of inflation that it has in mind. It must be reiterated that this measure on core inflation is just one of the several measures of inflation. As a practical matter, it is recommended that the best approach is to use a variety of measures of inflation as basis for policy formulation.

Table 1

Inflation Rate : Core and Regular (In Percent)

Year/ Month	Regular Inflation (a)	Scenario 1 */ Core Inflation (b)	Difference (c) = (a)-(b)	Scenario 2 **/ Core Inflation (d)	Difference (e) = (a)-(d)
1991					
Average	18.8	9.6	9.2	14.2	4.6
Jan	17.6	8.8	8.8	12.8	4.8
Feb	19.9	9.8	10.1	14.8	5.1
Mar	20.4	10.0	10.4	15.3	5.1
Apr	20.2	9.8	10.5	15.0	5.3
May	20.1	10.0	10.1	14.8	5.3
Jun	20.1	10.4	9.7	14.7	5.5
Jul	19.4	10.0	9.4	14.0	5.3
Aug	19.9	9.9	10.0	14.8	5.2
Sep	20.1	10.3	9.8	15.2	4.9
Oct	17.9	9.7	8.2	14.0	3.9
Nov	16.2	9.0	7.2	13.0	3.2
Dec	13.1	7.2	5.9	11.5	1.6
1992					
Average	8.9	5.9	3.0	8.3	0.6
Jan	10.8	6.6	4.2	9.8	1.0
Feb	8.9	5.7	3.2	8.0	0.9
Mar	8.8	6.0	2.7	7.9	0.8
Apr	8.7	6.1	2.5	7.9	0.7
May	9.2	6.4	2.8	8.6	0.6
Jun	9.2	6.1	3.1	8.9	0.3
Jul	9.2	6.2	3.0	8.9	0.4
Aug	8.9	6.2	2.7	8.4	0.5
Sep	8.4	5.6	2.8	7.9	0.5
Oct	8.6	5.4	3.3	8.0	0.6
Nov	8.5	5.4	3.1	7.9	0.6
Dec	8.2	5.3	2.9	7.6	0.6
1993					
Average	7.6	4.9	2.7	7.7	0.5
Jan	8.2	5.5	2.7	7.7	0.5
Feb	8.2	5.5	2.7	7.7	0.5
Mar	7.8	5.1	2.6	7.3	0.4
Apr	7.4	4.9	2.5	7.0	0.4
May	6.7	4.4	2.3	6.1	0.6
Jun	6.7	4.6	2.0	5.7	0.9
Jul	7.1	4.6	2.5	6.0	1.1
Aug	7.0	4.7	2.3	5.9	1.1
Sep	7.5	4.9	2.7	6.5	1.1
Oct	8.1	4.8	3.2	7.0	1.1
Nov	8.0	4.8	3.1	6.9	1.1
Dec	8.4	4.8	3.5	7.3	1.1
1994					
Average	9.1	5.5	3.6	8.4	0.7
Jan	9.1	5.0	4.1	8.3	0.8
Feb	10.5	6.3	4.2	9.2	1.3
Mar	9.7	5.9	3.9	8.8	1.0
Apr	9.8	5.9	3.8	8.8	1.0
May	10.1	6.0	4.1	9.2	0.9
Jun	9.8	5.7	4.1	9.2	0.6
Jul	9.2	5.6	3.6	8.6	0.6
Aug	9.8	5.5	4.3	9.4	0.4
Sep	8.6	5.2	3.4	8.1	0.5
Oct	7.8	5.1	2.7	7.2	0.6
Nov	7.4	4.9	2.5	6.9	0.5
Dec	7.1	4.9	2.2	6.6	0.5
1995					
Jan	6.2	4.0	2.1	5.4	0.7

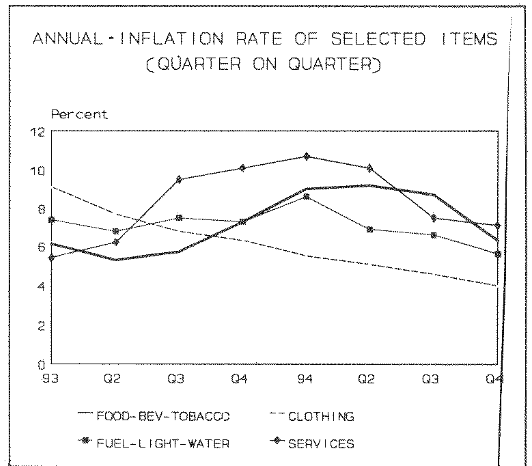
*/ Scenario 1 removes the price effects of food, beverages & tobacco sector; and fuel, light and water sector.

**/ Scenario 2 removes the price effects of fuel, light and water sector; and services sector.

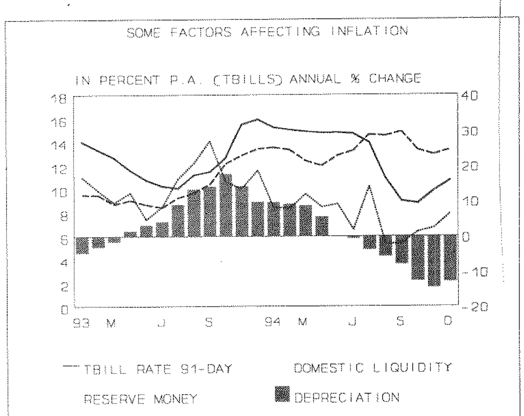
Table 2

Annual Inflation Rates (In Percent)

Year/ Month	Regular Inflation	Trimmed Mean	Difference
1992			
Average	8.9	9.4	-0.4
Jan	10.8	12.6	-1.9
Feb	8.9	10.5	-1.7
Mar	8.8	10.0	-1.2
Apr	8.7	9.8	-1.2
May	9.2	9.7	-0.4
Jun	9.2	9.5	-0.3
Jul	9.2	9.2	0.0
Aug	8.9	8.6	0.2
Sep	8.4	8.2	0.2
Oct	8.6	8.4	0.3
Nov	8.5	8.2	0.3
Dec	8.2	7.9	0.3
1993			
Average	7.6	7.2	0.4
Jan	8.2	7.6	0.6
Feb	8.2	7.5	0.7
Mar	7.8	7.0	0.8
Apr	7.4	6.6	0.8
May	6.7	6.5	0.1
Jun	6.7	6.4	0.3
Jul	7.1	7.0	0.1
Aug	7.0	7.0	0.0
Sep	7.5	7.7	-0.1
Oct	8.1	7.6	0.4
Nov	8.0	7.5	0.4
Dec	8.4	7.8	0.6
1994			
Average	9.1	7.5	1.6
Jan	9.1	8.1	1.0
Feb	10.5	9.0	1.5
Mar	9.7	8.4	1.3
Apr	9.8	8.3	1.4
May	10.1	8.2	1.9
Jun	9.8	7.8	2.0
Jul	9.2	7.3	1.9
Aug	9.8	7.6	2.3
Sep	8.6	6.9	1.7
Oct	7.8	6.3	1.5
Nov	7.4	6.0	1.4
Dec	7.1	5.7	1.5
1995			
Jan	6.2	4.9	1.3



By commodity group, the average price of food items, representing 58 percent of the total consumer basket, rose by 8.3 percent compared to 6.1 percent growth in 1993. Despite this development, price increments decelerated in the third and fourth quarters due to the bumper harvest in palay which eased supply shortages up to the fourth quarter. Prices of other food items also slowed down during the period such as fish, fruits and vegetables, dairy products, and tobacco.



Non-food items also became more expensive by 10.1 percent compared to 9.5 percent in 1993. During the third and fourth quarters price decelerations in the case of non-food items such as clothing, fuel-light-water, and services (in particular educational services) were noted.

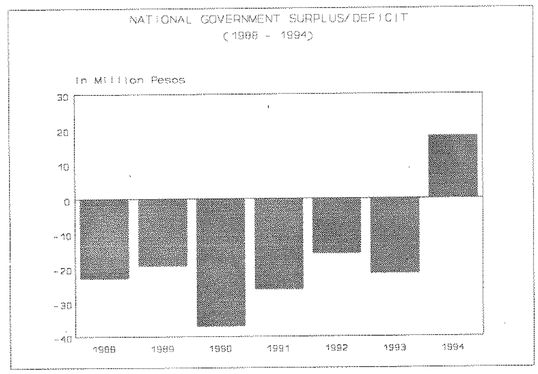
By region, the average inflation rate was higher in the National Capital Region (NCR) at 10.2 percent compared with 8.7 percent in areas outside NCR on account of the distribution bottlenecks in the capital.

PUBLIC FINANCES

Cash Operations of the National Government

For the first time in twenty (20) years, the cash operations of the National Government (NG) yielded a surplus in 1994. The ₱18.1

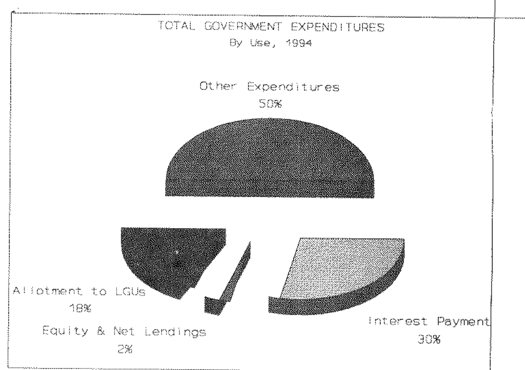
billion surplus during the year was a significant improvement from the previous year's deficit of ₱21.9 billion. This developed as revenue collections grew by a hefty 28.7 percent, offsetting the 12.3 percent hike in government expenditures (Table 5).



Total revenues amounted to ₱335.2 billion, ₱74.8 billion more than the 1993 collections. Non-tax revenues provided the impetus for said growth, posting a 110.9 percent increase over the year-ago level largely on account of: (a) increased income from the privatization program following the initial public offerings of Petron Philippines, Inc. (PETRON), and sale of Philippine Shipyard and Engineering Corporation (PHILSECO), Paper Industries Corporation of the Philippines (PICOP), Oriental Petroleum and Minerals Corporation (OPMC), and Manila Electric Company (MERALCO) shares; (b) surge in the collection of fees and charges; and (c) higher income of the Bureau of Treasury, largely from interest on deposits and investments.

Tax revenues (which accounted for 81.0 percent of the aggregate revenue value) expanded by 17.9 percent resulting from intensified collection efforts, particularly by the Bureau of Internal Revenue (BIR). Of the total revenues, BIR collected 55.9 percent or ₱187.5 billion, ₱2.0 billion higher than its programmed collections, notwithstanding the grant of tax exemptions on the 1994 Christmas bonuses of fixed-income earners and the non-implementation of certain measures such as the expanded VAT law. On the other hand, tax receipts of the Bureau of Customs (BOC), largely customs duties, posted a fractional decline of 0.7 percent on account of the appreciation of the peso and continued implementation of the tariff liberalization program. Reflecting said developments, the revenue ratio improved from 17.1 percent in 1993 to 19.1 percent in 1994.

Government expenditures aggregated ₱317.1 billion during the year, up by 12.3 percent from the year-ago level. Interest payments grew by only 3.3 percent in view of declining interest rates and implementation of prudent and cautious borrowing policy. Assistance to corporations (i.e., equity contributions and net lending) declined during the year in line with the policy thrust to promote self-reliance and efficiency among government entities. On account of the prudent spending policy and bigger output base, expenditure to GNP ratio declined from 18.6 percent to 18.1 percent.



Owing to the positive fiscal position during the year the NG was able to pay more debts than it borrowed, particularly in its Treasury issuances. The substantial amount of net redemption of Treasury bills and net repayments of foreign liabilities during the period helped stabilize the interest and exchange rates, and reduce the country's future debt service obligations.

Public Internal Debt

After registering a growth of 27.2 percent in 1993, outstanding public internal debt declined by 5.8 percent to ₱624.8 billion at the end of 1994 (Table 6). At this level, internal debt was equivalent to 35.7 percent of GNP, down from 43.6 percent in the previous year. By sector, the National Government (NG) accounted for the bulk or 98.2 percent of the debt pie while the government owned and/or controlled corporations (GOCCs) and the BSP shared the remaining 1.8 percent.

From ₱632.2 billion in 1993, NG domestic debt decreased by 2.9 percent in 1994. While NG debt exhibited an uptrend during the first eight months of the year with its peak at ₱665.6 billion in August 1994, the trend was reversed as the level settled at ₱613.8 billion by the end of the year. This development reflected in part NG's policy to trim down its debt stock.

Likewise, BSP bills declined by ₱20.2 billion or 81.5 percent. Starting February 1994, BSP ceased issuing its own bills.

In 1994, there was a slight shift in the maturity profile of outstanding public domestic debt. Fixed-term and floating rate Treasury notes totalling ₱41.3 billion were issued by the government during the year. Thus, the share of medium- and long-term debt to total public debt increased slightly from 31.6 percent in 1993 to 33.0 percent in 1994. The share of short-term maturities declined from 68.4 percent in 1993 to 67.0 percent in 1994.

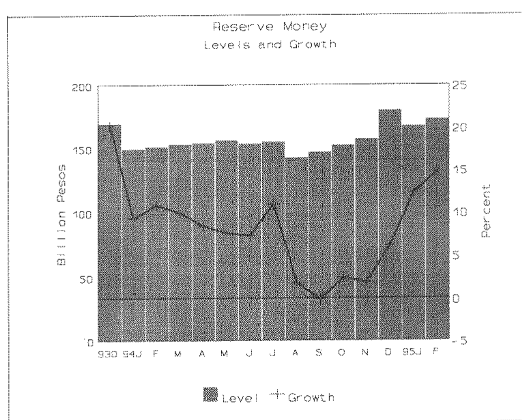
Securities, as contrasted from loans payable, remained the major form of domestic borrowing by the government, constituting about 98.4 percent of outstanding total domestic debt.

MONETARY DEVELOPMENTS

Monetary Conditions

As the Philippine economy continued to gain momentum in 1994, monetary aggregates grew at a faster rate relative to both program and previous year's levels to support the increased economic activity particularly of the private sector (Table 7).

The huge absorptive capacity of the real sector prevented the economy from overheating with inflation rates decelerating and remaining at single-digit levels.



Domestic liquidity (M3) as of end-1994 was measured at ₱607.6 billion and registered an average growth of 26.5 percent (Table 8). Growth in credits extended by deposit money banks to the private sector was the driving force behind liquidity growth. The reduction in the reserve requirement in August 1994 and the flowback of money from the hands of the public to the banking system boosted funds availability and the ability of banks to more than accommodate the funding requirements of expanding businesses, one factor which, together with declining inflation and an improved fiscal position, also helped drive interest rates downwards. Financial liberalization, the swelling number of automated teller machines and the renewed public trust in the banking system all combined to produce a declining currency-to-deposit ratio, one measure of the relative proportion of liquidity held by the public and the banking system.

Close to 70 percent of domestic liquidity was in the form of savings deposits. Liquidity growth was likewise mostly in the form of savings deposits as disposable income improved and the marginal propensity to save rose. Higher transactions demand also supported a high growth in currency-in-circulation and demand deposits of deposit money banks by 13.8 and 13.0 percent, respectively. Meanwhile, time deposits declined by 20.7 percent and accounted for only 6.6 percent of liquidity as of December 1994.

Also accounting for the rise in liquidity was the ₱40.0 billion deposit withdrawal of the National Government from the banking sector, around three-fourths of which were drawn from the BSP. These increases were offset by the drop in net foreign asset position of the banking system.

To control overall liquidity growth, RM growth was contained as the BSP stepped up its open market operations through sales of its holdings of Treasury bills and borrowings through the reverse repurchase facility (Table 9). Constraints to monetary management, however, were the surge in foreign exchange inflows especially during the second half of the year which improved the BSP-NIR position and strengthened the peso vis-a-vis the U.S. dollar, and the higher-than-programmed withdrawal of NG deposits from the BSP during the last quarter of the year despite the NG surplus cash position posted in 1994.

Despite the acceleration in domestic liquidity in 1994, reserve money growth even decelerated from end-1993's 18.6 percent to 6.2 percent in 1994. This signifies BSP's commitment to offset the expansionary impact of credit operations of banks by supplying liquidity only when absolutely necessary.

Financial Condition

Number and Resources of Financial Institutions. Bolstered by the current financial liberalization thrust of the government, domestic banking institutions geared up to strengthen further their foothold in the local market. Expansion in the number of institutions, resource base, and the improvement in banking services remained the main focus during the period as the banking industry prepared for the eventual participation of ten (10) foreign banks in the local market.

Following the relaxation of the policy on bank branching, the number of financial institutions as of end-1994, rose to 11,071 head offices/branches/agencies, higher by 1,135 units than in the previous year. Banking institutions for instance, recorded 440 additional units as the number of head offices/branches and agencies of commercial banks leaped by 320 units, followed by rural banks (79 units), and thrift banks (41 units). Non-banking institutions similarly expanded by 695 units during the same year (Table 10). The financial system's consolidated resources as of December 1994 stood at ₱1,587.4 billion, up by 19.1 percent from the previous year as efforts were geared towards the further strengthening of the resource base of financial institutions (Table 10a).

Commercial banks' assets, which remained to record the highest share of 66.3 percent of total resources, rose by a substantial amount of ₱187.7 billion or 21.7 percent from the previous year. This developed from the build up in KBs' investments, mainly their placements in National Government securities and partly their lending activities.

Thrift banks which accounted for 6.7 percent of total resources recorded the highest growth in resource base by 42.1 percent which was largely contributed by the combined expansions in the assets of savings banks (54.2 percent), private development banks (26.6 percent), and stock savings and loan associations (15.8 percent). All combined, the rise in lending activities of these banks and their investments accounted for the rise in these banks' resources.

Specialized banks and rural banks captured 3.8 percent and 1.7 percent, respectively, of total resources. A similar expansion in these banks' investments and loans boosted their resources.

Non-banking institutions similarly registered an asset growth of 9.3 percent to ₱342.4 billion, capturing 21.6 percent of the financial system's aggregate resources, reflective of the growing contributions of non-banks in fund mobilization.

Deposit Liabilities of the Banking System. The total deposit base of the banking system as of end-November 1994 was built up further to ₱732.7 billion as banks continued to improve and expand their services and increase their network of branches in preparation for the anticipated entry of foreign banks in 1995.

Savings deposits continued to contribute the bulk or 68.0 percent of total deposit liabilities which grew by 21.5 percent from the previous year. The substantial growth in savings deposits resulted from the expansion in the number of savings institutions, the link-up of the automated tellering machines of Bancnet and Megalink in June 1994, and the introduction of a new payment system for clients which allows payment of bills, insurance amortizations through the banks. Meanwhile, time deposits accounted for 23.1 percent of total deposits while demand deposits shared 8.9 percent. The observed decline in time deposits could be due to investors' preference for higher yielding instruments like shares of stocks which offered more attractive earnings following the bullish stock trading during the year.

Reflective of their relative edge in branching network over other financial institutions, commercial banks cornered ₱637.0 billion or 86.9 percent of total deposit liabilities followed by thrift banks which captured ₱67.8 billion or 9.2 percent, rural banks, ₱16.2 billion or 2.2 percent and specialized government banks, ₱11.8 billion or 1.6 percent (Table 11).

Foreign Currency Deposit System. Foreign Currency Deposit Units (FCDUs) continued to grow in 1994 with total resources aggregating US$9,765 million as of December 1994, up by 38.1 percent from the previous year. The growth in FCDU resources was fuelled largely by the substantial growth in "due from other banks" (67.6 percent) on account of the increase in inward remittances by clients which were temporarily parked as placements by FCDUs with offshore banking units (OBUs). Likewise contributing to the growth in FCDU resources was the 48.4 percent increase in "loans and discounts" as exporter's preference shifted towards FCDU loans following the relaxation of the policy on exporters access to this type of financing and the relatively lower cost of these loans compared to the rediscounting facility. Moreover, the addition of three (3) new expanded foreign currency deposit units of the three commercial banks namely: Banco de Oro, East West Banking Corporation and Westmont Bank (formerly Associated Bank) and FCDUs of thrift/savings and development banks (e.g., Southeast Asia Savings and Mortgage Bank, Hermosa Savings Bank and Philam Savings Bank) likewise contributed further to the growth in FCD system's aggregate resources (Table 12).

During the period, 52.6 percent of loans granted to residents were channeled to the manufacturing sector. Over 70 percent of the loans granted were short-term in nature.

The bulk of the system's liability remained in the form of deposit liabilities. This account expanded to US$7,716 million, 37.4 percent higher than the previous year's level because of the surge in OCW remittances, increase in export earnings, and higher tourist arrivals during the year.

Offshore Banking System. The Philippine Offshore Banking System is composed of twenty offshore banking units (with one yet to start operations). Europe has the biggest representation in the system (7 banks), followed by the U.S. (6 banks), and Asia (5 banks). Australia and Canada are represented by one bank each.

The aggregate resources of the system recorded an expansion of 28.3 percent from the previous year to reach US$2,010 million as of December 1994. The growth in resources was attributed to the huge increases in loans largely to non-residents and residents, and in investments in bonds and other securities during the year (Table 13).

BOX 2: REFORMS IN THE RESERVE REQUIREMENT IN THE PHILIPPINES

By definition, a reserve requirement is an obligation on the part of a financial institution to hold deposits with the central bank or in other eligible assets such as cash in vault. It is usually expressed in terms of a broader monetary aggregate, usually, as a proportion of the bank's total deposit liabilities. Aside from its use as a prudential measure to ensure that banks have adequate liquidity when depositors demand it, the reserve requirement is also used as a means to control liquidity since it has a direct effect on the banking system's ability to create money.

Variations in the reserve requirement affect aggregate money supply, and hence, should be used on a selective basis, and only as a second-best approach to implementing monetary policy. For one, even small changes in the reserve requirement entail large adjustments in banks' portfolios, and thus, require some forewarning before they are imposed. Moreover, changes in reserve requirement cannot readily be used to offset short-term monetary fluctuations because of lags in monitoring the reserve base.

The practice of remunerating reserves, however, varies from country to country. In the Asean countries of Malaysia, Thailand, Indonesia, and Singapore, reserves held as deposits by their respective central banks do not earn interest. There is, however a growing school of thought which suggests the possibility of compensating reserves at rates approximating the opportunity cost of having funds locked up in bank vaults. This proposal, however, is feasible in a low inflation environment where the central bank has an adequate supply of liquidity instruments which could be used more intensely to absorb liquidity generated by such remuneration.

Reserve Requirements: The Philippine Experience

Reserve requirements in the Philippines are expressed in terms of their ratio to total deposits and deposit substitute liabilities of banks and non-banks with quasi-banking functions. Reserve requirements on demand deposits of commercial banks ranged from a low of 10 percent in 1966 to a high of 25 percent in 1990; while those for savings and time deposits ranged from 5 percent in 1949 to 25 percent in 1990. The structure of reserve requirements in the Philippines also varied depending on the nature and maturity of deposits, as well as on the category of banks (i.e., whether commercial, thrift, or rural). Until October 1989, time deposits with longer-term maturities in commercial banks were subject to lower reserve levels than those required for demand and savings deposits, to encourage these banks to give higher rates of interest on time deposits in order to attract such types of deposits. Thrift and rural banks, however, were to observe a lower reserve requirement on savings and time deposits, regardless of maturity, in recognition of the more specialized and retail nature of their services which entails higher operational costs. The differential between reserves imposed on savings and time deposits of commercial banks and those of thrift and rural banks was gradually narrowed down from 6 and 11 percentage points in 1990 to 3 and 8 percentage points, respectively, in July, 1993 (Table 1).

Banks are also required to deposit 25 percent of the required reserves with the BSP, where these earn an interest rate of 4 percent. The remaining portion of the required reserves may be held by banks in the form of cash and/or government securities eligible to form part of the reserves.

Table 1 : RESERVE REQUIREMENTS OF BANKS AND NON-BANKS WITH QUASI-BANKING FUNCTIONS

BANK TYPE	DEPOSIT TYPE	RESERVE REQUIREMENTS A/	B/	C/
Commercial Banks 1/	All types	25	22	19
Thrift Banks 2/	Demand	25	22	19
	Now	25	22	19
	Savings	19	19	16
	Time	19	19	16
	Deposit Substitute Liabilities	25	22	19
Rural Banks	Demand	23	22	19
	Now	23	22	19
	Savings	14	14	11
	Time	14	14	11
Non-Banks/ Quasi Banks	Deposit Substitute Liabilities	25	22	19

A/ Per Circular No. 1269 dated Dec. 28, 1990
B/ Effective July 30, 1993, per Circular No. 1377 dated January 21, 1993
C/ Per BSP Circular No. 38 dated August 2, 1994.
1/ Includes Land Bank of the Philippines and the Philippine Amanah Bank
2/ Includes Development Bank of the Philippines

Recent Reforms In The Reserve Requirement

1. Unification of the Reserve Requirement

The differentiation in reserve requirement complicated monetary management in that it obscured the link between the change in reserves and the change in monetary aggregates. To simplify and rationalize the structure, steps to unify the reserve requirement were undertaken in November 1989. A standard reserve requirement was imposed on all types of deposits with commercial banks, regardless of maturity starting November 1989. The differential in required reserves imposed on time and savings deposit for thrift and rural banks, however, has been maintained.

2. Imposition of Reserve Requirement on Off-Balance Sheet Activities

Reserve requirement levels in the Philippines were changed quite frequently (around 2-3 times a year) during the period from the October 1983 foreign exchange crisis up to 1992 when the reserve requirement reached a high of 25 percent. The frequent changes, as well as the relatively high reserve requirements, have encouraged banks to engage in off-balance sheet activities which were not subject to this imposition. These activities were lodged in the Trust Department Account (known as "common trust funds") which grew from ₱32.48 billion in 1986 to ₱130.5 billion in 1991 representing 46 percent of total contingent accounts in 1991. The proliferation of these activities which were also instrumental in fuelling foreign exchange speculation against the peso in 1993 prodded the Bangko Sentral ng Pilipinas to impose a 10 percent reserve requirement on peso-denominated common trust funds effective October 1, 1993 under MAAB dated October 1, 1993. As of December 1994, the outstanding level of common trust funds rose to ₱199.6 billion, though its share to total contingent accounts declined slightly to 43 percent.

Recent Innovations to Effect an Increase in Remuneration of Reserve Requirements

Following the restructuring of the BSP in July 1993, the BSP moved to introduce innovative arrangements to allow the required reserves to earn remuneration which would approximate the opportunity cost of holding reserves, without necessarily increasing money supply. On December 19, 1993, the BSP relaxed the regulation on the composition of reserve requirements, by allowing banks and non-bank financial intermediaries with quasi-banking functions (NBQBs) to invest up to 2 percent of their reservable deposit and deposit substitute liabilities in market-yielding government securities purchased from BSP. This effectively reduced the reserve requirement by 2 percentage points to 20 percent, and was expected to result in lower bank intermediation costs leading to a lowering of the interest rates.

Further efforts to lower interest rates were effected in August 1994, this time by lowering the reserve requirement to 19 percent of total deposits and deposit substitute liabilities. Inclusive of the relaxation in the composition of required reserves allowing up to 2 percent of reservable deposits to be held in market-yielding government securities, this translated to a reserve requirement equivalent to 17 percent.

Contemporaneous with this announcement under BSP Circular No. 39 dated August 2, 1994, however, was a reduction to only 55 percent of reserves required to be deposited with the BSP which would now be eligible to earn 4 percent interest from the BSP. Under the previous practice, BSP paid interest on all bank reserves (including the excess) deposited with the BSP. Such practice however, involved absorption by the BSP of costs implicit in commercial banks' operations. The issuance was necessary in order to reflect costs where they should properly accrue and improve BSP's efficiency by rationalizing its expenses.

As the BSP furthers its goal of maintaining a low inflation rate that will support a healthy macroeconomic environment, further rationalization of the reserve requirement may be needed to make it a more effective secondary instrument of monetary policy.

Loans and discounts which accounted for almost half the offshore banking units' (OBUs') total resources grew by 58.1 percent to reach US$ 898 million at end-December 1994. Of this amount, $708 million or 78.6 percent were channeled to resident customers particularly in three major industry groups namely: manufacturing, transportation/communication and electricity/gas/water. Similarly, investments in bonds and other securities expanded by 39.2 percent to US$284 million traced largely to increased placements in bonds and in stocks with the private sector.

Meanwhile, total deposit liabilities of OBUs grew by 20.0 percent to reach US$18.0 million by December 1994. The "Due to Banks" account recorded the major source of funds which comprised 97.3 percent of total liabilities. The significant increase of the account was largely due to the deposits/advances made by head offices/branches for lending to oil companies like Petron, Pilipinas Shell and Caltex, to Wiespower Corporation (manufacturer of power barges) and to Metrobank for pre-export financing.

Notwithstanding the expansion in the aggregate resources of OBUs, their 1994 operations resulted in a dramatic decline in net earnings after tax compared with the previous year due to higher interest expense incurred on interbank borrowings, loans and advances , time deposits and to the more than US$10 million bad debt written-off locally during the year.

Capital Market Developments

Money Market. Total volume of money market transactions in 1994 stood at ₱3,500.4 billion, higher by ₱676.0 billion or 23.9 percent than the previous year (Table 14). In terms of annual growth, this year's volume turnover, however, was relatively lower than the 35.9 percent growth in 1993 essentially indicating a steady deceleration in market activity which could be traced partly to the relatively liquid condition of the market during the period.

The combined volume of interbank call loans and Treasury bills accounted for 41.1 percent and 31.6 percent, respectively of the total volume of money market transactions.

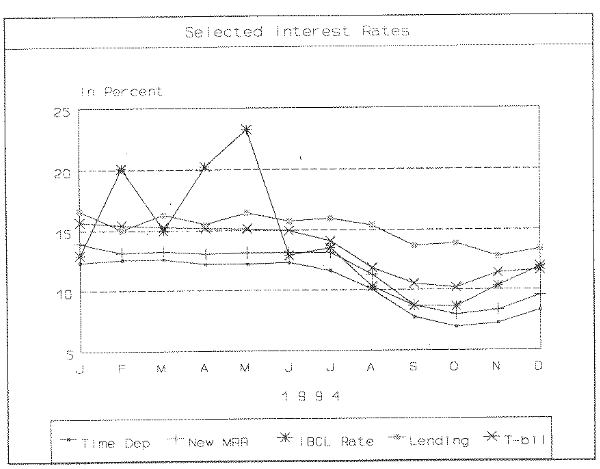
Except for promissory notes, the volume of transactions of money market instruments generally expanded in 1994. Interbank call

BOX 3: INTEREST RATES IN 1994

Interest rate is generally referred to as the price for the rental/borrowing of money. To the borrower, it is viewed as a cost, and to the lender, as an income. To the Monetary Authorities, interest rate serves as an important economic variable that represents a) an opportunity cost of present consumption with reference to future consumption; b) an element in the cost of capital; c) a medium that converts services of capital goods into demand prices; and d) a measure of the return for accumulating financial assets. On the whole, interest rate plays a crucial role in influencing the level of consumption, investment and production activities of the economy.

Interest rate is generally determined by the supply of and demand for funds in the market. Recognizing its close correlation with cost of money, its behavior would generally be influenced by factors that affect the level of supply and aggregate demand for money. On the supply side, such factors include the level of money supply (or domestic liquidity), as well as measures that either directly or indirectly control it, i.e., reserve requirement, open market operations, rediscounting. Conversely, the demand for money is influenced by factors or developments that generally affect either the precautionary, transactional and/or speculative behavior of savers/borrowers.

Influenced largely by the general stability in the overall macroeconomic environment as well as the soundness of the underlying policy measures implemented during the period, a relatively stable movement in interest rates was observed in 1994. On average, nominal interest rates on both borrowing and lending instruments of banks remained closely at range with their averages in 1993. Viewed on a monthly basis, bank borrowing and lending rates were initially high which caused capital inflow to surge and the peso to appreciate. Towards the second half of the year, a downtrend was observed as a number of policy measures were immediately put in place to moderate the flow of foreign capital in the country. Adjusting for price movements, real interest rates, responding to the slightly higher inflation rate of 9.0 percent in 1994, dropped slightly to lower levels but continued to remain positive during the period.



Commercial Bank Rates

The year witnessed a steady improvement in the overall liquidity condition in the market. Bolstered substantially by the surge in foreign capital inflows which were channelled through the banking system, the slowdown in the average inflation rate and the steady appreciation of the peso, banks' deposit base expanded markedly and eased market pressure on interest rates on traditional instruments. During the period, nominal rates on traditional time deposits and short-term promissory issues (MRRs) of banks across maturities inched up fractionally by 0.4 and 0.3 percentage points from the previous year to average 10.75 percent and 11.56 percent, respectively.

A general ease in the interbank call loan (IBCL) market was likewise observed during the period. Drawn markedly by the three (3) percentage points reduction in the reserve requirement imposed on banks' deposits and deposit substitute liabilities which took effect in August 1994, a downtrend in the rate charged on call loan funds was noted particularly during the second half of the year, causing the weighted average IBCL rate to drop marginally by 0.3 pecentage point to 13.4 percent during the year.

The reduction in the reserve requirement had substantially lowered the cost of intermediation during the period. This, together with the observed stability in the cost of borrowing and the heightened competition in the market following the liberalization of BSP's bank branching policy, have significantly helped in slowing down banks' lending rates. During the year in review, the average lending rate of banks on secured loans across maturities averaged 14.99 percent, closely at range with its 14.56 percent average recorded in 1993.

Meanwhile, in response to the success of the Monetary Authorities in effectively maintaining inflation within programmed levels during the year as well as to the continued improvement in the national government cash operation, a slowdown in nominal yields on treasury issues was observed. From 13.1 percent in 1993, nominal yields on Treasury bills across maturities averaged 13.75 percent in 1994, with the December average setting at 16.6 percent.

CBP/BSP Rates

Interest rates on BSP credit facilities essentially mirrored the Monetary Authorities' efforts to stabilize key economic variables. During the year, the BSP, stepped up its open market operations partly through its reverse repurchase window to stave off any build up of inflationary pressure caused by BSP's intervention in the foreign exchange market in an effort to prevent the peso from wildly appreciating. The reverse repurchase rate rose to 17.9 percent in 1994 from an average of 11.4 percent in 1993. To further enhance the market orientation and the benefits of the rediscount facility, the determination of the BSP rediscount rate was reformulated to one percent lower than the prevailing Treasury bill rate starting November 1994. With the revised formula, the rediscount rate dropped to 8.3 percent, pulling down the average rate for the year to 9.2 percent from 11.35 percent in 1993. Meanwhile, average yields on CB/BSP bills rose marginally to 13.75 percent along with the movement in the Treasury bill rate.

loans expanded by 14.3 percent from the 1993 level with notable increases observed starting August induced largely by the slowdown in the IBCL rate following the 3 percentage point reduction in the reserve requirement. Likewise, repurchase agreements (government) swelled by more than 100 times its previous year's level as the BSP intensified its campaign to stave off any unnecessary build-up in liquidity caused by BSP's heavy purchases of foreign exchange in the market in an effort to prevent the peso from further appreciating during the period. Non-financial commercial papers similarly grew by 57.7 percent reflecting increased demand for funds by the non-financial sector to finance their investment projects and expansion programs.

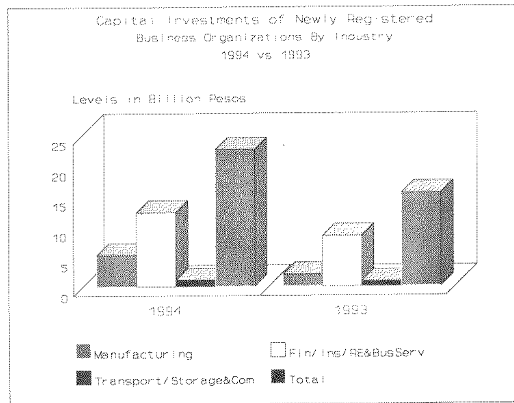
Meanwhile, Treasury bills which were partly used to siphon off excess liquidity from the system, likewise grew by 3.9 percent while other government securities, bolstered by the flotation of floating rate treasury notes (FRTNs) and fixed rate treasury notes (FXTNs) during the year grew by 106.9 percent. Certificates of assignment were also traded actively during the year, a complete turnaround from last year's low turnover.

The average yields on all money market instruments generally rose ranging from 0.054 to 2.073 percentage points except for repurchase agreements (government), which declined markedly by 7.807 percentage points reflective of a highly liquid market.

Capital Investments. The bullish mood on the Philippine economy during 1994 resulted in a substantial increase of 47.1 percent in capital investments by newly registered business organizations by end-1994.

A total of 15.7 million newly- registered business establishments were put up in 1994 with a combined paid-up capital of ₱22,521.5 million (Table 15).

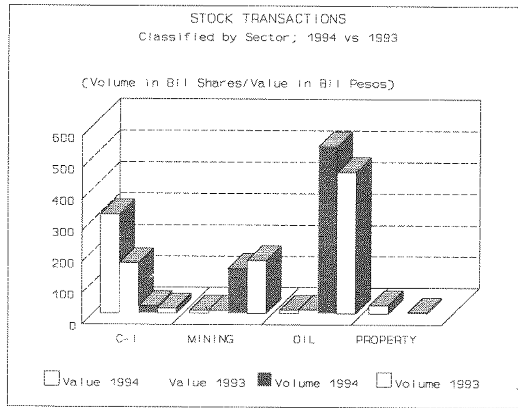
Investments of newly registered businesses in the manufacturing sector recorded the highest growth of about 160 percent during the year to reach ₱5.2 billion following the success of the government's efforts in addressing the power shortage problem and the much-improved industrial peace during the year. This was followed by financing, insurance, real estate and business services



which grew by 47.5 percent to record ₱12.2 billion reflecting the heightened interest of investors in these sectors in anticipation of a strong demand for these sectors' products/services. The transportation, storage and communication similarly grew by 32.3 percent increase to ₱1.0 billion as the government deregulated the sector in line with Philippines 2000. The community, social and personal service also increased by 21.6 percent to ₱1.2 billion. The combined increases in these sectors more than offset the declines in investment registered in the electricity, gas and water (50.8 percent), construction (36.6 percent) and in agriculture, fishing and forestry (19.3 percent).

Stock Market Developments. Stock market trading at the Philippine Stock Exchange (PSE) in 1994 was generally upbeat as both volume and value of transactions rose by 10.2 percent and 99.6 percent, respectively, due to sound economic fundamentals during the year such as the sustained single-digit inflation rate, higher GNP growth, and the series of structural reforms undertaken during the year which were intended to further enhance and strengthen the local equities market.

Foremost of the reforms implemented during the year was the unification of the two bourses, the Manila and the Makati Stock Exchanges, out of which the emerging institution was licensed to operate on March 4, 1994 as a single exchange now called the Philippine Stock Exchange. The concept of linking the two trading floors of the PSE was aimed at achieving uniform pricing of stock prices and eliminate arbitrage. In order to reflect more accurately the market's performance, the composition of the Philippine Stock Index (PHISIX) was reclassified to include the Property Index starting October 4, 1994.



Following the recent financial liberalization, more and more foreign investors were attracted to participate in stock trading. Such growing interest of foreign brokers caused the price of a broker's seat in the exchange to increase to ₱50 million as of October 1994 as compared to only ₱1.3 million in 1991. Active trading in the local bourse during the year was reflected in the growth of the number of listed issues in the exchange from 284 in 1993 to 289 in 1994 while the number of listed companies similarly grew from 178 to 189 during the same period. High-grade stocks were offered to the public and listed in the exchange. During the year, membership in the exchange rose to 185 members (of which 33 are foreign members)

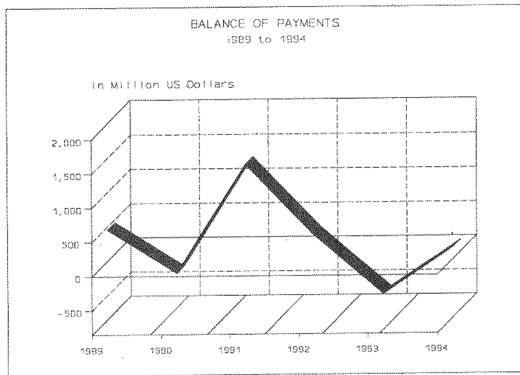
The size of initial public offering (IPOs) in 1994 rose to 21 from only 11 IPOs in the previous year (Table 16).

The commercial and industrial (C-I) sectors recorded robust trading as the volume of transactions rose by 44.5 percent to 23.7 billion while the value of shares almost doubled from the previous year's level to ₱316.9 billion. Meanwhile, the volume of transactions in mining slid by 15.4 percent to 144.0 billion although share prices exhibited an increase of 6.1 percent to reach ₱10.2 billion. Lower volume turnover in mining merely reflected investors' cautious stance amidst low metal prices abroad. In contrast, oil increased by 17.8 percent its volume of transactions to 532.9 billion despite a dip in share prices by 6.1 percent to ₱10.8 billion. Activity in oil exploration particularly during the latter part of the year boosted volume turnover.

EXTERNAL DEVELOPMENTS

Balance of Payments

Foreign exchange liberalization and continued stability in macroeconomic conditions paid off in terms of an improvement in the country's external payments position. The overall balance in 1994 reversed to a US$168 million surplus from a US$501 million



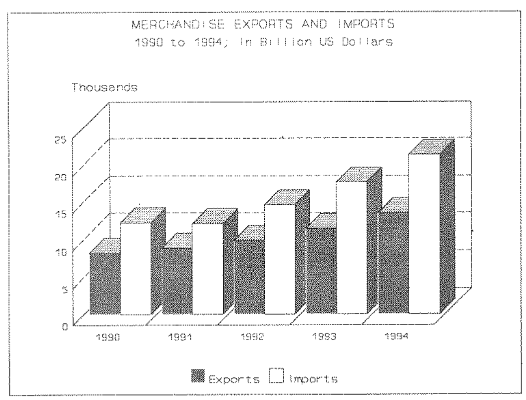
deficit in the previous year despite the US$804 million fourth quarter deficit this year. These BOP estimates may change depending on the final outcome of an ongoing review of the impact of the foreign exchange liberalization on the accounting system, particularly with respect to FCDU transactions. The strengthening of both the current and capital accounts greatly influenced the BOP's turnaround in 1994 (Table 17).

Current Account. Significant export earnings as well as higher receipts for services helped narrow the deficit in the current account balance from US$3,289 million down to US$3,002 million even in the face of rising imports. In relation to GNP, the current account deficit fell from 5.9 percent in 1993 to 4.5 percent during the review period.

Growing exports mitigated to a great extent the further widening of the trade deficit even as imports continued its rise, albeit at a decelerating pace during the year. The trade deficit increased to US$7,802 million from US$6,222 million in the previous year.

Total exports during the period reached US$13,430 million. From only 4.7 percent in 1990, the annual growth of exports in 1994 nearly quadrupled to 18.1 percent. The economic recovery of the country's major trading partners brought a greater upward pull on the level of exports that saw a buoyant growth in the sales of electrical and electronic equipment/parts and telecommunication manufactures (US$1,420 million), machinery and transport equipment (US$108 million), coconut products (US$105 million) and garments (US$98 million). Appreciable gains were likewise recorded for mineral products (US$84 million), textile yarns/fabrics (US$58 million), other agro-based products (US$49 million), footwear (US$43 million), chemicals (US$37 million) and furniture and fixtures (US$36 million) (Table 17a).

To some extent, the strong performance of the export sector was attributable to a host of measures adopted during the review period by the BSP to encourage export competitiveness and viability. In line with its efforts to abate the rapid appreciation of the peso by inducing demand for foreign exchange, the BSP increased the the ceiling of outward investments per investor per year from US$1 million to US$6 million. On the other hand, to moderate the inflow of foreign exchange, availments of FCDU loans were limited to funding of the foreign costs component of projects. In addition, a volatility band was implemented to check wild fluctuations in the exchange rate. Meanwhile, to help exporters gain access to cheaper sources of funds, an Exporters Dollar Facility was established in December 1994. Rules governing export bill financing of FCDUs were liberalized by allowing FCDUs to purchase export bills covered by both usance and sight L/Cs as well as those with or without recourse.



Aggregate imports advanced by 20.6 percent to US$21,232 million. The US$3,635 million rise in total imports was principally supported by higher imports of raw materials and intermediate goods (US$1,697 million) as well as of capital goods (US$1,249 million), most notably of purchases of power- generating machines and specialized machines and of telecommunication equipment and electric machines. Purchases of mineral fuel and lubricants remained relatively steady at US$2,025 million while consumer goods rose by US$500 million (Table 17b).

The surplus in the non-merchandise trade account rose by 73 percent due to higher receipts from services. Gross receipts totaled US$10,612 million, up by 41 percent from the comparable figure last year. The bulk of the US$3,084 million rise in receipts was owed to higher withdrawals of 343/547 deposits in pesos (US$1,132 million) and larger remittances from overseas workers' earnings (US$733 million); the latter resulting from the rise in the number of deployed workers abroad. Other factors that contributed to improved inflows were the increase in investment income (US$256 million) and operating expenses of branches of foreign companies operating in the country (US$219 million).

On the other hand, service payments grew by 27.5 percent to US$6,748 million resulting mainly from higher commissions and fees (US$125 million), freight and merchandise insurance (US$124 million) and travel (US$66 million). In contrast, interest payments declined by US$81 million to US$1,741 million.

Net inward transfers increased by 34 percent to US$ 936 million fuelled mainly by higher net personal remittances (US$ 367 million) and central government transfers (US$ 476 million), a large part of which came from other bilateral arrangements.

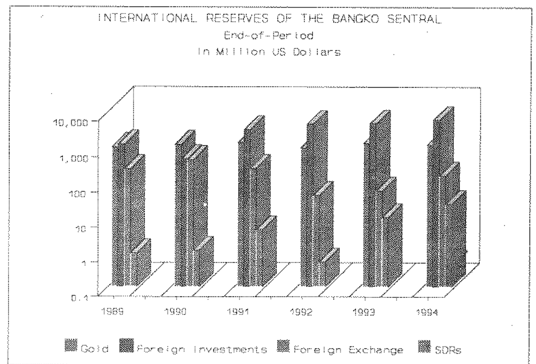
Non-Monetary Capital Account. In the non-monetary capital account, the surplus was higher by US$666 million traced to larger net inflows of foreign investments and net availment of short-term capital. The year 1994 saw a major shift in the source of financing from foreign loans to foreign investments. The surplus in the medium- and long-term loan account fell by US$563 million due to lower gross availment of medium- and long-term loans. In contrast, net inflows of foreign investments at US$1,424 million climbed by more than twice its 1993 level, despite higher capital withrawal from the country and portfolio investment outflows. The increase in net foreign investments was traced to higher portfolio investments (US$722 million), withdrawal of foreign investments abroad (US$594 million) and new foreign investments in the Philippines ((US$462 million).

In the short-term capital account, the net availment of D/A and O/A during the year doubled to US$686 million. As a result, the short-term capital account balance reversed from a net repayment of US$751 million in 1993 to a net availment of US$316 million.

Gross International Reserves

The annual accumulation in the gross international reserves (GIR) of the BSP observed since 1991 was sustained in 1994 on the strength of significant capital inflows. The GIR, which peaked at US$7,755 million in July, amounted to US$6,995 million at the close of the year after rising by US$1,193 million from the 1993 level. This level of international reserves was equivalent to 3 months worth of imports of goods and services.

In line with its stance to effect an orderly adjustment of the peso's exchange rate in the face of large capital inflows, BSP's spot purchases from commercial banks reached US$2,929 million during the year. This led to the rise in net spot purchases from commercial banks to US$3,138 million. Other major receipts during the year included the Petron privatization proceeds (US$502 million), investment income (US$316 million), BSP purchases of primary and panned gold (US$153 million) and fixed-term deposits (US$30 million).



The rate of increase of the GIR was however tempered by outflows consisting primarily of net sales to the National Government (US$2,133 million) for its debt servicing needs as well as the BSP's payments of its maturing obligations (US$561 million). This move was in consonance with the government-announced policy of using debt servicing to help arrest the appreciation of the exchange rate. Other significant disbursement items included the US$101 million net payment of gold-backed loans and the US$162 million advances by the BSP to the CB-Board of Liquidators.

Of the US$6,995 million aggregate level of the BSP's GIR in 1994, foreign investments made up 82 percent followed by gold (16 percent), foreign exchange (2 percent) and SDRs (0.3 percent) (Table 18).

Exchange Rate

The Philippine peso generally appreciated in 1994 as foreign exchange in the form of foreign investments, inward remittances from overseas contract workers and withdrawals/conversion into pesos of foreign currency deposits continued to be attracted by the strong economic fundamentals.

BOX 4: CAPITAL FLOWS AND THE EXCHANGE RATE

During the 1990s, several countries were faced with the problem of conducting economic policy in the face of large capital inflows. Net capital flows to developing countries rose significantly. Latin America was a major recipient but the increase to the Asian countries was likewise impressive.

Grounds for Capital Flows

The motivation of these inflows is a combination of external and internal factors. Significant reforms geared toward macroeconomic stability and improved market orientation of sectors were pursued by these countries: tax reform, financial deregulation, privatization, foreign exchange and trade liberalization, etc. These resulted in the improvement of the investment climate and higher expected profit opportunities in developing countries. The recognition by investors and portfolio managers of the profit opportunities and the strength of the growth recovery increased the domestic asset holdings of foreigners.

Changes in the global economy also contributed to the acceleration of international flow of capital. The innovations in information and communication technology, emergence and growth of new financial instruments, and the liberalization efforts across countries played major roles in the integration of financial markets. The recession and slow recovery of industrial countries reinforced the global orientation of portfolio management.

An adequate availability of external finance, resulting from the rise in capital flows, provides clear advantages to an economy's medium-term growth outlook. Aside from relaxing resource constraints, increased external finance exposes domestic financial institutions to international competition which induces lower capital costs and broadens the investor base. Furthermore, technology transfer, new management techniques, and widened export marketing access usually accompany capital flows. Overall, it may imply a more efficient allocation of world capital.

Problems Associated with Capital Flows

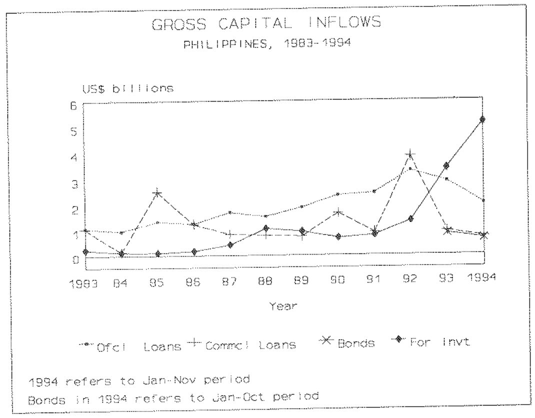
However, capital flows are not without misgivings. Disadvantages arise from the difficulty in the control of monetary aggregates and the implementation of anti-inflation policies. The inflow of funds may put pressure on domestic asset prices and lead to "bubbles" in asset prices. A change in market sentiment about the growth prospects of the economy can lead to sharp capital reverse flows, posing risks to financial market stability and to financial institutions. The surge in capital inflow also exerts appreciation pressure on the domestic currency, raising concerns on the price competitiveness of exports.

Policy Responses

Policy responses to the capital flow and appreciation pressure have been mixed. Some accepted a degree of real appreciation through the nominal exchange rate, while others engaged in sterilized intervention. In other cases, temporary controls were imposed on capital inflow, complemented by the easing of restrictions on capital outflows. Administrative controls aimed at imposing impediments to capital inflows included reserve requirements on credit from abroad and on foreign currency denominated deposits, withholding taxes on certain foreign exchange receipts and foreign loans, and prior authorization for certain external loans. The elimination or relaxation of restrictions on capital outflows served to (1) encourage outflows, and (2) to enhance efficiency in domestic financial markets through exposure to international competition. These measures involved easing regulations on portfolio investments abroad, surrender requirements on foreign exchange earnings, and restrictions on profit and capital repatriation by foreign firms.

Philippine Experience

In the Philippines, the surge in foreign investment started in 1988 but reversed in 1990 in the light of adverse domestic and international developments during that year. The second surge episode started in 1992 and intensified in 1993 and 1994. Meanwhile, medium- and long-term loans continue to be an important source of external finance. While official and commercial loans dominated external financing in the 1970s and 1980s, bond financing became an equally important source with the country's re-entry into the voluntary capital markets in 1993.



The inflows were attracted by the stabilization and structural measures to promote a more open economy including the sweeping foreign exchange reforms. The completion of the commercial bank debt reorganization in 1992 which reduced concerns about debt servicing also helped re-establish credibility with foreign investors.

The chief manifestation of the disruption that the surge in capital inflows brought was the appreciation of the nominal exchange rate and the real effective exchange rate (REER) and the consequent risk to international competitiveness. From the average 1993 exchange rate of ₱27.12, the peso appreciated by 2.6 percent to ₱26.42 in 1994. The REER likewise appreciated by 7.3 percent.

The BSP's first line of defense, in an effort to maintain an environment as favorable as possible for export industries, was to intervene in the foreign exchange market to immediately stabilize the exchange rate. All in all, the BSP purchased a total of $2928.9 million, representing more than 39 percent of the total volume of market transactions.

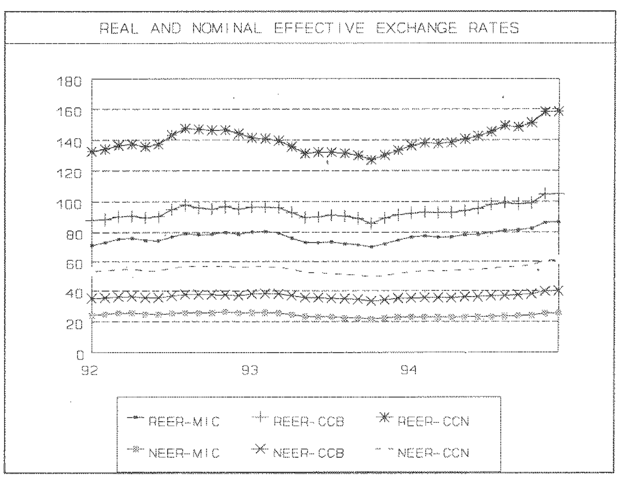
As the foreign exchange inflows persisted during the year, the BSP adopted a two-pronged approach of stimulating greater foreign exchange outflows and moderating foreign exchange inflows. These specific measures, which came up to more than 17, complemented BSP's direct market intervention.

BOX 5. EXCHANGE RATE AND TRADE COMPETITIVENESS

Exchange rate is the price of one currency in terms of another currency. The use of the exchange rate allows one to compare prices of goods and services quoted in different currencies. The exchange rate is linked to competitiveness usually through the relative price of goods produced by the rest of the world when expressed in terms of goods produced domestically. If the price of domestically produced goods falls relative to the price of foreign goods, then the demand for local goods tends to rise. That is, if Philippine products become cheaper, then both local buyers and foreigners will tend to buy more Philippine goods.

Exchange Rate and Effective Exchange Rates (EER)

As the country transacts with not just one but a number of other foreign countries, the representative foreign price level involves, apart from the product prices, a summary measure of the cost of foreign exchange as it is averaged across the foreign currencies transacted. This average rate represents the price of a representative basket of foreign currencies, each weighted by its importance in the country's international trade. A measure of the average nominal exchange rate is called the nominal effective exchange rate (NEER) index.



The NEER is defined as the weighted average exchange rate of the peso vis-a-vis a basket of foreign currencies. It is computed as the summation of the percentage change of the local currency's cross rates with respect to each of the currencies in the basket multiplied by the corresponding country weight. The individual country weights are calculated from total trade shares, i.e., exports plus imports.

A more important measure to determine whether a country's goods are becoming relatively cheaper or more expensive than foreign goods is the Real Effective Exchange Rate (REER) index. The REER, a measure of a country's competitiveness in international trade, is simply the NEER multiplied by the ratio of domestic price to weighted price of the countries included in the NEER basket. A decline in the REER, or a real depreciation, means that domestic goods have become cheaper relative to goods abroad. This is often described as an increase in competitiveness of the domestic product.

Conversely, a rise in the REER, or a real appreciation, means that domestic goods have become more expensive relative to goods abroad, or that we have lower competitiveness.

EER in the Philippines

In the Philippines, the NEER and REER of the peso is computed relative to three baskets of currencies, namely 1) against currencies of major industrial trading partners (REER-MIC); 2) against currencies of "broad" trading partners (REER-broad); and 3) against currencies of "narrow" trading partners (REER-narrow). The REER is computed using 1980 as the base year.

a. Against Major Trading Partners

Major trading partners consist of the United States, Japan, United Kingdom and Germany. The REER of the peso during the period 1992-1994 indicated that the Philippine exports gained competitiveness against these MICs beginning December 1992 when REER declined amid the general depreciation of the peso which more than offset the cross-country inflation differentials between the Philippines and the countries in the basket. REER-MIC of the peso continued to depreciate until end-October 1993. In December 1993 and for the whole of 1994, Philippine exports experienced lower competitiveness following the nominal appreciation of the peso in 1994 as inflows of foreign exchange remained high during the period, particularly from overseas contract workers' remittances, portfolio investments and peso conversion of foreign currency deposits. Although inflation rates tapered off in the latter part of 1994 due to improved weather conditions, stronger peso and lower domestic interest rates, the average inflation rate for the year turned out higher than in 1993 due to cost-push factors such as phased increases in the legislated wages and some speculation associated with the fuel price adjustment early during the year. Consequently, the higher average inflation rate also contributed to the real appreciation of the peso during the year.

b. Against "Broad" Competing Countries

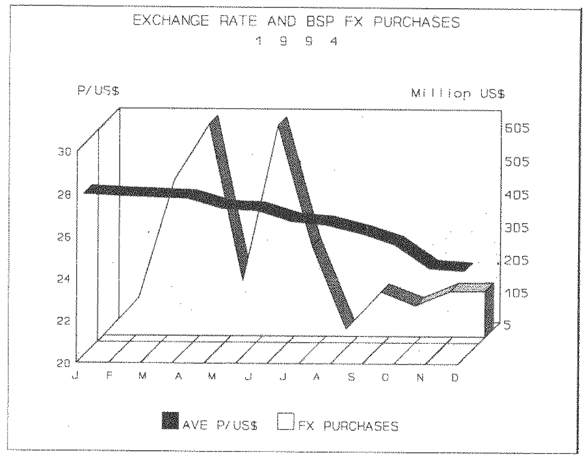
For the same period 1992 to 1994, directional movements of the REER-Broad followed those with respect to the MIC basket, although on a subdued basis. More specifically, the REER appreciated by 9.9 percent in 1992, depreciated by 1.3 percent in 1993 and then appreciated by 6.1 percent in 1994. On the other hand, growth rates of the NEER index were, respectively, 7.3 percent, -3.2 percent and 3.0 percent. Notably, the smaller gap in 1994 between the REER and NEER for this basket, compared to that in the MIC basket, suggests that the lower competitiveness with respect to the broad basket of currencies was due largely to nominal appreciation of the peso with respect to this basket, and only to a minor extent due to the domestic inflation performance during the year relative to the same countries.

c. Against "Narrow" Competing Countries

Similar directional movements were seen in the REER - Narrow basket of currencies with somewhat more exaggerated swings compared to the other two baskets. For the same three-year period, REER index growth rates were 11.3 percent, -4.9 percent and 8.7 percent, respectively. NEER growth rates were 8.0 percent, -7.6 percent and 5.3 percent, respectively. Similar to the developments in 1994 in the broad basket, the narrowed gap between the REER and NEER growth rates reveal that the loss in competitiveness with respect to the narrow basket was largely on account of nominal peso appreciation, and much less due to the country's inflation performance.

Other Factors Affecting Competitiveness

Competitiveness is a multi-dimensional concept of which price competitiveness is only one aspect. Strength in global competition should also be drawn from sources other than the exchange rate. Other factors that also contribute to greater competitiveness are low interest rates, higher productivity, lower cost, improved quality standards and better product marketing.



The average exchange rate of ₱26.4171 in 1994 represented an appreciation of 2.6 percent against the US dollar over the 1993 average. In terms of the end-of-period exchange rates, the peso's appreciation over the previous year at end-December was at 11.84 percent. The exchange rate remained relatively stable during the first four months of the year with the peso recording an average monthly appreciation of less than 1 percent. The moderate movements in the exchange rate were sustained as BSP stepped up its intervention in the foreign exchange marketwith its monthly purchases averaging 62.0 percent of the market's total volume of transactions from January to April. By May 1994, the peso strengthened by almost 2 percent but remained within the ₱27/US$1 mark. The succeeding months saw the continued strengthening of the peso vis-a-vis the dollar with monthly rates of appreciation exceeding those recorded during the early part of the year. While the BSP continued its intervention in the market in the face of continued inflows, its share of total market transactions declined as market forces further strengthened against BSP intervention. In November 1994, the peso substantially gained strength when it appreciated by about 4 1/2 percent from the previous month's level. This prompted the BSP to further intensify the administrative measures that were already in place earlier during the year in order to manage the net inflow of foreign exchange into the banking system. Following the move by the BSP, the peso's appreciation decelerated to 0.49 percent in December (Table 19).

For the whole of 1994, BSP purchased a total of $2,928.9 million from the foreign exchange market representing more than 39.0 percent of total volume of market transactions in contrast to net sales of $51.9 million in 1993. Without such intervention, the peso would have averaged much stronger during the year.

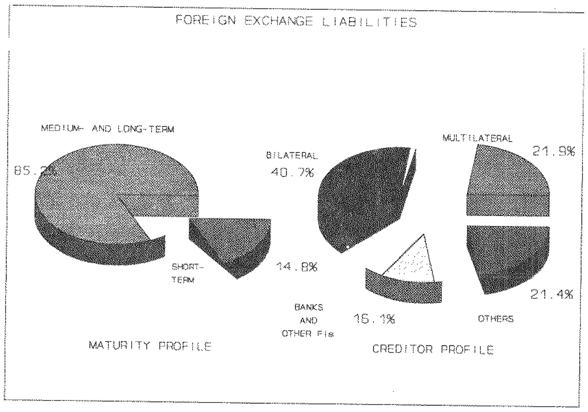
The peso likewise strengthened in nominal terms against the currencies of major industrial countries and NIEs. In terms of the peso's average exchange rate against a total trade-weighted basket of currencies of major industrial countries or its nominal effective exchange rate (NEER-MIC), the peso slightly appreciated by 0.2 percent from its year-ago level. Using the basket of currencies of competing countries, the peso's NEER registered a larger appreciation of 3.1 percent. Adjusting for price differentials, the real effective exchange rate (REER) of the peso relative to the currencies of major trading partners likewise appreciated by 7.3 percent.

External Debt

The country's foreign exchange liabilities increased to US$37,287 million by end-September 1994. Net availments, revaluation losses, and adjustments in monetary sector's liabilities were the major contributory factors to the rise in the debt stock. Net availments by the non-monetary sector (US$1,770 million) were principally contracted by the public sector to finance various development projects such as energy and power, manufacturing, relending programs and communications and transportation, while revaluation losses (US$1,704 million) arose following the appreciation of major industrial countries' currencies against the dollar, particularly the Japanese yen with which one-third of the countries' outstanding liabilities is denominated. Adjustments in the monetary sector's liabilities (US$1,275 million)[1/] which increased the debt stock consisted mainly of existing liabilities as of end-1993 but were reported only in 1994.

The expansion in foreign liabilities during the year was partly offset by downward adjustments in the debt stock arising from audit on export advances (US$1,126 million); reclassification of accounts from offshore to foreign currency deposit units (FCDUs) (US$423 million); and incomplete/late/erroneous reports (US$198 million).

1/ A significant portion of these liabilites was already existing as of end-1993 but was not part of the record of total foreign debt stock. Effective first quarter of 1994, however, banks were required to submit to the BSP data on their outstanding liabilities to non-residents.



The bulk or 85.2 percent of the outstanding foreign exchange liabilities remained medium- and long-term in nature. In terms of creditor profile, 40.7 percent of the outstanding foreign exchange liabilities were owed to bilateral creditors (mainly Japan and the US) and 21.9 percent to multilateral sources, while 16.1 percent were obligations to banks and other financial institutions, with the remaining 21.3 percent owed to other creditors (Table 20).

Despite the modest increase in the debt stock, the different debt indicators continued to show improvements in 1994. The debt service burden in terms of its ratios to exports of goods and services and to current account declined further to 16.9 percent and 16.2 percent from 18.7 percent and 18.0 percent, respectively, in 1993. In terms of a broader measure, the debt-to-GNP likewise declined to 56.2 percent from 61.2 percent in 1993 or from a peak of 96.6 percent in 1986. These indicators point to the country's increasing capacity to service its foreign obligations.

OUTLOOK FOR 1995

The Philippine economy is on the road to sustainable recovery. Economic growth is expected to remain robust in 1995 as the overall scenario in 1994 of declining inflation, accelerating growth and employment, improving fiscal balance, surplus in the external balance, and adequate reserves has shifted the country into a higher growth plane.

Following an estimated 5.1 percent growth in 1994, real GNP is projected to grow by 6.0-6.5 percent in 1995 driven by government-backed structural reforms aimed at promoting sustainable growth. A regime of single-digit inflation will be maintained. In line with the BSP's legal mandate, the preservation of monetary stability will be its highest concern. Inflation is targetted to reach 6.5 percent by year-end. Interest rates are expected to remain stable and low following the increasing competition and efficiency in the financial sector.

The surplus in the external balance will be sustained. The current account as a ratio to GNP is expected to be scaled down on the strength of exports and OCW remittances. Net portfolio investment inflows in 1995 would probably be not as vigorous as in 1994 as a result of higher U.S. interest rates and bearish sentiments on emerging markets following the Mexican crisis. The reconstruction of the Japanese economy after the recent earthquake may also see some Japanese investors liquidating their overseas stockholdings including those in the Philippines. Nevertheless, more stable inflows of direct investments will follow given the deregulation of key sectors such as banking and telecommunication as well as the privatisation efforts of the government. These should keep the overall BOP in healthy position.

In the conduct of its exchange rate policy, the BSP's consistent position is for a market-determined exchange rate policy. However, time and again, the BSP makes a sharp distinction between fundamental movements and merely speculative elements. The former, the BSP will respect; the latter will be resisted with all the resources at its command.

For the banking system, the thrust will be to forge ahead with initiatives to enhance competition and efficiency without compromising standards and prudence. The ten new foreign banks allowed to establish full branching facilities have been named. In addition, it is expected that more foreign banks are set to come in either by putting up a majority-owned subsidiary or buying control of an existing bank. To ensure that the banking system remains sound in the light of heightened competition, the BSP early in 1995 has raised the banks' minimum capitalization requirement. The BSP is also set to improve its supervisory capabilities in the face of more innovative financial products and a deregulated banking system. It will have to exercise careful oversight over financial markets, institutions, and trading practices, anticipating potential problems, and taking remedial action before they can do widespread damage.

The government is also moving towards using new tax-raising measures to firm up the national fiscal posture . A number of revenue-enhancement measures are currently pending with Congress among which are the amendment to the VAT law, change in import valuation from home consumption value to transactions cost, and abolition of granting tax holidays and duty-free exemptions. Separately, government's efforts at privatisation promise to raise non-recurring revenues while lowering the need to subsidize state-owned businesses. The expected improvement in the fiscal position would allow the NG to continually redeem a substantial portion of its domestic obligations.

Overall, the outlook for the future is bright. The optimism in the macroeconomic performance will draw support mainly from the harmonization of domestic economic policies and the support of the private sector in order to establish the pillars of sustainable growth and prepare the groundwork for a truly tiger economy towards the end of the 20th century.

BSP Policies & Operations

KEY POLICIES DURING THE YEAR

Monetary and Credit Policies

Monetary policy in 1994 was aimed at achieving the appropriate balance between stimulating economic growth and maintaining single-digit inflation rate. By adhering closely to programmed base money growth through appropriate open market operations, monetary authorities were able to ensure that money growth was just enough to support economic growth. The relative success achieved in controlling inflation was reflected in a general decline of interest rates during the year, as measures to reduce bank intermediation cost, specifically the easing of reserve requirement, continued to be adopted by the monetary authorities. Meanwhile, government's favorable fiscal operations did not lead to any crowding out of the private sector from available funds in the financial system.

Reserve Requirement. Following the financial restructuring of the Bangko Sentral ng Pilipinas (BSP) in 1993, the BSP moved to further bring down intermediation cost via reduction in reserve requirement. In December 1993, instead of an outright reduction in reserve requirement, the BSP relaxed the regulation on the composition of reserve requirements, by allowing banks and non-banks with quasi-banking functions (NBQBs) to invest two percent of their reservable deposit and deposit substitute liabilities in market-yielding government securities purchased from BSP. This effectively reduced the reserve requirement by two percentage points to 21 percent, and was expected to result in lower bank intermediation costs leading to a lowering of the interest rates.

Effective August 15, 1994, the BSP reduced the reserve requirement to 19.0 percent of total deposits and deposit-substitute liabilities. Coupled with the relaxation in the form in which required reserves may be held, this reduction in reserve requirement translated to a 17 percent reserve requirement against deposits and deposit substitute liabilities of banks, with the exception of thrift banks and rural banks which enjoyed a differential of three and eight percent, respectively from the required reserve ratio.

Contemporaneous with the issuance of the reduction of reserve requirement was the lowering to 55 percent of the amount of required reserve balances with the BSP which are eligible to earn interest of four percent.

Open Market Operations. For 1994, open market operations were relied upon as the major instrument to contain base money and domestic liquidity growth. Specifically, the sale of BSP holdings of Treasury bills and reverse repurchase agreements with financial intermediaries were used to neutralize the expansionary impact of BSP dollar purchases to mitigate the peso appreciation. Overnight reverse repurchase agreements were likewise used to smooth out large fluctuations in liquidity in the money market.

Rediscounting. To reinforce BSP's policy of encouraging interest rates to reflect market trends, the BSP rationalized its rediscount window through the removal of fixed spreads and the adoption of market-based rediscount rates across all types of eligible papers. The rediscount rate formula was revised so that it is now one percent below the 91-day T-bill rate, subject to resetting every three months. Based on a 91-day T-bill rate of 9.304 percent (based on the auction results on October 28, 1994), the new rediscount rate fell to 8.304 percent for the period October 28, 1994 to January 28, 1995 from the previously fixed rate of 9.400 percent.

Interest Rate Policy. Reforms to further deregulate the market were undertaken during the year to further enhance the market orientation of interest rates.

In an effort to encourage more savings in banks, improve the domestic resource allocation, and deepen financial markets, the BSP granted the banking system the authority to pay interest on demand deposits subject to the compliance with specific requirements. The BSP rediscount facility was also rationalized in November 1994 with the adjustment in the rediscount rate formula to one percent below the 91-day Treasury bill rate. The adjustment was adopted essentially to allow the rediscount rate to move more closely with market rates.

To effect a further lowering of the general level of interest rates, a three (3) percentage point reduction in the reserve requirement was implemented in August 1994. This allowed the narrowing of the interest rate differential between domestic and international markets against foreign interest rates in order to discourage speculative capital inflows attracted by interest rate arbitrage which in October 1994 has aggregated to US$ 2,643 million compared with the US$ 1,724 million recorded in 1993.

Financial Structure Policy. During the year, a number of path-breaking policy reforms were undertaken to enhance further the performance of the financial system.

On March 11, 1994, the Bangko Sentral ng Pilipinas (BSP), under Circular No. 17, increased the combined capital accounts of banks and non-banks performing quasi-banking functions from ₱50 million to ₱250 million. The measure was adopted to beef up the capital base of banks in the light of the impending globalization of the financial system.

As a complementary move, the BSP, under Circular No. 27 dated June 2, 1994, set the minimum paid-in capital requirement for thrift banks accepting demand deposits at ₱100 million for those situated in Metro Manila, ₱75 million in Cebu and Davao, ₱40 million in other cities with first to third class municipalities, and ₱20 million for those in other areas.

In order to promote and develop a stronger and globally-integrated banking system, restrictions on the entry of foreign banks were greatly eased with the enactment of Republic Act No. 7721 otherwise known as "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines And For Other Purposes" on May 18, 1994. The new law allows foreign banks to enter the Philippines under one of three modes. First, up to ten (10) new foreign banks are allowed to enter and establish branches with full banking authority during the next five years. Second, an unrestricted number of foreign banks will be allowed to enter by establishing locally-incorporated subsidiaries, up to 60 percent of which may be foreign-owned. And third, an unrestricted number of foreign banks will be able to acquire up to 60 percent ownership of domestic banks. Limiting provisions are, however, specified in the law to ensure that the Philippine financial system shall remain effectively controlled by Filipinos.

Meanwhile, the banking system was further strengthened with the reopening of the Philippine Postal Savings Bank on July 21, 1994 and of Banco Filipino on July 1, 1994. Two other banks, i.e., Producers Bank (now named First Philippine International Bank) and Associated Bank (now named Westmont Bank) were likewise rehabilitated during the period.

Foreign Exchange Policies

Exchange Rate Policy. In the face of the surge in foreign exchange inflows in 1994, the BSP remained firm on its commitment to maintain a market-determined exchange rate policy. Market fundamentals were generally allowed to determine the level of exchange rate. However, substantial BSP intervention was required to ensure stable and moderate adjustments in the exchange rate. Direct intervention was complemented by administrative measures to manage the net inflow of foreign exchange in an effort to maintain international competitiveness.

The peso generally strengthened in 1994 on account of the substantial foreign exchange inflows attracted by the higher expected profit opportunities. This developed as a result of the more market-oriented economic policies and other structural reforms adopted in prior years. The inflows came in the form of invisible receipts particularly overseas workers remittances and foreign currency deposit withdrawals and conversion into pesos as well as investment inflows largely, the portfolio type. To moderate the appreciation of the peso, the BSP actively purchased dollars in the foreign exchange market to immediately avert the otherwise rapid appreciation in the peso. A total of US$2,928.9 million was purchased by the BSP from the market, representing more than 39 percent of the total volume of transactions.

Complementing direct market intervention was the adoption of a two-pronged approach to manage the net inflow of foreign exchange i.e., stimulate greater foreign exchange outflows from and moderate foreign exchange inflows into the banking system.

The first prong involved the stimulation of greater foreign exchange outflows, through the following: 1) lifting of the restriction on repatriation of foreign investments under the debt-to-equity conversion program as well as the remittance of dividends, profits, and earnings which accrued thereon; 2) encouragement of Philippine borrowers to prepay their foreign obligations by

Philippine borrowers whose final maturities fall within the next 1-2 years; 3) encouragement of domestic investments in Philippine international bond issues by residents, whether banks/financial institutions or otherwise; 4) increase in the ceiling on outward investments from US$1 million to US$3 million and further to US$6 million per investor per year; and 5) strong support for the accelerated phase down of the forward cover to oil companies which was approved by the President on November 8, 1994.

The other prong of the BSP strategy involved the moderation of the inflow of foreign exchange into the country through the following: 1) imposition of prior approval requirement on all forward transactions with non-residents; 2) reduction in the reserve requirements against deposit and deposit substitute liabilities of banks and non-banks to 17 percent in order to reduce the general interest rate level and narrow the domestic-international interest differentials; 3) removal of the restrictions on automatic conversion into pesos of a certain portion of foreign loans. Loan proceeds intended to fund local costs may be inwardly remitted and sold to the banking system or deposited in foreign currency deposit units (FCDU) or offshore accounts. Amounts intended to finance foreign exchange costs shall be paid directly to the supplier/beneficiary concerned; 4) limitation of foreign loan approvals including FCDU loans to those earmarked for foreign exchange costs only excluding the exporters, direct and indirect, as well as public sector borrowers; and 5) reduction in the allowable oversold foreign exchange position limit of commercial banks from 15 percent to 5 percent of unimpaired capital by November 18, 1994.

The BSP, in an effort to strengthen its monitoring of foreign exchange flows, also requested IPO (initial public offering) - issuing companies to notify BSP within five days, of the receipt of the foreign exchange raised through the stock issue outside the Philippines. Furthermore, the BSP supported the initiative of the Bankers Association of the Philippines (BAP) to establish a "volatility band" within which the exchange rate could move in a given day. Under the mechanism, which took effect during the latter part of the year, the exchange rate is allowed to fluctuate by 1 1/2 percent above or below the average exchange rate of the previous day's afternoon transactions at the PDS.

Trade Regulations. In furtherance of the BSP's commitment to a liberal trade regime, the BSP introduced new directives as well as amendments to existing rules and regulations concerning imports and exports.

MAAB No. 1 dated 20 January 1994 discontinued the required reporting by Authorized Agent Banks (AABs) of the Report on Foreign Exchange Remittances under D/P Imports including Direct Remittances.

Circular No. 23 dated 4 May 1994 deleted from the list of regulated items "seats of a kind used for motor vehicles and certain used reciprocating piston engines." Moreover, Circular No. 11 likewise deleted from that list all commodities originating from and destined for South Africa in accordance with UN General Assembly Resolution A/O A/48/L/2 which effectively ended a 26-year trade sanction against South Africa for its apartheid policy.

Circular No. 40 issued 27 August1994 opened up the OA/DA modes of payment to all importers. Prior to this, only producers/manufacturers, oil companies, public utility concerns and import traders supporting manufacturing operations were allowed to use OA/DA mode. The Circular also simplified the registration of OA/DA arrangement with maturities beyond one year and removed the need to secure BSP release certificate. It likewise eliminated the distinction between export advances and export prepayments, thus simplifying the monitoring of such transactions by banks.

Other measures adopted to simplify import trade transactions included the simplification and replacement of IOS Form I Schedules 12A, 13A, 14 and 15A and 5 on import trade transactions and the discontinuance of the requirement of AABs for importers to attach letter-authority to inspect merchandise by BSP for L/C applications.

The BSP also took steps to maintain an environment as favorable as possible for export industries in the light of the appreciating peso. An Exporter's Dollar Facility (EDF) was established on 1 December 1, 1994 (Circular No. 57). This facility provides the commercial banks with dollar funds for relending to exporters, both direct and indirect, including service exporters. In addition, exporters were exempted from the restriction imposed by BSP limiting FCDU loans to foreign exchange costs only. With this exemption, exporters can avail of foreign exchange loans to finance local costs to allow for financial flexibility.

Circular No. 55 dated 21 November 1994 increased the ceiling of US$3 million per investor for outward investments to US$6 million while foreign loan approvals including FCDU loans were limited to those earmarked for foreign exchange costs only, a move adopted to reduce the volume of loan inflows that was a major factor in the peso appreciation. However, all exporters, direct and indirect, as well as public sector borrowers would still be allowed to use foreign financing for local costs to ensure their financial flexibility.

Rules on FCDU financing were liberalized under Circular No. 31 dated 19 July 1994 to allow indirect exporters, in addition to direct exporters, to borrow short-term foreign exchange-denominated FCDU loans without prior BSP approval.

The BSP also liberalized FCDU export bill financing by allowing the purchase of export bills covered by both usance and sight L/Cs and with or without recourse. (Circular Nos. 16 and 31)

Policy on Invisibles. Significant steps were taken by the BSP to further liberalize foreign exchange rules and regulations. Circular No. 28, issued on 21 June 1994, lifted the restrictions on repatriation of foreign investments funded by debt-to-equity conversion transactions under Circular Nos. 1111 and 1267, as well as the remittance of dividends, profits and earnings which accrue thereon.

Prior to the liberalization, investments under the debt-to-equity conversion program were subject to a restrictive repatriation schedule. Originally, the principal could only be repatriated on a five-year staggered basis commencing not earlier than three or five years after the original investment was made, depending on whether it was classified as preferred or less preferred investment. Dividends, for a less preferred investment, were also subject to a four-year freeze period. With the liberalization, investments under the debt-to-equity program will now be given the same liberal treatment as regular foreign investments. Such treatment will include, among others, exemption from prior BSP approval and less reportorial requirements.

Circular No. 53 also amended Circular No. 1389 to, among others, allow the remittance through commercial banks without prior BSP approval of payments for principal, interest fees and related charges on loans duly registered with the BSP as they fall due. Moreover, prepayment/acceleration of payments on medium- and long-term loans, subject to certain conditions, may be made without prior BSP approval within two years before their final maturity.

OPERATIONS

Supervision and Regulation of Financial Institutions

Supervision of Banks. In 1994, BSP conducted regular examinations on 854 head offices and 1,031 branches/extension offices of expanded commercial banks, commercial banks, thrift banks, rural banks and specialized government banks. Special examinations were likewise undertaken to cover the verifications/examinations of: a) capital accounts of banks applying for conversion into other types of banks; b) government securities transactions of all EKBs related to the Bancap T-bill scam; c) sales and purchases of government securities by the Trust Banking Divisions; and d) capital infusions to cover deficiencies brought about by solvency problems and/or amendment of articles of incorporation increasing capital stock.

Consistent with the thrust to liberalize the financial system, the BSP likewise supervised the chartering of banking offices which involved applications for a) conversion of banks to other types of banks; b) establishment of banks/branches/other offices; c) conversion of agencies/extension offices into branches; d) setting up of mobile ATM services/MDS service center/temporary money changing/BIR tellering/temporary teller's facility/FX booth; e) relocation of banking offices; f) rehabilitation of distressed banks; and g) closure of some banking offices.

During the year, the BSP approved, under MB Resolution No. 206 dated September 1, 1994 the conversion of Banco de Oro Savings and Mortgage Bank from a thrift bank to a commercial bank. The BSP likewise granted EKB licenses to Urban Bank (MB Res. No. 413 dated May 6, 1994) and Asian Bank Corporation (MB Res. No. dated December 19, 1994). Banking licenses were similarly granted to East-West Banking Corporation as a new commercial bank (MB Res. No. 101 dated January 31, 1994) and to three savings and mortgage banks, i.e.,0 Philippine Postal Savings Bank (July 21, 1994), Philam Savings Bank (December 1, 1994) and Century Bank (December 5, 1994). The BSP likewise facilitated the rehabilitation of Producers Bank (now First Philippine International Bank) and Associated Bank (now Westmont Bank) during the year. Meanwhile, the BSP is currently processing the conversion of PDCP Development Bank, Bank of Southeast Asia-Savings Mortgage Bank and Capitol Development Bank to commercial bank status.

Regulation of Non-Bank Financial Intermediaries. As of December 31, 1994, there were 5,813 non-banking institutions (4,540 head offices and 1,273 other offices/branches) under the supervision and regulation of the BSP, recording an increase of about 10 percent from the previous year's level. Pawnshops and lending investors comprised over 91 percent of all the NBFI entities.

Seven out of 12 non-banks performing quasi-banking functions (NBQBs) and 45 out of 85 non-stock savings and loan associations were examined by the BSP.

A special examination was likewise undertaken in the light of the Treasury bill scam which involved several billions of fradulent transactions that affected a number of financial institutions. Special examinations conducted focused on loan verification and confirmation of unauthorized quasi-banking activities of non-bank financial intermediaries.

The bank likewise processed applications for chartering, branching and registration of 1,595 NBFIs up by 44.6 percent from the previous year reflecting the increased activities of these institutions.

Management of International Operations

Foreign Exchange Operations. With the liberalization of foreign exchange transactions in the Philippines, the BSP kept a close watch over foreign exchange (FX) operations to ensure order and stability in the market.

In 1994, the Bangko Sentral conducted daily monitoring of total FX assets and liabilities, FX invisible transactions of commercial banks, and the banks' compliance with the prescribed overbought/oversold FX position limit set by the BSP. Easy tracking of the information was made possible with the implementation of a computerized reporting system which enabled commercial banks to generate and submit IOS reports in diskette medium. There were three banks that were penalized for violating the required FX position limits and 18 banks for late/incomplete submission of IOS Form I report.

Examination of the foreign exchange transactions of seven commercial banks was also conducted to establish the accuracy of reported FX transactions, the legitimacy of their FX assets and liabilities, and the extent of their compliance with BSP regulations on FX transactions.

Consistent with the policy thrust to further liberalize the financial system, evaluation and recommendation for approval of the applications of the following were made: two foreign banks to establish offshore banking units (OBUs); three foreign banks to establish and maintain representative offices (ROs) in the Philippines; one commercial bank to operate an expanded foreign currency deposit unit (EFCDU); one thrift bank to operate a foreign currency deposit unit (FCDU); two expanded commercial banks to engage in financial futures and options in trading precious metals, and one expanded commercial bank to engage in foreign currency options. On the other hand, the BSP denied the application to operate in the country of three OBUs and two ROs.

During the year, the BSP issued certificates of inward remittance of foreign exchange to Special Investors Resident Visa (SIRV), Bangko Sentral Confirmation Documents (BSCDs), and Bangko Sentral Registration Documents (BSRDs). It processed and endorsed to Societe General Surveillance-Manila, for pre-shipment inspection, 62,222 importers' reports of proposed importations (RPIs) under non-L/C payment terms totalling US$4.9 billion and carried out the smooth transfer of the Foreign Exchange Clearing and Settlement to Citibank-Manila. A total of 35 Bangko Sentral Confirmation Documents (BSCDs) were issued confirming the outstanding balance of the shares registered in favor of the investor to cover his application for repatriation and/or remittance.

Close monitoring of the foreign exchange transactions of the banking system showed notable increases in the volume of FX invisible receipts and disbursements accounts of commercial banks. Foreign exchange receipts rose by US$5.6 million, from US$17.8 billion in 1993 to US$23.4 billion in 1994. The bulk of these receipts came from services, loans and investments. Foreign exchange disbursements likewise increased to aggregate US$17.0 billion by end-1994. On a net basis, the banking system recorded receipts of US$6.4 billion. This developed as residents continued to remit into the banking system their foreign exchange receipts even after the mandatory remittance rule had been lifted.

International Trade Operations. Further simplification of the BSP's foreign trade operations proceeded in 1994 with the adoption of additional measures to eliminate various regulatory and control functions of the BSP. Among these measures was the merger of the old Foreign Exchange Regulations Department, the Foreign Exchange Operations and Investments Department, Current Imports and Commodity Classification Department and Export Department into a single Foreign Exchange Department.

During the review period, the BSP continued its regular Exporters' Dialogue together with the BAP, members of the Philexport and other government agencies including the Office of the President, the Department of Finance, the DTI-Bureau of Export Trade Promotion, Philguarantee and the EDC, to address the major issues and concerns of exporters especially on the continued appreciation on the peso. In addition, a Primer on the Foreign Exchange Rate and BSP Support to Exports was published to provide useful information for policymakers, exporters and the general public.

The preparation of the 1993 Directory of Philippine Exporters was also finalized.

Meanwhile, the number of export transactions negotiated and reported by AABs decreased by 13 percent to 213,113 in 1994 with a value of US$6,805 million, an indication that the series of liberalization and deregulation measures undertaken since 1991 has provided exporters with more efficient modes of transacting business with their overseas clients. Nevertheless, the letter of credit (L/C) continued to be the most preferred mode of payment for exports, accounting for 48 percent of all export negotiations, albeit lower compared to 53 percent in 1993. The United States and Japan remained the country's top two export markets making up 54 percent of total export negotiations.

Lastly, the BSP's import operations and activities also included processing/verification of transactions reported by AABs under IOS Form I Schedules pertaining to Imports as well as the evaluation/action of various items such as the endorsement to SGS-Manila of 62,045 reports of proposed importation without L/C and the registration prior to remittance of payment thru banks of 24,117 DA/OA availments, among others.

International Reserve Management. Gross international reserves reached a high of US$7,755 million during the year (end-July), but finally settled down to US$6,995 million by year-end. Foreign investments accounted for 73 percent of gross international reserves (GIR) with US treasury notes and treasury bills and Japanese yen-denominated instruments dominating the total portfolio.

Time deposits totalled US$616 million representing 9 percent of GIR constituting mostly of placements in US dollar and Japanese yen. Interest rate for these term placements averaged at 4.2155 percent, an increase of 81 basis points from end-1993 average interest rate of 3.403 percent with an average maturity period of 20 days.

Gold holdings amounted to US$1,004.3 million or 16 percent of GIR as of end-1994, lower by US$110.5 million relative to its end-1993 level of US$1,245 million owing to the exercise of option contracts under which the BSP had to deliver gold. Of the aggregate gold holdings, 79 percent represented deposits abroad, while the remainder were held at the Mint and Refinery Operations Department and gold buying stations in Davao, Zamboanga and La Union. Notwithstanding the 2.05 percent decline in the market price of gold this year, the market value of gold holdings remained US$1.7 million above its book value Gross income from international operations in 1994 totalled US$419 million. Of this amount, 64 percent represented income from foreign securities while the remaining 36 percent were derived from loans and discounts, time deposits, and other miscellaneous items. Gross expenses amounted to US$224 million with interest expense on foreign borrowings covering the bulk or 79 percent. Other components included interest on fixed-term deposits and other BSP obligations and miscellaneous expenses, for a total share of 21 percent.

Net income during the year amounted to US$184 million. Relative to the second semester 1993 performance, after the transfer of some assets to CB-BOL to effect BSP's financial restructuring, this year's second semester net income dropped by about 39.3 percent (US$74 million).

Foreign Investments. The year 1994 saw a doubling of BSP-registered inward foreign investments which amounted to US$4,111 million from US$2,001 million in 1993.

Reflecting the bullish trend in the Philippine stock market, portfolio investments increased by 113 percent to US$3,200 million. Portfolio investments from the United Kingdom which reached US$923 million emerged as the year's top country-source, accounting for 28 percent of the total value of inward portfolio investments. Hongkong came in second with US$818 million while the United States slid from being the previous year's top source to only third with US$641 million. The Financial Institution sector was the biggest recipient of portfolio funds in 1994.

Data estimates indicated that some US$562 million worth of Initial Public Offerings (IPOs) shares were subscribed to by foreign investors. Private corporations were also able to tap the international capital markets through the use of innovative financial instruments. Global Depository Receipts (GDRs) attracted US$180 million while convertible and preferred bonds issued by local companies raised US$212 million. The total value of IPO shares held by foreign investors registered with and reported to the BSP in 1994, including GDRs and preferred and convertible bonds amounted to US$955 million. This was seven times more than the US$134 million generated in 1993.

Direct equity investments also increased by 73 percent from US$509 million in 1993 to US$882 million during the review period. Top country sources included the Netherlands (US$547.77 million), the United States (US$75.98 million), Japan (US$69.79 million), Singapore (US$60.22 million) and Hongkong (US$48.73 million). Major industry recipients of these direct investments were manufacturing (US$561.37 million), services (US$66.74 million), public utility (US$50.89 million) and mining (US$40.24 million).

On the other hand, foreign exchange outflow from capital repatriation/remittance of profits or dividends from foreign investments amounted to US$1,900 million representing a 170 percent increase from last year's figure. In addition, foreign exchange outflow in the form of outward investments by Philippine residents grew by 28 percent to US$137 million as a result of the higher ceiling on outward investments from US$1 million to US$6 million per investor per year as per Circular No. 55 dated 21 November 1994.

Finally, inward remittance certifications were processed and issued for 509 applications for Special Investor Resident Visa (SIRV) amounting to US$46 million, an increase of 40 percent.

External Debt. The basic thrust of external debt management operations during the year continued to be focused on ensuring that new foreign borrowings obtained are directed to productive and priority areas, carry internationally competitive terms, and are within the country's debt servicing capacity, and consistent with efforts to maintain stability in the foreign exchange market.

In 1994, the increasing receptivity of the international capital markets to emerging market papers allowed the Philippine private sector to continue to tap the market for funds. As a result, the private sector foreign loan availment exceeded that of government. The public sector approvals of medium- and long-term loans totalled only US$1,209.7 million while the private sector closed US$2,543.6 million in loan contracts.

With the country's favorable fiscal and foreign exchange positions and the increasing participation of private groups in the implementation of infrastructure projects, there was a decline of 52 percent in the foreign loan approvals by the public sector.

Government borrowings were generally limited to concessional loans to finance urgent priority projects. Of the approved medium- and long-term loans in 1994, 72 percent came from multilateral and bilateral sources. The top public sector borrowers were NPC (39 percent) and the Republic (19 percent). Meanwhile, private sector medium- and long-term loan approvals increased by US$956.4 million or a 60 percent rise over the 1993 level. The top borrowers were the energy and power and communications sectors.

With the termination of the Revolving Trade Credit Facility agreement in 1993, Philippine importers/exporters continued to avail themselves of short-term trade financing through voluntary trade credit arrangements with foreign creditors. As a result, outstanding short-term loans as of November 1994 rose by 25 percent to reach US$1,025.7 million from the end-1993 level.

In line with the provisions of Circular No. 1389, the BSP issued registration documents to a total of 32 accounts for the private sector with values aggregating US$438.5 million to enable servicing of these loans without prior BSP approval. In 1994, the BSP registered guarantees aggregating US$114.2 million, US$14.8 million of which represented payment/performance guarantees and bid bonds issued by local banks/institutions in favor of non-residents, while US$99.4 million represented guarantees/SLCs issued by foreign banks and financial institutions to secure peso and/or FCDU loans of residents from local banks/financial institutions.

Project financing schemes like Build-Operate-Transfer/Build-Own-Operate arrangements of the National Power Corporation and PNOC-Energy Development Corporation costing US$2,127 million were evaluated and elevated by the BSP for MB approval.

To remain current in the country's external obligations, the BSP authorized the remittance of US$1,863.7 million for debt servicing and other fees. In addition, public sector loans aggregating US$54.2 million were prepaid in view of the continued peso appreciation in 1994.

A rescheduling of Paris Club loans, involving US$497.9 million and maturing between August 1, 1994 and December 31, 1995 was concluded in July 1994. However, due to the unexpected favorable foreign exchange position, the government decided to forego the rescheduling agreement.

BSP Operations as Fiscal Agent of the Government

Primary Sales of Government Securities. In 1994, BSP continued to discharge its functions of issuing and servicing government securities both to address government financing requirements and to support its own open market operations.

Total outstanding government securities issued and administered by BSP as of December 31, 1994 stood at ₱612.50 billion, down by 6.53 percent compared to the end-1993 level. National Government (NG) securities accounted for 98.9 percent of the total, with the balance consisting of BSP and corporate issues.

During the year, primary issuances (most of which were T-bills) aggregated ₱1,202.29 billion, surpassing the previous year's sales by 28.61 percent. With total maturities of ₱1,245.09 billion, a net redemption of ₱42.8 billion was recorded during the year. This was consistent with NG's policy of reducing its debt stock and debt service levels. At the same time, it helped ease the pressure on interest rates as reflected in the reduction in the weighted average interest rates on government securities from 14.985 percent in 1993 to 12.207 percent in 1994.

T-bill issuances reached ₱1152.87 billion with maturities amounting to ₱1197.93 billion or a net redemption of ₱45.06 billion. This was in contrast to the net sales of ₱77.27 billion recorded in 1993. Thus, outstanding T-bills went down to ₱368.23 billion as of end-1994 as compared with ₱413.29 billion at end-1993. The weighted average yield rate on auctioned T-bills went up only slightly from 13.140 percent to 13.750 percent during the period.

During the year, new Monetary Board authorizations covered the flotation of various securities namely: regular Fixed Rate Treasury Notes (FXTNs) (₱50 billion); Special Series Treasury issuances to tax-exempt institutions (TEIs): [Treasury bills (₱10 billion), FXTNs (₱10 billion), and Floating Rate Treasury Notes (FRTNs) (₱10 billion)]; additional block of ₱30 billion FRTNs; and FRTNs and FXTNs for GOCCs worth ₱10 billion each.

Initial auctions for FXTNs worth ₱5.0 billion held in October and December 1994 were oversubscribed, indicating the existence of substantial demand for longer-term issues.

The year also saw the criteria for rating the performance of accredited government securities revised and implemented to do away with the old system's biases and limitations. Under the revised criteria , "average dealer output" was used to replace "market share" as basis for a satisfactory rating, thus effectively removing the bias in favor of dealers with sizeable resources. The new criteria also gave all dealers a clean slate such that their previous performance rating no longer had any bearing in future evaluations. The liberalization of the dealership accreditation guidelines resulted in increased membership in the dealership network as indicated by the accreditation during the year of one universal bank, four commercial banks and the GSIS.

To implement the smooth and orderly phase-out of the fiscal agency functions of the BSP as mandated by the new Central Bank Act of 1993, close coordination between the BSP's Government Securities Department and the Bureau of Treasury has been on-going. In particular, automation of the auction system for Treasury bills and notes has been targetted for implementation early in 1995. But until such time when the Department of Finance has already developed its own capabilities to take over such functions, the BSP will continue to undertake all fiscal agency-related backroom operations

Securities Department and the Bureau of the Treasury has been on-going. In particular, automation of the auction system for Treasury bills and notes has been targetted for implementation early in 1995. But until such time when the Department of Finance has already developed its own capabilities to take over such functions, the BSP will continue to undertake all fiscal agency-related backroom operations.

Other Activities

Gold Refinery and Minting. In 1994, a total of 408.1 thousand troy ounces of panned gold from gold panners/traders were sold and delivered to the Bangko Sentral ng Pilipinas (BSP). This quantity is higher by 32.1 percent compared to the previous year's gold purchases of 309.0 thousand troy ounces and considered the highest since the panned gold buying program was implemented in 1983. These purchases were valued at P4.0 billion.

Meanwhile, a total of 832 "good delivery" gold bars containing 337.5 thousand troy onces of fine gold were produced during the year, exceeding the annual target of 250.0 thousand troy ounces but lower than last year's production of 448.6 thousand troy ounces. In addition, 6.3 thousand grams of refined gold in the form of gold grains and gold sheets were produced. On the other hand, no refining of silver was undertaken during the period due to the continued suspension of the silver buying program as well as purchases from primary producers and the Philippine Associated Smelting and Refining Corporation (PASAR). A total of 988 "good delivery" gold bars weighing 400.7 thousand troy ounces for delivery to foreign counterparties were released by the BSP Gold Refinery through the BSP Treasury Department.

The BSP Mint produced a total of 487.0 million circulation coins in 1994 surpassing the 1993 production of 389.1 million coins by 25.2 percent. However, the current year's production represented only 80.6 percent of the BSP Cash Department's coin order of 603.9 million pieces for 1994. The production target was not attained on account of the suspension of circulation coin production starting September 12, 1994 in line with the Management's decision to demonetize all coins in circulation over a two-year period in favor of a new and more acceptable series. The Mint also produced 4,000 sets of 1994 Brilliant Uncirculated (BU) coins plus 4,000 pieces of keychain medals featuring the new BSP and Philippines 2000 logos. Likewise, the Mint produced the commemorative coins for the 50th Anniversary of the Leyte Gulf Landings consisting of the 5-Piso nickel-brass coin and the 100-Piso, 500-Piso and 1,000-Piso silver coins. In connection with the Papal Visit '95 coin project, BSP also coordinated the minting of 100-Piso and 200-Piso silver coins and 5,000-Piso gold coins by Pobjoy Mint, England.

Total coin deliveries to the BSP Cash Department amounted to 693.2 million pieces with a face value of ₱603.3 million.

Notes and Security Printing. The Bangko Sentral ng Pilipinas (BSP) produced a total of 668.2 million pieces of banknotes inclusive of the 12.9 million pieces advance production in 1993, representing 94.1 percent of the 710.3 million pieces ordered by the Cash Department in 1994. This year's output, inclusive of the 1.6 million pieces advance production for 1995, was 30.6 percent higher than last year's output.

Meanwhile, a total of 108.1 million pieces of regular checks and 12.2 million pieces of special checks, representing 96.8 percent and 97.3 percent, respectively, of the total orders. Compared to last year's output, production of regular checks declined by 3.3 percent. On the other hand, production of special checks increased by 20.4 percent.

The number of BIR documentary stamps delivered totalled 32.8 million pieces. Total production of booklets for passports in 1994 was reduced by 47.8 percent due to the phase-out of old passports in favor of machine readable passports by 1995.

A total of 97,200 Artist Record Books (ARBs), which were ordered by the Philippine Overseas Employment Administration (POEA), were issued representing 97.2 percent of the total number of orders. In addition, 64,318 Seaman's Service Record Books (SSRBs) and 18,000 Seafarer's Identification Record Books (SIRBs) were issued in 1994.

Currency Issuance. In 1994, the BSP produced 487.0 million circulation coins which exceeded the previous year's production of 389.1 million coins by 22 percent, inspite of the suspension of circulation coin production starting September 12, 1994. Coin deliveries to the Cash Department totalled 693.2 million pieces with a face value of ₱603,322,500.

Clearing Operations. In 1994, the twenty four (24) BSP clearing centers nationwide cleared 42,636 checks amounting to P1.12028 trillion compared to 38,416 million checks totalling ₱919.724 billion in 1993. This represented a ₱200.556 billion or 21.8 percent increase in value from the year ago level.

In addition, seven regional clearing units were expanded/established. CLU's in Baguio, Dagupan, La Union, Laoag and Vigan started operations in December. An additional two (2) regional clearing units had been proposed to be established in Pagadian and Roxas City.

With the creation of the new BSP under R.A. No. 7653, BSP was authorized to charge administrative and other fees to maintain the clearing facilities. Under M.B. Resolution No. 842, BSP was charged to collect clearing fees from participants based on standard billing rate and distributed on a per bank/branch basis mode of assessment. Total clearing charges collected amounted to ₱70,669,954.00 which were debited to Demand Deposit Accounts of participating banks in Manila and Regional branches.

Loans and Credit Operations. The BSP granted loans and advances amounting to ₱19.0 billion or an increase of 56 percent from the ₱12.2 billion granted in 1993. Commercial banks including the Land Bank of the Philippines (LBP) absorbed P16.5 billion or 87 percent of the total releases for the year. The loans and advances went to the following: export credit (76%); emergency/liquidity loan (13%); agricultural loans (9%) ; and to sugar and grains quedan financing (2%).

There were 520 small and medium-sized borrowers that availed of export credits as against 138 large enterprises. Liquidity and emergency loans amounting to P500 million and P2 billion were extended to a private development bank and a commercial bank, respectively, these were fully paid by end-December 1994. There were no loans/advances granted to the National Government.

The sharp increase in loans granted was also matched by an increase in total payments received from borrowing institutions.

Loan collections for the year went up to ₱22.7 billion or an increase of 102percent from the 1993 level of ₱11.2 billion, reflective of the increased rediscounting availments/repayments during the period and the collections from the Development Bank of the Philippines (DBP) and LBP of loans under the APEX and ALF Financing Program.

Total rediscounting arrearages for 1994 stood at ₱1.875 billion representing a 4.2 percent decrease from the 1993 level of ₱1.958 billion. Of the total arrearages, rural banks accounted for 80 percent or ₱1.5 billion. The minimal reduction in arrearages could be attributed mainly to the reluctance of many rural banks to pay their rediscounting arrearages on account of the ongoing rehabilitation program (RA 7353 and CB Circular No. 1369) which authorizes the gradual liquidation of such arrearages over a period of fifteen (15) years.

The BSP's 1994 income from its rediscounting operations fell by 14 percent to P596 million. The reduction in earnings was due to the lower rates approved for the Philippine Deposit Insurance Corporations'(PDIC) loans transferred to the BSP; exemption from the payment of liquidated damages on the rediscounting arrearages of rural banks participating in the various rehabilitation programs; and the reduction in the rediscount rate from 9.4 percent to 8.304 percent in November 1994.

Regional Operations. In 1994, the BSP through its three regional offices, (Cebu, Davao, La Union) and fifteen regional units (7 in Luzon, 5 in the Visayas, 3 in Mindanao) continued to provide the increasing cash requirements of financial institutions and the general public in the regions. These regional offices/units also engaged in rediscounting, securities marketing and servicing, gold buying and clearing operations.

Cash and Banking Operations. Developments in branch operations during the year reflected unprecedented gains which characterized the 1994 performance of the regional economies. Total cash receipts amounted to ₱87.4 billion, 21.7 percent higher than last year's level of ₱71.8 billion. Cash disbursements likewise increased by 21.2 percent to ₱72.1 billion from the 1993 level of ₱59.5 billion. The BSP through the Branch Operations Sub-Sector also purchased foreign currencies from banks amounting to US$20.93 million.

Loans and Rediscounting Operations. The BSP regional offices in Cebu, Davao, La Union and the extension unit in Bacolod granted a total of ₱2.41 billion of rediscount loans in 1994, a substantial 100.8 percent increase from the 1993 level of ₱1.2 billion. Of this total, 82.0 percent were channeled to the commercial banks. Loan repayments amounted to ₱2.36 billion while outstanding loans as of end 1994 stood at ₱1.1 billion.

Domestic Treasury Operations. Sales of Treasury Bills in 1994 aggregated to ₱62.6 million, up by 56.9 percent from the 1993 level of ₱39.9 million.

Gold Buying Operations. In 1994, a total of 312.9 thousand troy ounces of gold valued at ₱3.02 billion were purchased at the Davao, Zamboanga and the newly established Baguio gold buying stations registering a 38.1 percent increase from the 1993 level of 226.5 thousand troy ounces with a value of ₱2.2 billion.

Bank Supervision and Examination. Out of the 428 branches of commercial and specialized banks, 249 branches were regularly examined by the Department of Commercial Banks II units in Cebu, Davao and la Union.

Clearing Operations. A total of 38.9 million checks valued at ₱936.42 billion was cleared by the regional offices in 1994, an 11.5 percent increase from that cleared last year. Of the total checks cleared, 77.4 percent were local checks, 14.3 percent "On-Manila" checks and 8.3 percent were checks for the interregional clearing.

Miscellaneous Income. Branch Operations contributed some ₱59.7 million to the income of BSP in 1994, consisting of interest income from loans granted, building rental, handling fees on foreign exchange receipts and other penalties/fines collected.

International Economic Cooperation. As part of its commitment to foster a growing regional and international economic cooperation among neighboring and trading partners, the BSP participated actively in the various programmes and projects carried out during the year by international organizations and associations of which it is a member.

At the Thirteenth Meeting of the Board of Governors of the SEACEN Centre which was held on April 6, 1994 in Taipeh, Taiwan, there was one change in membership with the appointment of Gabriel C. Singson as Governor of the Bangko Sentral ng Pilipinas on July 6, 1993. The meeting was held in conjunction with the Twenty Ninth Annual Conference of SEACEN Governors. At the meeting, it was noted that despite the economic slowdown in industrial countries, the economy of the SEACEN region performed favorably as it registered a significant growth rate of 5.6 percent in 1992 and grew further by 6.5 percent on average in 1993. On the external front, most SEACEN countries experienced a current account deficit in 1992 with the same trend occurring in 1993 with the exception in the performances of the economies of Korea, Singapore and ROC, Taiwan which posted surpluses in their current account. During the meeting, the Governors likewise reviewed the progress of activities of the Centre during the operating years 1993/1994 and 1994/1995 as well as approved its program of activities for the Operating Year 1995-1996.

As part of its commitment to the SEACEN Centre, the BSP hosted the 23rd Course on Examination and Supervision of Financial Institutions from April 18 to May 20, 1994. The course drew in 43 participants comprising of bank examiners and supervisors from 11 central banks, 2 monetary authorities and one deposit insurance corporation.

In the area of international monetary cooperation, the BSP participated in the meetings, seminars and other activities organized by the IMF, the World Bank and its affiliates and the Asian Development Bank by sending delegates to the various activities conducted by these institutions. As member of these multilateral financial institutions, the Philippine government, through the BSP, was able to negotiate for the availment of different credit facilities offered by these institutions.

In the area of international trade cooperation, the BSP was actively involved in the extended Uruguay Round of Multilateral Trade Negotiations on the liberalization of financial services under the General Agreement on Trade in Services.

Training Programs/Technical Assistance. During its second year of existence, the Bangko Sentral ng Pilipinas Institute, continued implementing its program on career and employee development, technical and computer capabilities, skills upgrading and positive attitudes and values enhancement for Bangko Sentral personnel. For financial institutions under the supervision of the Bank, similar programs were also offered. The Institute also conducted trainings for officers of foreign banks. To achieve these, the Institute conducted a total of 48 courses consisting of 140 offerings, attended by 5,708 participants, of which 2,808 were from Bangko Sentral.

Career and employee development courses focused on faculty development, executive and supervisory development and reorientation towards quality performance. Health consciousness was also emphasized through a special lecture on diabetes and on cancer education and information services.

Inasmuch as retirement incentives were offered during the year, the Institute conducted several courses to prepare employees for their retirement. These were programs on exit counselling, opportunity briefings, and GSIS retirement modes.

A computer operation course was also conducted for bank examiners. Other technical courses included a special lecture series on overview of treasury operations, book entry system, futures trading and control, exchange rate, interest rate swaps, money market, foreign exchange and derivatives, guidelines on the entry of foreign banks as well as the effects of their entry on domestic banks. A basic course on bank examination was also conducted for new bank examiners.

Other unprogrammed technical courses were also offered to meet the immediate needs of bank personnel. These were on capital markets, foreign exchange and treasury investments; firearms familiarization; tactical pistol and rifle skills program, basics of lubrication product knowledge and product receiving seminar-workshop on interest rate swaps; financial futures, application, accounting and control; BSP-Citibank course on financial markets and banking and clearing systems and branch networks.

For regional officers of the Bank, a planning conference and dialogue was conducted for them.

Courses offered for banks under the BSP supervision totalled 11 with 82 offerings and attended by 2,767 participants. These were on basic courses for rural and cooperative banks as well as non-stock savings and loan associations and thrift banks. A junior executive course was also offered for non-stock savings and loan associations. Other courses were on managerial development, signature development, signature verification and demand deposit operation, branch banking, counterfeit detection and currency redemption and cooperative management training for investors of cooperative banks. These courses enhanced their administrative and management skills and updated them on recent financial and banking developments.

The Institute also conducted five (5) seminars on expanded export financing attended by 92 exporters and potential exporters.

The Institute continued its training assistance for foreign banks by conducting four requested courses on the following operations: capital market, accounting and provident fund, central banking and agricultural credit, and computer operations. A total of 41 participants who came from Central Bank of Sri Lanka, Bank Indonesia, Mongol Bank and Indian Farm Foundation benefitted from these trainings.

All in all, seminars extended to the public totalled 16 courses with 91 offerings and attended by 2,900 participants.

Under the BSP Scholarship Program, the Institute extended assistance to 25 deserving employees in pursuing either masteral or doctoral academic courses. Twenty-one of them were in local universities and four in foreign schools. Administrative and financial support was also given to 16 grantees under the National Scholarship Program for Development (Study-Now-Pay-Later-Plan), to 20 grantees for scholarship program for deserving children of BSP employees, to 172 employees who attended local non-degree programs sponsored by the government and private sector, to 65 officers and employees who attended workshops and seminars in foreign countries, to 17 employees who trained under the Foreign Language Program of the Foreign Service Institute and to 7 who acted as resource speakers for various SEACEN and APRACA-CENTRAB courses held abroad.

The Institute endeavors to upgrade the competencies not only of BSP personnel but also of the personnel of banks under its supervision. Courses are regularly updated and revised to conform to the needs of the banking sector.

New Committees. In order to carry out its mandated tasks in line with its reorganization in 1993, the BSP reconstituted thirteen (13) task forces/committees and created eleven (11) new ones in 1994. Among the more important new committees with brief description are as follows:

1) Task Force on Computerization of Rural and Cooperative Banks (Office Order No. 10, January 31, 1994). This was constituted to develop a computerized financial system for Rural and Cooperative Banks that will allow data extraction to enable the BSP to perform desk examinations to supplement regional bank examination. This system shall produce the required BSP periodic reports to be submitted by the rural banks in diskettes and/or other magnetic media, which in the process eliminates manual preparation of reports thereby facilitating submission thereof and minimizing penalties for late reporting.

2) Ad Hoc Committee on RA 7721 (Office Order No. 40, June 6, 1994). This was constituted to formulate the rules implementing RA 7721 entitled "***An Act Liberalizing The Entry And Scope Of Operations Of Foreign Banks In The Philippines And For Other Purposes***".

3) Ad Hoc Study Group on Reports Rationalization Project (Office Order No. 55, July 21, 1994). This was created to develop data model for the stage 3 of the Reports Rationalization Project approved under MB Resolution No. 549 dated June 13, 1994.

4) Ad Hoc Technical Evaluation Committee (Office Order No. 69, September 9, 1994). This was created in connection with the procurement of Information Technology resources to support the Bank's computerization program. The group is expected to assist the Disbursement Control Committee in the development of evaluation criteria and methodology together with the formal specifications and such other documents relevant to the bidding process.

5) Ad Hoc Personnel Audit Committee (Office Order No. 78, October 14, 1994). This was created primarily to conduct personnel audits relative to requests of departments/offices for additional personnel.

6) Task Forces of the Computerization Steering Committee (Office Order No. 82, October 22, 1994). These were created to define the requirements and expectations of the department they represent for computerized application approved by the Monetary Board under MB Resolution No. 838 dated August 31, 1994. These task forces shall in effect assist the Computerization Steering Committee in developing the general specifications of the computerized applications. They will also act as liaison group between the BSP and the systems developers.

7) Ad Hoc Committee on Hospitalization and Medical Plan (Office Order No. 84, October 27, 1994). This was constituted to review the current BSP hospitalization and medical plan and to develop and formulate for management approval proposals that would be responsive to the needs of BSP personnel.

8) Ad Hoc Screening Committee on RA 7721 (Office order No. 89, November 19, 1994). This was constituted to screen foreign bank applicants seeking entry under R.A. 7721.

Financial Condition of the BSP

BSP BALANCE SHEET

Preliminary figures indicate that as the BSP settled some of its liabilities, its total assets declined by ₱38.5 billion or 7.4 percent at end 1994 compared to year-ago level. Resulting from the payments of its liabilities which were reduced by ₱44.1 billion, BSP's networth improved by ₱5.6 billion.

The BSP was a net seller of government securities by ₱50.9 billion during the year. The main instruments used in the securities trading by the BSP were its holdings of the ₱170 billion special series Treasury bills which the NG issued in 1993 for the financial restructuring of the BSP.

In contrast to the decline in most of the BSP's major asset accounts, the revaluation of international reserves (RIR) account increased to ₱16.4 billion. The RIR which represents the net foreign exchange revaluation gains and losses of the BSP, reversed its trend from being a liability account (net gains) to an asset account (net loss) starting in July 1994. The reversal was fuelled by the appreciation of the peso vis-a-vis the U.S. dollar considering that the Bangko Sentral has a positive net foreign exchange assets position.

Moreover, gross international reserves, which accounted for 35.6 percent of total BSP assets increased by ₱9.3 billion, due mainly to the substantial foreign exchange purchases by the BSP to accommodate the large inflow of foreign capital during the second half of the year. This was despite the substantial foreign debt servicing undertaken by the National Government (NG), the foreign exchange funding of which was sourced from the BSP.

Meanwhile, the contraction in the Bank's liabilities was traced largely to the downtrend in deposit liabilities, foreign loans payable and open market instruments. During the year, Bangko Sentral's deposit liabilities dropped by ₱21.1 billion or 7.8 percent to settle at ₱248.7 billion. The largest withdrawals were made by the NG mainly to fund its debt servicing requirements. This reflected in part the NG's disposition to retire a substantial amount of its maturing

BOX 6: THE FINANCIAL RESTRUCTURING OF THE BSP

Background

In the course of carrying out its monetary and quasi-fiscal functions, the Central Bank of the Philippines (CB) accumulated losses in its operations starting in the early 1980's. These losses arose largely from: (1) foreign exchange losses incurred on swap and forward transactions with commercial banks covering importations of essential commodities during the 1983-1985 foreign exchange crisis; (2) interest expenses on CB liabilities, essentially foreign loans and its own debt issuances and other open market instruments which were used in monetary management; and (3) costs associated with printing and minting of currencies for which the CB could not charge any other entity for reimbursement.

Said losses were, however, not apparent in the CB's balance sheet inasmuch as these expenses were treated as deferred charges or capitalized expenses and lodged in three special asset accounts: the monetary adjustment account (MAA), the exchange stabilization adjustment account (ESAA) and the revaluation of international reserves account (RIR). Nevertheless, these losses, to the extent that they represented actual outlay by the CB, made it difficult for the CB to properly conduct monetary management. To address this problem, the New Central Bank Act of 1993 (RA 7653) was enacted to establish the Bangko Sentral ng Pilipinas (BSP) in 1993 to replace the CB and ensure greater independence and effectiveness in the conduct of monetary policy.

The Committee of Seven

Pursuant to Sec. 132 of the New Central Bank Act (R.A. 7653), a Committee of Seven (composed of the Governor of the Bangko Sentral ng Pilipinas (BSP) and two other members of the BSP Monetary Board, the Secretary of Finance, the Secretary of the Budget, and the Chairmen of the Committees on Banks of the Senate and the House of Representatives) was formed last August 12, 1993 to determine the assets and liabilities of the former CB to be transferred to the BSP.

On November 3, 1993, the Committee completed the determination of assets and liabilities proposed to be transferred from the old CB which would continue to exist as the CB-Board of Liquidators (CB-BOL) to BSP, value-dated July 3, 1993. The President approved the Committee Report in an Administrative Order dated November 30, 1993.

Transfer Highlights

The distribution of assets and liabilities was based on the former CB balance sheet as of July 2, 1993. Of the total assets of ₱622.6 billion of the former CB, ₱290.8 billion were transferred to the BSP and ₱331.8 billion were retained with CB-BOL. Of the total liabilities of ₱612.0 billion of the former CB, ₱280.8 billion were transferred to the BSP and ₱331.2 billion retained with CB-BOL. The assets and liabilities transferred to the BSP were essentially those inherent to central banking. On the other hand, assets retained with the CB-BOL included the outstanding balances of the MAA, ESAA and RIR accounts, portions of loans and advances, in large part receivables from closed banks and some fixed assets. Liabilities retained with CB-BOL consisted mostly of various foreign loans payables, CB debt instruments, and a substantial portion of National Government deposits.

Restructuring Developments

On December 20, 1993, the National Government issued ₱220 billion worth of Treasury securities to the BSP, the proceeds of which were deposited in special deposit accounts opened with the BSP. The Treasury securities were issued primarily to reimburse BSP for its temporary advances to CB-BOL during the transition period when the assets and liabilities to be transferred to BSP were still being determined. The BSP advances to CB-BOL were used basically to service maturing obligations of the CB-BOL during the transition period. The Treasury securities also gave BSP substantial holdings of securities to more effectively perform its open market operations. Based on the original Memorandum of Agreement (MOA) between the Secretary of Finance and the BSP Monetary Board, the Treasury securities were to be rolled over at their discounted values automatically upon maturity. However, in the process of renewing the said securities (particulary the Treasury bills), the BSP encountered difficulties in selling them because of their singular maturity. Thus, the MOA was amended on December 19, 1994 such that the T-bills were allowed to be rolled-over at their face values on a staggered basis and at various maturities. The supplemental MOA was approved by the President on February 24, 1995.

Looking Ahead

The financial restructuring of the CB is expected to improve BSP's operations and enable it to perform its responsibilities more effectively and allow it to channel a large part of its profits to NG. This in turn would result in a more effective monetary management and lower consolidated public sector deficits in the years ahead.

debt. On a net basis, NG withdrew some ₱29.2 billion from its deposits with the BSP in 1994.

Foreign loans payable similarly declined by ₱16.2 billion largely on account of repayments of BSP's security-backed loans worth $250 million. The appreciation of the peso vis-a-vis the U. S. dollar also contributed to lower peso equivalents of foreign loan balances.

In an attempt to counteract the expansionary pressure of such drawdowns, the Bangko Sentral encouraged government-owned and/or- controlled corporations to place their excess funds in fixed-term deposits with the BSP at market rates. Thus, during the year, GOCCs' fixed-term deposit placements with the BSP rose by ₱22.4 billion. Likewise, BSP borrowings under the reverse repurchase facility went up by ₱3.0 billion. This was offset, however, by the redemption of BSP bills, the outstanding amount of which fell by ₱20.2 billion to close at ₱4.6 billion at the end of the year.

This was in line with BSP's policy to retire the BSP bills as normal borrowing instruments in favor of its substantial T-bill holdings, as required under the New Central Bank Act.

BSP Income Statement

In 1994, BSP's operations yielded a net income of ₱10.5 billion, ₱4.2 billion higher than the income generated during the BSP's first six months of operations (July to December 1993).

During the year, revenues totalling ₱42.1 billion were earned while total expenses amounted to ₱31.6 billion. Interest income collections, which comprised the bulk of BSP revenues, turned out ₱24.3 billion higher on account largely of increased earnings from domestic securities arising from the issuance of the ₱220 billion special Treasury securities in December 1993. Lower miscellaneous income, however, was recorded since no carrying costs on BSP advances to the CB-BOL were received during the year. After 1993, NG paid off directly most of the maturing liabilities assumed by CB-BOL.

Meanwhile, the ₱19.3 billion hike in total expenses can be traced to higher interest payments. Reflecting the continued improvement in its cash operations, the NG maintained relatively higher deposit balances with the BSP in 1994, notwithstanding the similarly substantial NG withdrawals made particularly in the last quarter of the year.

BSP's more profitable operations in 1994 helped strengthen its capability to absorb the costs of monetary and price stabilization while enabling it to pay higher dividends and interest rebates to NG. This in turn, also allowed a regime of more stable interest rates via a lower borrowing requirement for the NG.

Statistical Tables

1a GROSS NATIONAL PRODUCT BY EXPENDITURE SHARE

1992–94

In million pesos, at constant 1985 prices

	1994	1993	1992	Percent Change 1993–94	Percent Change 1992–93
Personal Consumption Expenditures	**600106**	**578589**	**561509**	**3.7**	**3.0**
Government Consumption	**58710**	**58746**	**55337**	**–0.1**	**6.2**
Capital Formation	**188691**	**171416**	**154252**	**10.1**	**11.1**
Fixed Capital	183279	169144	150974	8.4	12.0
Construction	77618	70258	63518	10.5	10.6
Durable Equipments	93789	87311	76094	7.4	14.7
Breeding Stock & Orchard Development	11872	11575	11362	2.6	1.9
Increase in Stocks	5412	2272	3278	138.2	–30.7
Exports	306405	256451	241431	19.5	6.2
Less: Imports	382815	324656	289273	17.9	12.2
Statistical Discrepancy	–5348	–6236	–4315	–14.2	44.5
Gross Domestic Product	**765749**	**734310**	**718941**	**4.3**	**2.1**
Net Factor Income From Abroad	**29160**	**22137**	**18198**	**31.7**	**21.6**
Gross National Product	**794909**	**756447**	**737139**	**5.1**	**2.6**

Source: Economic and Social Statistics Office, National Statistical Coordination Board (NSCB)

1b GROSS NATIONAL PRODUCT BY INDUSTRIAL ORIGIN
1992–94
In million pesos, at constant 1985 prices

	1994	1993	1992	Percent Change 1993–94	Percent Change 1992–93
Agriculture, Fishery and Forestry	**171043**	**167053**	**163571**	**2.4**	**2.1**
Industrial Sector	**266820**	**251459**	**247384**	**6.1**	**1.6**
Mining and Quarrying	10763	11571	11495	−7.0	0.7
Manufacturing	190489	181289	179947	5.1	0.7
Construction	42507	38344	36261	10.9	5.7
Electricity, Gas and Water	23061	20255	19681	13.9	2.9
Services (Tertiary Sector)	**327886**	**315798**	**307986**	**3.8**	**2.5**
Transportation, Communication & Storage	45067	43095	41870	4.6	2.9
Trade	116923	112479	109780	4.0	2.5
Finance & Housing	74004	71178	69751	4.0	2.0
Other Services	91892	89046	86585	3.2	2.8
Private	53138	50984	49551	4.2	2.9
Government	38754	38062	37034	1.8	2.8
Gross Domestic Product	**765749**	**734310**	**718941**	**4.3**	**2.1**
Net Factor Income From Abroad	**29160**	**22137**	**18198**	**31.7**	**21.6**
Gross National Product	**794909**	**756447**	**737139**	**5.1**	**2.6**

Source: Economic and Social Statistics Office, NSCB

2 SAVINGS AND INVESTMENT
1992–94

	Nominal (Billion Pesos)			Percent to GNP		
	1992	1993	1994 p/	1992	1993	1994
Gross National Savings	**262.9**	**272.2**	**347.2**	**18.97**	**17.91**	**19.82**
Private Savings	202.0	205.7	197.0	14.58	13.53	11.25
Public Savings	60.9	66.5	115.9	4.40	4.38	6.62
Total Investment	**288.4**	**361.4**	**426.5**	**20.81**	**23.78**	**24.35**
Public Investments	76.3	86.2	92.7	5.51	5.67	5.29
Private Investment	212.1	275.2	333.8	15.31	18.11	19.06
Savings–Investment Gap	**–25.5**	**–89.2**	**79.3**	**–1.84**	**–5.87**	**–4.53**
Public Surplus/Deficit 1/	–15.4	–19.7	23.2	–1.11	–1.30	1.32
Private Surplus/Deficit	–10.1	–69.5	–136.8	–0.73	–4.57	–7.81
MEMO ITEM:						
Nominal GNP	1385.6	1519.8	1751.5			

1/ Includes that of the national government, 14 major non–financial corporations, government financial institutions, local government units, government security systems and the BSP.
p/ Preliminary

Source: National Economic Development Authority (NEDA)

3 SELECTED LABOR, EMPLOYMENT AND WAGE INDICATORS
1992–94

	1994	1993	1992	Percent Change 1993–94	Percent Change 1992–93
Employment Status					
Labor Force (In Thousands)	**27,654**	**26,879**	**26,290**	**2.9**	**2.2**
Employed	25,032	24,382	23,696	2.7	2.9
Unemployed	2,623	2,497	2,594	5.0	−3.7
Employment Rate (%)	90.5	90.7	90.2	–	–
Unemployment Rate (%)	9.5	9.3	9.8	–	–
Overseas Employment (Deployed)	**719,602**	**684,831**	**686,461**	**5.1**	**−0.2**
Land–Based	565,226	539,073	549,655	4.9	−1.9
Sea–Based	154,376	145,758	136,806	5.9	6.5
Strikes					
Number of new strikes declared	93	122	136	−23.8	−10.3
Number of workers involved (In Thousands)	49	35	48	40.0	−27.1
Daily Wage Rates in Nominal Terms 1/					
National Capital Region					
Non–Agricultural (In Pesos)	145.00	119.42	118.00	21.4	1.2
Agricultural (In Pesos)					
Plantation	135.00	108.00	108.00	25.0	0.0
Non–Plantation	124.50	97.50	97.50	27.7	0.0
Regions Outside NCR					
Non–Agricultural (In Pesos)	93.00–138.00	90.42–114.25	89.00–113.00	2.8–20.8	1.6–1.1
Agricultural (In Pesos)					
Plantation	87.00–128.00	79.00–102.00	79.00–102.00	10.1–25.5	0.0–0.0
Non–Plantation	62.50–107.50	58.50– 81.50	58.50– 82.50	6.8–31.9	0.0–(1.2)
Daily Wage Rates in Real Terms at 1988 Prices					
National Capital Region					
Non–Agricultural (In Pesos)	68.04	62.75	68.49	8.4	−8.4
Agricultural (In Pesos)					
Plantation	63.35	56.75	62.68	11.6	−9.5
Non–Plantation	58.42	51.23	56.59	14.0	−9.5
Regions Outside NCR					
Non–Agricultural (In Pesos)	44.63–70.81	51.88–65.36	54.53–68.44	14.0–8.3	−4.9–(4.5)
Agricultural (In Pesos)					
Plantation	41.75–65.67	45.32–59.89	48.41–63.16	−7.9–9.7	−6.4–(5.2)
Non–Plantation	29.99–55.16	33.20–47.86	35.01–49.97	−9.7–15.2	−5.2–(4.2)

Sources: National Statistics Office (NSO), Department of Labor and Employment (DOLE) and Philipppine Overseas Employment Administration (POEA).

1/ 1994 daily wage rates in real terms deflated using December 1994 CPI

4 CONSUMER PRICE INDEX IN THE PHILIPPINES NATIONAL CAPITAL REGION (NCR) AND AREAS OUTSIDE NCR 1993–1994; 1988=100

	Philippines			National Capital Region			All Areas Outside NCR		
	1994	1993	Percent Change	1994	1993	Percent Change	1994	1993	Percent Change
All Items	**194.3**	**178.2**	**9.0**	**209.8**	**190.3**	**10.2**	**189.3**	**174.2**	**8.7**
Food,Beverages & Tobacco	180.7	166.9	8.3	177.6	165.9	7.1	181.4	167.1	8.6
Non–Food	213.6	194.1	9.9	228.9	204.8	11.4	202.9	186.3	9.0
Clothing	175.3	167.3	4.8	167.8	157.8	6.3	177.2	169.6	4.5
Housing & Repairs	238.9	211.3	13.1	286.9	248.7	15.4	206.2	185.7	11.0
Fuel,Light & Water	210.7	197.1	6.9	211.7	200.1	5.8	210.3	195.9	7.4
Services	215.4	198.0	8.8	219.3	196.0	11.9	213.7	198.8	7.5
Miscellaneous	190.3	171.5	11.0	188.1	170.4	10.4	190.9	171.8	11.1

Source: NSO

5 NATIONAL GOVERNMENT CASH OPERATIONS
1993–94
In million pesos

	1994 p/	1993
Revenues	**335,227**	**260,405**
Tax Revenues	271,456	230,171
Non–Tax Revenues	63,771	30,234
Expenditures	**317,113**	**282,296**
of which:		
Interest Payments	79,008	76,489
Equity & Net Lending	7,171	9,905
Surplus/(Deficit)	**18,114**	**(21,891)**
Financing	**(18,114)**	**21,891**
External Financing	(13,706)	12,912
Domestic Financing	(4,408)	8,979

p/ Preliminary, based on Cash Operations Report (COR) as of January 27, 1995

Source: Bureau of Treasury (BTr)

6 PUBLIC INTERNAL DEBT OUTSTANDING
As of End 1993–94
In million pesos

	1994 p/	1993	Percent Change
Internal Debt	**624759**	**663090**	**–5.8**
National Government 1/	613810	632246	–2.9
Government Corporations	6374	6056	5.3
Guaranteed	4508	4104	9.8
Non–Guaranteed	1866	1952	–4.4
Monetary Institutions	4575	24788	–81.5

1/ As compiled by the Bangko Sentral, outstanding debt of the National Government consists of its security issuances and its outstanding borrowings in the form of loans excluding, however, assumed liabilities from the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP), loans evidenced by promissory notes issued to different international financial institutions and loans availed of under the Consolidated Foreign Borrowings Program (CFBP). Debt of government corporations consists of security issuances of government–owned and –controlled corporations issued through the Bangko Sentral, security issuances of the Land Bank of the Philippines (LBP) and the loans by the Bangko Sentral to the Philippine Deposit Insurance Corporation (PDIC). Debt of monetary institutions consists of security issuances of the Bangko Sentral.

p/ Preliminary.

Sources of Basic Data: BTr, LBP, BSP

7 MONETARY SURVEY
In million pesos

Current
After Transfer

	Levels			Flows	
	Dec 94	Nov 94	Dec 93	Dec	Jan–Dec
Net Foreign Assets	**–41285**	**–25618**	**–31537**	**–15667**	**–9748**
NIR	**15136**	**26933**	**23722**	**–11797**	**–8586**
Bangko Sentral ng Pilipinas (BSP)	129258	126008	99607	3250	29651
Foreign Assets	173771	170174	164040	3597	9731
Foreign Liabilities	–44513	–44166	–64433	–347	19920
Deposit Money Banks	–114122	–99075	–75885	–15047	–38237
Foreign Assets	136153	120038	127650	16115	8503
Foreign Liabilities	–250275	–219113	–203535	–31162	–46740
Medium and long–term foreign.liab.	**–37474**	**–36597**	**–42838**	**–877**	**5364**
Net non–monetary foreign liab.	**–18947**	**–15954**	**–12421**	**–2993**	**–6526**
Non–monetary foreign assets	5743	5764	5422	–21	321
Non–monetary foreign liabilities	–24690	–21718	–17843	–2972	–6847
Net Domestic Assets	**672086**	**594786**	**531006**	**77300**	**141080**
Domestic Credit	**821551**	**746969**	**682064**	**74582**	**139487**
Public Sector	**299812 P/**	**260113 P/**	**274080**	**39699**	**25732**
National Government	**243505**	**201977**	**216246**	**41528**	**27259**
Credits	356651	343474	367799	13177	–11148
Foreign Exchange Receivables	7812	7405	8615	407	–803
T–IMF Accounts	–17934	–17934	–17045	–	–889
Deposits	–103024	–130968	–143123	27944	40099
Local Government & Others	**21411**	**21553**	**24839**	**–142**	**–3428**
Claims on CB–BOL	**34896**	**36583**	**32995**	**–1687**	**1901**
Private Sector	**521739**	**486856**	**407984**	**34883**	**113755**
Other Financial Institutions	37862	36839	25203	523	12159
Others	484377	450017	382781	34360	101596
Net Other Items	**–149465**	**–152183**	**–151058**	**2718**	**1593**
Revaluation	14482	16976	–2478	–2494	16960
Capital and reserves	–158567	–154144	–128196	–4423	–30371
Others	–5380	–15015	–20384	9635	15004
Total Liquidity	**630801**	**569168**	**499469**	**61633**	**131332**
M3	**607614**	**548505**	**480329**	**59109**	**127285**
Narrow money	151952	135661	133877	16291	18075
Quasi–money	451052	408717	341839	42335	109213
Deposit substitutes	4610	4127	4613	483	–3
Other Liabilities	**23187**	**20663**	**19140**	**2524**	**4047**
Bills Payable	19763	17160	14892	2603	4871
Marginal Deposits	3424	3503	4248	–79	–824
Narrow Money	**151952**	**135661**	**133877**	**16291**	**18075**
Currency in circulation	95675	80155	84083	15520	11592
Demand deposits	56277	55506	49794	771	6483
Quasi–money	**451052**	**408717**	**341839**	**42335**	**109213**
Savings deposits	410699	368413	290932	42286	119767
Time deposits	40353	40304	50907	49	–10554

P/ Preliminary. Net banking system credits to the public sector not reconciled with corporate/NG books.
1/ Data reflect the transfer of non–performing assets/liabilities of two government banks to the National Government.

8 MONETARY DEVELOPMENTS

1993–94

Levels in billion pesos, changes in percent

	1993	1994												
	Dec	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Ave**
Reserve Money (RM), 10–day average														
Actual, n.s.a.	170.0	149.7	151.3	153.1	154.0	156.2	153.6	155.1	142.9	147.0	152.3	157.2	180.3	
(12–month % change)	20.3	9.3	10.8	9.9	8.4	7.6	7.3	10.9	1.8	–0.1	2.4	1.9	6.1	6.3
Base Money (BM), 10–day average														
Actual, n.s.a.	174.1	161.5	163.1	164.8	166.0	168.3	165.5	167.5	155.2	159.9	165.2	172.9	193.9	
(12–month % change)	14.8	14.5	15.9	14.9	13.5	12.8	12.3	16.4	7.4	5.7	8.0	9.2	11.4	11.9
M3 (current), end–period													p/	
Actual, n.s.a.	480.3	460.0	457.5	453.0	452.6	470.9	478.9	487.7	499.8	518.9	523.3	548.5	607.6	
(12–month % change)	24.5	24.9	24.3	21.4	20.2	22.8	24.1	28.7	28.4	29.7	24.4	23.1	26.5	24.7
Memo Items:														
Annual Inflation Rate (%)														
Actual	8.4	9.1	10.5	9.7	9.8	10.1	9.8	9.2	9.9	8.6	7.8	7.5	7.1	9.1
Target	7.0	9.1	10.5	9.8	10.2	10.8	10.6	9.9	9.7	9.0	8.2	8.3	8.5	9.5
GNP (% Change)														
Actual	2.3			4.8			5.3			5.8			4.6	5.1
Target				2.8			2.6			3.6			4.8	3.5

p/ Preliminary

9 SOURCES OF RESERVE MONEY MOVEMENTS
1993–94
In million pesos

	December 1994 p/	December 1993	Percent Change
Reserve Money	182413	171746	6.2
Currency Issued Net of Cash in Treasury Vault	111483	97849	13.9
Bank Deposit Balances with the Bangko Sentral	71083	73897	−3.8
Net Foreign Assets–Monetary Authorities	91784	56769	61.7
Net International reserves–MA	129258	99607	29.8
Gross International Reserves	173771	164040	5.9
Less: Short–term Foreign Liabilities	−44513	−64433	−30.9
Less: Medium–and Long–Term Foreign Liabilities	−37474	−42838	−12.5
Net Domestic Assets–MA	90629	114977	−21.2
Of Which:			
Net Credits to the National Government (MA)	139245	166164	−16.2
of which:			
National Government Deposits	−84543	−113798	−25.7
Assistance to Financial Institutions	3972	4181	−5.0
of which:			
Overdrafts	2967	2982	−0.5
Regular Rediscounting	5310	7314	−27.4
CB Bills/Reverse RPs	−31501	−48689	−35.3

10 NUMBER OF FINANCIAL INSTITUTIONS
1993–94

	1994 Dec	1993 Dec	Percent Change
Total	**11071**	**9936**	**11.4**
Banks	**5096**	**4656**	**9.5**
Commercial Banks 1/	2924	2604	12.3
Thrift Banks	821	780	5.3
Savings Banks	347	334	3.9
Private Development Banks	265	250	6.0
Stock Savings and Loan Associations	209	196	6.6
Specialized Government Banks	77	77	0.0
Rural Banks	1274	1195	6.6
Non–banks	**5975**	**5280**	**13.2**

1/ Includes LBP

10a TOTAL RESOURCES OF THE PHILIPPINE FINANCIAL SYSTEM 1/

1993–94

In billion pesos

	1994 p/ Dec	1993 Dec
Total	**1587.4**	**1332.4**
Banks	**1245.0**	**1019.1**
Commercial Banks 1/	1052.1	864.4
Thrift Banks	106.0	74.6
Savings Banks	69.1	44.8
Private Development Banks	28.1	22.2
Stock Savings and Loan Associations	8.8	7.6
Specialized Government Banks	60.3	57.4
Rural Banks	26.6	22.7
Non–bank Financial Institutions	**342.4**	**313.3**

1/ Includes LBP

p/ Preliminary as of December 1994

11 OUTSTANDING DEPOSITS OF THE BANKING SYTEM
November 1993–94
In million pesos

	1994 p/				1993			
	Total	Demand	Savings	Time	Total	Demand	Savings	Time
	732,740.3 p/	**65,193.7**	**498,108.4**	**169,438.2**	**638,896.5**	**59,194.7**	**410,031.3**	**169,670.5**
ommercial Banks 1/	636,994.0	60,970.0	430,299.0	145,725.0	556,799.0	55,548.0	359,396.0	141,855.0
hrift Banks	67,763.1	1,119.8	52,794.4	13,848.9	51,619.9	1,344.0	35,804.7	14,471.2
Savings Banks	46,025.8	820.7	37,528.5	7,676.6	33,303.3	1,014.3	24,251.1	8,037.9
Private Devt. Banks	15,705.1	298.5	11,712.9	3,693.7	13,028.5	329.7	8,902.1	3,796.7
Stock Savings & Loan Associations	6,032.2	0.6	3,553.0	2,478.6	5,288.1	0.0	2,651.5	2,636.6
pecialized Govt. Banks 2/	11,751.2	3,032.0	6,136.2	2,583.0	17,056.0	2,247.9	7,300.2	7,507.9
ural Banks 3/	16,232.0	71.9	8,878.8	7,281.3	13,421.6	54.8	7,530.4	5,836.4

/ Commercial Banks – including LBP
/ Specialized Govt. Banks – consisting of DBP & LBP
/ As of September 1994
/ Preliminary

12 FOREIGN CURRENCY DEPOSIT SYSTEM FINANCIAL HIGHLIGHTS 1993–94

In million US Dollars

	December 1994	December 1993	Percent Change
Assets	**9765**	**7070**	**38.1**
Due from Central Bank	63	85	−25.9
Due from Other Banks	2395	1429	67.6
Due from H.O./Br./Agencies Abroad	146	196	−25.5
Interbank Loans Receivable	941	712	32.2
Loans and Discounts/Res. Loans	3478	2344	48.4
Investments	1797	1471	22.2
Other Assets	945	833	13.4
Liabilities and Capital Accounts			
Deposit Liabilities	7716	5614	37.4
Due to HO/Br./Agencies Abroad	712	674	5.6
Bills Payable	965	418	130.9
Due to CB	0	0	
Unearned Income & Other Credits	9	10	−10.0
Other Liabilities	310	293	5.8
Total Liabilities	**9712**	**7009**	**38.6**
Undivided Profits	53	61	−13.1
Surplus	0	0	
Total Liabilities and Capital Accounts	**9765**	**7070**	**38.1**

13 PHILIPPINE OFFSHORE BANKING SYSTEM
FINANCIAL HIGHLIGHTS
1993–94
In million US Dollars

	1994	1993	Percent Change
Assets			
Notes and Coins on Hand	0	0	0.0
Due from Banks	792	703	12.7
Loans and Discounts to Customers	898	568	58.1
Bills Discounted/Purchased	3	1	200.0
Investments in Bonds and Other Securities	284	204	39.2
All Other Assets	37	97	−61.9
Total Assets	2014	1573	28.0
Less: Allowance for Probable Losses	4	6	−33.3
Total Assets After Allowance for Losses	**2010**	**1567**	**28.3**
Liabilities			
Deposits of Non–residents Other than Banks	18	15	20.0
Due to Banks	1956	1466	33.4
Other Liabilities	36	86	−58.1
Total Liabilities	**2010**	**1567**	**28.3**

14 MONEY MARKET TRANSACTIONS, BY INSTRUMENT
Volume in million pesos; WAIR in percent per annum

	1994		1993		Percent Change
	Volume	WAIR	Volume	WAIR	Volume
Total	**3,500,391**	**12.866**	**2,824,405**	**12.618**	**23.9**
Interbank Call Loans	1,438,219	13.519	1,258,706	13.465	14.3
Promissory Notes 1/	56,382	12.012	70,169	11.907	−19.6
Repurchase Agreements (Private) 1/	1,900	15.263	16	13.190	11775.0
Repurchase Agreements (Government) 1/	61,577	14.369	547	22.173	11157.2
Certificate of Assignment (Private) 1/	619	15.290	–	–	–
Certificate of Participation (Private) 1/	–	–	11	18.250	–
Commercial Paper (Non−Financial)	178,070	12.622	112,951	12.022	57.7
Commercial Paper (Financial)	90	15.002	–	–	–
CBCI'S	–	–	–	–	–
Treasury Bills	1,105,035	12.847	1,063,672	12.197	3.9
DBP Bonds	–	12.990	–	–	–
Other Government Securities	658,499	11.462	318,333	11.020	106.9

1/ Including those with tax.

15 CAPITAL INVESTMENTS OF NEWLY REGISTERED BUSINESS ORGANIZATION BY INDUSTRY
1993–94
In million pesos

	1994 a/ (a)	1993 b/ (b)	Percent Change (a) vs (b)
Total	**22521.5**	**15308.8**	**47.1**
Agriculture, Fishery and Forestry	157.3	194.8	−19.3
Mining and Quarrying	231.2	236.7	−2.3
Manufacturing	5160.3	1988.4	159.5
Construction	446.4	704.1	−36.6
Electricity, Gas and Water	103.9	211.1	−50.8
Wholesale and Retail Trade	2008.0	1946.3	3.2
Financing, Insurance, Real Estate & Business Services	12175.8	8256.1	47.5
Transportation, Storage & Communication	1044.0	789.1	32.3
Community, Social & Personal Service	1194.6	982.2	21.6

a/ Data on capital investments of single proprietorship not yet available.
b/ Capital investments of single proprietorship excluded
c/ Includes capital investments on corporations, partnerships and single proprietorships.

Sources: Securities and Exchange Commission (SEC), Department of Trade and Industry (DTI)

16 STOCK MARKET TRANSACTIONS
1993–94
Volume in million shares/value in million pesos

	1994		1993		Percent Change	
	Volume	Value	Volume	Value	Volume	Value
Total	**704,285**	**364,457**	**638,816**	**182,564**	**10.2**	**99.6**
Commercial and Industrial	23,680	316,918	16,387	161,400	44.5	96.4
Mining	144,001	10,207	170,179	9,617	−15.4	6.1
Oil	532,920	10,838	452,250	11,547	17.8	−6.1
Property 1/	3,684	26,494				
Composite Index	2868.9		1897.3		51.2	

1/ Included starting October 4, 1994
Source: Philippine Stock Exchange (PSE)

17 BALANCE OF PAYMENTS
1993–94
In million U.S. Dollars

	1994 p/	1993
Current Transactions		
Merchandise Trade	–7802	–6222
Exports	13430	11375
Imports	21232	17597
Non–Merchandise Trade	3864	2234
Receipts	10612	7528
Payments	6748	5294
Transfers	936	699
Receipts	1041	746
Payments	105	47
Current Account, Total	**–3002**	**–3289**
Non–Monetary Capital		
Foreign Investments, (net)	1424	599
Inflow	5142	3394
Outflow	3718	2795
Medium and Long–Term Loans, (net)	1542	2105
Inflow	4276	4853
Outfow	2734	2748
Short–Term Capital, (net)	316	–751
Errors & Omissions	–372	291
Non–Monetary Capital, Total	**2910**	**2244**
Monetization of Gold	154	113
Revaluation Adjustments	106	431
of which: Debt Reduction	1	1
Overall BOP Position	**168**	**–501**

p/ Preliminary

17a EXPORTS BY MAJOR COMMODITY GROUP

1993–94

Volume in 000 MT; price in US$/MT; FOB value in million U.S.Dollars

	1994 p/			1993			Percent Change
	Volume	Price	Value	Volume	Price	Value	(Value Only)
Coconut Products			**637**			**532**	**19.7**
Copra	24	364	9	27	265	7	28.6
Coconut Oil	852	556	474	859	416	358	32.4
Desiccated Coconut	75	936	70	93	897	84	−16.7
Copra Meal/Cake	533	94	50	488	93	45	11.1
Others			34			38	−10.5
Sugar and Products			**75**			**129**	**−41.9**
Centrifugal & Refined	182	333	61	324	314	102	−40.2
Molasses	257	51	13	500	51	26	−50.0
Others			1			1	0.0
Fruits and Vegetables			**430**			**439**	**−2.1**
Canned Pineapple	208	423	88	194	486	94	−6.4
Pineapple Juice	51	217	11	34	229	8	37.5
Pineapple Concentrates	37	568	21	37	606	22	−4.5
Bananas	1,160	187	217	1,153	196	226	−4.0
Mangoes	29	1,034	30	30	879	27	11.1
Others			63			62	1.6
Other Agro–Based Products			**525**			**476**	**10.3**
Fish, Fresh or Preserved	79	4,759	376	73	4,663	343	9.6
Of which: Shrimps & Prawns	22	11,091	244	23	9,884	225	8.4
Coffee, Raw, not Roasted	4	2,061	8	1	1,206	1	700.0
Abaca Fibers	23	900	21	18	1,074	19	10.5
Tobacco,Unmanufactured	15	1,467	22	17	1,494	26	−15.4
Natural Rubber	20	600	12	25	484	12	0.0
Ramie Fibers, Raw or Roasted	1	1,197	1	−−	1,294	1	0.0
Seaweeds, Dried	24	917	22	22	837	18	22.2
Rice	0	0	0	−−	938	0 a/	0.0
Others			63			56	12.5
Forest Products 1/			**27**			**45**	**−40.0**
Logs	0	0	0	1	89	0	0.0
Lumber	39	230	9	89	292	26	−65.4
Plywood	11	428	5	40	435	17	−70.6
Veneer Sheets/Corestocks	32	400	13	7	373	2	550.0
Others			0			0	0.0
Mineral Products			**770**			**686**	**12.2**
Copper Concentrates	283	385	109	334	327	109	0.0
Copper Metal	139	1,942	270	137	1,933	264	2.3
Gold 2/	167	371	62	151	339	51	21.6
Iron Ore Agglomerates	4,507	16	72	3,919	16	62	16.1
Chromium Ore	64	121	8	77	116	9	−11.1
Nickel	0	0	0	0	0	0	0.0
Others			249			191	30.4
Petroleum Products			**140**			**136**	**2.9**
Manufactures			**10,594**			**8,729**	**21.4**
Elec & Elec Eqpt/Parts & Telecom			4,971			3,551	40.0
Garments			2,370			2,272	4.3
Textile Yarns/Fabrics			176			118	49.2
Footwear			211			168	25.6
Travel Goods and Handbags			76			54	40.7
Wood Manufactures			128			105	21.9
Furnitures & Fixtures			239			203	17.7
Chemicals			299			262	14.1
Non–Metallic Mineral Mftrs.			95			87	9.2
Machinery & Transport Equipment			471			363	29.8
Processed Food and Beverages			301			271	11.1
Iron & Steel			50			50	0.0
Baby Carr., Toys, Games & Sporting Goods			196			168	16.7
Basketwork, Wickerwork & Other Articles of Plaiting Materials			134			132	1.5
Misc Manufactured Articles, nes			190			187	1.6
Others			687			738	−6.9
Special Transactions			**135**			**38**	**255.3**
Re–Exports			**97**			**165**	**−41.2**
Total Exports			**13,430**			**11,375**	**18.1**

p/ Preliminary actual
−− Less than one thousand metric ton
a/ Less than one million US$
Source of Basic Data: NSO

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

17b IMPORTS BY MAJOR COMMODITY GROUP

1993–94

Volume in 000 MT; price in US$/MT; FOB value in million U.S. Dollars

	1 9 9 4 p/			1 9 9 3			Percent Change
	Volume	Price	Value	Volume	Price	Value	Value Only
Capital goods			6,859			5,610	22.3
Power Generating & Specialized Machines			2,496			2,078	20.1
Office & EDP Machines			333			274	21.5
Telecommunication Eqpt. & Elect. Mach.			2,530			1,914	32.2
Land Transport Eqpt. excl. Passenger Cars & Motorized Cycle			401			370	8.4
Aircraft, Ships & Boats			799			723	10.5
Prof. Sci. & Cont. Inst.; Photo–graphic Eqpt. & Optical Goods			300			251	19.5
Raw Materials & Intermediate Goods			9,552			7,855	21.6
Unprocessed Raw Materials			1,261			981	28.5
Wheat	2,083	152	316	1,798	145	260	21.5
Corn	0	0	0	0	0	0	0.0
Unmilled cereals excl. rice & corn			2			1	100.0
Crude materials, inedible			853			664	28.5
Pulp & waste paper			62			56	10.7
Cotton	77	1,390	107	58	1,154	67	59.7
Syn. fibers	64	1,797	115	45	1,702	77	49.4
Metalliferous ores			294			227	29.5
Others			275			237	16.0
Tobacco, unmanufactured			90			56	60.7
Semi–Processed Raw Materials			8,291			6,874	20.6
Feeding stuffs for animals	808	240	194	959	244	234	–17.1
Animal & vegetable oils & fats			37			24	54.2
Chemical			2,006			1,668	20.3
Chemical compounds			519			468	10.9
Medicinal & pharmaceutical chem.			261			198	31.8
Urea	684	130	89	596	112	67	32.8
Fertilizer excl. urea	684	115	79	615	94	58	36.2
Artificial resins			574			449	27.8
Others			484			428	13.1
Manufactured goods			2,869			2,590	10.8
Paper & paper products	422	616	260	308	614	189	37.6
Textile yarn, fabrics & made–up articles			779			704	10.7
Non–metallic mineral manufactures			116			104	11.5
Iron & steel	2,679	322	862	2,427	338	820	5.1
Non–ferrous metals			260			209	24.4
Metal products			379			366	3.6
Others			213			198	7.6
Embroideries			410			468	–12.4
Mat/Acc for the mftr. of elect. eqpt.			2,711			1,808	49.9
Iron ore, not agglomerated	3,254	20	64	4,021	20	82	–22.0
Mineral Fuels & Lubricant			2,025			2,016	0.4
Coal, Coke	1,047	30	31	968	32	31	0.0
Petroleum Crude 1/	86.04	15.20	1,308	82.80	15.90	1,316	–0.6
Others 1/	35.10	19.54	686	28.59	23.41	669	2.5
Consumer Goods			2,087			1,587	31.5
Durable			1,123			842	33.4
Passenger cars & motorized cycle			625			471	32.7
Home appliances			95			59	61.0
Misc. manufactures			403			312	29.2
Non–Durable			964			745	29.4
Food & live animals chiefly for food			810			637	27.2
Dairy products	209	1,512	316	164	1,590	260	21.5
Fish & fish preparation	126	421	53	120	406	49	8.2
Rice	0	0	0	202	177	36	–100.0
Fruits & vegetables			99			66	50.0
Others			342			226	51.3
Beverages & tobacco mfture.			122			77	58.4
Articles of apparel, access.			32			31	3.2
Special Transactions			709			529	34.0
Articles temporarily imported & exported			434			266	63.2
Others			275			263	4.6
Total Imports			21,232			17,597	20.7

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

p/ Preliminary

Source of Basic Data: NSO

18 INTERNATIONAL RESERVES OF THE BANGKO SENTRAL

As of dates indicated
In million US Dollars

	Total	Gold	SDRs	Foreign Investments	Foreign Exchange
1993 Jan	5,585.12	921.11	18.26	4542.86	102.89
Feb	5,961.15	926.52	17.12	4978.13	39.38
Mar	6,607.36	928.73	16.63	5622.04	39.96
Apr	6,702.59	968.95	2.73	5685.52	45.39
May	5,902.31	1,001.21	5.37	4868.29	27.44
Jun	5,750.42	971.53	12.26	4710.26	56.37
Jul	5,521.94	964.49	33.85	4477.82	45.78
Aug	5,120.63	979.99	2.61	4100.54	37.49
Sep	4,938.40	927.52	0.08	3953.17	57.63
Oct	5,265.71	990.33	23.75	4191.82	59.81
Nov	5,352.74	1,028.92	1.84	4235.93	86.05
Dec	5,801.47	1,244.79	10.13	4489.12	57.43
1994 Jan	5,730.30	1,159.25	19.87	4499.95	51.23
Feb	5,881.50	1,217.35	0.97	4612.75	50.43
Mar	6,596.80	1,084.67	1.83	5442.82	67.48
Apr	7,154.03	1,247.04	18.93	5798.83	89.23
May	6,980.34	1,178.97	4.04	5705.69	91.64
Jun	7,507.70	1,106.68	8.16	6304.70	88.16
Jul	7,754.62	1,085.77	3.95	6589.98	74.92
Aug	7,629.24	1,097.20	14.58	6441.91	75.55
Sep	7,572.52	1,109.77	5.28	6361.84	95.63
Oct	7,207.38	1,101.58	93.48	5922.81	89.51
Nov	7,007.71	1,099.14	5.76	5783.33	119.48
Dec	6,994.62	1,104.27	24.13	5711.33	154.89

19 EXCHANGE RATES OF THE PESO 1/

1993–94

Pesos per unit of foreign currency

	US Dollar	Japanese Yen	Deutsche Mark	Pound Sterling	French Franc	Swiss Franc	Hongkong Dollar	New Taiwan Dollar	S.Korean Won	Singapore Dollar
1993 Ave	**27.1198**	**0.2452**	**16.4218**	**40.7788**	**4.7883**	**18.3911**	**3.5062**	**1.0403**	**0.034210**	**16.8048**
Jan	25.2800	0.2023	15.6569	38.8140	4.6152	17.1216	3.2674	1.0032	0.032627	15.3085
Feb	25.3116	0.2088	15.4164	36.5142	4.5515	16.6759	3.2733	0.9909	0.032478	15.3793
Mar	25.3656	0.2165	15.3954	37.0311	4.5312	16.6725	3.2805	0.9855	0.032665	15.4315
Apr	26.0780	0.2322	16.3626	40.3019	4.8318	17.8949	3.3729	1.0155	0.033448	16.0689
May	27.0064	0.2448	16.8286	41.7858	4.9921	18.6588	3.4946	1.0504	0.034500	16.7429
Jun	27.2063	0.2538	16.5262	41.2063	4.9094	18.5050	3.5184	1.0480	0.034600	16.8485
Jul	27.5688	0.2561	16.1058	41.3190	4.7324	18.2225	3.5560	1.0460	0.034900	17.0114
Aug	27.9489	0.2696	16.4857	41.7360	4.6557	18.6792	3.6060	1.0476	0.034800	17.3630
Sep	28.2337	0.2680	17.4147	43.0880	4.9776	19.9216	3.6482	1.0593	0.034900	17.6760
Oct	29.1600	0.2728	17.8198	43.8629	5.0806	20.2684	3.7725	1.0964	0.036000	18.5483
Nov	28.4849	0.2646	16.7667	42.1921	4.8246	19.0404	3.6867	1.0710	0.035300	17.8579
Dec	27.7939	0.2535	16.2832	41.4949	4.7581	19.0322	3.5981	1.0703	0.034300	17.4220
1994 Ave	**26.4171**	**0.2585**	**16.2867**	**40.4311**	**4.7620**	**19.3351**	**3.4183**	**1.0109**	**0.032800**	**17.2862**
Jan	27.7245	0.2487	15.9136	41.3877	4.6819	18.8636	3.5894	1.0788	0.0342	17.2858
Feb	27.6463	0.2599	15.9306	40.9383	4.6875	18.9629	3.5747	1.0576	0.0341	17.4195
Mar	27.5872	0.2623	16.2977	41.2069	4.7833	19.2875	3.5706	1.0552	0.0341	17.4371
Apr	27.5298	0.2661	16.2081	40.8137	4.7316	19.1478	3.5632	1.0537	0.0340	17.6239
May	27.0530	0.2610	16.3408	40.7297	4.7718	19.1648	3.5019	1.0222	0.0335	17.4999
Jun	26.9756	0.2627	16.5457	41.1306	4.8432	19.6038	3.4897	1.0085	0.0334	17.6200
Jul	26.4608	0.2685	16.8501	40.8950	4.9173	19.9727	3.4247	1.0031	0.0328	17.4596
Aug	26.3130	0.2635	16.8297	40.6128	4.9115	19.9688	3.4056	1.0066	0.0327	17.4931
Sep	25.9113	0.2622	16.6975	40.4850	4.8842	20.0446	3.3528	0.9988	0.0323	17.3929
Oct	25.3945	0.2577	16.6921	40.7402	4.8749	20.0728	3.2864	0.9823	0.0317	17.1989
Nov	24.2648	0.2475	15.7789	38.5911	4.5971	18.7651	3.1393	0.9372	0.0304	16.5278
Dec	24.1450	0.2413	15.3557	37.6427	4.4600	18.1673	3.1207	0.9272	0.0304	16.4759

1/ Based on BAP reference; PDS reference rate beginning August 4, 1992

20 Total Foreign Exchange Liabilities
As of dates indicated
In million US Dollars

	September 30, 1994				December 31, 1993			
	Short-Term		Medium and Long Term	Total	Short-Term		Medium and Long Term	Total
	Trade	Non-Trade			Trade	Non-Trade		
Grand Total	**2995 e/**	**2525 e/**	**31768 b/**	**37287 a/e/**	**3495**	**1540**	**29247**	**34282**
Banking System	**161**	**2503**	**904**	**3568**	**71**	**1520**	**812**	**2403**
Commercial Banks	161	1497	808	2466	71	312	732	1115
Government	1	472	415	888	16	261	317	594
Private	160	1025 e/	393	1578	55	51	415	521
Foreign Banks	3	544	353	900	9	39	374	422
Domestic Banks	157	482	40	679	46	12	41	99
Bangko Sentral ng Pilipinas	0	1006	96	1102 c/	0	1208	80	1288
Public and Private Non-Bai	**2833**	**21**	**30864**	**33718**	**2327**	**20**	**28435**	**30782**
Public	115	3	27541	27659	386	3	26194	26583
Public (NG & Others)	115	3	25840	25958	386	3	24580	24969
Central Bank-BOL	0	0	1701	1701 d/	0	0	1614	1614
Private	2718	18	3323	6060 e/	1941	17	2241	4199
Red Clause Advances	**0**	**0**	**0**	**0**	**1097**	**0**	**0**	**1097**
Public	---	---	---	---				
Private					1097	0	0	1097

a/ Excludes amounts owed to FCDUs.
b/ Excludes foreign exchange revaluation of World Bank and Asian Development Bank loans of US$992 and US$910 million, respectively.
c/ Excludes the following credits booked as RP obligations:

a. IMF Credits	1,247
b. Rescheduled Accounts with Peso Blocking for which CB provides forward cover under enabling Circulars (1139, 1202, 1298, 1352 and 1375)	1,442
TOTAL	2,689

d/ Excludes Brady Bonds booked as RP obligations (US$1,555 million) but includes rescheduled accounts with peso blocking which were assumed by CB pursuant to CB Circular No. 1045.
e/ Details may not add up to totals due to rounding.

TRADE AND NON-TRADE

1. *Circular No. 11 - January 5, 1994.* Advises of the lifting of all economic sanctions against South Africa in accordance with United Nations General Assembly Resolution No. A/48/L/2 dated October 8, 1993. Accordingly, all goods originating from/destined for South Africa had been deleted from the list of regulated commodities.

2. *Memorandum to All Agent Banks No. 1* - January 20, 1994.- Amends Circular No. 1389 (Consolidated Foreign Exchange Rules and Regulations) by discontinuing the required reporting by AABs of CBP Form 6-15-09 entitled Report on Foreign Exchange Remittances Under D/P Imports including Direct Remittances.

3. *Circular Letter - January 31, 1994.* Issues the implementing guidelines for Fertilizer and Pesticide Authority's (FPA's) Board resolution which bans/restricts the use of specific pesticides.

4. *Circular No. 16 - March 7, 1994.* Allows Foreign Currency Deposit Units (FCDUs) of commercial banks in addition to the authorized transactions allowed under Section 72.2 of Circular 1389, as amended, to engage in direct purchase of export bills of resident exporters.

5. *Circular Letter - April 27, 1994.* Reminds of the prohibition on importation of coffee in any form under R.A. 2712.

6. *Circular No. 23 - May 4, 1994.* Provides a list of additional items whose importation shall not require prior import clearance from the DTI/BOI.

7. *Circular Letter - May 20, 1994.* Incorporates new accounts/new account definitions in the Manual of Accounts for commercial banks and LBP in connection with the authority granted to Foreign Currency Deposit Units (FCDUs) of commercial banks to engage in direct purchase of export bills of resident exporters covered by issuance of letters of credit.

8. *Circular Letter - June 6, 1994.* Imposes new and additional sanctions against Haiti per UN Security Council Resolution No. 917 (1994), effective May 21, 1994.

9. *Circular Letter - June 10, 1994.* Terminates the mandatory arms embargo and other restrictions related to South Africa per UN Security Council Resolution No. 919 (1994).

10. *Circular Letter - August 4, 1994.* Enjoins exporters of paper-based items to indicate in their export documents the Harmonized System (HS) code and/or Philippine Standard Commodity Classification (PSCC) codes of their products.

11. *Memorandum Order No. 226 - August 18, 1994.* Creates a Task Force Gardenia to study and assist in the ratification of the General Agreement on Tariffs and Trade (GATT).

12. *Memorandum Order No. 231 - September 6, 1994.* Directs the Department of Agriculture to establish mechanism and procedures for the importation of minimum access quotas committed by the Philippines under the Uruguay Round Final Act.

EXTERNAL DEBT

1. *Circular Letter - July 19, 1994.* promulgates modifications in the policies governing the grant of foreign currency loans by FCDUs.

2. *Circular No. 31 - July 19, 1994.* Amends Circular No. 16 dated March 7, 1994 on the scope of short-term FCDU loans.

3. *Circular No. 32 - July 19, 1994.* Mandates certain procedures to be adopted for foreign borrowings of private companies.

4. *Circular Letter - August 11, 1994.* Reiterates that short-term foreign currency loans contemplated under Section 24.2 of Circular No. 1389, as amended, do not require prior Bangko Sentral approval, provided these partake the nature

of normal inter-bank transactions, e.g., IBCL and general liquidity loans.

BANK BRANCHING

1. *Circular No. 43 - August 22, 1994.* Allows branches of banks at the Ninoy Aquino International Airport (NAIA) to operate on flexible banking hours on a 24-hour basis.

2. *Circular No. 42 - August 29, 1994.* Reduces the required equivalent capital for each branch to be established by a thrift bank.

BANK OPERATIONS

1. *Circular Letter - January 13, 1994.* Revises the Manual of Accounts for commercial banks and expanded commercial banks so as to change the existing general ledger account "Due to PCIC -Crop Insurance Premium" to "Due to PCIC."

2. *Circular Letter - January 17, 1994.* Allows rural banks to act as collecting/paying agents for the Social Security System (SSS) subject to certain conditions.

3. *Circular Letter - January 27, 1994.* Reminds all banks to comply with Sections 1217, 2217 and 3217 of Books I, II and III, respectively, of the Manual of Regulations for Banks and Other Financial Intermediaries in which they are allowed to impose service or maintenance fees on dormant or inactive savings accounts, provided that the details of such fees shall be properly disclosed among the terms set forth in the passbook of every depositor.

4. *Circular No. 13 - February 8, 1994.* Amends Subsection 2239.1 of the Manual of Regulations for Banks and Other Financial Intermediaries authorizing thrift banks to act as collection agents of the Bureau of Internal Revenue (BIR), the Bureau of Customs (BOC) and the Social Security System (SSS), by providing additional conditions.

5. *Circular No. 14 - February 15, 1994.* Allows rural banks availing of the conversion scheme under Section 8 of

R.A. No. 7353 to pay the accrued interest on arrearages in equal monthly installments for fifteen (15) years; further amends the guidelines implementing R.A. 7353 so as to require the stockholders, who will execute subscription contracts to match the arrearages to be converted into government equity, to submit to the Bangko Sentral ng Pilipinas proof that they have sufficient assets to comply with their commitments to the bank.

6. *Circular No. 17 - March 11, 1994.* Amends the Manual of Regulations for Banks and Other Financial Intermediaries on the combined capital accounts.

7. *Circular No. 18 - March 23, 1994.* Amends Circular No. 1354 dated September 11, 1992 so as to (1) delete therefrom the requirement for prior Bangko Sentral ng Pilipinas approval of an intention to declare dividends; and (2) restore previous regulations on reporting, verification and recording of cash dividends as provided in Books I, II, III and IV of the Manual of Regulations for Banks and Other Financial Intermediaries that were amended/revised by virtues of the policy adopted in the aforesaid circular, provided that if no notice of disapproval is received from the BSP within 30 days, the request of the bank will be deemed approved and the bank can go ahead and pay dividends, subject to the condition that the record date for such dividends cannot be set earlier than 30 days after declaration.

8. *Circular No. 19 - March 23, 1994.* Amends Circular No. 1295 dated July 16, 1991 on sactions against bank officers who violate regulations on the grant of credit.

9. *Circular No. 20 - March 31, 1994.* Amends Circular No. 1369 dated November 26, 1992 on sanctions against banks officers on matters involving government deposits.

10. *Circular Letter - April 4, 1994.* Enjoins all banking institutions and their branches to undertake during the Credit Consciousness Week (April 24 to 30, per Presidential Proclamation No. 1827 dated March 30, 1979), supportive

publicity and promotional activities, such as putting up of window or counter displays, streamers, and ad placements.

11. *Circular No. 21 - April 19, 1994.* Amends Item 10 of Subsections 1151.3 and 2151.3 of Books I and II, respectively of the Manual of Regulations for Banks and Other Financial Intermediaries on compliance with the ceilings on credit accommodations to DOSRI.

12. *Circular No. 22 - May 3, 1994.* Lifts the prohibition on banks to pay interest on demand deposit.

13. *Circular Letter - May 6, 1994.* Affirms the policy regulation requiring, among others, prior written approval of majority of the members of the board of directors of banks for loans and accommodations granted to their officers under their fringe benefit program.

14. *Circular No. 24 - May 18, 1994.* Sets the policies and guidelines for determining the loans-to-deposit ratio of head offices, branches, agencies, extension offices, etc. of rural banks in regions outside the NCR.

15. *Circular Letter - May 26, 1994.* Declares the period June 30 to July 6, 1994 and the same period for every year thereafter as Savings Consciousness Week.

16. *Circular No. 25 - June 1, 1994.* Amends the reportorial requirements for Non-Stock Savings and Loans Association (NSSLAs) as contained in Appendix S-6 of the Manual of Regulations for Banks and Other Financial Intermediaries (Book IV).

17. *Circular No. 26 - May 31, l994.* Adds the following subsections to Books II and III of the Manual of Regulations for Banks and Other Financial Intermediaries, regarding the authority of thrift banks and rural banks to act as collecting and paying agents of the Social Security System (SSS):

"(a) Employer-members of SSS may pay their premium contributions to the SSS through the said banks and the funds thus collected shall be remitted to the SSS within thirty (30) days from receipt thereof; thrift banks and rural banks are also authorized to receive amortization payments by commercial, industrial, housing, salary and educational loans granted by SSS;

(b) During the 30-day period that such premium contributions are in the custody of the banks, such funds shall not earn interest; and

(c) The bank shall not collect from the SSS any service charge for such agency."

The funds collected by thrift banks and rural banks shall be handled by the operating departments (cash departments) of the banks concerned and not their trust departments: provided, however, that such funds shall be subject to the reserve requirement on deposits and deposit liabilities and to the liquidity floor on government deposits.

18. *Circular No. 27 - June 2, 1994.* Amends the second and third paragraphs of Section 2201 of the Manual of Regulations for Banks and Other Financial Intermediaries by adding the following minimum paid-in capital requirements before thrift banks are allowed to accept demand deposits: Metro Manila, ₱100 million; cities of Cebu and Davao, ₱75 million; other cities and first to third class municipalities, ₱40 million; and other areas, ₱20 million.

19. *Circular No. 29 - June 23, 1994.* Revises the submission of various reports required of expanded commercial banks, commercial banks, and specialized government banks to the BSP in line with the objective of the BSP to further rationalize and simplify, as well as reduce the administrative burden for the preparation of reports by financial institutions. In general, the Circular discontinues the submission of some reports, changes the

frequency of report submission and adopts the diskette format of reporting for selected reports.

20. *Circular No. 30 - June 30, 1994.* Amends Item 2 of Section 71 of Circular No. 1389; Item 5 of Subsection 2151.3; Item C of Subsection 2201.1; and Item 5b. of Subsection 2404.1 of the Manual of Regulations for Banks and Other Financial Intermediaries, Book II relative to the profitability requirement for the: a) maintenance of a FCDU; b) establishment of branches; and c) trust, other fiduciary business and investment management activities of thrift banks.

21. *Circular Letter - July 21, 1994.* Authorizes the establishment and operation of PHILIPPINE POSTAL SAVINGS BANK as a thrift bank effective July 21, 1994.

22. *Circular Letter - July 22, 1994.* Announces the re-opening of Banco Filipino Savings & Mortgage Bank on July 1, 1994.

23. *Circular No. 34 - July 22, 1994.* Amends the Manual of Regulations for Banks and Other Financial Intermediaries on determining compliance with 20 percent ceiling on stockholding and indirect borrowings.

24. *Circular No. 35 - July 25, 1994.* Issues the guidelines to govern the grant of emergency loans or advances to banking institutions in pursuance of Section 84 of R.A. 7653.

25. *Circular No. 37 - July 30, 1994.* Lifts the signatory requirement for the issuance of certificates of time deposits and leaves the matter to the discretion of the board of directors of banks.

26. *Circular No. 45 - September 2, 1994.* Amends Items A and B of Circular No. 1369 on the requirements for exemption from ownership ceiling (Section 4) and settlement or liquidation of arrearages with the Bangko

Sentral through a conversion scheme and a plan of payment.

27. *Circular No. 48 - September 13, 1994.* Deletes "the two years of profitable operations" requirement for a bank to be authorized to operate as an expanded foreign currency deposit unit (FCDU).

28. *Circular No. 49 - September 20, 1994.* Amends Items b(3) and b(4) of Subsections 1131.1 (Book I), 2131.1 (Book II) and 3131.3 (Book III) of the Manual of Regulations for Banks and Other Financial Intermediaries, as follows:

"(3) Any corporation or corporations which are wholly-owned or a majority of the voting stock of which are owned by a natural person as in (1) above, or by a family group as in (2) above, including their wholly or majority owned subsidiaries; Provided, that where (3) together with (1) and/or (2) own or desire to own equity in any bank, the voting stockholdings of (1) and/or (2) and that of (3) to the extent of the voting stockholdings held by (1) and/or (2) in (3) shall be combined and shall be the basis for the computation of the twenty percent (20%) ceiling.

(4) Any corporation or corporations which are controlled by a natural person such as in (1) above, or by a family group as in (2) above, including their wholly or majority owned subsidiaries; Provided, that where (4) together with any or all of (1), (2) and (3) own or desire to own equity in any bank, the voting stockholdings of (1) and/or (2) and those of (3) and/or (4) to the extent of the voting stockholdings held by (1) and/or (2) in (3) and/or (4) shall be combined and shall be the basis for the computation of the twenty percent (20%) ceiling."

29. *Circular No. 50 - October 6, 1994.* Approves certain revisions in the reporting requirements of thrift banks effective 30 September 1994 and 1 March 1995.

30. *Circular No. 51 - October 14 1994.* Formulates the rules and regulations in implementing R.A. No. 7721 otherwise known as "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines."

31. *Circular Letter - December 26, 1994.* Provides a copy of "RISK MANAGEMENT GUIDELINES FOR DERIVATIVES" issued by the Supervision and Examination Sector of the BSP. The guidelines include principles on risk management and audit and control procedures on derivatives lifted from the guidelines of the same title issued by the Basle Committee on Banking Supervision in July 1994.

32. *Circular No. 58 - December 29, 1994.* Adds new subsections 1342.2 (Book I), 2342.2 (Book II) and Section 3294 (Book III) in the Manual of Regulations for Banks and Other Financial Intermediaries setting out guidelines in the grant of loans to rural banks by the Land Bank of the Philippines, the Development Bank of the Philippines or any government-owned or -controlled bank or financial institution.

33. *Circular No. 59 - December 29, 1994.* Amends the last paragraph of Section 3 of Circular No. 1288 dated June 4, 1991 such that if the "Due from BSP" is denominated in foreign currency, the Treasury Department shall maintain a special account for the deposited amounts which shall not earn interest and not form part of the banks' legal reserves. These can be converted into pesos when there is a need to fund small enterprises' loans.

MONEY AND CAPITAL MARKET

1. *Memorandum Circular - May 3, 1994.* Expands the coverage of the "Open Application Policy" for the accreditation of government securities dealers so as to include financial institutions other than banks, financial intermediaries with quasi-banking functions and investment houses.

2. *Memorandum Circular - August 23, 1994.* Informs that all government securities to be lodged under the BSP-administered Custodian Facility shall be covered by interim certificates (instead of definitive securities) with all details of such interim certificates indicated in the covering Custody Receipt. The interim certificates shall be changed to definitive certificates only upon withdrawal from custodianship prior to maturity.

3. *Circular No. 44 - August 26, 1994.* Sets the rules and regulations governing the issuance, placement, sales, servicing, redemption and retirement of bonds (with full guarantee of the Republic of the Philippines) issued by local government units under R.A. 7160 (Local Government Code).

4. *Circular No. 41 - August 29, 1994.* Sets the guidelines for bond flotations (without National Government Guarantee) by local government units under R.A. 7160 (Local Government Code).

5. *Memorandum Circular - August 29, 1994.* Sets the guidelines for Book-Entry System (BES) participants to facilitate the processing and documentation of transactions under the BES for government securities administered by the Government Securities Department of the BSP.

6. *Memorandum Circular - November 10, 1994.* Enumerates the guidelines for the flotation of Special Series Treasury Bills, Special Series Fixed Rate Treasury Notes and Special Series Floating Rate Treasury Notes.

REDISCOUNTING

1. *Circular No. 47- September 5, 1994.* Authorizes rural banks to designate any of the commercial banks or thrift banks with access to direct clearing with the Bangko Sentral to act as depository for their rediscounting proceeds and as custodian of the covering collateral documents.

2. *Circular No. 52 - November 8, 1994.* Amends Subsections 1271.1 (Book I), 2271.1 (Book II) and 3271.1 (Book III) of the Manual of Regulations by providing that the rediscount rate for the BSP rediscount facility shall be one percentage point below the prevailing 91-day T-bill rate, to be revised every three months.

3. *Circular No. 57 - December 9, 1994.* Establishes an Exporters Dollar Facility (EDF) and sets the terms and conditions of the loans that may be granted under said facility. In general, qualified banks may avail of the EDF against the eligible dollar-denominated loans of their exporter-borrowers (both direct and indirect), including service exporters who are engaged in rendering technical, professional, and other services.

RESERVE REQUIREMENT

1. *Circular No. 38 - August 2, 1994.* Amends Books I to IV of the Manual of Regulations to reduce the reserve requirement on banks and NBQBs effective August 15, 1994, as follows:

Type of Deposit Instrument	Bank Type	Reduction in Reserve Req.
Demand, savings & time deposits; deposit substitutes and NOW accounts.	Expanded commercial banks, LBP PAB	From 22% to 19%
Demand deposits, deposit substitutes and NOW accounts	Thrift banks (including DBP)	- do -
Time deposits & negotiable cert. of time deposits	- do -	From 19% to 16%
Savings deposits	- do -	From 19% to 16%
Demand deposits	Rural banks	From 22% to 19%
Savings & time dep.	- do -	From 14% to 11%
Deposit substitute liabilities	Non-bank financial intermediaries	From 22% to 19%

2. *Circular No. 39 - August 2, 1994.* Amends Subsec. 1254.3, 2254.3 and 3254.2 of Books I, II & III and 2nd to the last paragraph of Subsec. 4283Q.1 of Book IV of the Manual of Regulations such that deposits maintained with the Bangko Sentral ng Pilipinas up to fifty-five percent

(55%) of their reserve requirement (less the two percent of the combined deposit and deposit substitute liabilities of banks (for Books I and III) and deposit substitute liabilities of NBQBs (for Book IV) allowed to be maintained in the form of short-term market-yielding government securities purchased directly from the BSP) shall be paid interest at 4% per annum based on the average daily balance of the said deposits to be credited quarterly.

SMALL-ENTERPRISE CREDIT

1. *Circular No. 12 - February 8, 1994.* Amends Item a, Section 2 of Circular No. 1288, requiring all lending institutions to set aside a portion of their total loan portfolio based on their Consolidated Statement of Condition/Balance Sheet as of the end of the previous quarter, and make it available for small enterprises credit. The portion mandated to be set aside shall at least be five percent (5%) by December 31, 1991, ten percent (10% by December 31, 1992 through December 31, 1995, five percent (5%) by December 31, 1996 and may come down to zero by December 31, 1997.

2. *Circular No. 46 - September 2, 1994.* Amends Section 3 of Circular No. 1288 dated June 4, 1991, as amended by Circular No. 1374 dated December 29, 1992 and Circular No. 1385 dated February 26, 1993 specifying the beneficiaries of small-enterprise credits and alternative compliance thereto.

FOREIGN EXCHANGE TRANSACTIONS

1. *Circular No. 15 - February 19, 1994.* Provides that banks shall have the option to exclude from its FX assets its foreign exchange holdings resulting from original investments in New Money Bonds (NMB) and the assets excluded therefrom.

2. *Circular-Letter - June 6, 1994.* Provides information through Interpol's FOPAC Bulletin No. 12 regarding the use of Mexican bank drafts on money laundering.

3. *Circular-Letter - June 9, 1994.* Provides that all foreign exchange sales made through international ATMs and credit cards shall be reported to the BSP's Foreign Exchange Department (FED) within two (2) banking days after the occurrence of the transactions. Availments for peso per annum shall be limited to US$50,000.00

4. *Circular-Letter - June 10, 1994.* Terminates the mandatory arms embargo and other restrictions related to South Africa per UN Security Council Resolution No. 919 (1994).

5. *Circular No. 28 - June 21, 1994.* Lifts the restictions on repayment and repatriation of foreign investments funded by debt-to-equity conversion transactions under Circular No. 1111 and Circular No. 1267, as well as the remitance of dividends, profits and earnings which accrue thereon.

6. *Circular No. 33 - July 20, 1994.* Terminates the Foreign Exchange Clearing and Settlement System. Accordingly, participating banks under the System are authorized to close their foreign exchange clearing accounts with the BSP upon written request submitted by the bank concerned to the BSP Foreign Exchange Department.

7. *Circular No. 36 - July 28, 1994.* Requires that all forward transactions to purchase foreign exchange from non-residents (including offshore banking units), as well as renewals thereof, shall be submitted for prior clearance to the Bangko Sentral ng Pilipinas thru its Foreign Exchange Department.

8. *Circular-Letter - August 3, 1994.* Authorizes Citibank-Manila to allow its Domestic Dollar Transfer System (DDTS) clearing accounts which are foreign currency deposit units (FCDU) accounts, to accept deposits and withdrawals related to both FCDU and Regular book accounts of participating banks.

9. *Circular-Letter - August 11, 1994.* Sets the implementing guidelines on banks' forward transactions to purchase foreign exchange from non-residents (including offshore banking units) pursuant to Circular No. 36 dated July 28, 1994.

10. *Circular-Letter - August 17, 1994.* Clarifies that prior clearance from the Foreign Exchange Department of the BSP of all forward transactions to purchase foreign exchange from non-residents under BSP Circular No. 36 dated July 28, 1994 applies to all forward transactions of both banks and non-banks.

11. *Circular No. 40 - August 27, 1994.* Amends provisions of Circular No. 1389 dated April 13, 1993 (Consolidated Foreign Exchange Rules & Regulations, as amended by Circular No. 1393 dated June 23, 1993 and BSP Circular Nos. 2, 5, 16 & 31 dated August 25, 1993; September 15, 1993; March 7, 1994 and July 19, 1994, respectively.

12. *Circular No. 53 - November 5, 1994.* Amends Circular No. 1389 dated April 13, 1993 (Consolidated Foreign Exchange Rules and Regulations) so as to allow deposit of proceeds of an FCDU loan in an FCDU account and enumerates the foreign currency cover requirements for banks authorized to operate an FCDU.

13. *Circular No. 54 November 11, 1994.* Amends Item 2 of Circular No. 1327 dated January 30, 1992 such that the oversold FX position of banks shall not exceed 5 percent, instead of 15 percent, of their unimpaired capital.

14. *Circular No. 55 - November 21, 1994.* Amends further pertinent provisions of Circular No. 1389 dated April 13, 1993 (Consolidated Foreign Exchange Rules & Regulations) by (1) enjoining issuers of securities under initial public offerings (IPOs) transacted outside the Philippines to advise BSP of their receipt of proceeds of such IPOs within five days from receipt thereof; and (2) increasing from $1M to $6M the amount of outward investments requiring prior approval by and registration with the BSP.

15. *Circular No. 56 - November 23, 1994.* Requires all local branches of foreign banks licensed to engage in commercial banking in the Philippines to exclude their permanently assigned capital from their foreign exchange liabilities for purposes of computing their net foreign exchange position.

16. *Circular-Letter - November 23, 1994.* Clarifies Item 7 of Circular Letter dated March 31, 1992 entitled "Implementing Guidelines on the Computation of Net Foreign Exchange Position of Authorized Agent Banks (AABs)" such that (1) in computing the net foreign exchange position of local branches of foreign banks, the "Net Due to H.O." account shall be considered as part of unimpaired capital only if the same is converted into Philippine currency; and (2) in the daily submission of IOS Form 1, local branches of foreign banks shall include as a part thereof, a certification under oath by their authorized signatories to the effect that "Net Due to H.O." balances forming part of their unimpaired capital under (1) are actually converted into Philippine currency.